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Conference Call Transcript Sanepar 4Q23 Results

Operator:

Good morning, everyone, and thank you for waiting. Welcome to the video conference for the disclosure of the results of 4Q23 of Sanepar.

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For those listening to the video conference in English, there is an option to mute the original audio in Portuguese by clicking on “mute original audio”.

We would like to inform you that this conference is being recorded and will be made available on the Company's IR website site, at ri.sanepar.com.br, where the complete material for our earnings release is available. You can also download the presentation from the chat icon, including in English.

During the Company's presentation, all participants will have their microphones disabled. We will then start the questions and answers session.

To ask questions, click on the Q&A icon at the bottom of your screen and type in your question to join the queue. When you are announced, a request to activate your microphone will appear on your screen, then you must activate your microphone to ask questions. We recommend that you ask all your questions at once.

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We would like to highlight that the information in this presentation and any statements that may be made during the videoconference, related to Sanepar's business prospects, projection and operational and financial projections and goals are based on the beliefs and assumptions of the Company's management, as well as on currently available information.

Future statements are not guarantees of performance. They involve risks, uncertainties and assumptions, as they refer to future events and, therefore, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, market conditions and other operating factors may affect Sanepar's future performance and lead to results that differ materially from those presented in such future considerations.

To start, we give the floor to the Chief Financial and Investor Relation Officer, Abel Demétrio.

Abel Demétrio:

Good morning, everyone. Thank you for your participation in this video conference. Here with me are: Júlio César Gonchorosky, our Director of Environment and Social Action, our Investment Director, Leura Lúcia Conte de Oliveira and our Accounting Manager, Ozires Kloster, in addition to the IR team, led by Ricardo Garcia Gonçalves and the team's professionals.

Our president, Cláudio Stabile, is also present, although he is in Cascavel. If he can, I would like him to also greet the participants.

Cláudio Stabile:

Good morning, everyone. I'm very happy to be here on this day. The presentation will be made just as in the previous times. I hope you appreciate the results and rest assured that we remain firm with our purposes and always more efficient, delivering the best service and counting on the trust of you, especially our shareholders.

Thank you very much. A hug and greetings to all.

Abel Demétrio:

Thank you, president. Here we have the presentation of the results for 4Q23 and also for the year of 2023.

We will start our presentation with the highlights of the quarter and the year. In 4Q23, we had an increase of 15% in our Net Revenue, and, in 2023, an increase of 10.9%.

Our EBITDA grew 18.4% in 4Q23 and 27.3% in 2023. Net Income grew 4% in the quarter and 30.6% in the year. This is always based on the comparative basis of 2022, the previous year.

Concerning the increase of water connections, the market growth in 2023 was 38,200 new water connections and 72,300 new sewage connections.

Our water service index has been universalized for several years, with 100% of service. The issue of sanitary sewage is 80.2% of service and 100% of the sewage collected and treated.

Our EBITDA margin went from 41.4% in 4Q22 to 42.6% in 4Q23. In 2022, it was 39.2% and in 2023 it is 44.9%. Our investments reached in 4Q23 were R\$554.4 million and, in 2023, R\$1,926.1 billion.

In 2023, we also reached the top of the ranking of Valor 1000, one of the main annuals in the sector in relation to Water, Environmental Services and Sanitation. The Company is very proud of that. We also received the Anefac Transparency Trophy in 2023.

I will now talk about the Operating Result. In 2023, we had a billed volume of water of 4.7% higher than in 2022. We had an increase in savings of 41,229 new water savings.

In relation to the billed volume of sewage, we had a growth of 6.8%, and the increase in savings was 97,747 new savings added to the system in 2023.

When we look at volumes produced and collected, we had 3.4% more produced volumes of water

in 2023 compared to 2022. In the collected volume of sewage, 7.5%. These volumes are quite representative in 2023.

Regarding default, I believe that in 2023 we reaped the rewards of our credit recovery programs. We had a negative default, which was positive to Sanepar, with more collection than revenue, of the order of 2.4%, as a result of all the Reclip that was made during 2023.

On the issue of losses, we also had a very positive year. We had a connection loss rate per liter of 222.7 in 2022, and in 2023 this number was 217.6 liters per connection per day, which gives a reduction of 2.3%.

