ANNEX XI

GUIDELINES TO PREPARATION OF CASH FLOWS FOR PURPOSES OF ECONOMIC AND FINANCIAL REBALANCE

ANEXO XI

PREÂMBULO

A versão em língua inglesa deste Anexo é meramente referencial, não vinculante. A única versão oficial do documento está redigida em língua portuguesa, cujo conteúdo é vinculante para todos os interessados. Em caso dúvidas de interpretação entre a versão traduzida do Anexo XI, em inglês, e a versão oficial, redigida em língua portuguesa, prevalecerá a versão em língua portuguesa, documento oficial da licitação.

APPENDIX XI

PREAMBLE

The English version of this Annex is not binding to the parties. The Portuguese version of the document is the only official version of the auction and it is binding to all stakeholders. Should any interpretation doubt arise between this English version and the Portuguese version of this Annex XI, the Portuguese version shall prevail, as the only official document for the auction.

General Table of Contents

This document is intended to set forth the general guidelines to compose the annual cash flow to be used in events that require the economic and financial rebalance of the AGREEMENT.

The guidance herein will serve as mandatory minimum requirements to be met.

The Cash Flow structure must contain:

1. Gross Operating Revenue (ROB);
2. Indirect Taxes (IIN);
3. Net Operating Income (ROL);
4. Default (INA);
5. Revenue After Default (RAI);
6. Operating and Maintenance Costs (COM);
7. Commercial and Administrative Expenses (DCA);
8. LAJIDA;
9. Direct Taxes (IDI);
10. Variation of the Need for Working Capital (VCG);
11. Investments (INV);
12. Operating Cash Flow (FCO).

All information must be separated by municipality in the CONCESSION AREA and must take as a reference the following sources of information, in the following order of priority:

i. Background data on the CONCESSIONAIRE itself;
ii. In the absence of background data on the CONCESSIONAIRE, and only in this case, official public data on widely renowned institutions;
iii. And lastly, if the two cases above are inexistent, background data on the CAESA, if applicable.

Data effectively measured by the CONCESSIONAIRE must be used for the years prior to the date of analysis of the request for rebalance. Projections must be taken into account for the years following the date of analysis of the request for rebalance, as per the rules established herein.

If any official source or index mentioned in this ANNEX ceases existing, it must be replaced with the equivalent index or source to replace it.

The Cash Flow must be prepared on real basis, with the base date of the EVTE. For data with base date after the EVTE, the amounts must be adjusted according to the indexes preestablished in this ANNEX.

1. Gross Operating Revenue (ROB)

To calculate the Gross Operating Revenue, it is necessary to present the projections of the following information over the duration of the AGREEMENT:

1. Number of potential savings in the CONCESSION AREA - ECP;
2. Water compliance index (%) - IAA;
3. Distribution of savings into the following categories: Social Tariff, Residential without Social Tariff and Non-Residential (%);
4. Average water tariff for each one of the categories (BRL/m^3) - TMA;

5. Average invoiced water volume for each one of the categories (m³/savings/month) - VMA;
6. Sewage compliance index (%) - IAE;
7. Relationship between the sewage tariff and the water tariff for each category - RAE;
8. Percentage of indirect revenue in relation to the direct revenue (%) - IND;
9. Percentage of financial revenue in relation to the direct revenue (%) - FIN.

The number of Potential Savings (ECP) in the CONCESSION AREA will be obtained through the registration of the CONCESSIONAIRE and its projection will be calculated using the same growth rate provided for in the most recent official projection at the time of the rebalance analysis disclosed by the Brazilian Institute of Geography and Statistics (IBGE) for the municipalities covered by the CONCESSION AREA, if available, or for the State of Amapá, if the previous one is yet to exist.

