

EEB's 1H2015 Earnings Call: Results and Key Developments

Operator Instructions

Good morning ladies and gentlemen. Welcome to the EEB's 1H2015 Earnings Call: Results and Key Developments. As a reminder this conference call is being recorded. I would like to turn the call over to Mr. Felipe Castilla, Chief Financial Officer of EEB, parent company of Grupo Energía de Bogotá. Please go ahead Mr. Castilla.

Felipe Castilla, EEB's CFO

Good morning and welcome to our Earnings Conference Call for the 2Q2015 of Empresa de Energía de Bogotá –EEB, the parent company of Grupo Energía de Bogotá. My name is Felipe Castilla. I am EEB's CFO. The slide deck is available on the web and posted on EEB's website. Today's presentation will be made by Mr. Ricardo Roa, Chief Executive Officer of EEB and then by myself.

The presentation is also divided in three parts. First, our CEO will make some introductory comments and key updates of all our strategy, consolidation and management during the first half of 2015. Next, we will review EEB's financial performance during the first half and the most important financial indicators.

To conclude this conference we will be pleased to open the call to a Q&A session. Now, I turn the call over to our CEO Mr. Ricardo Roa. Please, go ahead.

Ricardo Roa, EEB's CEO

Good morning everybody. I will like to give to all of you a warm welcome to our conference call about the second quarter results 2015. Before we start, as you know these quarter results are still adjusting under International Financial Reporting Standards. As a result, some accounting adjustments are still taking place and will take place on the first half of next year.

We will start this conference by giving you an overview on the consolidation of our strategic milestones. First of all we are proud to announce that last week we successfully closed a \$157 million dollar acquisition of four electricity transmission companies, a 51% stake in each that consolidates our presence at the regional level and feeds our strategy of acquiring business where we have comfort. Our regional partner in these companies is Furnas, which has full knowledge of the Brazilian electricity market. We will also like to announce that Ecopetrol completed its phase of the selling process of EEB's shares. The amount sold was 3.8% of the total of outstanding EEB's shares. This was acquired by expansion plans, which increased the stake of shareholders reaching almost 14% in EEB shareholder base.

On the other hand, in our home market Colombia we keep contributing to the development to the completion of additional projects that have been awarded in the last quarter by UPME, Río Córdoba and San Fernando-La Reforma, Ecopetrol projects. These projects will start in operation in the next 30 years and in total the joint expected annual income in the next 25 years is around \$86 million dollars. As a remark, I would like to mention that CREG, local regulatory body, [unintelligible] methodology remuneration on electricity transmission, which are invested in US dollars providing EEB with natural hedge against foreign exchange fluctuations.

In terms of our Peruvian subsidiary, as of June 2015, Cálidda reached a total number of almost 300,000 clients connected to its network. Among the new industrial and residential clients, all considered, Cálidda has also built 12 additional kilometers of high-steel network and 557 additional kilometers of polyethylene network. Currently, Cálidda has presence in 20 districts in Peru, which allows us to carry out our long-term strategy.

Contugas, our natural gas distribution company, as of June this year has reached almost 35,000 residential clients and 12 new industrial clients, which busted natural gas transported volume by 420% from 7.3 mmscf/d as of June 2014 to 55.3 mmscf/d as of June 2015. We remind that Contugas recently signed a distribution contract with two power generation plants, Egasa and Egesur for an amount of \$1.2 million dollars per month.

In terms of TRECSA, our Guatemalan subsidiary, has already come on stream and this year we expect to receive on average \$7.5 million dollars, for the next year on stream of income \$16 million dollars and for the year 2017, \$26 million dollars, respectively.

In regard to our associated companies we highlight that they have a good quarter performance and some of them as you probably know distributed dividends in an anticipated way to EEB last year, which would have been accounted this year. We would also like to announce that in the next quarter this year El Quimbo, a project of our partner Emgesa will start operations. This project will have \$400 megawatts in capacity, an investment of \$1.2 billion dollars.

At the level of the mobility projects, EEB is currently analyzing the possibility of engaging in a new business front Empresa de Movilidad de Bogotá. These projects are: First Line of Metro de Bogotá, local train and modernization Phases 1 and 2 of Transmilenio.

To conclude, I would like to refer that even though the current macro economic environment Latin America has better macroeconomic policies, such as a floating exchange rate and lower public debt, which have allowed many countries to adjust but mostly to worldwide climate. Colombia and Peru have [unintelligible] and are still growing but much more slowly. We also have some natural hedge given the company operates in countries under regulated money policies whose remuneration is linked to US dollars in most cases. This concept gives the

company macroeconomic stability. There are far more opportunities for EEB's economic growth.

