

Y 2014 Earnings Call

Company Participants

- Mario Azevedo de Arruda Sampaio, Head of Capital Markets and Investor Relations

Other Participants

- Douglas Newton, Analyst
- Ezequiel Fernandez, Analyst
- Hasan Doza, Analyst
- Michael Gaugler, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to SABESP Conference Call to discuss its results for the Fourth Quarter of 2014. The audio for this conference is being broadcast simultaneously through the Internet in the website, www.sabesp.com.br. And at same address, you can also find the slideshow presentation available for download.

We inform that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a Q&A period. At that time, further instructions will be given. (Operator Instructions).

Before proceeding, let me mention the 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 Mr. Rui Affonso, Chief Financial Officer and Investor Relations Officer. Mr. Mario Arruda Sampaio, Head of Capital Market and Investor Relations. And Mr. Marcelo Miyagui, Head of Accounting.

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

Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay. Thank you and good -- I can believe for you guys it's good afternoon also for this one more earnings call. We have today a presentation of nice slides to discuss the main events in the period. Let's jump to slide three, where we show the company's water and sewage billed volume which dropped 2.2% in 2014 due to the drought and the measures adopted in 2014 to continue supplying the population on an ongoing basis, despite the decline in water availability.

The decline in billed water of 3.1% and 1.1% in sewage shows the population is strong adherence for the bonus program, which is the best main measure to reduce water demand and consumption in the Sao Paulo metro region. In 2015, we will also have the impact of the contingency tariff which we have commented before and is charge from those customers with above average consumption.

Let's move quickly to slide four. Here we will comment on our financial results. Net operating revenue fell 0.9% compared to 2013, due to the payment of bonus and the 2.2% reduction in total billed volume as mentioned in the previous slide. Costs and selling, administrative and construction expenses increased 13.6% in the period. Adjusted EBITDA fell by 27% to 27.2% from 4 billion in 2013 to 2.9 billion in 2014. While the adjusted EBITDA margin came to 26% in 2014 versus 35.4% in 2013. Excluding the effects of construction revenue and construction cost, the adjusted EBITDA margin came to 34.4% in 2014, again 44.6 in 2013. Net income totaled 903 million -- 53.1% down compared to 2013.

On slide five. Let's comment on the main variations in costs compared to 2013. Cost and expenses moved up by 13.6% over 2013. If we exclude construction costs, cost and expenses climbed 11.3%, mostly due to the increase of 34.4% in credit write-offs, 18.2% in services, 15.3% in depreciation and amortization and 10.2% in payroll and benefits. More details on each of our costs, you will find in our earnings press release.

Slide six, we present the main variations in the items that affected our net income in 2014, over 2013 which totaled 903 million. Net operating revenues fell 102.4 million or 0.9% costs and expenses, including costs, construction cost increased 1.1 billion or 13.6%, other operating revenues and expenses recorded a negative variation of 11.6 million, net financial expenses including foreign exchange variation increased by BRL152.7 million in the period. Finally, income and social contribution tax has declined 306.2 million due to reduction in taxable income in the period.

Let's move to slide seven on this slide. We discussed both the reservoir levels in the systems that supply the water to the metro region of Sao Paulo, and the evolution in production of the water systems in the same region, including those that have been used to serve areas that used to be supplied by the Cantareira system.

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Specifically regarding the Cantareira system, the reservoir level was at 18.9% yesterday, that represented full recovery of the second portion of the technical reserves totaling 105 billion liters which we use, which it used started in October 2014. And at the time added -- 10.7% to the system. We are now recovering the first portion of the technical reserve, which volume added 18.5% of the system, when we started using it in May 2014.

Regarding water production in February 2015 for the first time since the beginning of its operation in 1973, the Cantareira system the most severely affected by the water crisis start being the biggest water producer for the Sao Paulo metro region being surpassed by the Guarapiranga system.

In February 2015, the Cantareira system produced -- 14.03 cubic meters per second on average, while the Guarapiranga system produced 14.49 cubic meters per second on average. At the same time, the Alto Tieteis systems produced 11.04%. Specifically in the Cantareira system between February 2014 and February 2015 water extraction fell by 56% in monthly savings of around 17.7 cubic meters per second and sufficient to supply a population of 5.3 million people.

