

Q2 2013 Earnings Call

Company Participants

- Marcelo Miyagui, Head of Accounting
- Mario Arruda Sampaio, Head of Capital Market and Investor Relations
- Rui Affonso, Chief Financial Officer

Other Participants

- Antonio Junqueira, Analyst
- Bruno Pascon, Analyst
- Diego Moreno, Analyst
- Felipe Mattar, Analyst
- Hasan Doza, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to SABESP's conference call to discuss 2Q13 highlights in the tariff revision process. The audio for this conference is being broadcast simultaneously through the Internet at the website www.sabesp.com.br. At that same address, you can also find the slideshow presentation available for download.

We would like to inform participants that you will be in a listen-only mode during the company's presentation. After the company's remarks are over, there will be a Q&A period. At that time, further instructions will be given.

(Operator Instructions) Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of SABESP's management and on information currently available to the company. Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events, and therefore, depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of SABESP and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Mario Arruda Sampaio, Head of Capital Market and Investor Relations. Sir, you may begin your conference.

Mario Arruda Sampaio

Well, good afternoon, everybody. And first, let me also present other participants we have with us here. Our CFO, Mr. Rui Affonso; the Head of Tariff and Costs, Mr. Antonio Xavier; and the Head of Accounting, Mr. Marcelo Miyagui. So, they will be together with the rest of the CFO's team available for question and answers.

Today, we have basically three points to go through, three slides regarding the second quarter; some second quarter highlights, the news on the Diadema municipality and the last would be news on the Tariff process. But before we do have a slide with some page outline, where we would like to make some preliminary considerations for the reasons that we have been somewhat silent and not so much available or at all available for discussions with the market.

As everyone knows, since the release of ARSESP's resolution 427, which suspended the tariff revision process and requested SABESP to form the time necessary to revise the asset base. Due to inconsistency found, we have decided to remain silent.

First, obviously we ask you for your understanding and at the same time, we would like to reinforce how great and important it is for SABESP and the importance we give towards contacting, communicating and interacting with shareholders, investors, analysts and the media.

Make sure that this is not only valuable and important for you all, but also for SABESP's management and the process of which we manage this company. It is very important, this interaction. Therefore, we'd like to expose the reasons for our decision to remain silent up to now, reminding that this situation has great similarity to that ones that occurred during the fourth quarter 2012 release, that is of a comparison of dates between the fourth quarter release in this case, the second quarter release, and the resolution or a revolution issued by SABESP.

More precisely, as you can see on August 2, ARSESP's released resolution 427, which suspended the tariff revision process as a whole for an indeterminated time and gave SABESP 30 days to inform the time it would take to revise its regulatory asset base. At that time, as you all probably know, SABESP had scheduled its second quarter 2013 results release for August 8 and the conference call for August 13.

When SABESP came aware of ARSESP's resolution, it started working intensively to access the inconsistencies raised by the agency in relation to the asset base estimates. Taking into account the short time period between the publication of this resolution and SABESP's results release, we postponed, at first, the result release for August 13 and the conference call for August 15. The objective was to give an answer to ARSESP before releasing the results such that during the call we could freely discuss both the company's results and the tariff revision process. However, in view of the complexity of the matter, it

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was not possible to complete our answer to SABESP in time for the conference call on August 15.

In the meantime, two other facts occurred during this period. On August 9, the last tariff adjustment completed 12 months and on August 16, ARSESP's President resigned, leaving the agency's Executive Board with two officers, where the minimum requirement for resolution is three officers. Considering that we have not yet defined the deadline for work related to the asset base and the company's results came in line with the market expectation, we decided to cancel the conference call and remain silent until any relevant information about this process issue became available.

In other words, would not fit to come to the market and do not address the issue of greater relevance, that is the tariff revision. With this decision, we understand we are preserving the alignment with all shareholders, investors, analysts and other SABESP stakeholders until we have a concrete fact to discuss, which we are doing right now.