Now, concerning the reservoir levels. We all understand the importance of having water delivered to the population, to supply the population. At the end of 2023, we had 99.92% of our dams with their full capacities, that is, practically 100% full. This is important because it gives a stable supply horizon where these dams serve.

Obviously, there are places that are not supplied through the dams, but I would say that the water condition is much more favorable than we have seen in previous years.

Concerning the fulfillment of our obligations: we know that the Company requires intensive capital in its activities. We need third-party services, like banks and institutions, in order to provide the necessary investments for universalization.

In relation to all those securities issued in the market, whether of the 9th, 10th, 11th, 12th and 13th issues of Debentures, which contain Covenants Clauses, we are complying.

In the first index, Net Bank Debt by Adjusted EBITDA, which needs to be less than or equal to three, we closed the year with 1.48. In EBITDA adjusted by Net Financial Expenses, which needs to be greater than or equal to 1.5, we reached 9.43. Both of them are good numbers.

In the financing we raise from the BNDES system, either through direct financing or through the private debentures we have, the 2nd, 4th and 7th issues, we also have three Covenants and all three are being met.

In Net Bank Debt by EBITDA, which must be less than or equal to three, we have 1.59. EBITDA for Debt Service, which must be greater than or equal to 1.5, we have 2.90. In Other Onerous Debts, which are health and pension plans, possible installments of energy and taxes, which can be less than or equal to once the EBITDA, we have 0.39, also very comfortable.

In Caixa's contracts, we have some that also have Covenants Clauses. What is different from those I have already mentioned is Other Onerous Debts by EBITDA adjusted in this case, which was 0.36, and the limit was also 1.

We also have Covenants in the contracts with the German Bank KfW. What differs from the others is the degree of indebtedness, which needs to respect the 60% limit. At the end of 2023, we had an indebtedness of 48.2%, 1% higher than the 47.2% recorded at the end of 2022.

As we have already mentioned, the EBITDA margin is at 44.9% compared to 39.2% in 2022. The ROIC of 2023 was 12.4% compared to 10.7% in 2022. And the annualized ROE of 16.2% against 13.9% in 2022.

Moving on to the next page, we will talk a little about the Company's financial performance. We had Net Revenue growing 10.9%, reaching an amount of R\$6,293 billion. Our EBITDA reached the sum of R\$2,827 billion in 2023, with a growth of 27.3% and a margin of 44.9%, as already mentioned.

Net Income grew 30.6% in 2023, totalling R\$1,503 billion, and a Net Margin of 23.9%.

Operating Costs and Expenses, only those with an impact on EBITDA, increased by 0.4% in the year and reached R\$3,465 billion. It is a cost that was practically stable compared to 2022.

On the next page, we will talk a little bit about our cash generation. In 2023, we generated R\$2,382 billion in cash. We had an 84.3% conversion of EBITDA into cash. In 2022, we had a conversion of 89.6%.

Obviously, from the moment that the installments related to Reclip are being paid, throughout this year and the following years, we expect that this conversion will improve. The growth was 19.6% in cash generation in 2023, compared to 2022.

In Net Debt and Leverage, we have short-term debts at the end of 2023 of R\$671 million, long-term debts of R\$5,107 billion and total indebtedness of R\$5,778 billion.

At the end of 2023, we had cash and cash equivalents of R\$1,285 billion, which gives the net indebtedness of R\$4,493 billion, that represents 1.6 times our net debt by EBITDA. In 2022, leverage was 1.7 times.

The weighted average cost of debt is 11.3%, very close to the 11.5% recorded in 2022.

We obviously see some movements to reduce the interest rate of the Selic rate, which has recently fallen. Yesterday also the inflation index came out and, clearly, the macroeconomic scenario is important for the Company to have its cost of capital, its sources of financing, with a lower financial cost. So, we always cheer and wait for inflation and lower interest rates, as this is important for economic activity.

CAPEX grew 10.4% in 2023 compared to 2022. In 2022, our increase had already been 32.1% compared to 2021. Therefore, this is the result of all the Company's efforts to seek investments for universalization and also for the maintenance and replacement of assets in water, including vegetative growth.

Water consumed 38% of CAPEX investments in 2023, sewage 56% and other investments 6%.

