

COPASA

Earnings Presentation 2016 and 4Q16

March 13, 2017

Índice de Ações com Governança Corporativa Diferenciada IGC

Índice de Ações com Tag Along Diferenciado ITAG

Índice de Governança Corporativa Trade IGCT

Índice Brasil IBRX

CSMG3 NOVO MERCADO BM&FBOVESPA

DISCLAIMER

Any statements that may be made during this presentation regarding COPASA MG's business prospects, projections and operational and financial goals are premises and expectations of the Company's management, based on information currently available. They involve risks and uncertainties, since they refer to future events, and therefore depend on circumstances that may or may not occur. Changes in macroeconomic policy, legislation or other operating factors may affect the future performance of COPASA MG and lead to results that materially differ from those expressed in such considerations.

Agenda

1. Highlights
2. Operational Performance
3. Water Situation
4. Financial Performance

Highlights

1) **Corporate Strategy**
   - Definition of the Corporate Identity
   - Development of strategies into initiatives
   - Establishment of the Executive Committee
   - Consolidation of Macroprocesses and their respective Processes

2) **Multi-annual Business Plan**

Year	Amount (R$ million)
2017	650
2018	600
2019	550
2020	700
2021	700

Highlights

3) Tariff revision

- **1st Stage (Finished in April 12, 2016):**
  - 13.9% adjustment
  - Changes in the tariff structure
- **2nd Stage:**
  - **1st Phase (Finished in November 22, 2016):** Overall approach of the tariff revision, regulatory classification, regulatory remuneration basis and asset inventory;
  - **2nd Phase (To be finished in March 31, 2017):** Operational costs, remuneration rate, tariff structure, working capital, other revenues, unrecoverable revenues and tariff incentives; and
  - **3rd Phase (Starting in April 17, 2017):** Application of methodologies, risk matrix, asset management and payment capacity.

Highlights

4) **Management of users' debt collection:**

- **Public Agencies:** 7 (seven) renegotiations in the amount of R$8 million
- **Debits above R$100,000:** 9 (nine) renegotiations in the amount of R$5.4 million
- **"Settle your Debits" with COPASA/COPANOR:** 52,000 renegotiations in the amount of R$33 million
- **Balance Offsetting Procedure with the State of Minas Gerais:** Settling of debits in the amount of R$27.3 million

Highlights

5) Number of shareholders

No. of shareholders	2014	2015		2016	
	Amount	Amount	Δ%	Amount	Δ%
Brazilian	**1,775**	**1,796**	**1.2**	**2,547**	**41.8**
- Private persons	1.522	1,550	1.8	2,152	38.8
- Entities	253	246	-2.8	395	60.6
Non-Brazilian	**285**	**198**	**-30.5**	**328**	**65.7**
Total	**2,060**	**1,994**	**-3.2**	**2,875**	**44.2**

Highlights

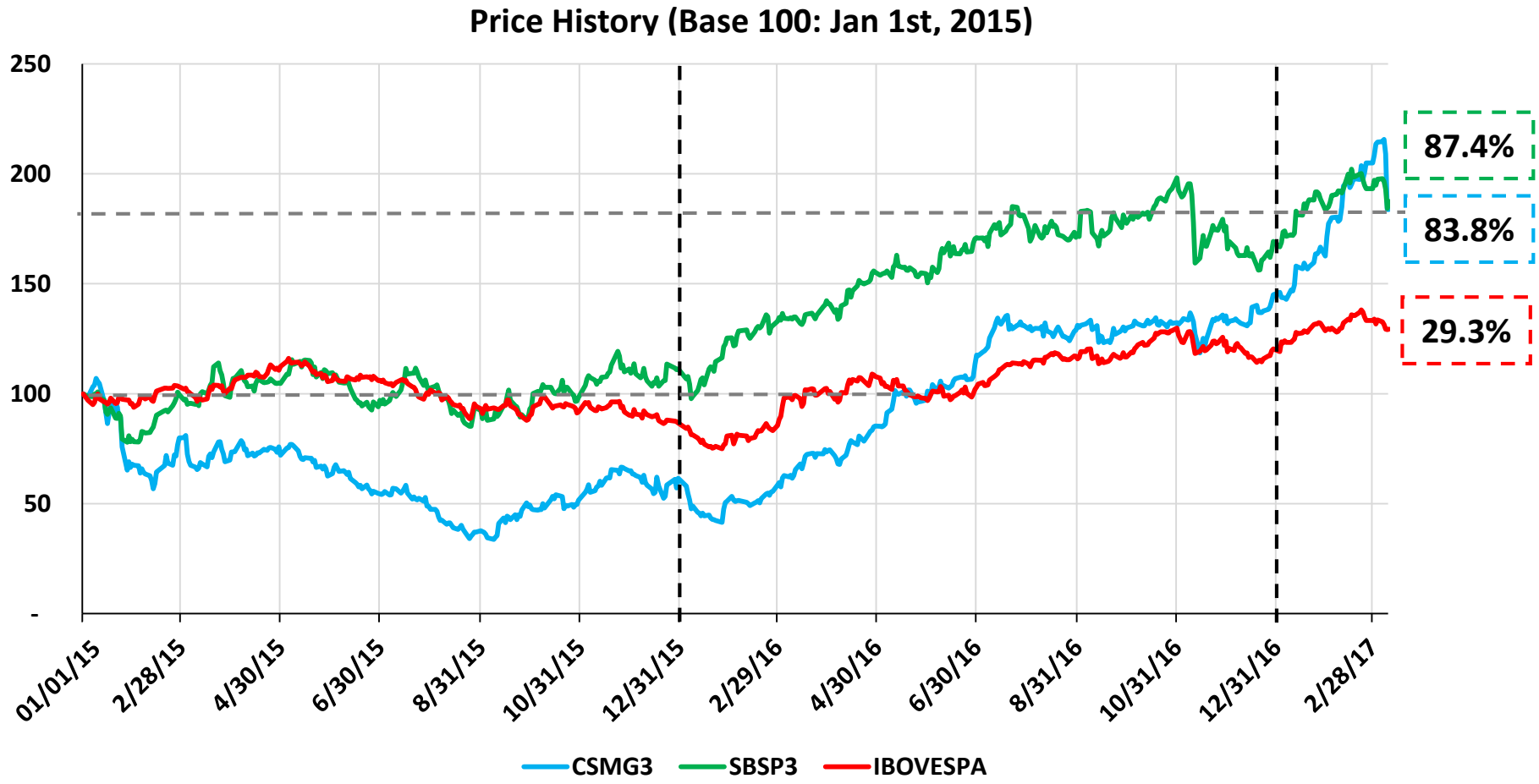
6) Share in capital stock

(thousand shares)

	2014		2015		2016	
	Amount	%	Amount	%	Amount	%
Brazilian	**7,453**	**6.2**	**6,983**	**5.8**	**15,232**	**12.0**
- Private persons	1,324	1.1	1,550	1.3	1,254	1.0
- Entities	6,129	5.1	5,433	4.5	13,978	11.0
Non-Brazilian	**50,685**	**42.3**	**51,156**	**42.7**	**46,301**	**36.5**
State of Minas Gerais	**61,189**	**51.1**	**61,189**	**51.1**	**64,861**	**51.2**
Treasury Shares	**357**	**0.3**	**357**	**0.3**	**357**	**0.3**
Total	**119,684**	**100.0**	**119,684**	**100.0**	**126,751**	**100.0**

