

EEB EARNINGS CALL 1Q 2016 – KEY RESULTS AND DEVELOPMENTS
Conference Call Text

Operator:

Good morning ladies and gentlemen, and welcome to the EEB's Earnings Call - Results and Key Developments 1Q 2016. My name is Richard and I will be your operator for today. As a reminder, this conference call is being recorded. Under the tab "Downloads" you will find today's presentation. I would now like to turn the call over to Mr. Felipe Castilla, EEB's CFO, parent company of Grupo Energía de Bogotá. Please go ahead Mr. Castilla.

Felipe Castilla:

Good morning and welcome to our Earnings Conference Call for the 1Q results 2016 of Empresa de Energía de Bogotá -EEB- the parent company of Grupo Energía de Bogotá. My name is Felipe Castilla and I am EEB's CFO. Today's presentation will be made by Ms. Astrid Alvarez, CEO of EEB and then by myself. The presentation is divided into four parts. First, our CEO will make some introductory comments and key updates. Second, we will briefly review the main developments during this quarter. Third, we will have a look of EEB's financial performance during 1Q 2016 and the most important financial indicators. To conclude this conference we will be pleased to open the call to a Q&A session.

I will now turn the call to Ms. Astrid Alvarez, our CEO, please go ahead.

Ms. Astrid Alvarez:

Good Morning and welcome everyone to our 1Q Conference Call of EEB. I am at the head of Empresa de Energia de Bogota and as many of you know the district of Bogota is our main shareholder, with 76.28%, and our new Mayor Mr. Enrique Peñalosa was elected last year and took office at the beginning of this year. First

the new Board was elected this year and the Mayor appointed me as CEO of the company. There is a point I need to make; the Mayor of this city is not in the Board of Directors. He has appointed 7 of his delegates and specially finance professionals in Colombia with well-developed carriers in different sectors. Let me properly introduce the Board and then some management changes have been taking place in the company, among others; as I said our Board is independent, business driven, very strong financially and with different backgrounds in different industries. We will put procedures in place to maintain and reinforce the Corporate Governance of the Company, regarding my records, I do have previous experience as an executive and CEO of a large business utility company in Bogotá at the water and sewage company, which is the largest water company in the country. I also worked in Ecopetrol, first I ran the new supply chain and procurement model, in Ecopetrol, which is the oil state-owned Company in Colombia. I would like now to walk you through what we have done these first three months of 2016. We as a management team have started to carefully review the strategic path for the coming years, and we have so far, implemented a few strategic changes. We have enhanced our team, not only at the level of our new Directors, but also those running our main subsidiaries, such as Calidda in Peru, TGI in Colombia and Contugas in Peru. In both Calidda and Contugas we have selected two very high-professionals from Peru. Also we have changed the Corporate Governance in both companies, introducing new professionals in the Board of Directors in Peru that will help us to orientate the company in the country. I can assure you that these new executives are capable and have a good track record in the industry and in the markets in which we operate. Also we have closely started to review all reviewing our controls investments [no se entiende...] we are approaching each asset on an individual basis with simple goals, we have exactly the main three industry goals, minimizing risks and maximizing future yield for all our shareholders. As you know our shareholders in the capital city of Bogota, our private shareholders are

very important in the country and outside the country. As I have said, we were planning an investment, say for the next quarter, and we will let you know how we will plan the day so each time you will have more and more information of the company and the new changes we have made in the company, and first to talk closely with the persons who are working in the company. Our initial analysis shows that local investments and [unintelligible ...] show [...] results in Return on Equity, in that sense we will spend time to find an appropriate balance between the more or less profitable assets, so that we can focus on those investments that add more value to our investment portfolio. We expect to provide the market with relevant information in 2016 and furthermore we expect growth in the short-term via **MIA or green field** projects outside of Colombia. We will continue investing in local asset in Bogota, particularly in electricity transmission and gas distribution via TGI. So especially in transmission the Colombian Government is going to launch a very important project for the next semester, so we are really looking forward to see what investments we can go through in Colombia in the transmission sector. Thank you very much.

