

Conference Call Transcript
Sanepar
4Q22 Results

Operator:

Good morning everyone and welcome to the video conference to release the 4Q22 results of the Companhia de Saneamento do Paraná, Sanepar. We inform you that this video conference is being recorded and will be available on the R.I. website of the Company, where the respective presentation is available.

We would like to point out that for those who need simultaneous translation, the tool is available on the globe icon, written "interpretation", located at the bottom center of the screen. When selecting it, choose your preferred language, Portuguese or English.

For those who are listening to the videoconference in English, there is the option to mute the original Portuguese audio by clicking on "mute original audio."

For the Q&A session, we advise you to send your questions via the Q&A icon, on the bottom button of your screen. After the presentation, your names will be announced so that you can ask your live question. At this point, a request to activate your microphone will appear on the screen.

If you are unable to open your microphone live, please write "No microphone" at the end of the question so that our operator can read it out loud. If, for some reason, your question is not answered during the event, please send it to the email: ri@sanepar.com.br.

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To begin, I pass the floor to the CFO and Investor Relations Director, Abel Demétrio.

Abel Demétrio:

Good morning everyone and thank you for joining this video conference from Sanepar, to present the results of 4Q22 and the 2022 fiscal year. Next to me is the Director and President of the Company, Cláudio Stabile; our Director of Investments, Leura Lucia Conte de Oliveira, and also our IR Manager, Ricardo, with his team and our Accounting Manager, Ozires Kloster.

Let's move on to the highlights of the 2022 quarter. Our net revenue in 4Q22 increased by 6.7% compared to 4Q21. Our EBITDA in the fourth quarter rose 5.9%. And our net profit grew by 5.7%.

In the year, our net revenue grew by 9%. Our EBITDA decreased by 2.3% and our net profit decreased by 2.2%. Some Company events to highlight: We had an increase of 62,2 thousand new water connections, an increase of 65,9 thousand new sewage connections.

Our water supply coverage, already universalized, is at 100%, for a long time. In sanitation, we achieved 78.9% with collection and treatment of sewage, 100% of the sewage that is collected is treated. Our EBITDA margin in 4Q22 reached 41.4%. And in 2022 it was 39.2%.

Our investment volume increased from BRL1,320 billion in 2021 to BRL1,744 billion in 2022. Also in 2022, we carried out a Debentures issuance in the capital market, in the amount of BRL600 million. At the end of 2022, we became part of B3's sustainability portfolio, the ISE. Once again in 2022, we received the Transparency trophy for our accounting statements, this award from ANEFAC.

I will go through the Company's operational results. The water billed volume increased by 2.5%. Total connections reached 3,410 million, an increase of 1.9%. The increase in water economies in the year was 66,315 thousand new water economies. The sewage billed volume was 4.1% higher compared to 2021.

We also had total sewage connections reaching the number of 2,445 MM sewage connections, with 86,615 new additions of sewage economies. We had the issue of default reaching 3.4% in 2022, 0.1 percentage point higher than the default rate in 2021.

The losses per connection per liter/day were 222.2 liters. Totalling per day, a 5.4% increase compared to 2021. A positive point for the Company, almost all year, regarding the volume of our dams. Everyone remembers that at the beginning of 2022 we managed to overcome the water crisis and at the end of 2022, we are at 99.65%.

We have 100% of the dams that make up the water supply system for Curitiba and the metropolitan region. This is a positive fact that gives us more security to start the year 2023 well.

Regarding performance indicators, we all see some worrying movements in the market that we had at the beginning of the year, and the Company continues to maintain its solid performance indicators in terms of raising funds and complying with its contractual covenants.

So, regarding market debentures, the Company has five debentures in circulation, which are related to the eighth, ninth, tenth, eleventh, and twelfth issuances, where one of the indicators is the Net Bank Debt/Adjusted EBITDA, which needs to be less than or equal to three, and the Company has 1.64. The Adjusted EBITDA/Net Financial Expense, which needs to be greater than or equal to 1.5, was achieved at 9.75 in 2022.

Regarding credits acquired by the Company from the BNDES system, both in debentures issuances and loans and financing, the Net Bank Debt/Adjusted EBITDA reached 1.74 and needs to be less than or equal to 3.0. The EBITDA/Debt Service is 2.99 and needs to be greater than or equal to 1.5. Other Onerous Debts/EBITDA, which needs to be less than 1.0, is at 0.46. It should be noted that Other Onerous Debts refer to the liabilities of the pension plan and health plan, eventual tax installment payments, and also eventual tax installment payments related to electricity.

