

Q2 2018 Earnings Call

Company Participants

- Karla Bertocco Trindade, Chief Executive Officer
- Mario Arruda Sampaio, Head of Capital Markets and Investor Relations

Other Participants

- Marcelo Sa, Analyst
- Michael Gaugler, Analyst
- Snehal Amin, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to SABESP's conference call to discuss its results for the second quarter of 2018. The audio for this conference is being broadcast simultaneously through the Internet on the website, www.sabesp.com.br and on the MZiQ platform, where you can also find a slideshow presentation available for download. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of SABESP's management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties, and assumptions because they relate to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of SABESP and could cause results to differ materially from those expressed in such forward-looking statements.

Today, with us, we have Karla Bertocco Trindade, Chief Executive Officer; Rui Affonso, Chief Financial Officer and Investor Relations Officer; Mario Arruda Sampaio, Head of Capital Market and Investor Relations; Silvio Xavier, Head of Costs and Tariffs; and Marcelo Miyagui, Head of Accounting.

Now I'll turn the conference over to Mario Sampaio. Sir, you may begin your conference.

Mario Arruda Sampaio

Okay. Good afternoon, everybody. Thank you all for attending one more conference call, this time to discuss our second quarter '18 results and present some updates on certain relevant matters. We have a six-slide presentation. After that, as usual, we'll move to the Q&A session.

So let's start on slide three. Here we can see the company's billed water and sewage volume, which was up 3.1% in second quarter '18 was an increase on 2.9% -- up 2.9% in water and 3.3% in sewage with growth concentrated in the residential category, something also seen first quarter '18. In this slide, you can also see that water billed volume have been moving up since the third quarter of 2015. Among the main factors that contributed to this volume increase, it is worth noting the rise in the number of water and sewage connections and the higher temperatures actually recorded in the period.

Let's now go to slide four. This is to discuss our financial results. In the second quarter of '18, the company recorded net income of BRL181.9 million versus BRL331.8 million in the second quarter of '17. The main changes in the second quarter of '18 compared with the same period last year was the exchange variation. In this quarter of '18, SABESP recorded foreign exchange loss of BRL797 million, driven by the depreciation of the real against dollar and the yen versus a foreign exchange loss of BRL212 million in the same period last year, leading to a negative increase of BRL585 million in the period.

Gross operating revenue related directly to sanitation services does not include construction revenue, increased BRL348 million or 12% from BRL2.9 billion in the second quarter of '17 to BRL3.2 billion this quarter. Revenue was influenced by a 7.9 tariff repositioning index, which effect started actually in November 2017, also by a 3.5% tariff repositioning index in May with effect starting in June 2018 and 3.1% increase in billed volume, as mentioned on slide three. There was also a negative impact on revenue from the higher recognition of estimated losses, with doubtful accounts related to wholesales sales in the second quarter of '18 in the amount of 45.8 million, deriving mostly and mainly from the municipality of Guarulhos. As per net operating revenue, which includes construction revenue, there was an increase of 5.1% or BRL177 million.

Costs, including costs, selling, and administrative expenses and construction costs fell by 4.8% in the second quarter of '18. As a result of these variations, adjusted EBITDA reached BRL1.4 billion, that's 29.8% more than the BRL1.065 billion recorded in the same period last year. The adjusted EBITDA margin stood at 37.7 in the second quarter of '18 against 30.5 in the second quarter of '17. For the last 12 months, the margin reached 37.7. Excluding construction costs -- sorry -- yeah, excluding construction revenues and costs, the adjusted EBITDA margin came to 45.5 in the second quarter of '18 against 38.7 in the second quarter of '17 and for the last 12 months, the margin reached 46.5%.

Let's move to slide five. Let's comment on the main variations in costs for the second quarter of '18. As we mentioned on the previous slide, costs, selling and administrative expenses, and construction costs fell BRL131 million in second quarter '18 or 4.8%. Excluding construction costs, selling and administrative expenses, and costs declined BRL19.1 million or 1%. The main variations responsible for this result occurred in services with a reduction of 8.7%, general expenses with a reduction of 7.3%, salaries, payroll charges and pension plan obligations with a reduction of 5%. Only electricity that showed

an increase of 21.8%. As usual, for more detailed explanation of our costs, please refer to the earnings release.

