



TGI & CÁLIDDA Earning's Conference Call 1Q 2018

- Operator Welcome to the TGI Cálidda First Quarter 2018 Conference Call. First we will begin with TGI's presentation followed by Q&A then follows the Cálidda's presentation with Q&A, my name is Sylvia and I'll be the operator for today's call, at this time our participants are in the listen only mode, later we will conduct a question and answer session, during the question answer session if you have a question please press star and 1 on the touch tone phone, please note that this conference is being recorded, I will now turn the call over to Mr. Manuel Naranjo Vicepresidente de Desarrollo Comercial, Mr. Naranjo you may begin.
- Manuel Naranjo Hi, thank you very much Sylvia. Hello everyone, please turn to slide # 5 highlight. First of all to give a brief presentation on TGI, TGI is the main operator of the gas transportation in Colombia it owns and operate close to 4.000 kilometers with a capacity of .7 BCF a day our average transportation capacity is seven hundred and twelve million cubic feet per day and we have the capacity to serve around 54% of the Colombian population, at the quarter that just ended the CAPEX that was executed by the company it's ten point one million US dollars and also to highlight within that quarter, by March 11 the syndicated loan that was acquired by the merger of IELAH was prepaid for 44 million and the outstanding value is of 40 million. Also, we finalized successfully one of the expansion projects, this project being to bring more gas from the main source of the country, that source being Cuisiana and that project is expanding the capacity in close to thirty million cubic feet per day and also we finalized the construction of 2 compression stations located in Paratebueno and Pompeya and then on March 20th we held our General Assembly and dividends were declared for close to one hundred million US dollars, the figure that you can see in the presentation is in Colombian pesos and of course is subject to fluctuations of the exchange rate. Dividends will be paid in 2 installments, one in June and the other next October. Now please move to slide # 6 to continue with TGI overview, first we are looking a new opportunity that are in evaluation, the main opportunity is the new source of gas for the country, here on the right side of the slide you can see how the distribution of the gas reserves it's across the country, as I said before the main source of gas being the Cusiana Cupiagua fields in the east of the country and now for the next decade the country is preparing for a new source which is going to be in the form of an LNG regas import terminal that is to be located in Buenaventura plus a connection pipe line of around 100 kilometers connecting that facility with TGI system, the most important issue of this past quarter has been the issuance of new resolutions by the regulation authority, CREG, were they are drafting how the usage and the contracting of that new facilities is going to work and that is mainly placed in resolution 182. Lately but that happened within this quarter that we are right now the new draft documents for the tender process are already being released and it is expected for that project to be officially open in July and to be awarded in the first quarter of 2019. Please move now to give some operational financial performance highlights, please move to slide 8, as you can see the network looking at the top left side of the slide, we have the network length. TGI has grown over of the past year mainly in compression but the length of the pipeline has remained steady, our transported volumes show an increase in the years 2015 and 2016 due to El Niño event, El Niño is a dry season where the power plants that are connected to the system have a higher dispatch those power plants usually serve as a backup because Colombia has most of its electricity coming from hydropower. 2017 and 2018 have been very rainy years and that's what explains the drop in the transported volumes. Por capacity wise, the system has been expanded and this is mainly compression stations and as you can see between 2017 and the first quarter of 2018 we added 29 million cubic feet per day of extra capacity