On our next slide, I think, it's slide 4, we highlight some points of the quarter and some recent events. As already known, second quarter '13 came in line with market expectations. Net income totaled 361 million in second quarter '13 compared to 292 million in second quarter 2012. And at the six-month period, net income was up 9.3% from 787 million in last quarter to 857 million this quarter, this last quarter -- sorry half. EBITDA grew 14.2% from 798 million in second quarter 2012 to 911 million in second quarter 2013. In the six-month period, EBITDA was up 8.7% from 1.686 billion, in other words, almost 1.7 billion in second quarter 2013 to almost 1.8 billion in second quarter 2013.

EBITDA margin in second quarter 2013 came slightly higher, 32.6% compared to 32.3% in second quarter 2012. In the six-month period, EBITDA margin also slightly increased from 33.4% in second quarter last year to 33.7% in second quarter 2013. If we exclude revenue and construction cost effect, EBITDA margin was 42% in the first half of 2013 compared to 41.4% in first half 2012. We also point out the net debt-to-EBITDA ratio, which in the six-month period remained relatively in line at 1.6 times in the first half of 2013 against 1.91 times in first half 2012.

Now, when we see the total debt of EBITDA, the difference is smaller from 2.42 times in first half 2012 to 2.4 in first half 2013. So, the numbers reinforce that the company had strong fundamentals to face adverse macroeconomic conditions as those seen currently with the devaluation of the real against foreign currencies and the increase in interest rates in Brazil and throughout the world.

With respect to foreign exchange exposure, we'd like to highlight first from the point of view of the results. The company was less impacted this quarter compared to the same period last year due to the lower appreciation of the yen against the real. Appreciation was 4.2% this second against 14.6% in second quarter 2012, and lower appreciation of the dollar against the real, in this case, 10% in second quarter 2013 from 10.9%; slightly higher in second quarter 2012, all this causing a decrease in the exchange rate variation expense of R\$80 million. In relation to total debt, as you can see on the chart, second quarter

presented a foreign exchange exposure of 38.5%, that is, 38% against second quarter 2012. So, very, very stable.

From the debt profile point of view, in our opinion, and the situation is very tranquil as you can see. The company continues to manage its foreign exchange exposure by diluting maturities in time, throughout the time and maintaining sufficient cash availability to cover any relevant exchange rate variations that we do might see as we move on.

Other recent highlights are the signature of the PPP -- Sao Lourenco PPP. This is a contract, which main objective is to expand the water supply in the metro region of Sao Paulo by another 4.7 cubic meters per second. This would be benefiting directly 1.3 million consumers and will, together with the other initiatives, ensure water supply in the metro region of Sao Paulo, our biggest market, for the next 15 years. This contract foresees investments in the order of 2.2 billion to be performed between this year and 2018. By this time, the water treatment station starts to operate that expectation.

Besides the water treatment station investments, we're also investing in 80 kilometers of watermain. All this would be implemented. These mains will have diameters varying from 0.8 to 2.1 meters and will be carrying water that will overcome a 313 meter difference in ground level.

The contractual mode of this investment is through a PPP. It's important to note that this reinforces SABESP's commitment to invest and expand its services so that to ensure 100% water supply and reach also the sewage services 100% coverage commitment until 2020.

Another point we would like to highlight is that on July 18 this year, SABESP's credit risk started to be covered by the credit rating agency Moody's, which assigned a Baa3 global risk rating corresponding to an Investment Grade and a Brazilian national risk of Aa1. br, both of them with a stable outlook. With this credit rating, the agency ratifies the capital markets pricing. In other words, SABESP's securities have been trading at spreads comparable with other large companies, Brazilian companies rated as Investment Grade.

Credit highlights pointed out by Moody's are supported by the company's solid cash generation, appropriate liquidity position and the access to national and international capital markets, and public financing, which support our CapEx program through low long-term and very low cost SABESP instruments.

So, to our next slide, comment on the municipality of Diadema, a news on our participation on that issue. As mentioned in our balance sheet, in 1995, the municipality of Diadema terminated the concession agreement with the SABESP before its expiration, generating disputes of two types. First, the municipality did not pay identity for the non-amortized assets, and second, the municipality company that renders the service, that took over the service and began rendering the service, has been buying water on the wholesale from SABESP in partly paying the invoices.