Let's go to slide six and go through the main variations that affected our net income in the second quarter of '18 compared to '17. Net income totaled 181.9 million, as already mentioned. Net operating revenues climbed 177.6 million. Costs and expenses, including construction costs, fell 131.3 million. Other operating revenues and expenses, including equity income, recorded a positive variation of 3.1 million. Financial expenses moved up 556 million. And finally, income tax and social contribution declined 94.1 million due to the lower taxable income recorded in the second quarter of '18, mainly impacted by the appreciation of the dollar and the yen against the real. All considered, you can see that earnings before financial results, income tax, and social contribution increased 312 million, showing a positive performance, not only in revenues, but also in costs and expenses.

Let's move to slide seven and let's talk here briefly about the situations of the reservoirs that supply the metro supply water to the metro region of Sao Paulo. From October '17, the first month of the rainy season -- from October '17 from -- exactly from the first month of the rainy season to the end of July '18, rainfall was 69% of the expected average in the Cantareira system, 72% in the Guarapiranga system and 66% in the Alto Tiete system. And remember that these are the three main systems that supply the Sao Paulo metro region.

In Cantareira, specifically, in the last four months, April to July, recorded rainfall significantly below the historical average. At the end of July, metro region reservoirs were at 47.1% of its capacity with 916 million cubic meters stored. This volume is lower than previously recorded at the same time last year of 1,179 million cubic meters. And the volume recorded in 2013 for comparison and that before the water crisis, it was at 1,155 million cubic meters. Nonetheless, as we'll see in the next slide, these conditions do not mean that we are at risk.

So moving to the next slide, as you can see, despite the lower reservoir volume, the metro region is currently better prepared to face droughts. Today, the reservoirs have higher transfer rates between them of up to 35.4 cubic meters per second, that's due to several projects carried out since the beginning of the water crisis in 2014, such as the pumping of water and that's bulk water, the fresh bulk water from the Rio Pequeno river, the Rio Grande and the Rio Guaio and the interconnection between Jaguari and Atibainha reservoirs.

Treated water production capacity to supply the metro regions of Sao Paulo also increased, that's mostly with the use of ultrafiltration membrane and the beginning of operations at Sao Lourenco Production System, moving capacity from prior 73.4 cubic meters of water production to 82.3 cubic meters per second. At the same time, demand is lower. Seeing from production standpoint, it is now 13% below than before the water crisis, while at the same time, 734,000 new consumers were added to the network since 2013. In numbers, water production averaged 69.1 cubic meters per second in 2013 and now it's at 60.4 cubic meters per second. As for water losses in the metro region of Sao Paulo, it is now 29% lower than before the water crisis. In June '13, water losses came to 470 liters per connection per day. Today, this figure is 334 liters per connection per day.

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Overall, today, SABESP has a more robust system with more interconnections between the networks served by each production system, which enables the transfer of up to 12 cubic meters per second between them. Regions that used to be supplied by Cantareira alone can now be served by up to two other production systems. And again, the population also helped by incorporating water saving habits into their routine. The average residential consumption was 13 cubic meters per month before the water crisis and now it's at 10.8 cubic meter, and that is a significant reduction of 17%.

So, in summary, thanks to all the initiatives undertaken by the company to increase water security and reduce water losses, that is combined also with the lower consumption by the population. The amount of water stored is sufficient to meet demand in the Sao Paulo metro region and maintain regular water supply.

Now, there's no more slides, but we have two subjects for updates and information that we'd like to share with you. The first relates to the recently issued provisional measure number 844 and the second is related to FS [ph] and the tariff revision. Moving and starting from the first, on July 6, the President of Brazil issued the provisional measure number 844, amending federal law 11445 and law 9984 with significant impacts on the organizations of the sanitation sector in Brazil.