Let's go to the next slide -- slide in fact, let's go to the -- look at the next two slides. Slide eight and nine, where we will analyze rain fall and water inflow into the Cantareira system reservoir. There 2014 and '15 rainy season presented irregular rainfall, from October to January rainfall was below average and in February and March rainfall was above average. In fact, February 2015 was the rainiest February since 2000 -- sorry, since 1995. March has also been very favorable with the rainfalls coming to 12% above average until yesterday. Rain fall and cooler temperatures in these two months helped in the full recovery of the second portion of the technical reserves and a part of the first portion of the technical reserve as already mentioned.

As you can see on slide nine, we were at eight, now nine. Favorable rainfall in the February and March month has led to a substantial increase in water inflow into the Cantareira system reservoirs moving the figure away from the record minimal levels observed in 2014 and '15, and beginning of '15 and placing it approximately 50% of the average for the period. This increase in water inflow has been crucial for the recovery of the reservoirs in the Cantareira system, together are coupled with the reduction in extraction as mentioned before.

Let's move to slide 10. We will give you an update on the four main measures SABESP has been adopting to offset the reduction in the use of water from the Cantareira system. And at the same time, maintain constant water supply to the entire population of the metro region of Sao Paulo. First is the bonus program responsible for 19.5% reduction. In this case, it's a savings. Second is the water transfers between the Sao Paulo metro regions production system, which is currently responsible for 35% of the reduction. Third is the -- are the operational maneuvers and investments in reducing water losses, accounting for 42%. And finally, the reduction in water transfers to (inaudible) municipalities both responsible for 3.5%. More specifically, regarding the transfer of water from other systems to the areas usually covered by the Cantareira system. Thanks to the past and current and intensified investments in the interconnection between the Sao Paulo metro region water supply systems. It has been possible to transfer water so that

almost 3 million people that used to be supplied by the Cantareira are now being supplied by other systems.

Let's move to slide 11. Here we will discuss in further detail of the bonus program as it is the measure that has most impacted negatively the company's revenue. February, March - the first anniversary of the program with recorded -- record sorry, adhesion of 82% of the users, were 72% of the users actually receive the bonus, and the remaining 10% reduced consumption but not enough to receive the benefit.

In March, we began observing the impact of the contingency tariffs applied to those consumers' consumption increased based on their average consumption. Such bills accounted for 18% of the total issued bills for the period between March 1st and March 21. And of this total, 11% were subject to higher water tariffs and 7%, because they spent less than the take or pay 10 cubic meters per second cap were not charged.

But we take this time to inform that considering the favorable hydrological conditions present in the Piracicaba water basis. We have suspended the application of the bonus program at the contingency tariffs to our municipalities operated buys the best located in the area of inflows of the Piracicaba, Capivari and Jundiai water basin what we call the PCJ water basin. This measure will be in effect on water and sewage billed issue as of April 17.

And let's move to slide 12. On this slide we will briefly cover the investments in 2014 and the investment plan for 2015 and '19 [ph]. In 2014, the financial value of the investments was close to the forecasted, what investments where reprogram with the focus on water availability and supply. As for sewage investments, they were executed as forecasted due to contractual obligations with the EPC's and financial -- public financial institutions. For this year it slowdown in sewage investment as planned, as we will comment next. Between 2015 and '19, we plan to invest BRL13.5 billion, 5.6 billion of which in water and 7.9 billion in sewage collection and treatment. For this period investment plan was adjusted to anticipate and intensified investments in water in the next two years. And therefore, increase water availability and security in the Sao Paulo metro region in the short and medium term.

It's also important to point out that total investments planned for 2015 are lower than in previous years. This was due to the need to adjust this value to the scenario the company has been facing in view of the water crisis and the subsequent decline in revenue and cash generation. But this is not mean that investments in water will fall on the contrary, in 2015 and '16 this investments will be substantially higher than in previous years, including 2014. And we account for approximately 65% of total investments.

In this period, there will be a slowdown in investments -- in sewage investment, which will resume the normal phase as of 2017. Considering that the scenario imposed by the water crisis has cause this to change the mix and prioritize investments in water. We will highlight two main investments that will have an impact in the short and medium term. To start, we have the transfer of an additional 6.6 cubic meters per second of bulk water to the reservoirs in the Alto Tieteis system. Four cubic meters of which from the Rio Grande

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billings reservoir, and the balance from other rivers in the Alto Tiete Basin as well as the Maritime water basin, all this to be concluded in 2015 and beginning of 2016.

