

Operator:

Good morning, and welcome to SABESP 3Q25 Earnings Presentation. With us here today are Carlos Piani, CEO, Daniel Szlak, CFO, and Thiago Levy, Investor Relations.

Before we begin, we clarify that the statements made during this presentation will not include projections or estimates of future events. However, they may contain forward-looking statements indicating potential trends related to SABESP based on the reasonable expectations, beliefs and assumptions of SABESP management as of today. These statements involve risks and uncertainties and are based on assumptions and factors such as market, regulatory and economic conditions, which may not materialize in addition to the risk factors disclosed in SABESP filings with the Brazilian Securities and Exchange Commission, B3 and on its investor relations website.

Investors should understand that changes in such factors may lead to outcomes that differ from current trends and that undue reliance should not be placed on these statements. The full disclaimer will be presented next and must be read carefully by all participants. This presentation is being recorded, and all participants will be in the listening mode during the presentation. After that, we will begin the question-and-answer session for analysts and investors only. If you wish to ask a question, please raise your hand and submit via Zoom Q&A, inform your name and company. I will now turn the floor over to Daniel Szlak, who will discuss the results. Daniel, you may proceed.

Daniel Szlak:

Thanks, operator, good morning, everyone. Thank you for joining us for Sabesp's 3Q25 earnings call. I'm Daniel Szlak, CFO of the company. Today I'll present our financial and operational highlights, then pass the mic to our CEO, Carlos Piani, where he'll discuss the strategic transformation underway and then we'll open the floor for Q&A.

On the operational highlights, this quarter marks another step in Sabesp transformation journey. Water production reached 809 million cubic meters, up 4.4% year over year, and active connections grew 0.6% in the quarter.

Sewage connections rose 1.1% reflecting the investment focus on the sewage front. These operational gains reflect our ongoing commitment to reaching universal access and improving service delivery, building on the momentum established post privatization. Now moving to the financial highlights, our results continue to demonstrate the impact of our efficiency initiatives. Adjusted net revenue was BRL5.5 billion stable year-over-year, while adjusted EBITDA grew 15% to BRL3.2 billion reaching a 59% margin.

Adjusted net income reached BRL1.2 billion, a 9.5% growth versus prior year and cash flow from operations increased 22% to BRL1.7 billion, with EBITDA to cash conversion reaching 54% in the quarter, underscoring disciplined execution and resource optimization. To start, we will bridge from reported to adjusted figures in the quarter. You can also find more detailed info on this topic in the appendix.

As usual, we exclude Construction and the financial asset bifurcation. But this quarter we also had a few non-recurring events, namely as published in a notice to the market in September, we have received communication from the regulator that the FAUSP rate is at 3.78% rather than the 3.28% that we had been accruing since July/24. Hence, we had to book a catch-up adjustment for July/24 through June/25 that we are removing from the adjusted results and impacts both revenue and EBITDA. Moving to EBITDA and net profit only adjustments.



Additionally, we executed voluntary dismissal plans in the quarter under the Sabesp Gente program where we accrued BRL478 million for severance and incentives. Under the program we have about 1800 employees departing until year end.

We also restructured our warehouse and logistics operations to improve fulfillment and inventory levels that had a onetime cost of BRL74 million and also wrote off water pipeline infrastructure that we no longer expect to use for BRL61 million where we will make a larger investment in its place for a longer-lasting solution in that region.

In Q3 last year we also had one-time costs from the privatization of the company and in this quarter, we got reimbursement for some of these costs for RBL14 million. To maintain coherence, we're calling this reimbursement a one-off gain. Last but not least, we booked in Q3 a one-time gain from court-ordered payments (precatórios) with the City of São Paulo as the uncertainty of the amounts has been significantly reduced. They total BRL1.9 billion of which BRL430 million are hitting in EBITDA and the remaining financial results. Of the BRL1.9 billion we have collected to date about BRL1.1 billion and expect to collect the remaining amount over the next few months. With that we believe we can see as a result the underlying performance in our business, and we'll focus on the adjusted numbers in the next pages.

Moving on and looking at adjusted revenue growth, we have four core drivers. FAUSP increased year on year from the 3.78% versus 3.28% rate I just mentioned, and an increase driven by higher revenues. Discount removal for larger clients, a key initiative that started in late '24 now delivering tangible gains. On the volume front, the gains came from new connections for 1.5% and also a 1% gain from consumption and metering upgrades. And now, last but not least, we have mix. We're about 1.8 million units now benefit from subsidized rates. The mix impact from 2H25 are expected to be adjusted in 2027 rate cycle as per the concession contract amendment signed in 3Q25. Deep diving into revenue, we see flat overall price index to BRL100 compared to 3Q24 as expected. And also a continuous pickup from large client's prices as we continue to eliminate discounts from that group. Last but not least, we have reached 1.8 million units with access to subsidized rates, keeping a relatively stable cohort versus the 2Q25.

