Gas Natural de Lima y Callao S.A.

Full Rating Report

Ratings

Foreign Currency

Long-Term IDR	BBB–
Senior Unsecured	BBB–

Local Currency

Long-Term IDR	BBB–

IDR – Issuer Default Rating.

Rating Outlook

Long-Term Foreign-Currency IDR	Stable
Long-Term Local-Currency IDR	Stable

Financial Data

Gas Natural de Lima y Callao S.A.

USD Mil.	3/31/14	12/31/13
Revenue	517	466
EBITDA	77	72
EBITDA Margin (%)	15	16
Funds from Operations	(16)	(17)
FCF	(79)	(82)
Cash and Mkt. Securities	83	105
Total Adj. Debt	318	318
Total Adj. Debt/EBITDAR	4.1	4.4
FFO Adjusted Leverage	54.1	83.2
EBITDA/Gross Interest Expense	3.5	3.5

Related Research

2014 Outlook: Latin America Corporate Credit (Latin America Corporates Facing Headwinds) (December 2013)

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Key Rating Drivers

Strong Market Position: Gas Natural de Lima y Callao S.A. (Calidda) is the largest natural gas (NG) distribution company in Peru. It has exclusive rights to distribute NG in Lima and Callao, an area with approximately one-third of country's population and 44% of its GDP. The concession may be renewed, upon request from Calidda, after 2033 in 10-year increments, up to 2060. As of today, Calidda has complied with all the commitments established in the concession.

Peru's Highly Strategic Industry: NG is the most demanded power source in Peru after hydroelectric energy. Calidda distributed the NG used to generate approximately 41% of Peru's electricity produced in 2013. The Peruvian government's Law 1999 declared the development of NG infrastructure as a national interest and has been promoting NG by trying to connect 500,000 residential customers in the medium term. As of December 2013, there were more than 163,000 residential customers.

Predictable, Stable Cash Flow: Calidda's regulated clients, including commercial, residential and NG stations for natural gas vehicles (NGV), provide the company with stable and predictable cash flow generation. The company's regulated tariff program, which assures cost recovery and adequate return over total capital investments, further supports cash flow predictability. Additionally, 42% of distribution revenues come from firm take-or-pay contracts with an average life of 17 years with top tier power generators and large industry companies.

Large Capex Increased Leverage: As of result of the bond issuance to fund capex, the total debt/EBITDA ratio grew from 3.0x in December 2012, to 4.4x in December 2013. Fitch Ratings expects leverage to decrease to a level more in line with the assigned rating in the short to medium term. For 2014, Calidda's leverage is expected to decrease to approximately 3.8x and range between 3.5x–3.0x thereafter. The speed of its deleverage depends on Calidda's ability to promote and capture potential demand.

Natural Gas Supply Concentration: In 2004, the company entered into a master supply contract with the Camisea consortium, which expires in December 2016. This is mitigated by Pluspetrol S.A., the consortium operator, which must prioritize NG supply to cover local demand, according to the agreement. Calidda expects to renew the agreement in the short term. Calidda reached out to other producers to diversify NG supply and improve commercial agreement terms, including lengthening the contract term and additional firm capacity.

Rating Sensitivities

Negative Rating Action: A negative rating action could be taken if leverage, as measured by total debt/EBITDA, increased and remained at a level of more than 3.5x for a prolonged period of time either due to operational deterioration or unexpectedly large dividend distributions.

Positive Rating Action: A positive rating action could be triggered by sustained deleveraging to the low 2.0x range along with the growth and consolidation of the regulated supply and demand, including a major penetration. Material changes in the build-own-operate-transfer (BOOT) agreement, tariff scheme and applicable regulations also would be considered in future rating actions. The inability to secure gas supply for nonregulated clients, also could affect the rating.

Financial Overview

Liquidity and Debt Structure

As of March 2014, Calidda's only outstanding debts were USD320 million senior unsecured bonds, which mature in 2023. This favorable debt schedule provides the company with enough financial flexibility to continue its capex program for the next few years.