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and that in the project expanding the Cusiana outlet and providing more capacity in the vicinities of Cusiana. Also, when you look at our firm contracted capacity it has remained very steady above 90%, most of the capacity of this expansion was subscribed more than 75% and again looking at the load factor although the capacity remains above 90% the load factor is heavily affected by the power dispatch and of course by the rains. If we can please move now to slide # 9, ok, here we are showing our cash flow generation so first of all our revenues show a 6% increase in the first quarter of 2018 that is due to that expansion project and then below you can look at how our demand, our users, what is the breakout of those users first of all the main contractors of the capacity are the local distribution companies and they not only serve the regulated demand but also, they provide service to non-regulated demand. We have the largest refinery that is connected to our system operated by Ecopetrol and then we have the power companies and then we have the remaining sectors of the country, if you look at that revenue by client you can see that gas natural that is the local distribution company serving mainly the city of Bogota and its surroundings has about a third of the contracted capacity and then the second one would be Gases de Occidente another distribution company serving the city of Cali in the south west of the country and then you have Ecopetrol and Ecopetrol is using that capacity mainly for refining purposes, then we have the distribution company of Medellin EPM and then the next largest customer would be Isagen a power, a power generator with plants located in the center of the country. Please move to slide # 10. So to give you some highlights on financial performance, first the operational expenses behaved in a very similar number to those that we saw in the first quarter of last year, our operational profit showed an increase and that increase is related to those new projects or that new project of expansion near to Cusiana and Cupiagua and then as you can see our EBITDA and our EBITDA margin; first the EBITDA and again an increase due to the same project and as well the margin now going from 78% in the last quarter 2017 to 83% in the first quarter of 2018. Please go now to slide 11, we can see first what is our total assets and there are no major changes between 2017 and first quarter 2018, now when you look at our cash and equivalents you can see that by the end of this first quarter and this last 12 months ending that first quarter we are closing with a cash and equivalents of around 60 million US dollars and when you look at our assets you can see that there has been a very steady behavior where the figures that we had for first quarter of 2018 of two point nineteen are similar to that we saw at the end of 2017 that's just to reflect the effect of depreciation and then also when we look at our liabilities we are finalizing this first quarter at a very similar level than the one that we saw by the end of 2017 so we have liabilities of point seventy four million dollars and we will look at breakdown of those what is our debt profile, if you could own move know to the next slide you can have a better understanding of our debt profile is; slide # 12 that debt is represented of seven hundred and fifty million dollars that matures at 2022 that's 64% of our debt and then we have an [inaudible] company facility with our pairing company in the range of three hundred and seventy million that is also due 2022 that is subordinated to the bond, so the debt of TGI is 99% nominated in US dollars and it is 96% fixed only 3.9% present are floating, when we look to EBITDA we are looking at a range of [inaudible] so we are below the threshold of 4.8 and we have been steadily in the past five years below that threshold maintaining a high EBITDA margin, when we look at our total debt to EBITDA, I'm sorry, total net debt to EBITDA we are looking at a figure of three point twenty seven which is below the figure that we had by the closing of 2017, so we still have some room there to acquire more debt for coming projects of growth. The EBITDA is available to cover our interest coverage so we are also well above the threshold of 1.7 by the closing of the first quarter of 2018 we are three point nine times compared to 1.7 in the threshold, so if we can now please move to growth projects, it's important to highlight that the company [inaudible] for this new projects, this first set are those projects that [inaudible] first one being the expansion from Cusiana, that expansion has a Capex of 31 million US dollars and that project already started operation



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by the second quarter actually half of 2017, then we are close to finalizing what is called the loop Armenia and this loop is going to increase the capacity in the south west part of the Country and this is actually going to expand the length of the pipeline in 36 kilometers, the Capex for this project is slightly below 20 million US dollars, it's almost completed and it's planned to enter in operation by next month, June. Then we have a standard replenishment of our assets so we have some small pipelines that need to be replenished and this is in the range of 16 million US dollars and the plant entering operation is for mid-2019, [inaudible] then if you please move to slide [inaudible] ongoing growth projects, the first one being Cusiana-Apiay-Ocoa that I mentioned [inaudible] in this presentation which is the project that already started operation that required a Capex of 48 million and that has already started. The next big expansion that is being undertaken by the company is what we have called Cusiana Fase 4, phase 4, this project is going to require an investment of 70 million dollars most of that Capex is going to be done in 2019 and the entering in operation is expected for mid-year 2019, with this project we plan to expand our capacity in a first phase in 17 million cubic feet per day and in a second face in 41 million cubic feet per day and this is going to require the adaptation of a compression station that we have already in place that are operating and the construction of close to 40 kilometers in a pipeline of 30 inch diameter and as I mentioned the total project is expected to come into operation by mid-year 2019, [inaudible] and those are the expansion projects that we have at the time, so now if you have any questions. [inaudible]

- Operator Thank you, we will now begin the question & answer session, if you have a question please press star and one in the touch phone, if you wish to be removed from the queue please press the pound sign or the hash key, if it is in a speaker phone you may need to use the handsets first before pressing the numbers, once again if you have a question please press star and one on the touch phone. The first question comes from Diego Buitrago from Bancolombia.
- Diego Buitrago Thank you for the presentation, good morning everyone, could you please tell us and explain us the recovering in the EBITDA margin from the fourth quarter of last year against the first quarter of this year, the last quarter of last year the last EBITDA margin was below 70% and in this quarter, we saw an increase in the EBITDA margin, thank you.
- Manuel Naranjo To answer the question, the main driver behind that growth in the EBITA margin is the Cusiana-Apiay-Ocoa Project that started operation in the first quarter, that expansion is 75% subscribed by our clients so it also increased the transport capacity and that transport capacity is mainly under firm contracts and also those firm contracts have a very high fixed portion so in the case of 80% of the tariff is under a fixed structure, that is the main explanation for the growth in the EBITDA margin. I'm sorry, I'm sorry and the second one, the second reason is also that during this first quarter there has been a lower execution of Capex and Opex.
- Diego Buitrago Ok, but I want to be sure that on the last quarter of the last year the guidance regarding EBITDA margin was fairly 70%, could you please confirm us the guidance in EBITDA margin to 2018 please.
- Manuel Naranjo So our guidance for the remaining portion of 2018 is at 78%. So our guidance for this year is at 78%.
- Operator Our following question comes from Ricardo Sandoval from Davivienda Corredores.
- Ricardo Sandoval Hi and thank you for the presentation, I have two questions, the first one is recently a company named Puerto Solo has expressed the interest for the regasification plant on the Pacific and they have, they give so much information about the project they are planning they have like how the terminals are going to be constructed they have even how much is