Still in 2015 and the same early 2016, we will increase the transfer of another four cubic meters to the Guarapiranga reservoirs, one cubic meter of which from the expansion for the current billings to Guarapiranga transfer capacity, and three cubic meters from the reversal of rivers from another water basin, as well as an increase of one cubic meter per second in the Guarapiranga production system increasing its capacity therefore. Next, we would like to mention the main initiatives adopted by the company in the financial area in order to minimize the effects of the decline in revenue triggered by the water crisis that began in 2014 and it is extending into 2015. In order to mitigate the effects of the revenue decline arising from the water crisis, so that's has been making successes adjustments to its expense and investment budget since 2014. So as to preserve its economic and financial sustainability.

The expense budgets for 2015 mirrors the current reality and intensify the continuous pursuit of the efficiency in order to do more with less. As a result, expense and investment projections have been adjusted with the budget filling that allows the maintenance of economic balance, preserving the Company's liquidity, main financial indicators and coverage [ph].

This month, we filed a request for a extraordinary tariff revision along with SAS [ph] motivated by the decline in build volume driven obviously by the water crisis, and the increase in electricity tariff observed and expected. Yesterday, late afternoon our SAS made public technical note with its understanding regarding our request and proposing a tariff adjustment plus review that adds to 13.87%. And at the same time open a public consultation periods which will end with a public audience meeting to be held in April 2015.

In the preliminary analysis of the document, we have identified items that need to be revealed. Due to the methodological differences the proposed readjustment and review is shot and what we have estimated to balance the company financially and economically. Nonetheless, we would like to highlight that the amounts paid to customer to consumers as a bonus for water savings are not entitled for tariff recovery and therefore, they were not included in the assumptions submitted to the regulatory body that is accessed in our initial request.

Next, we will comment on the agreement we signed with the Sao Paulo State government in March 18. On November 17, just going back in time a little, 2008 the company, the state of Sao Paulo and the water and electricity department executed the third amendment to the recognition instrument in order to equate the value of the debt arising from the complementary retirement and pension benefits associated to State Law of 4819 paid by the company and not refunded by the state. In this agreement, the assets that make up the reservoirs of the Alto Tieteis production systems were given as provisional payment of part of the total debt. However, due to a loss for which an unappealable decision has not yet been issued, the transfer of these reservoirs has not been possible until now.

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Because of this impediment, the states SABESP and the water and electricity department through this new agreement agreed to replace the reservoirs with the payments of the debt in installments, in cash installments. The amount of the agreement is approximately of BRL1 billion and BRL12 million, 696 million of which related to the principal amounts, and 360 million related to the monetary correction of the principle amount until February 2015.

The principal amount will be paid in 108 installments as follows. The first 24 installments will be paid through the transfer of preferred shares of Companhia de Saneamento (inaudible) totaling BRL87 million. The balance of 699 million will be adjusted by the EPCA [ph] consumer price index until the date of beginning of payments and the remaining in such that the remaining 156 monthly installments will be paid in cash as of April 5, 2017.

As of the beginning of this payment installments will be adjusted by the EPCA Consumer Price Index plus simple interest of 0.5% per month. Details of this agreement are available in our website, IR website, and you can find some of the supporting information on the notes to the financial statement.

On the credit recovery front we have intensified initiatives to collect that from wholesale customers mostly the municipalities. So that supplies water to municipalities of (inaudible) that does not pay the bill, (inaudible) that pays only 2% and santander [ph] that has been paying 50% on a wholesale basis.

In case of (inaudible) they also OS the investments made by the company that were not reimbursed when the municipality retook or took over or took back the services in 1995. The paid amounts occur the total and paid amounts currently add to approximately 1.9 billion in historical values that updated to more -- that updated add to more than BRL6 billion and all of this is being claimed in quarter.

In this matter, two point holds out. The population of this misspelled fee paid their water bills to the municipal service provider. And these, however, do not pays the best for the water supply on a wholesale basis. Especially, we think that especially in the middle of a water crisis, the delinquency of these municipal services provided impacts or investments capacity and our economic stability.

