

Y 2021 Earnings Call

Company Participants

- Benedito Braga, Chief Executive Officer
- Marcelo Miyagui, Superintendent for Accounting
- Mario Sampaio, Head of Capital Markets and Investor Relations
- Osvaldo Garcia, Chief Financial Officer

Presentation

Mario Sampaio

Hello, good morning everyone. Welcome to SABESP's 2021 full year earnings conference. My name is Mario Sampaio. I am the Superintendent for fundraising and investor relations. With us today -- let's open for everyone first. So, once again, with us today we have Dr. Benedito Braga, CEO of SABESP; Osvaldo Garcia, CFO and IRO; Marcelo Miyagui, Superintendent for accounting; and Marcel Sanches, Superintendent for regulatory affairs.

Before turning the conference over to Dr. Braga, who will begin the conference, I would like to say a few things. This video conference is being simultaneously translated into English and also being recorded. With regard to how you use the simultaneous interpretation, you will find further information on the chat very soon. The presentation and a recording will be available for download at SABESP's IR portal where the press release is already available. Remember that the speakers will take questions only in writing via the platform's chat box.

Our conference is expected to last between an hour and 90 minutes, about 45 minutes of which will be set aside to answer your questions from analysts and investors, after which we will have about 15 minutes to answer questions from the media.

To conclude this time of guidance, we'd like to clarify that any statement about -- any statement made during this conference about the Company's business prospects, projections and operating and financial targets are based on beliefs and assumptions from SABESP's management as well as information that's currently available to the company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions in that they refer to future events and therefore rely on circumstances that may or may not come about.

Investors must understand that general economic conditions, the state of the industry and other operating factors may affect the company's future earnings and lead to results that differ materially from those expressed in said forward-looking statements. So, let's now begin officially, I'd like to turn the conference over to Dr. Braga, who will begin the conference. Dr. Braga, please take it away.

Benedito Braga {BIO 19159532 <GO>}

Thank you, Mario. I would like to greet everyone who is joining us this morning. We are really pleased to give you some positive news. We are now issuing a material fact with regard to the fact that Arsesp has issued today the evidence of our economic and financial capacity with regard to the new legal framework for sanitation meeting the demands of articles 10B in 11B from the latest federal decree, which determines proving the economic and financial ability of service providers to meet their targets for universal coverage by 2033.

This is something that has been published in public documents and for all 370 municipalities within URAE Southeast are in compliance with the state law in June. A caveat was issued nothing that compromises us in financial terms with regard to the cities of Agudos, (inaudible) Quintana, (inaudible) Santo Andre, which account for about 3.5% of our revenue, but we are working on that caveat to have it de-lifted in the next few days, but we will keep the market informed about that.

I'd like to talk a little bit about hydrology and investments, 2021 was as challenging a period as 2020 was. That was mostly because of the pandemic situation, as vaccination began our situation began to improve as well. But, we're still working on the frontlines maintaining our construction works and operations. Over the course of 2021, we invested about BRL5 billion in this set of 375 municipalities where we operate, which account for 68% of the state's population. In metropolitan Sao Paulo, within the context of the Tiete project, we had 2.4 million people being serviced within the full sanitation cycle for water and sewer treatment and within the New Rio Pinheiros Program, which is part of the Tiete project, we were able to bring sanitation -- the sanitation system to 516 new properties or 1.5 million people, which would be enough to fill a city the size of Porto Alegre.

That was very consistent result and which also included great publicity about SABESP's work within the context of the Novo Rio Pinheiros Program bringing basic sanitation to the population and especially vulnerable population within the metropolitan area of Sao Paulo. We had a very dry year in 2021. Our largest reservoirs, the Cantareira and Alto Tiete systems reported about 70% of the expected rainfall levels, but because of the investment we carried out over the course of the last four or five years after the major water crisis we faced, we found ourselves in a very favorable position to supply clean water to the population.

So, we enjoy water security and it is a really peaceful situation for us this year. We have been recommending a rational use of water, but despite the very dry -- extended dry season and a conscious water use by the population, we find ourselves in condition to have a steady water supply.

So, now after sharing this good news with you, I'd like to turn the floor over to our CFO, Osvaldo Garcia, who will talk a little bit about our financial results in the year 2021. Please Osvaldo, to take it away.

