



## Earnings Conference Transcript SANEPAR 3Q22 Results

### **Operator:**

Good morning, everyone. This is a presentation for the results of the Company of Saneamento do Paraná (SANEPAR). This presentation is recorded and we will make it available on our site, where we will have the respective presentation available.

For those who will be needing simultaneous translation, you will have a Globe assignment in your lower chart and you can choose your preference language. For those who are listening in English, you have the option of silencing the audio in English.

For the Q&A session, we would like you to send your questions. After the presentation we will present your questions. So in case you will not be able to make your presentation online, please write "no microphone". If by any chance your question is not answered, please forward that to our email: [ri@sanepar.com.br](mailto:ri@sanepar.com.br).

We would also like to highlight that the presentations, regarding this presentation and related on business perspectives government concerns the Company's expectation regarding its future.

Future considerations are not a guarantee, especially due to the government change and government rules, the performance of the industry in the Brazilian economy, among other factors. In addition to the risk presenters, therefore subject to change without prior notice.

We would like to pass the word to our President, Abel Demetrio.

### **Abel Demetrio:**

Good morning to all of you. Thank you for being here today. Today we have our President Claudio Stabile, our Director of Investment Leura Lucia Conte de Oliveira, and our manager (02:29) Mr. Gonçalves and his team, and our Accounting Manager.

Now we will start showing you the presentation. Showing you the accumulated until September, as highlights in our 3Q22, in an increase of 8.4% and in the accumulated nine months, 9.9%.

In our 3Q22 we had an EBITDA of 3.2 and a retraction of 5.4% as our net profit grew 2.4 in nine months, we had a reduction of 5.3. And in what recurs water, we had to sanitizing, we had 1.000 new connections.

In total connections we had a growth, and also we have 78% with our sewage collection. And reminding you that most of our investments attained 48.3 million in the accumulation of nine months. R\$1.609 billion.

Before 44.4% we closed with 38.4. We received in São Paulo the 2022 transference trophy for our work. As to the operating result, we had a measured volume of water above, compared to the same period of nine months.

In what concerns the economy, we had new economies. And to the measured volume, we had new economies. We closed our semester in the quarter with 4.1, with a higher compared to the 3.3 and our losses by the fourth with a rise of 6.7.

As to the reservoir levels, we had on average 95.95, that we have. This is an integrated system. In October, we attained 100% in these reservoirs and this is very good news in relation to our reservoirs.

I would like to talk about our performance indicators. In relation to the covenants in what concerns our net bank debt, that we are still ongoing working, we are following and we are adjusting our EBITDA (6:55), to adjust when net financial expense.

(7:04) that we are private, plus the loans. We have a debt service of EBITDA of 1.69 and that has to be smaller or the same, and other onerous debt that is 0.56. Together with Caixa Econômica we have contracts, our Covenants. We have adjusted EBITDA with our net financial expenses.

(7:46 – AUDIO FAIL) our debt service will win in September 22. We had 48% indicating our ratios of the EBITDA margin of 38.4, the ROI annualized 11% and ROI 14%.

On our next screen we have our financial performance. We attached 4.198 billion in 9 months and our EBITDA attached 1.612. Our liquid net profit in net margin was 19.1 and our operating costs and expenses obtained R\$2.587.

As for cash generation, with a high of 12.2, concerning the same period of 2020, our debt has a leverage of 558 million, with a total debt of R\$4 million.

Entering September, we had an equivalent of cash, and with the liquid debt of 1.7 of leverage. We closed our weighted average cost of debt with 11.5%. This has a positive impact on the reduction of inflation.

Our CAPEX attained with the rise of 37.4 in relation to the same period of 2021. 40% invested in water, and then 52% in sewage and 8% in other investments.

Next, we have quarterly results in our income statement. At net revenue as a negative, we had a growth of 44.2% as electricity and financial expenses. These are positive sectors in reference to other results.

In the accumulated results, we had our liquid revenue growing and personnel growing 15.4% according to the categories that started in March 2022, that had an impact with the hiring of new jobs, also impacted by chemical products that represented 75% in the expenses and other volumes consumed.