On the next slide, we go through the results for the quarter. We had a Net Revenue that grew 15% and total costs and expenses grew 18.6%. Our Net Income in 4Q23 grew 4% and reached R\$364,821 million. EBITDA grew 18.4%, reaching R\$722,507 million.

On the next page, we have the annual result. Our Net Revenue grew by 10.9% in 2023, an increase that obviously comes from the over-invoiced volumes of water, 4.7%, and sanitary sewage of 6.8% from the increase in the number of calls, as we have seen, and from the adjustment that was applied as of May 17, 2023.

The Personnel account grew by 7.5%, a number mainly derived from the collective bargaining agreement of 5.5%, which was the INPC applied to labor funds in the collective bargaining

agreement.

We also had reflections of the 10.8% of the previous collective bargaining agreement, which reflected a part in 2023. In addition, some amounts of labor indemnity and allowance provisions caused the index to reach 7.5%.

At the end of 2023, we had 6,121 employees, and at the end of 2022 this number was 6,199 employees.

The Materials result grew by 9.8% in the period. I would say that it was basically an increase in inflation and the increase in volumes that we produced, collected and treated in 2023, so it was very reasonable.

Despite having reduced this Electricity bill in the year by 4.2%, we saw an acceleration from the third and fourth quarters, given the increase of 10.5% on average, which was given by the main operator of the State, Copel, from June 24. Also from that date there was the end of the subsidy for the sanitation sector in more than 3% increase in energy that represents for the Company.

However, in general, the electricity bill was favorable to the Company, having been reduced by 4.2% in its cost. In addition to having the growth of more operating units, it was still 4.2% lower than in 2022.

Third-party services grew by 18.8%. We had some increases in registration and billing. Obviously, the entire Reclip condition, all the cuts, all the calls and the entire invoice delivery service had an increase.

Surveillance service, thanks to the strengthening of the Company, to prevent robberies, including robberies that cause stops in supply and sanitary sewage treatments. Notably, copper is a very valuable material and is therefore targeted. We really had a greater effort and cost, obviously, in the sense of preventing these events.

Network maintenance services also grew more than in previous years. Here, we also had a mainly regional issue in Londrina, for the sake of recovering maintenance that was there. We had a problem with a third party and this recovery occurred in 2023, so obviously we had a higher cost.

The same for the sewage removal service, given a larger volume of sewage treatment being done and all the investment in compliance that the Company has been making. Obviously, we have a growing removed sewage load here at the Company.

There is another account, the customer service account. Given the Company's effort to renegotiate the credits, we had an account that impacted. So, the account for third-party services grew, basically, due to these movements that I mentioned.

General and Tax grew 4.2% and Provisions, 130.8%. In the issue of Provisions, we mainly mention labor lawsuits, especially the issue of the reintegration of retirees, for which we need to make some provisions. In addition, we had some additions in relation to the Union of Engineers, which is a fairly old and well-known situation and caused the main impacts on the provisions account.

The provision for health and pension plans was positive for the Company, with a reduction of 33.7% in the period. Financial expenses and revenues grew 32.9% and other costs and expenses

had a reduction in the account of 46.2%.

So, all the recovery of credits that we had in the period, although depreciation and amortization grew 14.6% in this account, given a greater immobilization of works, we put reports into the accounting of R\$1,9 billion in 2023, which is important for the asset base.

And we had a variation of R\$69,698 million of reversal of provision in the losses in the realization of credits, which was important for the result.

Overall, total costs and expenses grew 3.4% in the year, in line with and even slightly below 4.62% of inflation in the period.

On the next slide, I will briefly talk about our balance sheet. Our net debt grew 17% in the period, reaching R\$4,801,323. Operating working capital grew 28.9%, to R\$960,345 million.

Regarding operating working capital, the main account refers to accounts receivable from customers, which has a sum of R\$1,531,727, with a growth of 26.4%. Obviously, given the installment plan of Reclip, we expect that this account may be reduced over the next few periods.

Other assets and liabilities grew marginally by 0.6% and fixed assets grew 14.3% from 2022 to 2023.

Our shareholders' equity closed 2023 with R\$9,744,200, an increase of 10.9%, with an operating working capital turnover of 55 days.