Osvaldo Garcia {BIO 20543217 <GO>}

FINAL

Thank you, President Braga. Good morning, everyone. I'd like to thank everyone for joining another one of sabesp's earnings conference to discuss our earnings in the year 2021. We'll start by talking about the overall billed volume. We saw an increase of 1.2% in that volume over 2020, 0.7% referring to the increase in the volume of water that was billed and 1.7% in sewage treatment bills. When we look at the consumer mix, we see that the rise was most intense in the residential category with 3.8% followed by the industrial category with 3.1% and the commercial category with 2.5%

In public service, the volume decreased 2.9% over that period. The metropolitan area showed one of the largest growth especially in sewage treatment reflecting the investment we've made over the last few years to expand our collection and treatment in line with our investment plan.

Moving on to the next slide, our financial highlights will begin with the sanitation services. We saw a rise in revenue by 7.6% with that in the period going from BRL15.2 billion to BRL16.3 billion in 2021. Among other factors, what most affected this increase was the enforcement of the tariff -- average tariff adjustments of 3.5% in August 2020 and 7% in May 2021. Our net operating revenue increased 9.5% from BRL17.8 billion to BRL19.5 billion and that was because of the same factors we mentioned before, as well as the revenue from construction, which helped or which contributed BRL660 million with that growth over that period

Our administrative and sales costs and expenses including construction costs increased by 14.6% going from BRL13.4 billion in 2020 to BRL15.4 billion in 2021. If we exclude construction costs, the increase was smaller by 13.5%. The adjusted EBITDA for the period decreased slightly by 0.8% and in 2021 at BRL6.4 billion. The EBITDA margin, which disregards the revenue and the cost with construction has also decreased going from 45% in 2020 to 41.5% in 2021. Our net revenue ended the year at BRL2.3 billion about above what was found in 2020 supported by our positive financial result, which amounted to BRL2.2 billion.

So moving on to the next slide, we will be talking about our costs and expenses and I'd like to start by saying that our operating results over the year were ultimately more substantially affected by the fourth quarter results. During that period, we reported an increase in our expenses mirroring the easing pandemic-related restrictions, which led the company to move back to its maintenance activity levels and also performing not only those maintenance work that was corrective or emergency, we also saw the results of a two-digit inflation rate, which affected prices in general and which was only reflected more recently in the rise in prices that was determined by the regulating agency. Another aspect has to do with the water level situation, which required that more water was pumped between reservoirs to ensure the maintenance of supply, that increased energy consumption in an environment where prices were already very pressured. In this case the same increase in the migration from consumption in the captive market to the free market segment was not enough to mitigate those impacts.

Now, focusing on the year-to-year comparison, costs and expenses when we disregard construction costs increased 13.5% or BRL1.3 billion. It's also important to remember the 2020 was a very unusual year when a number of non-emergency activities were stopped

FINAL

or postponed because of COVID-19. In addition to that, the events in inflation, which reached a two-digit level in 2021 was another factor of that impacted in a widespread way, our costs and expenses.

In staff expenses, we'd like to remember that in late 2020, we saw a slash in 1200 employees and in 2021 another 300 were laid off. Those staff cuts have may up for a wage adjustment of 7.75% in 2021. The increase in spending on over-time and medical assistance, which should decrease significantly in 2020 returned to their regular levels in 2021, leading in 2021 to a slight increase of 0.3% in nominal cost. Our general -- our SG&A, so to speak, had shown a slight decrease at the end of 2020 and have increased by 26.3% and 19.1% respectively, a result of the maintenance especially corrective maintenance and activities that have been postponed during the height of the COVID pandemic.

Our expenses with treatment material increased 7.6% because of the lower level of our reservoirs and as a result, that quality of water has also deteriorated and the increase in prices of chemical components. Our electricity expenses increased 20.4% especially because of an average increase in our environment tariff and the regulated environment tariff of 18.9% and the free market environment of 2.3%. General expenses, much of growth observed of 21.3% or BRL212.9 million is explained by the expenses on legal lawsuits, which amounted to BRL87.2 million and the BRL78.3 million increase in provision for transfers to municipal sanitation funds and environment and infrastructure funds.

Unlike our revenues, the losses estimated with credit and doubtful[ph] borrowers were still not recovered in the year, they increased BRL198.9 million, 18.6% impact because of the increase in delinquency. These were the main comments about costs and expenses in 2021. Now on slide 6, we have the chart for our financial performance beginning with the profit found in -- reported in 2020 of BRL973.3 million showing the movements and the result in the period.

