

# EEB Earnings Conference Call 1Q 2014

## Grupo Energía de Bogotá



### EEB CONFERENCE CALL TEXT

#### CORPORATE PARTICIPANTS

Antonio Angarita Empresa Energía de Bogotá - IR  
Sandra Fonseca Empresa Energía de Bogotá - CEO  
Felipe Castilla Empresa Energía de Bogotá - CFO

#### PRESENTATION

##### Operator

Good morning, ladies and gentlemen and welcome to EEB's First Quarter 2014 Earnings Call, Results and Key Developments.

As a reminder, this conference is being recorded.

For the Question and Answer section, dial-in numbers will be indicated during the presentation. Moreover, the tab questions will be active alongside the Webcast.

I would now like to turn the call over to Mr. Antonio Angarita, Investor Relations of EEB, head of Grupo Energía de Bogotá. Please go ahead, Mr. Angarita.

##### **Antonio Angarita - Empresa Energía de Bogotá - IR**

Thank you. Good morning and welcome to our first quarter 2014 earnings conference call Empresa de Energía de Bogotá, EEB, the leading company of Grupo Energía de Bogotá.

Today's presentation will be made by Sandra Fonseca, chief executive officer of EEB, and Felipe Castilla, chief financial officer.

The slide deck is available by Webcast and will be posted on EEB's Web site. This morning's presentation will be divided into 5 parts. First, our CEO will make some introductory comments on key updates about our business and strategy.

Next, she will present a summary of the expansion projects of the group.

Third, the CFO will take a look at the most recent developments of TGI's stake acquisition.

Fourth, we will review EEB's financial results for the first 3 months of the year and the most important financial indicators. After that we would be pleased to open the call to questions.

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Now, I will turn the call over to CEO Sandra Fonseca.

### **Sandra Fonseca - Empresa Energia de Bogota - CEO**

Good morning, everybody, and thank you for joining us to the First Quarter 2014 earnings call.

As you know, EEB has focused for business long-term (inaudible) on establishing operations in countries with great high-growth potential and starting the opportunities in the whole America as part of it's company expansion process as one of the most important regional companies in the energy industry and other related areas.

As a result of the (inaudible) at the end of the first quarter 2014, EEB maintains it's position as one of the regional leaders in electricity and natural gas. We are really committed to expanding our operations to other countries and to be the most competitive supplier of natural gas and electricity since the \$7.5 billion company's investment by land to 2013, 2017 is continuously pursuing new projects and companies capable to fill our value share.

Now, we are currently focused on active projects and promote growth and development on both electricity in Columbia and other Latin America countries and in the whole continent.

One of the most important for us is in Mexico. We are looking to invest in this target market in the natural gas sector as well as in Chile and Brazil in the field of power transmission.

In Mexico's case, (inaudible) the energy industry (inaudible) have new law to open the energy market was already approved, and we are expecting a secondary regulation that we provide the framework to participate in these projects in (inaudible).

We are evaluating this market and preparing EEB to participate. Mexico has a great potential in (inaudible) segment, and we have great experienced people on REP Peru, which is applicable (inaudible) in that (inaudible).

Our outstanding financial results for the first quarter of 2014 positioned us as one of the most important energy groups in the region. (Inaudible) profits for our shareholders as reflected in the increasing company profits during this period.

(Inaudible) commitment and (inaudible) all our subsidiaries in terms of operational performance and execution of profitable investments. This growth, of course, not only in operational results as in developed, controlled company, but also as a strong dividend stream from the non-consolidated affiliates.

Our focus [natural] monopoly and stable regulatory framework, as you know, and our broad access to the capital markets are helping us to be increasing (inaudible) of profits in time. I would like to say (inaudible) with some key issues.

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Things I would like to emphasize that the board of directors confirmed on February 27th the interest of the company for participating in the bidding process for acquiring the 57.6% stake of Isagen. According to the timetable of the bidding process, EEB was (inaudible) for that purpose on last March 27.

Regarding the petitions on the appeal (inaudible) on February 25th we are still waiting.

Finally, we reiterate that the company is continuing working (inaudible) with its consultants in analyzing the business and preparing the best offer for Isagen. (Inaudible) will take for the high (inaudible). EEB will be ready to participate in the (inaudible).

The second point I want to comment is that on March 27, 2014, the general shareholders meeting approved (inaudible) of profits amounting COP 64.32 per share, representing an increase in the dividend per share of 46%. This really demonstrated the commitment of Empresa de Energía de Bogotá towards its shareholders and the satisfactory results of the company that have been consistent over the last (inaudible).

Furthermore, we proudly announce decreed dividends (inaudible) COP 590 billion, equivalent to a dividend payout ratio of 70% compared to the net profit generated in 2013.