In operating activities in 2023, we generated R\$2,382,264, an increase of 19.6%. Investment activities consumed R\$1,914,714, which represents an increase of 9.5%. Lastly, financing activities had a reduction of R\$390,324 million.

This account is the result of loans and financing taken in 2023, which reached R\$1,025,541. So we resorted R\$1,926 billion of CAPEX to the market, banks and financiers, and we raised R\$1,025 billion.

We paid interest and dividends of R\$385,542 million, financing of R\$865,312 million, leases of R\$109,755 million and other variations of R\$55,256 million. At the end of 2023, our cash grew by R\$77,226 million, from R\$1,207,932 at the end of 2022 to R\$1,285,158 at the end of 2023.

These were the numbers for 2023. I think it was a very positive year for the Company, both in terms of financial and operating results, and the extension and standardization of contractual terms with the micro-regions was an important step for the Company's sustainability, because they provide conditions for the Company to invest in the 345 municipalities, since we had the capacity attested by the agency for all 345 municipalities to raise funds so that we can make investments aimed at universalization also in sanitary sewage.

Rodrigo, we are now available for the Q&A session.

Leandro Aguiar, Investidor:

Good morning. First, I would like to congratulate you on the results achieved this quarter. The Company signaled again the new growth in revenue, margins and, consequently, the result highlighted in the annual comparison between 2022 and 2023.

If possible, could you comment a little on the challenge that the Company has in the coming years with the achievement of the sanitation milestone with the 90% of sewage service, and each quarter new significant growths in water connections are recognized, expanding the total base used as a reference for calculating the percentage of service? If we look from 2019 to today, the increase was from 74% to 80.2%.

Abel Demétrio:

Good morning, Leandro. Thank you for your question. Indeed, the legal framework brought a series of challenges not only for Sanepar, but for all the companies in the sector.

Our investment plan was disclosed and is very robust, of R\$11.2 billion for the period from 2024 to 2028. We have a lot of financial challenges. Obviously, CAPEXing this volume poses a challenge for the Company.

Throughout the year, as reported, we saw a growth in our service rates with sanitary sewage. But on the issue of water, there is also a challenge, given that climate change affects the Company, either through floods or weather events that end up making the Company increasingly need to have resilience in its operations. So, it is quite a challenge.

Cláudio Stabile:

Abel, if I may, I would like to add a little to what you are saying.

We started the first batch of PPPs. Now, with all the procedural and legal part having elapsed, we must launch three more batches by the end of May this year, aligning all the micro-regions and understanding and looking at all the municipalities that have a small amount of collection and treatment today, including all at the Company's base, aiming at exactly this challenge and we expect to arrive perhaps even before 2033, already universalized also with regard to sanitary sewage.

Abel Demétrio:

Thank you, president. I would also like Leura, our Investment Director, to complement it, because we have the whole financial issue that I talked about. I think the president has already addressed the issue of universal sewage very well, and we have other engineering issues that I would ask Leura to also report on.

Leura Lúcia Conte de Oliveira:

Good morning, everyone. We have sought to improve the quality of our investment each year, not just to meet compliance and concession goals. As Abel said, the climate issue has made it very difficult to search for perennial springs that allow us to do this.

There are many situations in which we have needed to change the catchments of some rivers, because they are no longer perennial and also have multiple uses. This makes us seek much more the quality of our investment.

Therefore, the volume is significant. We have grown a lot, but in a consistent way, with the technical staff very focused so that we can make the investments without significantly harming

the tariff and, consequently, the paying power of our users.

Yuri Goulart, Buy-Side Analyst:

Good morning, thanks for the opportunity. Can you comment a little more on the line of other financial expenses? Does the renegotiation of contracts only affect this quarter? How much did the adjustment to present value contribute to the R\$87 million in financial expenses in 4Q23?

Abel Demétrio:

Thank you for your questions, Yuri. I think that the topic of AVP has been widely discussed in the Company. I will give the floor to Ozires, who is our Accounting Manager, and he will explain the main impacts of AVP.

Ozires Kloster:

Good morning, everyone. Thank you for your question, Yuri. In fact, this renegotiation had an impact due to the financial asset, because the Company has the accounting practice of bifurcating the assets.

The financial asset is that amount that exceeds the term of the concession. So, those assets that are part of the water and sewage system with a useful life longer than the term have a financial asset.

