Q3 2012 Earnings Call

Company Participants

- Mario Azevedo de Arruda Sampaio, Head of Capital Markets and Investor Relations

Other Participants

- Analyst
- Francisco Navarrete

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to SABESP Conference Call to discuss its Results for the Third Quarter of 2012. The audio for this conference is being broadcast simultaneously through the Internet on the website www.sabesp.com.br. In that same address, you can also find the slideshow presentation available for download.

We inform that all participants will only be able to listen to the conference during the company's presentation. After the company's remarks are over, there will be a question-and-answer 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 assumption of SABESP 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.

Today with us we have Mr. Rui Affonso, Chief Financial Officer and Investor Relations Officer; Mr. Mario Arruda Sampaio, Head of Capital Markets and Investor Relations and Ms. Nara Maria Marcondes França, Head of Accounting.

Now I'll turn the conference over to Mr. Arruda Sampaio. Sir, you may begin your conference.

Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay, thank you. Good afternoon or good morning for some of you. Let's start this presentation that should let you know we have six slides and after we go through the slides and present overall results for the company and a quick comment on the ARSESP developments, we will open for question-and-answers.

Let's start on slide three, here we show the company's billed water and sewage volume which was 3.2% above the same quarter in 2011. This higher volume resulted from the 2.5% increase in water connections and the 3.3% upturn in sewage connections this in line with the company's expectation to grow its billed water volume by around 2.5% and its billed sewage volume anywhere between 3% to 3.5%. This later influenced by the high investments that the company has been making in this segment, meaning in the sewage segment.

In the third quarter of 2012, the water loss ratio remained flat at 25.9% in relation to the same period in 2011. We understand that with the contracting of the investments that are financed under the Japan International Cooperation Agency program, our water loss program, water loss reduction program which is scheduled for conclusion early, somewhat early 2013. We should see a greater decline in this indicator as we move into next year.

Let's move to financial highlights on next slide. Net revenue was positively affected by the 6.83% tariff increase as of September 2011 and 3.2% upturn in billed volume as mentioned in the previous slide. Cost and expenses grew by 2.3% in the period as a percentage of net operating revenue, however cost and expenses fell from 75% in third quarter 2011 and 73.4% in third quarter 2012.

EBITDA increased from 814.2 million in third quarter 2011 to 902 million in third quarter 2012. EBITDA margin increased to 33.3 versus 31.4 in last quarter, sorry, third quarter 2011. If we exclude construction and revenue cost from the total revenue, EBITDA margin was 42.4% this quarter versus 41.6% in third quarter 2011. EBIT moved up as you can see by 11.7% from 646 million in third quarter 2011 to 721.8 million in third quarter 2012. Net income increased from 68 million in third quarter 2011 to 361.8 million in third quarter 2012.

Now let's move to the next slide and discuss the variation in costs, help explain other numbers we went through. Obviously this explanation will be in relation to the same period of the previous year. That is then in comparison with the third quarter of 2011, cost and expenses grew by 2.3%. The main factors behind this upturn were the increase of 310.5% credit write-offs; 8.5% in supply; 8% in general expenses and 6.7% in service.

Note that somewhat small variation in cost and expenses was heavily impacted by the 0.1% reduction in payroll and benefits which accounts for a large portion of our total costs. Expenses with credit write-offs increased by 53.4 million from 17.2 million in third quarter 2011 to 70.6 million this quarter largely due to the additional provision for overdue agreements with private clients in the amount of 14.5 million and for the overdue debits with state public entity in the amount of 26.7 million.

Expenses with supplies increased by 3.6 million or 8.5% when compared to the same period of the previous year from 42.5 million to 46.1 million mostly due to water and sewage operating system preventive and corrective maintenance in the amount of 24 million and maintenance of water and sewage connections and networks totaling 1 million.

General expenses increased 15.5 million or 8% from 194.2 million to 209.7 million predominantly due to the increase of 4.7 million in the provision for transfer of fund, the Municipal Environmental Infrastructure fund as defined by the service contract and agreement we have signed with the Municipal Government of São Paulo. Also the increase in the provision of lawsuits amounting for 2.4 million and the increase of 1.7 million due to the beginning of the billing for the use of water in the Baixada Santista water basin. This is the Santos Port area water basin since February 2012.