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going to be the Capex and I am wondering if you can give us your opinion about this company and this project that is maybe going to be your competitor in this regasification plant and the second question is about your project, I would like to know if you can give us any detail about who is going to be your partner in the regasification plant or if you may confirm if the regasification that is going to be off-shore or on-shore and if you may know more or less if the Capex of this project that is going to be open in July, thank you.

Manuel Naranjo So, thank you for your questions Ricardo, so first to give another view the UPME has released the draft tender documents for the project and those tender documents have come with important changes to what was foreseen before, the first main change is that both the regas terminal and the connection pipeline are going to be bundled into one project and there is only one offer to be made for both of them that is going to be evaluated by the decision making entity, the UPME, second they have announced in those documents that the technology is open, so it is up for the investor to decide whether to build an on-land or a floating terminal and there are other points, but I will highlight and stress those two as the main, the most important at this point. Regarding your question on port selection, yes, there is a number of participants located in Buenaventura that are offering their sites for the terminal to be built there and that are looking for partners, we are preparing ourselves to make a decision on whether to participate on the tender process, we are mostly inclined to do so but there is still it needs to be officially open, also to answer your question we are awaiting that to happen by the month of July and later during this year decisions will have to be made on site selection and partner selection, those are critical issues, we have for some time now being preparing ourselves building first the team internally and then preparing the process of our retaining experts to advise us on technologies and land based and floating and in this second part of the year those decisions will have to be made. I hope I have answered your questions Ricardo.

Ricardo Sandoval Ok, thank you.

Operator Our next question come from Mark Heins from BTG.

Mark Heins Hi guys, good morning thank you for your time, I have three questions the first one is related to volumes, I was wondering if you could expand a little more information about why those volumes were a little bit low for the quarter and your expected volumes for the remainder of the year, I want also to ask you how much was the capacity for the Cusiana Apiay pipeline and how do you think it's going to evolve from this figure to the end of the year, you know as the pipeline becomes more available and has a ramp-up process and my third question was regarding Diego Buitrago's question and that is: last quarter you said that the Mariquita – Cali pipeline cost recognition drove the EBITDA margin from roughly 80% to 68%, and you guys said that, that cost recognition was going to be structural and that the EBITDA margin was going to be roughly 70% for the remainder of the year and also structurally, so I was wondering if this cost recognition was not structurally and if we can see EBITDA margins around 78 to 80% structurally, thank you.

Manuel Naranjo Thank you for your questions Diego so first to address your first question about volume, so most of the capacity, more than 90% of the existing capacity of the pipeline is under firm contracts and the usage of that capacity is related of course to the behavior of our end users so the regulated demand that being household and small commerce that's steady, also the consumption by agents of the refinery is steady, in the industry we have seen some fluctuation but it remains close to 30% and if you look at the last five years the consumption by the industrial sector has remained pretty much at those same levels, where you see the spikes and the drops are in the power sector and in the natural gas for vehicles, so for vehicles it has been decreasing but the main explanation for the low factor



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is related to power consumption, so that spike that you saw in 2015 and 2016 where we were about 60% even 70% in the load factor now the pipeline being at close to 50% [inaudible] mainly driven by [inaudible], so for the remaining of the year it's going to be related to whether it's going to keep raining or not. Our expectation is for those volumes to remain at very similar levels so slightly above 50% load factor. But it is important to highlight that most of our revenue is linked to the firm portion of the firm contracts, so of course if the load factor increases yes we could see an increase in our EBITDA but we are not foreseen that because of the rain that has been falling on the country, now addressing your second question the capacity in Cusiana, the way the gas transportation market works is that the system is divided in segments so the capacity varies, changes from one segment to the other it's not the same capacity that we have at the beginning of the Cusiana system and the one that we have getting close to Bogotá as we move closer for example to Cali, now the expansion that was finalized in this first quarter added a capacity of 29 million and out of those 29 million we have under firm contracts close to 22 million, so that's around 75% and then regarding your last question about the guidance on the EBITDA margin, so like we mentioned to Diego before what we see is that for the remaining, for this year 2018 we are looking at 78% and that is going to be a combination of these new projects [inaudible] so the one that already started, by mid-year we are also finalizing more of the ongoing projects so we are adding more revenues and then I would say that's the main explanation for our EBITDA not being so affected by what you were presented before in last year, so we have 3 ongoing expansion projects this year that are starting operations and are in a very large portion already subscribed with a fixed portion of the revenue and the firm contracts, I hope Diego that answers your question.