The contracts with Caixa are basically the same as those we have already reported, mainly the above indicators. However, Other Onerous Debts/Adjusted EBITDA also need to be less than or equal to 1.0 and were at 0.43 at the end of 2022.

In the KfW contract, there is one more financial covenant, which is the debt-to-equity ratio that needs to be less than or equal to 60%. We closed the debt-to-equity ratio in 2022 at 47.2%. This is to show that the Company complies with its covenants and indicators signed with financial institutions to obtain financing.

Some indicators: We have seen the EBITDA margin of 39.2%, our annualized ROIC of 10.7%, and the ROE of 13.9%.

I will briefly mention our financial performance. Our Net Revenue reached BRL5,674 billion, an increase of 9%. The EBITDA for 2022 was BRL2,222 billion, a decrease of 2.3%. Our Net Income reached BRL1,152 billion, with a Net Margin of 20.3%, a decrease of 2.2% compared to 2021.

Regarding operating expenses and their impact on EBITDA, they grew by 17.8% and reached BRL3,452 billion in the period. The cash generation was BRL1,991 billion, with an increase of 17% compared to 2021, with a cash conversion of almost 90%.

Our debt and leverage structure includes short-term debt of BRL576 million that matures within 12 months in 2023, and long-term debt of BRL4,508 billion, with a total indebtedness of BRL5,84 billion. This amount is reduced by the cash equivalent that was BRL1,208 billion at the end of 2022. We had a net debt of BRL3,876 billion at the end of 2022, resulting in a leverage of 1.7 times, compared to a leverage of 1.4 times at the end of 2021, with a net debt of BRL3,138 billion.

Weighted average cost of debt was 11.5% in 2022, 1% higher than the previous year, which was 10.5%. Our CapEx was BRL1,744 billion. Basically, the CapEx forecast was to achieve a very specific number, even a difficult one, to have such a close match between forecast and realization. A 32.1% increase compared to the previous year was achieved.

The company made an effort to meet goals and investments, with 39% of the CapEx allocated to water, 53% to sanitation, and 8% to other areas such as infrastructure and administration. We were able to finance around 60% of our CapEx, which was also significant.

Regarding quarterly results, in the 4th quarter of 2022, we see that our net revenue grew by 6.7%. Our costs and expenses increased by 7.3%. Net income for the 4th quarter was BRL350,959 million, an increase of 5.7%. EBITDA was BRL610,309 million, 5.9% higher than in 2021.

In terms of the annual results, net revenue grew by 9%, and personnel expenses increased by 17%. When it comes to personnel expenses, in 2022, we faced the impact of the INPC from 2021, which was quite high, above 10%. Therefore, our annual salary adjustment index based on INPC was 10.8%.

We also had a 10.5% increase in our healthcare plan costs due to adjustments. The decrease in labor lawsuits, which amounted to BRL91,6 million, also impacted personnel expenses, causing it to increase by 17%.

The cost of materials increased by 32.5%, mainly due to increases in office and consumption materials, operational system materials, and electromechanical maintenance materials.

But the main one is the treatment material, which grew by 41.4%, higher than the 32.5% of the materials account as a whole, due to a greater application, a higher quantity of consumed chemical products, as well as due to the increase in prices practiced in the market.

Regarding the services account, it grew by 7.2%. The electricity bill was reduced by 6.4%, a positive factor, although we had applied in Paraná the issue of the electricity bill supplied by Copel, which is the main energy supplier of the Company. The average increase for high voltage was 9.32%. Additionally, there was a reduction in the Federal Government subsidy regarding the sanitation sector, which was 3% in 2022.

Even so, due to the fact that the electricity bill decreased from 29% to 18% in the semester, there was a reduction in the electricity bill of 6.4%. The third-party services account was quite reasonable, with a growth of 7.2%, very much in line with inflation and also given the Company's growth, more water connections and more sewage connections.

The issue of general and tax expenses, with a growth of 50.8%. Here, mainly impacted by the issue of payment of municipal funds, BRL41,5 million from the sanitation and environmental management fund, at the time of signing the addendum terms with the microregions.

In the next item, we have the issue of civil, environmental, labor, tax, and tax provisions, which grew by 3.4%, mainly due to the civil action of the coastal municipalities of Matinhos and Guaratuba, where the Company made a provision of BRL24,9 million.

We also had a public civil action related to the issue of economic and financial imbalance of contracts, whose provision was BRL16,2 million. We also had a provision of BRL2,6 million with IAT.

But on the other hand, we had the issue of two terms of the tax conversion agreement signed with IBAMA, with which this account was reduced due to the terms signed, which has already been recognized in the account of other costs and expenses.