The provisional measure 844 will be evaluated by a special joint commission composed of members of the Senate and the Congress, who will produce an opinion that may recommend its approval, provide for changes in the original text based on 525 proposed amendments to the text that was presented originally and all these proposals were made by July 17 or at last to recommend its rejection. After the completion of the opinion, the opinion should be discussed by the House and the Senate, and if not approved until September 20 of this year, the provisional measure will lose all its effect.

So that recognizes that the sanitation regulatory framework needs to be improved, especially in order to attract more public and private investments and thus accelerate the necessary and universalization of service in the country. A greater involvement of private companies in the sanitation sector, for example, will stimulate the development of strategic and successful partnerships with state-owned enterprises such as SABESP, such as has already been shown by SABESP with its experience in this matter.

The company understands, however, that the provisional measure is neither timely nor convenient. First, because of the chosen way to change the rules of the game. A provisional measure by definition can only discipline the matter in the light of urgency and relevance in doing so. The urgency is out of character provided the fact that one of the central aspects of the desired change in the sanitation regulatory framework will not come into force in at least three-year time. This is the case of the rule that intends to compel municipalities to make public calls to verify the existence of private stakeholders before delegating the provision of sanitation services to state-owned companies with exemption from a bidding process.

In addition, defining of the provisional measure is also not appropriate, considering the proximity to the election period for sure. But sure -- and you can be sure, the next

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government will have more time and conditions to discuss the most appropriate changes for the industry together now with the society, the academy, and service operators. An example of the issues that deserve to be better discussed is the solution proposed by the provisional measure to seek greater standardization of regulation, which is to empower the National Water Agency to provide reference standards, whose observance by the state and municipalities will be a prerequisite for obtaining federal public resources.

In the understanding of SABESP ANA, the water agency, has an evident conflict of interest when cumulating water regulation with the regulation of the sanitation sector. In this sense, if the rule is approved, it will be necessary to structure and fund ANA in order to provide it with a capacity necessary for its new attribution, which is uncertain then in time and uncertain in funding. All this process will require again a lot of investment, a lot of time and in the meantime, such that the regulation currency exercised by FS in the municipalities operated by SABESP should not change in the short term and should prevail if any change comes in front of us.

Second, we have some concerns about the merit. So we have two concerns. The second is about the merit. It is not clear in the text of the provisional measure that in case of the assumption of services by private companies, municipalities currently operated by state companies such as SABESP or even other private companies will be prior compensated or identified for investments not yet amortized. This gap will allow numerous demands for misappropriation of investments and public assets, which does not contribute to the legal security of the sector, which we all know is essential for the attraction of investments.

In the case of SABESP, we will not give up or waive the compensation due to us from investments already made under the penalty of putting ourselves in the situation of competitive inequality in relation to the new market players. Or, in summary, the company understands that there are several problems regarding the way in which the provisional measure was drafted and that its concept will not be able to drive the necessary changes in the sector. In this context, it's important to reaffirm that SABESP is not afraid of competition and that it is concerned with the development advance of the basic sanitation in Brazil and such to achieve full sanitation in the shortest time possible.

The second comment we have relates to ARSESP. As you are aware, ARSESP released on May 9 the final results of SABESP second tariff review, shortly after that on May 24, this year, in view of the final results, SABESP filed with ARSESP a request for reconsideration and a request for clarification and review. The request for reconsideration consists of an administrative appeal addressed to ARSESP CEO, requesting the revision of the regulatory decision set by ARSESP resolution 794, the one related to the final tariff reposition index with the purpose of requesting that -- of applying the due compensation adjustments in the revenue, cost of electricity, and investments executed during the first cycle.

As for the request for clarification and revision, this includes explanation of the reasons that led to the significant reduction in the final forecast of OpEx for the '17- '20 period. A revision of the calculation of three variables, also one of them, the X Factor, the other the compensatory adjustment for the delay in the application of the second ordinary tariff

revision. And the third, the calculation of the financial component related to municipal funds.