Now looking at EBITDA, efficiency gains are evident in our cost structure. G&A brought gains behind lower municipal funds versus the anticipation we did in the 3Q24. Additionally, we also improved our collection rate, reaching 101% in the quarter, among the highest historically. Last but not least in G&A, we also continue to improve on the legal front and have executed settlements in the quarter that brought a BRL50 million gain.

Moving to power we improved despite higher power prices and that was largely driven by the migration from captive to free market where about 66% of our spend is on the free market and 80% of our consumption is also there. On the services front, we increased our spend in IT and some specific consulting work in the quarter.

On the next page we will deep dive in personnel, but all in all we've standardized procurement, optimized supply chain management and leverage technology to drive further savings initiatives that began in the 3Q24 and accelerated in 2025.

Moving into personnel. Expenses fell 6.6% year over year despite a 5% increase from collective bargaining driven by a headcount reduction of 13% that offset that to voluntary dismissal plans. Zooming in on reported net income for 3Q25, we lapped the construction margin and financial asset bifurcation from the third quarter of last year, where we no longer record construction margin as of 2025 and have only the update of the financial asset for BRL90 million in net profit in the 3Q25.

On the positive front, we also recognize the BRL1.4 billion gain in financial results from the court ordered debt payment in addition to the BRL430 million that I already mentioned in EBITDA. Our balance sheet remains robust with leverage under control and no effective exposure to currency risk.

Strategic transformation is most feasible in our investment program. CAPEX accelerated to BRL4 billion in the quarter, growing 175% versus prior year and 10% versus the 2Q25. This performance is helping Sabesp achieve solid compliance to our first milestone on new factor targets. We're only 3% away from meeting the minimum 95% threshold on sewage treatment.

On the next page, looking at the major projects. Integra Tietê, Coastal and Metropolitan region works upgrades to Barueri, ABC, Parque Novo Mundo and São Miguel sewage treatment plant. Specifically in Parque Novo Mundo, we are piloting our first treatment plant using Nereda technology and will be one of the largest applications of such technology globally. It helps reduce treatment area in particular space constrained stations and will help multiply our capacity by two and a half times serving almost 3 million people in that specific site. We've shifted from public procurement to a private model, fragmenting large projects to attract more suppliers and minimize execution risk. A key change since privatization.

Our financial transformation also includes a proactive approach to capital structure. BRL4.9 billion in new debt was issued in the third quarter, which with maturities for 5, 7 and 10 years. With that, 59% of our debt now matures from 2030 onwards, improving our long-term profile. And we also hold BRL11.6 billion in cash covering more than four years of amortizations. Our efficiency agenda can be seen in our key ratios where net debt to EBITDA remained stable in the quarter and ROIC and ROE have reached 10% and 14% respectively. In summary, Sabesp's third quarter results highlight the success of our strategic transformation and efficiency gains. We're scaling infrastructure, improving service quality, enhancing customer experience and strengthening our financial position. Our commitment to universal excellence, operational excellence and sustainable growth remains unwavering. Thank you for your attention. I will now pass the ball to our CEO, Carlos Piani. The floor is yours.

Carlos Piani:

Thanks, Daniel. Let's move now to the second part of today's presentation. Our strategic focus areas and the progress we made this quarter. As we've discussed before, our strategy continues to rest on three clear priorities. First, delivery on the commitments of the new Concession agreement, accelerating universalization and closing regulatory gaps. Second, driving a step change in operating and commercial efficiency, improving quality, reliability and revenue assurance. And lastly, strengthening financial efficiency, optimizing costs and reinforcing our capital structure.

In the third quarter, we delivered measurable progress across all three fronts. Let's turn to Slide 18. Execution remained strong and disciplined in the quarter. CAPEX reached BRL4 billion, totaling BRL13.2 billion over the last 12 months, where our backlog increased to BRL39 billion in contracted projects through 2029. And that considers only future investments.

