



# MANAGEMENT PROPOSAL – Q4/2019

Management comments for the periods ended December 31, 2019 compared to the same period in 2018.  
Amounts expressed in thousands of reais, (unless otherwise stated)

# General Customer Service Data

## I. General Customer Service Data

The Company operates in Water Supply and Sewage Treatment Systems in the vast majority of the State of Goiás, operating in 226 of the 246 municipalities in the state in which 59 have Program Contracts and 167 have Concession Contracts.

Contratos de Programa e Concessões	12M2019	12M2018
Municípios Atendidos	226	226
Municípios com Contrato de Programa	59	57
Municípios com Contrato de Concessão	167	169

Water - Operational Indicators		Unit	12M2019	12M2018	Variation (%)			
Population served		Thousand	5,738	5,655	1.47%			
Customer Service Index		%	97.01%	96.9%	0.11%			
Connections		Thousand	2,209	2,148	2.84%			
Measurements		Thousand	2,408	2,352	2.38%			
Network Extension		Km	30,557	30,203	1.17%			
Sewage - Operational Indicators		Unit	12M2019	12M2018	Variation (%)			
Population served		Thousand	3,701	3,488	6.11%			
Sewage Treatment Index		%	62.6%	59.8%	4.68%			
Sewage Treated Handling Index		%	58.2%	55.7%	4.49%			
Connections		Thousand	1,201	1,125	6.76%			
Measurements		Thousand	1,365	1,291	5.73%			
Network Extension		Km	13,139	12,817	2.51%			
Water - Operational Indicators		Unit	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation (%)
Billed Volume		thousand m <sup>3</sup>	69,900	65,396	6.89%	270,224	260,339	3.8%
Produced Volume		thousand m <sup>3</sup>	97,652	93,938	3.95%	386,930	375,308	3.1%
Sewage - Operational Indicators		Unit	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation (%)
Billed Volume		thousand m <sup>3</sup>	41,966	38,767	8.25%	161,783	151,592	6.7%
Produced Volume		thousand m <sup>3</sup>	38,652	35,953	7.51%	149,690	140,738	6.4%

Table 1- General Data for the Services Provided.

# General Customer Service Data

## 2.1. Water Supply System

In the year to date of 2019 the company expanded its activities in the provision of water supply services in the state of Goiás, in relation to the population served by 1.47% with service index reaching 97.01% of the population. There was an increase in the number of billed water connections by the Company by 2.84% while the extension of the water distribution networks was increased by 1.17%.

## 2.2. Sewerage System

Regarding sewerage systems, there was also expansion, the population served increased, representing a growth of 6.11%. This number represents a Sewage Service Index of 62.60% of the total population served in the State (municipalities in which the Company holds a concession) for the full month of June 2019. The number of billed sewage connections represented a growth of 6.76%. In relation to the billed volume of sewage, there was an increase of 8.25% in the Q4/2019. The volume of treated sewage grew 7.51% also for the Q4/2019 period.

## 3. Performance Indicators

In relation to the number of employees, there was an increase in the total number of employees, from 5,799 in 2018 to 5,822 in 2019, representing a 0.40% growth. The staff productivity index, measured by the ratio of connections (water + sewage) by number of employees, went from 564 connections / employees to 585 connections / employees showing an improvement in efficiency of 3.76% even with the increase in staff.

Indicators	12M2019	12M2018	Variation %
Number of employees	5,822	5,799	0.40%
Connections / Employee	585.64	564.41	3.76%
Measurements / Employee	648.02	628.21	3.15%
Hydrometer index	99.73%	99.73%	0.00%
Macro Measurement Index	98.05%	98.53%	-0.49%
Loss rate	28.49%	29.51%	-3.46%

Table 2 - Performance Indicators

Also noteworthy is the 3.46% reduction in the treated water loss index, reaching a percentage of 28.54% in 2019 compared to 29.51% in 2018.