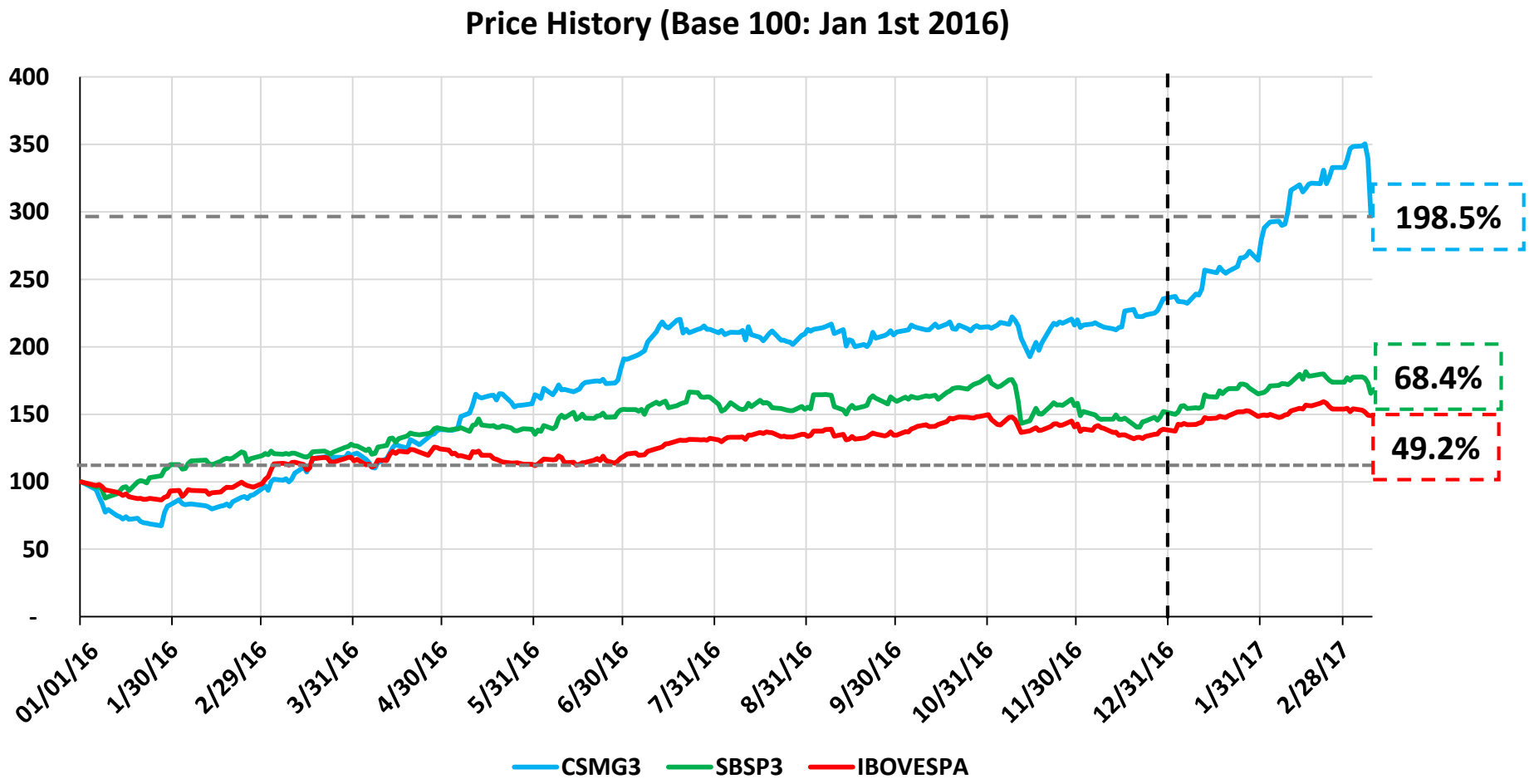
Highlights

7) Stock performance



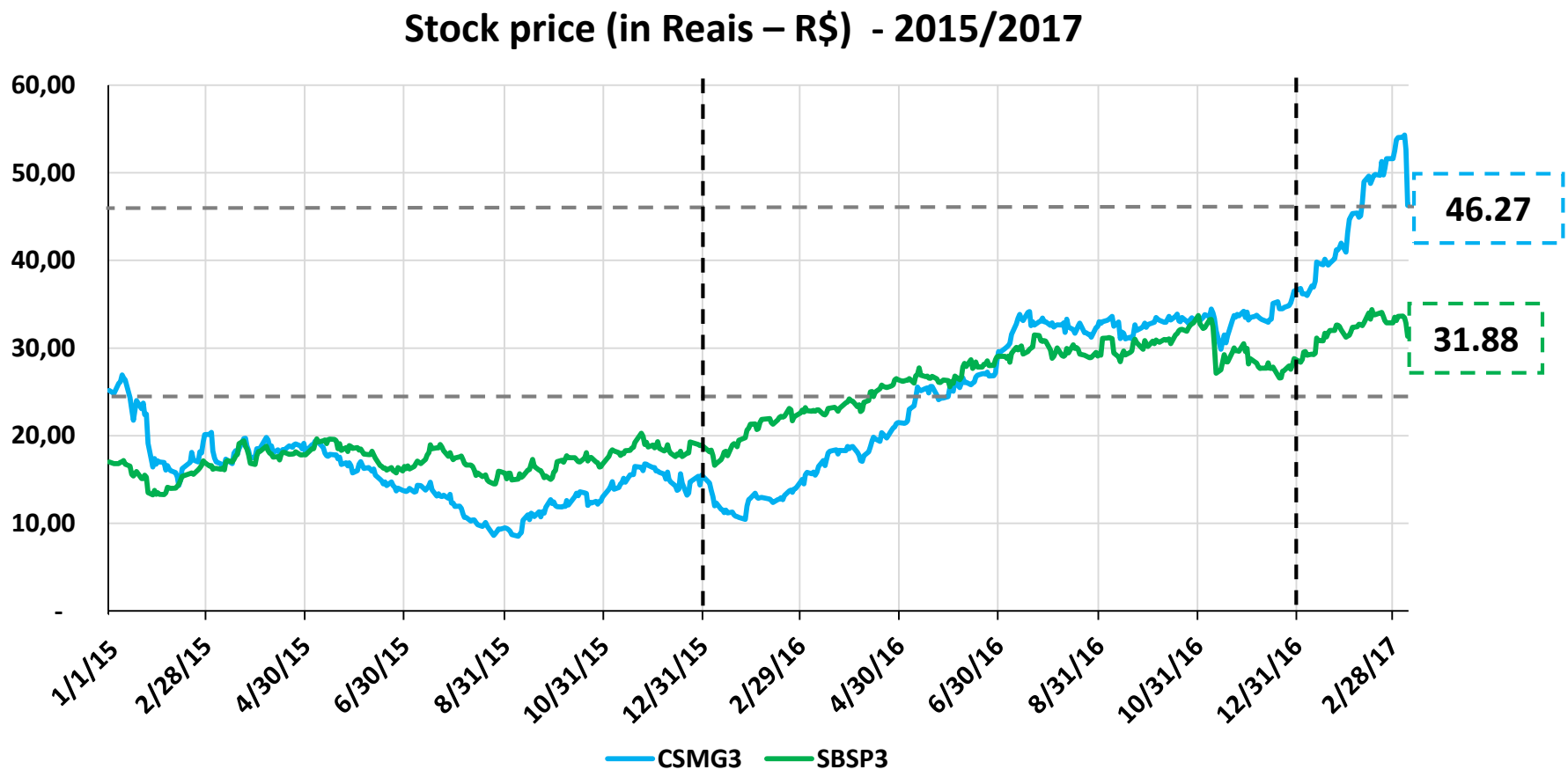
Highlights

7) Stock performance



Highlights

7) Stock performance



Highlights

8) Capital Stock

- **Pay-in of capital advancement:** R$128.4 million
- **Increase in the authorized capital limit:** from R$3 billion to R$4 billion
- **Transfer of R$500.0 million from the Profit Reserve to the Capital Stock**

9) Collegiate Management



Highlights

10) COPANOR Recovery Plan

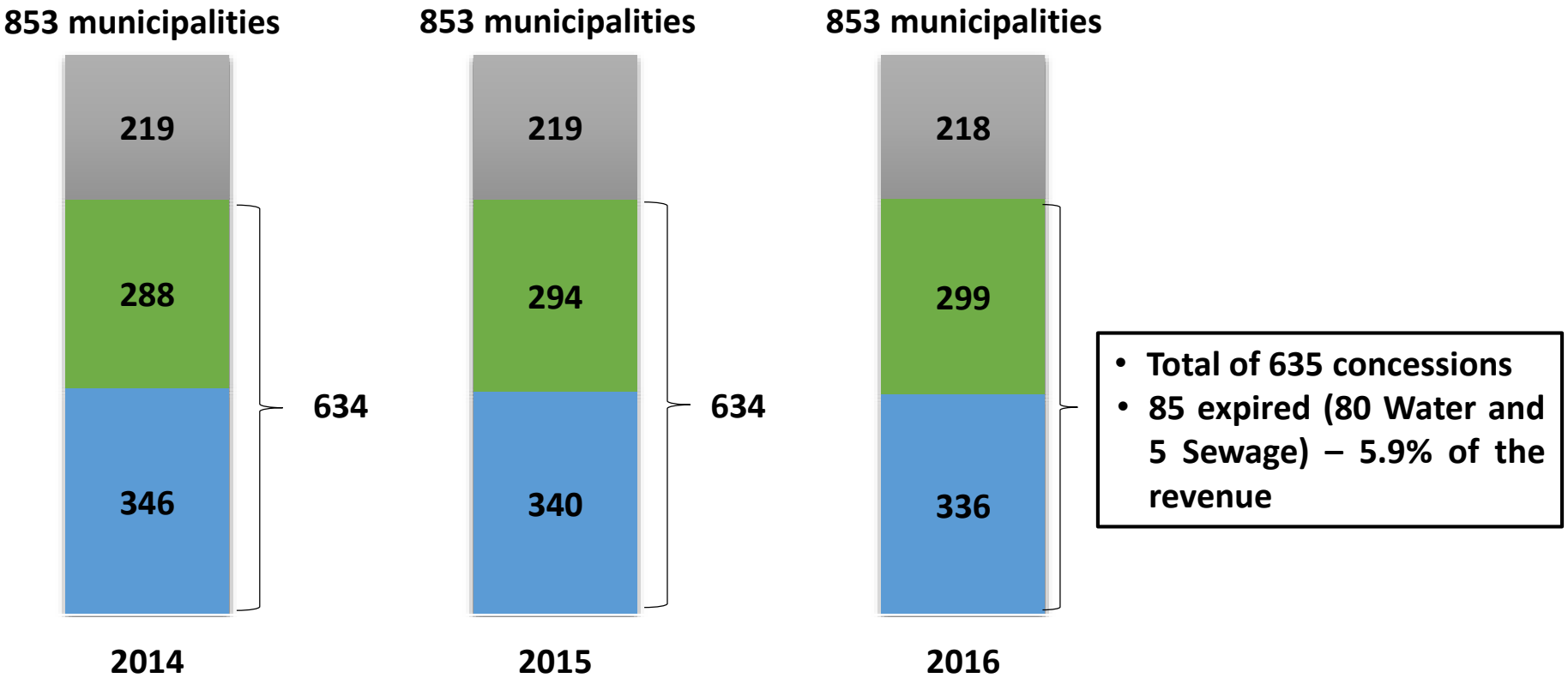
- **Revision of the corporate strategy**
- **Adjustment of the capital structure, through the paying-in of R$57.4 million, allowing:**
  - Settlement of loans from the Parent Co. in the amount of R$22.3 million
  - Investments in construction and expansion of systems
- **Registration update of users:** increase of 6.75% in revenues
- **Conclusion of the 1st Stage of the Tariff Revision:**
  - Average tariff increase of 10.49%
  - Implantation of the Social Tariff
  - Changes in the tariff structure
- **Investments in 2016:** R$33.4 milhões, of which:
  - Water: R$16.6 million
  - Sewage: R$16.8 million

Agenda

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2. Operational Performance
3. Water Situation
4. Financial Performance

Operational Performance

Concessions Board[1]



1) Numbers include COPASA and COPANOR concessions

Operational Performance

Concessions Board

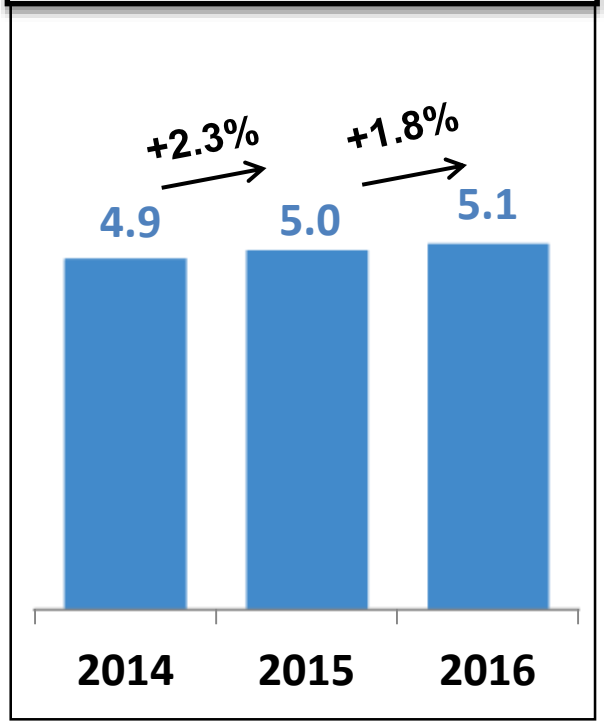
- **Renewal stages of expired concessions**

- Preliminary studies / negotiations:	**54**	
- Cooperation Agreement formalization stage:	**01**	
- Consultation and Public Hearing stage:	**07**	
- **Concessions with authorization law approved:**	**62**	**85**
- **Concessions without authorization law:**	**23**	