The number of Water Savings (ECA) will be obtained through the product between the number of potential savings (ECP) and the water compliance index.

$$ECA = ECP * IAA$$

In the event of changes that impact the water compliance Index Goals, their future projection must be proportional to the curve provided for in the ANNEX III to the CONCESSION AGREEMENT, i.e. with the same annual variation rates defined, except in the event that the water compliance index goal itself is the object of the rebalance, a situation in which its future amounts will be taken into account according to the request.

The total number of water savings must be stratified according to the distribution by category: Social Tariff, Residential without Social Tariff, and Non-Residential, this distribution being maintained constant and equal to the latest available data for future projections.

The Monthly Direct Water Revenue (RDA) will be obtained by the product between the number of Water Savings savings, the average invoiced Water Volume (VMA), and the Average Water Tariff (TMA), for each one of the categories.

$$RDA = ECA * VMA * TMA$$

For future projections, the average water tariff will be maintained in actual terms, with base date of the EVTE, i.e. being equal to the latest available piece of data.

The future projection of the average invoiced water volume, in turn, will be maintained constant and equal to the arithmetic mean of the data available for the 3 most recent years.

If the CONCESSION has been effective for less than 3 years, the projections of direct water and sewage revenue contained in the EVTE must be used. Should any of the PARTIES wish to use a different projection, it must technically ground this use, being incumbent upon the REGULATORY AGENCY to adopt or not the use of this alternative.

The total number of Sewage Savings (ECE), in turn, will be calculated through the product between the number of Potential Savings (ECP) and Sewage Compliance Index (IAE).

$$ECE = ECP * IAE$$

In the event of changes that impact the sewage compliance index goal, their future projection must be proportional to the curve provided for in the ANNEX III to the CONCESSION AGREEMENT, i.e. with the same annual variation rates defined, except in the event that the sewage compliance index goal itself is the object of the rebalance, a situation in which its future amounts will be taken into account according to the request.

The total number of Sewage Savings must be stratified according to the distribution by category: Social Tariff, Residential without Social Tariff, and Non-Residential, this distribution being maintained constant and equal to the latest available data for future projections.

The monthly Direct Sewage Revenue (RDE) will be obtained by the product between the number of sewage savings, the average invoiced water volume, the average water tariff, and the relationship between the sewage tariff and the water tariff, for each category. The applicable RAE will be maintained constant for future projections.

$$RDE = ECE * VMA * TMA * RAE$$

The Indirect Revenue (RIN) will be obtained by the product between the total direct revenue, by adding water to sewage, and the percentage of indirect revenue in relation to the direct revenue.

$$RIN = IND * (RDA + RDE)$$

The Financial Revenue (RFI) will be obtained by the product between the total direct revenue, by adding water to sewage, and the percentage of financial revenue in relation to the direct revenue.

$$RFI = FIN * (RDA + RDE)$$

The future projection of the percentages of indirect revenue and financial revenue will be maintained constant and equal to their respective arithmetic means of the data available for the 3 most recent years. If the CONCESSION has been effective for less than 3 years, the projections contained in the EVTE must be used. Should any of the PARTIES wish to use a different projection, it must technically ground this use, being incumbent upon the REGULATORY AGENCY to adopt or not the use of this alternative.

Finally, the gross operating revenue will be the addition between the direct water and sewage revenues, the indirect revenue and the financial revenue.

$$ROB = RDA + RDE + RIN + RFI$$

2. Indirect Taxes (IIN)

All indirect taxes on the revenue must be taken into account pursuant to the applicable legislation.

The amount of indirect taxes will be calculated through the application of the respective rates on the gross operating revenue of the project.

The tax credits concerning the performance of the services must also be taken into account, as per the Federal Revenue Office ruling.

3. Net Operating Revenue (ROL)

The difference between the gross operating revenue and the indirect taxes.

$$ROL = ROB - IIN$$

4. Default (INA)

The percentage of default (PIN) represents the percentage of the gross operating revenue that is invoiced, though not effectively received.

The amount will be calculated through the product between the gross operating revenue and the percentage of default.