We had an increase of 26.6% in health and pension plan provisions and a decrease of 11.7% in financial expenses. Other costs and expenses increased by 44%, mainly due to this change in judicial settlement terms signed with IBAMA, where we removed from provisions and recorded in this account. In addition to the issues of increasing provisions for doubtful debtors that occurred in 2022.

Here, the adjustment for non-recurring items of our net profit in 4Q22 was BRL350,959 million. Adjusted for the non-recurring item, which was the reversal of IBAMA'S contingency provisions already recorded in the provisions of BRL32,863 million.

Plus the two signed commitment conversion terms, totaling BRL87,631 million. Excluding the tax effect, our net profit would be BRL416,9 million, which would give an adjusted EBITDA margin of 45.1%. In 2022, our margin was 39.2%. Adjusting for non-recurring items, it would be 41.3%.

In the next, we adjust for non-manageable items related to the tariff issue. Our EBITDA, which is currently BRL2,222 billion, would then be increased by BRL106,2 million. Regarding the graphic calculation of the tariff issue, we have electricity, which is well-balanced with Agepar's reduction. In fact, we now owe BRL2,7 million. In terms of treatment material, we have a credit of BRL55,2 million, and in terms of fees and charges, we have BRL53,7 million. Therefore, our EBITDA would be BRL2,328 billion with an adjusted EBITDA margin for these non-manageable items of 41%.

In the next section, we will go through the Company's balance sheet. We can see that the net debt has increased by 21.3%, mainly due to loans, financing and debentures, with a rise of 23.4%.

Obviously, more loans and financing represent more cash, and so financial investments have also risen by 24.1% during the period. Our operating working capital was BRL744,769 million, up by 25.4%.

The net accounts receivable from clients amounted to BRL1,211 billion, the main account of this group, with an increase of 18.5%. A positive fact regarding the accounts receivable from clients is that, as we have seen, the 2022 delinquency rate was very close to that of 2021.

However, the Company has a program called RECLIP, where it renegotiates credits with the population.

December was a very positive month. We even had an adhesion rate of about 3.5%. We hope that with the actions being taken, such as RECLIP, which seeks to recover credits, the delinquency rate will return to the Company's historical levels, including the recovery of some projections made in the last two to three years due to the pandemic.

Other assets and liabilities increased by 85%. The main item in this account is the contract assets account, where ongoing works are recorded, which have grown by 46.9%, bringing this account to BRL2,746 billion.

Our equity at the end of 2022 was BRL8,786 billion, with an operating working capital turnover of 47 days. Our cash flow and operational activities in 2022 generated BRL1,991 billion in cash, with an increase of 17%.

Our investment activities consumed cash, which gave us BRL1,749 billion, an increase of 32%, and financing activities remained practically stable with capital raising versus the payment of interest and dividends, with a negative balance of BRL17,127 million. After all of these accounts, we had an increase in the Company's cash flow of BRL224,805 million, going from BRL983,127 million at the end of 2021 to BRL1,207 billion at the end of 2022.

This concludes the presentation of the Company's main numbers for the year 2022. I will now hand it over to our presenter.

Leandro Aguiar, Investor:

Good morning everyone. Congratulations on the results for 4Q22, which exceeded market expectations. I would like to ask about the costs of treatment materials. Could you speak a little more about this line that has been significantly impacting the Company's margin?

Is there any estimate for reducing the costs of materials, substitutions for other solutions to achieve the same result with reduced cost? Or any innovation work to directly or indirectly attack this particular level?

Abel Demetrio:

Good morning, Leandro. Thank you for your question. We are indeed noticing that this materials account has been growing not only in 2022, but also in 2021. We talked about this yesterday at the Board of Directors meeting.

The Company is very careful in its procurement processes. We follow, let's say, legal procedures for hiring, always seeking the lowest price when purchasing chemicals.

Obviously, the chemical industry has been impacted, mainly by external events. I would say that the issue of imports, the issue of difficulties with the war itself, I believe has had some impact on this item.

The Company obviously makes rational use of chemicals, however, it does not have much flexibility since it needs to deliver its products, water for consumers, within the required quality standards.

So it has to be an adequate treatment, obeying the environmental conditions in the sanitary sewage issue, given the greater volume that the Company is removing from its effluents before releasing them into the water bodies.

The volume of collected sewage, the volume of treated sewage also increases the need for the use of chemicals. And the Company is closely monitoring this issue, it is recurrently discussed in REDIR, including in the search for new suppliers.