# Investments

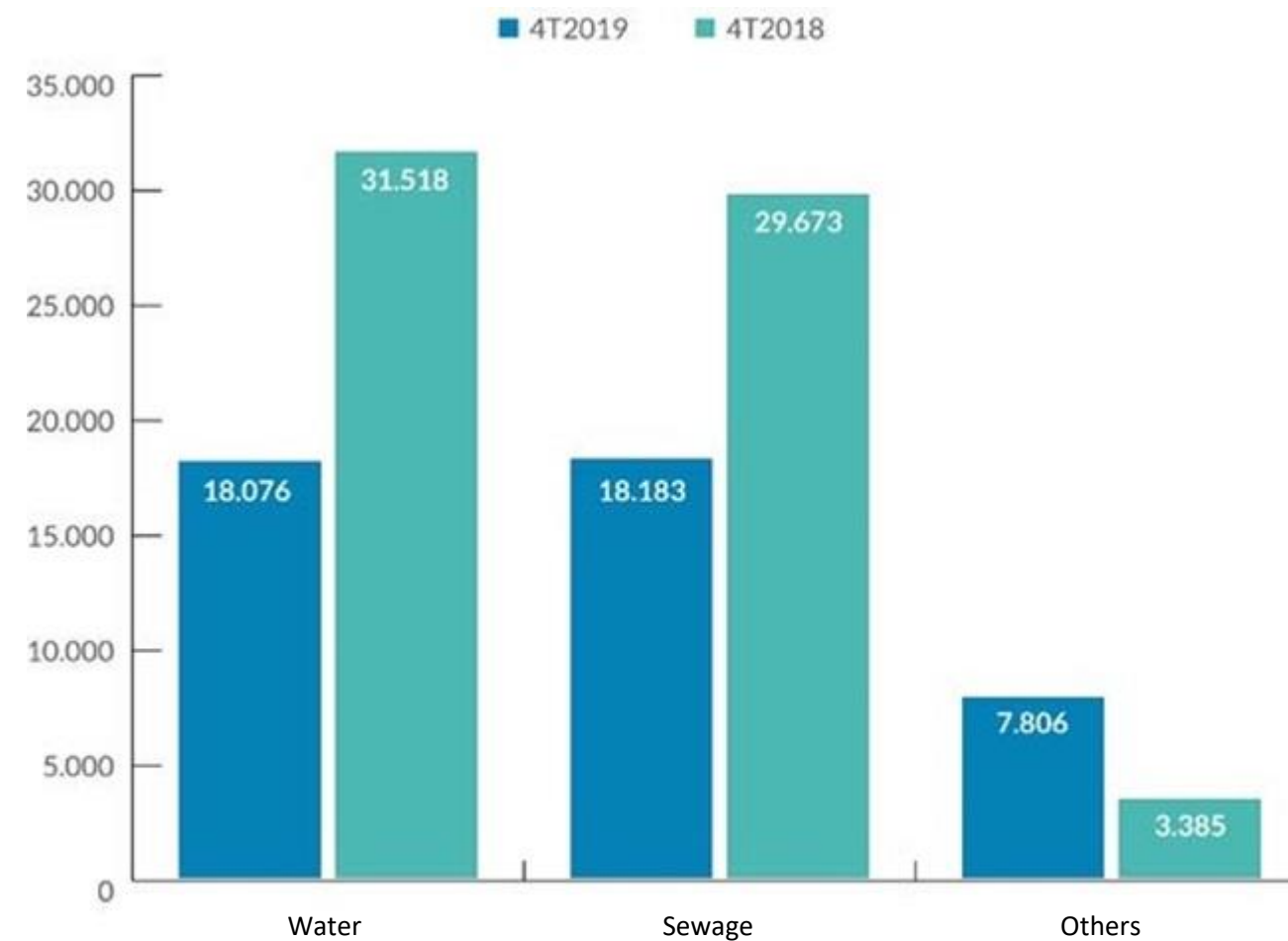


Chart 1 - Volume of Investments by System in Q4/2019

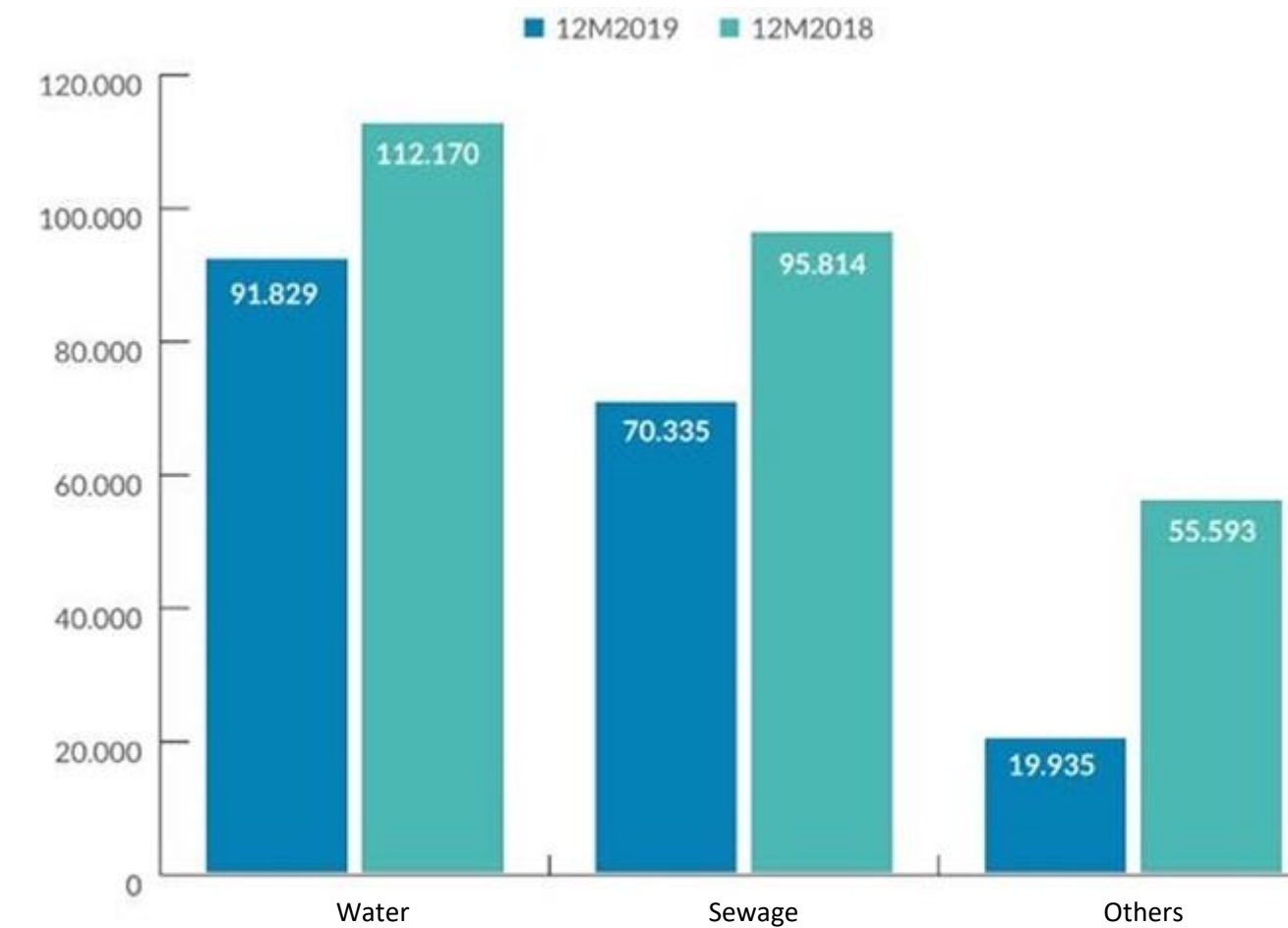


Chart 2 - Volume of Investments by System in 12M2019

**4. Investments** – The investments made in the 4<sup>th</sup> quarter of 2019 in the full period (12M2019) totaled R\$ 182,099, as shown in Chart 2. From this amount, 50.43% was invested in water supply systems, while 38.62% was invested in sanitary sewage collection and treatment systems, the remaining 10.95% was invested in operational improvement programs, business development, general purpose goods and others. Within the ‘Others’ Group is the acquisition of goods not intended for Water and Sewerage Systems such as the acquisition of vehicles, computers, construction of administrative areas and software. In 2018, the SAP System was acquired, in addition to the software and hardware required for its full operation, this investment reached almost R\$ 40 million, a fact that increased the ‘Others’ Group Investment that year.