Finally, we would like to comment on the company's debt and the impact in our financial indicators of the revenue decline and its effects on EBITDA. At the end of 2014, the company's total debt came to approximately 10.8 billion, 40.3% of which denominated in foreign currency. However, it's important to remember that the majority of the debt nominated in foreign currency has its origin in loans contractors along with international financing institutions that provide for long and diluted amortization schedule and maturity, and very low interest rates.

Regarding financial indicators, we highlight the total debt to adjusted EBITDA ratio between 2008 and '13 with the acceleration of investments. The indicator remained stable at around 2.5 times. However, in 2014, the company's total debt to EBITDA ratio came to 3.64 due to the adverse effects of the water crisis, especially on EBITDA and not

due to any disproportionate increase in debt. It is worth noting that this indicator is limited to 3.65 times by certain debt agreements.

At this point, it's very important to highlight that the agreement with the state of Sao Paulo above mentioned. In addition to provide short-term liquid assets to the company in the amount close to BRL90 million, we'll allow us to reverse the provision for losses related to the impossibility to receive the financial amount of 696 million related to the reservoir we mentioned. That will impact positively our EBITDA in the first quarter of 2015.

In addition, the company BNDS [ph] have been discussing since 2014, the standardization of special obligation clauses related to the maintenance of covenants regarding and in relation to the estimate form, the characterization of non-compliance and the constitution of additional guarantees.

At the end of 2014, the company BNDS formalized the intention to standardize these clauses in February this year changed the covenants excluding from them -- the EBITDA margin, that is the EBITDA to net operating revenue ratio, and turning them effective as of December 31, 2014. You find also details on these changes in the notes to the financial statements for the fourth quarter. All these were our remarks. We'll now open question-and-answer session.

Questions And Answers

Operator

(Operator Instructions) The first question comes from Hasan Doza from Water Asset. Please go ahead.

Q - Hasan Doza {BIO 17222230 <GO>}

Hi, Mario, how are you gentlemen?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Fine, Hasan.

Q - Hasan Doza {BIO 17222230 <GO>}

Couple of quick question. Mario, just follow up on your comments on the covenant. If I'm not mistaken, one of the non-reality denominated bonds have the total debt to EBITDA covenant. I believe that threshold is 3.65. And as you mentioned, the current ratio is around 3.64. So you're close to your threshold in terms of possibly going over the ratios. How are you kind of as a company planning to kind of manage this risk of potentially tripping the covenants this year if the usage declined, volume decline continues. So I just would love to get your thoughts as to what the plan to manage around the risk of the covenants being tripled.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

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Hi, Hasan, First for you and for everybody. I said the BNDS change and standardization of the contract was effective as of December 31, obviously it's December 31, 2014. Okay. So I've said that to be very short, and the answer is, if you consider that the agreement with the state of Sao Paulo will provide us a reversal on the provision we had made years ago of about BRL700 million, that reversal of provision will impact directly our EBITDA at about BRL696 million. So that come into our bottom line at that amount will certainly allow us to go through the first quarter.

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. That's, if I'm not mistaken carrying a lot, is there a cash -- that's a non-cash gain -- that's a non-cash item right.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

So non-cash from an accounting standpoint, but the agreement has -- the agreement is a cash-based agreement and from the agreement, we have already in our hands and hold shares from the transmission companies, the set up that at the time we signed the contract represented about BRL87 million, that is something we can monetize any time soon.

So the cash effect immediate there is, it is relevant. But the big and relevant effect is the accounting effect on the EBITDA.

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. And what is the subsequent plan beyond the first quarter, are you reaching out your lender, especially the euro bond, what's the overall plan to our --.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

As planned. Let me interfere. Maybe I'm not being clear. We don't see us reaching covenants, because of this reversal, we provide additional EBITDA and for the first quarter, we definitely do not see us reaching covenants.

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. For your Eurobonds, and the other non-real denominated bond, they allow you to take a non-cash adjustment to EBITDA and use that as part of the ratio.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Yes.

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. That's fine. Second question is on the power cost. Based on what I'm seeing from the commentary from the power distribution and generation companies looks like. I just want to make sure order of magnitude, the power cost for consumers including you guys are increasing or to be increased somewhere between 40% to 50% in 2015 versus 2014, it's kind of the right order of magnitude?