The company has enough funds to finance its 2014 capex. Calidda plans to finance future investments mainly with its cash in hand, operating cash generation and new debt. No new debt is projected until 2015.

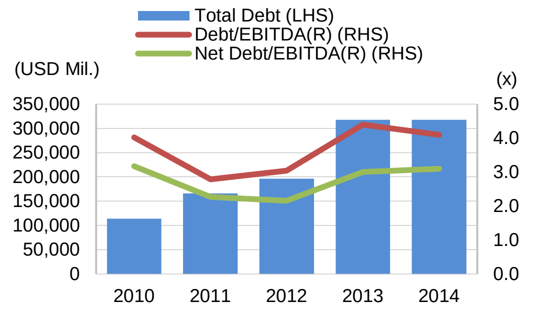
The company's policy is to maintain a minimum of USD3 million in cash. Liquidity is supported by local credit lines for working capital needs.

Debt Maturities and Liquidity

As of Mar. 31, 2014	USD Thousand
Current Maturity	0
Two Year	0
Three Year	0
Four Year	0
Five Year	0
Beyond Five Years	317,910
CFFO	5,336
Cash	82,619
Undrawn Committed Facilities	

Source: Company reports.

Total Debt and Leverage Ratios



Source: Company reports.

Proceeds from USD320 million in unsecured bonds were used to finance the capex program of 2013–2014 and repay all outstanding debt, which was USD150 million in banks' debt plus USD47 million in shareholders' debt. The transaction allowed the issuer to reduce interest rates, extend the debt's average life from three years to 10 years, remove covenants and release collateral. As a result, total debt/EBITDA ratio grew from 3.0x in December 2012, to 4.1x in March 2014. Fitch expects Calidda to delever to historical levels as investments start generating revenues.

Cash Flow Analysis

Calidda generates revenues mainly from distribution tariffs and the installation of new connections. The former is directly related to the investments made to expand the network. The latter depends on the number of new connections/users. New connections represented 33% of total adjusted revenues in 2013, compared with 16% in 2010. Both sources of revenues have consistently grown the last few years, improving the company's EBITDA and operating cash generation.

Calidda also records revenues related to cost and transport of NG consumed by its clients (pass-through) and the construction of infrastructure under the International Financial Reporting Interpretations Committee's concession. These revenues are offset by expenses of the same amount and do not carry any margin for the company.

Given its extensive capex program, Calidda recorded negative FCFs in the last four years. As of the LTM ended March 2014, FCF totaled negative USD78.4 million. Fitch expects FCF will remain negative due to the company's network expansion. Capex would be around USD100 million in 2014, USD100 million in 2015 and USD87 million in 2016.

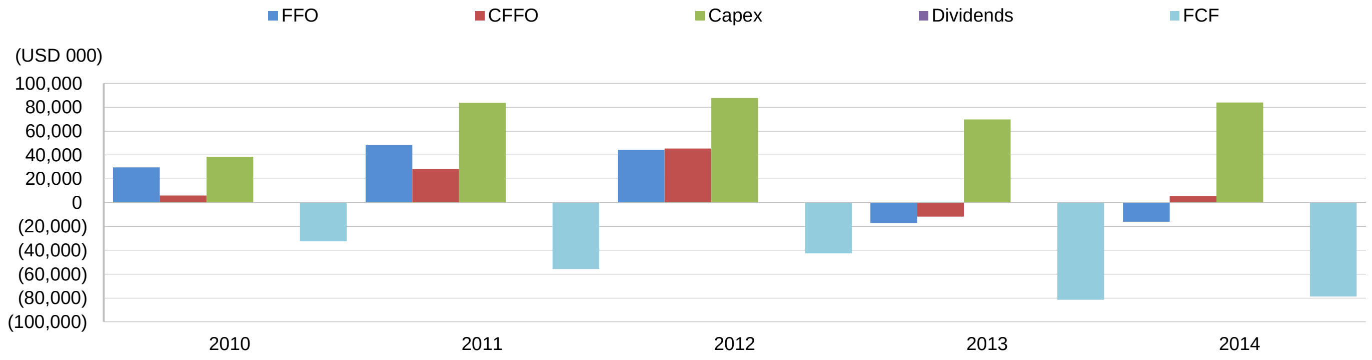
Related Criteria

Corporate Rating Methodology — Including Short-Term Ratings and Parent and Subsidiary Linkage (May 2014)