Mark Heins All right thank you, have a nice day.

Manuel Naranjo I'm sorry Mark.

Operator The next question comes from Andrés Duarte from Corficolombiana

Andrés Duarte Hello, I have 4 questions, maybe 5, thank you very much for the presentation, the first question is: are you expecting an increase in natural gas demand because of the delay of Hidroituango's expected generation that was expected to begin by the end of this year, that's the first question, the second question is: if you have an estimate in the increase in revenue and maybe the Capex required in case that you win Transmilenio's bid, the third question is: I wanted to know what's your latest estimate on the effect that the new tariffs that should apply, that should begin the application in 2019 I was wondering if you have an estimate on the effect of these tariffs on your EBITDA and EBITDA margins from 2019 onwards, and finally the fourth question is related with the regasification plant, I wanted to know if you are planning to bid for the construction of the plant and for the pipeline or are you planning to, I mean, I wanted to know if you wanted to participate in both of these parts of the project and finally if possible, the last question, what is your expected pair in terms of capacity and volume for 2019 onwards. Thank you very much.

Manuel Naranjo Thanks for your questions Andrés, so first of all if we are expecting an increase in demand in Hidroituango, we are in conversations with of course EPM and other power companies, those are conversation in very early stages and we are still assessing if there is going to be actually an increase in demand by this year 2018 and it all depends on if they are going to first rely on their reliability charge for the existing plants have a capacity to provide for that but that wouldn't increase the demand that would just be a reliability charge and that would be based on the contract, the firm contracts that they have if there is going to be more usage of the pipeline because they are going to be running their power plants like I said we are still in conversations but we don't have an answer at this point on what is going to be the behavior of those projects, still too early for us. Second on the



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Transmilenio tender process, I mean when have been actively being supporting the usage of natural gas for the massive transportation systems in the city and in the country and we expect that that to be finalized for those technologies to be welcome in the process, now for this particular tender the increase in the consumption would not have major a shift in the pipe line and what is expected is for in the early stage for those buses and for the system that is in this gas to be a very few, a very low percentage point of increases in the consumption. Now third, the effect on the new tariff I guess you are referring to the changes in WACC that were announced in 2015 and 2016 we are still awaiting what it's going to be the new resolution ninety that was supposed to be released by CREG in the first quarter of 2018, yes this first quarter of 2018, the CREG has not released that yet so the expectation of new tariffs coming to effect in 2019 was based on that happening in the past quarter that has not happened and actually we are looking at new tariffs more end of 2019 and beginning of 2020.

Andrés Duarte Can I make a follow up, a question on this issue, maybe the resolution hasn't been published yet but I was wondering if you, I mean, have you been or are you finding to increase you Capex because of this, what I understand as an incentive to invest more in your infrastructure, are you going to include this Capex during the future years in order to maintain today's EBITDA for today's revenues?

Manuel Naranjo Andrés, we are expecting a reduction in our WACC and therefore a reduction in our revenues due to the new WACC and the new way that the new WACC is going to be calculated and mainly because of the increase, or the improvement in the situation of the gas sector in the country compared to what it is was in 2010 and the previous methodology was announced. As you correctly point out we are, could you please mute your microphone, we expect from 2021 onwards in EBITDA to mostly balance, offset the reduction in our revenue due to the reduction in WACC with the new projects, both new projects that have been explained in this presentation plus the projects that are called IPAT that have already been directed toward TGI for TGI to build them, that are expected to be built by 2020 and 2021, so with those two, the ongoing projects plus the IPATs, yes the company expects to in the year 2021 to remain at the same or very close levels to the EBITDA that we saw last year. Now to address your fourth question on the regas plant, yes we do support the project we still have to wait for the final tender documents to be published but yes we are working towards presenting a bid, that is a decision that will be made maybe by the end of the year, by first quarter next year, but we are working towards that direction and there is, also you ask if the bid will include both the plant and the pipeline, it has to include them both, it cannot be partial. And I think I have answered your questions. Thank you very much.