On the regulatory front, we made tangible progress resolving legacy discount disputes. 71% of injunctions from large clients have already been rolled in our favor, strengthening the foundation of our revenue base. We also launched sabesp's first full zero-based budgeting cycle with a redesigned chart of accounts and cost center structure, a major step toward lasting cost discipline. We're also advancing in commercial and financial efficiency. Collection efficiency, excluding court order debt, reached 101%, our best performance since privatization.



We installed over 1 million meters so far this year, which I'll detail on the next page. And on the customer experience front, our WhatsApp channel handled more than 8 million interactions and 1.2 million payments since launch, improving convenience and engagement. Finally, we announced clear carbon reduction targets for 2035, covering scope one, two and three, which we'll detail shortly.

Moving to the next slide, we're rolling out the world's largest smart metering program in the water sector. 4.4 million IoT enabled smart meters will be installed through 2029, with BRL3.8 billion in contracted investments. Rollout begins in December, enabling real time consumption data for consumers, reducing leakages, lowering operational costs and further strengthening revenue assurance.

In the quarter, we installed around 500,000 meters, more than doubling the speed from last quarter, reaching nearly 1 million replacements in the first nine months. By prioritizing older and depreciated meters, we're improving billing accuracy, reducing losses and directly supporting revenue growth.

Now, turning to Slide 20. We continue to strengthen Sao Paulo's integrated water system, building structural resilience to climate variability. Over the past years, we've expanded reservoir capacity and increased transfer capabilities between systems, materially improving our ability to absorb extreme events. Looking ahead, we'll add indirect water reuse and incremental production and transfer capacity totaling 22m³/s by 2030 through seven retrofits and expansion projects, three indirect reuse projects. The reactivation of the Billings - Taiacupeba Interconnection and the Paraíba do Sul - Alto Tietê Transfer.

The estimated CAPEX for these projects is around BRL6.3 billion brought forward from the second tariff cycle of 2030-2034. These initiatives will make Sabesp less dependent on rainfall cycles and better equipped to serve a growing population with greater reliability.

Moving to the next slide. Our purpose remains to connect people to a better future, deliver essential services with excellence and unwavering commitment to the environment. In the first nine months, BRL13 billion were reinvested in construction goods and services supporting over 40,000 direct and indirect jobs, with around BRL1 billion allocated to FAUSP. Today, 1.8 million people benefit from social tariffs, a 40% increase in one year, demonstrating that this transformation is already delivering tangible and inclusive results.

Moving ahead to the next slide, we also formalized our 2035 decarbonization roadmap with clear, measurable targets. Sabesp will reduce total combined emissions scopes 1, 2 and 3 by 15%, cut emission intensity by 41% and lower scope 2 emissions by 43% through the generation and purchase of clean energy. What's most notable is that these targets are achieved while we expand sewage treatment, serving more people and emitting less per cubic meter treated. In other words, we'll grow, universalize and decarbonize at the same time, combining sustainability, investment and long-term value creation.

Lastly, a brief update on the EMAE acquisition. Following the signing, all regulatory documentation was filed with CADE and ANEEL in early October. We now move into the approval phase consistent with transactions of this nature and scale subject to regulatory approvals, closing is expected between late Q4 and early Q1 of next year, with payment incurring only upon completion. This transaction reinforces long term water security and energy efficiency, further integrating Sabesp's strategic infrastructure. With that, I conclude my remarks. We can now move on to the Q&A session. Thank you.

Questions And Answers

Operator:

Thank you. We will now begin our Q&A session for investors and analysts, to ask a question please submit via Zoom Q&A, inform your name and company. Our first question comes from Guilherme Bosso with Goldman Sachs. You can open your microphone.

Q - Guilherme Bosso:

Hi, good morning. Thank you for the opportunity. Are there any updates you could share with us regarding the ongoing annual tariff review process? Also, if there are any initiatives from the company to make the preliminary results public and what could you expect in terms of timing? Thank you.

A - Daniel Szlak:

Thank you, Bosso. Daniel here. With regards to timing with the review, we are in the final steps of trying to determine the regulatory asset base edition of 2024. As soon as we have that, we have obtained informal consent from the regulator to disclose that first step with the market and then after that we will move on to finalize the percent readjustment, including all the other items that are pertinent to the review.

And once that happens, then this is going to be published by the regulator. So that's the mechanic we are. Hopefully in a few weeks we'll be able to share a little bit more updates on that. But since this is the first, a lot of back and forth to make sure that this comes out as technical and as clear as possible to all of you.

Q - Guilherme Bosso:

Perfect, thank you.

Operator:

Our next question comes from Fillipe Andrade with Itaú BBA. You can open your microphone.