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This has led to disputes and lawsuits whose total judicial value comes to near R\$ 1 billion. This value obviously gross continuously either by interest and penalties incurred on the debt or because the water bills are still not paid in part. On one side, and on the other, without the possibility of SABESP to enforce payment by cutting off the water supply. In 2008, SABESP signed the letter. In other words, we have been working to step already in the situation for some time. So, in 2008, we signed a letter of intention for settling the debts of the municipality.

The initial idea then was to create a company, which shared control between SABESP and the municipality. In fact, in 2011, there was issued a -- published an issue or enacted a municipal law, which provided for the creation of a new water and sewage company in Diadema. However, there were several circumstances in the period that led to a change in the course of negotiations and that allowed SABESP to negotiate what is now a full operation of service. SABESP's proposal in fact for this was accepted by the municipal executive branch at the end of last week, and in fact, yesterday night, was approved by the legislative branch of the municipality, which with this disapproval now allows us and the executive branch to sign a contract. In fact, the expectation is that all going well. We would start operating directly this business. So, moving from wholesale to retail in Diadema as of January of next year.

The municipality is inserted in a region that SABESP already operates with large economies of scales. To be more precise, it fits exactly between the City of Sao Paulo and Sao Bernardo do Campo, which is another city we operate. And the main data that we highlight here on the municipality and have a little bit more there with you. But the ones I'll highlight is the population of close to 400,000 and water distribution is already at the SABESP level of 100%.

Sewage collection is very high, 96.2%. This operation will provide for 94,000 water connections, 87,000 sewage connections, which means we have to serve 120,000 residential units of water and 110,000 residential units of sewage.

The agreement's main characteristics are, we will have full operation of water supply and sewage services. There should be the signing of a contract for provision of services for 30 years. It's service contract. There will be a litigation settlement in lawsuits that was filed by SABESP. We will take over the employees currently working in the municipality. So, they all move to SABESP. It has to be in our investment plan to be in compliance with the municipal sanitation plan that would represents about R\$160 million of investments we're going to have to be executing in the years to come.

Tariff regulation and control will be delegated to ARSESP. There will be a leveling of Diadema's municipal current tariffs with the metropolitan region of Sao Paulo tariffs that what we practice in the metro region and in the cities we operate. This should be done in five years as of 2015.

Well, I believe that gives you an idea of what we're dealing with Diadema. So, let's move to our last slide, and then let's comment on the recent developments on tariff's front. As everyone knows, the tariff revision is suspended. The final decision on the average tariff is

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subject to ARSESP's approval of SABESP asset base. But first, let's go through a brief history of this process. In order to estimate the regulatory asset base, ARSESP (Technical Difficulty) requested SABESP to inform within 30 days the period necessary to reassess certain items of its regulatory asset base, and by means of an official letter later afterwards, the agency sent the list of items to be revised. In reply, SABESP requested three months to assess, to clarify and make the adjustments necessary to the regulatory asset base.

So, one central point in the discussion related to the company's asset base is the inclusion of working progress and working capital. In the preliminary tariff issued in the beginning of the year, the one that granted a 2.35% increase by SABESP, both of these issues were excluded from the regulatory asset base. SABESP has once again requested the agency to analyze the technical appeal that we filed in the occasion that was late April 2013, immediately after the publication of the preliminary tariff.

With regards to the tariff adjustments to inflation, in view of the referred resolution and subsequent evaluations on the issues to be revised in the regulatory asset base, SABESP filed a petition for the agency to authorize a tariff adjustment by inflation, that is by the EPCA. As usual, it occurs every year, and you probably know, in August and September. What we can say is that the official letter has not yet been answered by the agency. Remember that what we are requesting, that is, SABESP is requesting that the 2.35% granted in April as the preliminary tariff is now considered as recomposition of inflationary effects in this period, that is, from August last year to September this year, such that the adjustment would correspond to the EPCA accumulated until August, which discounted at 2.35%. It means there's a residual increase of 3.83% that we are proposing if all the entire request is accepted.