Our net operating spending increased BRL1693.5 million because of the tariff adjustment that was enforced in May and the increase in overall billed volume as well as the increase in the average tariff because of the larger volume that was billed in commercial and industrial categories where tariffs are higher. Costs and expenses including construction costs increased BRL1966.8 million because of the larger investment in 2021 and the return of in-person activities, which had been postponed in 2020 and also the rise in inflation in 2021. Other operating revenue, and expenses excluding that within the equity model showed negative change by BRL121.5 million because of nonrecurring events that we had in 2020 with the reversal of provision for losses with the City of Mova[ph].

The financial results showed a positive variation of BRL2239 million, especially because of foreign exchange movements. In 2020 the Brazilian currency lost its value by 28.9% and 35.7% versus the dollar and the yen respectively. In 2021, the dollar gained 7.5% in value, whereas the yen lost 3.9% of its value mitigating the effects on our loans and financing contracts. It's good to -- or it's important to remember a better saying that throughout 2020, we reduced our exposure to foreign exchange to the levels we're seeing today, but because on average our exposure was greater than in 2021 that combined with how the dollar has behaved the negative -- that made the negative effects greater.

FINAL

In terms of revenue tax and social contributions, there was a negative variation by BRL511.6 million because of the larger result in 2021. The result was a net profit in 2021 by BRL2.3 billion. Before I move on to the Q&A, I'd like to go over very quickly about the tariff adjustment that was released in the last March 17, on that date Arsesp issued its deliberation number 1278 which came with a technical note authorizing us to adjust our tariffs by 12.1819% which is made up of the IPCA the consumer price index between February 21 and February 22, which was 10.5437% minus the X factor of 0.2142% and the general index adjustment for quality in 2020 which was 0.1490% plus the adjustment for the ceiling revenue of 1.4040% and 1.5% of adjustment in residential tariffs as set because of the last tariff revision and the tariff structure that was changed last year. The deliberation also determined that the new tariff structure were delayed in its deployment. This advance will have no impact -- no significant impact for the company because Arsesp has generally followed the methodology that had been stipulated for the adjustment, which is to say the tariff acknowledges that the actual revenue was more than 2.5% below the allowed revenue.

So, we implemented the adjustments gradually in the structure applying the additional increase of 1.5% in residential tariffs to reach the target structure in the following years. The adjustment authorized by or assessed and approved by the administrative board will be fully deployed or fully put into effect as of 10 -- May 10. In addition to that, because this is the first time this mechanism is being applied, the Company will ask for clarification for the agency to clarify about its premises and the criteria it adopted. We will keep the market informed about that.

And with that, let's move on to our question-and-answer session.

Questions And Answers

A - Mario Sampaio

Okay. So I believe everyone has our image now. So, this is the time when we will begin our question-and-answer session. We'll start with questions from analysts and investors following which we will open the floor for questions from journalists.

It's important to remember that you must ask your question using the Q&A function, that's how we will see the questions you're asking. We already have a significant number of questions and I will start with the first one, which is an extensive, it actually includes three questions and comes from Marcelo Gonzalez, I will read his first question and then we'll move on to the following ones.

So, he starts by saying about the tariff adjustment this year, Arsesp just mentioned in its technical note that the adjustment was BRL180 million smaller because SABESP did not introduce documents about its selling or commercial programs. Why were these studies not presented for 2021 and 2022 or actually, why were they not presented for 2021 and for 2022, will SABESP present those studies for their commercial programs.

Okay. Osvaldo you can answer this question.

A - Osvaldo Garcia {BIO 20543217 <GO>}

While the regulating agency considered an addition to make up for what occurred in the sales segment, we will still clarify how the agency addressed the issue, but we do plan to demonstrate everything so that this correction returns to our price composition next year. Well, Marcellus[ph] next question.

A - Mario Sampaio

Its also on the tariff adjustment issue, the same note includes a mentioned from Arsesp that because of the amount billed with regard to Factor K deducted BRL200 million from the tariff adjustment. So, what is Factor K and why was there BRL200 million deduction from the tariff adjustment?

A - Osvaldo Garcia {BIO 20543217 <GO>}

Well the Factor K is it something that's come, it's right for them to make that adjustment, but it's slightly different from what SABESP expected, which was BRL189 million. In any case and that document will also address this issue. This is something we are concerned with and we will look into what the aspects were that they were looking into. So I don't know if I skipped any of Marcellus questions. I think those were his two questions.