Q - Fillipe Andrade:

Hello guys. Good morning Piani, Szlak and Sabesp's team. Thanks for accepting my questions. I'd like to hear your thoughts in two points. Firstly, if you could please share your expectations on the improvements on the hydro resilience front considering the coming rainy period. Also, if you could please further comment on how EMAE acquisition can improve the company's access to hydro resources as well as the efficiency of its current operations. Thank you.

A - Carlos Piani:

Thank you. Thank you for your question. I think there's a short term and long-term strategy regarding water security. In terms of short-term strategy, I think what has been proposed by the government and the regulatory agency is what we have for this time horizon. So, there's a contingency plan in place, there's rigors to increase pressure management. And we believe that this is the lever that's possible and more effective with the time frame for the next 12 months.

Regarding the EMEA transaction, we believe that this will benefit in a couple of ways Sabesp. First, we'll shorten the time frame to increase the degrees of freedom and incremental capacity for our systems in terms of water security. The alternatives without EMAE will take longer. The environmental license permitting process would be longer and the CAPEX would take more years in our expectation, around two to three years.

Besides that, given that this water, raw water that we would go after, would be farther away, the OPEX to capture and distribute would be higher. So the EMAE will offer in the future the possibility for us to capture raw water that's closer to the metropolitan region, with less complex environmental permitting process and consequently less a smaller OPEX to distribute this water. So of course, all of this will be detailed after we liquidate, after we conclude the deal and we step into the business. But this is the direction that we foresee for the benefits of EMAE with SABESP.

Q - Fillipe Andrade:

Thank you, Piani.

Operator:

Our next question comes from João Pimentel with Citi. You can open your microphone.

Q - João Pimentel:

Hi guys. Good morning. Thanks for the call. My question comes on the M&A front. We are seeing the development of Copasa's privatization. It seems everything is advancing. There is an expectation that it should happen, I don't know, first quarter, first half of next year. Is this something that you're currently wasting your time on today? This is something they're actively studying, or still waiting for the process to be more developed, to finally dig in. Is this an opportunity that makes sense for Sabesp at this point in time, considering that there's a lot of challenges on the universalization front, et cetera or are you guys eventually more focused on having your attention, more focused on the privatization blocks that will come within the state of São Paulo, supposedly the second half of next year. So, just trying to get your thoughts on these two events and other inorganic potential opportunities. Thank you.

A - Daniel Szlak:

Pimentel, thank you for the question.

A - Carlos Piani:

As we comment, Daniel and myself, Thiago and all the team, I think our number one priority is to deliver on the obligations that we signed with the privatization Sabesp. Having said that, we believe that we are on track. We're posting good cadence to those obligations which allow us to start looking a little bit outside our organic activity. Of course, M&A, as you know as well, this is usually very opportunistic. Maybe we're going to have a vintage next year of a couple of deals coming to the market.

And I think we have the duty, the duty to look at every opportunity if we're going to do it or not, if we're going to pursue it in a firm way. It depends on the process. But for sure what we can tell the market is where our attention is focused on the business. But we're also looking at the deals that may come on the market. The ones that you mentioned are important for different -- from different aspects. The block in São Paulo is in our backyard. So, it makes total sense. I think the cost of serve for us is, we're very competitive. Let's put in this way in the cost of serve. Given our presence in the state.

In Copasa, if this deal comes through, a lot of challenges still need to be solved. But I think this is an amazing asset and I think it would make sense for us to take a look at the opportunity as well. But I think the first thing we need to be in a good position. I think on a quarterly basis we're improving our execution that allows us to look a little bit outside. If these deals come through, we'll look at them as well.

Q - João Pimentel:

Thank you.

Operator:

Our next question comes from Daniel Travitzky with Safra. You can open your microphone.

Q - Daniel Travitzky:

Hello guys. Thanks for the opportunity. So, I have two questions. First one, the company implemented like recognized provisions for severance program this quarter. So, I want to know if the company is planning to implement more of those going forward and if there are other initiatives that can reduce personnel costs going forward. The second one I would like to hear about the company's perspective on the Cantareira reservoirs currently and how the company plans to deal. You already talked a little bit about it, but if you can explain a little bit more on how the current situation is affecting companies operations would be helpful. Thank you.