Operator And now we will begin with Cálidda's presentation, I will turn the call over to our CFO Mr. Martín Mejía.

Martín Mejía Well thank you, good morning everyone and thank you for joining us today, on behalf of our company I would like to welcome you to the Cálidda's first quarter 2008 Results Call, my name is Martín Mejía, I'm the CFO of Cálidda and I would like to start this presentation by giving you an update of our business, first I will to talk about the ongoing distribution tariffs review process which will conclude by the end of June with the publication of the final tariff, as you know this process started in July of 2017 with the presentation of our investment plan for the following five years, in all the process are involved different government authorities plus the Department of Energy and Mines and our regulator which is OSINERGMIN, regarding this process it's important to mention that all the stages established have been completed successfully and now we have our preliminary tariff which is 11% higher than the previous tariff and it's in line with the company's expectation for this instance of the process according to the scale we have



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presented some of the ratios regarding this preliminary tariff fixed by OSINERGMIN in order to consider that in the final tariff to be applied for the period between 2008 and 2022 which will be published on June 20, it is important to mention that nevertheless this tariff has an increment of 11% compared with the previous tariff, the final user's tariff is very competitive against other alternative fuels having prices a difference of 30% to 70 % depending of the client segment. This is our update about the tariff process and I will also like to talk about Peruvian gas reserve and the actual lifetime of our natural gas market approved proven reserves and gas production level, as you know in the Camisea fields we have proven gas reserve of fifteen point one thousand three million cubic feet which is enough for more than 32 years of natural gas consume according to the current gas consumption this means that Cálidda will be able to operate normally until the end of its concession contract, which expires initially in 2033 and we have the option to extend this concession period up to the year of 2060 and finally, I would like to mention that we have a great start this year connecting as of March more than thirty-five thousand customers to our distribution system almost nine thousand more connections than the achieved during similar period of 2017 this means a significant milestone to Cálidda reaching more than six hundred and ten thousand new clients thanks to this performance we now have more than two point five million people benefited from the use of natural gas in Lima which also contributes with the environment thanks to the lower emissions produced by the natural gas compared to the other alternative fuels. I will now hand over to Mr. Alvaro Roca in order to continue with this presentation.

Alvaro Roca

Thank you Martín. Good morning everyone, thank you for joining us today, my name is Alvaro Roca and I am Cálidda's Head of Planning and Finance. Now coming into the next slide in which you will find Cálidda's key updates on the results, at the bottom of the slide you will see 2 charts which contain our key operational and financial results for the first quarter of 2018 compared to the first quarter of 2017, regarding the key operational results the first quarter of 2018 we reached more than six hundred and twelve thousand clients adding more than one hundred and forty-seven thousand clients since the end of the first quarter of 2017, this means there is a 2% increase in our clients base over the past 12 months and a new milestone for Cálidda, taking into consideration this additional number of lines the involved volume increased 1% compared to the first quarter 2017 up to seven hundred and fifty seven million cubic feet per day as for network length we reach a total of eight thousand five hundred and eighty seven kilometers of underground pipeline infrastructure which means an increase of eight hundred and ninety five kilometers in the past 12 months, this new infrastructure allowed us to reach more than eight hundred and fifty thousand potential clients which are clients in front of Cálidda's network as explained in note 3 which in turn translates considering connected lines to a network penetration rate of 72% which is a sharp increase compared to last year results, penetration of 60%. Regarding our financial results which are in the second chart in the bottom right we obtained a total of one hundred and forty-four million dollars in revenues, also total of adjusted revenues which are our revenues less pass-through concept as explained in the note 4 reached a total of fifty-seven million dollars, both when compared to last year's results had an increment of 2 and 4% respectively. It is important to mention that our gas appliances commercialization business is growing at a fast pace, we have sold almost twelve thousand units so far, which is roughly 75% of all the sales that we obtained in the whole year 2017. Meanwhile our EBITDA was thirty-two million dollars which represents a decrease of almost 10%, that is mainly due to the extraordinary revenues from connection fees that we obtained during the first quarter of 2017, nevertheless we expect that our EBITDA will be higher by the end of the next quarter of this year as a new distribution tariff is applied. In the next slide # 8 you will find our historic commercial performance at first you can see that the overall development of our number of clients is positive, regarding the power generation segment, Cálidda has connected twenty-two clients out of which two