On April 30 before the deadline, Contugas, our subsidiary in-charge of natural gas (inaudible) concession in ICA Peru started its commercial operation. After finalizing the debts and having met all the requirements, I'm really proud of that. (inaudible) the regulatory board in Peru certified that the gas system is ready for operation. On that day, final act of testing was signed by the minister of Energy and Mines and Enbridge Technology who is the international inspector.

This is important, and I want to have (inaudible) that at the end of March Contugas has over 14,700 enabled customers already receiving gas, including some large industries like textile companies and GNV station, a paper mill. And we are now in the process of making some fishing companies and other steelmakers and some other end-users. This is really the accomplishment and I'm really proud to tell you that.

Otherwise, EEB has been selected in the last 6 (inaudible) including the recent Sogamoso-Norte-Nueva Esperanza transmission power line project. And we are also proudly (inaudible) - we are (inaudible) to the development of Bogotá and the country's energy (inaudible).

Also the company has (inaudible) that it is the power line developer with highest growth in (inaudible) in Colombia. This project, Sogamoso-Norte-Nueva Esperanza, we entered into operation on December 2013 and in the meantime, we have (inaudible) Bogotá. Having been awarded this new project, EEB will add revenues amounting near \$322 million with NPV in 25 years in this new project that are under construction for the next 2 years.

I want to (inaudible) this new project is a process that we allow the company to 500 kilowatts project in Colombia, so this is really also a good news for our shareholders.

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On December 11, 2013, EEB's board of directors authorized EEB (inaudible) the right of first offer under the shareholders' agreement for the acquisition of a 31.92% stake in TGI, after the end of the lock-up period of 3 years. The offer was submitted on March 25, 2014 for a value of \$880 million and was accepted by the Rohatyn Group, formerly CVCI, on April 3, 2014. This transaction, which is part of the EEB's investment plan, will generate positive value for EEB's shareholders.

We think and truly believe that it's been a really good deal. Regarding special projects on December 11th, the board of directors authorized the company to participate in mobility projects that includes an important electrical technology component once profitability is assessed.

For this purpose, it was created the company Empresa de Movilidad de Bogota, which in this moment is (inaudible) the participation in (inaudible) to fully private partnerships that are currently in the stage of feasibility and (inaudible).

Finally, I want to reiterate that (inaudible) of the company (inaudible), which we will be executing over the next [four-year] period. The company also has (inaudible) projects (inaudible) acquisition of the (inaudible) expansion in natural gas in Mexico and electricity transmission in Chile and Brazil. Similarly, we expected to continue our expansion in Peru and complete the projects we have in Guatemala.

Now, I just want to review, and you can see the expansion projects. You can see in slide 8 the expansion projects in the controlled subsidiaries. You can see TGI, Calidda, TRECSA, and then in the transmission business in Energia de Bogota, Contugas, the EEB Company of Engineering and Services to have an executed CapEx of \$74.49 million in this first quarter.

And you can see in the ninth slide, project expansion CapEx in non-controlled subsidiaries. This CapEx executed in the first quarter is near \$176.9 million. The CapEx was executed in Emgesa, Codensa, Promigas, Gas Natural, (inaudible) and REP Peru.

I will just (inaudible) with you with the financial officer, Mr. Felipe.

### **Felipe Castilla - Empresa Energia de Bogota - CFO**

(Inaudible). I will start just having a quick review on TGI's stake acquisition that we recently announced.

This acquisition (inaudible) 32% of the company to stake. Our offer was (inaudible) offer of \$880 million. And we have divided this acquisition in 3 phases. In the first phase, we are just incorporating an SPV that will acquire the owner of the shares in TGI. They will leverage this (inaudible) to debt in the amount of \$616 million, and we will place an equity of \$264 million.

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On the second phase, we will merge this SPV that is going to be incorporated in Spain to the (inaudible) that is the owner of the shares from TGI and will incorporate the second vehicle. And at the last phase, we will just merge TGI with this vehicle and the debt and the (inaudible) inside of TGI.

Based on what we foresee (inaudible) included in page 12, the table shows that the total debt on EBITDA after this transaction will be a little bit above the total of 4. But considering their available cash that is inside the company, we plan to repay the portion of the debt and we will give the threshold of below 4 on this transaction.

Based on this announcement, it would (inaudible) all the rating agencies has been confirmed our rating not only for EEB, but also in TGI. Moody's and Fitch made these analytics (inaudible) that we announced the transaction. And Standard & Poor's last week announced the continuation of the stable outlook that we have in both companies.

Continuing with the presentation, we are going to just review on a quick manner the financial review of EEB on the graph on page 14. As you can see, you have the information in Colombian pesos and also in dollars. Just please concentrate in the U.S. dollar numbers.