Consequently, with this equalization of the term until 2048, this financial asset had a reduction and, therefore, impacted the result. That is why we had a financial asset value of R\$708 million at the end of 2023, and in November we had a balance of approximately R\$890 million.

This reduction brought an impact and, of course, there is a whole calculation methodology, considering a discount rate, and with the issue of the term, we had this impact of R\$87 million.

But as we had been doing the AVP quarterly throughout the year, we also had revenue in line with Revenue in other financial revenues of approximately R\$30 million. Therefore, the impact on the result was an expense of R\$56 million.

Leandro Aguiar:

If possible, could you also comment on the next steps or expectations in relation to the value of the undisputed with the Federal Government, for recognition of credits and obtain the value in the budget for court-ordered bonds?

Abel Demétrio:

Thank you, Leandro, for your question. President, do you have any latest updates? If not, we are still expecting, we had no movement in relation to this process. But we understand that we are waiting for the lawsuits so that we can make the other moves for the Company.

We awaited the last update which was given 15 or 20 days ago, due to the end of the year and the forensic holidays. We did not expect movements until January, but from now on, expectations grow, although we do not yet have a concrete date.

We still depend on a court decision, so we wait, but we continue to monitor the process closely.

Yuri Goulart:

If you could also talk about the provisions part, I would appreciate it. Recurrently, this line has attracted attention in the Company's results, and a supplementary provision of R\$40 million from quarter to year seems disproportionate, given the predictable nature of the Company and the sector.

How has the Company been looking at this line specifically? Is it something that has been worked on internally and in the discussions of the Fiscal Council?

Abel Demétrio:

Yuri, thank you for your questions. On the issue of provisions: in fact, in 2023, we constituted a very significant volume of provisions, totaling R\$169,385 million.

Obviously, given the judicial decisions and the probability of losses of these actions, provisions are constituted. Opening the details a little, we had R\$240 million of labor lawsuits, whose objects, in addition to those I mentioned, we had some issues of additional overtime, salary equalization and also provisions for environmental lawsuits in the amount of R\$36.8 million, mainly related to the Water and Land Institute and Ibama, and we also had R\$58.1 million related to civil lawsuits, mainly for the rebalancing of a company.

On the other hand, we had reduction and procedural losses. We had 647 civil lawsuits that reduced the forecasts by R\$43.9 million, 67 environmental lawsuits that extinguished the lawsuits of R\$27.3 million and 593 labor lawsuits that were also extinguished in the amount of R\$94.1 million.

Obviously, we depend on the fairness of the decisions and, often, they can have a position that is sometimes favorable and sometimes becomes unfavorable, even during the process.

So, mainly, I would say that this issue of the reintegration of retirees had an impact on these provisions for the year and, obviously, the entire fiscal council, all the monitoring of the fiscal council of the Board of Directors in relation to the subject is done and also carried out by the executive board.

But obviously, from the moment you need to make the provisions, you need to constitute them following the accounting rules.

Cláudio Stabile:

Abel, I think it is also worth remembering that the outcome of the court decision is not predictable. We do not have any kind of control over court decisions, they depend a lot on what happens in the process.

There are also other situations where we do not have a domain. We have a possibility, but we are not sure. Therefore, it is very difficult, at some points, to be sure of what can happen.

Then, provisions sometimes go a little further and there are recommendations, including external controls, to be aware of this and not fall short of what may be possible.

Luís Felipe, Investidor:

Good morning. We can see that, with El Niño, the levels of the dams reached their maximum. Are there any expectations for how these weather events, such as El Niño and La Niña, should occur this year? If an extreme drought scenario occurs again, is the Company prepared?

Júlio César Gonchorosky:

Good morning, Luís Felipe and everyone. As you noted, perhaps in that graph of the dam, you saw that at a certain time this year, one of our dams, Piraquara 2, had its volume greatly reduced, due to a maintenance that we did on the gate to better operate this dam.

With this example, I want to tell you that Sanepar, after that great 2020 drought, is increasing our resilience, not only in relation to the dams, but also to alternative sources of supply.

As you said, the effect of El Niño was very strong during that year and a forecast for 2024 is the reduction of its effects. The institutes are still debating whether there will be a more neutral moment or a drier moment due to La Niña.