For future default projections, it must be proportional to the curve provided for in the EVTE, i.e. with the same defined annual variation rates, considering that the projection cannot be lower than the minimum limit of default projected in the EVTE.

5. Revenue After Default (RAI)

The difference between the net operating revenue and the default.

$$RAI = ROL - INA$$

6. Operating and Maintenance Costs (COM)

The Operating and Maintenance (O&M) Costs must be segmented into the following categories:

I. Cost incurred with electric power (BRL/month) - CEE;
II. Cost incurred with operating labor (BRL/month) - CMO;
III. Cost incurred with chemicals (BRL/month) - CPQ;
IV. Cost incurred with disposal of mire (BRL/month) - CDL;
V. Cost incurred with laboratory analyses (BRL/month) - CAL;
VI. Costs incurred with maintenance (BRL/month) - CMA;
VII. Costs incurred with operating vehicles (BRL/month) - CVO; and
VIII. Other operating costs (BRL/month) - OCO.

$$COM = CEE + CMO + CPQ + CDL + CAL + CMA + CVO + OCO$$

Cost items, whenever possible and applicable, must be segregated for water and sewage and, when this segregation is not explicit in the operating structure, proportional allocation must be made according to a criteria to be established by the CONCESSIONAIRE.

The items must be related to one among the following possible metrics: water volume consumed per month by users, number of water connections, or number of sewage connections.

The water volume consumed per month by the users (VAC) must be obtained based on the CONCESSIONAIRE's background and projected taking as a base the compliance goals and the most recent official projection at the time of the rebalance analysis disclosed by the Brazilian Institute of Geography and Statistics (IBGE) for the municipalities covered by the CONCESSION AREA, if available, or for the State of Amapá, if the previous one is yet to exist.

The number of water connections (NLA) must be calculated based on the product of the number of water savings by an index that relates the amount of savings per connection (IEL). This index will be related to the level of verticalization of each municipality.

$$NLA = ECA * IEL$$

Likewise, the number of sewage connections (NLE) must be calculated based on the product of the number of sewage savings (ECE by the same index that relates the amount of savings per connection (IEL).

$$NLE = ECE * IEL$$

For future projections, the index of savings per connection (IEL) must be maintained constant and equal to the most recent available data for the CONCESSION AREA.

6.1. Cost incurred with Electric Power (CEE)

The Cost incurred with Electric Power (CEE) will be obtained based on the product between the average consumption of electric power of the CONCESSIONAIRE, in kWh/month, and the price charged by the electric power concessionaire, in BRL/kWh.

The average electric power consumption in kWh/month must be obtained based on the amount of electric power consumed to produce 1 m³ of water consumed and the amount of electricity consumed to treat 1 m³ of sewage produced.

For future projections, the price charged by the electric power concessionaire, in BRL/kWh, will be maintained constant in actual terms, i.e. being equal to the latest available data.

6.2. Cost incurred with Operating Labor (CMO)

The cost incurred with Operating Labor (CMO) must be segregated into Operating Labor and Maintenance Labor.

Based on the premise of the number of connections per employee for each one of the areas (Operation and Maintenance), we make the multiplication by the number of employees, which, in turn, must be multiplied by the average cost per employee, also segregated by area, in BRL/employee/month.

For future projections, if the rebalance event occurs within the first ten (10) years of the CONCESSION, the costs projected in the EVTE will apply. If the event occurs from the eleventh (11) year on, the average cost per employee of each area, in BRL/employee/month, will be maintained constant in actual terms, i.e. being equal to the latest available data.

6.3. Cost incurred with Chemicals (CPQ)

The amount of each chemical used in the production of 1 m³ of water consumed must be provided and the amount of chemical product used to treat 1 m³ of sewage produced.

These amounts must be multiplied by the respective prices of the chemicals, in BRL/un., and by the volume of water consumed and for the volume of sewage produced, in m³/month. The cost incurred with Chemicals (CPQ) will be the addition of all individual costs of each chemical.

