

Q1 2020 Earnings Call

Company Participants

- Mario Azevedo de Arruda Sampaio, Head of Capital Markets & Investor Relations
- Rui de Britto Alvares Affonso, Chief Financial Officer & Investor Relations Officer
- Sylvio Xavier, Head of Costs and Tariffs

Other Participants

- Hasan Doza, Analyst
- Lilyanna Yang, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everybody to SABESP's conference call to discuss its result in first quarter 2020.

The audio of this conference is being broadcast simultaneously through the Internet on the website of www.sabesp.com.br, where you can also find the slide show presentation available for download. We inform that all the 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 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 Rui Affonso, Chief Financial Officer and Investor Relations Officer; Mario Arruda Sampaio, Head of Capital Market and Investor Relations; and Marcelo Miyagui, Head of Accounting.

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

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

Okay. Thank you everybody to join us on this conference for our first quarter 2020. As usual, we have some slides. Let's go through them and then we are open for question-and-answer.

So let's move to Slide 3. Here we see a 2.6% growth in total billed volume of water and sewage in the first quarter of the year. The total billed volume increased 2.2% of which 2% in water and 2.5% in sewage. This is compared to the first quarter of '19 and without considering the municipality of Santo Andre. The increase was chiefly due to the residential category, which moved up by 2.7%. This is mainly in the metro region of Sao Paulo, with emphasis on the municipality of Sao Paulo and Guarulhos.

As for the municipality of Santo Andre, as you remember, we serviced on a wholesale basis up to first quarter '19 and we have been servicing since August 2019 on a retail basis. The drop in billed water volume is natural at the beginning of a retail operations since the losses in the distribution systems are not recognized by SABESP.

On the other hand, there is a relevant increase in the volume sewage treatment in Santo Andre as we did not operate the system at all before we took over. It was possible also to note an increase in volume in the residential category in almost all of the municipalities operated and a trend of greater increase in satellite cities both of Sao Paulo and in other savings that are regional centers and the interior lands and the coastal lines we operate.

Although it is not possible to observe significant impacts on volumes for this quarter due to the isolation measures adopted at the end of March, we noticed a reduction in the volume billed in the industrial and public categories at 2.2% and 1%. The reasons for the effect invoice volumes not being significant due to the isolation is that only the accounts that were read at the end of March would capture this event.

Move on to Slide 4, let's discuss our financial results. We recorded a loss of BRL657 million in the first quarter of 2020 compared to an income of BRL647 million in the first quarter of '19. The loss recorded in this first quarter of '20 was mainly due to the BRL1.8 billion expense with exchange rate variations from borrowings and financing denominated in dollars and yen.

In terms of the negative impact of the exchange rate variation on the debt service, and on our cash, it was really small compared to the BRL1.8 billion that is BRL42 million. Despite the net loss recorded in the quarter, earnings before taxes and financial results was a positive BRL1 billion, but BRL138 million lower than in the same period of 2019. This reduction was mainly due to the BRL149 million increase in allowance for doubtful accounts.

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First quarter adjusted EBITDA was BRL1.48 billion compared to BRL1.54 billion in first quarter '19. That is a reduction of 3.9%.

Net operating revenue increased BRL163 million or 4.2% in the first quarter of '20 from a BRL3.88 billion to BRL4.04 billion as a result of the BRL268 million or 7.6% increase in gross revenue and BRL82.1 million or 13.6% decrease in construction revenues.

As for costs, administrative and selling expenses and construction costs, there was an increase of 10.9% or BRL299 million. If we disregard the effects of construction costs, the increase was 17.6% or BRL380 million.

The first quarter adjusted EBITDA margin was 36.7% compared to 39.8% in first quarter '19. The adjusted EBITDA margin of the last 12 months was 41.1%. If we exclude the effects of revenue on construction costs, the adjusted EBITDA margin fell to 41.8% in '20 -- first quarter '20, compared to a margin of 46.8% in first quarter '19. In the LTM 12 months, the margin was 48.3%.

Moving to costs on the next slide, let's highlight the main variations. Well, again as we already mentioned on previous slide, costs, administrative and selling expenses and construction costs increased BRL299 million or 10.9% year-over-year -- year-over-year first quarter '20, that is from BRL2.75 billion first quarter '19 to BRL3.04 billion in first quarter '20.