A - Mario Sampaio

So the next question comes from Giuliano Ajeje from BSI. He asks the tariff in force in Q4 '21 is 2.5% smaller than the one in force in Q4 2020, why has it decreased.

Osvaldo again.

A - Osvaldo Garcia {BIO 20543217 <GO>}

Well, I will turn the conference to Miyagui to answer that question.

A - Marcelo Miyagui

Well, good morning, everyone. The average price takes into account a number of things including the mix and we see that there was a decrease in consumption in below 10 cubic meters and an increase and above 10 cubic meters. So, that is driving the mix down, that's essentially it.

A - Mario Sampaio

All right. Moving forward. The next question comes from Guilherme Lima and on that note, if you guys would like to, in addition to your name, also include what institution you're with I will announce that when I ask your question, okay. So he asks about two topics. The first one has to do with the tariff adjustment in 2022. So could you guys talk about the Factor K which we just addressed and what in your opinion was in charge of the impact of BRL200 million and then what is your opinion about the methodology to apply there and also about the 2022 adjustment, could you guys talk about the process of acknowledging the commercial programs -- of revenues from commercial programs, will

these programs be implemented. I think Dr. Braga has answered that in part would you like to add anything,

A - Benedito Braga {BIO 19159532 <GO>}

Well, I think Osvaldo could address the issue of the commercial programs.

A - Osvaldo Garcia {BIO 20543217 <GO>}

Well, as I said, these programs are a way to bring in new customers to increase our volume and reduce our costs at SABESP. We expect to introduce those programs, meaning they're part of our pipeline but in that document, we expect to send to the agency explain all the details, so that in our next quarters we can cover that overall volume.

A - Mario Sampaio

Okay. So Guilherme's next question is what is your guys opinion about the decree to improve your economic and financial capacity for sanitation companies. How is that being enforced and in your vision, what do you expect will be of the contracts that will -- that are considered irregular, how long will these contracts remain irregular.

A - Benedito Braga {BIO 19159532 <GO>}

Well, the problem with contracts being deemed irregular is that in the Act and also the decree will prevent the city or the municipality from accessing funds from the federal government via Social Development Bank or any other public or state-run bank. Now, as to how long will they be allowed to remain irregular, that's a more complicated issue, I don't know if Osvaldo has anything to say about that.

A - Osvaldo Garcia {BIO 20543217 <GO>}

But there is a lot of legal uncertainty around all of that. Well, the opinion from our legal department is that the contract is only irregular when it comes to accessing federal funds or funds that rely on federal approval. With regard to maintenance of the contract, the contract will be maintained because it is a perfect legal document that's been signed by the two parties. So, there is no issue in terms of how long the contract will be enforced. It will have to be enforced throughout his validity. The only thing it prevents us from doing is to access federal funds to apply them in the city or the municipality, where the contract is deemed invalid or irregular better saying.

A - Mario Sampaio

So, moving onto the next question. It comes from actually Eduardo Lazzaretti and Giuliano Ajeje asked similar questions. I'm going to read Eduardo's and Giuliano's questions very quickly. So there was a decrease in water and sewage connections in Q4 '21 versus Q3, water connections, for example, went from BRL10.152 million in Q3 '21 to BRL9.84 million in Q4 '21. Would you guys care to explain why that increase occurred, was the concession contract -- has the contract expired in any municipality?

FINAL

Bloomberg Transcript

And Giuliano asks why did the number of new connections within the project New Pinheiros decreased.

Dr. Braga, how do we address that?

A - Benedito Braga {BIO 19159532 <GO>}

Well, we have a new commercial system we're deploying and within this new system, we have an update in our register that led to an update in the numbers of active and inactive connections and that is why are we reported that situation. Would Osvaldo like to say anything else.

A - Mario Sampaio

Well President, the explanation is exactly that. In Q3, we deployed the (inaudible) system and as we expected the register was sort of cleaned up, so that we had only the active connections and we had more clarity about delinquent connections as well.

So, let's move on to the next question, coincidentally, it's the same question again from both Eduardo Lazzaretti and Giuliano Ajeje, they asked about our provisions and PCLD. And Eduardo asks if you guys would please care to comment about the increase in PCLD and what you guys expect in those terms for the next quarters, that would be great. That was the first question.