# Financial Result Performance

Indicators	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
<b>Net Sales</b>	<b>569,031</b>	<b>507,507</b>	<b>12.12%</b>	<b>2,235,315</b>	<b>2,069,054</b>	<b>8.04%</b>
Revenue from Technical Services	444	614	-27.69%	2,167	2,563	-15.45%
Sub-delegation Grant	2,275	2,275	0.00%	9,100	9,100	0.00%
Services Cost	(163,669)	(289,684)	-43.50%	(1,052,333)	(1,084,333)	-3.00%
<b>Gross Financial Result</b>	<b>408,081</b>	<b>220,712</b>	<b>84.89%</b>	<b>1,194,820</b>	<b>996,384</b>	<b>19.92%</b>
Commercial Expenses	(89,363)	(80,043)	11.64%	(256,971)	(282,520)	-9.04%
Administrative Expenses	(76,595)	(79,839)	-4.06%	(381,471)	(322,002)	18.47%
Other Operating Revenues / Expenses	(26,838)	(10,802)	148.45%	(25,280)	(7,961)	217.55%
Depreciation / Amortization	(71,172)	57,556	-223.66%	111,152	226,320	-50.89%
Provisions / Reversals / Losses and Receivables Credits	83,818	38,785	116.11%	(53,481)	(108,683)	-50.79%
Tax Expenses	(1-715)	(2,366)	-27.51%	(14,950)	(11,525)	29.72%
<b>EBITDA</b>	<b>226,216</b>	<b>144,003</b>	<b>57.09%</b>	<b>573,819</b>	<b>490,013</b>	<b>17.10%</b>
<b>EBITDA Margin</b>	<b>39.57%</b>	<b>28.21%</b>	<b>40.23%</b>	<b>25.54%</b>	<b>23.55%</b>	<b>8.46%</b>
<b>Adjusted EBITDA</b>	<b>142,398</b>	<b>109,950</b>	<b>29.51%</b>	<b>627,300</b>	<b>621,746</b>	<b>0.89%</b>
<b>Adjusted EBITDA Margin</b>	<b>24.91%</b>	<b>21.54%</b>	<b>15.61%</b>	<b>27.92%</b>	<b>29.88%</b>	<b>-6.56%</b>
Depreciation / Amortization	71,172	(57,556)	-223.66%	(111,152)	(226,320)	-50.89%
Financial Expenses	(6,726)	858	-883.92%	(52,525)	(95,637)	-45.08%
Deferred IRPJ / CSLL	(36,492)	(40,533)	-9.97%	(25,278)	(2,644)	856.05%
IRPJ/CSLL	(15,674)	(5,752)	172.50%	(69,133)	(55,370)	24.86%
<b>Net Profit</b>	<b>238,496</b>	<b>41,020</b>	<b>481.41%</b>	<b>315,731</b>	<b>110,042</b>	<b>186.92%</b>

Table 3- Financial Result Performance

# Financial Result Performance

## 5.1 Net Sales

Regarding revenues, the Company recorded a 12.12% growth in net sales for the Q4/2019 and a 84.89% in net sales, both compared to the same period in the previous year. Analyzing the year to end in relation to the previous year, there was an increase in net sales of 8.04% while the gross result had an increase of 19.92%.

The evolution of the aforementioned results has as main assumptions the expansion of the customer base and increase in the billed volume of sewage, as well as the tariff readjustment authorized by AGR (Agency for Regulation, Control and Inspection of Public Services of Goiás) of 5.79% applied to the customers' accounts as of July 1, 2019.

## 5.2 Costs and Expenses

Regarding costs and expenses, we can subdivide them into 3 (three) structures: Commercial, administrative and service expenses. Commercial expenses increased by 11.64% in the period 4Q2019 in relation to 4Q2018 while administrative expenses

In 12M2019 accrued amount, the EBITDA margin reached 25.54% compared to 23.55% in the previous year, a increase of 8.46% in

decreased by 4.06% in 4Q2019 in relation to 4Q2018. Analyzing the year to end period 12M2019 in relation to the same period of the previous year, there was a decrease of 9.04% in commercial expenses, while the result of administrative expenses had an increase of 18.47% due to the costs with the PDV and transfers of staff after SAP deployment.

On the other hand, service costs decreased 43.56% in Q4/2019 in relation to the same period of the previous year, while in the 12M2019 accrued amount in relation to the same period of the previous year, the increase was 3.00%.

## 5.3 EBITDA

The company's EBITDA reached R\$ 226,216 in Q4/2019 compared to the R\$ 144,003 registered in the same period of the previous year, representing a growth of 57.09% in relation to Q4/2018.

In the accumulated of 12M2019 period, EBITDA reached R\$ 573,819 which represents a growth of 17.10% in relation to the same period of the the period.

previous year. Among the main factors that provided the EBITDA growth, we can highlight:

1. Revenue growth due to the increase in billed volumes of water and sewage;
2. Alteration of the useful life of the main fixed assets of the Company based on a technical report issued by a specialized company, thus determining a smaller amount of amortizations for the period, which caused the reversal of the values determined in the previous parameters;
3. Chargeback also caused by allowance for doubtful accounts (PLCD) as a result of the new accounting policy for allowance for doubtful accounts.

### 5.3.1 EBITDA Margin

The ratio between EBITDA on net sales in Q4/2019 was 39.57% compared to 28.16% calculated in the same period of the previous year, which represents a growth of 40.23% when compared to the same period of the previous year.

# Financial Result Performance

## 5.4 Adjusted EBITDA

Adjusted EBITDA, calculated excluding Provisions / Reversals / Losses and Receivables Accounting credits that are proven to have no cash effect as described in table 3 were measured for Q4/2019 in the amount of R\$ 142,398, representing a 29.51% increase compared to the same period of the previous year. In 12M2019 accrued amount compared to the same period of the previous year, adjusted EBITDA reached the amount of R\$ 627,300, representing an increase of 0.89% in relation to the same period of the previous year.

### 5.4.1 Adjusted EBITDA Margin

The ratio between Adjusted EBITDA on net sales (adjusted EBITDA margin) in Q4/2019 was 24.91% compared to 21.54% calculated in the same period of the previous year, which

presents an increase of 15.61% when compared to the same period of the previous year. In the 12M2019 accrued period, the adjusted EBITDA margin reached 27.92% compared to 29.88% in the previous year, a

decrease of 6.56% in the period. The decrease in the adjusted margin in the 12M2019 accrued period is largely reflected in the accounting for expenses resulting from the PDV, as detailed in item 5.4.1.1

#### 5.4.1.1 Non-recurring expenses in financial year 2019

In 2019, the Company promoted a Voluntary Job Termination Plan (PDV 2019) which incurred the dismissal of 139 employees. The cost of these dismissals was approximately R\$ 35.3 million, recorded as personnel expenses under Cost of Services, Administrative Expenses and Commercial Expenses according to the role of each employee.

### 5.4.2 Gross Sales Revenue

Currently, approximately 67% of Saneago's Revenues come from the exploitation of Water Systems and 33% from Sewerage Systems, as shown in the following Chart:

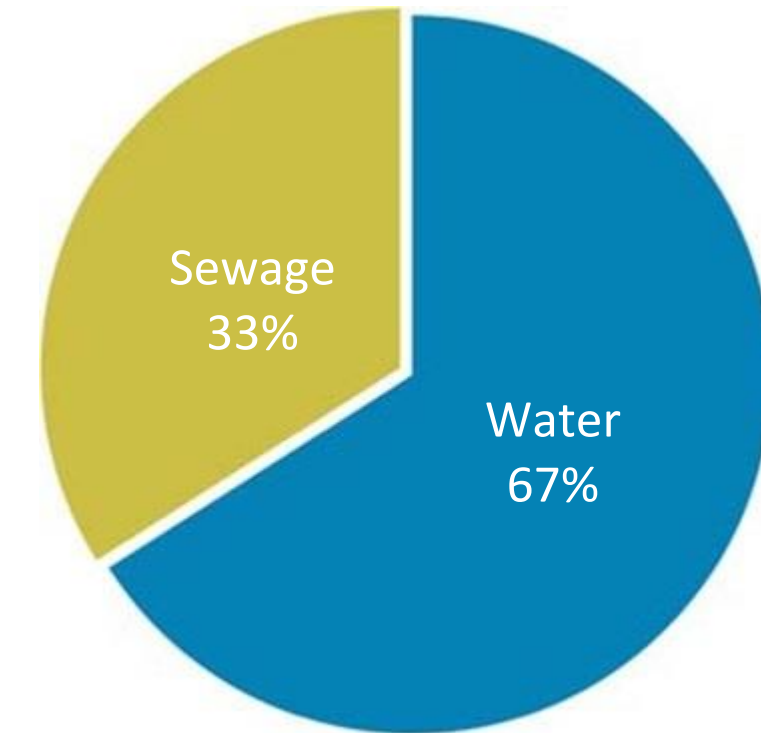


Chart 3 - Segmentation by Type of System

The increase in gross sales revenue in Q4/2019 was R\$ 83,502, which represents an increase of 15.10% in relation to the same period of the previous year, representing a total gross revenue of R\$ 636,678 in the period, against R\$ 553,176 earned in the same period of the previous year as can be seen in table 4 below.

# Financial Result Performance

Indicators	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
<b>Residential Water</b>	<b>291,844</b>	<b>250,788</b>	<b>16.37%</b>	<b>1,098,239</b>	<b>1,003,794</b>	<b>9.41%</b>
Social Rate	1,094	1,215	-9.96%	4,561	5,048	-9.65%
Commercial	40,703	34,995	16.31%	152,111	136,737	11.24%
Industrial	9,716	8,289	17.22%	36,014	32,984	9.19%
Public	19,085	21,217	-10.05%	84,410	82,605	2.19%
Indirect Revenues of Services	4,713	(11,605)	-140.61%	13,118	21,785	-39.78%
Minimum Fixed Tariff	65,626	74,468	-11.87%	256,557	311,284	-17.58%
<b>Total Water</b>	<b>432,781</b>	<b>379,367</b>	<b>14.08%</b>	<b>1,645,010</b>	<b>1,594,237</b>	<b>3.18%</b>
Residential Sanitary Sewage	138,254	118,597	16.57%	517,019	456,089	13.36%
Social Housing	489	521	-6.14%	2,011	2,076	-3.13%
Commercial	31,157	27,702	12.47%	119,118	107,191	11.13%
Industrial	4,402	4,215	4.44%	17,230	16,121	6.88%
Public	10,058	12,370	-18.69%	47,784	47,806	-0.05%
Indirect Revenues of Services	6,747	1,644	310.40%	33,982	2,518	1249.56%
Minimum Fixed Tariff	21,933	6,607	231.97%	84,666	6,607	1181.46%
<b>Total Sewage</b>	<b>213,040</b>	<b>171,656</b>	<b>24.11%</b>	<b>821,810</b>	<b>638,408</b>	<b>28.73%</b>
Revenue to be billed (water / sanitary sewage)	(9,143)	2,153	-524.66%	(719)	12,061	-105.96%
<b>Gross Revenue</b>	<b>636,678</b>	<b>553,176</b>	<b>15.10%</b>	<b>2,466,101</b>	<b>2,244,706</b>	<b>9.86%</b>
Deductions	(67,647)	(45,671)	48.12%	(230,786)	(175,654)	31.39%
<b>Net Revenue</b>	<b>569,031</b>	<b>507,505</b>	<b>12.12%</b>	<b>2,235,315</b>	<b>2,069,052</b>	<b>8.04%</b>

Table 4 - Sales Gross Revenue



# Financial Result Performance

As already mentioned in the text of Table 3 – Financial Result Performance, part of the increase in Revenues reflects the tariff readjustment applied to invoices issued as of July, as well as the growth in billed volumes of water 3.80% and sewage 6.72 %.

Regarding customer segmentation, we highlight that the residential category concentrates the largest share of the company's customers with a 77% share of total operating revenue from services provided. The commercial and public categories represent 13% and 7% respectively.

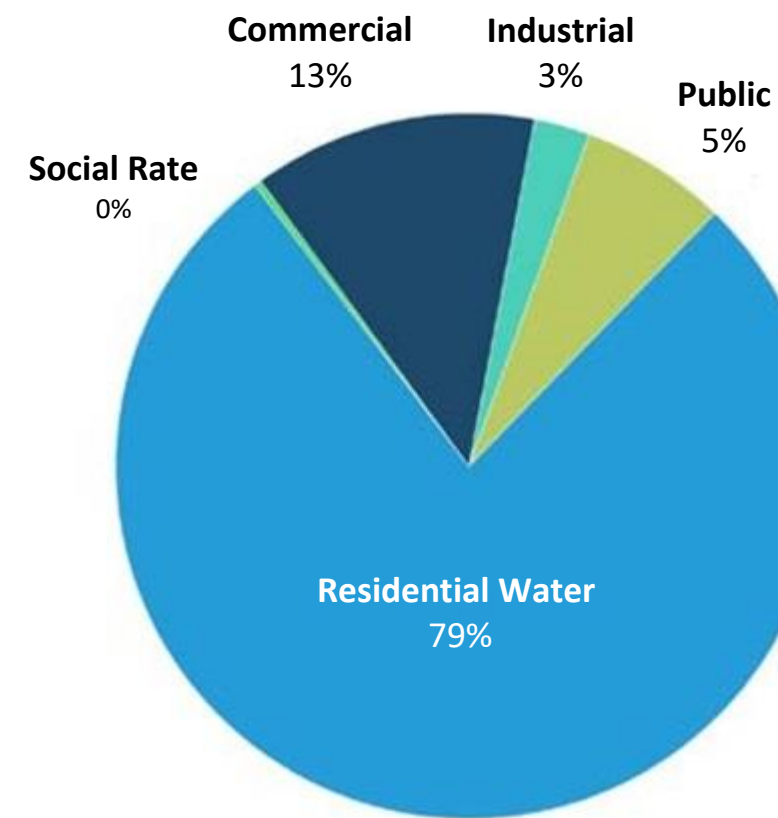


Chart 4 - Segmentation by Customer Category

## 5.4.3 Water supply revenue

Total water supply revenue increased by 14.08% for Q4/2019 and in the accrued analysis, 12M2019, 3.18%. This variation is a reflection of the tariff readjustment mentioned above as well as the expansion of the Company's customer portfolio for the period. Although this percentage is lower than the tariff readjustment of 5.79%, it should be noted that

as of December 2018, with the deployment of the SAP System, the minimum fixed cost started to be proportionally recorded in Water and Sewage, which made Water Revenue higher than that of sewage due to the absence of separation of this significant portion of the tariff.

## 5.4.4 Sewerage Revenue

Sewerage Revenue increased 24.11% for Q4/2019 and in the accrued analysis, 12M2019, 28.73%. As previously shown, this variation was strongly impacted by the transfer of part of the Revenue from the Minimum Fixed Cost of Water to Sewerage.