More recently, the company sent an official letter to ARSESP asking for a response to the above-mentioned request. Yesterday, the regulators sent an official letter to SABESP in response to our request for a response, for which we released also yesterday a notice to the market. According to the agency's recent letter, the administrative appeal has already been appraised by its technical body and sent to analysis and opinion of the agency's legal advisers. Subsequent to this, the executive officers of the agency will provide their final decision. Regarding the clarification request, it was discussed and evaluated in technical meetings between the representatives of SABESP and ARSESP. And once reviewed by the agency's legal advisers, the request will be subject still to a final resolution by ARSESP's executive officers before any implementation.

That's it. This concludes our presentation. Now let's move on to the question-and-answer session.

Questions And Answers

Operator

Thank you. (Operator Instructions) And our first question comes from Michael Gaugler of Janney Montgomery Scott. Please go ahead.

Q - Michael Gaugler {BIO 7139923 <GO>}

Yes, good afternoon, everyone.

A - Mario Arruda Sampaio

Good afternoon, Michael.

Q - Michael Gaugler {BIO 7139923 <GO>}

Just one question. Given the debt offering that was postponed earlier in the year, I'm wondering how that impacts your plans on financing investments going forward?

A - Mario Arruda Sampaio

Okay. Look, I believe you are making reference to the postponement of a local debenture on the value of BRL650 million, correct?

Q - Michael Gaugler {BIO 7139923 <GO>}

Correct.

A - Mario Arruda Sampaio

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Okay. That first, we postponed because the market conditions depreciated, after the local strike of truck drivers, the economics for adaptations seem to not be the most favorable one. We are okay in terms of our cash availability and cash generation in face of the remaining period of the year. So it's something that we couldn't bear. We have other replacement and substitute funding coming from other multilateral and public funding for investments. So it doesn't really alter how we're dealing with our cash flow. And we can assume as we see the scenario better, we are very frequent local debenture issuers. We are, by the way, the most frequent local issuer in Brazil. So we really don't find any liquidity risks that may be a concern. Okay?

Q - Michael Gaugler {BIO 7139923 <GO>}

Thanks. That's all I have. Thank you.

A - Mario Arruda Sampaio

Thanks, Michael.

Operator

(Operator Instructions) Our next question comes from Snehal Amin of WindAcre. Please go ahead.

A - Mario Arruda Sampaio

Snehal, we're not listening you, just in case you are trying to make the question.

Operator

Moving on, our next question comes from Marcelo Sa of UBS. Please go ahead.

Q - Marcelo Sa {BIO 16454581 <GO>}

Good afternoon. I have one question regarding Guarulhos. Can you please tell me from the revenues that you are supposed to receive from Guarulhos related to the wholesale revenues, how much of this Guarulhos is paying? Just understand how much is the loss that you are having because you have not yet signed an agreement with Guarulhos. Thank you.

Operator

Pardon me, Marcelo. Could you please repeat your question for the speakers?

Q - Marcelo Sa {BIO 16454581 <GO>}

Yes, sure. My question was regarding the revenues from Guarulhos city. So SABESP receives money from selling water in the wholesale in Guarulhos, and Guarulhos does not pay out the bill. So what I'm asking is actually how much money is the company losing per quarter because Guarulhos is not paying the full bill? This question was because the

company has not yet signed an agreement with the city to end these long-time disputes. Hello, is anyone there?

Operator

Pardon me, this is the conference operator. It appears we have lost the connection to the main speaker location. Please hold while we get them reconnected. Pardon me, this is the conference operator. Thank you, everybody, for holding. I have reconnected the speaker location. Marcelo, I'm going to have to ask you to repeat your question a third time, please, for the speaker location.

Q - Michael Gaugler {BIO 7139923 <GO>}

No problem. Hi, guys. So my question was regarding Guarulhos. So the company receives revenues from Guarulhos from selling water in the wholesale, but Guarulhos does not pay the full bill. So what I want to ask you is, how much is the total amount of revenue that Guarulhos should pay? And how much Guarulhos pays? Just to get a better sense of how much money you are losing per quarter because you have not yet signed an agreement to settle this long-term dispute? Thank you.