Now Giuliano was a bit more specific. He mentions that the provision for doubtful accounts and net income for the last 40 quarters with SABESP is 1.7%. During the pandemic, the ratio moved to 3.3%. So, why is it that in Q4 '21 that ratio moved up to 6.6%. What was the customer base that made the Company become more conservative. Dr. Braga?

A - Benedito Braga {BIO 19159532 <GO>}

Yeah that's on Osvaldo's realm, let's hear from him,

A - Osvaldo Garcia {BIO 20543217 <GO>}

Well, essentially our PCLD grew on Q4 in the wake of our introduction of this new system. Until this system is fully regulated, we've adopted a completely conservative stance and held off on any more decisive charging action and that led our provision decrease significantly or increase significantly actually. We expect that to decrease in the next quarters, we've always seen a decrease since February because with -- once this system was stabilized, we once again are moving forward with clear billing actions and we are being more incisive in that sense. What we expect is as of the next quarter that figure will come back to its historical or to its regular levels.

A - Mario Sampaio

So, moving forward, we have two questions or I believe there may be the same question from Giuliano Ajeje. He talks about reported and regulated income. Does SABESP intend

to ask for a reimbursement of the difference between its reported revenue and regulatory revenue as defined by Arsesp in the change of the tariff structure.

And the second is, the compensatory adjustment that was reported in the last slide, is it enough to cover the over BRL1 billion gap in between the reported revenue and the regulatory revenue.

A - Benedito Braga {BIO 19159532 <GO>}

Well, those are two questions, first of all, the numbers do not reach BRL1 billion because we have our figures per segment, but you're right in saying that we are sending this letter for clarification to use precisely to understand what the methodology was for this mechanism and also to have clarity over the fact that will our provisions play into that or not. Now, from the conversations we've had, the answer we had was, yes, in the next tariff revision, we will have those results in a capitalized way.

So, our first step now is, has been precisely to get on the same page about the methodology that was applied and revising the tariff or adjusting the tariff, but we are facing this in a very positive way, because everything the agency set out to do in its third tariff revision, the agency did. Now our disagreements that must be refined for both this revision and for other tariffs is to understand whether our concepts -- the concepts we're adopting and that they're adopting are matching. So, we do expect for the next tariffs to include everything that was not adopted by Arsesp in the latest adjustment.

A - Mario Sampaio

Perfect. So the next question comes from Claudio Gutierrez. Claudio asks also about PCLD and what is going on. I understand that this has already been addressed. So just require you to understand we have already addressed the issue and increased delinquencies.

Okay, so next question comes from Milene Carvalho. She asks about the postponement in adjusting the tariff. The question is, this year Arsesp decided not to introduce the change in the tariff structure. Will this be postponed to 2023 or will it be implemented during this cycle. As a result, will your minimum consumption rate stay in force until what time.

A - Benedito Braga {BIO 19159532 <GO>}

Well, it will stay in force until the new tariff structure is put in place. We expect that to be as soon as possible, that this new structure will be implemented maybe by 2023 or 2024. We do not believe it will be postponed longer than that. That's essentially the answer.

A - Mario Sampaio

Okay, Milene then asked something else. She raises the relevant, the material fact that was issued today, Arsesp issued a proviso or a caveat to six municipalities Santo Andre included without their adherence to those contracts, will they be considered irregular, what will the federal concession look like.

FINAL

Bloomberg Transcript

A - Benedito Braga {BIO 19159532 <GO>}

Well, I think Osvaldo has already answered that. The contracts remain in force. The question is, as we said earlier, is that these municipalities will face more difficulties when trying to raise funds from -- with the federal government.

A - Mario Sampaio

The next question is from Deana (inaudible) but it's a question that's already been answered. She asks about the number of connections which decreased in 2021 compared with 2020.

The next question comes from Giuliano. He says the EBITDA margin reported in 2021 is the narrowest since the water crisis in 2015. So does the company have any plan to reduce its costs?

A - Benedito Braga {BIO 19159532 <GO>}

Well guys, cost reduction plans are always welcome. I'll ask Osvaldo to address that issue.