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A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Hasan, we can confirm to you now and we will not disclose in detail. What is the mix and what is the level of impact right now. But it is a relevant impact and we have cases that can reach these figures. Okay. So, it is so much relevant in the future as to a great extent was related to the past based on our business plan to drivers into the need to request the extraordinary tariff increase. Okay. But I can't tell you that for the future we will be ranging where you said, it will be absolutely relevant increase. Okay.

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. Thank you.

Operator

The next question comes from Douglas Newton from The WindAcre Partnership. Please go head.

Q - Douglas Newton {BIO 15163101 <GO>}

Hi. I've got two questions. One, you mentioned that for some part of your customer base, you're going to cancel the bonus program. Can you give us a sense for how much of your customer base or how much of billed volumes that applies too. And then the second question. On the (inaudible) tariff comment yesterday, they tried to compensate you it seems like for the electricity increased, the extraordinary electricity costs. And also the lost volume due to the drought, but it seems like the second part of that, the compensation for the loss volumes with very well relative to the actual volumes you've lost because of the drought. So is that also the company's understanding and how much of a difference are there now for -- what you're still asking for (inaudible).

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Hi, Douglas. Let me -- the first question is, we are canceling the bonus and the contingency tariffs to cities that sit outside the metro region. And where the rivers downstream from our reservoirs are very plentiful in water, not just defining us to keep those bonus ongoing. And that represents a population of about 600,000 and as you imagine that compare to the population affected directly and indirectly by us in the metro region, which is close to little bit over 20 million. But for these, we will not and we have not mentioned that we will suspend the bonus. But this councils provides not really a material and substantial change in the situation from a bonus perspective.

As for your question on the electricity and volume, as we mentioned, we are still reviewing the methodology and overall what the regulator has, but for a public discussion, we really got that only this morning. So this is not much, I think we should be commenting before we just jump in. And look at it, but overall, we do fine differences in approaches and just for the sake of your last point of question, we are not having a discussion on a specific percentage variations. The discussions are in terms of assumptions and datas.

So, we did not ask for a specific adjustments and we have not, we will not mention any specific adjustments figure. We will discuss the process methodology and assumptions.

Okay. But what we can say, we said is that it isn't sufficient from where we have done our studies around in.

Q - Douglas Newton {BIO 15163101 <GO>}

Okay.

Operator

(Operator Instructions). The next question comes from Ezequiel Fernandez of Scotiabank. Please go ahead.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Hi guys. Thank you for taking my question. I actually have three questions, I would like to go one by one, if you don't mind. The first one is related to the operational costs. We have seen an increase in the last two quarters for different reason and also one timers, particularly in the last quarter. I wanted to know if for 2015, we should expect from coming down of this cost some slightly lower at least or not.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

I want you (inaudible) want you like to just outline all the three. And as you've outlined them, we will start thinking on them, fully getting that quickly to you.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Sure, no problem. Second question then is related to water losses, the manageable components went down to 20.1% in the fourth quarter. If I'm not mistaken, I wanted to know, if it's economically, why this to continue lowering those losses and then up to what extent. And third one is related to what you talked about the capacity expansion in water production in the Sao Paulo metropolitan region.

From today, from the end of 2014, or better till 2018, when we can say some loaders will work, who are going to be ready. What is the expansion that you expect in cubic meters per second, including of course filed and so and 2 billion [ph]. Thank you.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay, just one second Michael, let me then go through quickly the question, always we can go back to them, if still the answer is not sufficient. But from an operational costs, I mean, we definitely do not give any guidance on that, but we can't say we will be below or we will be above, but obviously we're doing all the efforts since last year, but we have now even gone further in our efforts right to control all the operational cost in such to balance it with the situation we're going through. And just as an open and public known situation, we have just laid off about 600 employees, which is anywhere around 4% of the workforce. So it is that type of action we're taking.

Obviously, as we mentioned, the energy cost is something that has been hitting us and will be hitting us even more as Hasan Doza asked. On the water loss, if I understood, you

asked how much more and why to reduce water losses.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Correct.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

But if that is the question. The point is, the more we reduce the better it is, just for one simple reason that we are especially now with scarcity of water. So if we were able to -- and we are being able to further reduce that means, putting less pressure on the water availability or the bulk water availability. So, it's not that we have been doing this only now. This has been an ongoing effort for years, for decades in fact, but more specifically and aggressively since 2009 and you can -- that they're going to keep on this diligent work even when we're out of the crisis.