In summary, I'd like to highlight that EEB has had a positive balance during this first half of 2015 by reaching an EBITDA year to date of \$410 million dollars from a total investment plan for the next five years of over \$1.5 million dollars. We have already compromised \$934 million dollars, a 61% of the next five years.

We will see in depth some of these figures and we will now pass the word to Mr. Castilla, our CFO. Thank you everybody for your time and have a good day.

Felipe Castilla, EEB'S CFO

Thank you Mr. Roa. Good morning to everybody. Now we will start with the presentation that is in the, that I mentioned before that is in the deck is available so you can download. First, EEB overview. I would like to emphasize what our President just mentioned, and is the acquisition of the four vehicles in Brazil. In that sense, as you see in the graph now we have presence in four countries and also as we have presented in previous presentations we are involved in electricity, natural gas and services in our business line. Just to remind you, we focus on natural monopolies. As you see in the acquisitions, we like to grow in controlled subsidiaries. We have a presence in countries that have very good regulatory frameworks and based on our investment grade situation we like to grow and access the capital market.

On the key updates, if you go to the following slide, the main update as was mentioned by our President, is that we also want to emphasize that this is our first year applying the IFRS in our accounting, and we expect that by the end of this year we have completed all the adjustments that are required. And in that sense we want to warn that our numbers will be final by the end of the year. Some adjustments could be presented in our presentations.

Then we want to mention two shareholder decisions that have been done during the first half of 2015. In the first case, in our General Assembly in March 30 of this year we approved the possibility to handle a liability management operation effective on our current bond issue of \$749 million dollars. I want to mention that we already selected the advisory bank, the Deutsch Bank was selected, and we expect that this transaction could be launched by the last quarter of this year. We also approved that the company finance up to \$1 billion in US dollars and also de possibility of launching local issues up to \$450 million dollars just for financing the investment plan that we have.

We also want to mention that on July the 5th we had another General Assembly and in that moment was approved to pay an extraordinary dividend in the amount of \$459,000 million pesos. That dividend was approved to be in the minority side, 24% of the minority shareholders they will be paying in one year. Let's say that would be paid in July 2016. And the remaining portion that corresponds to the capital city will be financed during the following 10 years. In that sense we will pay equal amounts quotes or portions of this 350,000 million pesos from year 2017 up to 2026.

The other relevant update that we want to mention and that was also mentioned by our President, was that Ecopetrol sold one portion of the stake in the EEB. They have to follow the process contained in Law 226 and they first offered the shares to the solidarity sector and in that process they sold 3.84% of EEB's shares. And as I already mentioned before, that was sold to the pension funds. They have a remaining portion of 3.03% and they want to follow a second phase according to the Law 226 during the last quarter of this year.

In the following slide we also want to emphasize, although this presentation corresponds to the first half of 2015, the Brazil acquisition. The agreement, the final agreement was signed on August 21st but we considered that it was relevant information for this presentation. As it was mentioned, we acquired four

concession companies. The names are Transenergía Renovável S.A., Transenergía Sao Paulo S.A., Goiás Transmissao S.A., and MGE Transmissao S.A. In these companies Furnas is present with 49% of the equity stake and the total investment was almost \$548 million *reales* equivalent to almost \$158 million dollars. The annual revenues of those vehicles are in the range of \$100 million *reales*. They have a length of 1,100 km in 500 kV. They have substations at the level of 500 kV, 345kV and 230kV. There are 10 new substations and the expansion of 5 current stations. And although you see in the graph that the process was under final documentation, that was signed on August the 31st.

Then we have TRECSA. On TRECSA we have an operation that has been, some portion of the assets has been put on stream. And at this moment we have 4 new substations already in operation. Some additional transmission lines, the line Morales-Panaluya in 230 kV, the Extension of the Electrical Substation of Panaluya, Morales Electrical Substation, the Electrical Substation Reactor and the Bank of Autotransformers of 150 MVA that were already on stream.

I want to emphasize that as I mentioned the revenues are going to increase by steps. By the end of 2015 we will have revenues in the range of \$7.5 million dollars. We expect that by the end of 2016 we can have on stream revenues in total of \$16 million dollars. And by the end of 2017, when the project has been planned to be finalized, we will have \$26 million in revenues in the company.