With regards to the nomination now of our ARSESP officers, came a very important issue. In order to ARSESP proceed with its work, whether referring to tariff revision or to evaluate the petition for adjustment by inflation, it is necessary to reestablish the quorum of agency's executive board, which currently has only two of five officers. On September 3, the name of Mr. Jose Bonifacio de Souza Amaral was submitted by the governor of Sao Paulo to the legislative assembly of Sao Paulo to compose ARSESP's Executive Board as Economic Financial and Market Regulation Officer, reminding that according to the law that created SABESP, if examination by the legislative body of Sao Paulo does not occur within 30 days, the nomination is automatically approved.

Those were our considerations. I would now -- please feel free to place your questions.

Questions And Answers

Operator

We will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Bruno Pascon with Goldman Sachs. Please go ahead.

Q - Bruno Pascon {BIO 16451201 <GO>}

Thanks, good afternoon, everyone. I have two questions. First, regarding the tariff revision process. I would like to understand the inconsistencies appointed by the regulator on the calculation of the regulatory asset base and whether those inconsistencies were related to pumping systems, treatment stations and pipelines in terms of the amount considering the calculation. Are those inconsistency are more connected to pricing? So, that will be my first question.

And then, the second one will be specifically in the case of the royalties discussion, the 7.5% arrived at in the municipality of Sao Paulo and whether this will be discussed and approved at the conclusion of the tariff revision process as well and on whether countries still have the optimum debt in order to preserve the economic equilibrium of the contract that is illegal not to pass through those royalties to win tariffs of SABESP? Thanks.

A - Mario Arruda Sampaio

Bruno, a question you made on the inconsistencies, in summary, you want to know if they're more related to physical aspects, if the assets are there or not there or price assets, price issues, if the assets is there or -- and the value for the asset is something that is not matching. Is that the question you made?

Q - Bruno Pascon {BIO 16451201 <GO>}

Yes, exactly.

A - Mario Arruda Sampaio

Okay, just give me a second. Okay, Bruno, I mean, we're -- obviously, we went off for a second to see what we could detail. But the fact is that they come on both sides. There's a physical questioning. There's price questioning. There are 19 items. Obviously, within each of that 19 items, there are many -- so I don't think there's anything we can say that would be helpful for you regarding these inconsistencies.

What we can say is there are sufficiently enough that we believe we can appraise this in three months time, which is obviously much less than we spent all in this process before. And we're very optimistic that this will not be an issue for delaying the process.

Now, on the 7.5% royalty, as we mentioned on the last call, the Portuguese call, understanding here is that everything continues equal. In other words, the only information we have on that is what you know. And that is this pass through -- and first of all, it's a personal correction, it's not a royalty, it's a transfer. It is suspended until the application of the final tariff. So, we are in this absolutely same page as you. We will obviously have tracked this. If we have any relevant information, we will come back to you on this, okay?

Q - Bruno Pascon {BIO 16451201 <GO>}

Okay, thank you.

Operator

Our next question comes from Hasan Doza with Water Asset Management.

Q - Hasan Doza {BIO 17222230 <GO>}

Hi, Mario, how are you?

A - Mario Arruda Sampaio

Thanks, Hasan. How are you?

Q - Hasan Doza {BIO 17222230 <GO>}

Good. I just wanted to clarify, just to make sure I understand your comment about the inflation increase you'll be requesting. So, right now, inflation is, what, around 6%?

A - Mario Arruda Sampaio

Yes, the inflation in the period is about 6.3%, something like that.

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. And the way that you plan to get to that inflation increase, what you're proposing, just so I understand correctly, is that you're saying let us keep the preliminary 2.35%, which was given, but subject to, obviously, the final process being complete. So, you are saying let us keep the 2.35% and then add 3.8% on top of it to get to an inflation-type increase basically. Is that generally what you're planning to request?