But this year, especially in 2022, the impact seen was significant. And the actions taken obviously mitigated it but were not sufficient to maintain the price. That is basically it. Do you want to add anything, Leura?

Cláudio Stabile:

Good morning everyone. As Abel has already reported, but also in response to the question of whether we are seeking other alternatives and also in the field of innovation, the answer is positive. We are testing other products, as long as they achieve the same result as we have today in terms of the quality of our effluent, which goes into the water bodies. Therefore, we have a great environmental concern with regards to this, a great social and environmental responsibility.

And yes, we are also working with our innovation, research and development technicians, seeking new products. It is not so simple, as you have a long period to be able to perform these tests, to reach the point of saying that yes, they are able to maintain the same quality. But we are looking to mitigate this cost issue as well.

Abel Demetrio:

Just adding, regarding a specific product, which was aluminum sulfate. In fact, we had to substitute it at a certain point with bulk polyaluminum chloride, which had a higher cost.

So we had various situations in this regard, which caused the treatment material cost to increase by 41.4% in 2022. Therefore, when the material cost rose 32.5%, the treatment material cost, which represents about 65% of that material cost, rose 41.4%. Therefore, the costs, the logistics issue, and product availability impacted costs in this account.

Cláudio Stabile:

Just an additional note. At some point, we talked with other sanitation companies in Brazil to purchase together, for example, in block or consortium formation, for this purpose. But we came to the conclusion that it was not interesting, mainly because you cannot have a very large stock, as the expiration of some products is very short.

So if you don't use them, you will have to discard them. Therefore, instead of saving, you will have a loss. Unfortunately, we also could not take advantage of moments of lower value to make stock, because the expiration date is very short.

Arlindo Souza, TC Matrix:

Hello everyone, good morning. I would just like to better understand the default rate. It has decrease slightly at the end of 2022. But we are still at a level that we consider high. I would like to understand the prospects for this year, 2023. I believe that cuts in default are coming back. Can you give more details regarding delinquency rate? Thank you.

Abel Demetrio:

Thank you for the question. In terms of delinquency, we have had an increase in the last three years. Given that there are restrictions on cuts in the state of Paraná, due to legislation, due

to the pandemic crisis that we no longer need to mention, which was quite serious.

Our delinquency closed at 3.36% in 2022, against 3.33% in 2021. We intensified credit recovery actions in the last quarter, especially in December, and achieved a very positive result.

As I mentioned in the presentation, we had compliance. That is, we were able to collect more than we invoiced in relation to this type of revenue. We have a very good outlook for 2023, given the definitions of collections of the continuity of RECLIP, which is the credit recovery program.

We have several actions to open our centers on Saturdays, including for receiving the population that has overdue debts. There is a widely disseminated campaign, including in the state media, informing about this Company's program regarding the possibility of installment payment.

And I would say that our expectation, obviously, depends on the effort and payment capacity of people. But I hope that we can bring delinquency to historical levels of the Company in 2023, given the conditions that the Company is offering for the renegotiation of credits and also the other collection actions that the Company is implementing for this.

Cláudio Stabile:

We cannot forget that Paraná is not an island. We have an economic program not only in Brazil, but in the world. So, if we do not take care of our customers and users, giving them conditions to pay their bills regarding, mainly, water and sewage, in a way that does not take away other expenses that are also important, of primary necessity. We will, at some point, end up losing this customer. They will find a way, unfortunately not appropriate, but they will stop using the service.

So, the idea is balance, a search for balance between the two things. We continue with the work, as Abel said, of negotiating these debts. This has had a very important result, but we cannot forget the national and even global situation.

But what about Paraná? Even though Paraná is in a differentiated situation, positively, we also suffer from this influence as a whole.

Arlindo Souza:

Perfect, thank you for the answer.

Cláudio Stabile:

Just to add, I think it's important. Leura mentioned that we're also opening our relationship centers on Saturdays. This also helps our customers to have time, often it's a matter of time. The customer wants to pay, but doesn't have time during the week. So on Saturdays, we're also opening our relationship centers to help with debt payment and renegotiation.

Hiury Goulart, Trilha Investimentos:

Good morning and thank you for the call. There has been a discussion for some time about purchasing energy on the free market, and it seems that we are in a propitious moment to make new contracts in this regard, including Copel wanting to contract one of its largest generation assets. Can you give us an update on this topic, please?

Cláudio Stabile:

Of course. That's exactly it, this is the best time to buy. We have all the units necessary to migrate to the free market. We are organizing a bidding process that will be launched in March, and not only with Copel but all companies will also have the opportunity to participate. We need to do this now. We will go to the free market for at least 60% to 70% of what we consume.