Excluding construction costs, costs and administrative and selling expenses increased BRL380 million or 17.6%. The main increases were in allowance for doubtful accounts of BRL149 million, general expenses of BRL100 million, depreciation and amortization of BRL72 million and electricity expenses up BRL43 million.

Here, it's worth noting that delinquency increased by approximately BRL100 million in the first quarter of '20 compared to December 2019. In addition, expected losses should increase due to the economic stability worsened by the COVID-19 crisis. For a further breakdown of these and other changes in costs, please refer to our press release.

Let's move on to Slide 6, we quickly summarize the main changes that affected the company's net income in the first quarter of '20 compared to first quarter of '19. As mentioned, net loss totaled BRL657 million; net operating revenues increased BRL163 million; costs and expenses, including construction costs, increased BRL299 million; other operating income and expenses, including equity income fell BRL3.2 million; the financial results varied negatively by, as mentioned before, BRL1.8 billion; and finally income tax and social contribution varied positively by BRL633 [ph] million due to the tax losses recorded in the first quarter of '20, mainly explained by worsening in the company financial results.

Let's move to Slide 7. Here we will comment and highlight some of the social measures implemented by SABESP due to the COVID-19 pandemic. Considering that the company implemented countless initiatives, we will highlight only some of them, always

emphasizing the basic sanitation role played by SABESP at this moment in this specific health crisis.

First initiative is the installation of water in field hospitals. Also since March 24, we have been cleaning the external areas of numerous health facilities such as hospital, those exactly field hospitals, public spaces such as nursing homes, social reception centers, police stations, squares streets and others using reused water with an extra dosage of chlorine.

In the metro region, Sao Paulo region alone, approximately 2,000 cleaning actions were carried out. This action was also extended to other 290 municipalities in the State where we operate, totaling approximately 9,000 cleaning activities. It's important to know that for these activities, we counted on donations of chlorine in sufficient volume to support this action and still carry further out other actions and continued actions.

Next initiative is the distribution of water tanks in communities where residents did not yet have a local reservoir in their homes. In total, there were 4,500 water tanks to be delivered. We already delivered 3,800. Around 3,000 units we installed were donated by manufacturers. And SABESP is the body responsible for organizing the distribution.

Another one is, we began the installation of washbasins and drinking founts throughout the State in many places, so the population can wash their hands and have quality of water to drink in many areas. There are 65 cities in the interior and coast covered by this program. In the city of Sao Paulo, a 100 washbasins will be installed in the most vulnerable communities, with SABESP also responsible for executing the hydraulic part and the structure built by the -- will be done by the municipality. More than 60 washbasins have already been installed in the metro region of Sao Paulo, and an additional 160 in the interior and the coastline.

And last, the main initiatives -- of the main initiatives we highlighted, SABESP also participates in the Volunteer Program, select food and hygiene products. 35 tons of food and 17 tons of these hygiene project kits have already been collected and distributed to institutions to take care of the needed population.

Let's now move to the next slide. On this slide, we will comment on the company's initiatives to guarantee the execution of investments, also for the refinancing of debt maturing this year, as well as for the reduction of its FX exposure. As is already widely known, BNDES created a program that provides for the suspension of debt services for six months and the corresponding amount being added to the total remaining debt for companies that have contract financing with them.

SABESP is certainly already in negotiations with the bank to access the pre-conditions to obtain this benefit. Also with the BNDES, the company's negotiations to expand and to increase the anticipation of disbursements of financing in progress and to postpone the deadlines for providing and showing the expenditure was named. We are also in negotiations with the CEF. This is the social bank, the Caixa Economica Federal to defer the payment of the debt service for its predetermined period in a program recently

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authorized by the FGTS management Council and similar to the one already deployed by BNDES.

Moving on, multilateral agencies, as you know are actively working to support sanitation for health programs that are, by the way, restricted to state controlled companies such as SABESP. Let's start commenting with the World Bank. We recently signed a \$250 million financing agreement. In the context of this contract, we are negotiating the participation -- sorry, the anticipation of resources for further verification as well as the application of emergency support actions that allow us to advance additional resources for works and expenses not included in the original scope contracted, but related to this one.

So we have also the IDB, the same for the World Bank in the context of the recently signed \$350 million contract which has already offered to provide support similar to that expressed by the World Bank. Note important that these two contracts above, there is a provision that allows the exchange of currency from dollars to reais as we move on with the disbursement. So due to this, the execution may not necessarily increase foreign exchange exposure, but in this case, more specifically, we will comment the reduction in FX exposure further in this presentation.