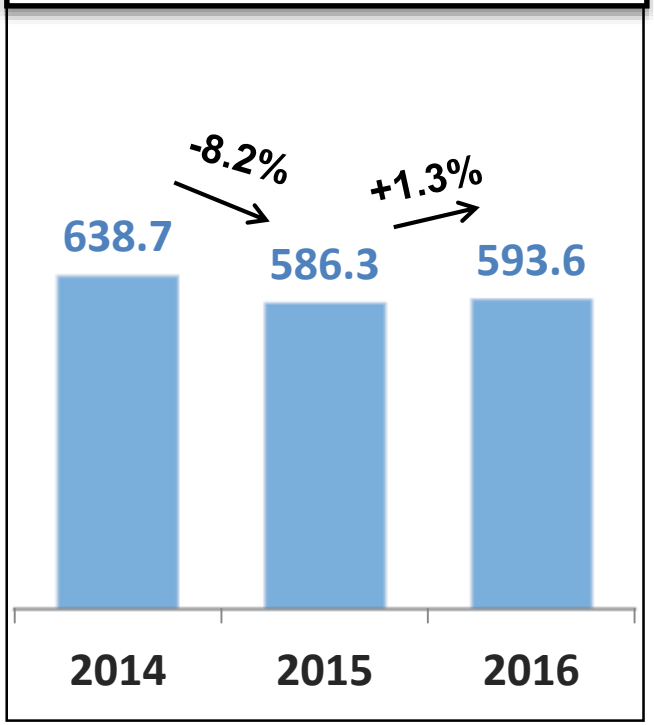
Operational Performance

Water

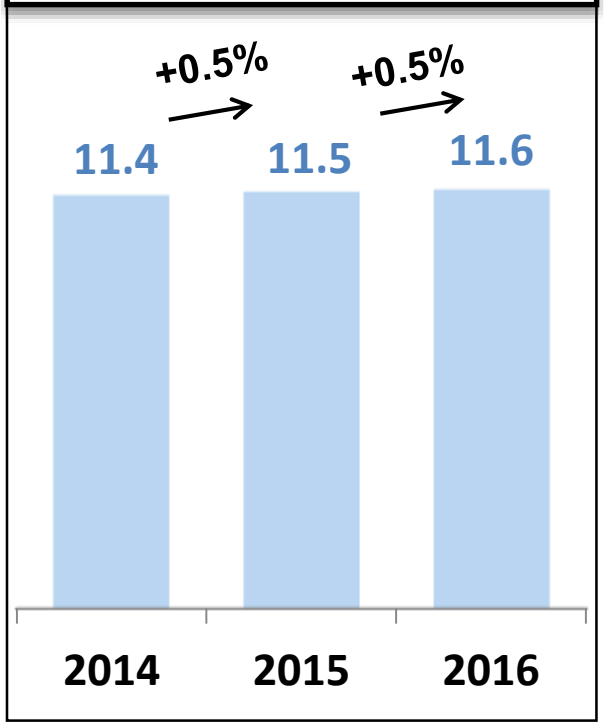
Units
(million)



Measured Volume
(million m³)

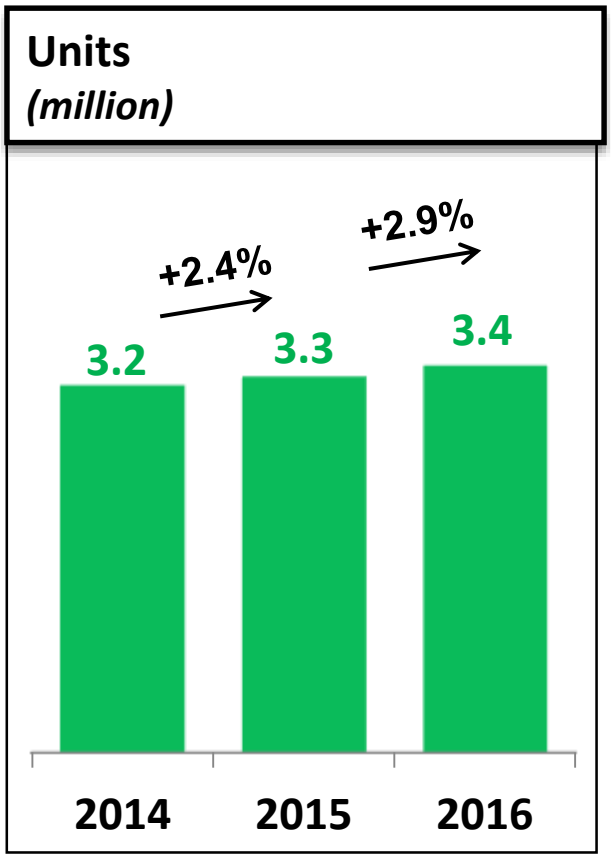


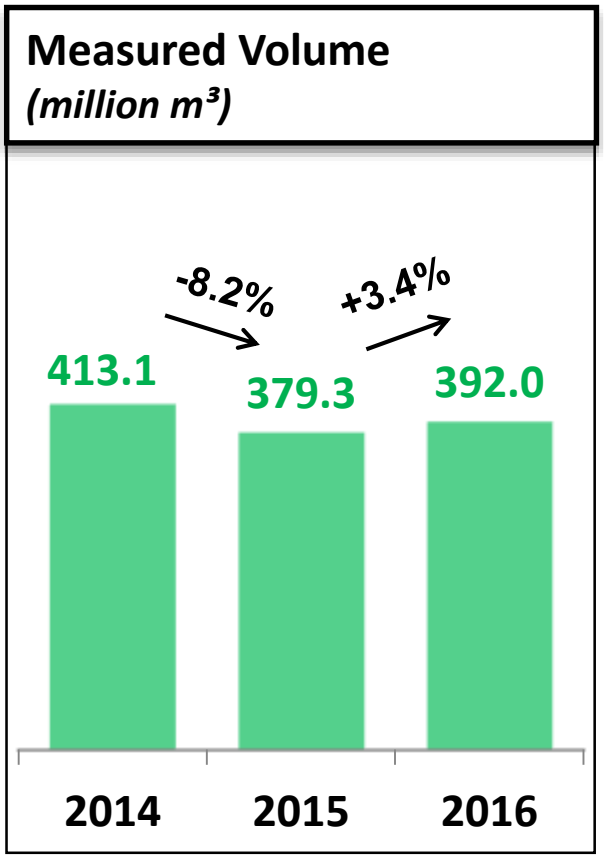
Population Served
(million)

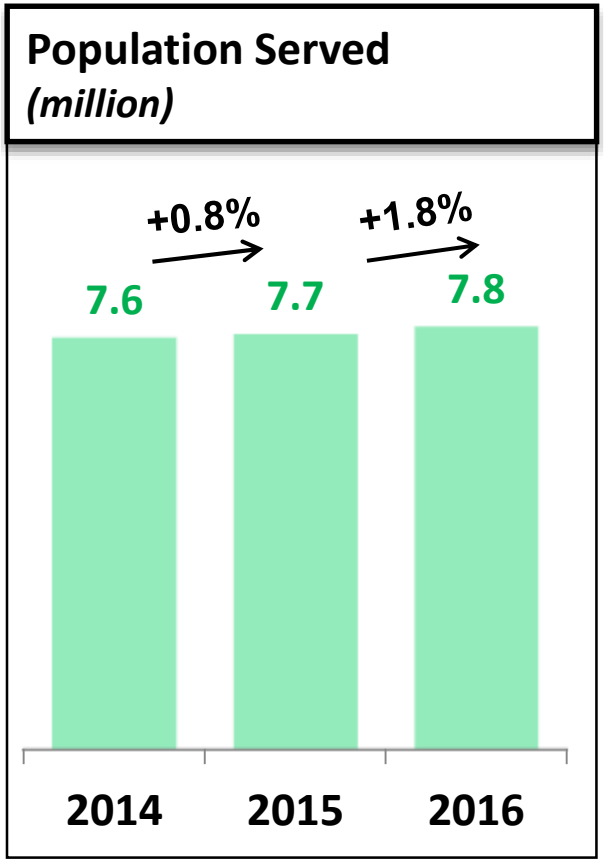


Operational Performance

Sewage





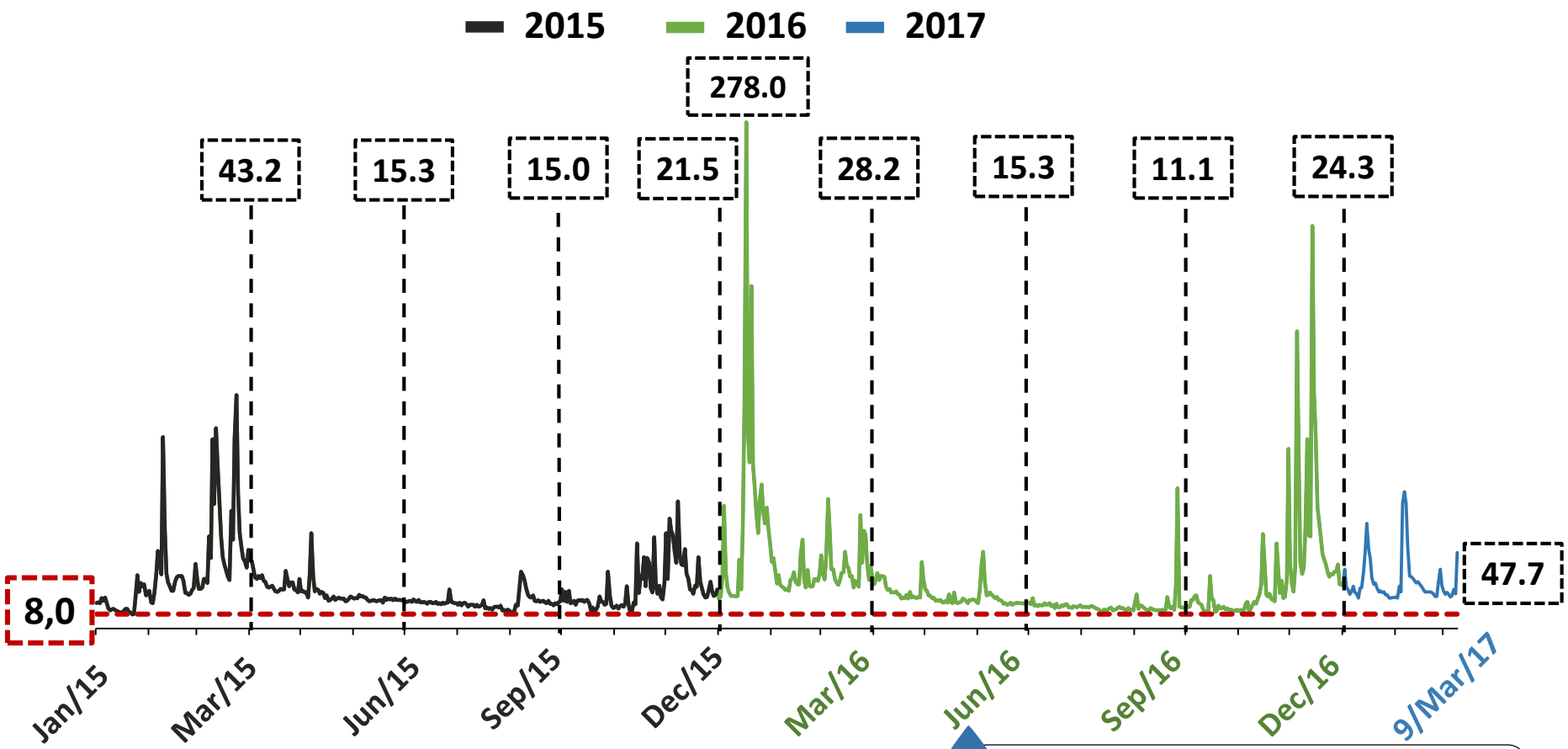


Agenda

1. Highlights
2. Operational Performance
3. **Water Situation**
4. Financial Performance

Water Situation

Das Velhas River Flow (m^3/s)



