

Mario Sampaio:

Good afternoon, everyone, and welcome to Sabesp's video conference to discuss the results for the 2Q21. My name is Mario Sampaio. I am the Head of Capital Markets and Investor Relations.

Let's start by informing all participants that this video conference is being recorded. The presentation followed by slides is being transmitted over the Internet through the website, www.sabesp.com.br and through the MZiQ platform. The presentation will be available for download on the same portal as well as the results release. We remind you that questions will be accepted to the speakers only through the videocast platform.

But before proceeding, we would like to clarify that any statements that may be made during this conference relating to the Company's business prospects, projections and operational and financial goals constitute the beliefs and assumptions of Sabesp management as well as information currently available for the Company.

Future considerations are not guarantees of performance. They involve risks, uncertainties and assumptions as they refer to future events. And therefore, it depends on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future results of the Company and may lead to results that differ materially from those expressed in such forward-looking statements.

Now let's open the image. I would like to present the participants today starting with Mr. Benedito Braga, our Chief Executive Officer; Mr. Osvaldo Garcia, Chief Financial and Investor Relations Officer; Luiz Tiberio, Executive Assistant; Marcelo Miyagui, Head of Accounting; Agnaldo Pacheco, Controller; and Marcel Sanches, Head of Regulations.

Now I would like to pass the floor to Mr. Braga. Mr. Braga, for your opening, please?

Benedito Braga:

Thank you. Thank you, Mario. Good afternoon, good morning, good evening to everybody connected in this call.

First of all, I would like to introduce you Osvaldo Garcia, the new superintendent of financial and economic matters and relation with investors of Sabesp. We recently had him at our environment. He is an engineer with a degree in engineering and has been the Director President of Caixa Participações and National Secretary of Sanitation in the Ministry of National Integration in Brasília and has a long experience in the sanitation area. We are very happy to have him with us as the superintendent of this very important directory of Sabesp.

I would like also to take this opportunity to bring to your attention that we have taken some measures to improve our regulatory framework and our relations with the regulatory agency. In the past, we had the regulation in two different areas in Sabesp, the tariffs and costs in the directory of finances and economic affairs, and the regulation and the communication with the regulatory agency with contracts and also with fiscalization with the area in the presidency of Sabesp. And now these two areas are joined in one single superintendence headed by Marcel Sanches, who's with us today.

And this will give us a much, much better dealing with regulatory affairs in the Company.

By the way, this has been tried in the past for a very good time, and finally, we are able to have these two areas together under the supervision of Mr. Osvaldo Garcia.

Now we also have created a superintendency to deal with the new business and expansion of our sanitation market. This is something very important for us due to the opportunities that we have under the new regulatory framework recently approved Law 14,026 of 2019. Also, a decree has been promulgated to regulate Article 10 of Law 14,026. And this is a decree that establishes the rules for the comprobatory financial and economic capacity of the service providers, public service providers. We are happy with what has happened.

We understand that some companies may have some difficulties in complying with the established dates and deadlines of March next year. However, we are okay in this respect because most of our contracts are okay under this new regulatory framework.

We also report to you that a state law has been promulgated, Law 17,383 on the rationalization of the sanitation areas. This is something that was in the federal law, and states are responsible to promulgate this law. And the State Assembly has defined four regions for the state. And the Southeast, Southwest region is the one that comprise 370 municipalities where we operate. So one of the regions is exactly the area that is serviced by Sabesp in the state.

We are very happy with this situation because it gives us the situation of not having to make any change in our contracts, our current contracts.

So these are two good news in the legislative area. We have excellent news also in the financial and economic areas. Mario Sampaio will detail that for you, but I would say that we have reverted a very inconvenient situation we went through due to exchange problems last year when we had some deficit in our balance. And now we will show to you a very good result, R\$773 million of excellent results for the 2Q of the year.

So also, I would like to report that the climatic and hydrologic situation is under control. You may have heard some news that we may have some problems of energy in Brazil due to lack of water in our hydroelectric power plants, but this is something that relates to the federal government that is in charge of this sector, the energy sector in Brazil.

And here, as you know, municipalities and the state are the ones responsible for providing water and sanitation. And I want to report to you that the situation is under control. With the infrastructure that we have built in the last years, we came to a very resilient situation and we have faced already difficult times during the last two years, but we had no problem in providing the service.

This infrastructure, together with the new behavior of our consumers, has given us this very calm situation in a very complex environment that we are going through with pandemic of COVID and this climatic situation in the southeast of Brazil.

With this, I would be available for any questions that you may have, and I will give the floor to Mario Sampaio to detail the financial situation and also the implications of the new regulatory framework in our business. Thank you.