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were connected to the Cálidda's distribution system during the last 12 months, in the industrial segment Cálidda reached five hundred and eighty-three clients which reflects also a steady growth, in the case of NGV segment fifteen NGV stations joined our system during the last 12 months for a total of two hundred and fifty nine stations, it is important here to mention that NGV stations supply natural gas to more than one hundred and eighty five thousand vehicles in the city of Lima and Callao. Finally, in the case of our residential and commercial segment, by the end of first quarter 2018 as was mentioned before Cálidda has connected almost six hundred and four thousand clients in 22 districts within Lima and Callao out of which more than one hundred and forty-seven were connected during the past year. We also have connected more that seventy-five hundred commercial clients out of which more than, thirty hundred clients were connected in the same period, as it was also mentioned in previous conference calls since July 2016 most of the new residential clients have been benefited by 2 subsidies established by the Peruvian government to give general and inclusive access to natural gas in Peru, covering up to 100% of the connection cost for the one point of consumption which are the promotional discount and the Bono Gas programs. More than 97% of households have had their connection cost subsidized so far this year; please follow me to the next slide to see Cálidda's historic invoiced volume as of first quarter of 2018 which has had an upward trend since Cálidda began operations, as you can observe in this graphic invoiced volume reached a total of seven hundred and fifty-seven million cubic feet per day or five million cubic feet per day when compared to last year results, it is important to mention that 80% of the total invoice volume around six hundred and six million cubic feet per day comes from Take-or-Pay contracts which minimizes the impact of volume volatility derived from the seasonal effect on volume demands from the power generation segment. Moving on to the next slide you will find our invoice volume breakdown by client segment in four charts, in terms of growth percentage so far this year the most dynamic segment has been the residential and commercial sector in which invoice volume increased by 7% and this is explained by the successful addition of more thirty-five thousand clients in this year, as well as the NGV station segment has an upward trend with an increase of 8% in comparison with last year results as of first quarter of 2017. Regarding the industrial and power generation segment taking into consideration that there was a seasonal spike during this first quarter the invoice volume of the industrial segment only decreased by 1.7% in comparison to the first quarter of 2017 results and the power generation segment has maintained in the same level. The next slide presents our historic operational performance, as you can see in the first graph to the left Cálidda's distribution reached an extension of eight thousand five hundred and eighty-seven kilometers which nine hundred were constructed during the last 12 months, we also built more than thirty-five kilometers of the high pressure steel network and eight hundred and thirty-eight kilometers of polyethylene low pressure network during this period, in the second chart you will find Cálidda's network efficiency in terms of its penetration rate which is calculated as potential clients over connected clients and this efficiency as I have also mentioned sharply increased to 72% so far and we have a total of eight hundred and thirty eight and fifty two potential clients which almost six hundred and twelve thousand clients were connected to our distribution system, as a reminder our concession area has more than 2.5 million households and that base continues to increase with each passing year. Please follow me to the next slide # 13, as you may see in first chart to the left during this first quarter the volume of natural gas distributed to our distribution network was two hundred and thirty-one million cubic feet per day which represents 65% of total system capacity from Cálidda's city gates located at Lurín to the north of Ventanilla. From this volume close to one hundred and fifty million cubic feet per day corresponds to our regulated clients which are clients who have contacted Cálidda for the supply of natural gas and transportation and the distribution services, this volume compared to gas supply and gas transportation contracted by Cálidda with Pluspetrol and TGP represents only 65% of the total contracted