## 5.4.5 Deductions from Gross Operating Revenue

Deductions from gross operating revenue refer to PIS, PASEP, COFINS taxes increased 48.12% in Q4/2019 and 31.39% in 12M2019. This variation reflects the change in the accounting for PIS and COFINS credits. Currently, the credit values of these taxes are deducted from the value of the

# Financial Result Performance

contracted service, thus reducing the amount of expenses. Previously, credits were deducted from the principal amount of the tax, thus resulting in a lower total of deductions. In addition, there is a proportional increase in taxes that are calculated on gross sales.

## 5.4.6 Net Operating Revenue

Net operating revenue reached R\$ 569,031 in Q4/2019, against R\$ 507,505 in the same period in

previous year, growth of 12.12%, compared to 12M2019, this variation was 8.04%. Contributing to the increase in net operating revenue was the increase in revenue from sales of residential water and sewage, due to the increase in new water and sewage connections throughout the year, in addition to the tariff adjustment applied from July 2019 and also the accounting re-rating of Customer Penalties as already explained.

## 5.5 Costs of Services Provided

The costs of services provided, excluding construction costs, formed by expenses with operation, conservation and maintenance of water and sewage systems totaled R\$ 163,669 in Q4/2019, showing a reduction of R\$ 126,015 in relation to the same period of the previous year, which represents decrease of 43.50%, as shown in the table of cost composition of the services provided below:

Services Costs	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
Personnel	147,246	146,859	0.26%	574,942	476,231	20.73%
Material	17,025	1,990	755.53%	72,383	68,591	5.53%
Electricity	56,640	57,341	-1.22%	221,339	217,693	1.67%
Third Party Services	1382	35,424	-96.10%	72,566	101,561	-28.55%
General	98	(8,004)	-101.22%	5,533	1,162	376.16%
<b>Subtotal</b>	<b>222,391</b>	<b>233,610</b>	<b>-4.80%</b>	<b>946,763</b>	<b>865,238</b>	<b>9.42%</b>
Depreciations	(58,722)	56,074	-204.72%	104,999	218,802	-52.01%
<b>Total General</b>	<b>163,669</b>	<b>289,684</b>	<b>-43.50%</b>	<b>1,051,762</b>	<b>1,084,040</b>	<b>-2.98%</b>

Table 5 - Breakdown of Costs for Services Provided

# Financial Result Performance

Main variations and causes of Service Costs in Q4/2019:

## 5.5.1 Personnel

Personnel expenses totaled R\$ 147,246, an increase of 0.26% for Q4/2019. In 12M2019, this variation reached 20.73%. The main factor behind this increase was the implementation of the 2019 Voluntary Job Termination Plan for which approximately R\$ 35 million had been provisioned. About 46% of the dismissed employees were part of the Cost of Services, that is, approximately R\$ 16.2 million. In addition, as of June 1, a salary increase of 4.78% was granted to this professional category. In addition to the PDV recording, another non-recurring expense impacted the line item, I am referring to the execution of a collective bargaining agreement with the Union of Workers in Urban Industries in the State of Goiás (STIUEG) in the amount of approximately R\$ 10 million.

## 5.5.2 Material

Spending on materials increased by 755% in Q4/2019 but only 5.53% in 12M2019. This variation in Q4/2019 is still a reflection of the changes in accounting and cost structure adopted by the Company in December 2018 with the implementation of SAP. As can be seen in 12M2019, the consolidated variation reflects the natural increase in acquisition prices in the face of inflation in the period.

## 5.5.3 Electricity

Electricity costs totaled R \$ 56,640 in Q4/2019, a decrease of 1.22% in relation to the previous period, reflecting the use of PIS / COFINS credit for the month of June. The cumulative analysis (12M2019) shows an increase of 1.67% due to the 2018 tariff readjustment.

## 5.5.4 Third Party Services

Spending on third-party services reduction in Q4/2019 of approximately 96%. In accumulated terms, 12M2019, the reduction was 28.55%. The reduction identified in both

situations was caused mainly by the transfer of the collection fee expense, which was as Cost and was reallocated to Commercial Expense.

This accumulated amount in 2019 reached R\$ 27 million. This expense refers to the amount paid to banks for receiving users' accounts.

## 5.5.5 General

Costs with general expenditure decreased 101%. This variation reflects the re-rating of accounts between Cost, Administrative and Commercial carried out with the Implementation of SAP.

**5.6 – Administrative Expenses** – Expenses with the Company's management structure, decreased by R\$ 3,243 in the Q4/2019 period when compared to the same period of the previous year, reaching a variation of 4.06% in the period, as shown in table 6. In the accumulated result for the year, the variation was 18.47%.

# Financial Result Performance

Services Costs	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
Personnel	75,597	65,885	14.74%	315,546	261,747	20.55%
Material	1,829	2,096	-12.74%	5,583	6,375	-12.42%
Electricity	760	1,815	-58.13%	3,039	1,815	67.44%
Third Party Services	7,434	2,566	189.71%	40,464	36,169	11.87%
General	3,503	7,247	-51.66%	10,979	9,948	10.36%
<b>Subtotal</b>	<b>89,123</b>	<b>79,609</b>	<b>11.95%</b>	<b>375,611</b>	<b>316,054</b>	<b>18.84%</b>
Depreciations	(12,528)	229	-5570.74%	5,860	5,948	-1.48%
<b>Total General</b>	<b>76,595</b>	<b>79,838</b>	<b>-4.06%</b>	<b>381,471</b>	<b>322,002</b>	<b>18.47%</b>

Table 6 - Breakdown of Administrative Expenses

# Financial Result Performance

## 5.6.1 - Personnel

Among the factors that caused the increase in personnel expenses, the highlight was the implementation of the 2019 Voluntary Job Termination Plan, as detailed in item 5.4.1.1. About 44% of the dismissed employees were part of the administrative expense, that is, approximately R\$ 15.7 million. In addition, as of June 1, a salary increase of 4.78% was granted to this professional category. It is also noteworthy that, with the implementation of the new accounting system, SAP, the company structure and the workforce were updated.

## 5.6.2 - Materials

Spending on materials decreased by 12.72% in Q4/2019 and 12.42% in 12M2019.

## 5.6.3 - Third Party Services

Spending on third-party services increased by R\$ 4,868 in Q4/2019. In the cumulative analysis, 12M2019 registered an increase of

11.87%. Due to the restructuring of costs with the Implementation of the SAP System in 2018, there was a reallocation of expenses and within the services of administrative third parties there is an increase in expenses with Cleaning, Hygiene and Surveillance Services and Copies and Reproductions (Prints). In addition, indeed, the increase in prices of the main outsourced contracts in the face of inflation in the period.

## 5.6.4 - General Expenses

These expenses showed a reduction of 51.66% in the

Q4/2019. In the accumulated result for 2019, an increase of 10.36%. The main increase was related to Fees paid to the Board of Directors and the other Boards, which presented an increase of 6.12%.