FELIPE CASTILLA – CFO

Now we will start with the presentation talking about the key developments and results 1Q 2016. We are going to page number 5 in our presentation. First of all, I would like to mention some shareholders decisions in the Assembly, which have been taking place during the last months. In July 6, 2015, the General Assembly approved the release of occasional reserves amounting to something close to COP\$458,000 **million pesos** and this extraordinary dividend is almost equal to COP\$50 per share, and it will be paid to minority shareholders in one installment in the month of July, on July 5th. For the major shareholders, which is the city, that will be financed during the next ten years, and it will be paid in ten annual equal installments from 2017 to 2026. Also on the Assembly held at the beginning of this year on March 31st, EEB declared dividends to the shareholders

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for COP\$224 thousand million pesos, equivalent to COP\$24 per share. That will be paid during the year, for the minority shareholders in one single installment on July 5th, and for the major shareholder, which is the city, it will be paid in two installments, the first installment will be paid on July 5th, and the second installment not later than October 28 of this year. We would also like to mention about Isagen's divestment, the Municipal Council of Bogota authorized on March 31st, EEB's divestment of those shares. On April 20th, we started our first phase addressing the solidarity sector, because we have to comply with the law 226, because we are ruled to sell state owned participation and we expect that this will be opened until June 20th and then we will open to the general public and we expect to sell it to any open bid, then that is what we would like to use the offer from [unintelligible ...] that bought the shares from the State. We would also like to mention that on past Monday, Ecopetrol announced the second offering of our shares that they still have something larger than 3% shares of EEB. What they have announced is that on June 1st the offer will be opened, in the BVC, the Colombian Securities' Exchange. In the case of TGI, in March 30th, it was declared some dividends to distribute US\$20 million in dividends, in this case remember that there are two receivers, one is EEB and the other is our special vehicle in Spain IELAH. Dividends were paid on April 4th 2016. In regards to the IELAH merger with TGI, we want to mention that on January 29th the Colombian Societies' Superintendence, Supersociedades approved the merger for these two companies, and on May 11th, TGI finalized the merger with IELAH and that is the last [...] for this acquisition plan. As a result, we expected that the outstanding debt, I mentioned that the outstanding debt is excluding any inter-company loan, which is almost in the level of US\$220 million, and will be on TGI's balance sheet. The current debt of US\$219 million, has been prepaid, we started with US\$645 million, and we have paid three installments on the principal of that debt, on March 2015, we paid US\$76 million which correspond to TGI dividends paid on the ---- and on September 2015 and in March 2016 we have been paying

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US\$175 million in each installment that correspond to an intercompany loan given directly to TGI to the [...] That is the reason why we still have an outstanding debt of US\$219 million.

On Cálidda we have increased the client base in almost 33% compared to 1Q 2015, at this moment we have still a client base of almost 370,000 clients. In this quarter, we have been building almost 370km of networks, at this moment we have reached more **than 3,600 km o 6,300 km??** o of underground pipelines. In the case of financials, EBITDA for the last twelve months finalizing in almost US\$112 million, reached a total EBITDA for the full year of USD \$104 million, increasing almost 10% when compared to the same period in 2015. This increase was mainly due to the cost reduction, explained mainly by the renegotiation of some contracts at a lower price, and also because the company has been growing the client base during the last years. On March 2016, the Shareholders Meeting approved the distribution of more than US\$30 million among the shareholders. Please remember that EEB holds 60% of the company, and dividends were paid on April 1st 2016.

Going to the expansion projects highlights, I want to mention first that during the 1Q of 2016 the company as a group has spent almost US\$45 million in that expenditure, electricity transmission has spent almost US\$24 million that corresponds to projects we have spent here in Colombia, and what we have been doing in Guatemala through TRECSA and EEBIS companies. In the gas distribution, we have spent something close to US\$20 million, in that distribution, almost all is spent in Calidda on the expansion bringing new clients to the company and on electricity distribution that corresponds to EEC here in Colombia we have spent US\$3.2 million, and in gas transportation, which is mainly TGI, almost US\$2 million during the 1Q.