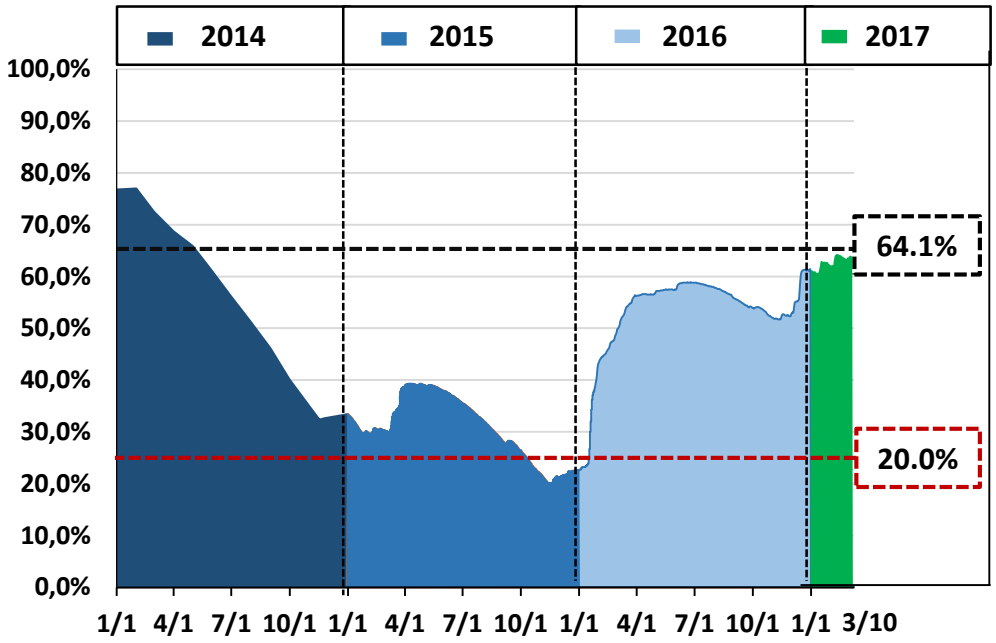
Source: Institutional COPASA website (March 10, 2017)

50% of Belo Horizonte Metropolitan Area Supply

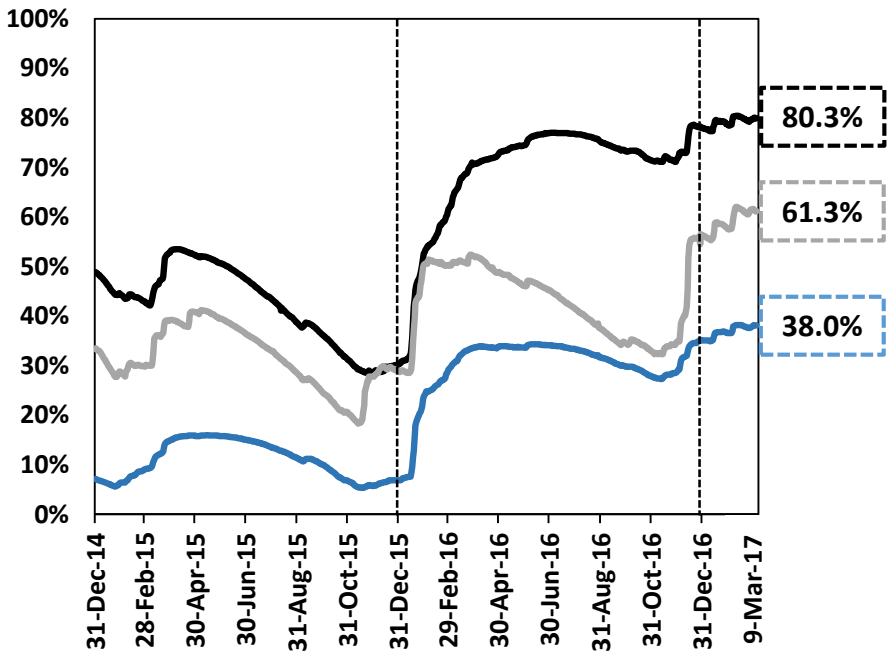
Water Situation

Reservoir Levels

Paraopeba System



Reservoir Levels



42% of Belo Horizonte Metropolitan Area Supply

Source: Institutional COPASA website (March 10, 2017)

Reservoir	Dec/15	Dec/16	Mar/16	Mar/17
Rio Manso	30.2%	78.0%	65.4%	80.3%
Vargem das Flores	28.9%	56.3%	50.8%	61.3%
Serra Azul	6.9%	35.1%	30.9%	38.0%