Services increased 16.4 million or 6.7% from 245.1 million in the third quarter of 2011 to 261.5 million in third quarter 2012 was explained by the 8.6 million increase related to advertising campaign focused on social and environmental initiatives. This 5.9 million increase related to fleet renewal and growth performed through a rental program. The Alto Tietê water production system performed under a public and private partnership provided an increase of 4.1 million due to the startup in September 2011 of the additional 5.5 cubic meters per second water production capacity.

This increase as mentioned above were partly offset by 10.1 million reduction with social and environment activities related to the agreement with the Municipal Government of São Paulo remembering that this agreement is an agreement we established prior to signing the contract, the service contract. So we have still commitments related to that agreement that we have to perform and undertake and impact as you can see.

Payroll and benefits fell 0.4 million or 0.1% from 427 million to 426 million due to greater adjustments due to provision for severance pay in the amount of 15.7 million in the third quarter 2011, explained in that case by the greater number of -- sorry, and also explained by the greater number of employees that applied for retirement and the approval of Law 12.506/11 which changed the notice period for without cause dismissals from 30 days to maximum 90 days. Other factors that contributed to the reduction in payroll and benefits were a decline in the current cost base for the actuarial calculations for 2012 related to the Defined Benefit Plan in the amount of 4.1 million. These decreases were offset by the 8% increase in salary since May 2011 and of 6.17% since May 2012 with an impact of approximately 19.4 million.

Let's move now to slide six. Here we will analyze the items that affected the net income, our net income. Net operating revenue moved up by 119.7 million or 4.6% over the third quarter of 2011. Cost and expenses grew by 45.5 million or 2.3%, negatively impacting results yet at a lower expansion rate and the growth in revenue which compensates them. Other operating revenues and expenses decreased by 45.4 million particularly due to the accounting provision related to impairment losses totaling 35.1 million and provision for intangible asset losses in the amount of 35.1 million partly offset by the sale of scrap materials in third quarter 2011 in the amount of 11.7 million among other factors.

Net financial had a positive impact of 401.4 million in the third quarter results. The bulk of this increase explained by the exchange rate variations resulting from the 0.4% depreciation of the Brazilian real versus the U.S. dollar and the 2.8% depreciation of the Brazilian real versus yen in the third quarter of 2012, this in comparison to 15.8% depreciation of the Brazilian real versus the dollar and 19.4% depreciation of the Brazilian real versus the yen in third quarter last year.

Financial expenses decreased by 0.6 million due to the lower expenses with interest on domestic loans and financing of approximately 2.8 million versus the same period of 2011. This was mostly explained by the amortization of the ninth debenture in October 2011 and also a reduction of 0.7 million in interest and charges on international loans and financing.

This reduction was in part offset by an increase in financial expenses, the higher interest rate related to the lawsuits in the amount of 2.9 million. Financial revenues decreased by 41.5 million due to the gradual reduction of the market interest rates obtained in financial investments and lower cash position compared during the difference in time. Finally income tax and social contributions varied negatively by 136.5 million due to the exchange rate variation in the period of 2011 in relation to the period of 2012.

Let's move to our next slide, and we will quickly go through two events related to our debt. In October, the Board of Directors approved the general terms for 16th non-convertible unsecured single series debenture issuance for public distribution but with restricted placement efforts for a total amount of 500 million. The proceeds of this debenture will be used to settle the company's maturing financial obligations.

Also now in November, the Board of Directors again approved the general terms for the 17th non-convertible, unsecured with up to three series debenture issuance, this one for public distribution with no restriction totaling up to R$1 billion whose proceeds will be used to settle the company's obligation in 2013, including the early redemption of its debentures or the payment of other debts throughout the year.

Let's now move to our last slide. Here we will comment on our ARSESP implementation process for SABESP. First, tariff review but before we start the discussion on the new schedule in the technical note related to the preliminary average initial tariff, we would like to say that these two events, I'd like to say that we see these two events as a relevant part of the process of establishing a new tariff methodology that is, in our view a very important institutional step for the future of this company and for its commitment along with its client base, society, environment, employees, shareholders and credit holders.

And then let's start by commenting, first let's start by commenting on the new implementation schedule for SABESP's first tariff revision set out by ARSESP recently last week on November 9th and as shown and detailed in our slide.

According to ARSESP, the new schedule was necessary in order for her to accommodate the bidding process for hiring the consultants that will audit the regulatory asset base presented by SABESP, at the same time provide more time for us, SABESP to present a more detailed and robust tariff structure proposal.