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For our associates, as you can see in the graph, we have a huge growth in what corresponds to electricity generation that correspond, well that during the last year were the final phase of execution for El Quimbo project in EMGESA. Now we have completed the project, we have **regular?? Investment** at the level of that company. In electricity transmission the main company that is investing corresponds to CTM, which is the company with which we are associated with ISA in Peru, we have been spending almost US\$69 million that correspond to the latest concession that has been awarded at the level of the company. We have the concession Mantaro – Marcona, la Planicie – Industriales, Friaspata-Mollopata and Oricutuna substation, for that reasons it is now the largest investment that our associates segment has in place. During the 1Q we have invested almost US\$115 million in which CTM has invested almost US\$69 million.

In the next page you will see what is our investment plan for the period 2013-2020 period. Our expectation is to invest almost US\$2.7 billion, what we have almost executed US\$1.3, and what we have in our plan is that in the coming years, from 2016 to 2020, our investment plan is probably US\$1.4 billion. In that 1.4 billion, we have the investment we are making through EEB directly in the UPME project. The investment that we have been planning for Calidda in bringing new clients to the company, and also what we have at the level of TGI and other companies.

In the next page, page 11, we can see how is the growth of our consolidated results for the 1Q. In the left side we have our operating revenues, which have grown almost 32% compared to the same period in 2016. That is due to several factors, In one case one is the difference in the exchange rate as our figures are expressed in COP, but also as we can see this growth in different sectors. In electricity transmission we have explained under two different circumstances, but

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we have in place two new projects, the Alferez substation and the CVC Tunal. Also we are receiving partial income at the level of TRECOSA. In the case of natural gas distribution, we have growth of almost 20% that is due to new clients, residential and industrial connected mainly to Calidda and Contugas in Peru, and also for higher volumes distributed during the same period. On natural gas transportation that is TGI, we have growth of 37%, and that corresponds to largest transported volume due to thermal generation as a result of el Niño phenomenon here in Colombia and in electricity distribution we have growth of 27%. In the right side you can see what is the operating profit by segment. That operation profit has grown, when compared to last year, by the level of 51%. Please remember that this operating profit corresponds to the difference between operating revenues and expenses and costs and mainly due to higher growth in natural gas distribution, on new projects and their execution for th electricity transmission business, in natural gas transportation due to increasing in the transported volume and exchange effect and in electricity distribution mainly due to the increase energy savings through our subsidiary EEC here in Colombia.

Going on to the next page, the consolidated results. On the profits we have just reviewed it. If we see the other accounts we can see that finance income has increased almost 30% and [unintelligible ...] in place that generated revenues during the period. And also due to the effect of the exchange rate and less cash excess we have less interest returns on financial investment. We also have an increase in financial costs due to, first the intercompany loans we have incurred in the past years, the exchange rate has also has increase in the Colombian peso accounts, and some other payments and commissions and banking costs. If we compare the net exchange difference between 1Q 2016 and 1Q 2015, you can see that last year we had an exchange loss of almost COP60,000 million, but in this 1Q we have an income of almost the same amount, COP\$65,000 million

due to the behavior of the exchange rate that has been a case of revaluation ... also in the case of devaluation.

Also we have an increase in the net method of associates, and also in the case of the tax situation, last year we had expenses of almost CO\$6,000 million, but during the 1Q we have an increase of COP\$12,000 million due to the deferred tax at the level of TGI and Calidda. At the end, we have in the net income a growth of 148% due to operational results and equity method of distribution from associates.

