

Operator:

Good morning, ladies and gentlemen. Welcome to the COPASA MG conference call, with earnings results for the 4Q24 and the full year 2024.

This conference call is being recorded. You may watch this recording at the Company's site at ri.copasa.com.br. The presentation is also available for download on the platform.

We would like to inform you that all participants will be in listen-only mode during the Company's presentation. Following this, we will go on to the Q&A session, when further instructions will be given. We inform you that the presentation is being recorded and translated simultaneously. The translation is available by clicking on the 'interpretation' button. You can also mute the original audio.

Before we proceed, please bear in mind that the forward-looking statements made during this call are based on the Company's beliefs and assumptions and on information currently available to the Company. These forward-looking statements may involve risks and uncertainties as they refer to future events and therefore, depend on circumstances that may or may not occur. Investors, analysts and journalists should keep in mind that events related to the macroeconomic environment of this industry and other factors could lead results to differ materially from those expressed in these forward-looking statements.

I will now turn the floor over to Fernando Passalio de Avelar, CEO, who will begin the presentation. You may proceed, sir.

Fernando Passalio de Avelar:

Hello, everyone. I would like to start this presentation by greeting all of you who are watching us from the press, from the financial market. I would just like to say that this is a great opportunity so that we can talk to you and present all of the Company's results for this quarter and for the last year.

The Company is going through a very important moment. We are starting a robust investment cycle. Then it is important for you to know this, especially so that there is more awareness that the basis that grounds this Company is preserved, and that we will continue working in the direction of having more efficiency and conserving our values, and also preserving our good sustainability practices.

So, continuing this presentation, the Company concluded 2024 with results placing us among the main players in the Brazilian sanitation sector. Our adjusted EBITDA, as you can see, reached R\$2.8 billion with 39.7% margins. If we look at the entire industry, it's clear how efficient our operation is, even in a regulated scenario and even with the strong pressure for investments.

On the other hand, we have our dividends paid out, R\$906 million, which is a dividend yield of 11.5% according to the closing in 2024. And this is among the most attractive in B3 in infrastructure and sanitation. It demonstrates our ability to pay out to our shareholders

without compromising our investment balance. So, when payouts are high, investments are low, but we were able to maintain balance and even keep record high investments.

You can see that for the last few years, COPASA has been increasing its investments. And the projection for the next years, for the 2025 to 2029 cycle, will continue in that direction.

We can also highlight that this is the highest investment in our history. We finished the fiscal year 2024 with R\$2.2 billion in our CAPEX, up 33% versus 2023. Very few companies have been able to keep this CAPEX level with the same level of financial discipline.

And this is only the beginning. We are going to continue until 2029 with an investment plan of around R\$17 billion focusing on increasing coverage in sewage and improving our systems efficiency. This is a robust expansion cycle, and our responsibility is with the new Sanitation Law Act. In 2026 and 2027, we will invest R\$3.4 billion, and from then on, R\$3.7 billion. So, it's a daring plan, but we are already making efforts and getting ready to do this efficiently.

In cash generation, we posted R\$480 million in the 4Q, and the total for the year was R\$2.1 billion. This shows that the Company's operations are not only profitable but also robust when it comes to liquidity, and this allows us to look at the future very safely.

Default was another highlight, only 2.9%, the lowest in our historical series where defaulting was as high as 5%. But we have been managing our charges efficiently, and we have a very good client base.

Finally, we reduced our loss index to 38.1%. This is still a challenge. The average for the industry is about 25%, but we continue going down. This was a reduction of a 0.5 p.p. versus 2023. We are investing in technology and operational control so that we can advance with this indicator, and we hope to post even more significant drops in the next years. These results show that COPASA is positioned with solidity, responsibility and capability. We can generate value in a more demanding industry.

The next slide shows our strategic pillars focusing on generating value. In 2024, the Company continued its journey towards generating more value to its stakeholders. Our strategic initiatives are split into the 4 pillars on the slide, which are competitive management, universalization, ESG agenda, and we have a lot of good things to say here and our focus on our clients.

In the competitive management pillar, the Company has advanced a strategic plan. We proposed a new organizational design, which was more balanced and optimized. And this redesign will make our decision making faster, and it will also increase our execution capacity, which is what we are pursuing in order to meet this investment plan so that we can continue growing in our execution capacity.