All added, it's premature to predict the exact amount of funds from this initiatives that will be secured. We can say that, given the magnitude of the amounts involved, it should be a significant number to support our CapEx execution and also the company's liquidity.

We, now, are going to comment on the debt management at meeting the company's needs for refinancing service in a year marked by sharp change in market conditions, particularly impacted by the devaluation of the real. We start with the 25th debenture issuance by the company settled on April 27. The volume reached BRL1.45 billion, in one series remunerated or paying CDI's rate at plus 3.6% for a period of 18 months with bullet maturity of principal and interest. Note that this issue was initially scheduled to raise BRL1 billion by the end of April.

With the outbreak of the crisis at the end of March, the market significantly restricted access to investors meeting us and other companies to intensify the demand for liquidity in banks. In this context, the company was not only able to conclude the issue within the initial schedule that is in April, but could also increased the total amount raised by BRL450 million in such anticipating the inflow of funds foreseen and planned in its funding and refinancing schedule for this year.

So, in the context of fundraising, the company has already mandated IDB Invest for a loan of BRL600 million and has already received authorization from the federal government to issue up to BRL1 billion in infrastructure debenture.

While in this point, let's make sure that the company is not announcing, it is issuing an infrastructure debenture, but again it's now allowed to issue and as such as in a position that in the appropriate time, we will structure and issue, but before obviously following all the communication and regulation guidelines by CVM.

We would also like to highlight that the company has already contracted several public financing for investments, which are in disbursement, and specifically this year, we have the expectation to disburse BRL1.1 billion. In all, if we add what the company has already secured with the resources of the 25th debenture issuance, with the disbursement of financing already contracted with public banks that I mentioned before of BRL1.1 billion, adding the operation mandated with IDB Invest, we reached a value of BRL3.15 billion.

If we also consider the authorization for issuing infrastructure debentures, the company decides to issue later this year, the value of these funds raised could exceed BRL4 billion. But also, let's make sure that the company financing actions do not end with these movements. Given the company's robust credit profile, we continue to seek new local and international fundraising opportunity.

Let's now comment on the initiatives to reduce our foreign exchange exposure. Following guidelines established by SABESP in relation to foreign exchange exposure presented to you in past conferences, on April 27, the company managed to convert 495 million in dollars to reais from the debts contracted with the Inter-American Development Bank, the IDB, corresponding to the outstanding balance of the financing -- the finance contracted to support the Rio Tiete Stage 2 -- 3, sorry, Depollution Program.

This step was originally contracted in dollars at LIBOR three-month plus 0.39% per year with maturity in December 2035. With the conversion, the debt now is BRL2.81 billion at a cost of CDI rate plus 0.06% per year with the semi-annual amortization and maturity unchanged. To this rate, important to note, we have to add a variable margin periodically determined by the bank for loans that are supported by its ordinary capital, which today is set at 80 basis point, which in fact is the same rate added to the dollar-denominated debt.

Note that if we estimate the impact in the first quarter of this year, the conversion to reais of the \$494 million using the conversion rate for dollar of March 31, we will reach a reduction of 17% on our FX or, as you can see in the slide from 55% to 38% FX exposure.

To conclude, we highlight that the Eurobond 2020 in the amount of \$350 million maturing in December 2020. We will be in stay and observing the market and such to access the best strategy, the best timing and the best instrument to carry out its redemption.

Well, said that on the debt, let's move on to the next slide. Here we will comment on the impact of the economic crisis on SABESP and present measures adopted by the company to preserve liquidity and maintain the positive path of results.

Initially, we like to note that the economy was already showing signs of fragility and lagging even before COVID-19 pandemic was granted a status of pandemic, sorry, by WHO. In the sense, COVID-19 intertwined with the economic crisis and enhances its effect as we moved forward in time. The current situation is marked by the deterioration in the confidence indicators of the economic agents and the soaring of the degree of uncertainty in the economy.

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There is a reduction in the economic activity in practically all sectors and the GDP slowdown estimates undergo successive downward reduce, including those made by the government. In this scenario of recession, unemployment and expected slowdown in recovery activity of economic activity, there is a clear sign of a drop in revenues and an increase in delinquency despite nearly 84% of the volume billed by the company is in the residential category.