Additionally in the next slide we have that we are currently in the process of merging the vehicle in Spain, IELAH and TGI. The vehicle was the way in which EEB acquired the remaining shares in TGI and our expectation is to merge that vehicle in Spain with TGI. We expect that that process will be finalized in the first half of next year.

Then on TGI we have that in the case of EEB, they are incorporating the IFRS accounting standards and they will have some adjustments until the end of this

year. Also, TGI's average transported volume through its infrastructure reached almost 500 mmscf/d and maintained more than 51% of the market share closing in the first half of 2015.

On Cálidda we already have a client base roughly in the range of 300,000 customers. Our expectation is that we can grow in the range of 80,000 to 100,000 new users per year. And we are on track on that. And also, Cálidda enjoys a local market share of 83% of the total clients connected in Peru.

On the side of Contugas, the company already has almost 32,500 clients that are connected and users. And the pipeline we have a capacity of 300 mmscf/d and we expect that in the next two, three years we have a base of 50,000 residential clients and after starting commercial operations.

In May of 2015, as was mentioned before we incorporated two new clients, that is, Egasa and Egesur. Those are two power generations that consume in the range of 25 mmscf/d and that will generate an additional revenue of \$1.2 million dollars per month. And in that moment those are just incorporated in the revenues of the company.

Then we can please go to the expansion projects review. In the first slide we have what we have executed CapEx in our different businesses. We have in the natural gas distribution that is mainly Contugas and Cálidda, we have an execution of almost \$47 million dollars up to the first half of this year. In the electricity distribution \$15.5, and on natural gas transportation that is TGI, almost \$10 million dollars in the first half. And our main business at this moment, the most active business is the electricity transmission with \$200 million dollars. In the table you see what are the projects that are under execution at this moment. And those investments are mostly concentrated in Colombia with 75% and our investment in Peru and Guatemala with 22%.

Then we go to the next slide about our associates. If you see in the table we have invested in the first half of this year \$230 million dollars. The main investment at this moment corresponds to the generation through Emgesa, and corresponds to El Quimbo project. As it was mentioned before we have an investment of \$1.2 billion dollars that is the total cost of the project. By the first half the project has an execution of 94% and we expect that the full operation will be in the last quarter of this year but maybe they can be anticipated a little bit and maybe it can be starting operations in September.

Then if we go up to the financial review. It has been a very good semester. In the operating revenues, if you compare with the revenues in the same period of last year, we have an increase of almost 23% and is explained mainly for our electricity transmission business. Some projects started operation, as it was the case of the Alférez Substation and the SVC Tunal here in Bogotá. We have an increase of almost 50% equivalent to \$70,000 million pesos in the natural gas transportation, in the case of TGI. And an increase of 27% in natural gas distribution. That corresponds to the new clients connected in the case of Cálidda and Contugas and higher volume distributed.

We also have to emphasize that there is an aspect of the exchange rate that has also an increase because some of the tariffs of our businesses are US dollar based and when you convert it to Colombian pesos will be adjusted and that will create an increase. On the operational profits we have an increase of almost 31%. The growth is explained in the revenues by natural gas transport, which operating profit grew almost 20% in Colombian pesos in the range of \$60,000 million pesos.

Operational costs and expenses show an increase but lower than the increase in operational revenues of 19.5% due to the increase in electricity transmission costs. Some of the costs of the projects they go to the P&L and in that sense we have an increase considering the execution of some of the transmission projects

here in EEB. We also have an increase of 27% in natural gas distribution and corresponds to the new clients that have been incorporated in Cálidda and Contugas. And in the case of financial expenses, there is an interest on debt and in the collection of volume, in the collection, but most of those are also corresponding to the increase in the devaluation that has been occurred considering that those numbers are presented in pesos. And if you compare the exchange rate by the same half of last year it was 25% lower.

At the end we can go to the following page and it is the summary of the Profit & Loss. In the first half of 2015 we have an increase as was mentioned before of 25% compared to the first half of last year. Our net income has decreased a little bit compared to the first half of last year, but please take into consideration that during the second half of 2015 and as it was mentioned in previous conference calls we have an anticipated dividend that in any other case would be decreed in the first half of this year. In that sense, our operation has been good, in better terms than in the previous year, but the dividends were paid in the last half and they are not considered in the first half of last year. That is why our...the main effect of why our net income has been reduced compared to the first half of 2014.