For future projections, the prices of the chemicals, in BRL/un., will be maintained constant in actual terms, i.e. being equal to the latest available data.

Whereas the amounts of chemicals consumed, in un./m³, for future periods will be maintained constant and equal to the arithmetic means of the respective data available for the 3 most recent years.

If the CONCESSION has been effective for less than 3 years, the projections contained in the EVTE must be used. Should any of the PARTIES wish to use a different projection, it must technically ground this use, being incumbent upon the REGULATORY AGENCY to adopt or not the use of this alternative.

6.4. Cost incurred with Disposal of Mire (CDL)

The amount of mire must be calculated in kg (or tons), generated by each 1 m³ of water consumed and evoked by each 1m³ of sewage. This amount will be multiplied by the cost of transportation and disposal, in BRL/kg or BRL/t, and by the volume of water consumed, in m³/month, in order to obtain the cost incurred with Disposal of Mire (CDL).

For future projections, the cost of transportation and disposal of mire, in BRL/kg or BRL/t, will be maintained constant in actual terms, i.e. being equal to the latest available data.

Whereas the amount of mire generated, in kg/m³ or t/m³, for future periods will be maintained constant and equal to the arithmetic mean of the data available for the 3 most recent years.

If the CONCESSION has been effective for less than 3 years, the projections contained in the EVTE must be used. Should any of the PARTIES wish to use a different projection, it must technically ground this use, being incumbent upon the REGULATORY AGENCY to adopt or not the use of this alternative.

6.5. Cost incurred with Laboratory Analyses (CAL)

The amount of analyses to be made per connection must be calculated, in analyses/connection.

This amount will be multiplied by the cost of the analysis, in BRL/analysis, and by the number of connections, thus obtaining the cost incurred with Laboratory Analyses (CAL).

For future projections, the costs of chemical analyses, in BRL/analysis, will be maintained constant in actual terms, i.e. being equal to the latest available data.

Whereas the amounts of analyses made, in analysis/connection, for future periods will be maintained constant and equal to the arithmetic means of the respective data available for the 3 most recent years.

If the CONCESSION has been effective for less than 3 years, the projections contained in the EVTE must be used. In case of any of the PARTIES wish to use a different projection, it must technically motivate this use, and the REGULATORY AGENCY will decide about adopting or not the use of this alternative.

6.6. Cost incurred with Maintenance (CMA)

The Cost incurred with Maintenance (CAM) will be the result of the product between the estimated cost of maintenance per connection, in BRL/connection, and the number of connections.

For future projections, the cost of maintenance per connection, in BRL/connection, will be maintained constant and equal to the arithmetic means of the respective data available for the 5 most recent years.

If the CONCESSION has been effective for less than 5 years, the projections contained in the EVTE must be used. In case of any ofthe PARTIES wish to use a different projection, it must technically motivate this use, and the REGULATORY AGENCY will decide about adopting or not the use of this alternative.

6.7. Cost incurred with Operating Vehicles (CVO)

The cost incurred with vehicles per connection must be estimated in BRL/connection, and multiplied by number of connections in order to obtain the Cost incurred with Operating Vehicles (CVO).

For future projections, the cost incurred with vehicles per connection, in BRL/connection, will be maintained constant in actual terms, i.e. being equal to the latest available data.

6.8. Other Operating Costs (OCO)

The category other Operating Costs (OCO) will include costs that are non-qualifying for the other categories. The CONCESSIONAIRE must characterize the items to be included in this total providing the proper rationales for their inclusion in the project financial flow.

For future projections, if it is characterized that any cost pertaining to this category is regular and thus that it will remain being owed in future periods, it will be maintained constant in actual terms, i.e. being equal to the latest available data.