Historically, Calidda reinvested its cash generation and no dividends were paid in the past. The company plans to start paying dividends in the midterm, depending on cash availability after funding all future capex and maintaining a sound leverage.

Calidda's debt and its tariff are calculated in U.S. dollars. Exchange rate risk is limited to the collection period (approximately 30 days). Hedging based on exchange rate forecast is reviewed on a monthly basis.

Cash Flow Performance



Source: Company reports.

Peer and Sector Analysis

Peer Group

Issuer	Country
BBB–	
Empresa de Energia de Bogota S.A. (EEB)	Colombia
Promigas, S.A. E.S.P.	Colombia
Transportadora de Gas Internacional (TGI)	Colombia

Source: Fitch.

Issuer Rating History

Date	LT IDR (FC)	Outlook/ Watch
March 6, 2014	BBB–	Stable
March 14, 2013	BBB–	Stable

LT IDR – Long-term Issuer Default Rating.
FC – Foreign currency.
Source: Fitch.

Peer Group Analysis

USD Millions	Empresa de Energia de Bogota S.A. E.S.P. (EEB)	Gas Natural de Lima y Callao S.A.	Promigas S.A. E.S.P.	Transportadora de Gas Internacional S.A. ESP (TGI)
LTM as of	3/31/14	3/31/14	3/31/14	3/31/14
Long-Term IDR	BBB-	BBB-	BBB-	BBB-
Outlook	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable	Rating Outlook Stable
Financial Statistics				
Revenue	1,068	517	158	469
YoY Revenue Growth (%)	2	11	—	0
EBITDA	496	77	85	329
EBITDA Margin (%)	46	15	54	70
Free Cash Flow	341	(79)	86	291
Total Adjusted Debt	2,377	318	503	1,133
Cash and Cash Equivalents	921	83	22	409
Funds Flow from Operations	812	(16)	86	277
Capex	(247)	(84)	—	(38)
Credit Metrics (x)				
EBITDA/Gross Interest Coverage	3.9	3.5	3.1	5.0
(FCF+Cash)/Debt-Service Coverage	7.9	1.2	3.5	10.2
Adjusted Debt/EBITDAR	4.8	4.1	5.9	3.4
FFO Interest Coverage	7.5	0.3	4.2	5.2

IDR – Issuer Default Rating. YoY – Year over Year
Source: Fitch.

Company Profile

Calidda is the largest NG distribution company in Peru in terms of clients and volume sold. The company has a 33-year BOOT concession that grants the exclusive right to distribute NG in Lima and Callao. The contract ends in 2033 and may be renewed every 10 years up to 2060. The concession area covers 21,714 square miles, reaches approximately 34% of Peru's population and makes up 44% of its GDP.

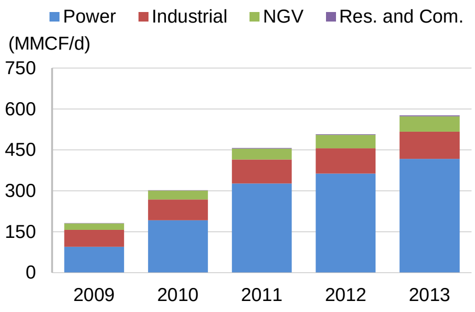
Calidda operates a network of 3,404 km of NG pipelines. During 2013, the company completed the expansion of its main grid to 420 million cubic feet per day (mmcfd) from 255 mmcfd. As of December 2013, Calidda had a total client base of almost 164,000 clients and a network penetration rate of 50%, compared with 42% in 2012. The company serves residential customers in 15 out 49 districts in Lima and Callao, and industrial, NGV stations and power generators in 34 districts.