Going to the following page, we have been, well in the way in which we measure out EBITDA, for 1Q we are considering the last twelve months, and compared to the EBITDA generated in 2015, we have jumped from COP\$2.2 billion to almost COP\$2.56 billion. If we compare who is contributing in that EBITDA, we see that 68% of that EBITDA is generated under controlled businesses, and 32% from our associates or non-controlled businesses. On the pie you find on the right hand side, the three main contributors correspond to TGI, with almost 46% of our Ebitda generated and Emgesa and Codensa with almost 25%. In the consolidated adjusted ebitda if we see it by segments, we can see that natural gas transportation corresponds to almost 47% and gas distribution to almost 62%, and the remaining portion to electricity business.

Going on to the following page, we are presenting the main financial indicators in the case of net ebitda over consolidated ebitda, we see that we are at 2.78% every level under 4.5 is something that we include in our indentures, and we are well below that number. On the consolidated adjusted ebitda on net interest we are at the level 8.8 that is above the 2.25% that we have in our indentures. In our debt correspond to this moment we have been reducing our debt a little bit, our debt is US\$2.65 billion correspond to our debt in US\$ and the rest of our debt 4.6

corresponds to debt in local currency and that shows that we have been reducing our debt and we have been trying to reduce our exposure to having all our debt concentrated in US\$.

In the next debt profile, you will see how is our current debt, and we have been reducing that as I already mentioned with the payment of the IELAH debt in Spain.

On the next page, you will see the evolution of our share price compared to the Colombian market. If you see that our [unintelligible] started in November 2014 until now the growth of our share has been in the level of 7%, while the Colombian market has shown a decrease of 23%. This shows that our share has increased in the market almost 30%. You can see that at the end of 1Q 2016, we had a market cap of US\$5.7billion, the average target price that all consultants have placed for our company is around COP\$1865 per share. For the dividend payout ratio for 2015 was 26%, but if you see for average 2008 – 2016 is in the range of 77%. And I would like to mention that the 26% of 2015, corresponds to the anticipated dividends on 2014, which have some effect on 2015, but in the average one can recognize what has been the behavior of our dividend payout for the last years. The dividend yield has been in the range of, well for 2015, and was 4.3, which corresponds to the average yield in the period 2010-2014.

At this moment I will let the most important portion of this presentation to the Q&A session. Thank you very much

Operator:

Thank you. Ladies and gentlemen the Company will welcome Spanish and English questions today. To get into the queue press star, one on your touch

stone button. If you want to be removed from the queue, press the pound key. Again for questions just press star and the number one.

Mr. Camilo Serrato:

Thank you for accepting my question. I have two questions. First I would like to better understand the positive registration of taxes at the level of TGI and Calidda. Maybe I want to know which is [...] because you can register that amount positive. And in second place, I want to know if you have some updates about the regulations in the distribution of electricity in Colombia and if you have new expectations at the level of Codensa. Thank you very much.

Felipe Castilla

Regarding the first question on the positive impact of deferred taxes for Calidda and TGI, I just want to mention that we are in the process in which the exchange rate has moved in different directions, now we have valuation, but I would suggest that through our investment relations officer and our office you can directly receive all the contributions and clarifications on that sense.

Regarding regulations I would like to mention that on page 17 we are including an annex about what has been the evolution of the new regulation on different segments, I would just like to mention that on electricity transmission we are at this moment on discussion of the new methodology procedures to remunerate electricity transmission, and I would like to say that the main discussion at this time is the transition to remunerate [unintelligible...], related to net replacement value, that is was we are focused on at this moment. And it is a main issue for us in the transmission business. In any case I would like to mention that if you go to the Ebitda composition for the transmission business in Colombia, it contributes with almost 3 of 4% of our ebitda, and of that 70% correspond to the old remunerated assets, We are under the discussion on how we can reach a methodology where we are properly remunerated but also something like 2.5% of

our ebitda corresponds to what is actually under discussion. Anyway we are having that discussion we expect that at the end, not only for EEB but for other operators in Colombia we can reach an agreement so we are properly remunerated. In the case of natural gas transportation, we are on the process of receiving the cross-sectional methodology and I guess we are under discussion on how the WACC is calculated, for this segment. And at this moment, in the next months we can see how it evolves and how we can reach an agreement with the agency in the way in which our asset has to be remunerated.