## 5.7 Commercial Expenses

Expenses with the Company's commercial system in Q4/2019 increased by 11.64% in Q4/2019 and decreased by 9.04% in the analysis of 12M2019, mainly marked by the updating of staffing capacity.

Commercial Expenses	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
Personnel	30,462	38,049	-19.94%	112,368	143,193	-21.53%
Material	1,883	1,125	67.38%	2,383	1,493	59.61%
Electricity	133	1,158	-88.51%	197	1,158	-82.99%
Third Party Services	40,772	21,130	92.96%	79,185	77,147	2.64%
Concession Remuneration	14,316	13,609	5.20%	55,022	51,961	5.89%
General	1,718	4,014	-57.20%	7,523	6,291	19.58%
<b>Subtotal</b>	<b>89,285</b>	<b>79,085</b>	<b>12.90%</b>	<b>256,678</b>	<b>281,243</b>	<b>-8.73%</b>
Amortization / Depredation	78	959	-91.87%	293	1,277	-77.06%
<b>Total General</b>	<b>89,363</b>	<b>80,043</b>	<b>11.64%</b>	<b>256,971</b>	<b>282,520</b>	<b>-9.04%</b>

Table 7- Breakdown of Commercial Expenses

Main variations are:

# Financial Result Performance

**5.7.1 – Personnel** – As mentioned, the updating of the staffing impacted the reduction in employment of those rated as commercial, reducing this expense by 19.94% in Q4/2019 and by 21.53% in 12M2019. In addition, as of June 1, a salary increase of 4.78% was granted to this professional category.

**5.7.2 – Materials** – Material expenses rose 67.38% in 4Q2019 and 59.61% in 2019. The main cause of this variation was the

expenses with materials for cutting and reconnection that previously appeared in materials within the Cost of Services, due to the nature of the cuts now appear as Commercial materials.

**5.7.3 – Third Party Services** – Third party services increased by 92.96%. This increase occurred as mentioned in item 5.5.4 due to the allocation of expenses with the Collection Fee for Commercial Expenses.

**5.7.4 – General** – General expenses costs decreased 57.20% in Q4/2019.

12M2019, there was an increase of 19.58%. The main factor of this variation was the registration of approximately R\$ 676 thousand of Contributions paid to the Municipal Fund of the Águas Lindas de Goiás City Hall, which in 2018 occurred in the form of Concession Remuneration. In addition, there was an increase of R\$ 316,000 in the amounts paid as Indemnifications to Third Parties.

## 5.8 – Provisions / Reversals / Losses / Recovery of Prescribed Credits:

Reversals (-) Provisions - Net	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
Prescribed Credits Losses	(12,250)	(13,279)	-7.75%	-55,540	(47,238)	17.57%
Provision for Contingencies	2,921	363	704.68%	(40,728)	(57,915)	-29.68%
Allowance for Doubtful Accounts	93,147	58,906	58.13%	32,657	7,978	309.34%
Provision for Loss / Stock	-	6,498	-100.00%	(9,257)	531	•1843.31%
Anticipated Provision Job Termination Program - PDV	-	-	-	-	-	-
Estimated losses on works		(13,741)	-100.00%	19,377	(12,077)	-260.45%
Provision for estimated losses from other credits		38	-100.00%	10	38	•73.68%
<b>Provisions / Reversals / Losses and Receivables Credits</b>	<b>83,818</b>	<b>38,785</b>	<b>116.11%</b>	<b>(53,481)</b>	<b>(108,683)</b>	<b>-50.79%</b>

Table 8 - Provisions / Reversals / Losses and Receivables. Credits

# Financial Result Performance

According to the aforementioned Table, there was a 116.11% increase in the balance between reversals and provisions in Q4/2019 and still 50.79% in the cumulative analysis (12M2019). The main highlight of Q4/2019 refers to the positive result between Provisions and Reversals of allowance for loan losses in the amount of R\$ 93.1 million. This result reflects the new allowance for doubtful accounts policy adopted by the Company in which there was a change in the terms for provisioning and a change in the base used in the Provision in which customers who are in the process of judicial collection are not included in the provision. As a result, in the cumulative analysis 12M2019, the positive balance of 2019 was 309.34% higher than that of 2018.

## **5.9 Net Financial Income and Expenses**

Reflect the results related to the income from financial investments, income from monetary variations and other amounts receivable, expenses with interest on loans and financing operations, as well as expenses with fines and arrears and discounts granted.

The financial result presented in the period of Q4/2019 was (R\$ 6,726), the amount represented an increase of 883% in relation to the same period of 2018. In 2018, in this same period, exchange variation values and monetary correction were recorded in the expenses resulting in a reduced amount in the balance between Income and Expenses. In addition, as

shown in the table above, as of October 2019, the Company started to show PIS / COFINS on Financial Revenue within the Financial Result.

In the cumulative analysis (12M2019) there is a 45% reduction in this financial result mainly due to the reduction of interest and charges in the order of 25%, equivalent to an amount of R\$ 36,982. The main factor in this variation was the reduction in interest rates and late payment fines, which went from R\$ 27 million in 2018 to 4.3 million in 2019.

# Financial Result Performance

Description	Q4/2019	Q4/2018	Variation %	12M2019	12M2018	Variation %
Interests / Fines	12,393	28,624	-56.7%	45,136	50,586	-10.8%
Monetary Correction	5,072	5,498	-7.7%	20,174	20,345	-0.8%
Exchange Variation		(16,159)	-100.0%	5002	-	
Adjustment to Current Value	393			2,100	-	
<b>Total financial revenues</b>	<b>17,858</b>	<b>17,963</b>	<b>-0.6%</b>	<b>72,412</b>	<b>70,931</b>	<b>2.1%</b>
Interests / Charges and Other Expenses	(23,694)	(54,194)	-56.3%	(111,733)	(148,715)	-24.9%
Monetary Correction	(280)	17,882	-101.6%	(858)	(1,965)	-56.3%
Exchange Variation	2,526	18,994	-86.7%	(9,210)	(14,901)	-38.2%
Adjustment to Current Value	(1)	213	-100.3%	(1)	(987)	-99.9%
PIS/COFINS without Financial Revenue	(3,135)			(3,135)		
<b>Total Financial Expenses</b>	<b>(24,584)</b>	<b>(17,105)</b>	<b>43.7%</b>	<b>(124,937)</b>	<b>(166,568)</b>	<b>-25.0%</b>
<b>Financial Result</b>	<b>(6,726)</b>	<b>858</b>	<b>-883.9%</b>	<b>(52,525)</b>	<b>(95,637)</b>	<b>-45.1%</b>

Table 9 - Net Revenues and Expenses



# Result

## 6.1 Net Income / Loss

The Company recorded a profit of R\$ 238,496 in the Q4/2019. This positive result mainly refers to the reversal of allowance for doubtful accounts promoted by the new policy and also to the reversal of depreciation caused by the change in the estimated useful lives of the assets. However, there was also an increase in Net Revenue of 12.12%. The result was higher than the same period last year, which had been a profit of R\$ 40.7 million. The cumulative analysis (12M2019) also shows an increase of 186.92% in net income for the period, which reached R\$ 315,731.