A - Mario Arruda Sampaio

Marcelo, just a second for us to gather the numbers. Just a second. Marcelo, Mario. The revenue on a monthly basis that we obtain from Guarulhos should be BRL19 million a month. That is how much we invoice them on a monthly basis. They have been paying 80% of that all the way to January this year. Since they began paying obligatory judiciary payments that we are eligible to receive based on final court rulings, they suspended payment on the services we rendered. But they are now paying the judiciary obligations, which totaled -- which should be totaling around about BRL70 million, okay. So in other words, from a cash flow perspective, we have not been impacted of lack of cash flowing from Guarulhos to SABESP. So that's the position we are today. That also part explains why the delinquency level was higher and as we mentioned in the call. But again, they are basically substituting invoicing the obligations to payment of judiciary obligation. That's the summary. [ph]

Q - Marcelo Sa {BIO 16454581 <GO>}

So just for me to confirm the numbers, so you are saying that the total invoice is around BRL19 million per month, so it would be something close to BRL60 million per quarter? And you're saying that the order that now SABESP is -- sorry, the figure Guarulhos is required to pay totals BRL70 million, but this BRL70 million is per month, per quarter until now, from January until now? What is the time frame of that?

A - Mario Arruda Sampaio

It's an absolute number. It's actually 44,000, they paid four days after the quarter -- the second quarter finalized. That's why we didn't see any of that in our release. And there's 36 additional coming in, which actually is BRL80 million, sorry, for the number. And that is what we have in front of us in the next few months.

Q - Marcelo Sa {BIO 16454581 <GO>}

Okay. So you're losing 80% of the BRL19 million, and then you can receive up to BRL80 million if you look at, say, to the time frame of 12 months. So at the end, when you add -- I mean, the invoice plus the additional payment, you wouldn't have any -- like a negative cash flow impact from Guarulhos, that's what you mean?

A - Mario Arruda Sampaio

Okay. No, Marcelo, it works this way. Including February to today, he has not paid the monthly invoicing of BRL19 million, okay. So we did not obtain any cash flow from that. And obviously this adds to the delinquency and et cetera, on one side. On the other side, there are judiciary payments that were due and are due to us from Guarulhos, which what we have already received comes to BRL44 million and what we still will receive is BRL36 million. That is in full.

No discount other than the full number I just gave you. They are separate things. So they continue on their delinquency so far. We're not saying that they will not retake at any time the payment, whether in full or 80%, okay, but we don't know, we can't assure you of that. The only thing we can assure you is that we received from judiciary payments 44 and we have 36 coming up in the next month or so, which means soon. So that's basically it, I'm not sure if I made myself clear.

Q - Marcelo Sa {BIO 16454581 <GO>}

Yeah, it's totally clear. Thank you.

A - Mario Arruda Sampaio

Okay.

Operator

Our next question comes from Steven Goldberger of WindAcre. Please go ahead.

Q - Snehal Amin {BIO 6232026 <GO>}

It's Snehal. I've two questions. One, if ARSESP does not provide the compensation that's due to the company through this, the appeal process you're going through, what other steps then can the company take to protect itself and protect the shareholders? And then second on Guarulhos. I think the memorandum of understanding was signed quite a long time ago. Is there a reason that this deal that you signed can't get formalized? And if it doesn't get formalized, what steps can the company take to get these non-paying municipalities to start paying? I know the company has taken steps in the past, calling them a bad debtor with the state government, et cetera, but it doesn't seem to have solved the problem and so the shareholders are essentially paying for free water for people that aren't paying. So how do we stop that practice?

A - Mario Arruda Sampaio

Just a second so we can organize and well address your two points.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

Now, this is Karla, how are you doing?

Q - Snehal Amin {BIO 6232026 <GO>}

Hi, good, Karla, Nice speaking to you.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

Nice talking to you. Talking about the feedback from ARSESP, we are waiting for a response from our requirements to be done until this year. Of course, we expect to have it soon. And what we have been discussing with the board of ARSESP and also with the board is that if this answer doesn't come in line with what we think would be fair, so if it represents something relevant that we do not agree, the idea that we are discussing here is to hire like a peer review and the expert on the issue that maybe we receive another positive feedback so that we can have like a third opinion and then bring it to the board to decide the next step. So if this peer review thinks that we are right, then we might go to the justice and include this report from this expert in our defense or if this guy comes with another point, then we would bring it back to the board to discuss.