The residential and commercial segment concentrates 99% of the client base, which was 163,133 as of December 2013. Yet, this segment represented only 1% of volume sold in 2013. The bulk of the volume sold is concentrated in the power generation segment.

Business Trends

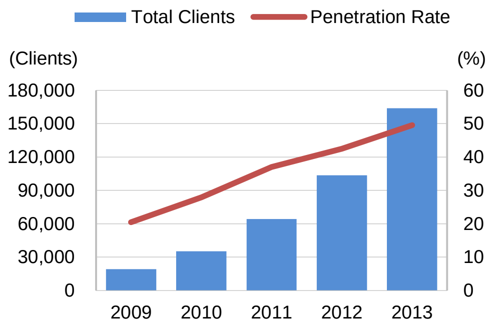
Calidda expects to increase the number of clients across all segments as a result of the expansion of its polyethylene network to new districts. The company will use a more aggressive commercial campaign for higher network penetration, based on promotional discounts. Calidda will focus on expanding its network to low income segments, which are more sensitive to fuel prices.

Sales Volume



Source: Company reports.

Clients and Penetration Rate



Source: Company reports.

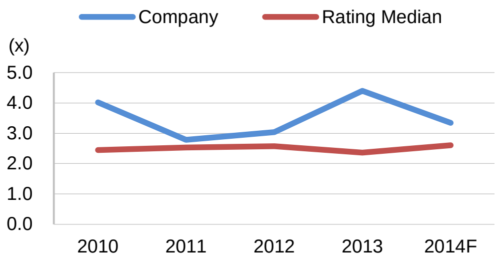
NG has a significant cost advantage compared to other sources of energy. The first adopters of the fuel were power generators and large industries. In the next few years, demand is expected to be driven mainly by residential customers, small and medium industries, and NG stations.

Key Metrics

Definitions

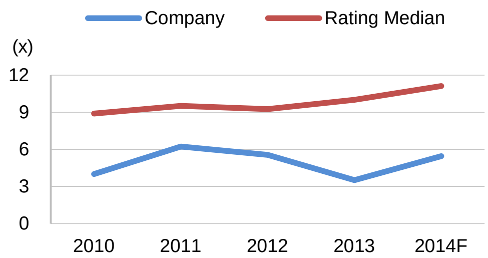
- Leverage: Gross debt plus lease adjustment, minus equity credit for hybrid instruments, plus preferred stock, divided by FFO, plus gross interest paid, plus preferred dividends, plus rental expense.
- Interest Cover: FFO plus gross interest paid, plus preferred dividends, divided by gross interest paid, plus preferred dividends.
- FCF/Revenue: FCF after dividends divided by revenue.
- FFO/Debt: FFO divided by gross debt, plus lease adjustment, minus equity credit for hybrid instruments, plus preferred stock.

Leverage: Total Adjusted Debt/ Operating EBITDAR



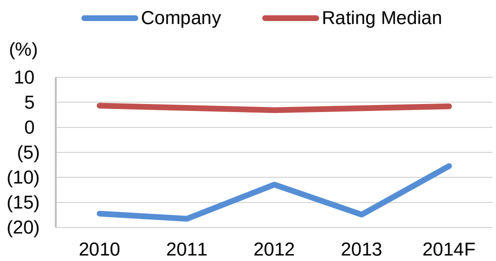
F – Forecast.
Source: Company data, Fitch.

Interest Coverage: Operating EBITDA/ Gross Interest Expense



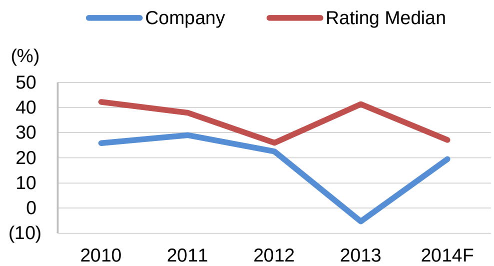
F – Forecast.
Source: Company data, Fitch.