According to the new schedule on November 13th, the regulatory agency made public its proposal for the preliminary maximum average initial tariff, the Efficiency Gain Factor, the X factor and opened the matter for public discussion all the way until December 13th when will be held at public hearing and entire process will be closed for that period.

The result of the public contribution and hearing related to the preliminary tariff and Efficiency Gain Factor will be released on December 29th. According to ARSESP, the preliminary tariff will be effective 30 days later of its release that is on February 01, 2013.

As for the retroactive effect of the tariff as of September 2012, ARSESP made no comment. But note, September 2012 is the base date for our adjustment. We understand that there should be some comment from ARSESP whether it will be or will not be retroactive. The new schedule also establishes the release date for the final maximum average initial tariff and tariff structure which will be on August 9th with implementation 30 days later on September 2013.

We would like to highlight that the new schedule divided the process we're implementing the first tariff review into two steps, we're now on the base assumptions and in criteria for implementing the final methodology such as OpEx, efficiency factors and the remaining elements of the technical note released this November 13th will be defined remaining for next year only two points which are the confirmation of the final regulatory asset base value and tariff structure.

In other words, the discussion that is taking place now and that will be concluded by December 13th will define the central elements of ARSESP to propose tariff model for the next four years. We believe this is very important for you to understand.

The relation to ARSESP's technical note on the preliminary maximum initial tariff and Efficiency Gain Factor was made public recently. For those who had the opportunity to read and analyze, it's probably -- it probably surface the complexity and in certain way and magnitude the lack of clearness on some base information, statements, assumptions and definitions adopted.

On the company's side, we're working on our company. On our side, we are working on understanding of the document and will present our final comments and suggestions only on December 13th during the public hearing.

Nonetheless, we would like to share with you some points that we have detected that have raised our attention and concern. On the OpEx, the cut in expenses are considered non-regulated was arbitrary in our understanding and in some cases without even legal ground especially the ones related to salary and personnel. In the case of average monthly consumption volumes we understand that the reference series adopted were extremely short not to mention in accuracy on its estimation. But we can see that at last with overestimated projected volume with significant impact on the proposed tariff.

As for the proposed Efficiency Gain Factor, the X factor on one side the short series adopted to detect technological changes, in our understanding are not sufficient and material for detecting a trend. And on the other, the selection of UK Sanitation Company as benchmark for determining the level and the efficiencies for SABESP, considering that UK companies present different levels of regulatory maturity and full service coverage compared to or is inappropriate.

Also the exclusion of capitalized expenses from the regulatory asset base was unexplained and technically not supported by ARSESP's regulatory accounting manual in other words technical flaw on their side.

The lack of clearness and also the lack of clearness and explanation in the treatment given to the depreciation in the cash flow estimate where ARSESP considered an asset life of 44 years well above what the company has knowledge and practiced resulted in a relevant impact to the preliminary average tariff estimate.

Well then to finalize we would like to reiterate importance and the institutional advancement that is taking place with the consolidation of this proposed methodology as confirmed once more by the technical note and assessments and also by the indication of a real tariff increase of 1.94%. Although we disagree with this magnitude in our view this tariff increased proposed short of the necessary for the company to sustain its long-term proposed investments and also desired and committed service levels.

That concludes our initial remarks. And now we would like to open the session for questions and answers.

Questions And Answers

Operator

Thank you. [Operator Instructions]. Our first question comes from Hasan Doza with Water Asset Management. Please go ahead.

Q - Analyst

Hi. Good afternoon, Mario and the team how are you?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

We're fine, Hasan.

Q - Analyst

So I just want to clarify three things. From your reading of the technical document, the tariff increase is how much?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

1.94%

Q - Analyst

Okay. So it's by any customer of SABESP and for example my bill is for example R$100 per month, next year on February when this is into effect my bill in real terms would go up by 1.94%?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

On average, yes. That's correct.

Q - Analyst

Okay. So my bill is not going from 100 to 115, it's going from 100 to 102?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

That's the way we so far can understand the technical note, in what was being, what is being proposed by the regulator.