In addition, the high volatility of the exchange rate opens the possibility of negative impacts on our financial expenses. On the other hand, it's important to note that SABESP as a provider of public water supply and sewage service is an essential player in combating the pandemic. In this regard, the company exempts its consumers in the residential, social and favela and residential favela categories from paying water and sewage bills for a period of 90 days, that is for bills issued as April 1.

In contrast, by the way, to the adverse effect on the company's cash brought on by economic crisis and the pandemic, there was an increase in revenue from residential customers, except obviously from the social and the slum -- favela categories and the postponement of the payment of 50% of the regulation fee to January 2021. So that helped. Where the situation, the company promoted actions with the objective of strengthening its liquidity and maintaining the positive trajectory of its results or maybe path that would be better, among which the following stands out.

First, reduction of BRL360 million in expenses and postponement of BRL300 million of 2020 planned CapEx. Another is the decrease in the number of employees in the context of a voluntary incentive dismissal program, traded and ongoing since 2018. In this year, by the end of the year, we expect that there should be 998 employees leaving the company. Another is the replacement in the judicial sphere of judicial deposit by its surety bond -- by surety bonds, which will reduce pressure on our cash outflows.

So basically those summarizes these measures. But before we conclude our presentation, we would like to remind you that on April 1, we issued a notice to the market about ARSESP Resolution 974 regarding the schedule of events for this third ordinary tariff review, and sequence on April 14, we also published another notice to the market on ARSESP Resolution 981 that disclose the regulatory agenda for 2021 biannual. Following the regulatory schedule on May 14, the agency public -- published public consultation notices 05/2020 and 06/2020.

The first refers to the definition of the methodology to be used in the calculation of the maximum tariff and the tariff structure, and then the second addresses the calculation of the weighted average cost of capital. As disclosed by the regulator, the WACC initially proposed is 7.38% below our current allowed WACC of 8.11%. The company is currently working on the contributions and comments on the published -- over the published materials and we will -- which, our contributions will be sent to ARSESP by the end of the public consultation period in July 3.

Also worth noting, that on April 17, ARSESP published two deliberations that will contribute to mitigate the financial impacts on the company arising from the crisis caused

by the COVID. One is Resolution 985 that temporarily postpones payment of the regulation fee and the other is Resolution 991 which proposes the postponement of the beginning of the four-year program of research and technological development for innovation in sanitation and services. So those two should give us some help.

Well, that concludes our remarks. Now, we'll turn into our Q&A session.

Questions And Answers

Operator

(Operator Instructions) At this time, we have no questions. (Operator Instructions) Our first question is from Lilyanna Yang from HSBC. Go ahead.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Hey. Hi, thank you for the comprehensive presentation. Would you mind please giving us a brief overview of how you see the regulator responding to the crisis together with SABESP? You indicated that they came out with a preliminary WACC, which in my personal view seems low at a 7.38%, right? And you have been suffering from higher delinquency, you have a little bit of demand destruction with no the revenue side for now, right? But you do have a rate review that is as early as May 2021.

So my question is, do you see this potential delay in the rate review process happening in May as it did happen in the prior two rate reviews for SABESP? And if you see any changes recently for the good, for the bad on the regulatory side, meaning on the approach of the regulator toward the rate review and how they deal with the crisis, which is unprecedented, any color on that front will be super helpful? Thank you.

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Lily, it's Rui, just to start then maybe Sylvio Xavier could give you much color on that if he is on the line, I believe so. Well, for, on the first slide, we have seen from the technical note, very recent technical notes, the intention, we can see through these notes, is to hurry the process of the tariff review, and in the event of complications due to delays related to the COVID, the economic crisis and so on, and some indications of simplification of parts of the process in order to cope with the targets to conclude the whole process on May 2021. But this is a preliminary approach that we expected that they will try to make all the efforts in order to conclude it on time despite all of the problems that we have been suffering, we and the world. So the answer should be to simplify some process rather than to postpone it at least at this time. I don't know if Sylvia has more comments on it or some (inaudible).

A - Sylvio Xavier

Yes, Rui, I'm on the call, and I think you have summarized it quite well. I don't feel like I could add anything on that rather than we are ready to comply with all schedule already provided with -- by ARSESP. So we are working toward delivering the information as required right now in May. At the end of May, we should be providing ARSESP with some

historical information. And by early July, we should be providing comments on the methodology, as well as on our WACC. So that's about it at this point in time.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Okay, great. Thank you. And a follow-up question. On your regulatory asset base, there is a certain amount of assets or investments that had not yet been recognized by the regulator in your asset base. Do you think that in May 2021 there would be enough time to get to a reveal maybe of those assets or the idea is to let the disputed parts go and decide about it later when you have more time, and then just make sure that the recent investments of the company has fully reflected in the wrap rather than rediscussing what was invested pre-second rate review?