As well, we had a raise in what concerns electric energy, but in nine months we still had a growth of 11%, reaching R\$429 in nine months.

I would like to say, at this point, that we are working according to the inflation, plus the raises that we had, and we had other costs and expenses because of municipal funds and new projects that were signed.

We had other costs and expenses that reached R\$94. We had other events, we had great relevant events.

I would like to mention our provisions for health care and Social Security provisions, financial expenses. As for revenues, we had a reduction of 15.7%, and other expenses. And the net result for these nine months, we had a reduction of 5.3% EBIT. We had a raise, closing with 1.611.064 with a reduction of 38.4.

On our next slide, about non-recurring items, we did not have (13:36) remain the same compared to 2Q22, with non-recurring items. We went from 40% to 44% in 99%. We had these little changes.

In relation to non manageable items, we had accomplished an EBITDA of 1.611,7. In non manageable items, 156,5. Electricity, treatment material, fees and charges. This adjusted EBITA with non manageable items would represent R\$1.768.

Going back to our balance sheet, we now have, in raising, we have 3.819 in 3Q22. We had a raise of 9%. We had a net debt in our other assets and our operating working capital.

The maintenance was the growth on accounts receivable from customers. Other assets with stocks for operation where we had a higher volume of investments debt. We had a raise of 38%. With the other assets and our fixed assets.

As for the cash flow, our operating activities generated an increase of 12.2. The operational activities consumed less than 30%. And in the financing activities we reached 34.161. We have a raise of 244 millions, and we have now 1.474.

This is the presentation of the results as for the quarter of September 2022. Rodrigo, you have the floor.

**Maria Carolina, Credit Suisse:**

Good morning to all. Can you all hear me? Thank you. I have two questions. The first one is in relation to the fact that the company already forwarded an agreement. Could you please, first of all, tell us a little bit about what the expectations are?

The second question would be on the figures that we have. Is there any data that you really believe is going to generate any kind of disagreement as to the volume used for the next year? To do the data base of the company, and the level of cost added that was put with the regulator compared to the actual costs with the line of PNB. Could you please comment something?

**Abel Demetrio:**

Thank you for your question. Well, SANEPAR concluded their studies of resurgence of regulatory assets, and this material was sent to the regulatory agency in October 2020, and we are participating as to the checking of this regulatory.

SEPAPE did this survey. We already had a couple of meetings with this agency in order to explain our techniques.

We had contributions, as to know in what way these evaluations were made, and their results. We had a public consultation on what refers to normal techniques as to investments and the revenues.

And the Company has a due date November 18, in order to manifest itself. But at this moment we are still evaluating.

We have a company that we hired to contribute with these evaluations. And we are still working on analyzing the documents that were put in public consultation so that, later on, we will know exactly the results.

**Maria Carolina:**

Okay. Thank you very much. Even with the application of the results, do you think that these would be valid trade or are we going to have new rates?

**Abel Demetrio:**

At this moment, our due date is April, as it always occurs. Our agency has a very relevant job in order to check debates and to finish and make public consultation. But we do believe, yes, that everything will be done on time by the Company. I think that, due to our chart, everything is working and our team will be ready by then.

**Maria Carolina:**

Thank you very much.

**Leandro Aguiar, Investor:**

First, I would like to know if we had some evolution in the dispute with Maringá. Number two, I would also like to know, if possible, how it is the PPP on the expansion and the percentage of it, attending the sewage for the sanitation mark. These were the two questions.

**Abel Demetrio:**

Thank you for your question, Aguiar. As for Maringá, we have no new updates, it is still being discussed, depending on other discussions. So we have nothing new, nothing more than we already showed.

And in relation to the PPPs, Leura, our investment director.

**Leura Lucia Conte de Oliveira:**

Good morning to all. Can you all hear me well? In relation to the PPP, we launched the public hearing and then we delayed due to several contributions. We had more than 500 contributions through public consultation.