FCF/Revenues



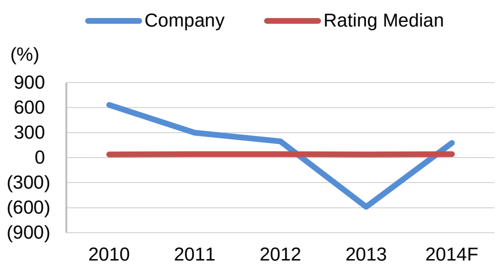
F – Forecast.
Source: Company data, Fitch.

FFO/Debt



F – Forecast.
Source: Company data, Fitch.

Capex/CFO

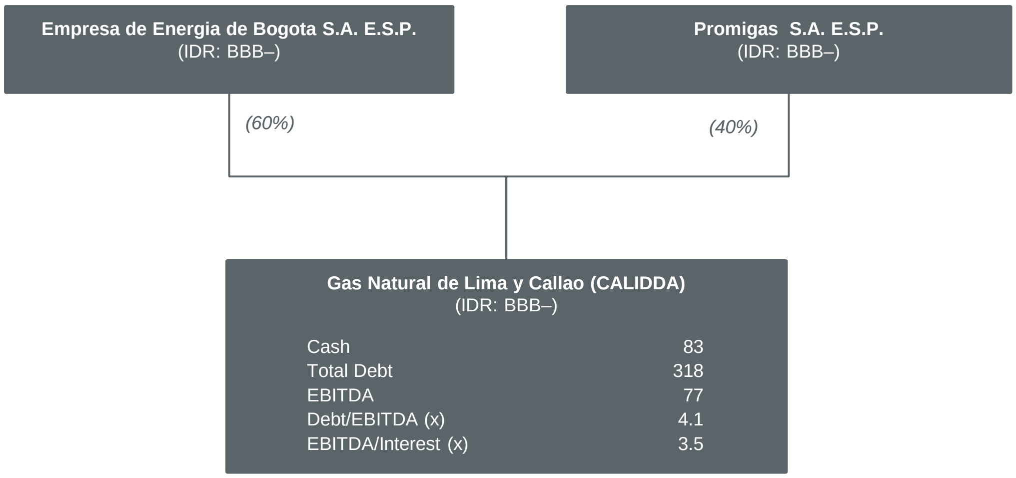


F – Forecast.
Source: Company data, Fitch.

Organizational Structure

Calidda is part of Empresa de Energia de Bogota S.A. E.S.P. (EEB) with a 60% ownership, Fitch views this as positive. The remaining 40% is owned by Promigas S.A. E.S.P. (Promigas). Both have Issuer Default Ratings (IDR) of ‘BBB–’/Stable. EEB is an energy holding company with interests across the electricity and NG sectors in Colombia, Peru and Guatemala. Promigas is one of the largest NG transportation and distribution companies in Colombia with an international presence in Panama, Peru and Costa Rica.

Organizational Structure — Gas Natural de Lima y Callo S.A. (CALIDDA)
($ Mil., As of Mar. 31, 2014)



IDR – Issuer Default Rating.
Source: Gas Natural de Lima y Callao S.A.

Financial Summary — Gas Natural de Lima y Callao S.A.