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

Do you want to take Rui, or do you want me to answer that?

Q - Lilyanna Yang {BIO 14003234 <GO>}

I'm sorry?

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

Rui, do you want to answer that?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Yeah, yeah. It's -- well, from our side, we are doing our best in order to have those process concluded by May '21. I believe that the hope of SABESP and the expectation of SABESP is the same. I don't -- I cannot see sort of interference in one process and on the other. We have time, we have problems of course to evaluate on the field some assets as an example. But in the other hand, the discussion on the previous cuts in our asset bases from our part is well known problem. We have to go deep on it. We are working hard on it and present our points of view to access. And I believe that the both sides want to get it solved the sooner possible.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Perfect. Thank you so much.

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Okay, Lily.

Operator

This will be the final announcement. (Operator Instructions) Our next question is from Harry Doza from WAM. Go ahead.

Q - Hasan Doza {BIO 17222230 <GO>}

Hey, gentlemen, it's Hasan Doza from Water Asset Management. How are you, Rui, Mario?
Good to hear your voice.

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Yes. Doing well, Hasan.

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

Hi, Hasan.

Q - Hasan Doza {BIO 17222230 <GO>}

Well, listen, a question for you, Rui. You know in the past we had talked about in the -- you had mentioned in terms of the regulatory developments as per the SABESP calendar, there is a process where there was going to be some deliberations into improving the tariff swap for certain customer classes. Like right now you have some customer classes paying a lot of tariffs and some customer classes paying less even though they could afford to pay more.

So there is some kind of a regulatory process to better align the tariff structure with the customers who can pay their ability to pay. I'm just wondering where is that process right now where SABESP can better align the tariff structure for the various customer classes. If you have an update on that process, I would love to hear one, please.

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Well, Hasan, we are -- nice to hear you again, as always. And we are in the middle of the process to review our tariff structure. So we are working hard on it. There are several issues in parallel. And, yes, the time frame is to the end of this year to have it concluded. So we are working on it and so we have three different -- two big movements, the ordinary tariff review, right. The second one is the review of our tariff structure. That's in place since we are working on it, discussing with ARSESP and preparing our technical notes.

And the third is one point, important point left behind. That's the -- this call BRL6 billion left behind of our asset base. So the three of them I considered to be running in parallel. So yes, we have lots of work to do it. I don't know if Sylvia, you want to comment where the point we are on this last issue.

A - Sylvio Xavier

Okay, I can just make a few comments on that. I guess it's important to mention that the methodology that has just been published foresees that we should conclude the work as well as the work on the regulatory assets-based goods by end of this year. So there should be one or two months -- there should be a few months before the final calculation of the tariff review, which should occur in May. So we have a tight schedule, but we are working towards delivering our comments -- our intelligent comments on that.

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We have already had a few conversations with the regulator on the tariff set, but there is no conclusion nor any indication of what could be the outcome of that. So there is still work to be done and -- but we are obviously working with them on anything that you had.

Q - Hasan Doza {BIO 17222230 <GO>}

Rui, if I may, let me ask you one more policy question. As you might be aware in the electric distribution sector, the government is setting up a fund to help with the account receivables that might be -- that might be a way to alleviate any cash working capital drag for electric distribution companies. I know, obviously, from your perspective, you are very well capitalized company, your credit metrics are very solid. But I was wondering, do you think that kind of a measure, that kind of a facility might be useful also for the water sector? And if it is, any thoughts as to what should be done to have a similar facility set up by the government or by the State for the water sectors, if need to be, companies can draw from that kind of facility?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

You mean, if I'm following you, Hasan, you're asking me if the government, you mean the federal one, right, could provide funds or conditions -- special conditions for the water and sanitation sector in order to deal with this pandemic economic crisis. Is that correct?

Q - Hasan Doza {BIO 17222230 <GO>}

Yeah. Specifically, how the government is helping the electric distribution sector by setting up a facility which can help companies if customers are delayed in paying their bills. It's like a -- almost like a facility to help with working capital, things like that for the electric distribution companies, and I was just wondering if such help could be extended to the water industry?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Okay. Yeah. Comparing us with the electricity sector, right?