At this moment, we are evaluating and making the necessary adjustments in order that we could launch, to see how we could attend this new benchmark.

**Marcos Antônio, Investor:**

Are there studies being done to change the dividends, and what does the balance mean, and what are the other worries of SANEPAR?

**Abel Demetrio:**

Thank you for your question. Our dividend policy establishes 5% per month and we can reach up to 50% per month. Obviously, the Company is always having these dividend policies in mind, but there is a business plan.

But at this moment we do not have any ongoing plan studies concerning this because we always have the optimization in mind, and attending to the shareholders as to default.

Especially after the pandemic that started in 2020, the Company is carefully following the evolution, the default and the losses that are registered. We have an action plan already ongoing in the sense to lower this level close to what it was before the pandemic.

We understand that, even after two years, we will still have 40%. This new policy and also due to economical reasons from our users from Brazil, also shows that our defaults are quite comfortable still.

We are still ongoing at this moment. We have a program. We are evaluating all the alternatives in order to ease the payments from our clients, and other actions that are planned by the Company that will be implemented so that this default will go back to lower levels.

**Leandro Aguiar:**

About the dams, I know that we reached 100%, something that did not occur for several years. Could the Company tell us a little bit about the new dam that is under construction? Could you please tell us more or less when these works will be concluded?

**Leura Lucia Conte de Oliveira:**

Leandro is saying that unfortunately our dam labs are full 100%. Including Passaúna, its recovery was a little bit longer. But for the construction of a dam this is something that could harm.

The dam of Iguava has a microclimate of a very rainy area, which makes it more difficult to work the construction.

In the middle of August we could only work for three days, September only six working days, in October, not even one day. So only four days. You can foresee the difficulties that we are facing.

We think that we could end the construction by March 2023, but this will obviously depend on our climate conditions, because this would coincide with our rainy seasons. So we hope that in the meanwhile we will have some changes, so that we could be evaluated.

We are still under the first phase. The second phase would be the rescue of the forest. We are working together with something that would be very important, but to cut the trees would make no sense now, because in the sequence we have to do everything again by determination. So this is our status at the moment.

**Leandro Aguiar:**

Could you please talk a little bit about the line of materials? We saw that we had a rise in material treatment. What are you doing to mitigate this impact?

**Abel Demetrio:**

Thank you for your question. Here, in our follow up of our purchase of materials through 2022. I would like to explain the evolution of this item a little better.

We had a growth of use in consumption materials of two millions in this period, and due to a campaign in our Company we made all the materials. So we had another two million increase.

We also had some materials for the operational system, for the treatment of sewage that we required due to the operational conditions that we thought were necessary and this represented a higher cost. We had to buy some extra materials for Apucarana. We also had an increase of two million again.

We also mentioned that these materials were represented (32:22) for treatment material. In this year we had some reprimanded demands due to COVID that we could not do anything. And then we resumed, but of course, we were also impacted.

We had a raise because of the turn that we had, and this represents a raise in the consumption of the costs.

Also, to the question of the dollar, some important products had a significant raise in their price. We also had some needs to buy some other treatment materials due to more effective environmental parameters with chemical products. This is due to our legal legislations in the environment.

We also mentioned the exchange and the readjustment of the products that are produced, products that are manufactured in Brazil. Fuels that represent 9%, fuels in which we had an increment in expenses of around 36%. And mainly in the first semester we had more represented volumes.

The alternatives for the utilization of chemical products and other materials that are consumed by the Company are being also followed carefully. Chemical products will have to be used, which would be the best treatment.

Taking into consideration that the Company is aware, we do all the efforts in having suppliers, deliveries, and a stable supply chain that has a lot of competition. And this is made by the Company.

But we are also facing a recession in the market, and this also, of course, influences the price. But our Company is following very closely everything that is going on.

Our president is reminding us that our product had a substitute that was very expensive, and we could substitute them. But we have to comply with all the environmental rules. This is the most important thing.