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volume and transportation capacity. We also have independent clients located in the north and south of Lima front of the city gate of Calidda, which have contracted Cálidda's only the distribution services and have consumed one hundred and seventy million cubic feet per day and two hundred and forty-three million cubic feet per day. These independent clients are mainly large power generators with Take-or-Pay contracts, in total over this first quarter Cálidda distributed volume amounted four hundred and forty-one million cubic feet per day which is different from the invoiced volume thanks to the Take-or-Pay contracts. Next topic is financial performance and key metrics which are presented in the next slide, you will find three graphs that represent our invoiced volume, our distribution revenues and our adjusted revenues for this quarter, in the first pie to the left you will see that the residential and commercial segment is only 2% in terms of invoiced volume, however if you see the second [inaudible] services revenues made by Cálidda the residential and commercial segment represent 37% of our total adjusted revenues, on the other hand while that power generators represent 34% of the involved volumes, segments relevant comes now to 49% when analyzing our distribution revenues and finally a 33% of our total adjusted revenues, this shows that the residential and commercial segments and power generation segments are equally important in terms of adjusted revenues and this allows us to have a diversified portfolio, other revenues represent 6% of our adjusted revenues that is mainly explained by pipeline relocation services. Please follow me to the next slide, for the last of month ending in first quarter 2018 total revenues were six hundred one million dollars including pass-through and IFRIC 12 revenues, this represents 12.7% increase compared to first quarter results of 2017. The total revenues also increase by 9% [inaudible] twenty-eight million two hundred and forty-nine million, on the second chart to the right we can see Cálidda's historic EBITDA which totals one hundred and thirty-four million dollars for the last 12 months showing a decreased as I have explained of almost one million dollars due to this extraordinary connection fees revenues obtained in 2017, as I have already mentioned also we expect to reverse this trend by the second quarter of this year. In the third chart bottom left we can see our capital expenditure which for the last 12 months was 84 million dollars, and in the last chart bottom right funds for operation calculated at net profit plus depreciation and amortization were 92 million dollars, this shows a positive cash flow generation for Cálidda. In the next slide the first chart is about the debt and net debt to EBITDA ratio as you can appreciate, and we have a slightly increment of our debt to EBITDA ratio which continues below the administration fee [inaudible] and closed last quarter with a ratio of 3 times for EBITDA and 2.7 times our EBITDA to net debt respectively. To sum up the rest of the chart you will find more key financial metrics, they reveal that our financial performance over the past years is consistent with the company's vision and expectations of our shareholders, for instance we can see that debt to capitalization ratio, which finalized in 55.8%, our interest coverage ratio which is 8.2 times our EBITDA and funds from operations to net debt which is stable at around 25%. Finally, the next slide you can see our current debt amortization schedule, our equity, net income and total assets evolution. I will now give the floor to Mr. Mejía in order to close this presentation. Thank you.

Martín Mejía

Thank you Alvaro, well I would like to end this presentation by mentioning that 2018 will be a year in which we will continue growing clients in our network distribution and therefore in our financial results. We anticipate that the tariff process will conclude with good results for Cálidda, having the opportunity to continue developing our gas distribution business in our concession area, aiming to close the year with more than seven hundred thousand clients consuming natural gas in the city of Lima and with an EBITDA of more than one hundred and forty million dollars at the end of 2018. Thanks for all, for your time, and we open the session to attend any questions you may have.

Operator

Thank you, we now begin the question-answer session if you have a question please press star and 1 on your touch tone phone, if you wish to be removed from the queue



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please press the pound sign or the hash key, if it is in the speaker phone you may need to pick the handsets before pressing the numbers, once again if you have a question press star and 1 on the touch tone phone.

And our first question comes from Diego Buitrago from Bancolombia.

Diego Buitrago Thank you for the presentation, I want to know now how many, how much you expect the growth of clients continue in this year and in the next years according to the growth rates that we can see on the last quarters. Thank you.

Martín Mejía Thank you Diego for your question, regarding the clients we expect to increase this year in around one hundred and forty thousand new clients connected to our distribution network and in the next year we are going to continue with that remember that in the year 2017 we connected around one hundred and thirty seven thousand new clients to our distribution network and this expansion depends on the construction of the network length and we are working on that, this year we are going to build around of one thousand and one hundred new kilometers of distribution network and this will allow us to connect the number of clients that we are going to look in the future.

Diego Buitrago Thank you.

Operator Our next question comes from Andrés Duarte from Corficolombiana

Andrés Duarte Hello, thank you for the presentation, I have one question, only one question and it is related with the expected share of Cálidda for 2025, I'm talking about the strategy that was established by Grupo Energía de Bogota back in 2016, you were expecting a share of more than 90% and know you have the whole, I mean, you are the only player right now, so I was wondering if you were expecting and when were you expecting the entrance of new players on the Peruvian market. Thank you.

Martín Mejía Thank you Andrés, well, we do not expect new competitors within the concession area that is Lima and Callao cities, but in Peru there are new concessions to the south and north of Lima, so now we do not expect new competitors within Lima, our concession.

Operator Our next question comes from Ricardo Sandoval from Davivienda Corredores.

Ricardo Sandoval Hi, thank you for the presentation Martín, I would like to know if I can have any more detail about the increase on 11% of the tariff, I understand this increase of 11% is on average and I would like to know if I can have the preliminary increase for the tariff for the power generation plants and for the industrial clients. Thank you.

Martín Mejía Well as for this 11% in terms of average distribution tariff, well the higher impact will have to be on the commercial and residential segment which have the higher tariff of distribution, so we expect that this segment only has an overall tariff which considers gas and transportation tariffs of 1.6%, in the terms of power generation this increment will be much less, it's like 8% in the case of the power generators, because remember that they only contract Cálidda for the distribution in total they will have an impact of 3%, around of 3%.