A - Carlos Piani:

Thank you. Thank you for the question. The two questions, I think in terms of voluntary dismissal program, we don't expect to offer a new program. I think this was the last one. So, we gave the opportunity to every employee who wanted to leave. I think we did this twice. We had roughly 4,000 people that decided to leave. We had a -- we put a process in place where the people that decided to leave, if they were part of a critical process or activity, there was a process and a time and a handover process before they left. So even people enrolling in this program, we have people that are going to leave only early next year, given the nature of their activity. So, this is it. I think Daniel can explore a little bit about the provisions, but we don't expect anything additional to what we propose. And then starting 2026 is life as usual and without any voluntary, new voluntary dismissal programs.

Regarding the system, I think I'm going to take the opportunity just to take two steps back. I think we had the combination of two very tough almost. We're starting the third wet period, the second wet period where the level of rain has been below the average. So, the last period between October and March, October 2004, up to March 2025, it was one of the worst rainfall seasons in the last 10 years.

The dry season that goes from March, April to October, that just ended was below average. It was not one of the worst but was below average. And now we just started the new wet season, rainy season for us here in the region of São Paulo. Given all these combinations, I think the state of São Paulo, the regulatory agency ARSESP, SP Águas, the new water agency, they put in place a very robust process to monitor the situation. They put in place a contingency plan that we think is robust to deal with this environment. Okay. Cantareira System is a little bit over 23% as we speak. We don't foresee this going below 20% for now. Of course, it's very hard to have visibility over 15 days in terms of weather. But everything that we -- all the simulations that we done by ourselves with the government where give us comfort, at least for now, that's remote. The possibility of the Cantareira System going below 20%.

But if this happens. There's a discontinuance plan that was put in place by the regulatory agency has the provisions to deal with this situation. So just for the knowledge of the market, we have weekly meetings with the government, with the regulatory agency, with the water agency about the situation where we looked, what happened the previous week and what's the forecast to the following weeks and decide on a weekly basis if we need to change our action plans.

So all in all, just to shorten the answer, I think we are in a tougher situation than previous vintages of this dry season -- wet season sorry, but we're, we don't see anything now that things are going to get worse and we're going to get to lower levels of the contingency plan that has been put in place. Of course, we are going to update the market as this outlook changes. But for now, we think that it's going to improve from where we stand right now.

Q - Daniel Travitzky:

Thank you very much.

Operator:

Our next question comes from Francisco Navarrete with Bradesco BBI. You can open your microphone.

Q - Francisco Navarrete:

Piani, Daniel, Thiago, thank you very much for the results in the call. One very simple question I think will be helpful to clarify for some investors that might be confused, but can you remind us about the impact of the social tariff on your revenue in 3Q25? What was that impact? And then very important, how any lower revenue will be recovered later by the company according to the regulation and the rules already in place. I think that this will help because I think there's no regulatory accounting to neutralize that and I think it makes revenue look lower. But I understand it will be recovered later. If you could help us clarify this. Thank you very much.

A - Daniel Szlak:

Thank you, Nava, thank you for the question. Daniel here. Good question and always good to clarify that to our investors. Look, going to take the movie a little bit a few quarters back. So, when the new concession agreement was signed in July/24, there was a specific provision. Sabesp already had a mechanism for subsidized tariffs for vulnerable economies. And that was a mechanism that had its own criteria. In the new contract there was a provision that we had to change the mechanism and change the criteria to adapt to the Cadastro Único which is the federal welfare program.

And that happened. That started happening in September, all the way to November So we saw, for example, when we look at Q2 last year, we see about 900,000 economies with access to subsidized rates. In Q3, that number jumped to 1.3 million. And right now, we have about 1.8 million. And the way that we got here, right. So, there was an overlap of the old mechanism and the new mechanism from September to November/24. And then in December, we shut down the old mechanism. And then what we realized was that there were a lot of economies that needed those subsidized rates that were not necessarily eligible to the federal welfare program. And one of the things that we worked together with the concession to figure out how we could create some sort of program for those economies. And that happened throughout the first half of 2025. And then in July, we had an amendment to the concession agreement creating the Tarifa Paulista class. Right.

So, when we look at Q3 specifically, and then going directly to your question, we have about 1.8 million economies with access to subsidized rates that have been relatively stable compared to Q2. So that means that we're looking like we've, we've gotten where we needed to be in terms of people that actually need that benefit. That said, as we go and as we grow naturally, we grow more to underprivileged communities rather than to more wealthy communities. So, it's natural that we will have a few additions there. The impact in dollars or in Real actually to our Q3 numbers was about BRL117 million, as we disclosed in page 8 of their earnings call. And the way that this gets recovered later is when we do the tariff revision, the annual incorporations of the RAB, we also submit the consumption histogram by class, by tariff class, and that gets adjusted into the mix.