As a consequence, in the last graph that you see in page 13, dividends received in advance by the associates, that was the explanation that I just made, and a major loss for exchange difference in EEB Peru, in TGI and EEB; and higher income tax and a decrease in equity method associates of \$40,000 pesos. But the main explanation corresponds to the dividends received in the second half of 2014.

On page 14, in the next slide, you see that our EBITDA still isn't in a very good shape. If you compare the second half 2015 but consider last 12 months our EBITDA is in the range of \$844 million dollars, corresponding to \$2.1 billion Colombian pesos. We have consistently maintained 52% of our EBITDA is generated through controlled subsidiaries and 48% on non-controlled

subsidiaries. And the pie that is on the right side, you will see that the three main businesses contributing to our EBITDA is TGI with 35% and Codensa and Emgesa with almost 38%. Those three businesses contribute with more than 75% of the EBITDA generated in EEB.

Following in the next slide, you will see our main indicators. By the second half of 2015 our relation between net debt and consolidated EBITDA is in the range of 2.41 that is very, let's say it's far from the 4.5 relation that is included in our current bonds and that tells we're in very good shape.

In the case of the consolidated EBITDA times interest is almost 16 times, that is far from the 2.25 that is let's say the regular value that is reviewed by the rating agencies.

On the total debt you will see that our current debt is almost \$3 billion dollars. A little bit lower than the one that we had by the end of 2014. That is mainly because we could pay a portion of the debt that we got to acquire the TGI shares. And in that sense we prepaid almost \$76 million dollars and we got some additional debt in the case of Cálidda. But at this moment we maintain our level of debt as it was at the closing of 2014.

In the debt maturity profile, we are in the process of trying to make a liability management for the bonds due in 2021 for EEB. Our idea is to extend that maturity at least until year 2025. And we are also in the process of reducing the balance of the debt in which we acquired the shares from TGI. Our idea is that at least in the last quarter of this year we'll prepay an additional \$175 million dollars. In that sense, [unintelligible] will be reduced at the range of almost \$780 million dollars.

Going to the next slide, although the very volatile market that we have right now, if you see the behavior of the EEB share compared to what we had in July of last

year, we are keeping the value. But if you see in the graph that is below, the green line is the market, we are above the market almost 22%. That shows that we have been, even in the volatile market, we have been a very stable share.

On the dividends paid as I have mentioned before, we paid dividends by the end of 2014 and in that sense last year we paid almost \$5 cents US dollar per share, that is equivalent to \$120 pesos per share. We have as of June 30, 2015 a market capitalization roughly in the range of \$5.6 billion dollars. Our analysts consider that the average target price is almost \$2,000 pesos, equivalent to \$81 cents per dollar. And we have as a main statistics that our pay out ratio 2014 was 74% and in average has been in the range of 65%. We have a dividend yield in 2014 of 4.2%, that it has been the highest dividend yield in all the history. And for the period 2010 to 2014 it has been 3.5%.

At this moment I will leave the Questions & Answers session and we expect that you please make your questions. Thank you very much.

Operator Instructions

Thank you. Ladies and gentlemen if you have a question or comment at this time, press the star key and the number one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue, press the pound key. Again, for questions just press the star key and the number one.

And we have a first question from Juan Camilo Serrato, from Porvenir. Your line is now open.

Juan Camilo Serrato, Porvenir

Hi. Thank you for taking my question. I have three questions. First, I want to understand better the growing on taxes, in the quarter. Second, I want a little bit more color on Empresa de Movilidad project. What do you expect of this project

and what does it contemplate. And finally, I want to understand which portion of TGI revenues are indexed to Colombian pesos. Thank you very much.

Felipe Castilla, EEB's CFO

Please, can you repeat the first question? I couldn't get it.

Juan Camilo Serrato, Porvenir

Excuse me?

Felipe Castilla, EEB's CFO

What was the first question?

Juan Camilo Serrato, Porvenir

The first question is, I want to understand the growing on taxes in the quarter, that we see in the quarter.

Ricardo Roa, EEB's CEO

Okay. Related to the mobility project, related to the passenger mass transit project concretely on the electric component, similarly EEB has [unintelligible] solar energy generation project and the possibility for using EEB's power infrastructure in Colombia, Peru and Guatemala to [unintelligible] the risk for fiber optic cables.