So just to make it clear, we wait for an expert from the regulatory authority soon. Of course, we want to have this through this year and we believe that it will be done because they have concluded the technical report and then they are waiting for the legal department to give their legal opinion and then they will decide both the requirements. And as soon as we get it, we will, of course, review it here internally. And if we have something that we do not agree that we think is relevant, we will take it to the board so that we can hire a third party, an expert to bring their highlights and their reports to us. And then we will check the next step if we will okay consider this point that might be brought by the experts or if we don't agree and then we will use this report to go to the justice. This is what we are discussing right now. I don't know if it's clear for you.

Q - Snehal Amin {BIO 6232026 <GO>}

Yeah, that is clear. So it sounds like, which I appreciate, that if you don't get the answer that you want, you're not going to give up.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

Of course, no. No.

Q - Snehal Amin {BIO 6232026 <GO>}

The expert makes a lot of sense, and it gives credibility. I just want to make sure that we're not going to give up in this process until every avenue --

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

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We do feel that it's helpful even to improve the regulatory framework that we definitely discuss all the points. So we feel that, of course, we must wait for their answer, okay. And we know that the justice in Brazil is not something so quick and so, how can I say, it takes time to have an answer. So -- but we think it's still a possibility, but we discussed with the board and we do think it's really helpful to have this peer review to have this expert. Of course, it depends on the issue. So -- but we started to discuss who to hire and to what kind of activity. Because we believe that having this third opinion, we'll make ourselves more comfortable. If we have to discuss again with the regulatory authority or if we have to go to the court, we will have a third opinion that makes our position stronger. At least, that's what I believe.

Q - Snehal Amin {BIO 6232026 <GO>}

Okay, that's clear.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

And about Guarulhos, Mario is going to comment?

A - Mario Arruda Sampaio

Yes. Now I'll try to explain here. If I get off track, the team will correct me. Well, first, let's make sure that -- you understand that, we are negotiating. Negotiating is underway with Guarulhos. There's no disruption in the process except for that. It is, obviously, a very complex process, very detailed, involves many opinions and approvals from municipal attorneys, from state attorneys. It's absolutely tiresome and complex, which does not mean anybody of any side has given up in anything. So we're moving, okay.

So said that, what we can do is in any case or for any reason, the deal does not move on is that we will do as we always have done. We will file the municipality and the state bad payer list, which they were before starting negotiation, which if you remember, that restricts them access to tax that are transferred from state and federal level. In other words, we reduced their cash flow. That's a restriction.

The second thing, which is something we have been doing since the beginning of this process, we will take all this to court. What we have seen is that it takes a long time for the courts to rule, but we have been winning all the court rulings. And all this results in an obligatory judicial payment that has to be made by the municipality. In other words, this is something they cannot default, period. So this is what we're going to do. Basically, this is what we're going to do and that we can do. There's nothing else we can do except for that. So in summary, that's where we are. We are actually optimistic about the process, and we can't tell you when, but it could take long or anytime soon. Okay?

Q - Snehal Amin {BIO 6232026 <GO>}

Okay. I just have two follow-up questions on that. Was it necessary to take them off of the bad debtor list when they started negotiation? So wonder it kind of takes the pressure off of them to find a resolution and sign a deal, right, once they're off of that list and they have access to that cash flow again? That's one question. And then the second question. Legally, whenever you have any customer, whether it's a municipality or any individual or

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an industrial company, if they stop paying you, do you have the legal right to turn the water off? Or if it's an industrial company or if I'm a household and I stop paying you, are you still forced to provide me water even though I don't pay you for it?