So, when we talk and going back to the contract and the timings of the contract, right. So, in 2025, numbers are going to be delivered to the regulator by Sabesp until May/26, and they should be captured into the tariff adjustment that's going to go live on January 1st, 2027. Okay, so just to clarify where we come from, what's the impact and how we expect that to be adjusted in the future and compensate us in the future. Was I clear?

Q - Francisco Navarrete:

Super, thank you very much, Daniel.

A - Daniel Szlak:

Thank you.

Operator:

Our next question comes from Thomas Peredo with F8 Capital. You can open your microphone.

Q - Thomas Peredo:

Hello, can you guys hear me?

A - Carlos Piani:

Yes, Thomas, go ahead please.

Q - Thomas Peredo:

Yes, so now I just want to get a little bit color on what is the level of the discounts that we already reduced to large clients? And eventually looking at the price mix, there was a lower gain in this quarter when we look versus 2Q25. So, trying to understand if there was any other additional impact from the mix except from the tariff, from the social tariff.

A - Carlos Piani:

Great question, Thomas. Good thing to clarify as well. So, on page eight as well, the total gain that we got from the discount removal was BRL133 million in the quarter. Going back Q1 was BRL100 million, Q2, BRL110 million, Q3, BRL133 million. And the actions behind that were we did a first wave of contract terminations at the end of last year that started affecting this year. We, we did the second wave in Q2, those had a little bit longer tier period. So, we had a little bit more unwinding time in those contracts. So, we're starting to see these contracts have the discount removed now.

And the reason why you see this when we try to break down the impact is the discount removal from large clients actually hits us in two places, price and mix. Because these guys, some of them, have a change into their rate and some of them move from a subclass in terms of how we build them. So, they move from Demanda Firme class to a regular consumption class. And that hits us in mix. So, a part of -- so when you look at, for example, page seven, we have BRL77 million impacts of impact of mix.

But the impact from the social tariff is BRL117 million. So, the difference comes from a gain in Demanda Firme came from large clients. So, it hits us in these two places. Okay. And that's why when you look at the bridge in page seven and compared to the numbers on page eight, we try to isolate to you the actual impacts from the actions. And the bridge in the page prior, we try to isolate to you the impacts by leveraging. Okay.

Q - Thomas Peredo:

Thank you very much.

Operator:

Our next question comes from Andre with Método de Investimento. You can open your microphone.

Q - André:

Hello guys. Thank you. For picking my question, the Sabesp's team commented the universalization would be achieved ahead of schedule. With this in mind, we can expect early dividend payout. Imagine that universalization be achieved early. Thank you.

A - Daniel Szlak:

Thank you, André. Daniel here again. Look, first, when we say that we think universalization is going to be met earlier, we're talking more about 2025. We still looking a little bit where we can have a little bit more certainty, which is a little bit more on the short term than on the long term. We're trying to finalize some of the conceptual studies all the way through '29. So, this is one thing that we're doing and will give a little bit more clarity to us uncertainly.

But that said André, one of the things that we have to keep in mind, I think we have two or three things to keep in mind before looking at discussing the dividend policy, which is set right and needs alignment from our board. But we have to think about cost of capital, which is very high right now in our country. And two, we have to think about the question that some of you ask about M&A opportunities.

So, leaving a little bit more room in our balance sheet to have the ability to deploy capital at a rate of return that's better than our stock. The implied rate of our stock gives us an impression that's a good thing to do at least for a little bit, and then we'll figure out how we move that in the future. But this is definitely something that's a subject that we continually revisit. But the main point here is to make sure that we have the resources to achieve the universalization and then potentially act on opportunities to deploy your capital in a rate of return that's greater than the implied rate of the stock.

Q – André:

Okay, thank you.

Operator:

Our next question comes from Arthur Pereira with JP Morgan. You can open your microphone.

Q - Arthur Pereira:

Hey, good morning, guys. So, two questions on our side. The first one, if you could provide a little bit more details on the layoff program. If I'm not mistaken, you mentioned 1.8K employees, just to get a sense on the expected payback. And how many employees do you expect to hire back new employees? And the second on the delinquency rates. This was also a positive surprise to our numbers. Just to get a sense if is there any special initiative on place if what we saw in the third quarter is the run rate that we can assume for the upcoming quarters? Thank you.