Q - Analyst

Okay. On that comment, if I look at your 2012 revenues on an annualized basis just based upon your first nine months results, you are on pace to generate net revenue, net of the COFINS and PASEP taxes of like around 8 billion. So when I look at your revenues for 2012 and I look at your potential revenues for 2013 on a real basis your revenues should go from say, net revenues of 8 billion to up like 1.94% next year in real terms, right?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Yes, on real terms.

Q - Analyst

Okay.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

I think you can infer that based on what we can also infer on the technical note.

Q - Analyst

Okay. So your revenues are going from 8 billion plus on, if you look at 1.94% plus 5% inflation, on a nominal basis your revenues are going up from 8 billion, up 7% not 15%?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Again, we don't know how much the revenue is going to go up next year due to inflation. Remember that we don't know the figure, we'll only know that later in August. So from a nominal standpoint I think there's a lot of guessing and we would not like to do that right now. But from a real term, we believe the 1.94% is the closest we can understand and infer from the technical note on how we see impacting very, in a very general term for our revenue mix.

Q - Analyst

Okay. That's not helpful. So just on your example, if I assume for this year based upon your nine months predicted results, you generate 8 billion of net revenues for 2013, it should go up eight times 1.94%, correct?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

But just consider that the last quarter is already going to be affected by the September 2012 tariff increase. So revenues from the last quarter you have to do to consider the increase which was 5.15% and you can't give it right off the back on September because it is a deferred implementation, pretty much have to dilute it through the next -- through September, sorry November -- October, November, December, okay?

Q - Analyst

Okay. So that's what I would mention in my 7%. So if I take into account the full year impact next year, the inflation that you got at the end of August of this year, you have 5% increase for next year affected plus you have this real increase of 1.94% and the way I look at it, okay you approximately report revenues of approximately 8 billion give or take a little bit but your revenues then are going up by 5.15% on a full year basis plus 1.94% which is 7% and it's not going up by 20%, it's going up in order of magnitude by 7%, right?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Yeah.

Q - Analyst

Okay.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Roughly the same estimate we would have.

Q - Analyst

Okay. But that's helpful to clarify. That's very helpful. The third question I have is, so thus if you projected your OpEx to be in the node 4.6 billion for 2013 and as you mentioned, ARSESP's posing 600 million lower at 4 billion. So, my question is if you for example don't reduce your OpEx by 600 million, what happens to your earnings? But what it is the impact to earnings if you don't reduce your OpEx by 600 million?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

No, let's put it this way. First, we're doing some guessing here, because we're not totally in agreement with this reduction. I think very important for you to know as I highlighted in the speech that we're going to seriously discuss with ARSESP the cuts that they are proposing especially the cuts in payroll and salary which to a great extent we don't even find the legal grounds in some cases for them to support that, the thought that this is not part of the regulatory operation so far. So this is one point.

Now, remember that the technical note is a, it's a parameter for estimating a tariff adjustment for SABESP. And to a great extent, to some extent not to great extent, it is not so much correlated to our actual numbers, okay. Now if answering your question, if in case it prevails that the regulator will require us to reduce that delta in terms of, and we do not do it, certainly there will be an impact in that income.

Q - Analyst

Okay. That's helpful, because that I wanted to clarify is that the way you read this proposal is that, the 1.94% real increase is predicated upon having a regulatory OpEx of 4 billion, right?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Give or take, yes, although there is some slightly different base when you look at the accounting numbers and the regulatory accounting numbers.

Q - Analyst

Sure, sure. But in terms of ballpark, we're talking about in terms of like order of magnitude, we're talking about like 500 million to 600 million delta?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Yes -- us in 13% in our OpEx I mean you have to look at our current OpEx -- for example we would have to work in reducing it by '13 which will not happen because we disagree with the base, the bulk of the cuts in the payrolls and so forth.

Q - Analyst

Okay. I mean this is the math that I am doing is very simple is that your -- I know that if the tariff is predicated, tariff increase of 1.94% real is predicated upon a OpEx, regulatory OpEx of 4 billion and so hypothetically in the short run you are not able to reduce 600 million. So I mean that's basically a delta of over close to 150 per share, share of penalty that the shareholders would have to borne in the meantime, right?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Yeah.

Q - Analyst

Okay. So the 1.94% tariff increase says that you must get to a regulatory OpEx of 4 billion and whatever is the delta that you're not being able to get to is going to be borne by shareholders?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Yeah.