However, for 2024 and for the future, Sanepar has greatly increased its resilience, using the Iguaçu pits and transpositions. So, we have a series of new mechanisms that guarantee us flexibility even in periods of drought that may occur.

Daniel Carabolante, Sell-Side Analyst:

Question number one: Costs for third-party services, personnel, and material have gone up year-over-year. Can current cost levels be considered as recurring looking ahead?

The second question is about dividends. In the past, they paid 50% payout, but this has been reduced in recent years. Could you see this level being resumed forward?

Number three: in October, you announced the standardization of the contractual terms of 319 municipalities. How was this possible within the scope of the new legal framework for sanitation?

Abel Demétrio:

Thank you for your questions, Daniel. Obviously, the issue of third-party services is a manageable issue of the Company's costs, but the fact is that they also grow due to the increase in our volumes collected and treated from sanitary sewage and the provision of vegetative growth also from the water issue.

In this third-party cost account, we saw some growth above inflation, especially those related to customer service, issues of cuts, reconnections and billings, since they were also necessary for Sanepar to implement its entire credit recovery program, which brought a positive result in the issue of compliance.

So, many costs executed in the third-party account are reflected positively in other costs. We saw that there was a very important reversal of other costs precisely because of the effort made in relation to the services contracted with third-parties.

On the issue of dividends: obviously, the Company, in October, asked the question, together with the microregions, at the sixth and seventh Assembly of the Microregions, the extensions and standardizations of the contractual terms were approved. This was an important movement that took place in 2023 and brought a series of obligations for the Company.

Two years ago, when the first proof of economic and financial capacity occurred, the regulatory agency had certified the capacity for 310 municipalities. Now, we have proof of capacity for the 345 municipalities that are operated by the Company.

So obviously there is a volume of contractual goals to be achieved. We have a volume of investments already disclosed of R\$11,2 billion that the Company needs to comply with. We have intermittency targets, loss reduction targets and this whole component also makes us need to look at the dividend from the perspective that it remains within a level that does not harm the Company's capacity and financial economic sustainability.

Therefore, when we approved the business plan in November 2023 for the 2024 to 2028 cycle, all aspects were looked at, both in these investment data and the possibility of funding in the market, leverage and also the distribution of dividends.

We certainly always expect positive points, because we want that all parties can be well served: the population with water and sewage, shareholders being remunerated and employees also being paid for their activities, and all this needs to fit within the budget.

It is in this sense that Sanepar always acts with great prudence and, therefore, the current levels are being practiced.

Cláudio Stabile:

I would like to make an addendum, because the question asked for one more answer on how it was done. It was made entirely based on the new legal framework for sanitation, within the State's sanitation policy, through the micro-regions that you have already explained. I just wanted to make this reservation that all this is foreseen in the new Brazilian sanitation framework.

Abel Demétrio:

Exactly. The publication of the decrees, which, if I am not mistaken, occurred in June 2023, made it possible for us to make this move, which is widely legal and allowed within the new rules of the landmark.

Reinaldo Veríssimo, Investor:

Congratulations on the results in 2023. Could you talk about the evolution of the partnership with Aegea? Will this model be replicated in the three lots mentioned by the president in the first question?

Leura Lúcia Conte de Oliveira:

Ambiental Paraná, which is the *PPPist* of the 16 municipalities of the Centro Litoral, is already developing its activities. Obviously, it is still in the beginning. It is still a moment of integration, knowledge and partnership. Many things are worked on within the Company in a different way with the private partner, so I understand that this is a time of adaptation.

However, we are doing well. We understand that this is the model that will be replicated, this is in the public consultation. All the technical elements are on the Sanepar website today for everyone to see.

We understand that this is a model that will help us. We have 112 municipalities in these three lots that will be in the next bidding process, and we understand that, of the total, there is still a relatively small volume of municipalities that will be in the PPP, but important in a very significant investment volume, of almost R\$3 billion in investments and also another R\$3 billion in operation of the systems.

So, we understand that this was an intelligent model of the Company in overlapping what we have already developed. The works will continue in the same way, there is a very large volume of works. There are more than 300 projects per year that we do, and the coming years are promising.

At least until 2028 we have many works to prepare and develop so that we can achieve the contractual goals that were then renegotiated and the deadlines extended, as well as compliance, which the environmental legislation has also printed a very significant volume of demands.