7. Commercial and Administrative Expenses (DCA)

All Commercial and Administrative expenses must be segmented into the following categories:

I. Expenses incurred with administrative labor (BRL/month) - DMA;
II. Expenses incurred with environmental conditions and licensing (BRL/month) - DLA;
III. ARSAP inspection fee (BRL/month) - TFA; and
IV. Other administrative expenses - ODA.

$$DCA = DMA + DLA + TFA + ODA$$

7.1. Expenses incurred with Administrative Labor (DMA)

Based on the number of administrative employees, it is multiplied by the average cost per employee in BRL/employee/month in order to obtain the amount of the expenses incurred with administrative labor (DMA).

For future projections, the expenses incurred with administrative labor must be limited to no more than 10% of the costs incurred with operating labor (CMO).

7.2. Expenses incurred with Environmental Conditions and Licensing (DLA)

A projection of the expenses incurred with complying with the conditions of the environmental licenses or with the licensing processes themselves.

For future projections, all expenses incurred with environmental licensing and conditions will be maintained constant in actual terms, i.e. being equal to the latest available data.

7.3. REGULATORY AGENCY Inspection Fee (TFA)

This expense will be calculated as a fee on the net revenue of the CONCESSIONAIRE. The percentage to be applied and the annual limit must be in accordance with the legislation that defines the regulatory fee of the REGULATORY AGENCY.

For future projections, the percentage will be maintained constant and equal to the latest available data.

7.4. Other Administrative Expenses (ODA)

The category other Administrative Expenses (ODA) includes expenses that are non-qualifying for the other categories, including expenses incurred with Insurances and Guarantees (DSG). The CONCESSIONAIRE must characterize the items to be included in this total providing the proper rationales for their inclusion in the project financial flow.

For future projections, if it is characterized that any expense pertaining to this category is regular and that it will thus remain being owed in future periods, it will be maintained constant in actual terms, i.e. being equal to the latest available data.

8. LAJIDA (Profit before Interest, Taxes, Depreciation, and Amortization)

The Profit before Interest, Taxes, Depreciation and Amortization will be the result of the subtraction between the costs incurred with O&M (COM) and the commercial and administrative expenses (DCA) of the revenue after default (RAI).

$$LAJIDA = RAI - COM - DCA$$

9. Direct Taxes (IDI)

All direct taxes on the income must be taken into account pursuant to the applicable legislation.

When using the Taxable Income regime, first, the amortization of the intangible assets and the amortization of the CONCESSION FEE to calculate the LAIR (Profit Before Income Tax) must be excluded.

Amortizations will be recognized and projected in accordance with the applicable legislation and the rules of the Federal Revenue Office of Brazil.

The amount of direct taxes (IDI) will be calculated through the application of the respective rates of the Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL) on the LAIR, taking into account any benefits for tax loss.

When using the Assumed Profit regime, first the percentages provided for in the legislation will be to determine the calculation base for the IRPJ and the CSLL and subsequent application of the tax rates.

10. Variation of the Need for Working Capital (VCG)

The calculation of the Variation of the Need for Working Capital must consider the best corporate finance practices.

Mathematically, the Variation of the Need for Working Capital is a result of the need for working capital for the period minus the need for working capital for the subsequent period.

For future projections the number of days of each item, will be maintained constant and equal to the arithmetic mean of the respective data available for the 3 most recent years. If the CONCESSION has been in effect for less than three (3) years the arithmetic mean of the maximum amount of data available on a yearly basis will be taken into account.

11. Investments (INV)

The amounts of the investments made and projected must be distributed into the following categories:

I. Water Systems
    1. Collection of Surface Water
    2. Raw Water Pumping Station
    3. Raw Water Catchment
    4. Water Treatment Station

5. Treated Water Pumping Station
6. Treated Water Catchment
7. Reservoirs
8. Water Supply Network
9. Household Connections
10. Loss Control
11. Acquisition of Areas
12. Replacement of Hydrometers
13. Other Investments in Water Systems

II. Sewage Systems
1. Household Connections
2. Sewage Collection Network
3. Sewage Interceptor
4. Sewage Pumping Station
5. Sewage Discharge Line
6. Sewage Treatment Station
7. Sewage Pipeline
8. Other Investments in Sewage Systems

III. Investments Shared by Water and Sewage Systems.

For purposes of investment budgeting, whenever possible, the data of the most recent SINAPI table must be used as an official reference source of prices of inputs and costs of service compositions, or another document to occasionally replace it and, in the absence of updated information and at the discretion of the REGULATORY AGENCY, other parameters such as, for instance, those used and published in national and international engineering magazines. The Reports on Inputs and Compositions are made available on a monthly basis, by State.