Q - Analyst

Okay. So essentially theoretically what could potentially happen at least in the short run assuming that this 4 billion regulatory OpEx doesn't change is that your top-line tariff increase of 1.94% could be negated by this 600 million OpEx delta?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Hasan let me, let's stick in a little there. The point is, if we all agree on the approach that what is really estimated is that allow increase. It is that we're going to get 1.94% increase in rep. If we keep ourselves all constant and we do the math using the accounting base numbers, you're going to find out that, definitely you were not going to get the same return on the walk return that we allowed on the regulatory accounting base.

Q - Analyst

Right.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

So the point is, we might not even have significant impact on the bottom-line because all constant, we're just adding 1.94 to the top-line. But when you look from a return on the asset base from an accounting standpoint, we are not going to get the significant amount of increase we were expecting.

Q - Analyst

Right, right.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Now we are going to the, that's called a complex ground of translating the regulatory accounting numbers that were utilized to provide the estimation for the tariff increase and the remuneration of the asset base being the regulatory asset base with all the accounting numbers that you and we have access on a publicly, public base. So...

Q - Analyst

No, that's. Yeah, okay.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Just imagining that obviously if we do move forward and reduce in a great extent the OpEx as suggested, we would actually increase the dividends and the income that we will make but if we don't, we will have just as an inefficiency that will not be shared with you guys.

Q - Analyst

Right. So and you've said it in your -- at the end of the comment, and if I heard you correctly, you said that this 1.94% increase is not sufficient relative to the proposed CapEx that you guys are thinking about.

I mean if I heard you correctly, then my question is going to be as a follow-up that if you look at the math, you would be under-earning the allowed return if you're not able to get your CapEx down to the regulatory OpEx, I mean the OpEx. So, if you have 1.94% increase and then this OpEx hanging over your head, I mean how does it impact your 2.5 billion of CapEx in terms of whether or not it's economic to spend that CapEx when you don't have a sufficient tariff increase plus you have this regulatory OpEx issue?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Hasan, we basically we're not going to get the desired return of 8.06% or anything like that on the additional CapEx. What we're saying that, we don't see based on the numbers he utilized on his technical note, that although from a number crunching standpoint obviously it's correct, the numbers he put out there. But we argue that the numbers do not reflect correctly whether on the OpEx side, whether on the depreciation side, whether on the projection or the volume side what we find proper.

So the way we see it is that, if you adjust these variables and assumptions to what we think are more actual, real and operational related, the outcome will be a greater increase than the one provided by the regulator, okay? Hasan?

Q - Analyst

Yeah.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

That's our point.

Q - Analyst

Okay. That's fine. And it's a negotiation but just to understand the technical note, your comments were very helpful and thank you very much, Mario.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay. And see you Friday.

Q - Analyst

Thank you.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Next Friday. Okay, thanks. Let's move now.

Operator

Our next question comes from Enrique Torretti of UBS. Please go ahead.

Q - Analyst

Hi Mario. I would like to confirm one thing. If the cost of the contract is on policy, the assessment of 5% of revenues included as a pass through in the tariff reset proposal?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

No, it's not included. All the, let's call it the legal obligations on the contracts we have with City of São Paulo and other municipalities we operate are not part of what the regulator considers a regulatory and an operational cost. So it's going to be treated in separate.

The way the regulator has set out is that he will allow us to charge on a specific line in our bill, in the water bill. But that is not the final conclusion for that and the implementation for that is not yet clear. The regulator is also working on the legality of that, trying -- working on obtaining a legal opinion from the state level lawyers, attorneys. So it is not included and it's not yet finalized by the regulators how and when this is going to be applied. What we know is that it's not included.

Q - Analyst

Okay. But you are going to introduce it in your proposal, in the public hearing, right?

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

No, we're not going to add it because we do agree with them that the 7.5% is not related to the operation. So we're not arguing so far with them how he is dealing with this. He moved from a very negative position to what we see as a very positive position. He recognizes that this is a legal obligation that is, I'll give you an example, he does not -- he is not including the COFINS and PASEP in the pass-through or in the expenses for pass-through. He is not even including it that has already actually technical note commence that, he will allow that, this will be a charge in separate. So when I'm paying my bill I will know exactly how much COFINS and PASEP will be paying, how much I'm paying for the service and potentially what are we paying for the legal obligation of the 7.5% for the municipal fund of the City of Sao Paulo, so it's going to be separate.