For the first quarter compared to the first quarter of last year, we have been having an increase of 12.5%. On the gross profit, we are having an increase of 14.5%. And our operating profit increasing 18.2% as you can see in the numbers that appears in the table.

The main expectation regarding these increases and these positive increases correspond to increasing the operating revenues of almost 21% due to mainly on Calidda. As you know, Calidda is a company that is growing on a very good rate. We are increasing the number of users of our network, and in that sense we are increasing in a significant manner our revenues (inaudible) purpose. And also on TGI, the tariff scheme is enforce and their Cusiana Phase 2 is already in operation (inaudible).

Regarding the increase in the operating profit, the benefits that we are having are more related that we are reducing our costs in TGI mainly a decrease in personnel services, and general services, and fuel gas costs in TGI.

And also we have an increase in (inaudible) in Contugas and Calidda, but this is (inaudible) in the greater (inaudible) users, but we are having the corresponding costs, but it's in the net value in a positive manner.

Regarding the EBITDA evolutions as the consolidated results, we are still growing. And (inaudible) the last quarter of 2013 compared to first quarter of 2014, we are having an increase of COP 1.7 million to almost COP 1.9 million increased as (inaudible) the consolidated adjusted EBITDA on (inaudible) quarterly basis.

You will see that we are having an increase regarding the first quarter of 2013. And please be clear that our company considering that the holding company will receive our dividends

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or the dividends (inaudible) our control and in controlled companies during the first quarter of 2014. And in that sense, we generate most of our EBITDA during the first quarter of each year. (Inaudible) as you see in the previous year, we are having almost \$550 million of EBITDA. And the remaining quarters we are increasing in the amount of something like \$122 million to \$150 million and is going to (inaudible) the same (inaudible) in 2014.

In the last bar graph on the bottom of the page, you will see how our EBITDA have increased (inaudible) that 2014 for the last 12 months changing from \$922 million in the last year to \$950 million during the present year considering the last 12 months.

The main contributors to this EBITDA adjusted corresponds to TGI with 39%. And (inaudible) Codensa, most companies will contribute with almost 39%. And we have just (inaudible) that our participation in Calidda and Contugas are going to present an increase. And during the next months and the next year they will increase their participation in our EBITDA in the (inaudible).

In page 16 you can see our consistent financial performance. This is the result from non-operational activities. Mainly you will see an increase in the dividends amount in pesos from first quarter 2013 to the first quarter of 2014, although considering the exchange rate in dollars, they will show some kind of decrease but (inaudible) higher exchange rate during the first quarter of this year.

At the end, our net income has been increased in 11.2% in pesos and almost 4% in U.S. dollar.

The main issues on this decrease on the dividend side we have an increase of almost COP 48,000 million of decreed dividends in favor of our company, mainly on Emgesa, in Codensa, and in Gas Natural companies.

On the non-operating expenses, we have an increase between the first quarter of last year and this year in the financial expenses, but it is due to the (inaudible) that has been acquired during the year 2013 in different months, but in 2014 this new debt has a full effect while in the last year just having some specific (inaudible).

In the accounts of foreign exchange account, we have been having an evaluation of the Colombian pesos and we have a positive impact on the foreign exchange accounts. And after we saw all of these aspects, we have a net income increase of 11.2% in pesos and almost 4% in U.S. dollars.

Just showing some of the debt indicators on page 17, you see the graph of net debt on consolidated adjusted EBITDA. We are below what we have the last year. And far from the 4.5% on the consolidated adjusted EBITDA (inaudible) our interest, we have a new decrease from 11 to 10.96, and this is due to what I mentioned on the impact of the debt just (inaudible) on 2014, but it is far from the level of 2.5

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The consolidated debt composition, we have almost the same date that we ended on 2013. The only difference is that the debt in pesos just when we convert it to U.S. dollars have some valuation with respect to the last year, but you (inaudible) last year.

And you see the consolidated current debt maturity profile on the current debt is at the level of 14 that we haven't acquired any new debt (inaudible) on the way that (inaudible) for this previous (inaudible).

Just ending with this presentation of past financial presentation, we have the behavior of the Colombian market versus the behavior of our share. And you can see that we have been (inaudible) what the market has tried. I think that the market has good impact on our company, our performance, and in that sense we are above that has been the behavior of the market.

Just to complement this as the market capitalization of our company measured on May 13 show that we have a company of \$7.7 billion. (Inaudible) the analysts have an average target price. If we measure that different (inaudible) the comment of any analyst we have a price (inaudible) increased from the current level up to COP 1,711 per share and in that sense we have a (inaudible) by any analyst.