A - Osvaldo Garcia {BIO 20543217 <GO>}

Of course cost reduction program is permanent within the company. We always want to reduce our cost pressures whenever we can. Now there are two things which are clear to us at this point. One is, we've had period of very high inflation during the last quarter and because this is a regulated aspect where inflation is addressed after the rest of the market once inflation starts to go up, we have to sort of chase it with our revenue after the fact.

So, the movement this year is expected to be the opposite. So, when suggested our rates will reflect inflation rates from the last quarters. Now just as with any company, we have to really stay on top of our costs. Now within the company we have costs which we can manage and we have costs that we cannot manage. So outside of labor, we have to the deal with the electricity costs, which is something we can manage to a certain extent, but when we have rates that are pressured as we had earlier, that's something that's more difficult. Now with regard to the items, what we've seen is that all of them are going up in keeping with the rate of inflation we've seen over the past year. That's another topic we plan to address with the agency to understand how we should go about that in the next cycle, but the situation is clear. We are sort of chasing after inflation and that reflects on our tariffs.

A - Mario Sampaio

Well, we have no further questions here on the Q&A box. So, unless anyone else has questions, we will allow the questions from our journalists. Does any other investor or analyst has any question, otherwise, we will open this moment for the question from Thais Hirata. All right, so let's move on to journalists. She asks two questions. One, what are SABESP's plans in terms of being part of bidding situations and what are the projects they are studying.

And the second question is about the contract additions, how did SABESP deal with the inability to rebalance considering maturity extensions and what was the rebalancing work done in view of the inclusion of investments.

A - Benedito Braga {BIO 19159532 <GO>}

Well let me answer the first one and then Osvaldo addresses the second. We will be looking into those possibilities when it comes to bidding or auctions. We have no specific program that we are working on currently, we have a number of municipalities and a number of cities coming after us to join SABESP or to bring SABESP to their system. We are looking into Article 10 of Law 1706, which could be open the possibility for us to establish partnerships with other municipal agencies.

So, currently, we are focused on the state of Sao Paulo, but there is no question that should an opportunity arise that is financially interesting, we will look into that always in partnership with the private sector which opens a number of doors for us from a managerial standpoint and institutional standpoint. That's sort of the course we're trading now. Osvaldo, if you could please talk about the additives.

A - Osvaldo Garcia {BIO 20543217 <GO>}

Well, with regard to rebalancing the contracts, let's separate things, so that we make it easier. The first stage was about proving SABESP's financial ability to perform those contracts. So, we showed them and submitted the statements proving all of that. Now, the next stage is to rebalance the financial and economic ability of each of these contracts because those contracts have provisions about how they should be adjusted, how they should be rebalanced and that will be addressed in the next revisions and the next budget guidelines as well. So, it is very simple. There is still norms the National Electricity Agency are already putting out which will affect how we rebalance those contracts financially and economically, such as a levels of supply, intermittent supply, how will we charge for those sums that will not be settled by the end of the contract. So, we're sorry that the issue was addressed the way it was not allowing us to extend our maturity, but each contract has their own devices to maintain the economic and financial capacities of each one of them.

A - Mario Sampaio

Thais asks for details about those partnerships and Juliana Estigarribia also asks something along the same lines. Thais says what type of partnerships with those be, would they be with other cities in the state of Sao Paulo and Juliana asks if you guys could you please give us more details about how many municipalities would be involved in these new partnerships, as you call it.

A - Benedito Braga {BIO 19159532 <GO>}

Well, these would be specific purpose partnerships with municipal agencies or partly city run companies. Now, with regard to the number of cities, I do not have that information yet to share with you Juliana. I'm sorry.

FINAL

Bloomberg Transcript

FINAL

A - Mario Sampaio

Okay. We're still waiting for new questions. Remember that both journalists and analysts can ask questions at this point. Let's give it just a couple of minutes to see if there are still questions we need to address. Any additional question guys? (Foreign Language)

Well I'm refreshing my screen. I think we have a new one. Thais, is following up on her question about those special purpose partnerships, would SABESP be the minority partner. Could you please give us any examples of what you're studying.

A - Benedito Braga {BIO 19159532 <GO>}

Well, the answer is yes, we would be a minority partner, but still significant -- with a significant share of the project. I do not have any example to give you right now. I'm just mentioning opportunities where that we could pursue, but I do not have at this point any concrete study in that -- on that regard. We're still studying that even in terms of how it would work legally.

A - Mario Sampaio

So we have a number of questions coming in now. So Thais (inaudible) asks, within your new cost reduction plans, do you expect to have any more staff cuts? Thank you.