When it comes to investments, we want to, of course, comply with the Sanitation Act. We also want to improve quality, provide water safety and include new technologies, including automation.

There is another front, which is advanced data analysis, which includes our fraud detection model, aiming at protecting the Company's revenue. We will treat the Company well so that it continues to be an attractive asset for the market.

When it comes to universalization, in 2024, COPASA reached water coverage of over 99%. This is a result that we have seen in previous years, and this is above the required by the Sanitation Act, which establishes that it should be made universal by 2033. So, we have reached this milestone about 10 years before we would have to.

Considering sewage, our global coverage reached 77.3% in December 2024, which is higher than the 75% we saw for the previous year. So, to sustain this advancement, the Company's investment plan for 2025 to 2029, as I said before, foresees about R\$17 billion in investments. We are going to invest more and the growth of this compliance to the Sanitation Act should come at a faster pace in the direction of the 90%, which is our aim.

For the ESG agenda, COPASA was internationally recognized by Time Magazine as the biggest highlight in ESG in sanitation. So, it was focusing on financial consistency and sustainability initiative. COPASA was ranked the first in the entire world. We were also included in the B3 Sustainability Index, ISE B3, and we are in the ESG 2024 Yearbook at Insight Communication, which recognizes 100 companies in Brazil that have the biggest ESG perception.

Among the programs, we have Pró-Mananciais, which protects the riverbeds that COPASA uses to take in water. This program has already received R\$20 million in investments in 2024 alone. We also have social tariffs, which give up to 50% discounts on the bill to low-income families. In 2024, the amount of savings benefited by this was 595,000, of which 405,000 have access to water and sewage. This benefit is an important tool in providing social inclusion and giving access to sanitation at an affordable rate.

The subvention concession program included in the 2024 tariff at the Company's request was a significant advance. We have benefited over 510 entities throughout the year, and this strengthens our commitment to social responsibility and the financial sustainability of this program.

On the clients' axis, we are improving reading and measurement quality by hiring an integrated solution to modernize gauging and calculating consumption. Besides that, in 2024, we also contracted a new solution for digital channels with WhatsApp and webchat, which will use AI.

Our aim is to have better interactions to better analyze how clients are communicating with us. This is all measured so that our channels have a friendlier and more empathetic reaction. This project will be implemented throughout 2025.

So with a modern organization with consistent investments and with international recognition, I can guarantee that COPASA is ready to deliver long-lasting results with a positive social impact and sustainable value for our economy, for the market.

So, this concludes my part of the presentation, and now I will hand it over to our CFO, Adriano.

Adriano Rudek de Moura:

Thank you, Fernando. Good morning, everyone. Thank you for being with us in our conference call. It's a huge pleasure to be here for the first time. I am very excited to be a part of this team.

Fernando Passalio de Avelar:

I would also like to make it clear that I have also been in the Company since March 4. So I am also, like you, a newcomer. We are still taking the reins in this wonderful Company.

Adriano Rudek de Moura:

That's right. I am a bit more experienced than you.

Fernando Passalio de Avelar:

Yes, just by a couple of weeks.

Adriano Rudek de Moura:

But the Company has a solid history of posting results and the Company is going through a very important strategic reorganization process. So, like Fernando said, we are advancing on many fronts. Focusing on increasing competitiveness and generating value. I think our main goal, and this is very clear on the short term, is to ensure results on the plans and investments that we are making. And later on, we are going to have some more time to talk about each item, but 2024 was truly a challenging year, especially the last quarter.

Our net revenue was R\$1.8 billion, and that was basically flat from 2023. In the 4Q, we had an atypical level of consumption due to the elevated temperatures and due to a longer consumption period, which affected our average tariff.

As a result, the volume dropped versus the 4Q23 and offset the average tariff readjustment that was applied in January 2024, which came to 4.2%. Cost structures, so we were over R\$1 billion, a 7.8% growth. There was a reduction of 3% in personnel costs. So even considering the readjustments from the collective agreements, which were about 4.5%, we had that level of reduction, which was boosted by smaller expenses with overtime, a reduction in profit sharing and higher investments.

The main price increase was due to third party services or outsourced services, which increased by 34%. This is due to contract readjustments with essential contracts, such as water trucks, build delivery, and we also contracted some temporary consultancy companies to improve our competitive scenario.