USD 000, Year Ending Dec. 31	LTM				
Profitability	**Mar. 31, 2014**	**2013**	**2012**	**2011**	**2010**
EBITDA	76,617	72,109	64,674	59,618	28,348
EBITDAR	76,617	72,109	64,674	59,618	28,348
EBITDA Margin (%)	14.8	15.5	17.5	19.6	15.1
EBITDAR Margin (%)	14.8	15.5	17.5	19.6	15.1
FFO Return on Adjusted Capital (%)	1.0	0.7	14.0	18.8	16.0
Free Cash Flow Margin (%)	(15.2)	(17.5)	(11.5)	(18.3)	(17.2)
Return on Average Equity (%)	7.6	7.5	15.7	20.4	7.3
Coverage (x)					
FFO Interest Coverage	0.3	0.2	4.8	6.0	5.2
EBITDA/Gross Interest Expense	3.5	3.5	5.6	6.2	4.0
EBITDAR/Interest Expense + Rents	3.5	3.5	5.6	6.2	4.0
EBITDA/Debt Service Coverage	3.5	3.5	2.0	2.6	3.9
EBITDAR/Debt Service Coverage	3.5	3.5	2.0	2.6	3.9
FFO Fixed-Charge Coverage	0.3	0.2	4.8	6.0	5.2
FCF Debt Service Coverage	(2.6)	(2.9)	(0.9)	(2.0)	(3.5)
(FCF+Cash and Marketable Securities)/Debt-Service Coverage	1.2	2.1	0.8	(0.7)	(0.2)
Cash Flow from Operations/Capital Expenditures	0.1	(0.2)	0.5	0.3	0.2
Leverage (x)					
FFO Adjusted Leverage	54.1	83.2	3.5	2.9	3.1
Total Debt with Equity Credit/EBITDA	4.1	4.4	3.0	2.8	4.0
Total Net Debt with Equity Credit/EBITDA	3.1	3.0	2.2	2.3	3.2
Total Adjusted Debt/EBITDAR	4.1	4.4	3.0	2.8	4.0
Total Adjusted Net Debt/EBITDAR	3.1	3.0	2.2	2.3	3.2
Implied Cost of Funds (%)	0.1	0.1	0.1	0.1	0.1
Secured Debt/Total Debt	—	—	—	—	—
Short-Term Debt/Total Debt	—	—	0.1	0.1	0.0
Balance Sheet					
Total Assets	636,747	648,002	492,440	383,140	289,440
Cash and Marketable Securities	82,619	104,958	56,912	30,797	24,015
Short-Term Debt	—	—	21,232	13,038	242
Long-Term Debt	317,910	317,863	175,212	153,191	113,631
Total Debt	**317,910**	**317,863**	**196,444**	**166,229**	**113,873**
Total Equity	252,664	244,216	202,488	140,988	115,179
Total Adjusted Capital	**570,574**	**562,079**	**398,932**	**307,217**	**229,052**
Cash Flow					
Funds from Operations	(15,892)	(17,028)	44,362	48,261	29,479
Change in Working Capital	21,228	5,212	1,026	(20,119)	(23,389)
Cash Flow from Operations	**5,336**	**(11,816)**	**45,388**	**28,142**	**6,090**
Total Non-Operating/Nonrecurring Cash Flow	—	—	—	—	—
Capital Expenditures	(84,060)	(69,764)	(87,880)	(83,824)	(38,560)
Common Dividends	—	—	—	—	—
Free Cash Flow (FCF)	**(78,724)**	**(81,580)**	**(42,492)**	**(55,682)**	**(32,470)**
Net Acquisitions and Divestitures	(2,567)	(4,258)	—	—	—
Other Investments, Net	—	—	—	—	—
Net Debt Proceeds	122,375	122,375	25,724	59,413	38,718
Net Equity Proceeds	—	25,000	35,000	—	—
Other (Investments and Financings)	(11,470)	(1,765)	—	—	—
Total Change in Cash	**29,614**	**59,772**	**18,232**	**3,731**	**6,248**
Income Statement					
Revenue	517,135	466,454	370,053	304,485	188,241
Revenue Growth (%)	10.9	26.1	21.5	61.8	70.0
EBIT	57,000	53,150	48,306	45,432	19,997
Gross Interest Expense	21,763	20,850	11,639	9,575	7,091
Rental Expense	—	—	—	—	—
Net Income	18,459	16,728	26,952	26,149	8,041

Source: Company report.

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.