A - Mario Arruda Sampaio

I'll go backwards. Let me start from backwards. For any industry, for any residence, there is potentially an alternative supplier. They can go out there and buy water or do something. So there is no restriction. Actually, the law allows us to interrupt, to cut water, to provide water. We can cut the service to those consumers that are bad payers or in delinquency. So we can do that because essentially they have an alternative supplier. When you take a city with more than 1 million population, you definitely do not have an alternative supplier, even more in the metro region of Sao Paulo. So based on those two, maybe Karla can complement this comment and essentially eventually move to the first question.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

Yes. Just adding to what Mario just mentioned, it's important to highlight that in the past, in 2007, it was not clear if we could or could not turn their water off. Then there was a legal decision, some of them said that we could, some said that we couldn't. Then we had the law, the regulatory framework for water and sanitation 2007 that established that for industrial consumers, residential consumers, yes, definitely we could turn their water off. And it established some kind of procedure to do that, including even some public-interested facilities that we still could cut their water.

The problem that we have -- so that's why we don't have a high delinquency level for these kind of consumers. What happens in this case is that the consumers are paying for the municipality for the water that is provided today. So that's the problem that's what highlighted in the legal discussion. The problem is that the consumers are paying. So I cannot just go there and cut their water and turn their water off because they don't have delinquency. The problem is that the municipalities that is a public entity, they receive the money and use our money, your money to finance themselves to do other business, other things. And -- but as the consumers are paying, the legal decision said we could not turn the water off because they were still paying.

So that's why we went through, if I'm not mistaken, it was the beginning of 2000 that we started with this kind of legal action, isn't it?

A - Mario Arruda Sampaio

Yes.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

Against the municipality, because the problem is with the municipality and not with the user, the consumers are paying. And the way that we can deal with the municipality is a way that SABESP has been dealing since its beginning with these kind of legal procedures that they have -- the company has adopted. So it's an issue, a big issue because of the dimensions that we have around like if you put together Guarulhos, Santo Andre and Maua, you have almost like BRL10 billion. And the problem is that it takes time.

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I believe that the good news is that once we have this legal decision telling them that they have to pay us, they definitely have to start paying. The problem is that it's too long and that's why we are always very motivated to try to come to an agreement to finish these legal procedures and come to a better condition, because the present condition is definitely not what we feel comfortable, but this is what we have today. So I believe that we can, due to the law and to the legal decision.

For the industrial consumers and residential consumers, yes, we can, but not to the municipalities at Guarulhos or Santo Andre because the consumers are paying and the municipality is not paying us. And that's what we can do. (inaudible) the municipality the way that SABESP has been doing from the past, I don't believe, around 15 to 18 years and try to negotiate a better condition, that's what exactly we are doing right now.

A - Mario Arruda Sampaio

The other issue, Karla is, the question is why did we take the municipality out of the state bad payer list?

Q - Snehal Amin {BIO 6232026 <GO>}

Until the deal is signed, why take it off the list?

A - Mario Arruda Sampaio

Yes. I understand the reason we took them out of the list is as part of a goodwill for the negotiation.

A - Karla Bertocco Trindade {BIO 20612773 <GO>}

It's relevant. So when the negotiation began around February or March, I believe, this movement was made to show goodwill. And what Mario mentioned, I think it's important to highlight is that so far although and as we are part of a public entity, we definitely understand all the steps that you must take and all the commitments that you must have from the legal department, the judge to conclude this kind of transaction. It's not something that is easy and that is not something that go fast. So, so far, we don't feel that we have a disruption. As Mario said, we don't have a disagreement. We have problems that we have to work together to fulfill all the missions, all the points that we must have done so that we can conclude this transaction. Much more a problem of complexity and time rather than a problem of disagreement.

Q - Snehal Amin {BIO 6232026 <GO>}

Yeah, okay. That's helpful. Okay, that's good to understand. Okay, thank you. Thank you, Karla, for being on top this and explaining all that. Thank you, Mario, as always.

A - Mario Arruda Sampaio

Okay. Thanks, Snehal.

Operator

(Operator Instructions) It appears to be no further questions. Now I'll turn the conference back to SABESP for their final remarks.

A - Mario Arruda Sampaio

Okay, then, thank you, everybody. As usual, we are here 24/7 to support you on your questions. Call myself, Angela, and the IR team, and see you next quarter. Bye-bye.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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