Non-managerial costs, the most important here is electric power. Although tariffs have increased, we have been growing at a flat rate, mostly due to our migration to the free market. And we have advanced throughout the last quarter, and we hope to continue doing that.

Besides that, photovoltaic energy, which we began using in 2024, now represents about 13% of the Company's total use. Finally, fuel and lubricant costs also increased due to the higher use of generators in our operational units.

Carrying on, on slide 8, as a consequence of higher costs and flat revenue on the 4Q, we had a 10% impact to our adjusted EBITDA, concluding at R\$641 million, and a margin of 36%.

Net income, we had the impact from EBITDA, an increase in financial expenses. And this was mainly due to foreign exchange, which did not have a cash effect but had an impact to our results. We also have a 20% exposure of our total debt to foreign currencies, mainly the Euro. So, we hope to mitigate this impact due to that exposure very soon.

Slide 9 shows our yearly annual performance. Our revenue had a significant increase year-on-year, and it reaches close to R\$7 billion. This is due to that 4.2% tariff readjustment as of January, as I mentioned, and also an increase in the volume measured for water and sewage.

Costs and expenses came to R\$4 billion, up 5% versus 2023. The personnel line had a reduction, this is the main expense for the Company currently and outsourced services are also increasing. So, there's a natural migration of part of our personnel costs to outsourced services. Of course, we hope to improve this level soon. And we also have non-managerial costs, which were about 16% higher.

The next slide shows a 4% increase in our adjusted EBITDA in comparison to 2023. It's close to R\$2.8 billion with the 39.7% margin. So, this is our goal. We want to improve these margins so that we are above 40%. We are already designing significant initiatives so that we can reach this. Net income was at R\$1.3 billion, slightly below 2023. And again, this is affected by foreign exchange with a noncash effect. slide 11 shows the dividends for the last fiscal year. For 2024, we have proposed a complement, so that we can reach a 50% payout. So the remaining balance at this value of R\$150 million will be paid on the date to be defined by the next assembly in April.

And as Fernando mentioned, we are paying dividends with a dividend yield of about 11.5%. For 2025, the Board has maintained that 50% payout of net income and just a complementary piece of information.

According to what was published yesterday, we included a capitalization proposal for income reserves of the authorized amount of R\$5 billion since there was excess in December 2024. Regardless of that, we still have a robust reserve of about R\$3 billion. So this capitalization

would not interfere in the Company's decisions on paying extraordinary dividends, which will continue to follow our payout policy.

So, continuing the Company's investment plan, here we see the cycle for the next years, and this includes the third cycle. The significant increase for the next years is for meeting the requirements of the new Sanitation Act, and this will go into the regulatory base as this work is concluded. We will also improve services, provide better water safety, water security and we will have better financial sustainability.

Continuing on slide 13. Here, we have our debt amortization schedule for the next years, and this is compatible with our cash generation. We have a very comfortable financial leverage far below the limits established by the covenants and with room to grow in these investments, which will provide sustainable returns.

When it comes to exposure, I think our debt is quite balanced. We have these indexers, IPCA, CDI. Foreign currency represents 20% of our total, and we are looking at alternatives to mitigate these impacts from the foreign exchange variation.

Considering ratings, we are still at the highest rating, AAA at Moody's, AA+ at Fitch with a positive perspective, and I think that shows our solid financial position, with resilient demand and with the right profitability and leverage.

We also see our cash flow for the 4Q and for the full year. I would just like to highlight the increase in cash generation when we compare it to quarter on quarter and year on year. You can see the difference here from the 4Q23 to the 4Q24, and the same for the full year.

Slide 15 shows our loss ratios and our losses in distribution. This is going down. It reached 38% in 2024. Initiatives to try to improve this index, we are proposing a yearly replacement of 20% of the water gauges. We have held the contract to substitute 350 kilometers of this grade.

Our default is at the lowest historical level, and the main initiatives for this are that we are continuing with a specialized charging scheme. We have also started some initiatives to help with that. We have had active collections, and we have expanded our service channels.

In employees, we have reached a level of 1.2, and we have had some voluntary dismissal programs implemented in 2021 and 2023.