A - Carlos Piani:

Cool. Thanks for the question. I'll take the first part. Daniel will take the second part. I think we don't disclose the returns of this Program. But what I can tell you is that we have thresholds we need to justify the investment that we make to our board, and we pass this threshold that was required by them. I think one information that we can disclose based on the past one, give or take. The first one, a little bit over 2,000 people enrolled and we hired, give or take, a thousand back. Give or take. Okay, so this is ongoing regarding the second one, it's not that we're not going to replace any of them, but if the last program that we did, we rehired, let's put it this way, the positions. Okay, Daniel?

A - Daniel Szlak:

Yeah. Thank you. Thank you for your question. So, with regards to delinquency, look, we've been acting on the fronts that we've been communicating, I think since we came here that we would start acting first, right. Removal of discounts to large clients, looking at all our legal claims and the legal wallet and trying to do settlements where applicable, where we had a good gain this quarter for BRL50 million also that we disclosed in the G&A page and also on the collection. The company had historically presented a gap versus the regulatory allowance for delinquency.

And we've started using technology to improve our collection rates. Right. So, we're starting using WhatsApp, we're the first company, utility company to use Pixel to match in the country. So, we're starting to improve and have better collection tools. And this is starting to show, like Piani commented on his speech on the presentation, we had 101% collection rate in the quarter, where historically the company was more like 97%. So, we're starting to improve there.

Naturally, the backlog is bigger as we come in in the future. This probably needs to stabilize at some point, but in the beginning, we have more opportunities than at the end. So that's where we're focusing now and we're spending a lot of money and effort here to achieve those impacts.

Q - Arthur Pereira:

Great, thank you.

Operator:

Our next question comes from Guilherme Bosso with Goldman Sachs. You can open your microphone.

Q – Guilherme Bosso:

Hi, thank you again. Just one more question from our side. If you could please share more details on the OPEX performance in the quarter. We noticed significant year-over-year decrease in some lines, such as energy and general expenses, what we could expect going forward in terms of recurring costs. Thank you again.



A - Daniel Szlak:

Thank you. Guilherme. Daniel, again here, look on power, I think one of the things that we're doing super well and that's kudos to Luciane, Giselle and the team here that manages that front. We're expanding our consumption in the free market. Right. Just to give you, for example, one data point. In September, 82% of the consumption was in the free market. That's a big change versus a year ago where we had about 50, 55% in the free market. So that's a great improvement. And naturally the cost of that is better. And also, it's something that's more sustainable for us thinking about having knowledge of where that power comes from and being renewable and so on and so forth.

In that front, we have already issued a notice to the market in the past that we're also pursuing auto-production projects that are going to start ramping up throughout 2026, both with partners and also in house. So, we'll have about 44 solar farms over the next months. So, this is something that's going to allow us to continue improving there, which is one of our most important cost lines, right?

Allowance for doubtful accounts goes back to the last question, where we're starting to apply technology and starting to apply artificial intelligence to our collection process. And there's a lot of room here to continue improving. And I think it's very hard to think about what are going to be recurring costs right now. Thiago often says that it's going to take a while for us to think about recurring costs.

We have opportunities that are probably going to be step reductions and productivity improvements. And there will be things that are going to gradually improve. So, I think we have the combination of the two things. And even for us internally, it's very tricky to think about recurring cost right now.

Q - Guilherme Bosso:

Got it. Thank you, Daniel.

A - Daniel Szlak:

Thank you.

Operator:

Our next question comes from Francisco Navarrete with Bradesco BBI. You can open your microphone.

Q - Francisco Navarrete:

Thank you for the opportunity. Again, about the FAUSP fund you mentioned, Daniel and Piani mentioned that increase of 50 basis points in the rate you're paying to the FAUSP. And of course, this was adjusted on adjusted EBITDA, which was the right thing to do. But just if you could remind us how this could be recovered back and how it will be adjusted going forward, just to make clear that this is not an issue. Thank you.

A - Daniel Szlak:

Sure. Thank you, Nava. Look, when we started the contract, right, there was a specific provision about the actual balancing rate and the rate that's actually being charged by the consumers. And we interpreted that when we read the contract and because we needed to start accruing for that from the onset. So, what we did was we -- our interpretation was that this was 3.28%. And in parallel we asked the regulator for clarification to make sure that we had something in writing. We got that clarification in Q3 earning in early 3Q25. And the clarification came that the rate was actually 3.78%. So, the difference is a half percent.