A - Mario Arruda Sampaio

Yes. So, more specifically, and Rui, correct me if I'm wrong here, what we're saying is the following. Since it has been 12 months since our last tariff revision and the 2.35% is a provisional, it's a preliminary, it's not the final tariff. And given that there will be, by the time of all the asset base is evaluated and so forth, it will be more than a year since the preliminary asset base value was granted to us based on December numbers, we understand that all this should be postponed. It has been postponed, the revision has been postponed for more than one year in such that we should be granted the tariff readjustment of one year due in September.

So, the 2.35% will no more be a preliminary, but will be part of inflation to be given for the period. So, 2.35% plus 3.83%, I believe, yes, is the total 6.37% inflation for the period. And then, at the end of the process, hopefully, as soon as possible, we will be granted the final tariff one at a time, not preliminary, okay?

Q - Hasan Doza {BIO 17222230 <GO>}

Okay. I understood. The only comment I would have is the model, as it was set up, was supposed to be in inflation plus real tariff increase model. I mean, my only concern would be if you are kind of willing to compromise, like, splitting the difference on the inflation increase --

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A - Mario Arruda Sampaio

No.

Q - Bruno Pascon {BIO 16451201 <GO>}

One, wouldn't you be you kind of compromising the integrity of the original model, which was real tariff increase? So, my question would be why not just ask for a 6% inflation increase like you are entitled to as per the model every year? So, I mean, what is the argument, again, just asking for a inflation type increase as you have done every year and leave that 2.35% outside of this kind of a compromise?

A - Mario Arruda Sampaio

No, we're not compromising anything here. We're saying that the tariff revision process is postponed indefinitely and all the indications is that it will be something to happen by the end of this year, beginning of next year. That, the 2.35% can be part, together with 3.83%, of the total inflation that should be accrued for the period up to August this year. So, we're not compromising. We're just saying that we still want and we will still go after the new tariff.

We are still requesting. We have not changed our position that we are requesting a 13% above inflation tariff review. But we're only saying, since the review is not happening this year and it has been more than 12 months of the last tariff adjustment, in order not to hurt SABESP's cash flow and financials and our overall plan and stress the company unnecessary, we are requesting for the agency to consider since the tariff revision has been pushed to next year to consider giving us the inflation for this period.

That's it. So, now, considering that we have already increased our price, in 2.35%, for us to complete a 6.37% increase, which is inflation up to August this year, we would only need an additional 3.83% increase. So, we're not compromising. We're just being very realistic and asking what we think we have the right to receive. So, the process is defined.

Q - Bruno Pascon {BIO 16451201 <GO>}

Got you. And for this inflation request, you would -- ARSESP, you would still need to have a third member, which currently it doesn't have.

A - Mario Arruda Sampaio

Yes. The third member, as I mentioned on the speech, has been appointed by the governor to the state legislative body, and the legislative body has the process of approving that can take up to 60 days or so. Or if it doesn't comment on anything, the nomination is automatically approved in 30 days. So, expectation is in a couple of months to have the full executive -- not the full, but the necessary Executive Board members, a number of members.

Q - Bruno Pascon {BIO 16451201 <GO>}

Great. Thanks, Mario.

A - Mario Arruda Sampaio

Thanks.

Operator

(Operator Instructions) Our next question comes from Diego Moreno with Merrill Lynch. Please go ahead.

Q - Diego Moreno {BIO 16605588 <GO>}

Hi, Mario. It's Diego again. So, we already did a lot of (Inaudible) process of the tariff revision and the Diadema thing, but one that is remaining from my side is really regarding the revenue share with Sao Paulo city. I know that the process they are like going in parallel or through the tariff revision, but when do you think that the situation will be solved that you're going to allow it to incorporate into your tariffs the pass-through of this revenue sharing?

Do you think that they needed to, first, to finalize the whole process of tariff revision for them to discuss about it, or is that kind of discussion that is going completely outside of the discussion of the tariff review?

And also what you are planning to request as the retroactive effect because like I think that since 2010, you already paid 800 million. And which the amount of this year, that's going to be close to 1.2 billion. Also this is a considerable amount, and how are you planning to recover at this point? Thank you.