A - Benedito Braga {BIO 19159532 <GO>}

So, on that issue SABESP has already streamlined its staff over the last two years, about 2,000 layoffs. So, at this point we do not have any definition about how the cost reduction would be performed. But I wanted you -- I wanted to make it clear that we've already reduced our staff. We are now close to 2,900 staff -- 2,900 strong.

A - Mario Sampaio

So the next question that came in is from Pedro Furtado, he asks considering how much the Brazilian currency has been valued recently, do you see any opportunity to reduce your exposure -- your debt exposure in foreign currency any further. So yes, could you please repeat the question.

Okay. So considering the appreciation of the Brazilian real that we've seen recently, do you see any opportunity to reduce your debt exposure to foreign currency any further.

A - Benedito Braga {BIO 19159532 <GO>}

Well, we're looking into that, so that we can in the future present possible devices to make the most of the appreciation in the domestic currency and see what we can do in terms of reducing our foreign currency debt. Mario, could you please tell us where you're reading those questions from, well when I said last call for questions my window refreshed and I'm seeing more questions now. Are you the only one seeing those questions. I don't -- I can tell you that -- I can tell you that I don't know, I can only tell what I'm seeing on my screen. I think we have another question about our exposure in foreign currency. No you can read as all that say.

Bloomberg Transcript

Okay, let me read it Mario said it comes from Fabiola Gomez. She asks how does SABESP expect to finance the required the investments required to meet the targets provided by the new sanitation law, the new sanitation act. Do you expect to have any foreign currency issue -- issues.

While SABESP will give priority to issuing shares in Brazil and raising funds in multilateral (inaudible) that could be converted to national currency. International missions and movements in foreign currency are not in our plans, but we are still developing that plan -- our investment plan is already settled for 2022 and 2023 and now we will begin to think about what type of devices we will be using from 2024 onwards. Again, remembering that we plan to reduce our debts in foreign currency. So we do not plan to issue any type of letter that cannot be converted into Brazilian currency. That guidance from the administrative board was given because our revenue that's is denominated in domestic currency. Therefore funding in foreign currency includes significant risks. So, the multilateral agency is already making that change, for example, the IBD is already changing the debt from foreign currency to Brazilian real. So that is the corporate guidance about our investment program.

A - Mario Sampaio

Well, another question came in. Let me quickly read it. I think it's been answered already, but there is some details that maybe we could address. Senora Cardoso Escobar from the CMA Agency asks whether the BRL200 million excluded by Arsesp refers to the tariff adjustment from 2022 or to the fact that followed[ph] companies with economic and financial ability has been approved. Is that some correct and why has it been excluded. What does the company plan to do to have that adjustment.

A - Benedito Braga {BIO 19159532 <GO>}

Well those BRL200 million refer to the tariffs that has nothing to do with the company's economic and financial ability. As I explained that is because of the Factor K, which we expected to be at about BRL180 million and we are now in talks with the agency to understand the methodology that they use and it refers to the revenue from the polluting load -- or the pollution load from the company.

A - Mario Sampaio

Okay. We have another question from Fabiola Gomez, she asks in how much do you guys plan to invest this year and next year.

A - Benedito Braga {BIO 19159532 <GO>}

Okay. So for this year, we're talking about BRL4.7 billion and BRL4.6 billion next year.

A - Mario Sampaio

Okay. I'm refreshing again to see if any questions are still coming in. Well, Dr. Braga it's already noon. So I think it's time for us to conclude. All right. So let's make our last call. And Dr. Braga you decide where we go from here.

A - Benedito Braga {BIO 19159532 <GO>}

Well, I'd just like to thank you Mario and thank all of our superintendents and our Director who've worked really hard on this financial statement.

I'd like to thank the analysts and journalists for joining us. You guys have really been on our next for efficiency improvements and rest assured, we will continue to improve and also the company is working to provide more water and sanitation to every population in the state of Sao Paulo and also to bring good results to its investors. The investment program that we're developing for the next five years, programs that will be on average at BRL4.5 billion, BRL4.6 billion will account for about 30% of everything that's invested in sanitation across Brazil.

That only goes to show how this company vibes which is in terms of bringing a better quality of life for our state's population and for investors. So once again thank you all. I wish you a nice afternoon and great business to all of you. Thank you. We'll see you next time.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript