

Operator:

Good morning, and welcome to Copasa's audio conference to discuss results relative to 4Q22. Today with us, we have Carlos Augusto Botrel Berto, CFO and IRO at Copasa.

The presentation will be recorded in audio, and all participants will listen to the presentation during the Company's remarks. At the end, we will have a Q&A session, when further instructions will be provided. Should you need assistance during the conference call, please request the help of an operator by pressing *0.

This event is also being transmitted simultaneously over the webcast and may be accessed at the Company's IR website. ri.copasa.com.br where the respective slide deck can also be found for download.

Before moving on, we would like to remind you that forward-looking statements made during this conference call concerning the Company's business perspectives, operating and financial targets are based on assumptions and also on expectations on the part of the Company's management as well as on information currently available. Those involve risks and uncertainties as they refer to future events, and therefore, depend on circumstances that may or may not materialize. Macroeconomic policy changes or legislation changes and other operating factors might affect Copasa's future performance and thus lead to results that will differ materially from those expressed in these forward-looking statements.

We now turn the floor over to Dr. Carlos Berto, who will lead the presentation. Please, Dr. Berto, you may carry on.

Carlos Augusto Botrel Berto:

Good morning, everyone. I would like to thank you all for participating in our conference call. I am here accompanied by Guilherme Duarte, our CEO; and our Operations Director, Guilherme Frasson.

I will now start the 4Q highlights. Moving on to slide 2. Talking about the results we reached in the 4Q, rather. And in the next slides, we will go into a bit more detail in terms of numbers to explain the behavior of the main lines in the income statement. We also have the financial highlights of Copasa's 4Q.

Our net revenue amounted to R\$1.4 billion, representing a growth of 7.7% when compared to the same period of 2021. In terms of costs and expenses, the amount posted in 4Q was R\$1.06 billion, a drop of 3.9% vis-à-vis the R\$1.1 billion of the 4Q21.

As for other operating income and expenses, net in 4Q22, the amount was positive at R\$19 million, while in 4Q21, we saw a negative result of R\$72 million. As for the EBITDA, the amount reached R\$530 million in 4Q22, up 16% from the same period in the previous year. As for the financial result, the value was negative R\$77 million, while in 4Q21, the amount had been negative at R\$60 million. As a result of the facts presented, the net income reached R\$268 million in the quarter.

We will now detail the main variations in the accounts that make up the income statement, starting with the water, sewage and solid waste revenue. In 4Q22, we saw a growth of 7.7% when compared to the same period of the previous year. This revenue in 4Q was impacted mainly by the increase of 4.3% in the volume measured per water economy. And 3.3% in the volume measured per sewage economy, migration of consumption ranges and categories and growth in water savings by 1% and sewage by 1.4%.

As we reported in late November 2022, Arsae had a tariff adjustment with an average effect of 15.7% applied on January 1 of this year. An important point to highlight is that this will be the new base state for the readjustment of the tariffs. This change was offset at this readjustment. This reinforces what we have been emphasizing about the solidity of the Company's revenue and the maturity of the regulatory environment in which we operate.

On slide 4, we have the evolution of manageable costs, R\$720 million in 4Q22, corresponding to an increase of 6.3% when compared to the previous period. The main variation in costs, personnel saw a growth of 5.1%, coming to R\$395 million due to the effects on the payable resulting from the 2022 collective bargaining agreement whose base date is November and INPC applied was 6.46% for readjustment.

In February 2022, we have closed an agreement for previous periods. On that occasion, the change in the database from late November was approved and the correction of salaries was approved. This increases because the INPS was partially offset by the implementation of a volunteer layoff program that led to the layoff of about 1,100 employees. So when compared December 2022 with December 2021, the number of employees saw a drop of about 5%.

Third-party services grew 19% in the 4Q22, mainly to R\$17 million in expenses with services and maintenance and preservation of systems and because of service contracts and leakage corrections and also other contractual adjustments. The Rio Manso PPP grew 2.6%, a drop in energy costs, partially offset the contractual adjustment of 10.54% IPCA, applied in May 2022.

As for the recovery value of accounts receivable that was also reduced. Saw a value of 10% lower than the previous period as a result of the reduction in delinquency, which reached 3.22% in December 2022.

Being the lowest level observed in the past 6 years as a consequence of collection and renegotiation of that, that we are developing. As an example, we can cite a different company for social tariffs, warnings for cutoffs, review of renegotiations, and for 2023, we aim to clearing all that up. And finally, the tariff transfer to cities increased by 6.6% following the behavior of the observed revenue amounts.

Now on slide 5, the non-manageable costs saw a drop of 18.7%, R\$149 million in 4Q22. Going in a bit more detail about those costs, electricity costs decreased by 26.6% due mainly to the application of the *bandeiras*, or flags, which were less expensive than in the previous quarter, and the reduction of the ICMS tax rate on energy. Expenses in treatment materials increased 45.7% due to an increase in prices of chemicals used in water treatment processes. Fuels and lubricants saw a drop of 13% due to the increase in prices of alcohol and gasoline coming from a drop in taxes on those items.

Total costs and expenses in the period reached R\$1.6 billion, a drop of 4%. As for other expenses, equity accounting and the financial, financial result. There was a drop of operating revenues of 62%. It's important to emphasize in 4Q21, there was one-off tax burden. On the other hand, the other operating expenses saw a drop of 91%. In 4Q21, there was a recognition of other operating expenses of R\$110 million due to a complementary provision for labor litigation suits. So we saw an increase of R\$77.4 million negative against a negative value of R\$60 million in 4Q21.

Moving on to slide 7, the EBITDA margin and profit. EBITDA saw a growth of 16% compared to from previous period due to the growth in revenue due to cost reduction, as already shown. This value corresponds to a margin of 36.9% against 32.9% in 4Q21. It is important to note that the value considered for the period was adjusted due to an extraordinary, extraordinary nonrecurring expense that we incurred at the time referring to the increase in the provision for labor lawsuits. Net profit in 4Q was R\$268 million as a result of the facts already detailed in previous slides.

Now on slide 8, we see financial highlights of the Company. As analyzed, the annual net revenue in 2022, there was a growth of 3.7% in relation to 2021, reaching the level of R\$5.4 billion, mainly due to the growth in savings and the volume measured for economy, in addition to the migration of consumption and category brackets. On the other hand, costs and expenses present a decrease of 0.3% in 2022, representing R\$4.1 billion.

If we disregard the value referred to the PDV accounted for in 2021, there would have been an increase of 3.5% in total costs and expenses when compared with the 2 periods, a percentage which is lower than the inflation registered in the period. The main item of our cost structure, personnel represent about 37% of our costs and expenses was stable in the period.

Looking at the other net revenues and expenses in the year 2022, you can see that there was a significant reduction in the value of other net expenses. Considering that in 2021, there was the accounting of extraordinary items and nonrecurring items as well, such as provisions for tariff returns and for labor litigation suits.

As a result of these items, Copasa's EBITDA in 2022 reached R\$1.98 billion with a margin of 35.7%. This amount was 2.2% higher than that filed as adjusted EBITDA for 2021. Thus, the net income in 2022 reached the level of R\$843 million. This result was 67% higher than the previous period.

Now on slide 9, the Company's CAPEX. In 2022, Copasa invested R\$1.3 billion with emphasis on investments in water which amounted to R\$580 million in water, R\$450 million in sewage and capital expenditures of about R\$176 million, representing an increase of 30% when compared to 2021. In the scope of the subsidiary, Copanor, R\$40 million were invested in 2022.

In this slide, we can also see the values of investments scheduled for the coming years with an emphasis on 2023, for which investments are expected to happen to the tune of R\$1.76 billion in the parent company and R\$49 million at Copanor.

Moving on to slide 10, the Company's gross debt reached a level of R\$4.2 billion, out of which 23% is short-term debt. The net debt went from R\$3.1 billion in December 2022. While in December 2021, the value was R\$2.7 billion. And the ratio between net EBITDA and EBITDA came out at 1.6x.

As for slide 11, at this point, we talk about the indexes, the CDI monthly for 49% of Copasa's debt, an increase of 9 p.p. when compared to the previous period. This increase in CDI occurred mainly due to the raising of R\$750 million by means of the 17th issuance of debentures, which was completed in December 2022.

The TR in turn remained in line with 4Q21, debt linked to the IPCA represented 20% of our debt; debt in foreign currency, reference to the German bank KfW and the European Investment Bank represents 5% of the total debt; and as for the average coupon, the percentage went to 10.9% due to the increase in interest rates. In turn, the debt rate measured from the leverage level from 41.1% in December to 43.1% in December 2022.

On slide 12, we saw the shareholder compensation for 2022 as disclosed in the notice to market in December 2022. The payout was 50% of the adjusted net income. The statement of JCP on March 17, 2023, the total amount paid out in 2022 was R\$391 million, on the subject of shareholder payout.

On slide 13, we have information about the revision of Copasa's dividend policy and about the compensation of 2023 according to a material fact released on February 24 of this year, the new policy approved by the Board of Directors, and which will be submitted to the shareholders meeting, they have the same rules regarding payout of dividends on a regular basis.

As for the payment of interim dividends. The new policy expects that there may be distribution or payout of interim dividends, depending on the analysis of the Board of Directors and in compliance with the guidelines provided for. In addition, the Board of Directors approved on February 24, 2023, the payout of 50% of the adjusted net income for the year 2023. On March 17, 2023, the JCP amount was declared for the 1Q23 to the tune of R\$131.6 million.