A - Mario Arruda Sampaio

Okay, Diego, just a second. Diego, on the revenue sharing and, unfortunately, I'm going to be as blunt as we were in the last question and the last call on this matter. But we definitely are in the same schedule as everybody in terms of the ARSESP's determination is that it will be implemented at the same time the new tariff is implemented. So, our expectation today is that it will -- it should be implemented by this timeframe. Obviously, we all would like to have more visibility exactly when that is. In the meantime, we believe that the government must be in some discussions around this matter. But I can tell you that we are not aware of it to the extent that we can comment on it. And with all the difficulties that the process brings, especially next year when we have a very sensible political year. On the retroactive effect, let me see if Rui can comment on this.

A - Rui Affonso {BIO 5808118 <GO>}

Well, this is the same thing. We -- at the time we have signed this contract with Sao Paulo city, we have two potential entities that could be considering the future power -- we have the power of concession water and sanitation, the state and the municipal level. Since this year with the decision finally made from the Supreme Court, we have two entities in place. We are still waiting for the final specifics of this decision from the Supreme Court. But we can say that, yes, in the metropolitan region, we have two, the state and the municipal entities ruling the same concessionaire.

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So, from our perspective, at the end of this tariff revision process, we have to get deep on this issue, either with the state and also with the municipal level. We have said already to you that in our evaluation of the Sao Paulo city, we haven't considered the best, robust only to say citizens of the Sao Paulo city. The assumption behind our evaluation was that we have to pass these costs through to the whole metro region. So, this has to be addressed at the end of this tariff review process. And the retroactive cost that we have incurred during this period is part of this discussion.

From our point of view, of course, we will go for it. We will ask these to be recovered. But we have to discuss this with two levels of government now because these two have been empowered by the Supreme Court in this year. That's our understanding. So, there will be a very complex discussion at the end of this process of tariff revision.

Q - Diego Moreno {BIO 16605588 <GO>}

Okay, thank you.

Operator

(Operator Instructions) We have a question a question from Antonio Junqueira with BTG.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Hey guys, thanks for the call. I have some questions on Diadema. I'd like you to provide us a bit more details if you could provide us the revenue and your revenue of this operation, annual EBITDA, if they have financial liabilities, not with you, like with the other parties. And with the liability they have with you, the speed, and I would like to know how is this booked in your balance sheet today because it seems the number that is there, the gross number is way smaller than R\$1 billion and part of it is provision. So, I would like to know how will the treatment with this -- the accounting treatment. And also what did you negotiate with them in regards to this R\$1 billion liability they have with you? Thanks.

A - Mario Arruda Sampaio

Okay. Just a second, Antonio.

Antonio, I think the first comment on the balance sheet, I will pass the word to Marcelo Miyagui, then we can cover off the other points eventually.

Q - Antonio Junqueira {BIO 15403195 <GO>}

Thanks.

A - Marcelo Miyagui

Hi, Antonio. This is Marcelo. First, we have recorded accounts receivable from Diadema, amounts to 193 million and its total provision for allowance for that account. And we also have the (Inaudible) regarding the assets in amount of 60 million, and it's also provision for losses. So, this provision is going to be reversed, and the costs that they're going to

pay for the concession is going to -- will be regarded as intangible asset according to the FY '12. So, --

Q - Antonio Junqueira {BIO 15403195 <GO>}

No, that's great. But what's the difference between this 1 billion because you gave 193 million plus 60 million, that's 250 million. So, there's 750 million off balance sheet?

A - Mario Arruda Sampaio

Antonio, the 1 billion is the judicial, the judicial value. That is the nominal value plus inflation, plus penalties and interests. That is the book value of our legal -- what the value is from a legal dispute standpoint, which we have, to some extent, a great -- we will have great difficulties in receiving. That's on one side.

That's around the 250 million that's, let's put it, on the balance sheet, that is all -- that is provision and so forth. The final details, and this is what I think we have to say here, the final details of the financial liabilities. What is the EBITDA? What is the revenue? We're not going to disclose this right now, in fact, because we're still -- to sign the contract. We still have to sign the contract. So, there's a some details we don't want to share until we have the contract signed. What we can say is that this equates and it actually provides also an example of how to equate this awkward situation where we provide water, we don't get - they're not received. We're going to the courts. We're winning.