Water Situation

Rio Manso System Reservoir

Jan/2015



Jan/2017



Water Situation

Serra Azul System Reservoir

Jan/2015



Jan/2017

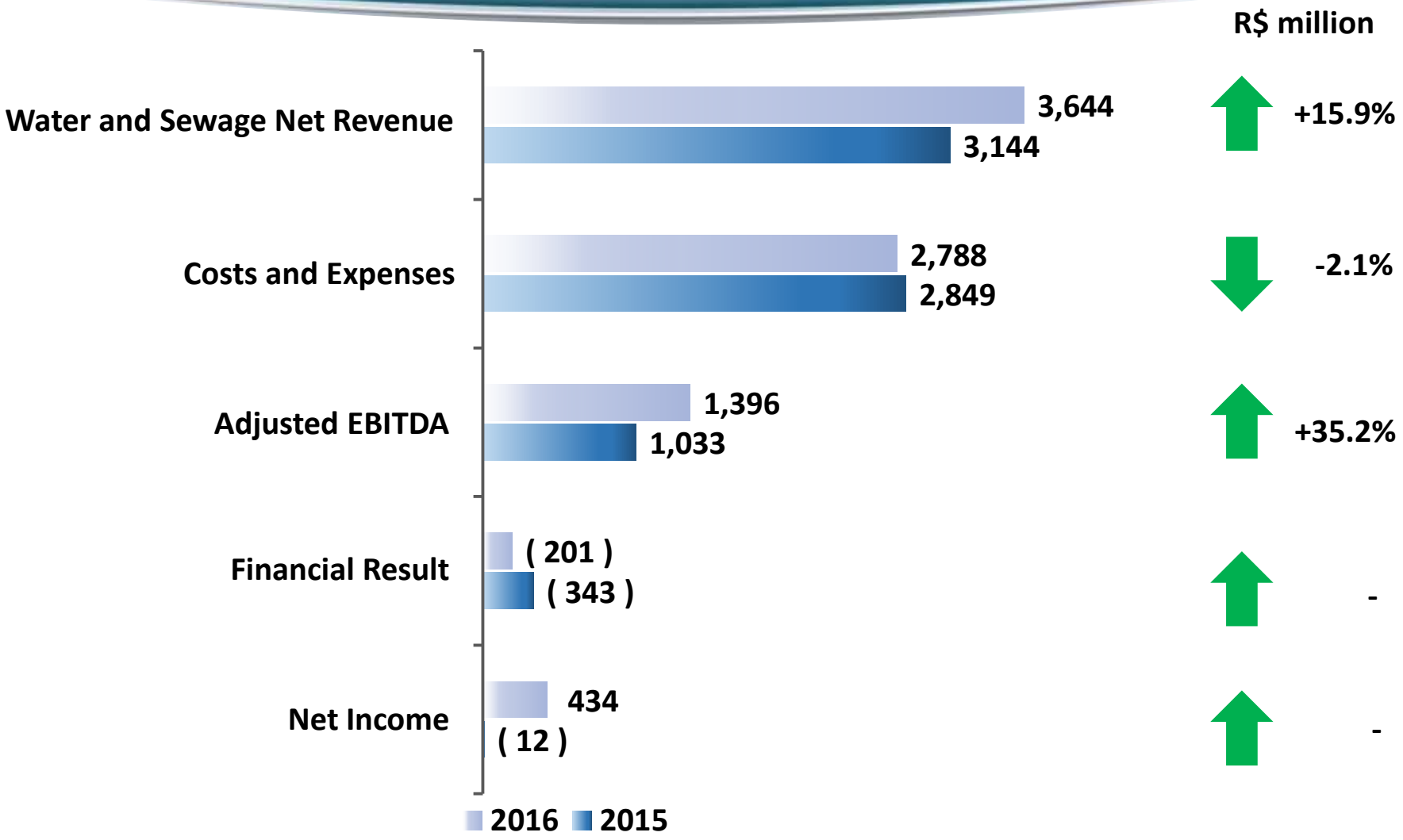


Agenda

1. Highlights
2. Operational Performance
3. Water Situation
4. Financial Performance

Financial Performance

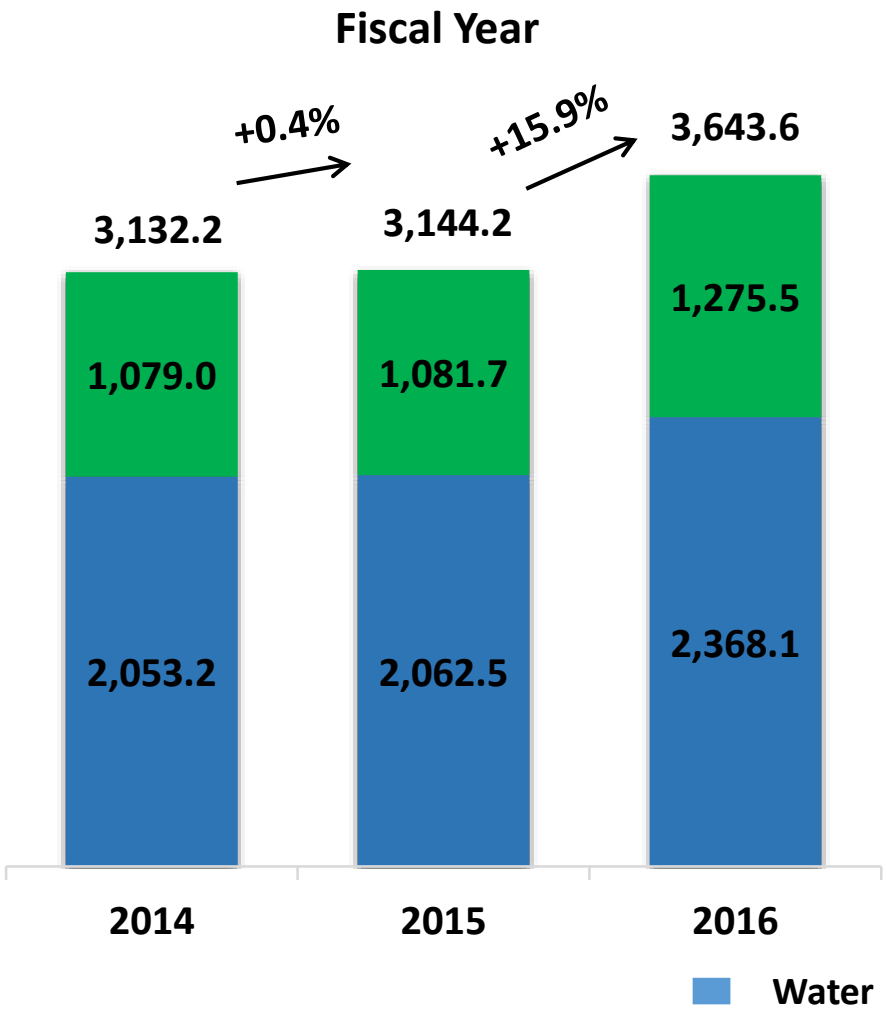
Highlights

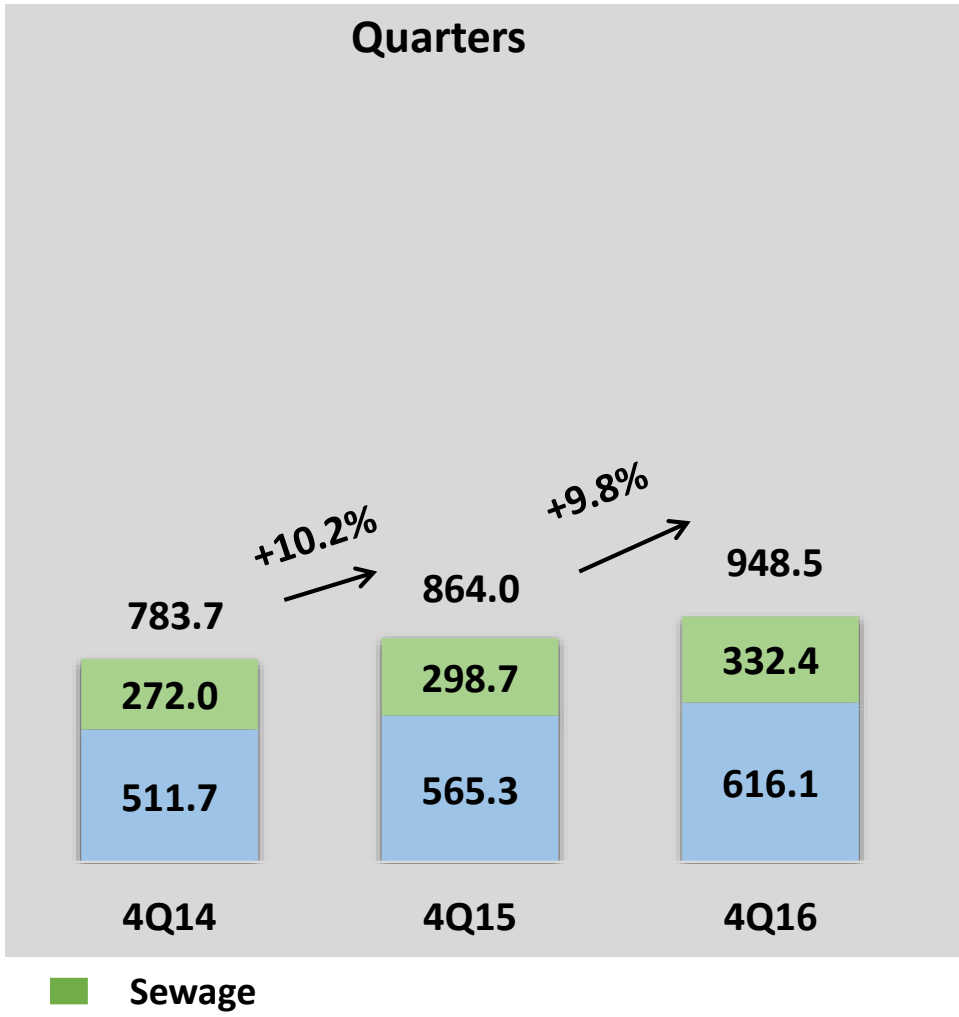


Financial Performance

Water and Sewage Net Revenues

R$ million





Water Sewage

Financial Performance

Operational Expenses – Fiscal Year

R$ million

Breakdown	2014	2015		2016	
Personnel	1,086	1.165*	1,338 +23.3%	1,128	-15.7%
Depreciation and Amortization	486	549	+13.0%	597	+8.8%
Energy	259	378	+46.2%	375	-0.9%
Outsourced Services	371	345	-7.2%	376	+9.0%
PPP Manso	-	-	-	43	-
Materials	130	124	-4.3%	134	+8.2%
Other Costs and Expenses	119	114	-4.1%	136	+18.5%
Total	2,451	2,676*	+9.2% 2,849 +16.2%	2,788	-2.1%

* Excluding non-recurring extraordinary expenses – termination programs (R$172.9 million).

Financial Performance

Operational Expenses – Quarters

R$ million

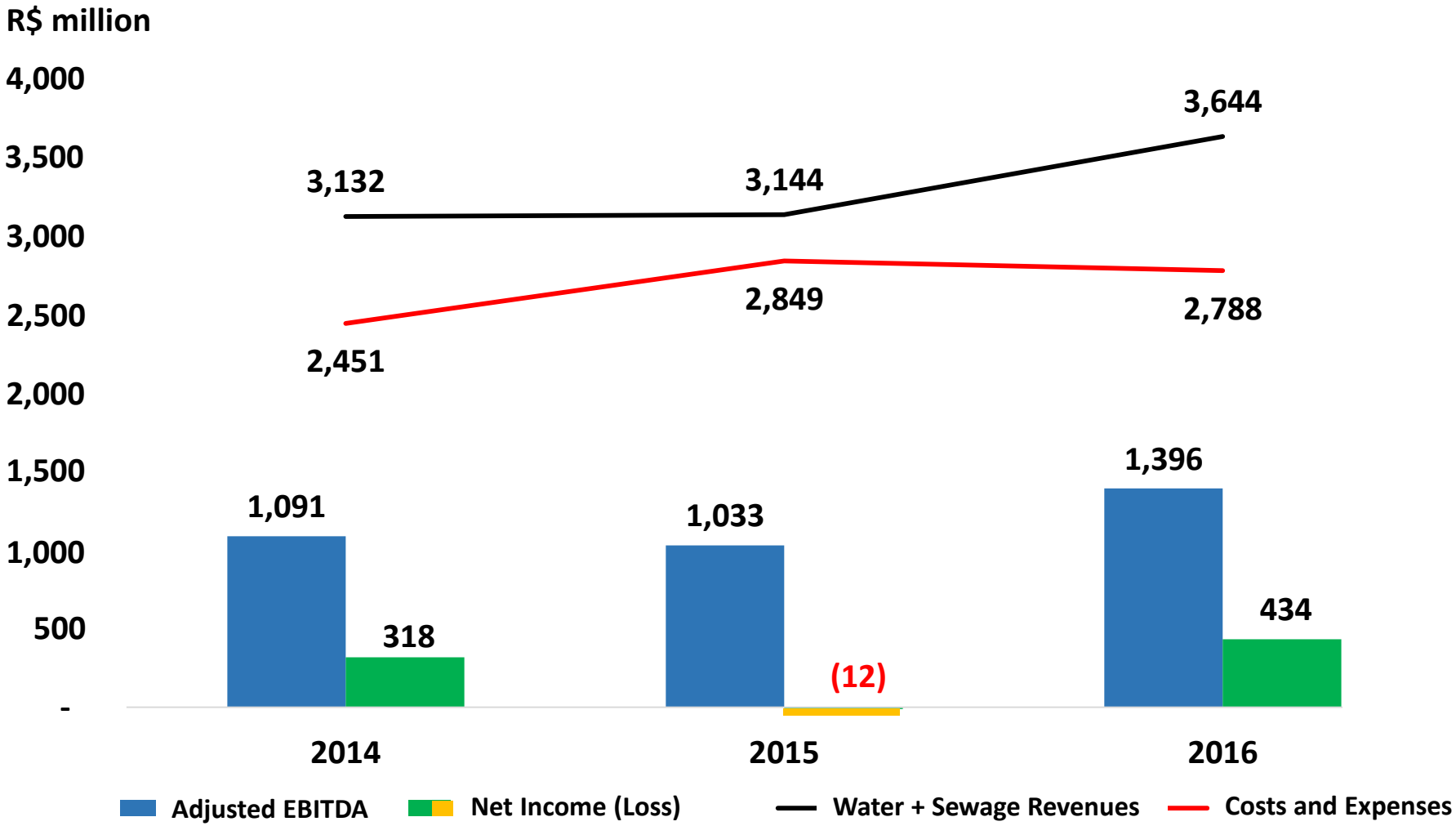
Breakdown	4Q14	4Q15		4Q16	
Personnel	284	288*	451 +59.0%	294	-34.8%
Depreciation and Amortization	130	141	+8.2%	156	+10.4%
Energy	70	108	+55.1%	102	-6.0%
Outsourced Services	96	89	-6.7%	100	+11.5%
PPP Manso**	-	-	-	1	-
Materials	34	30	-12.6%	35	+14.8%
Other Costs and Expenses	35	34	-4.3%	40	+24.9%
Total	649	691*	+6.4%	853 +31.5%	727 -14.8%

* Excluding non-recurring extraordinary expenses – Voluntary Incentived Termination Program (R$ 162.6 million).