Maurício, Investidor WM:

Any news on the negotiations with the municipality of Maringá?

Abel Demétrio:

Well, regarding the municipality of Maringá, the update is what has been disclosed in the market, that there was a 30-day suspension of the judicial process, for administrative negotiations regarding this issue, that's what the Company can currently disclose, what's already public and we have no further updates to make at this time.

Maurício:

Perfect.

Hiury Goulart:

Could you please give us more transparency regarding the environmental fine?

Abel Demétrio:

Julio, could you talk about this topic, please?

Julio Gonchorosky:

Good morning everyone. Sanepar, as everyone knows, in the years 2012 and 2013, there were a series of IBAMA operations regarding Sanepar's sewage treatment plants, which resulted in several fines.

The largest fines were four environmental fines in the main stations of the metropolitan region of Curitiba and a fixed fine in our largest treatment plant, the Belém plant.

After three years of discussion with IBAMA about these fines, their values, and so on, we arrived at a denominator for the environmental conversion of these fines. The legislation allows us and gives us the right to a 60% discount when we make conversions.

So the nominal value of these fines reached approximately BRL217 million. With the conversion, we can reach a value of BRL87 million, with some issues that we understand to be very interesting for Sanepar, not only this financial gain, but also the application in projects over ten years. Important projects in this case for the metropolitan region of Curitiba, covering a distance of 150 kilometers.

Therefore, with these resources, Sanepar will apply, as I said, over ten years. In the recovery of 1,300 hectares of the Várzea do Iguaçu, transforming the old sand and clay mining pits into wetland areas, improving the quality and quantity of the Iguaçu waters. And it's not just an environmental gain of recovery, with the formation of biodiversity corridors, etc. But it's a great water gain, the water of the Iguaçu will be of better quality and also in greater quantity.

This is a gain for the entire state of Paraná and, of course, especially for the metropolitan region. And we understand that Sanepar gains, environmentally as a whole, great gains in relation to water potential and also the Company's image. And it's an opportunity that we will have with great interest, financially, environmentally, and hydrologically.

Hiury Goulart:

Perfect.

Marcelo Afonso, Investidor:

What is the company's level of confidence that Agepar will carry out the tariff revision within the deadline this year? And a second question: Can you share any information about the progress of the regulatory asset base analysis by Agepar?

Abel Demetrio:

Thank you, Marcelo, for your question. Well, as already reported on previous occasions, on October 21, the Company filed the asset base with the regulatory agency, and the regulatory agency set up a working group to oversee the asset base report.

The agency's technicians completed this initial work and sent us some questions, which we are currently addressing with all areas of the company, in terms of responding to the agency's questions. It is a very thorough, very rigorous job, just as our submission of the base to the agency was.

We still have time to complete our internal work and provide feedback to the agency. And we are fully committed to ensuring that the Company meets the established deadlines, so that the Company's second tariff review occurs within the basic date deadline, which is April 17, as planned.

So, we understand that we are still on track to meet the schedule. This is the current expectation, obviously, the agency's procedures are carried out by them. Obviously, they are independent, but given the timelines established by them and the stage of the work, the Company believes that meeting this deadline is feasible and still believes it is feasible.

Cláudio Stabile:

And it is also necessary, under penalty of penalizing the population, our user. So we believe they will meet the necessary deadlines.

Marco Antônio Gabelli, Investor:

Question number one: Sanepar announces dividends and it may take up to a year to make the payment. Does the company have any studies to start paying dividends at least semi-annually?

Question two: The company's leverage has increased from 1.4 to 1.7. My question is, what percentage does the company feel comfortable with for leverage? Thank you.

Abel Demetrio:

Thank you, Marco Antônio, for the two questions, they are quite relevant. The first question about dividend payments. We just want the knowledge to be spread to everyone. The Company pays its dividends and interest on equity, usually once a year.

This has been the case in recent years, always within 60 days after the AGM. This year's AGM is scheduled for April 25 (correct date=>April 28th, 2023), so payment will be made within 60 days after that date.

Regarding the question of reviewing the dividend policy for payment in two installments, for example, given that the dividend attributed in 1Q22, for example, must be paid a year later, although in December it is paid around six months.

As I mentioned in the previous call in the third quarter, we are advancing with our IR department on the study, including updating the dividend policy itself with new terms, which will be evaluated in due course. So we are developing alternatives, and obviously a future definition will be made by the competent bodies.

And the question of leverage, you mentioned the issue of the increase in leverage from 1.4 times to 1.7 times. We have a covenant limit of 3.0 times, so we are comfortable with this financial ratio.