Ricardo Sandoval All right sorry, around 2% for power generator plants?

Martín Mejía Yes, but for power generation plants.



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Ricardo Sandoval

Ok, thank you.

Operator

Our next question comes from Angela González from Creditcorp Capital.

Angela González

Good morning everyone and thank you for the presentation, I understand that the EBITDA margin for the first quarter was set at 54%, but I would like to know why it was set below 2017 EBITDA of 60% and I would like to know also more guidance as you expect to pick up in the remainder of the year and also I would like to know your capital plans for 2018, thank you.

Martín Mejía

Thank you Angela, regarding your question the less EBITDA compared with the first quarter of 2017 is a seasonal effect, because in the year 2017 we had extraordinary incomes from the connection fee and this year we don't have this kind of incomes but at the end of the year remember that we have an increase in the tariff during this second quarter, we are going to conclude the EBITDA in about one hundred and forty million dollars which is more than the EBITDA that we had in the year of 2017, ok?.

And as for your question about capex, well we expect to invest this year around 95 million dollars and we expect to continue that spend over the next years as we continue to expand our distribution networks and connect more clients.

Angela González

Ok, thank you.

Operator

Our next question comes from Mark Haines from BTG.

Mark Heins

Hi guys good morning thank you for the presentation, I have three questions, the first one is related to the investment plans for 2021, 2021 sorry, what is exactly included in this plan, how many clients do you plan to connect in the next couple of years, and what is the amount of total capex that you need to execute during these years; the second question is related to the tariff increase, first of all I want to clarify if you meant that an 11% increasing tariff was in total or is it going to be an 11% per year and also I wanted to understand how is it going to be increased these tariffs within each year and in which periods will occur. That will be my questions, thank you.

Martín Mejía

Well thank you Mark, well, regarding the first question which is about our investment plan, in the plan which was approved by the government they are including only three hundred million dollars in investment in order to increase our network length around three thousand new kilometers, but the company is able to grow more and for that we are working with the government, part of the comment that we perform in this, in this part of the process is regarding that the company is able to increase this investment up to 500 million dollars, with 500 million dollars we have the option to extend our network length in around six thousand new kilometers and this is our goal, but we are working with the government in order to increase this amount of investment and to increase again the tariff because they have to incorporate that in the tariff and for that, this means that we perform 500 million dollars in additional investment we are going to grow in around of six hundred thousand new clients in our distribution network, this is our plan, we have been working together with the government in order to change the plan that they approved in this tariff, they are very committed with that, they need to massify the natural gas in the city of Lima and they are requesting that to the OSINERGMIN in order to incorporate that in the tariff in order to connect this new clients to our distribution network.

And Mark for your second question, the 11% is a total, that is not going to change year



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over year and just to explain a little bit more about our tariffs, the tariff's review process is every four years and that means that if there are no changes to the actual plan that has been approved by the OSINERGMIN that tariff will go through the year end of 2021 and as for the tariffs there are also some adjustments that are made on quarterly basis that incorporate the inflation in the tariff so if we have a higher inflation over these years that will make the tariff go a little higher to incorporate that.

- Mark Heins Just a quick follow on question, so actually the tariff increases the 11% is going to be taking place on this year, mid this year? Or is it going to be differed in portions and I was also wondering how much do you think it could go up the increase in the tariffs for the additional Capex that you could execute and that is not included in the investment plan from the government, thank you.
- Martín Mejía Ok. For your first question the tariff is applied since May of 2018, now we have this tariff applied and in the case of the other question, if the government incorporates the additional investment that we are thinking which are around two hundred additional million dollars, the tariff will be increasing around 15% more than the tariff that they approved now, remember that this is a tariff only for the distribution but if you compare the total tariff that receive the clients the effect is less than this 15%.
- Mark Heins Yes, I understand that during this month the segments from generation and transportation within the tariff where actually lowered, I don't know, around 10% because of a change in the rules, I wanted to know a little bit more about that and if you believe that the tariffs in the generation segments are going to or well not the generation segment but the price of the gas, I mean, if they are going to be stable for the next years or for the next quarter, sorry.
- Martín Mejía Yes, what you have mentioned is final tariff there is a distinction between Cálidda's distribution tariff and natural gas and transportation tariffs, what you mentioned is regarding gas and transportation tariffs but for Cálidda we only see our distribution tariffs as our main source of revenues that has no impact.
- Operator We have no further questions at this time
- Martín Mejía Well, I think, thank you guys and that is the presentation of Cálidda for today, Bye.
- Operator Thank you ladies and gentlemen this concludes today's conference thank you for participating, you may now disconnect.