Naturally, when we did, what we had to do was a catch-up accrual from July/24 through June/25, that was BRL108 million that we removed from the quarter's results. Given that this is something that's relative to the past and to make sure that this was up to date. But the actual rate impact from 3.28% to 3.78% over the revenue of Q3 is still in the organic recurring results. Okay. This goes to FAUSP. So, in the end this increases the size of the fund that in the future will be used to amortize the rate impact to the population as we continue investing in universalization. So, in the end this is something that eventually will come back to the company. But when that dynamic of balancing rate and application rate shifts from the balancing rate being lower, being higher than the application rate, which is the opposite today. So that's how it works.

Q - Francisco Navarrete:

Thank you very much, Daniel.

Operator:

Our next question comes from Mariel Abreu with T. Rowe Price. You can open your microphone.

Q - Mariel Abreu:

Hi. Thank you for the opportunity. I just wanted to -- since it's clear that you're looking at inorganic opportunities that may come to the market, how should we think about the potential, maybe a potential top of the current bond or issuance of more debt at this point. Thank you.

A - Daniel Szlak:

Thank you, Mariel, Good to see you here and thank you for your question. Look, when we think, even if we don't think about M&A, right now we have a BRL70 billion commitment that was disclosed in the concession contract. Our view is that BRL40 billion to BRL50 billion of that is going to come through that. To date we have raised 13 out of the 40 to 50 and are in the process of raising another five, which is going to be terminated, which is going to be finished by the end of this week. So, we'll continue to raise that. And I think our objective as management is to keep all the doors open for ourselves.

Because given the scale of that challenge, mechanically, that challenge, we need to make sure that we're not exposed to tail risk in any of the markets. So that's why we're leaving all the doors open and trying to be innovative and trying to do new things. For example, when I mentioned about the BRL13 billion we just raised out of that, about BRL1 billion is a loan that we just executed with JICA that had not lent money to the company for more than 10 years. So that was a great thing that the team here did and continuing to open more doors and continuing to really future proof our ability to raise money to ensure that we deliver the universal access, Mariel. But thank you for your question.

A - Carlos Piani:

And just, just to add one point of Daniel, some of these opportunities, mainly the ones that are going to be the sale of 100% of the assets, most of them are unleveraged, so the asset will have the capacity to leverage. So, the blocks in São Paulo will be debt free. Depending on one of the deals that was mentioned here before. If it's a control deal with tag along, there's opportunity to leverage. So not necessarily the deals that are going to come to market are going to be LBOs. They need to be leveraged at the acquired level.

Q - Mariel Abreu:

Yeah, that's very helpful, thank you.

Operator:

Our next question comes from Luisa Candiota with Itaú. You can open your microphone.

Q - Luisa Candiota:

Hi guys, good morning and thank you for the opportunity. I have a question regarding the CAPEX execution of the quarter. So, we know that the company has been accelerating its investment pace for the last quarter, and I just wanted to provide more details on the breakdown of this BRL 4 billion realized CAPEX in the quarter and how the plan regarding water metering improvement is progressing within this agenda. Thank you.

A - Daniel Szlak:

Look, maybe let me start from the end on water metering, right. Q3 saw us executing 500,000-meter replacements, which is the same that we did in the first half entirely. So, we doubled the pace at which we are replacing meters. We're not yet live with the AMI contract with Vivo. This is going to start now in January. As the ultrasonic meters, they start arriving with AMI technology. So, we've been increasing the pace here.

Naturally, most of our investment right now is in sewage. Because this is really where the gap is in terms of service. So, a lot of the investment right now is happening in the wastewater, in the sewage treatment plants in the metropolitan region, in São Paulo, in the retrofits and now starting the expansion phase. And also in sewage collection networks so that we can increase the amount of the sewage that actually becomes treated.

So that's really where the bulk of the CAPEX is right now. One of the things that we mentioned and Piani talked about water safety and future proofing our cash flows and the service to the population. We're starting to look at additional investments to enhance the water safety of the region. We're going to do about BRL5 billion over the next two years in incremental investments to increase the ability to have more reservations and to have more production and more connections of water.

Q - Luisa Candiota:

Thank you.

Operator:

The Q&A session is now over. We wish to give the floor to Mr. Carlos Piani for the company's closing remarks.

A - Carlos Piani:

I just want to thank you all once again for joining the call and for your continued interest in Sabesp. We appreciate all questions, the engagement and we look forward for updating you all in the progress in the next quarter. Have you all a great day and see you in the next earnings call.

Operator:

Thank you. SABESP earnings presentation is now closed. Thank you very much for your participation and we wish you all a very good day.