We understand that the leverage of 1.7 times in 2022 was also slightly pressured by EBITDA, which could add more revenues and be a little higher, not necessarily only on the side of net debt. We understand that with EBITDA, we could have a slightly lower leverage in a more normal situation.

However, the Company still understands that a leverage of at least around 2.2 times is still comfortable. And obviously, when the Company does its strategic planning, its business plan, it always looks at the five-year horizon.

The Company then analyzes what the projected debt level is for the next five years. It is also one of our drivers for making investments. In short, projecting revenues, because we know the impact that this has. For example, on raising funds from the financial market.

So I would say that 1.7 times is a very reasonable index compared to the market average. From 2% to 2.2%, we begin to look at the limit, although it is 3.0 times. But the Company always intends to have a margin of safety, at least in this management, so that creditors also have security and confidence to invest in the Company.

Guilherme Vieira, Investidor:

Good morning. Do you have any predictions or targets for when you should reach the sewage coverage requirements set out in the sanitation framework?

Abel Demetrio:

Thank you for your question, Guilherme. Obviously, the Company had already said that we are at 100% water coverage, when the target set by the new law is 99%. And in terms of sewage, we are currently at 78.9%, or 79% if we round up.

So practically, we have 11 years under the new legal framework, which establishes a universalization level of 90%. Obviously, since Sanepar covers the five major cities: Curitiba, Londrina, Maringá, Ponta Grossa, and Cascavel, we are already very close to 100% coverage in those areas, so we cannot reach the 90% mark to achieve the target.

Because when these municipalities reach 90%, given that the major cities already have 96%, 98%, 99%, and 100% coverage, our coverage level will be higher than 90%. We have been growing consistently in recent years and we would say that we will achieve the goals within

the deadline set by the sanitation framework.

But the Company does not set a date for universalization at this time. But obviously, we pursue an anticipation.

Cláudio Stabile:

We can do a simple calculation. If we grow at an average of 1.62% and 2% per year and still have 11 years to meet the legal deadline, certainly the legal deadline already gives us some comfort and by this simple calculation, we may be able to achieve 90% coverage of those who do not have it yet before or very close to the deadline. And to be the first state that we imagine to have not only water, but also universal sewage coverage.

Marcelo Gonçalves, Investor:

Hello, good morning. Just about a relevant fact that was disclosed on November 9th, 2022, regarding a Sanepar lawsuit against the Union in the amount of BRL4,7 billion in favor of Sanepar.

My question is whether you can provide any details on how the legal action is going? What is the timing for you to receive the money, if you will receive it or how you will receive it? Is there a possibility of the Union still going to court to discuss this amount? And what is the exact time frame of the legal action? Thank you.

Abel Demetrio:

Marcelo Gonçalves, thank you for your question. As you said, Sanepar has filed a lawsuit in the amount of almost BRL5 billion. At the moment, the Company is awaiting the Union's defense, which is the Federal Revenue Service, to know what will be done regarding this issue.

So, we are waiting for the legal response, which should happen soon, I believe. Since the Union also has legal deadlines to comply with. Of course, we hope that their argument will be positive. We await a positive outcome, but we are still waiting for this definition.

Claudio Stabile:

That's exactly what you said, Abel. We will soon have news, hopefully positive, and then the Union will have to pay us. We have the possibility of having this credit, a court order. And then, we hope to be able to negotiate it, for example, with tax compensations with the Union itself.

But it seems to us that we are on the right track, and of course, it is a judicial decision. What is in court, you never have 100% certainty, but we are on a very well-paved path and the chances of success are very high. Perhaps not in its entirety, but very close to it.

Marcelo Gonçalves:

Ok, thank you very much.

Jardel Alves, Investor:

Good morning everyone. First of all, congratulations on the conference. I would like to know if Sanepar has any plans to increase its payout? Also, how does Sanepar view the current scenario of high interest rates and inflation? Does the higher Selic rate and inflation affect the business?

Abel Demetrio:

Thank you very much for your question, Jardel. Regarding the question of increasing the payout, I believe that we observed that in 2022, as the Company made a move in that direction, already looking at a water crisis that the Company overcame, mainly in Curitiba and the Metropolitan Region.

There was also the issue of Covid, which the Company has seen with a more benign look for almost three years, although Covid is not yet over, but I think we are already at another level of the disease.

This allowed the Company, at this time, to propose an additional payout compared to what was practiced in previous years. It is worth remembering that the payout practiced in previous years was precisely to protect the Company, which has an indefinite term.