**Lauro Arthur, Investor:**

Due to the war in Ukraine, there are news that European companies are very careful and are viewing the cost of energy in their operations. There are news of cost reductions and reduction cost of (36:06) SANEPAR due to their improvement and knowledge. Are you aware of all these news, of what is going on? And what are you doing to do so?

**Claudio Stabile:**

In Other opportunities I mentioned electricity, although we had a drop in the values, in consumption. In the next 15 days we will take it to our administration board. We did not do this before to AGEPAR because this was not the adequate moment for the market, because the prices were too high.

Now is a very good moment to start doing this, including what we have dealing with energy, biogas and other alternative sources. We have a pilot plan already for the next four months with a Brazilian set up. Through A.I. we will be able to control the reservoirs.

In our pilot we were able to reduce 13% of the consumption by only analyzing when would be the best moment, not only measuring the temperature, the time of the day. Several data demonstrate when would be the best moment. So if you replicate days for the Company and reached a lower 10%, it would be a huge impact.

A great composition, a great set of actions, would reduce this issue. Not concerning the consumption, but the cost, because the Company needs, as the same as water, electricity. We need to reduce costs, this is our main target.

**Leura Lucia Conte de Oliveira:**

I would also like to add, talking about electricity and sewerage, we historically used anaerobic reactors, but with the evolution of the environmental legislation of Paraná, which is the most restrictive, we have parameters that third parties demands, and we have other alternatives that will end up and make us growth in this kind of consumption, because we past from anaerobic systems to aerobic systems.

As Claudio mentioned, our search is in the reduction of system, because if we have to grow sustainable parameters, we will be looking for solutions, reducing the value of the energy, because, as Claudio mentioned, the free market will bring us some kind of new breath, will make us have more space to grow.

**Antônio Marcos:**

What could we expect in the near future in what concern (39:43) as EBITDA is being touched with the consumption of new materials?

And about inflation, what would be the percentage differential between the two years and the updating of the tariffs? Is the trend still going on with these losses or will we have a different scenario?

**Abel Demetrio:**

Thank you for your question. The Company is doing all the efforts in the sense of making these changes. We depend on the agency. We have contributed with many efforts in public consultations, with our techniques.

Our Company, in a certain way, in the last years, has been working in order to lower all of its costs and rethink its investment plans. But obviously I cannot project what would be the level of (40:42) revision.

This also depends on the agency, our costs, and then we would be able to foresee a feasible tariff. So at this moment we were not able to see, due to inflation, what would be exactly (41:19) and the index of the new tariffs.

**Claudio Stabile:**

Only to complement, I would like to say that of course we will make fair demands. Our Company will do this. But besides this, we have a mantra here in our Company, that what is in expense, has to become revenue.



Tariffs are necessary, but what else can we do to lower the cost of electric energy? What else can we do to achieve revenues? This is what we are looking for.

We have some work going on that I cannot talk about. They are at a certain point of maturity, reaching new revenues. And I think that within 12 to 24 months we will have good news in what refers to our revenues.

**Fernando Castro, Investor:**

Good morning to all. Are there any studies ongoing for the payments of dividends? Will they be made in the same year that the announcement was made?

**Abel Demetrio:**

Thank you for your question. Yes, we have a follow up as a demand of the investors. Also, reminding you that the Company has made two declarations, one in July and one in December, and eventually, as to the distribution of the dividends, occurring within 16 days, according to the GBO. So the payment will be occurring in the next year, in June of the following year.

This is a demand, as I mentioned, that we have from our shareholders. We have implemented this study in such a way that eventually we could change this position, but actually these studies are still internal studies and they were not submitted yet. And we are waiting for an evolution.

We are waiting our plans for the next five years, and our cash flow. And then we will be able to treat this question. I would like you to know that we are taking care of this question. But we are still studying it.

**Marcos Carneiro, CL4 Capital:**

Good morning to all. I have two questions. First of all, which was the strongest level of investment? Was it due to inflation or to the rise of the works? Could you please detail? What are your expectations?

The second question: were there conversations as to the control to optimize the structure of capital in other companies? Are they still going on with SANEPAR?