Q - Hasan Doza {BIO 17222230 <GO>}

Yes. In terms of the government's effort for COVID-19?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Okay, in the government aptitude. Well, as we comment before, the electricity sector is something -- is quite -- this electric sector institutional structure is quite the verge structure of the sanitation -- water and sanitation sector in the sense that we have that sector. One concession power, the federal one, and hundreds of companies below in generation, distribution and so on and transmission. In our case, in our sector, it's the quite the opposite. We have thousands, 5,700 and something, the municipalities, in some cases, connection with the States, in metro regions, and then we have just one company that is responsible to provide water and get the solution treated.

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So we don't see the possibility of the same movement in a sense that the federal government could provide funds as they have announced recently through the whole system in order not to, say, right-size or to compensate their -- the need of right-size in the short-term due to the pandemic and the crisis and the delinquency.

And our sector is different because I cannot see the possibility of say municipalities or states that's in the very bad economic position, fiscal position to provide those kinds of funds to compensate the delinquency or revenues drop in -- of our companies. But in the other side, we have, and we mentioned during our call, Mario said it, that the multilateral banks and public banks here, Caixa Economica, BNDES, IDB, The World Bank and the IDB are providing some possibilities to -- in order to -- we get more liquidity during the crisis or more access to some special lines of financing, for say, water treatment and material, example, very concrete. That should be very important.

We don't have the evaluation till now, but that dozens of negotiations that we have taken with those banks that will help us to cross this bad period, not in -- to summarize it, not -- I cannot see funds coming from the concessional powers because there are thousands in very bad fiscal position, but they can seek help from the multilaterals specifically and in some cases from the public banks for the sector.

Q - Hasan Doza {BIO 17222230 <GO>}

That's helpful. If I can close with one additional question for you, Rui, is can you provide an update on the privatization legislation? Obviously, a lot has changed because of the pandemic COVID in the last two, three months. So where do you think the privatization legislation currently stands? And what do you think is the time frame to potentially revive that legislative process?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Hasan, you've made, as always, a very difficult question to be asked because not us but nobody knows exactly the interactions of those two very tight to connect to crisis. It's difficult to know the extension or the revolve -- remember, right now people in Europe are talking about the second wave or the third wave of this pandemic.

So what we have done is take the measures immediately in order to constrain our budgets in order to provide more liquidity to create, say, a buffer of liquidity to cross the period that we can see. Of course, we cannot see longer than this year. It's very difficult. Everybody, it's difficult to forecast like that. But we -- quarter-by-quarter, we are adapting our expectations to the reality and take the measures in anticipation. We have the anticipation of the rollover of our debt. We are anticipating the drop on our revenues or the higher delinquency we probably will see in front of us. And adapting time by time, say, every quarter to the reality. Hasan, got it?

Operator

Our next question is from Lilyanna Yang. Go ahead. Lilyanna?

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Q - Lilyanna Yang {BIO 14003234 <GO>}

Hi. Sorry, I was on mute. A quick question please. Is Caixa Economica also giving you some better conditions for payment of the laws or it's just mostly BNDES here?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Mario, I believe that you can answer that question because Caixa Economica, we are negotiating with them also. Yeah.

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

Yeah. Yeah, Lily, Caixa is one step back from BNDES. They are both opening the opportunity for companies to waive the debt servicing for six month. Obviously that value -- the amount will be added to the total debt. So in that sense, we'll be quote funded financed for the period. But we are, in our case, working with both to make sure that we fit on the conditions precedent. But overall, it is, yes, a very supportive measure for those two -- for the sanitation sector. So, yes, there is something out there.

Q - Lilyanna Yang {BIO 14003234 <GO>}

Excellent. Thank you.

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

Welcome.

Operator

At this time, appears to be no further questions. I'll turn the conference back over to SABESP for their final remarks.

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

Rui?

A - Rui de Britto Alvares Affonso {BIO 5808118 <GO>}

Yeah, I'm here. Okay. We'd like to thank everybody to participating in one more conference call of results and a very special one again in the middle of a huge crisis and giving you all the information we have that we are dealing with this crisis. And we are open to questions and to numbers in our IR department. Please contact Mario, Angela, all the team. We are open 24 hours a day to help you understand better our actions. Thank you very well and see you next quarter. Bye.

Operator

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

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