Regarding to the train of Facatativá and Soacha, a [unintelligible] for the technical and financial assessment of these two projects, taking into account 20% of the stake through EMV –Empresa de Movilidad de Bogotá. This resource will be delivered during mid September 2015. At the same time our investment committee approved the undertaking of technical and financial opportunity assessment to participate as the originator group in the project Metro Ligero Avenida 68, with an investment of up to 20%. EEB is conducting a technical financial assessment to participate in this private initiative by approving the

[unintelligible]. This project is currently under the feasibility stage, which is being conducted by Transmilenio S.A.

Related to the Metro de Bogotá, the project is waiting for the results of the national government and for the financial development entity, Financiera Nacional de Desarrollo. Related to, yeah, to that question.

Felipe Castilla, EEB's CFO

The first question, and is the case that in TGI last year the taxes were paid under presumptive basis and this year is under operational revenues. And in that sense that is the major increase in taxes. There are also the fact that there are more revenues and in that sense that increased, but let's say the main portion corresponds to let's say changing from presumptive to operational taxes in TGI.

Juan Camilo Serrato, Porvenir

Thank you.

Felipe Castilla, EEB's CFO

Regarding the last question, we consider that almost 60% of the revenues in TGI corresponds to US dollar based basis, but please take into consideration that the remaining portion, the 40% portion of the tariff will be offset by most of the Colombian peso [unintelligible]. And in that sense, most of the operational profit will be US dollar based.

Juan Camilo Serrato, Porvenir

Okay. Thank you very much.

Operator

And our next question is from the line of Andrés Cardona from BTG. Your line is now open.

Andrés Cardona, BTG

Good morning guys. Two quick questions. The first is from the accounting, can you please walk us through the changes that you give between the first and second quarter in particular in the portfolio line and the exchange difference? And the last one if you can talk a little bit about the profitability of the mobility business. I mean, if you are more interested to be in this business than in the other ones or it's that you are not finding enough good opportunities in the other lines, and so you are looking to grow in the mobility business. Thank you guys.

Felipe Castilla, EEB's CFO

I would like to answer first the one related to accounting. As I mentioned before in this presentation, we are just in the process of adjusting the financials under IFRS. In the first quarter we...it was not clear how to account some of the, let's say, uh, the profits from controlled businesses. And that was not clear in the documentation and we accounted as we made previously under the Colombian GAAP. And that was something that was already solved and we are not accounting those revenues and that was an adjustment of almost \$200,000 million pesos. But at the same time we have an exchange loss of our vehicle in Spain, because they have as a functional currency Euro. Considering that that vehicle was used to acquire the TGI assets that at this moment are under...the functional currency is US dollar, and also that we have debt in US dollars, we switched the functional currency in our vehicle in Spain and we switched it to US dollar based. And in that sense that is...we already adjusted that loss that we have for the foreign exchange loss to euro and Colombian peso. And in that sense, in real terms we offset those two effects but you will see in different accounts that they were adjusted. I don't know if it's clear my answer.

Juan Camilo Serrato, Porvenir

Yes, but it would help if you can provide us with a first quarter reclassified statements just to clean these numbers.

Felipe Castilla, EEB's CFO

Yes, I will let it up to all of you who are interested. Please take into consideration our investment relation officers and we can through them give you more detail on that.

Juan Camilo Serrato, Porvenir

Okay. Thanks guys.

Felipe Castilla, EEB's CFO

And the second question is related...

[unintelligible]

Ricardo Roa, EEB's CEO

Related to the second question I can tell you that we are making the financial assessment and we are making the feasibility to decide the profitability of this business. You mention that if it's possible that EEB is not or don't have many opportunities to invest and for this takes the decision to participate in the mobility projects. This is not true. We have in the pipeline of TGI a power plant, a project for expansion like \$1.5 billion dollars in the next 5 years. In the EEB we have projects to the extension of...to the expansion of the STN 940,040 million dollars. And we have the expectative to invest different to the mobility projects. What happens is that the mobility projects have important components, an electric component that represents like 20 or 30 percent of the investment needs to develop these technologies. But in this case is that we are looking the possibility to participate in this business.

Juan Camilo Serrato, Porvenir

Okay. Thank you guys.

Operator

And I'm not showing any further questions in the queue. You may proceed with any final remarks.

Felipe Castilla, EEB's CFO

Okay. We want to thank again to all of you that attend this conference call. If you have any additional questions please use our Investor Relation offices and we can provide you with more detail on extending our answers that we just made. To all of you again thank you very much and we will see you in the next presentation call.

Ricardo Roa, EEB's CEO

Thank you very much to all.

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.