So that concludes our operational results. Do you have any comment before the Q&A?

Fernando Passalio de Avelar:

Yes, I do. Let's set this slide here. So, we are going to talk about capital remuneration focusing on universal access. This is decisive strategic moment for our tariff review, which will start in January 2026. And this will be essential to ensure that our capital is paid and so that the Company is financially and economically balanced.

So, there is a couple of things here from the market perspective. The first phase of this process will establish guidelines and a full schedule. And this is expected to take place until August 2024.

And then we went into the second phase, which is the current one, determining technologies, methodologies, so that we can ensure that we have transparent results. We have had significant advances such as WACC, which increased significantly. It went from the 7.2% to a preliminary value of 9.15% in the next cycle. This signals the need for attractiveness for new investments in the sanitation industry.

Another important point is that we are also changing the methodology of our annual readjustments, which will provide better safety and planning for our economic factors. These rules are being defined with a public hearing. This will happen in the next quarter. So, this year-on-year process continues. And I think the market will see this with very good eyes. This is very important from the financial perspective for the Company.

We are defending an increase in efficiency gains. So, the Company should be able to receive a part of the gains from cost reduction and higher productivity so that we can continue to pursue operational efficiency.

We expect that with that, the Company will be incentivized to do its homework. If we have a committed company that is efficient, this should also be converted into benefits for the Company.

The final calculation is foreseen and the publication of these results is foreseen for November and the new tariff structure will start on January 1, 2026. These events will reinforce the trust in our regulatory network and will show that we are building a great sanitation environment in our state.

[The next paragraph was changed from the translated audio, specifically, to better understand what was said in Portuguese.]

Another matter, which is not on the slide, but I could not help but mention it, is about the material fact that was issued by our CFO last week, regarding guidance that the driver gave to our Board. There we have several matters with an external line, within the recitals, apart from privatization. We would like to emphasize that this is an agenda of the controlling shareholder.

[The next paragraph was changed from the translated audio, specifically, to better understand what was said in Portuguese.]

Our role as administrators is to work with total focus on efficiency, expansion of services and modernization of the Company, developing a COPASA for the future, regardless of the corporate model that may be established. Today, this matter is for the controlling shareholder, the government of Minas Gerais, with the Minas Gerais Parliament, the Legislative Assembly. We here, managers, will continue working to provide better and more sustainable services to the citizens. Thank you.

Adriano Rudek de Moura:

Thank you, Fernando. I see there are a couple of questions being asked here, and one of them was exactly about this tariff review. So, I hope that we have answered that. And also, regarding this communication about privatization, I think our position is clear. Of course, COPASA is going to structure itself according to what the state decides. And as we advance on this topic, we will give you more information.

Vladimir Pinto, XP:

Good morning. Welcome, Moura, to the Company. My question is about indebtedness. So, there are a couple of points here. One, you mentioned in your release, you said that there's a study to hedge the foreign currency debt. So, what do you need to conclude this study?

Secondly, now the Company is at a 2x net debt-to-EBITDA ratio. What levels do you believe are appropriate for a company like COPASA? Thank you.

Adriano Rudek de Moura:

Thank you for the question. So, to answer your question on exposure, as I mentioned, we hope to work with some hedging alternatives from this 20% hedging so that we do not have any surprises in the future. Right now, we are calculating these costs so that we can present this on the next Board meeting and so that we can try to get to a final position. So, in the next few months, I think this will already be seen by our Board.

Considering our leverage ratio, this is a very relevant question, but we do not have an answer for that yet. Because right now, we are assessing our ideal capital structure based on several scenarios, and we hope, of course, to service the high level of future investments, and this will depend on an alignment with our Board. So, this will probably be the hot topic in our agenda for the next few months. As soon as we have an answer, we will pass it on to you.

Luiza Candiota, Itaú BBA:

Thank you for taking my question. I have 2 questions here on my side. First, about your cost performance for this quarter. We saw a significant increase on the outsourced services line year-on-year and quarter-on-quarter. I would just like to understand a bit better, is this a one-off? And what will be recurring from now on? If you could give us some color on what the normalized level for these costs is for the next quarters.

My next question is about the regulatory side and some perspectives for the new tariff review. You mentioned this during the call, but if you can give us some more details about the main changes that you are looking at for the cost methodology, regulatory OPEX and also for the yearly readjustment, since these points can have a relatively significant impact.