Operator

Thank you. Again for questions the star and one on your touch-tone phone. Our next question comes from Andrés Cardona, please go ahead.

Andrés Cardona

Hello guys, I have two questions, the first one is associated to the report you released, on page 28 the Ebitda, how you calculate that, there is a line item that says financial income and dividends, the value is COP\$170 million. Can you please what drives the huge jump from 1Q 2015, where you kind of split it between dividends and financial revenues. The second question is if you can explain to us in the equity method, how much the Brazilian subsidiary contributes to Ebitda and the bottom line, and the last one is if you can explain to us on the resultado integral, what is this almost COP\$200,000 million negative, can you explain that.

Felipe Castilla:

Regarding the first question with Ebitda, as we have explained in previous occasions, we build our ebitda, and in the case of EEB it has two major components; one related to our controlled subsidiaries and we receive that through the participation method and the second to dividends. The huge jump

that you mentioned, is what we have explained in previous calls related to the fact that in 2014 we made some anticipated dividends payments at the level of the main subsidiaries. And 2015 we have the drop of our dividends payments because of that reason, in the case of Emgesa, Codensa and Gas Natural in the month of August 2014, and in 2015 we only recognized the period from September to December in those companies so in that sense, there is a huge drop in the dividends received in 2015, and 2016 corresponds to receiving the full operation of those companies. Here I would suggest, I don't have in my hands the equity method of Brazil, but just wait one second please, in 1Q we have a profit in our subsidiaries in Brazil in the vehicle that holds the four concessions, the name of that vehicle is GEBBRAS and as we have the participation method, those companies have a contribution of almost COP\$2,000 million. Can you remember me the last question, I have the ebitda and the Brazilian companies. Excuse me can you repeat the last question.

Andrés Cardona:

Yes it is about the resultado integral. There is an impact of COP\$200,000 million negative, what is that.

Felipe Castilla:

Oh yes. What we have in that account is the devaluation or valuation of the assets that cannot be recognized under IFRS and P&L. That is something new to us under IFRS, and it corresponds to our investments outside Colombia are expressed in US\$, and we have received during the 1Q where we have experienced a revaluation, is the recognition of that valuation in Colombian pesos. But in any case, considering that there can be a more detailed information, please call our Investors Relations Officer so you can more clarity on that.

Operator:

And as a reminder if you have a question just press star and one. And our next question comes from Andrés Duarte. Please go ahead.

Andrés Duarte:

Thank you very much for the presentation. I have three questions. The first one is the legal stability agreement that fixes income tax rate on 30% for Calidda as the regulatory rate of return? Or is that a regulatory rate of return calculated in the corporate income tax being used in Peru currently. The second I wanted to know what is your long term expectation regarding volumes of gas transported in Colombia and if another gasification plant could be expected to be constructed in the country in the coming years. Now the third question is also with gas transported, we are expecting a change in WACC, I just wanted to know if the changing regulation for gas also included a change in the way assets are being valued, as in the case of electricity transmission for example.

Astrid Alvarez:

Let me tell you something about this new regulation as I am very close to the Ministry of Mines and Energy who has been appointed recently. And then we are working with the Ministry of Finance and the Director of Development. These two ministries are very much involved with the regulation to analyze the change of gas, transmission and distribution, those three sectors are included in the new draft of the regulation. They pretend to change some of the things like WACC that are impacting very much our businesses, so we are working close to them. The other thing regulations will take more time to analyze and analyze the proposals from the business sector, so we are ready to work very closely to them in the next three months, but they are not going to make any decisions very soon at the moment, because the understand that this will take place in this quarter

and it will have a great impact. So we will have new decisions in the next few months.