Mario Sampaio:

Okay. Thanks. Let's get started. And let's start by taking a moment to welcome once more Marcel Sanches, who, as you heard, was already the head of the regulatory superintendency for regulatory affairs and now joins the finance team to the new and expanded regulation area. With the changes, as you saw, Luiz Tiberio, who was the former head superintendent of cost and tariffs, will now be Osvaldo's executive assistant, a kind of chief of staff, increasing his attribution and supporting the CFO in all matters related to the area.

As for the position of Head of Superintendent of New Businesses, Marcelo Batista Gomes is joining our team this week to lead these activities and will be introduced to everyone in the near future.

Before moving on to the slides and providing details on the quarterly results, we would like to highlight the following points. In May, with the conclusion of the third ordinary tariff review, we applied an average increase of 7% in our tariffs, noting that the amount reflects specifically a 7.6% increase in the residential and nonresidential categories and a 1% reduction in the social and favela category and a 5.45% increase in wholesale.

In the sense, the effects from this average 7% tariff adjustments will only be fully reflected in the coming next quarters, which will allow us at the time to have a better assessment of the impacts on our revenue. Note that the application of the tariff adjustment this year gave start to the implementation of new tariff structures with the definition of differentiated readjustments by category, where by the end of 2024, we will have a more balanced distribution of tariffs by category, resulting in a more predictable recurring revenue than we have today.

In the 2Q21, we saw an increase in revenues and expenses compared to the 2Q of '20. As a result of these increases, adjusted EBITDA decreased by R\$128 million. However, if we exclude the nonrecurring effects presented in the 2Q of '20, with emphasis on the agreement with the municipality of Mauá of R\$181 million, the adjusted EBITDA actually shows an increase of R\$66 million.

A similar effect occurred with the average tariff when estimated considering net revenues without construction revenues divided by the total billed volume, which in this quarter, when compared to the 2Q '20, resulted in an increase of 3%.

In this regard, the nonrecurring effects of Mauá, the average tariff increased by 9.2%. And if we also disregard the 2Q '20 volume of the residential, social and favela categories, which were exempt for payment for a certain period of last year, the average tariffs still increase by 4.3%.

As for foreign currency exposure, we continue in the process of managing its reduction. Foreign exchange, as you will see, decreased from 34% in the 2Q20, to 19% in this quarter. And that was mainly due to the refinancing with reais with local debt issuance of the U.S. dollar bond maturing last year.

This reduction obviously was also benefited by the 12.2% and 12.6% appreciation of the real against the dollar and the yen, respectively, which also contributed to the Company's more favorable result this quarter, as we will comment further on.

Okay. So now let's move on to the slides. Let's start with Slide 3. Okay. In the 2Q21, our total billed volume increased by 1.6% over the same period last year, being 0.7% in water and 2.7% in sewage.

When the municipality of Mauá and that transitory effect of the exemption granted to the social, residential and favela categories that actually occurred precisely between April and August last year. When we disregard this, the increase rises to 7%.

Although our main segments increased quarter-over-quarter, volumes for the commercial and industrial categories, which have the higher tariffs, are still not back to the pre-pandemic consumption levels and impacting our average tariffs.

Next slide. Here, we see that revenue from sanitation services grew by 6% in the period from R\$3.7 billion in 2Q '20 to R\$3.9 billion in 2Q '21, an increase mainly due to the authorized tariff readjustments in the period of 3.4% in August 2020 and 7% in May this year.

Next, net revenue went from R\$4.4 billion to R\$4.6 billion following the growth in service revenues. Construction revenue remained stable compared to the 2Q of '20. Cost and administrative and commercial expenses, including construction costs, increased by 10.4% from R\$3.4 billion in the 2Q of '20 to R\$3.7 billion this quarter. The main increases were in general expenses and materials, electricity and provisions for doubtful account.

The 8.1% drop in adjusted EBITDA from R\$1.6 billion to R\$1.5 billion is explained by the greater pressure on costs and expenses and by the nonrecurring results obtained in the 2Q of '20 with the signing of the agreement with the municipality of Mauá with a net effect of R\$267 million on the result; remembering that, as already mentioned, if we exclude the nonrecurring effect, the variation is positive by R\$66 million.

Nevertheless, net income grew significantly from R\$378 million last year to R\$773 million this year. This increase of 104% was pushed by the financial results, mostly driven by the appreciation of the real against the dollar, as mentioned.

Next slide. Cost and expenses were all fueled by the strong increase in inflation of 8.3% in the period. Comparing quarter-on-quarter, including construction costs, the increase was 10.4%. Excluding construction costs, the increase was 14.6%. Personnel expenses increased 3%, well below inflation.