The REGULATORY AGENCY may request that the CONCESSIONAIRE demonstrates that the amounts needed to make new investments will be calculated based on market figures considering the global cost of construction works or similar activities in Brazil or based on cost systems that use as an input market figures for the specific sector of the project, calculated, in any event, through a synthetic budget prepared by means of a quick and parametric methodology.

For purposes of price determination, a percentage on the investments may be also considered for Indirect Benefits and Expenses (BDI), referencing the rationale to determine this percentage or justify the amount adopted with the appropriate technical grounds, preferably based on official data of widely renowned institutions.

12. CONCESSION FEE (OUT)

The payment of the granting resulting from the bidding process and as contractually defined must be considered.

13. Amortization

The amount of the amortization must be obtained based applicable accounting rules in the AGREEMENT and in line with the determinations of the Federal Revenue Office of Brazil.

In compliance with the accounting recording practices for the concession of public services, the amortizations of the CONCESSION FEE and of the investments that compose the intangible assets of the private operator must be deducted from the calculation base, within the term of the AGREEMENT and in a proportion equivalent to the demand curve of the CONCESSION.

14. Project Free Cash Flow (FCP)

Finally, the Operating Cash Flow will be the result of the subtraction of the direct taxes, investments and granting from the LAJIDA, in addition to the Variation of the Need for Working Capital, which may be either positive or negative.

$$FCP = LAJIDA - IDI - INV - OUT + VCG$$

15. Updating Indexes

Considering that all amounts realized and projected must be brought to the base date of the EVTE, the updating indexes to be used in each one of the items must be those defined in the table below, or those to occasionally replace them, even if in the period preceding the date of execution of the AGREEMENT.

Item	Updating Index
Direct water Revenue	Contractual Adjustment Index (IRC) as per the formula provided for in the AGREEMENT
Cost incurred with Electric Power	Index regarding the IRC electric power component provided for in the AGREEMENT
Cost incurred with Operating Labor	Index regarding the IRC labor component provided for in the AGREEMENT
Cost incurred with Chemicals	Index regarding the IRC chemical component provided for in the AGREEMENT
Cost incurred with Disposal of Mire	Index regarding the IRC chemical component provided for in the AGREEMENT
Cost incurred with Laboratory Analyses	Index regarding the IRC chemical component provided for in the AGREEMENT
Costs incurred with Maintenance	National Extended Consumer Price Index – IPCA, disclosed by IBGE
Costs incurred with Operating Vehicles	National Extended Consumer Price Index – IPCA, disclosed by IBGE
Other Operating Costs	National Extended Consumer Price Index – IPCA, disclosed by IBGE
Commercial and Administrative Expenses	National Extended Consumer Price Index – IPCA, disclosed by IBGE
Investments	Index regarding the IRC investment component provided for in the AGREEMENT
GRANTING	National Extended Consumer Price Index – IPCA, disclosed by IBGE

The items mentioned above in this Annex and not provided for in the table above will be derived from one of the items already defined, and therefore, they will be calculated based on already updated amounts.

In the absence of the provision of an updating index, the National Extended Consumer Price Index – IPCA, disclosed by IBGE, must be adopted as a standard.

Should any of the PARTIES wish to use an updating index different from those provided for above, they must technically ground their choice, being incumbent upon the REGULATORY AGENCY to adopt or not the use of this alternative.