Specially in OPEX, I would like to know what you are looking at and what treatment should the agency give? Will this be a benchmark model? Should we look at COPASA's reported figures from the past? What do you think is the right path? That's all from my side. Thank you.

Michelle Gomes de Resende:

Good morning, Luiza. I am the Strategic and Regulations Director. So, I will start talking about regulations. There are a couple of points here that have been mentioned before by Fernando at the end of his presentation.

We had a publication and these are preliminary issues published by the agency. So, the final publication will only happen in December, and we will have final results in September 2025 for all public hearings and the ones that will still be made throughout the year.

So some important things here. Our WACC will go from 7.05 to 9.15, this was already something that we signaled. An annual recognition of the investments made, a removal of the criteria of our prudence for investments, this was postponed to 2029, and a possibility of including a reversal percentage for tariff changes, and there should be a limit of 15% on that. These were the main aspects signaled by Arsae, but, as I said, these are still preliminary issues.

Considering costs, yes, through a benchmark, and this will happen in September. So, we still have advances on that based on some signals. And considering BAR, what the agency has signaled to us was this value of December 2023 of R\$13.1 billion.

Adriano Rudek de Moura:

Just to add to that, Michelle, when it comes to costs, yes, this increase is on our radar. We are looking at all of the opportunities to reduce this. Our cost control plan is a part of the agenda, but to answer specifically about the 4Q, about half of this amount are specific one-off temporary consultancies, which we are working on in our strategic plan, and this will provide future benefits. And the other increases are also one-offs for the 4Q, and we hope not to have that level of cost. So, we will try to mitigate this impact as much as we can.

Gustavo Faria, Bank of America:

Thank you for taking my question. My question is about extraordinary dividends. You mentioned a proposal to capitalize some of your reserves to have social capital versus an income reserve. But how do you consider this with the 2025 net income? Will you continue to put it in capitalizations? Or will you pay out extraordinary dividends? Also, about timing, how have you defined this in COPASA? And if extraordinary dividends would only happen after the study. Thank you.

Adriano Rudek de Moura:

About capitalization, I think it's a normal process to adjust covenants, as you said, according to the legal regulations. So, this is not connected to any definition in paying extraordinary dividends. This reached a maximum authorized capital of R\$5 billion.

And about extraordinary dividends, obviously, this is something that will still be discussed. This is not in today's meeting agenda, and we do not have any forecast from now. The only signal that we have from the Board is that we have already approved a 50% payout for 2025. This will definitely be discussed in the next few meetings, considering all the possible scenarios for the next years, debt leverage, capital structure. So, this is something that we will still explore in the next Board meetings.

Gustavo Faria:

Great. Thank you. And if I can ask a follow-up question about the timing in defining your capital structure, do you know when you will have that?

Adriano Rudek de Moura:

Probably still in the 1H25. That's my best bet now.

Operator:

We will now continue with questions asked through the Q&A button.

Adriano Rudek de Moura:

Looking over the remaining questions, I think we basically answered all of them, but let's look at it carefully here. We have talked about tariff reviews, extraordinary dividends, payout, privatization, cost increases. So, I think with that, we conclude this conference.

Maybe I can make one final comment. But once again, I would just like to emphasize that we are very optimistic about all of the advances across all the work fronts that address all of our strategic pillars in generating value in the Company.

We obviously know the challenges we have ahead of us, but we are convinced that this transformation in COPASA will definitely elevate the Company to the status of being a benchmark in our industry. This is our main goal, and that's our main agenda.

Fernando Passalio de Avelar:

That is our intention. We are working as a company that has a lot to deliver, and that can deliver a lot more to the 640 municipalities that we support, and we are going to continue working to make this a prosperous company that will meet market expectations and that can also meet society's expectations, since one of our work lines is to comply with the significant public policy for basic sanitation, for water quality, and we know that this all represents public health as well.

Our governor, Romeu Zema, has been giving us a direction in our sanitation policy, and COPASA has always done whatever it can to truly provide access to sanitation for its citizens. So, we are doing this with financial viability and focusing on economic sustainability. Thank you.

Operator:

This concludes COPASA's conference call. Thank you for listening, and have a good day.

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