## 7. Analysis and Discussion of the Equity Structure

In the following analysis and discussion about the Company's equity structure, we seek to discuss the line items that are considered materially relevant to adequately justify changes in its equity situation in the period corresponding to the 4<sup>th</sup> quarter of 2019 compared to the end of the previous year.

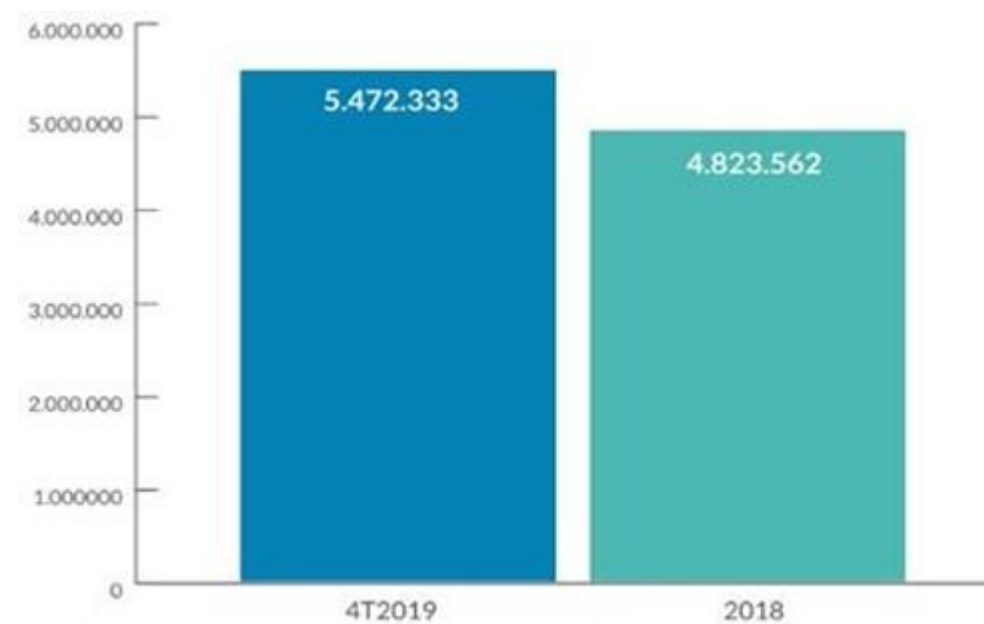


Chart 5 - Evolution of Total Assets

In 2019, the main changes in the equity structure occurred in current assets, which were increased by 39%, while current liabilities also increased by 38.79%.

Thus, there was a minimal increase in current liquidity, which went from 0.893 at the end of the 2018 financial year to 0.894 at the close of the 4<sup>th</sup> quarter of 2019, an increase of 0.14%. In addition, there was also an increase in third-party capital from 82.32% at the end of 2018 to 95.34% at the end of the 4<sup>th</sup> quarter in 2019. This increase in capital of

third parties occurred mainly due to the registration of dividends payable in an amount 160% higher than 2018 and also due to the 6<sup>th</sup> Issue of Debentures carried out in September.

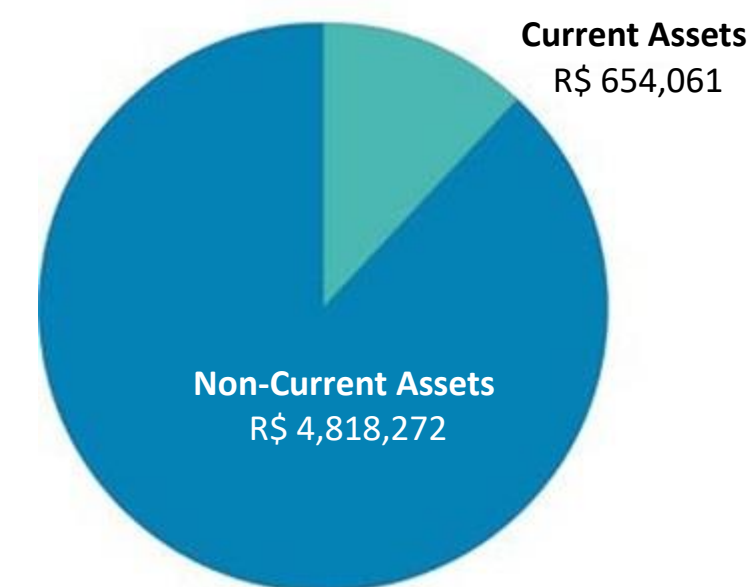


Chart 6 - Asset Structure - 12M2019

### 7.1.1 Current Assets

**7.1.2 7.1.2 Availabilities** – Availabilities increased by R\$ 125,610 from cash and cash equivalents in the order of R\$ 43,997 at the end of financial year 2018 to R\$ 169,607 at the end of Q4/2019. This increase reflects the disbursement of the 6<sup>th</sup> Issue of Debentures, carried out by Saneago in the amount of R\$ 140 million. It is also noteworthy that in 2018 within the month of December, which resulted in a reduced balance that year.

# Analysis and Discussion of the Equity Structure

Current Liabilities  
R\$ 731,251

**7.1.3 Credits receivable from Users** – The line item credits receivable from Users increased by R\$ 75,178, representing an increase of 23.70%. The default in the Public Sector is a major factor for the increase identified.

**7.1.4 Stocks** – The stocks account decreased by R\$ 21,055, impacting a 31.53% decrease. This variation mainly reflects the provisioning of R\$ 8.5 million for losses. Also noteworthy is the write-off of approximately R\$ 10 million in pipings used in maintenance and specially investments.

## 7.2 Non-current assets

**7.2.1 Anticipated Expenses** – This line item increased from R\$ 122,598 in Q4/2019, from R\$ 19,616 to R\$ 142,214. This variation refers to

the anticipation of the Remuneration of the Concession Remuneration of the Municipality of Goiânia due to the early termination of the Concession Contract and the signing of a new Program Contract for a period of 30 years.

**7.2.2 Intangible assets** – In accordance with ICPC 01 (R1) – Concession Contracts, the line item Intangible assets was divided into: Intangible and Contract Assets. Intangible assets, basically composed of goods used in water and sewerage systems linked to municipal concessions, increased by R\$ 8,429, which represents a negative change of 0.31%.

**7.2.3 Contract Asset** – The Contract Asset (works in progress) is the right to consideration in exchange for goods or services transferred to the customer. This line item presented a positive variation of 10.95% at the end of the 4<sup>th</sup> quarter of 2019, reaching a balance of R\$ 630,542.