This result was possible despite the salary increase granted made this year of 7.8%. This is due to the effects of our retirement plan. We call it Knowledge Retention Program that was concluded by the end of 2020, which resulted in a reduction of 1,125 employees or 8.2% of the total number of employees compared to the 2Q of '20. All this, despite the increase observed in medical expenses this quarter compared to 2020, when they were exceptionally lower due to social isolation. So it was very low quarter 2020 because of isolation. Now we are back on track.

The 59.3% increase in general expenses was mainly due to lawsuits and a higher provision for municipal funds. General materials grew by 35.7% due to higher

maintenance activities in the water, sewage systems and networks. Expenses with electric energy grew 22.3% due to the increase in the consumption and regulated tariffs, which today corresponds to approximately a little over half of our consumption. There was also an increase in provisions for doubtful accounts of 23%, mostly due to a worsening in the delinquency level in the period.

Let's go to Slide 6. The financial performance graph starts at R\$378 million recorded profit in the 2Q20, and shows the main variations that led to the results in the period. Net operating revenue grew by R\$163 million due to tariff adjustments. Cost and expenses added with construction cost increased by R\$347 million. Other operating income and expenses, including equity income, had a negative variation of R\$109 million due to nonrecurring events related to agreements with the municipality of Mauá, as mentioned, and with Companhia de Saneamento de Alagoas, called CASAL.

The financial results showed a positive variation of R\$924 million, mainly due to the appreciation of the real against dollar and the yen in the 2Q '21 compared to the devaluation observed last year. Income tax and social contribution had a negative variation of R\$236 million mainly due to the increase in taxable income. All this resulted in a net income of R\$773 million in the 1Q21.

Well, having finished the slides, we still have two points that we would like to comment briefly. First and continuing with our commitment to keep the market informed about the after-effects of the approval of Law 14,026 that changes the sector's guideline on June 1, federal government published Decree 10,710. And with it established the methodology for verifying economic financial capacity of public controlled water and sewage service providers to fulfill its program contracts. According to the decree, service providers must carry out this methodology in two steps. The first step is to meet the minimum economic financial reference indicators, such as cash efficiency, net margins and indebtedness.

The following step requires companies to demonstrate through feasibility studies that their business and funding plan are adequate to meet the full coverage targets by 2023, as it was established by the new framework.

Sabesp already meets the minimum indexes established by the decree and is now working on the preparation of the feasibility studies and evaluating obviously the step and the phases established by the law for sending information to ARSESP by December 31 this year. An important step that was established required by the federal law has already been met at the state level with the approval by the state assembly on July five of State Law 17,383, which addresses the breakdown of basic sanitation in the state; within the state, the breakdown in regions.

There were four regions created. We call it URAEs. It's units for the supply of drinking water and sewage service. Basically, they are blocks, in which the Unit 1, named Southeast, is comprised of these 370 municipalities currently operated by Sabesp and that have already program contracts signed and in effect or they have this and/or located in a metropolitan region.

These municipalities, they still have until January 5, 2022, to voluntarily join the regional units, then the units will become the decision-making body for water and sewage services in that region and altogether, the four in the state of São Paulo.

Lastly, I would like to highlight refers to the 28th debenture issuance carried out on July 16 in the total amount of R\$1.2 billion in three series of 3, 5, seven years at the cost of CDI plus 1.2%, CDI plus 1.44% and CDI plus 1.6%, respectively. The proceeds from the debenture will be used to refinance maturing debt, especially the 25th debenture issuance in the amount of R\$1.45 billion that is fully maturing this upcoming October.

That concludes these remarks. Now let's open for questions and answers.

Mario Sampaio:

It seems that there are no questions.

Benedito Braga:

It looks like, Mario, that you have done a very good job.

Mario Sampaio:

Good. So thank you. But I would then last ask Mr. Braga to then conclude because we do not have any other questions. I just get that information.

So maybe we can conclude. And Mr. Braga, so I pass on the word for you for the last remarks.

Benedito Braga:

Thank you. Thank you very much. It was a great pleasure for us to have this call with you. As Mario rightly said, we are at your disposal to any questions, any more specific information that we may share with you. Mario will be the contact person for you to make any request regarding the results of the 2Q21.

We are very optimistic amidst this very crazy political and economic and pandemic and climatic situation because regardless of the outside world, the Company is doing very well. It's moving forward. It's connecting more and more residences to our sewage collection and treatment system. I forgot to mention at the onset of this meeting but I will say now that the new Pinheiros River project is moving very well.

This month we came to 368,000 residences connected to our sewage collection and treatment system. This is something like a city of the size of Guarulhos in simply 1.5 years. So the Company is doing very well, this universalization of sanitation in its network. So good news.

I hope you have enjoyed the presentation from Mario and look very much forward to seeing you in three months' time. Thank you.

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