Moving on to slide 14, we will talk about concession contracts for December 2022. Copasa and Copanor have together 640 water concessions, of which 632 are in operation. As for sewage, 309 concessions, 269 of which are operated that the Company serves something close to 12 million people with water and 8.5 million with sewage services. On the right, we see the main concessions, which corresponds to 50% of our total revenues. As of December 2022, the Company had 19 concessions to mature and 2 concessions that are considered legally null. All these concessions together represent 3.8% of revenues.

On slide 15, we have our operating data delinquency rate, the relationship between accounts receivable between 90 and 359 days and the total amount for the last 12 months showed a decrease in relation to the comparative period, reaching the percentage of 3.22%.

In the losses and the difference between the distributed volume and the measured volume divided by the number of connections served in the period, there was a drop in this period than compared to 4Q21. And finally, the ratio between the number of employees per 1,000 water and sewage connections also decreased and now corresponds to the multiple 1.33.

I will make a brief approach on how we are treating the ESG topic at the Company level. Copasa has reaffirmed the purpose of caring for water and generating value for people. In 2021, instituted its ESG agenda, aligned with the Company's strategic planning and the sustainable objectives established by the UN. As a translation of its core business, the Company defined sustainable development goals of water and sanitation and instituted 6 strategic commitments among which we highlight water protection and gender equity.

As part of its committing to protecting water, Copasa has maintained since 2017 the Pro-Mananciais program whose goal is to protect and restore water springs used as a source of water. The program has already invested R\$76.3 million in social and

environmental actions since its inception, covering now 275 cities until December 2022, benefiting more than 9.7 million people, considering the population that we serve.

In addition, the Company has invested in energy efficiency such as the acquisition of energy in the free market and the installation of solar photovoltaic plants on the water in the reservoirs.

We are also taking actions to reduce the level of water losses, which dropped 2% in 2022. Among the different actions, we can mention the implementation of the performance contract for the recovery of micro-measured volume in areas of social vulnerability. The acquisition and implementation in 2022 of new hydrometers corresponding to about 20% of the total water connections.

As for gender equity, Copasa has taken on the commitment of increasing the representation of the female gender in top leadership positions, setting a goal of 37% of women in leadership positions by 2025. In 2022, women represented about 9% of the Company's workforce, and occupied approximately 33% of leadership positions.

Copasa also promotes the Women's Mentoring Program, which is in its second year and includes 38 female mentors and mentees. We are also hiring women from the communities around the areas where we operate. And we are promoting social awareness programs so they can act as facilitators between Copasa and their respective communities.

We are getting close to our final slide, the water situation has shown the solidity of our water springs in the metropolitan region of Belo Horizonte. The reservoir levels that make up the Paraopeba system, including Rio Manso, Vargem das Flores and Serra Azul, they account for supplying 48% of the Belo Horizonte Metropolitan area, they are practically full.

And in the Rio das Velhas system, responsible for 42% of the region's supply, whose information is highlighted on the right-hand side of the slide, the average flow of at least 15 days before March 15, 2023, was 33 m³/s, therefore, showing a significant surplus in relation to the volume captured, which is about 7 m³/s.

With this, we close our presentation of the operating results for 4Q22. I now return the floor over to Priscila. Over to you, please.

Julia Zaniolo, Santander:

Good morning. I have 2 questions. Number one, about manageable costs. We saw an increase in the level of PMSO per number of calls. So how do you see costs behaving going forward, and this indicator in particular, manageable costs per number of connections? And if we could expect some efficiency gains or cost reductions in the

Company as a whole. And if so, which would be the main areas where this could happen?

And then my second question has to do with the sanitation landmark. Do you expect the law to change with the new government, and how would this impact the Company?

Carlos Augusto Botrel Berto:

First, as for the outlook, we did a very effective PDV when I payback, which was quite reduced, 11, 12 months. And the Company's executive management is now studying a new PDV. And with this, the cost of connection per employee will further drop. The PDV, meaning a volunteer layoff program.

Guilherme Duarte:

Good morning, Julia. As Carlos just said, we have been working hard, reducing costs on the administrative front and also non-manageable costs, trying to always include in our effective costs, the regulatory costs. And in terms of personnel, our assessment along with the unions is that our PDV or volunteer layoff program is very important.

Of course, the Company also wants to use maintenance, third-party contracts, including that because those also impact administrative or manageable costs. From the sanitation landmark, you asked, the Company has been following up on the discussions with the federal government. Of course, we do that through our representative associations, and we expect those changes with very low impact.

It's a very recent legislative landmark, it still needs to be tested to be put in some stress so that we can identify possible improvements. But it seems to be reasonable. And if some new legislation comes up, that shouldn't be a source of concern at this point. Changes in legislation would need to be assessed when they are proposed. Since that has not happened yet, there is no assessment as is on the part of the Company. Changes suggested or mentioned in the media are no source of concern at this point.