So it is pointless to pay high dividends for two years and the Company suffers later, including with credit problems, bankruptcy problems, non-compliance with targets, non-compliance with contracts, for example, with banks.

Obviously, high interest rates impact everyone, all companies. High inflation, we have seen, brings a later problem to companies' accounts as well. Because the inflation pass-through is never immediate, it is always after 12 months. This is a problem, it is a problem for the population that ends up seeing its income reduced.

So we understand that high interest rates are necessary for a time to control inflation, mainly in the sense of bringing inflation down because it is also very harmful to the population and it impacts, in fact, the investment chain of the entire sector, of all companies.

The Company obviously seeks to protect itself in some way from these increases, mainly in interest rates, whether in financing contracts that often have other indices not linked to the CDI and inflation itself. We have contracts, for example, with Caixa Econômica Federal that are fixed, updated by the TR, which is an index that is always very beneficial for borrowers, whether in the sanitation or real estate sector.

We have control of our debt so that it stays below the Selic cost, for example. Our debt, in the last 12 months, was around 93% of the CDI percentage. We always monitor and seek to compose our obligations with indices that are varied, in the sense of not being impacted by a single index.

Now, answering your question objectively. I believe that no one is immune, neither Sanepar nor any company in Brazil and the world from the issue of high interest rates and inflation, and it is always a concern.

Maurício Rabuske, WM Investor:

Congratulations on the results of 4Q. Is the reduction in electricity costs in 4Q recurring? Could you explain why ROIC has been declining in recent years?

Abel Demetrio:

Regarding the question about energy tariffs, asking if the drop in 4Q is recurring or not. So, what we have regarding energy: the base date of the main supplier, which is Copel, is June of every year. So, in June 2023, we will have a new adjustment, and obviously, this depends on the entire condition of the national hydrological system.

But of course, looking at it currently, we see that the flags are at least at a green level. This means we are at an optimum level, so to speak, in terms of tariffs when compared to yellow and red flags at their levels. So, this is a positive factor when we look at the future perspective.

On the other hand, there was a reduction in ICMS on energy last year. This was a determining impact for the cost reduction, which dropped to 18%, and obviously, if this taxation issue doesn't return to previous levels, we will have a positive gain in relation to this account.

The last point I would like to highlight is that in 2023, it will be the last increase due to the end of the subsidy of 3% in relation to the sanitation sector, which had subsidies, if I'm not mistaken, of 15%. And it is being reduced by 3% annually.

This is important for the sector because we had 15% below what would be normal revenue, but it will end on June 24, 2023. This is the main issue regarding those electricity issues.

The second question was about ROIC, because it has been declining. Obviously, the Company's investments have been quite relevant, and the Company has maintained a high retention of profits in cash, even due to the planned investments.

This represents a lower return on investments for shareholders, but we also understand that we can recover in the next years, as the situation returns to greater normality. Due to the revenue we seek for regulatory metrics, due to eventual improvement in the country's overall accounts, in interest rates, and that eventually, dividend distribution may be increased. It's not a promise, it's just a realization that our limit is 25%, which is mandatory, and can go up to 50%.

So, these issues have caused ROIC to be slightly lower in 2023.

Cláudio Stabile:

As Abel mentioned, this is very important at this moment, so that we have the security and assurance that we will have the conditions to make the investments provided for the new framework. But not only that, it's a consequence of public health and increased users. We gain more scale as we invest more, we have more users, we have a larger scale of receivables.

This is very important and gives us comfort to continue investing, regardless of any market downturn or credit negativity. So, this allows us to guarantee at least what was planned. This is very important.

Diego Vila Real, Vila Real:

Good morning. The report mentions a possible increase in the Company's capital. Will this increase have any counterpart for the investor, such as bonus or dividend? Thank you.

Abel Demetrio:

Diego, thank you for your question. The Company, by legal determination, when its profit reserves reach the share capital, it needs to increase the capital. So this year our capital of BRL4 billion has a proposal that will be addressed to the AGM so that there is an increase in capital to BRL6 billion, which has already passed through the Company's governance bodies.

And the Company understands that given the price of its shares, it would not like them to be at a lower level, even to avoid speculation. At this time, we do not offer bonus shares to shareholders.

It's worth noting that in theory, there is no economic benefit to having more shares at a lower price. And since our price is BRL3,00, we have a very liquid share. Practically 80% of the company's shares are already in free float, that is, they are available on the market for purchase and sale. And this was the Company's decision at the time, which obviously needs to be deliberated at the Annual General Meeting to be held on April 25th (correct date=>April 28th, 2023).

Diego Vila Real:

Perfect.