** Adjustment in financial expenses, R$24.4 million.

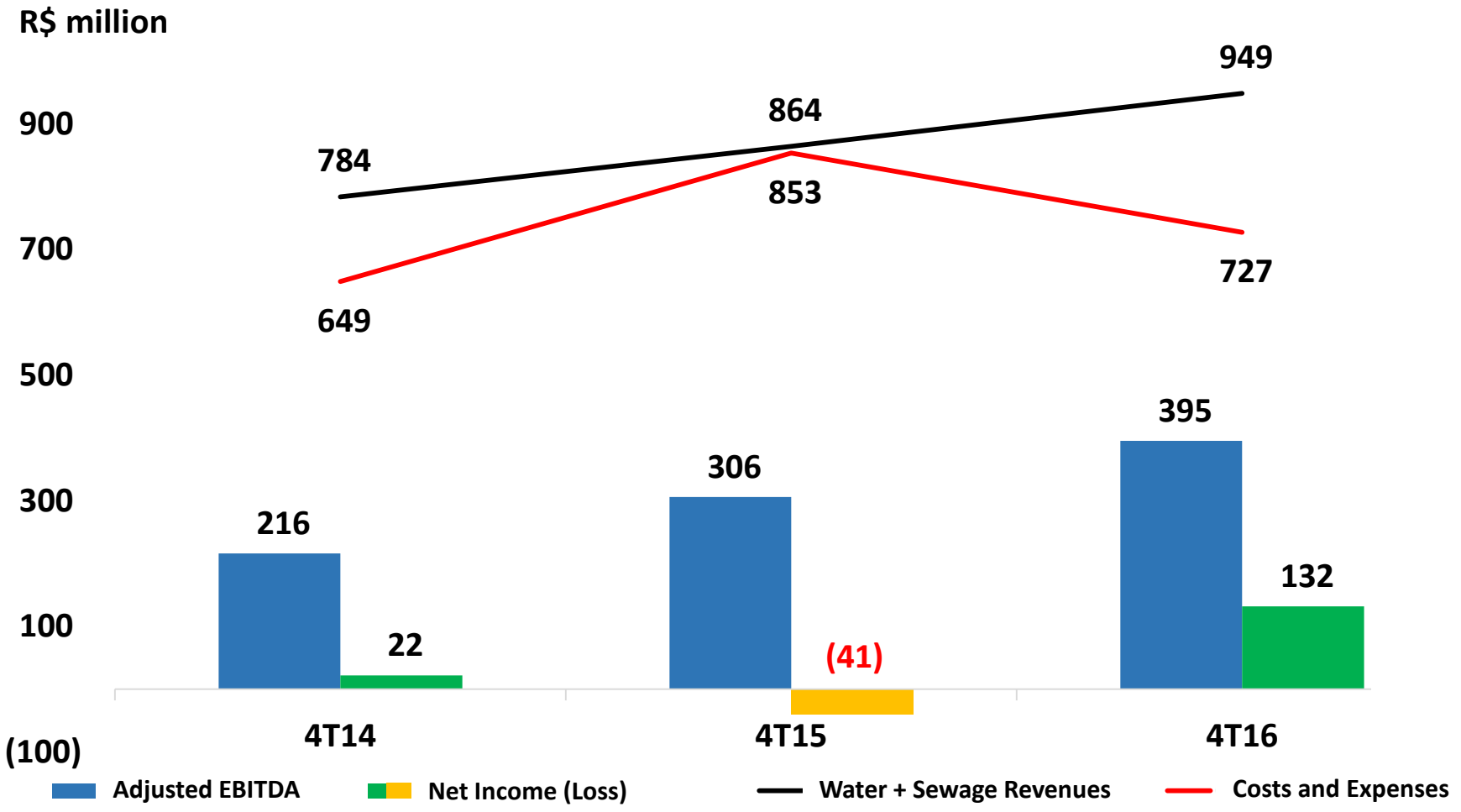
Financial Performance

Revenues, Costs and Expenses, EBITDA and Income
Fiscal Year



Financial Performance

Revenues, Costs and Expenses, EBITDA and Income
Quarters

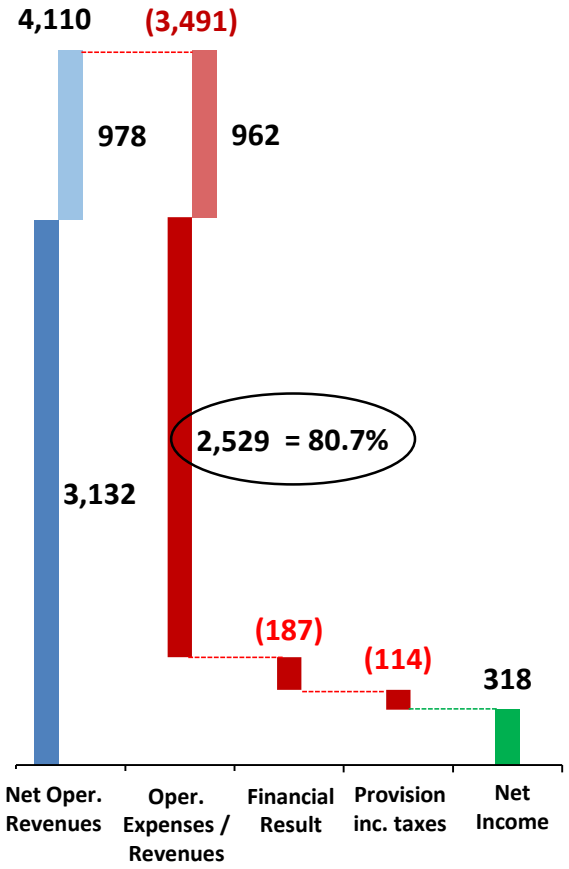


Financial Performance

Income Statements – Fiscal Years

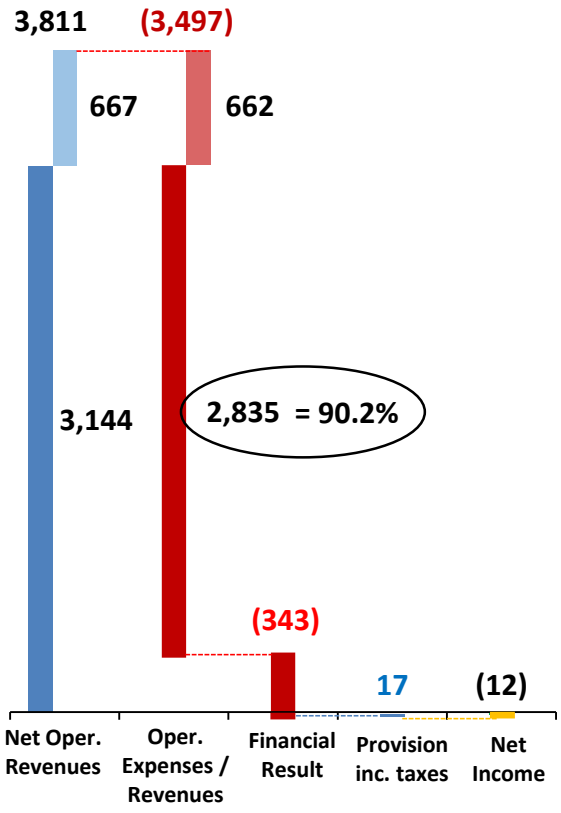
R$ million

2014



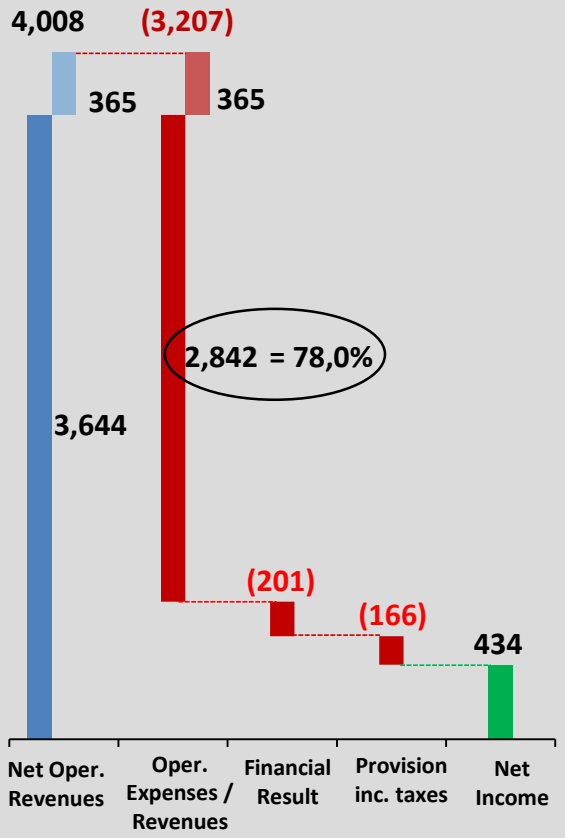
%	100%	84.9%	4.5%	2.8%	7.7%

2015



%	100%	91.8%	9.0%	-0.4%	-0.3%

2016



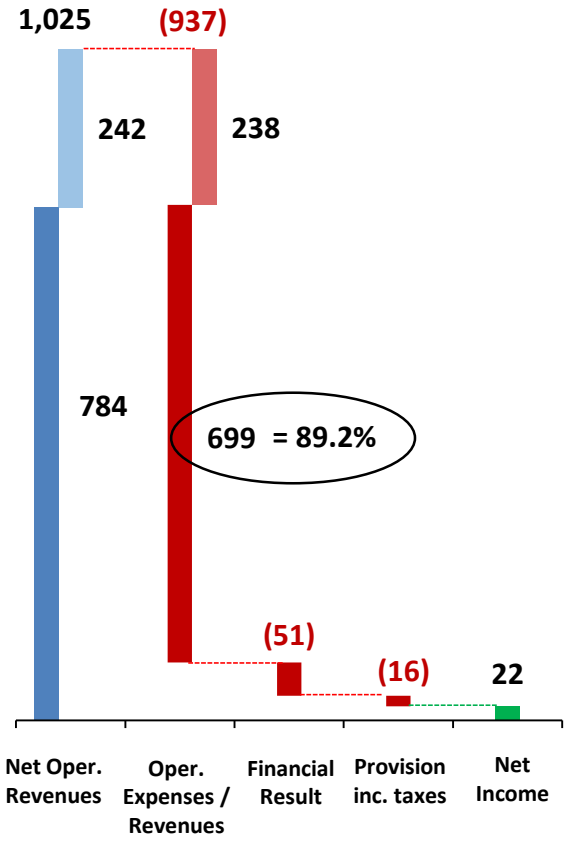
%	100.0%	80.0%	5.0%	4.1%	10.8%

Financial Performance

Income Statements - Quarters

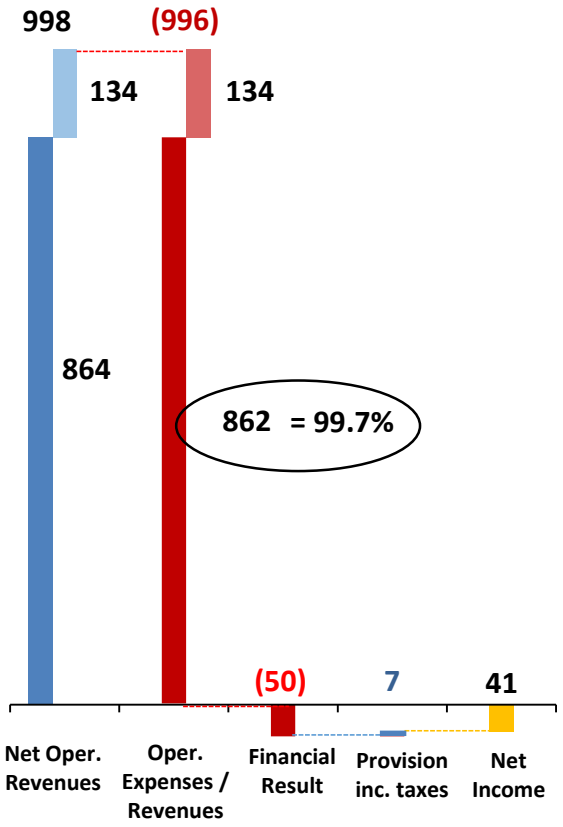
R$ million

4Q14



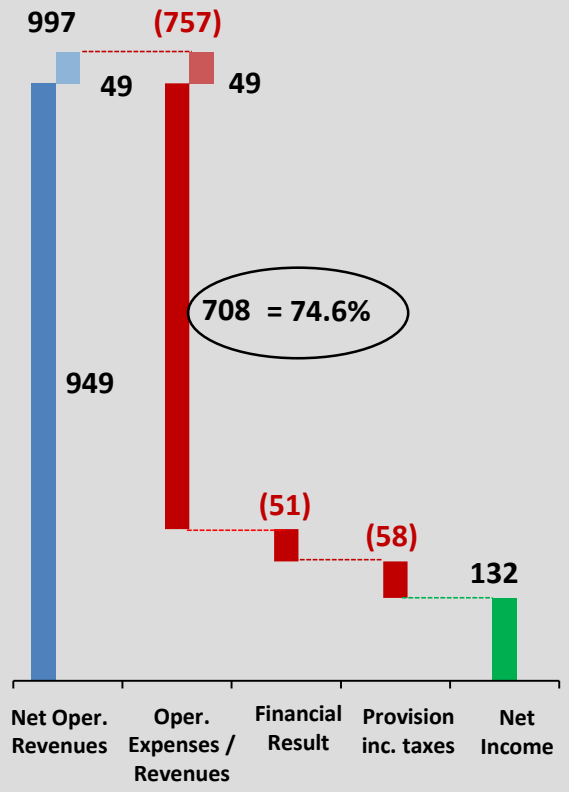
%	100%	91.4%	4.9%	1.6%	2.1%