Julia Zaniolo:

Thank you.

Ivan dos Santos Torres (via webcast):

Is there a chance of Copasa paying out interim dividends this year?

Carlos Augusto Botrel Berto:

As I said during the presentation, in terms of dividend payout, there could be a payout, pending an analysis on the Board and in compliance with the guidelines. Guidelines, which are the universal investment plans, legal and statutory regulations and also the Company's covenants.

Once again, the Company has adjusted dividends from 2022 by 50%, and we have already started the year in 1Q by paying out 50%.

Eduardo Lazaretti (via webcast):

Good morning. I have 2 questions. Number one, about the PDV program, do you expect to have that happening again this year? Is there still room for layoffs?

Carlos Augusto Botrel Berto:

This has been answered.

Eduardo Lazaretti:

Do you have a target for headcount?

Carlos Augusto Botrel Berto:

No, we do not.

Eduardo Lazaretti:

In addition to the personnel cost, is there any other avenue for operating gains going forward.

Carlos Augusto Botrel Berto:

In summary, we have different avenues around automation. Outsourcing is also an important avenue we have been resorting to, to reduce fixed costs. And we are also changing the way we account for some maintenance costs in water and sewage, which before would be accounted for under cost and that will be accounted for as investments.

Arlindo Souza (via webcast):

We saw an improvement in the default levels for 4Q, which was below the historical average before the pandemic. What can you tell us about default levels for this year?

Guilherme Duarte:

Good morning. Driven by our initiatives and the arrival of our new Commercial Director, Mr. Cleydson, very experienced in the commercial area of this industry, Copasa will strengthen its efforts around (34:16), debt renegotiation, and especially keep our customers close to us so that they are never going to default.

Renegotiating debt, the process that we did in January led to a number of R\$80 million, which were renegotiated, an interesting level within our debt stock, with the benefit of bringing those customers back to a positive position in the Company, a position we intend to maintain them.

So the Company has working to strength collection efforts, and we intend to continue doing so throughout 2023 to your point. And the expectation is to gradually reduce default levels. We cannot have a target going forward, but we can say that as we look to our peers in the market, we are at a very appropriate situation at this point.

Pedro Alves (via webcast):

Good morning. The newspapers talk about Copanor being incorporated today. Is that in line with what the government is saying? Does not that impact negatively the value of the Company? What about minority shareholders? What kind of impact will this have on the dividend payout policy?

Guilherme Duarte:

Good morning, Pedro. Actually, as the newspaper reports say, the state of Minas is studying a new model for this region to have a new concession plan, current contracts are at a very precarious phase because the subsidiary Copanor has not been able to prove its credit condition. Should that modeling fail, there is a possibility that an incorporation will happen.

But only if that results into a positive number for the parent company, Copasa, with no harm or loss to the Company's profitability. Once again, the tariff table runs above debt of Copanor's, which would take those contracts to a new revenue level with no harm once again to shareholders either minor or the parent company. The Company will not do anything that will lead to negative numbers for the controlling parent company nor for minority shareholders.

Everton Joaquim Silva de Souza (via webcast):

Given the 50% dividend payout, how about the investment CAPEX of R\$1.7 billion.

Carlos Augusto Botrel Berto:

It's important to say, Everton, that all the fundraising through the 17th debenture issues in December 2022 was made to support that R\$1.7 billion in terms of investments for 2023.

The R\$1.7 billion is totally assured. Our leverage level is quite low, which allows us to make future fundraising round. But it's important to say R\$1.7 billion for this year is totally assured.

Operator:

This concludes the Q&A session. I would like to turn the floor back over to our CFO and IRO, Dr. Carlos Berto for his final remarks. Over to you, Mr. Berto.

Carlos Augusto Botrel Berto:

I would like to thank you all once again for participating in our earnings call for 4Q22 this morning. We remain available for future comments or questions you may have, our IR team is always available.

Have a nice day, everyone.

Operator:

Copasa's audio call is over. Thank you all for participating, and have a nice day, everyone.



COPASA

"This document is a transcript produced by MZ. MZ uses its best efforts to guarantee the quality (current, accurate and complete) of the transcript. However, it is not responsible for possible flaws, as outputs depend on the quality of the audio and on the clarity of speech of participants. Therefore, MZ is not responsible or liable, contingent or otherwise, for any injury or damages, arising in connection with the use, access, security, maintenance, distribution or transmission of this transcript. This document is a simple transcript and does not reflect any investment opinion of MZ. The entire content of this document is sole and total responsibility of the Company hosting this event, which was transcribed by MZ. Please, refer to the Company's investor relations (and/or institutional) website for further specific and important terms and conditions related to the usage of this transcript"