Q - Analyst

Okay. Thank you Mario

Operator

Our next question comes from Giovano Baracusa of Barclays. Please go ahead.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Mario good afternoon it's Francisco Navarrete. Thank you for the call. I know I already addressed so much of questions in the Portuguese call, I just have one follow up question it's if you can help us understand the disconnect between what you're saying is going to happen with the revenue for that in the next year with the 1.94% increase and the regulator statement just a few minutes ago saying that what should matter in page 51 of the technical note is R$10 billion that you're saying that you should achieve as revenue in

2013 with the tariff structure that's suggesting to meet the size and provide and inform the regulator about.

So in other words you're saying that the focus should be in the symbol in real of revenue that you should allow -- that you should be allowed to collect as opposed to 1.94% tariff increase or whatever percentage tariff increase or for the matter whatever reals per cubic meter new tariff that you are being set. So if you could please help us understand that would be very helpful for trying to -- revenue into the year. Thanks.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Francisco, let me see if I understand what you said. We just said that on a fairly first approach we understand that the best way to see and look the 1.94% is to the total revenue and move on from the accounting numbers as they are and do your analysis this is what we said in the Portuguese and we just reiterated with Mr. Hasan now. But let me understand, you mentioned that the regulator has just made a comment that we should consider the R$10 billion revenue, is that it?

Q - Francisco Navarrete {BIO 15936808 <GO>}

Correct. After the Portuguese call, we're trying to understand as you mentioned in a very complex technical note. And there is a lot of confusion by the market, by analysts, obviously we have seen that you guys are trying to deal with the new information that they are proposing to you. So we want to understand why -- your revenue, or how we should think about revenue for SABESP after the review was implemented in February 1st. And the -- is common, delivery was common that what we should focus on in page 51 of the technical note is not between R$92 per cubic meter, not the 1.94% tariff increase that it represents, but that -- but what the technical note points to is that SABESP is being allowed to collect the revenue amount of R$9.9 billion beginning 2013 once the regulation is implemented.

So this is, and I don't really know how technical note maybe contemplates to that or not. But clearly the difference in payment by the regulator then maybe we should think that the 1.94 reading in the note doesn't really converge to the intention a little bit later which is allowed R$10 billion revenue for your beginning next year. This is just our thoughts based on the discussion with the regulator and we want them, try to connect the dots here. Thank you.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay. But Francisco truly speaking, we're not aware and we have had no information from the regulator, if you had it, that's great that what should be considered is the revenue he's proposing to start in February.

I mean in fact the way we read it and I am trying to find it here in the technical note we're trying -- so if you have this information, we don't have that information, okay. But the way we look at it is that on page 51, we actually see that -- let me see if it's on page 51 on items - no, it's not that. We're seeing, what we're looking at is on page 42, on item 10.10, the last paragraph what he is basically saying that this new tariff level correspond to a linear increase in tariffs of 1.94% giving that the tariff, the start, base tariff that he estimated is 2.87%, okay. So that's the only thing we can understand. We cannot understand from what he just -- he put out that our revenue starting next year will be 9.994 billion. So, maybe we don't have the same information.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Thank you, Mario.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

But again Francisco, the way we are looking at it maybe is too much simplistic, but we cannot start inferring unless he has made any public statement that all of us are aware of it. We don't know.

Q - Francisco Navarrete {BIO 15936808 <GO>}

Thank you, Mario. Well, yeah I understand the confusion I mean it's really difficult to, for us to come up to a final conclusion and I understand where you're coming from because it's in a way to -- and just a big disconnect that we're trying to fill in the blanks. But, thank you very much for your answer.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay, Francisco. We'll be working on this and hopefully we'll be getting better and we can review all this as we move on, okay. Thank you.

Operator

[Operator Instructions]. We appear to have no further questions. Now I'll turn the conference back to SABESP for their final remarks.

A - Mario Azevedo de Arruda Sampaio {BIO 16570252 <GO>}

Okay. Thank you everybody for your time. I know this is, we have fairly good results on one side, on the other side we do believe we have fairly good results and the process of establishing the methodology. But nonetheless, I think we can all see very complex. We will be working to understand and bring more clarity to ourselves into the market. And feel free to call us, myself, Angela and the IR team, we will be fully available. Thank you and good bye.

Operator

The conference has now ended. You may now disconnect your lines.