Giuliano Ajeje, Sell-Side Analyst:

The first question has already been answered. The second question is about PPPs. Will the Company's growth via PPP not be able to reduce the Company's profitability in the medium and long term, since there will be a mismatch between the recognition of revenue by the regulator and the amount that will be paid to PPP?

Abel Demétrio:

Thank you for the question, Giuliano. In fact, we seek the recognition of the entire portion of the consideration, which is paid both for the provision of OPEX and CAPEX together with the tariff. So, we do not see a mismatch, a reduction in relation to what will be paid to the *PPPist*.

On the contrary, I think that, since we are giving agility to investments - as Leura said, we currently have more than 300 projects -, we have goals to be met, and one of the ways is the combination of public and private efforts to achieve what the law determines, since it is the law that determines that, in 2033, we need to be with all municipalities with 90% sewage.

So, we do not see a drop in the Company's profitability. Oppositely, we will receive, in the end, the systems already with service rates including for continuity of operations, if applicable, by the Company itself.

José Lucas Landim, Investor:

Since 2021, expenses with services to third-parties have been increasing. Could you comment a little on this increase over the years? Do you have any plans to reduce these expenses?

Abel Demétrio:

Hi, José Lucas. Indeed, third-party services have been growing since 2021, but this is also for the reasons we have already commented on.

Take as an example the issue of sewage waste removal. We have a series of investments in environmental compliance. For example, we have seen the issue of expenses with chemicals also growing in the Company, given that the quality of the effluent discharge due to the requirements of discharge grants in the bodies are increasingly higher.

We have an increase in the vegetative growth of the water issue, an increase in the universalization of sewage, in the search for universalization.

As I said at the beginning, we collected 7.5% more sewage in 2023. So, clearly, this is also reflected in the costs of third-parties, which is precisely the removal of costs.

Obviously, the Company does not stand by and watch costs grow. The management of these costs is something constant.

We have a number of initiatives here, such as loss reduction. With less losses, you can spend less chemicals so you do not lose the already treated water. We have one, for example, on the issue of electricity. It is not really third-party services, but it is a whole search for significant cost reduction through entry into the free market. This is also an important initiative of the Company. As we mentioned, we have actions to combat losses, with new technologies being applied, including via satellite, to locate these losses and combat them beforehand. These are the Company's plans for reduction.

This is done daily, with operating systems, investment systems with a smarter search, in which many are even operated electronically, and not manually, to improve production and productivity. This is what the Company is looking for.

Cláudio Stabile:

(50:36-51:36 - AUDIO FAILURE)

Débora Cristina, Buy-Side Analyst:

Good morning. In PPP contracts, is the default 100% with Sanepar? How does it work?

Abel Demétrio:

Hi, Débora. Thank you for your question. In PPP contracts, the Company undertakes to pay the consideration to the provider. So the entire volume and commercial issue is made by the Company, which continues to collect from the municipalities, because in addition to sanitary sewage, we have the issue of water. So, commercially, the Company continues and it will pay the *PPPist* for the services it provides.

Thus, the entire cost of this installment will be paid to the *PPPist*, so the Company needs to take care of defaults as well.

Marco Aurélio, Investor:

Good morning and congratulations on the results. Could you comment a little about the Miringuava dam? Thank you.

Júlio César Gonchorosky:

Good morning, Marco Aurélio. The structure of the dam itself was completed a few months ago. We are still in discussion with Ibama's environmental licensing.

We understand that there is a precaution on the part of the environmental agency, which is perhaps a little excessive and unusual, but they are legal obligations that we have to comply with, carrying out additional studies.

These studies have already been initiated. We are currently completing the last field stage, and we intend to deliver Ibama's results no later than April, so that this analysis can be carried out.

We understand that this is the final stage that Ibama needs and we will, as previously stated, have the best time to make the suppression, which would be winter, the period of less rain, therefore the driest period, which allows us to work in the humid and forest areas with greater assertiveness and speed to take advantage of the wettest period, which are spring and summer, for the filling of the dam.

Naiane Mendes, Investor:

Good morning and congratulations on the results. Is there any position related to Maringá? Thank you.