So external strength to reduce water losses whether the real and the voice water losses and makes total sense. I mean, the delay investments, to one extent, you preserve water availability. That makes sense. And so maybe I get the question.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Mario, sure. I would just try to get an idea if the additional work water losses that you try to compress make economic sense perhaps versus expanding water production facility. But I guess you responded my question.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

No, there is inflation seeing to expand something that is leaking. Okay. There is one thing. But the other side, so that's just the basic row. We have to flick and have a figured discussion Ezequiel later around this. Okay.

That's where the capacity production change the number we are working with is adding 20 cubic meters per second at least to the water availability and somewhat half of that in terms of production availability by the end of 2017, when we expect all investments are in place, including the (inaudible). Okay.

So if you take where we are today around 73, I believe cubic meters per second of water availability. That is definitely a significant expansion in the short period, which we believe will bring greater water availability to the metro region, our biggest market.

If you think about it, we're going to come out of this crisis significantly stronger than we were before, we started, especially from a revenue ability change.

Q - Ezequiel Fernandez {BIO 17243886 <GO>}

Okay guys. Good. Thanks a lot. That was very clear.

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A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Thank you.

Operator

The next question comes from Michael Gaugler from Janney Capital Management. Please go ahead.

Q - Michael Gaugler {BIO 7139923 <GO>}

Good afternoon everyone.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Good afternoon, Michael.

Q - Michael Gaugler {BIO 7139923 <GO>}

A lot of what I had to ask is already been answered, but just looking back in your presentation on slide seven and not accounting for where the technical reserves was, March of last year versus March of this year. It looks like you're in a slightly better position from a water supply perspective year-over-year. Again, not -- it's impossible for me sitting here to see how water was transferred from one area to the next, where the reserves was. When you look at it sitting here now this year versus this time last year, is that assumption correct, that the water supply situation is a little bit better going into the dry season than it was last year.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

So, unfortunately, Michael, the answer is no. Because, if you take March and April of next year, we were extracting water above the gravity level. So when you go to May you see that jump and that jump is exactly where we started -- we added the technical reserves -- first technical reserves trench. So if we are 18.9, and remember, we added that first technical reserves in April and May, and then we added a second one, the second technical reserves in September to October. So when we go -- today we say we are at 18.9, it means that we have recovered the second technical reserves and we are now recovering the first technical reserves, but we're still pumping water out of the reservoir.

So unfortunately I know that the way we've report is somewhat misleading if you don't have a nice understanding. I'm not saying you don't, because it's tricky. But the fact is, that unfortunately we're not. But again, that doesn't mean we're in trouble as we can further discussed.

Q - Michael Gaugler {BIO 7139923 <GO>}

Understood. Yeah, I'm just trying to get a sense of how you are feeling going into the dry season and -- are you able to maintain --

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

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Yeah. But, Michael, let me interrupt you and complement to support your argument. When you go to the Guarapiranga that today is providing water to more people than the Cantareira. We are in fact today better than we were in March last year. The Alto Tiete has recovered fairly well, but we're still somewhat lower. And when you go to the Rio Claro, which is a very small almost insignificant, so it's small, we are not so good, but then we feel Rio Grande, which in fact we're going to use to interconnect with the Alto Tiete system is that 97 which is pretty much where we were last year and we are better. Next, last year and we are better in the (inaudible) which is also not that big, but it does serve us well. So with all said, we are not exactly in a better position, we were in March from the reservoir availability. But in the next month, as we interconnect the reservoirs and giving the production capacity, we have been adding to the other water supply systems production capacity. We have a better situation and to approach the dry season then a substantially better condition to approach then we had at the beginning of the program. Okay.

Q - Michael Gaugler {BIO 7139923 <GO>}

Mario. That's the answer I was looking for. Thank you. Thank you for the depth and the detail. It's much appreciated.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay. Thank you.

Operator

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

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay. Thank you very much everybody. We will see you in the next quarter release. And again, as always, any questions, please call myself, Angela and we might see each other in some conference in the near future. Thank you very much, goodbye.

Operator

The conference has now concluded. You may now disconnect.

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