Marcos Carneiro, CL4 Capital:

Good morning. Congratulations on the work you've done to improve access to information. Regarding capital allocation, how can we reconcile strong levels of investment with future distributions to shareholders? Do you think the current levels are sustainable? If there are further delays in the review process, could the investment program and payout level be revised? Thank you.

Abel Demetrio:

Marcos, thank you for your question. I believe you are touching on something very strategic, which is the current situation of the Company, the sector it operates in, and the obligations that companies, particularly those in the sanitation sector, have in relation to complying with the sanitation legal framework.

In the Company's business plan, we reconcile the necessary investments and their respective schedules with the distribution of dividends to investors who choose to receive them, aiming to obtain benefits as well.

This is an annual balance that is reassessed every year, taking into account various factors such as economic scenarios, tariff issues, costs, and, of course, at this time, the payout that was attributed this year is what is forecast in our planning.

The Capex of BRL10,7 billion is sustainable for the five-year period, as given the revenues, costs, and debt payments, we can maintain a healthy Company from a financial perspective as well.

However, what happens is that Sanepar is currently at almost 79% in terms of sewage treatment, and it is still in a phase of expanding its activities to reach a 90% coverage rate. This is natural since once the Company reaches its universalization levels, as set forth by law, and fulfills its obligations under the law, which is to provide water and health to the population, including water and sewage treatment, it becomes a cash generator, and, of course, payout levels must increase.

Because there is a situation of already met targets, a more stable situation with lower investment needs. This is something that can be reassessed in the future, once the Company has fulfilled its role at least in its area of operation.

So this is always analyzed, in the sense of having this convergence between the shareholders' interests and the Company's obligations. But strategically, I understand that we are in a very favorable position, even compared to other companies, in the sense that we are much closer to universalization than most states in Brazil.

That is to say, the Company will most likely reach this level more quickly than other companies and once reached, the Company is free to do other business, review its dividend policy, and so on. It is a future strategy.

But what Sanepar cannot do at this time is to give up on making investments, fulfilling all its obligations, with environmental compliance and the goals of program contracts. Leura, please.

Leura Lúcia de Oliveira:

I would just like to add that the Company is 60 years old and we need asset replacement, mainly in water systems, so that we have the guarantee of uninterrupted supply.

Yes, Cláudio is commenting here. With the vegetative growth of water, naturally, we have the water and sewage ratio. So, what happens? Our sewage index decreases when we expand water connections, and we have to continue investing to grow in sewage as well. So we have the issue of universalization first, and then we have maintenance with vegetative growth.

Abel Demetrio:

I would just like to add that the issue of the investment plan being revised if tariff levels are not adequate. In other words, if the revisions are delayed, obviously, the Company depends on resources, the only source of resources for the Company are tariff revenues.

It makes all the planning for its revenues. And if any of the expectations are frustrated, it will need to take actions to try to postpone investments, reduce costs, in short, this is a systematic look at the Company's balance sheets and numbers, in the sense that we need to monitor the forecast and whether it is being achieved.

Operator:

Perfect, thank you. If for any reason your question was not answered during the event, please send it to the email: ri@sanepar.com.br.

We now close the question and answer session and turn the floor over to the Finance and Investor Relations Director, Abel Demetrio, for the Company's final remarks.

Abel Demetrio:

Well, once again, I would like to thank everyone for their presence and participation, whether by watching the video conference or asking questions. Our IR team is available for any doubts, you can count on them.

We would like to thank the shareholders for their trust. As Leura said, it is a 60-year-old company, whose anniversary was celebrated on January 23rd. We are proud to work at the Company, not only us directors, but also the President who is here and also Júlio, who embody very well the spirit of being a Sanepar employee and we are very honored to work in this great company. I don't know if Cláudio would like to make any final remarks.

Cláudio Stabile:

It is to reinforce, exactly, everything that has been said regarding investments, prudence which is very important to have financial comfort for difficult times, as we have just gone through.

We see, today, delinquency rate falling, but we had very difficult moments, with double-digit delinquency, perhaps also something never seen by the Company in the past and that is



commonplace in other places, in other companies and other states, but not here in Paraná. Our delinquency average ranges from 1.3% to 1.5%, so it was also a very big impact.

But I want to reinforce this, reinforce the confidence of our investors, the confidence of our shareholders and I am sure that we work daily and constantly, not only for our users, but also for those of you who believe in the Company, invest your money here and I am sure that you will not regret it.

Abel Demetrio:

So, thank you. The presentation is over.

Operator:

The Sanepar 4Q22 results video conference is now closed. Thank you very much to all participants and have a good day.