We have been having a remarkable dividend payout. Last year it was 70%, but if (inaudible) in the previous year from 2008 to 2013 that the ratio has been 79%. And for large yield, our dividend yield was 3.5%, one of the highest dividend yield of any Colombian company. And from years 2008 to 2013, that average has been 3.3%. And as you can see it's one of the highest average in any company here in Colombia.

With that, now we will start our session of questions and answers. Thank you very much.

### **QUESTION AND ANSWER**

#### **Operator**

(Operator Instructions)

#### **Antonio Angarita - Empresa Energía de Bogota - IR**

We have here in the Webcast a question from [Acciones y Valores]. The question is, in which segment will EEB want to enter in Mexico?

#### **Sandra Fonseca - Empresa Energía de Bogota - CEO**

Okay. As I was telling you, Mexico is very attractive for us in the natural gas (inaudible). And we are (inaudible) and in the future when the liquidities (inaudible) we will like you to look for opportunities in transmission lines.

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### **Antonio Angarita - Empresa Energía de Bogotá - IR**

Another question in the Webcast from (inaudible), is there any new information regarding the Isagen process?

### **Sandra Fonseca - Empresa Energía de Bogotá - CEO**

Regarding the Isagen process, as you may know, the government now is answering the request from legal (inaudible) that (inaudible). The profit will be (inaudible).

We think that it will be relaunched, if you can say that in maybe 2, 3 months, and also because as you know we are in the time of presidential election. So we think that after that a period of (inaudible) will continue. As of now, waiting to see when the (inaudible) allows (inaudible).

### **Operator**

(Operator Instructions)

### **Antonio Angarita - Empresa Energía de Bogotá - IR**

We have another question. The question, why the transmission and distribution costs are increasing so rapidly?

### **Felipe Castilla - Empresa Energía de Bogotá - CFO**

(Inaudible) the costs are increasing with inflation rate. But the (inaudible) that some of the costs (inaudible) having a different treatment.

In the last tax reform here in Colombia, the government changed the corporate rate from 33% and it's created in 2 ways. One, the corporate rate and the (inaudible) percentage is the (inaudible) increase. The tax now is just the (inaudible) corresponding to the transmission business has been increased from the corporate tax up to one of the expenses in the transmission sector.

Also we want to clarify that, for example, last year, according to the Colombian obligation, we have to make a re-evaluation of the assets in Colombia, and we have to perform with an external consultant in assessment of our assets.

In some cases, when there are some kind of devaluation of net value of what we have in our groups, according to the accounting practices, we have to place that as an expense and that we'll increase the expenses in the transmission businesses. But in any case just I want to clarify that the normal expenses in the transmission sector has been increased according to the inflation numbers.

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### Operator

I am not showing any questions from the line.

### Felipe Castilla - Empresa Energia de Bogota - CFO

(Inaudible) we have another question is, are you expecting some cost (inaudible) these businesses (inaudible) electricity transmission and electricity distribution in the long-term?

### Felipe Castilla - Empresa Energia de Bogota - CFO

I just want to say that we have now operating new transmission lines. As you know, in January of this year we entered a new project called (inaudible). And we are now would be (inaudible) 6 more transmission line projects in Colombia. So, of course, as long as they are going to be operative, we will have (inaudible) respective operating costs.

So it's possible that, of course, in the long-term, in the operational cost will marginally increase, but also we will have all the income and all the revenues coming from these new transmission line projects.

### Antonio Angarita - Empresa Energia de Bogota - IR

We have another question. EEB will receive the 99.97% of (inaudible) this year. We want to just clarify in the dividends that corresponding to 2013 were declared this year during the first quarter. They will already pay. And EEB just receive a percentage. By that time, we haven't seen the company.

After 2014 and then we will receive the corresponding percentage of almost 100%. But this year the dividends were paid to the owners of the shares at that time. In any case, in the acquisition was (inaudible) that situation.

### Felipe Castilla - Empresa Energia de Bogota - CFO

Yes. But I mean, (inaudible) in the dividends of the next year, but it depends on the (inaudible) operator the amount that will be distributed. So we expect, of course, to have the majority (inaudible) just in our account.

### Operator

And from the phone lines I'm not showing any questions. Please proceed with any final remarks.

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### **Felipe Castilla - Empresa Energia de Bogota - CFO**

Okay. Thank you very much. We will just be ready for any additional questions that you will have in relation (inaudible) topics. So thank you for attending this first quarter conference. Thank you for (inaudible).

Thank you. Bye.

### **Antonio Angarita - Empresa Energia de Bogota - IR**

Thank you.

### **Operator**

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program. You may all disconnect.

Everybody, have a great day.