4Q15



%	100%	99.8%	5.1%	0.7%	4.1%

4Q16

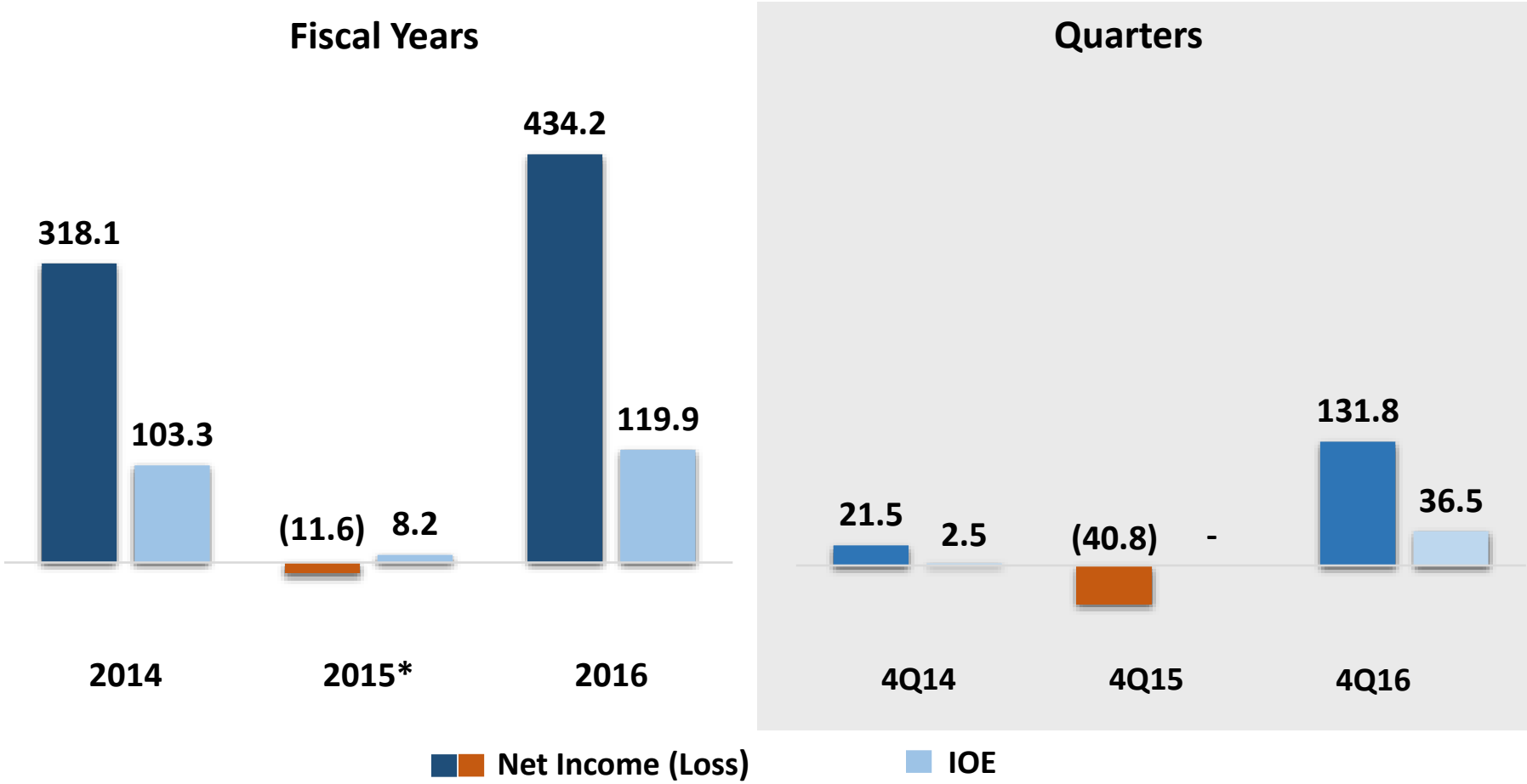


%	100%	75.9%	5.1%	5.8%	13.2%

Financial Performance

Net Income (Loss) and Interest on Equity (IOE)

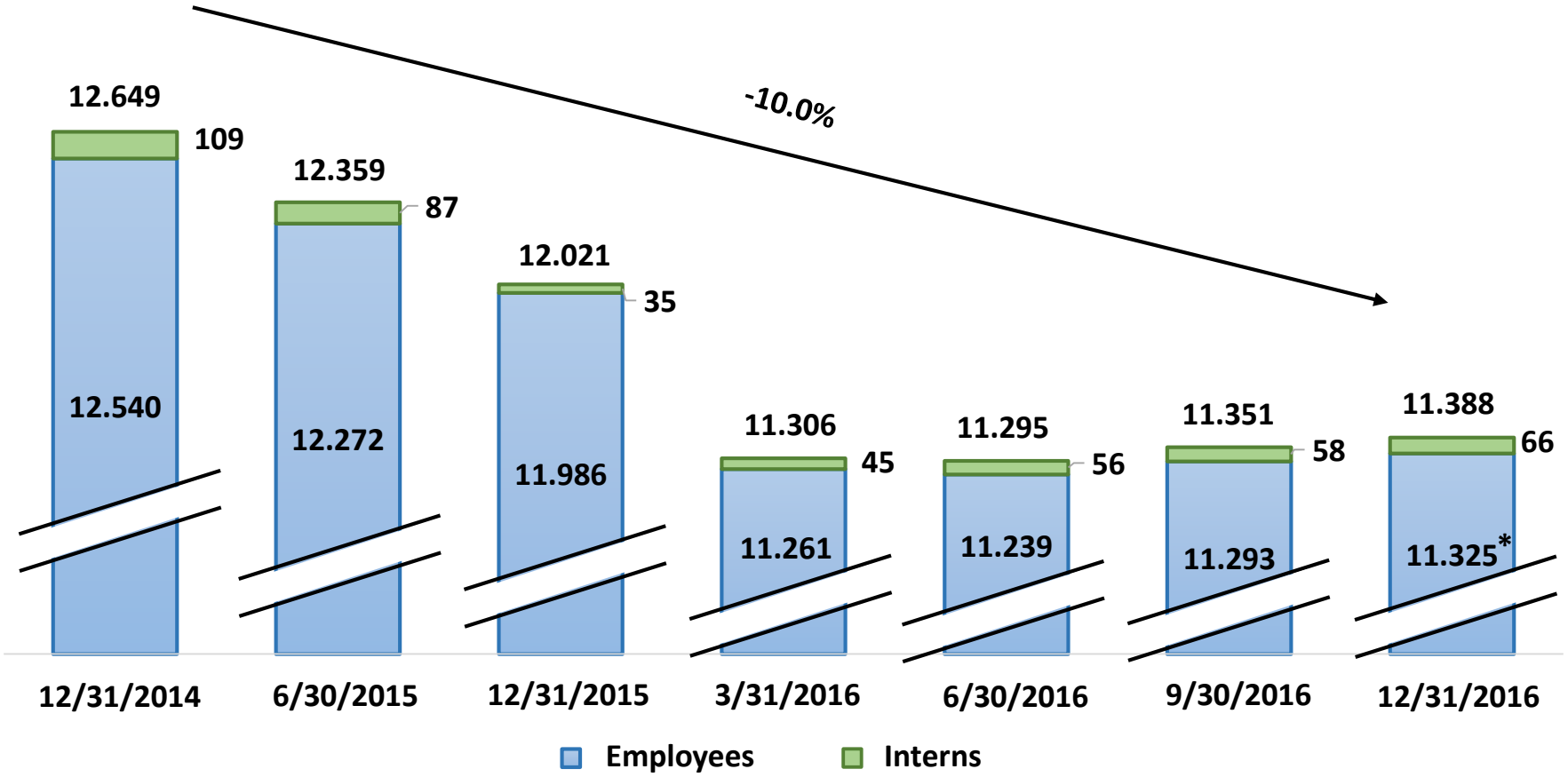
R$ million



* Despite the loss in the year, the IOE amounts for 2015 were declared based on the results of I, II and III quarters of 2015.

Financial Performance

Staff – Parent Co.



* On-leave employees to be terminated: 02

Financial Performance

CAPEX

R$ million

Breakdown	2014	2015	2016
Water	280	201	164
Sewage	556	229	218
Paraopeba Withdrawal – Rio Manso PPP	-	115	7
Others (1)	29	5	6
COPASA TOTAL	**865**	**550**	**395**
Rio Manso PPP	280	364	-
COPANOR	69	49	33
MAIN TOTAL	**1,214**	**963**	**428**

(1) Corporate and operational development programs.