On the flip side, we have to continue to proceed with the supply of water. We have no ways to cut out the and enforce collection. And what we can say now that although we will be paying about R\$95 million in two installments, at this point, we can say that financial liabilities and all the liabilities obviously were due diligence by us. But all this in bulk were not sufficient for us not to move on with this process in such to equate this problem with Diadema, bring this operation from wholesale to retail with all the benefits, add more connections in services into a very highly scaled area and obviously, set precedents for the future. So we are going to retrieve from right now jumping into revenue EBITDA because, again, we're not buying the company there. We are taking over the services.

So, we did not diligence the company. What we did is we appraised values of the asset. We appraised the value of what is the future cash flows. And we did our evaluation, and we put that against what was the proposal from the Diadema side. And I think we came into a very good agreement in benefit of Diadema, which had in its back a potential R\$1 billion legal claim, a claim that is growing as we speak from all aspects as we mentioned on the call. So, overall, this is what we want to -- I believe this is today as far as we would like to comment, Antonio.

Q - Antonio Junqueira {BIO 15403195 <GO>}

It's fine guys. Thank you.

Operator

Our next question comes from Felipe Mattar with Goldman Sachs.

Q - Felipe Mattar {BIO 1900681 <GO>}

Hi good afternoon, everyone. So, I have three quick questions. If the first one is how confident are you about the 3.8% additional inflation increase? And if there are any pushbacks by the regulator by the time the new Director takes over with respect to the number, where do you believe that could come from? This is my first question.

The second question, I want to understand better if there are any further risks of potential pushbacks in the calculation of the asset base, meaning within three months by the time you publish the asset base, if there is a new round of this agreement between the regulator and the company, could be talking about a potential new round. And so, my question is, what is the risk that after three months if there is not an agreement between the company and the regulator, we enter into another three months round and so on that we lose a little bit of sight on when the effective timeline for the conclusion of the process is going to be?

And the final question I have is just to become clear about what is the referential date for the three months? I apologize if you already answered this question, but I want to understand if we're talking three months from August 2 when ARSESP published the deliberation 427 or if we are talking now three months from the date, meaning last Monday, that you -- or last Friday, sorry, that you actually gave the timeline to the regulator? Thank you.

A - Mario Arruda Sampaio

Okay. Felipe, on the referential date for the three months, we believe, starting the date ARSESP provides an okay for our proposal, which we expect anytime soon because we understand that this decision is not a decision that has to go through the executive, ARSESP's Executive Board voting. So, I can say our expectations is anytime soon to get the okay, and that counts three months. Nonetheless, we are already working on it. So, we are counting three months from the date we -- in our side, we said we can do it in three months. So, it's on their hands. It's on ARSESP's side to, in fact, not only approve the three months, but also provide for a new schedule. So, that's how we look at it.

Rui, do you want to comment on the 3.83% and then the risk pushback on the calculation, on asset calculation?

A - Rui Affonso {BIO 5808118 <GO>}

On the two other questions, first one's how confident we are about the 3.83% of inflation increase. We are quite confident. We are very confident whether to resume our opinion. Second, further east looking ahead, well, from our perspective, what we are seeing, it's this gap of this agreement, it's narrowed down. It's my understanding. We are now in this gap of this agreement, of this understanding as time goes by. But again, of course, it could be a new round of agreement. But we cannot see it -- large ones in the near future. So, we're sensitive about the two points you have raised up.

Q - Felipe Mattar {BIO 1900681 <GO>}

Okay, thank you.

A - Mario Arruda Sampaio

Thanks.

Operator

There appears to be no further questions at this time. So, I'd like to turn the conference back over to Mr. Sampaio for any final remarks.

A - Mario Arruda Sampaio

Well, thank you, everybody, for the call, to be with us with the call. We are obviously now open for conversations. So, as you need further clarifications, please call me, Angela, who will be available. Thanks a lot. See you soon. Bye-bye.

Operator

Thank you for attending today's presentation. You may now disconnect your lines. Thank you.

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