## 7.3 Liability

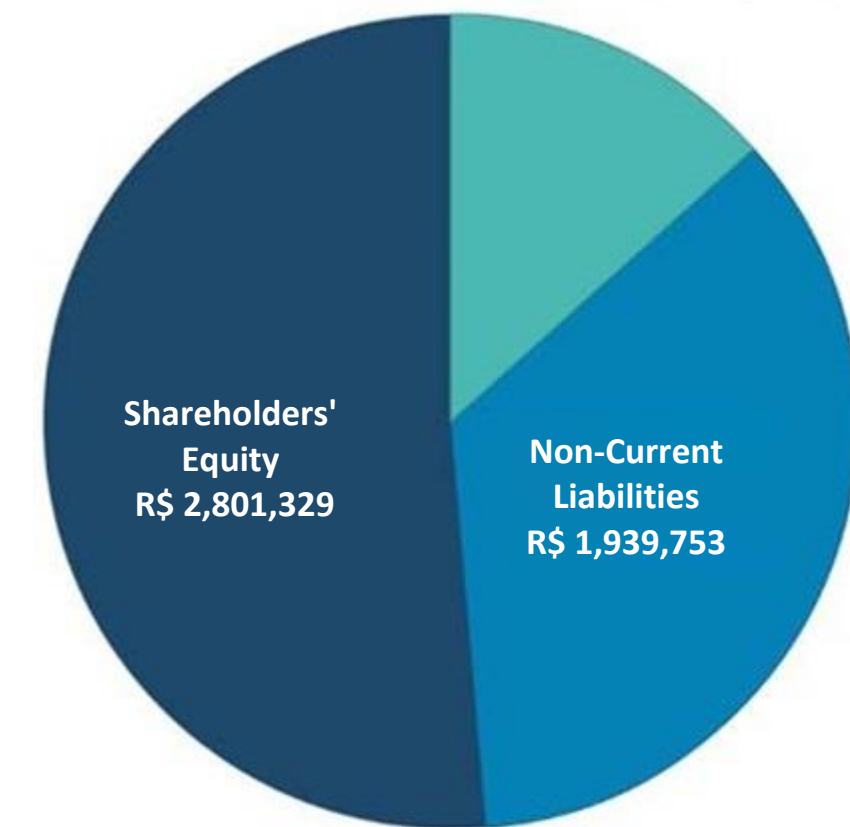


Chart 7 - Breakdown of Liabilities + PL - 12M2019

**7.3.1 Short Term Loans and Financing** – The line item presented a balance of R\$ 130,880 at the end of 2019, against R\$ 137,059 at the end of 2018, a negative variation of 4.51% referring to amortizations in the period.

**7.3.2 Debentures** – Debentures classified as Current recorded an increase of R\$ 66,545 which

# Analysis and Discussion of the Equity Structure

reflects the approaching end of the grace period for the 4<sup>th</sup> and 5<sup>th</sup> issue of debentures.

**7.3.3 Leasing** – This line item refers to the compatibility of the Company's records with CPC 06, which deals with the accounting of Leasing which, in the case of leasing contracts with a term longer than 12 months, must recognize the leasing as a Right of Use Asset having a Leasing Liability as a consideration.

In the 4<sup>th</sup> quarter of 2019, a total of R\$ 13,150 was recorded in the short term.

**7.3.4 Contractual Obligations** – This line item was created in 2019 with a closing balance of R\$ 100,236 representing the consideration of the anticipated expenses recorded in non-current assets referring to the anticipation of the termination of the Concession Contract with the Municipality of Goiânia and its conversion into a Program Contract.

**7.3.5 Labor Obligations** – This line item

presented an increase of 48% in relation to 2018 in the amount of R\$ 48 million. This increase was due to the fact that, in December 2018, the reference wages for December were anticipated and paid in 2018, reducing the balance of labor obligations for that year.

## **7.4 Non-Current Liabilities**

**7.4.1 Long-Term Loans and Financing** – This account for long-term loans and financing dropped 27.18% in relation to the balance presented at the end of the year of December 31, 2018.

The reduction in the account is due to the amortization of debts during 2019.

**7.4.2 Debentures** – Debentures rated as Non-Current presented an increase of R\$ 42,968, reflecting the disbursement of the 6<sup>th</sup> issue of debentures and the grace period of the 4<sup>th</sup> and 5<sup>th</sup> issue of debentures that had the referred amortization installments allocated to the short term.

**7.4.3 Leasing** – This line item refers to the compatibility of the Company's records with CPC 06, which deals with the recording of Leasings which, in the case of leasing contracts with a term longer than 12 months, must recognize the leasing as a Right of Use Asset having as a consideration the Leasing Liability. In the 4<sup>th</sup> quarter of 2019, a total of R\$ 32,621 was recorded in the long term.

**7.4.4 Actuarial Obligations** – This line item was added to Non-Current Liabilities in 2019 with a final balance of R\$ 128,881 represented by the amount of deficit determined in the actuarial study hired by Saneago, referring to the Defined Benefit Social Security Plan (BD) of the Company's employees.

**7.5 Shareholders' equity** – Shareholders' equity due to the profit recorded in this period, increased by R\$ 155,687, that is, a positive variation of 5.88%.

# Risk Rating

On August 1, 2019, Fitch Rating raised the National Long-Term Rating of Saneamento de Goiás S.A and its debenture issues to 'A-(bra)'. At the same time, the agency revised the Rating outlook to stable.

According to Fitch, “the rating upgrade reflects Fitch's view that the company will be able to increase the profitability of its basic sanitation business, capturing operational efficiency from efforts to control costs, increase of productivity and gradual growth of billed volumes.”

The Rating of Investment Fund in Credit Rights (FIDC) of Saneamento de Goiás S.A. – Saneago Infraestrutura IV (FIDC IV), was also raised, on August 2, 2019, to 'AA+sf(bra)', with a stable outlook. The FIDC Rating reflects the change in the outlook of the corporate Rating and takes into account the performance of the operation.

On August 21, 2019, Fitch assigned the Rating to 'A-(bra)', with a stable outlook for the proposal for the Company's 6<sup>th</sup> Issue of Debentures.

In addition, after the signing, on December 17, 2019, of the Program Contract for the municipality of Goiânia, to provide treated water supply and sewerage services, with a term of thirty years, Fitch issued a report on 19 December 2019, informing that this contract reduces the uncertainties regarding the future operating cash generation of Saneago, which is positive for the Company.

The complete list of shares is described in Table 11 below.

Rating	Fitch Rating	Outlook
Corporate	<b>A-(bra)</b>	<b>Stable</b>
Debentures, 4 <sup>th</sup> Issue		
Debentures, 5 <sup>th</sup> Issue		
Debentures, 6 <sup>th</sup> Issue		
FIDCIV	AA+sf(bra)	Stable

Table 11 - Ratings Saneago S.A.



Saneamento de Goiás S. A  
March / 2020