Andrés Duarte:

I just wanted to know if they are going to change the way they value assets as they did in electricity transmission. I mean the changes that are expected include WACC, asset valuation, management, operational and maintenance, cost recognition, so I just wanted to know if these topics are also being included in the gas transportation regulatory changes.

Astrid Alvarez:

Yes the changes are very similar in the distribution, transmission and gas. But as I have said, we are having very aggressive strategies with sector companies, and we are negotiating so we are not expecting changes very soon nor dramatic changes in the regulation too because we have been demonstrating to them that these changes are not very good for the businesses right now. But anyway we are expecting some changes, and we will tell the market before those changes take place.

Felipe Castilla:

I just want to clarify your question regarding the legal regulatory framework for tax rating in Calidda. Can you explain that question, I didn't quite understand.

Andrés Cardona:

I was reviewing the regulatory changes for gas in Peru. And the corporate tax in Peru is around 29 or 27%. I don't remember exactly right now, but I know they have a legal stability agreement and that fixes your income rate at 30%. So I just wanted to know if this regulatory rate of return for gas distribution in Peru was

calculated the rates currently used for Peruvian companies, or in your case you had to use the 30% rate that is part of your legal stability agreement.

Felipe Castilla:

To tell you the truth I would like to go more deeply into your question and we will answer back later on, because I don't really know the answer.

Andrés Cardona:

Ok. But my third question relates to your long-term expectations on gas transportation in Colombia and if you foresee another gasification plant like the one that is being constructed by Promigas. I would like to know your expectation in the next five or so years.

Felipe Castilla:

As you know the gas gasification plant relates more to what are our expectations in Colombia. What we have as reserves, have a limited time, and if we don't find any gas we will be obliged to put in place a gasification plant just to supply the current demand. In our group, what we have been communicating to the public is that we welcome investing in a gasification plant if we receive the appropriate signal in which we will be remunerated in those investments. It will be very difficult to invest in a gasification plant in the Pacific close to our pipeline if we don't receive a clear view on how that investment will be remunerated. But it is difficult to understand that if we invest US\$500 million and there is a new discovery and that plant will be used in less volume.

Andrés Cardona:

So you would need more less something like what is being done in electricity, *cargo por confiabilidad* or reliability fee.

Felipe Castilla:

At least we would have to receive from the regulatory framework a mechanism by which we would be remunerated no matter if the reality of gas discoveries generate changes in Colombia in the future.

Andrés Duarte:

OK

Operator:

Our next question comes from Sebastian Gutierrez, please go ahead.

Sebastián Gutierrez:

Last week in Noticiero CM&, I saw an article about the Bogota Mayor and it mentioned the possibility of selling TGI, it looked like gossip but I wanted to check back with you.

Felipe Castilla:

I will repeat what our CEO mentioned in the opening words of this presentation. The company is under the process of reviewing strategic planning and very closely and finding out what each asset is. This is something we are doing, I cannot tell you what decisions we will make in the future, but at this moment I would like to point out that our company is currently reviewing the strategic planning and in that review it is looking closely at each asset in the company.

Sebastian Gutierrez:

But in the process of reviewing each asset, the possibility of selling any asset is opened.

Felipe Castilla:

I would like to mention two points that were mentioned by our CEO. At this moment we are reviewing each asset individually with two main goals: one minimizing risk for the group and the second one, maximizing revenues for our shareholders. So as you mentioned any decision can be taken, but at this moment I cannot say that we are selling any of the assets.

Sebastian Gutierrez:

Ok Thank you.

Operator:

I'm not showing any further questions in the queue. I would like to turn the call back to our EEB executives for closing remarks.

Felipe Castilla:

Thank you very much to all of you for this presentation. I hope that numbers were clear and that we were able to solve your questions. If you have any further questions or you want more details in what you have just asked, I would advise you to get into contact with our Investors Relations Office, thank you very much and I hope to meet you again in the next quarter.

Operator:

Ladies and gentlemen thank you for participating in today's conference. This concludes the program and you may all disconnect. Have a wonderful day everyone.