**Abel Demetrio:**

Marcos, thank you for your question. In relation to the level of investment, we realized that there was a rise of electrical costs in civil construction that also added a way toward investments.

The fact is that the Company has been looking to accelerate and recover all its investments, everything that was foreseen. Although some stations are doing slowest, we are doing new bits due to the budget.

The fact is that at the general level, for those new investments, the rate of investments has been raising. We have more work, but this does not mean that we have more investment. We are not ordered to precise exactly how much was executed, and what could be financial and what could be physical.



But the Company, here in the year of 2022, is a (46:12) to attain all the quantitative investments. But I would not be able to say at this moment exactly what would be additional.

What I can tell you is that we are working within our investment plan. As to your second question, we have no demand to tell from our controls.

**Isac de Souza, Investor:**

Good morning. About the agreements, due to the long benchmark, there will be a pressure on the service offered to the competition. Does the Company have anything to say in relation to this?

**Abel Demetrio:**

Thank you. As I have to understand, as to the agreements and what are the participation payments and the additional cost. In these cases, the Company, as we mentioned before, follows very carefully these movements of the market and the competition. And what happened in this country in 2022.

Obviously at each concession there is a study from our Company. And we need business that would be advantageous and economically viable for the Company. We defended a larger company, with new companies joining us in this competition.

We also have the opportunity to invest in sanitation, due to this great volume of investments with companies with this profile, with knowledge in this field and how we proved this throughout six years, that the competition is an opportunity to participate in new markets.

I would say that each case is a case. The Company would only participate with those that would really show good figures.

**Leonardo de Andrade, Investor:**

Good morning to all. What are the expectations of SANEPAR on the ESG management?

**Claudio Stabile:**

Good morning, Leonardo. In the beginning of 2022 we created an ESG committee in order to map, identify and create targets in our work. This has everything to do with our target.

Not only by the ESG, but in order to have an idea on what concerns the sewage treatment that the project until we sustain (50:46). This is very important.

As to ESG it is not different. Not only to search, but this is also an opportunity. We see a lot of opportunity by working with ESG. The carbon credits is something very important that would be an accessory revenue. Carbon is a big problem to deal with, but we can see it as an opportunity to have new accessory revenues.

We are very attentive, our administration is working hard on this, very carefully and attentive to all these possibilities, taking this very seriously.

Who does not fit in this vision, not only for financial means, but also because in what concerns the environment and the people, will not achieve success.

**Leandro Aguiar:**

Could you mention some cases that were mentioned by the public media debt in what concerns third parties that are not complying. Is the company monitoring these suppliers? What are they doing? Thank you very much for everything.

**Leura Lucia Conte de Oliveira:**

We have many suppliers in our sewage net, which the community depends on, because it affects their daily life. Yes, of course, but this is a continuous process. We found the supplier. SANEPAR has a guideline where the companies should follow all of these guidelines.

But we are very worried about safety. In some events that happened recently, we are reviewing all the time, in order to see improvement and even talking more severely, more closely to these suppliers, in order that this will not happen again.

**Fernando Castro, Investor:**

I would like to know if SANEPAR uses the Sigma methodology for improvement in projects using (54:07) and others.

**Abel Demerio:**

Thank you, Fernando. Of course, the improvement of processes is something very important and everything that is used in this Company is for the improvement, for the process. We have a robust process. Everything is registered here in the Company.

This would be something transmitted to all the employees. Everything is mapped. Everything is registered. But I would not know at this point in the project area, if these, especially the one that you quoted are being used.

I am really sorry, but there is no way that I can answer your question at this point.

Obviously, this is going to be part of the question. We are going to demand our Company to act in order to analyze if we already used everything that you mentioned, all these tools and how they can be used in the future.

At this end, we will end our Q&A session. On behalf of SANEPAR we would like to thank the participation of all in this video conference, specially for the questions made.

I would like to wish you all a very good day. This video conference on results, as to the third quarter of 2022, has ended. Thank you very much to all the participants and have a great afternoon.