Financial Performance

Shareholders' Remuneration

Dividend Policy for 2016 (Shareholders' Meeting of Sep 13, 2016)

- **Statutory minimum of 25% of Net Income, in the form of Interest on Equity (IOE)**
- **Quarterly declarations**
- **Date of payment of the 4Q16 IOE will be defined at the Shareholders' Meeting that resolves on the 2016 Financial Statements**

Reference	Credit date	Payment date	Gross amount (R$ million)	Gross amount per share (R$)
1Q16	May 11, 2016	Oct 11, 2016	24.7	0.20715
2Q16	Aug 22, 2016	Oct 11, 2016	28.4	0.22473
3Q16	Nov 16, 2016	Jan 6, 2017	30.3	0.23963
4Q16	Mar 16, 2017	To be defined	36.5	0.28850
TOTAL			**119.9**	**0.96001**

Financial Performance

Shareholders' Remuneration

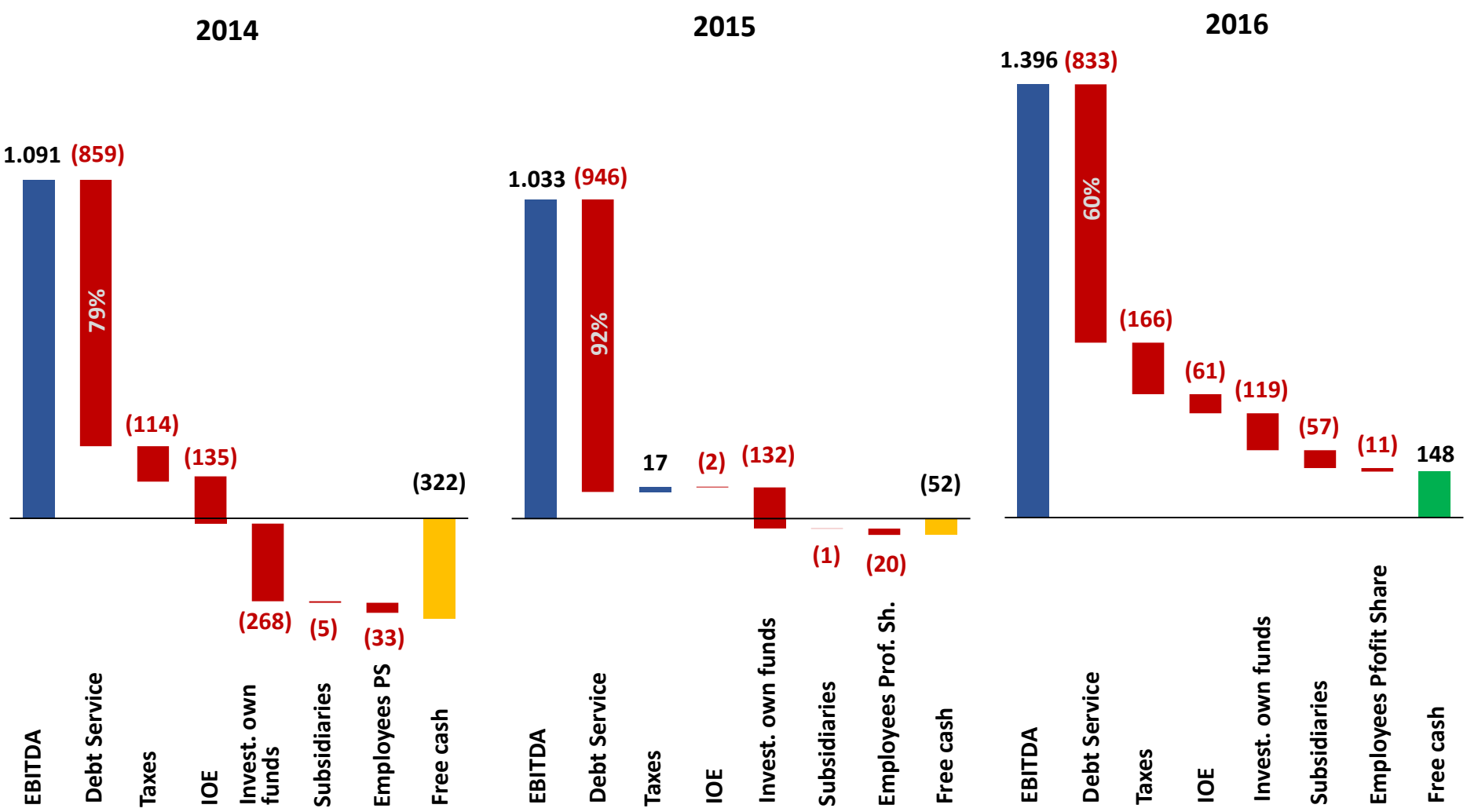
Dividend Policy effective from 2017 (Shareholders' Meeting of Sep 13, 2016)

- **Percentage:** from 25% to 50%, with annual definition by the Board of Directors until March 31
- **Declaration:** quarterly
- **Payment:** in up to 60 days from the declaration by the Board of Directors, except for the 4Q (defined at the Annual Shareholders' Meeting)

Financial Performance

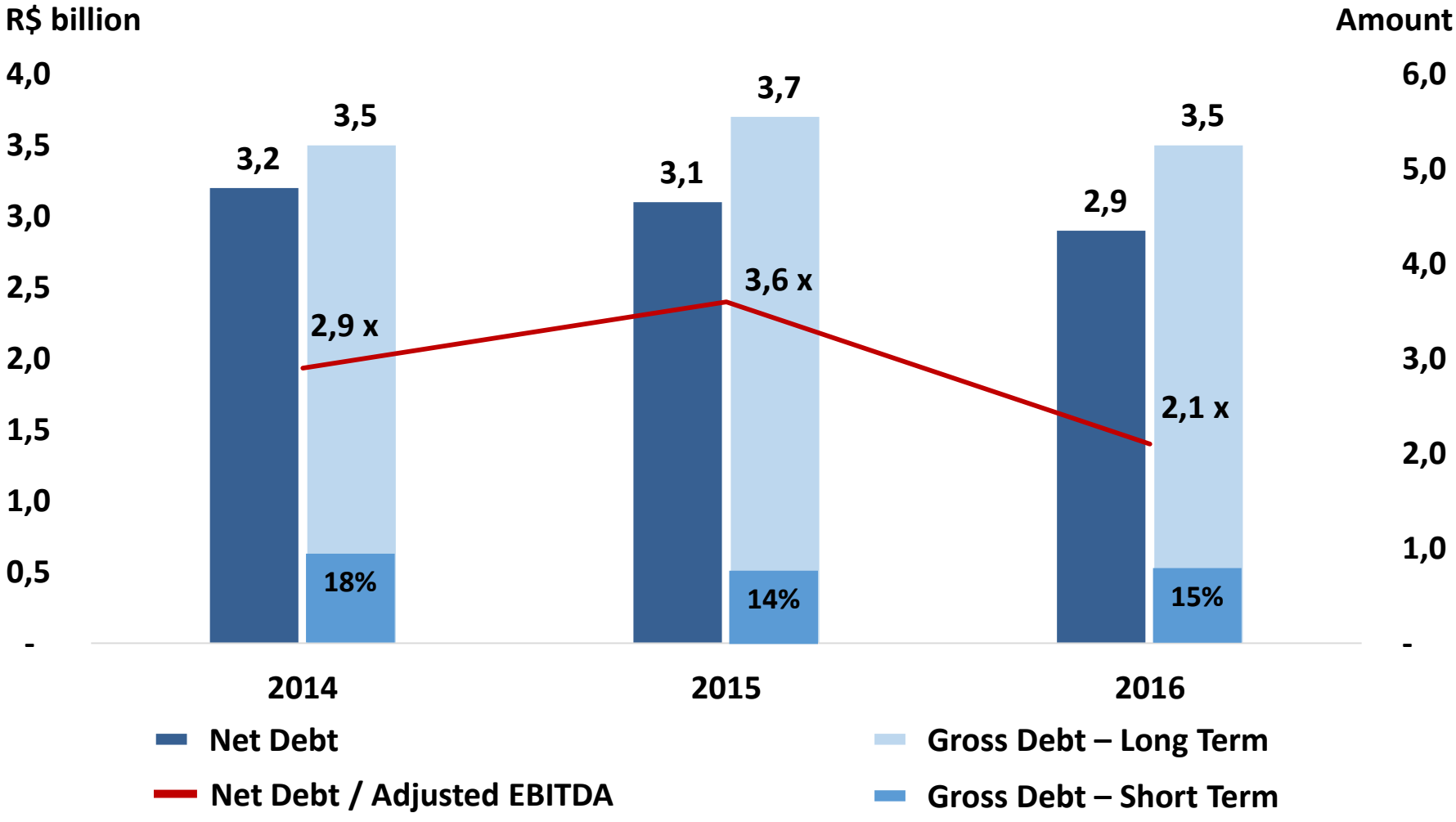
EBITDA - Destination

R$ million



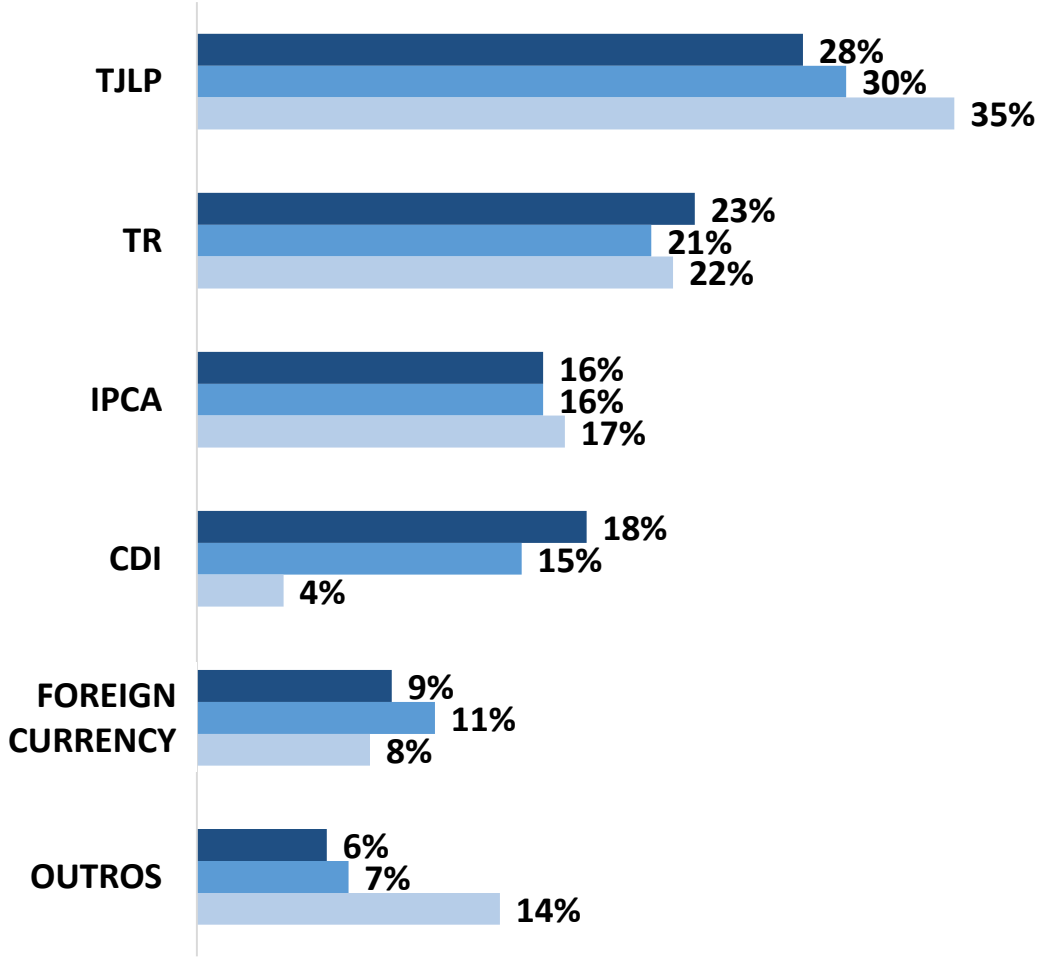
Financial Performance

Debt Evolution



Financial Performance

Debt by Index and Average Coupon



Average Coupon (p.a.)	
2016	9.4%
2015	8.7%
2014	7.6%

Contacts



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