Abel Demétrio:

Thank you, Naiane, for your question. The Company awaits the manifestation of the municipality in relation to the evolution of the judicial settlement processes, and there has been no change in the panorama recently.

Daniel Carabolante, Banco Safra:

Hi, thanks for the opportunity. In fact, I wanted to follow up on the question by text that I asked earlier, about the standardization of contractual deadlines.

I actually wanted to understand why, in this case where you did this extension, was it not mandatory for you to do a privatization? At least in my understanding of the legal framework, it would be mandatory. In that case, why didn't that happen?

Abel, you even commented that there were some obligations in this contractual extension process. I would like to understand if these obligations that this contractual extension brought are related to the CAPEX that you need to do to reach universalization or did you have any other obligation related to this contractual extension process? Thank you.

Cláudio Stabile:

Abel, I would like to introduce the beginning of the answer. Daniel, first: this is a controlling shareholder policy, so it is an option. Could it be privatization or move to PPPs? It was the path that the controller found most interesting, because the Company, as you have been following, is an efficient company.

So, having the private partner or private partners together with the Company, we will have the

issue of universalization of sanitary sewage even faster, as well as achieving, in a unique way, the universalization of water in 100% coverage.

And the understanding was that there is no need for privatization if the company is efficient, is doing its PPPs and will certainly achieve universalization before the legal deadline.

Abel Demétrio:

Daniel, the previous decrees of the federal sanitation decrees prohibited the possibility of extending the contractual terms, as it is an affront to the legislation itself, because you have an imbalance brought about by the new legal framework for sanitation, which imposed new goals for many contracts that you did not have.

With the new decrees issued by the Federal government, this rule fell, and contracts were extended in a way for companies to preserve tariff moderation and make the necessary investments for universalization. That is, the micro-regions did what is strictly allowed by the legislation.

Obviously, when you do a whole negotiation of extension of contractual terms, the legal framework of sanitation itself imposes some issues of investment rules.

So, we need to continue with 100% treated water in the municipalities, with drinking water for the population, we need to reach 90% of the targets by 2033 - as we have already said, we always intend to accelerate this movement -, we have the issues of intermittence, which are the supply stops, and the reduction of losses is also an index that is there in the contractual targets.

Therefore, these are the types of obligations that the Company has. Obviously proving the capacity, already including these investments and the OPEX costs that are necessary for the operation of the systems.

Thiago Santiago, Buy-Side Analyst:

How do you expect to move from a company of large capital investments to a cash generator, given that the company requires large investment and financing to continue increasing its revenue and net result?

Abel Demétrio:

That is a hard question. Obviously, the Company has a comfortable position already at this moment. There are few companies that already have universalized water, 80.2% of sewage collected and 100% treated.

So, our level for the search for investments for universalization is already well addressed, well forwarded, either through PPPs or through the access to credits that we have. We have recently made a very successful capital market operation.

Therefore, we have the elements so that, within the deadline, we can move from a Company that really invests massively today, but we understand that this investment cycle (60:26- 60:28 - AUDIO FAILURE). We already have the issue of universalization well organized and the repositioning of assets, which is a minor effort, and the Company being able to choose other investments, other forms of action.

Thiago Fernandes, Investor:

Good morning. First of all, I wanted to congratulate you on the excellent result. Concerning dividends, is there any news regarding the term? This is something that every investor has doubts about.

Abel Demétrio:

Thank you, Thiago, for your question. Although there is doubt regarding this, we included this information about the terms of all payments that were made from 2019, and we always realize that the payment takes place in June, because GEO approves the financial statements that occur in April, and the payment, according to the Bylaws, is always up to sixty days after GEO's resolution, so we have a payment history always in June, and obviously we always depend on the final decision of the shareholders, which is the approval of the accounts, which occurs in April.

But the forecast is always in June, and everything was duly approved in the April Geo.

Operator:

With no further questions, we close the Q&A session and pass the floor to the Chief Financial and Investor Relations Officer, Abel Demétrio, for the Company's final considerations.

Abel Demétrio:

On behalf of Companhia de Saneamento do Paraná, Sanepar, I thank everyone for participating in this video conference, wishing everyone a great weekend and an excellent holiday. I thank you all.

Operator:

Sanepar's 4Q23 earnings call is closed. Thank you all for participating and have a great day.

