

EEB 2Q 2014 EARNINGS CALL – KEY RESULTS AND DEVELOPMENTS
Conference Call Text

Operator:

Good morning ladies and gentlemen, and welcome to the EEB's first half 2014 Earnings Call - Results and Key Developments. As a reminder, this conference call is being recorded. I would now like to turn the call over to Mr. Nicolas Mancini, Investor Relations Officer of EEB, and Head of Grupo Energía de Bogotá. Please go ahead Mr. Mancini.

Nicolas Mancini:

Good morning and welcome to our first half Earnings Conference Call on Empresa de Energía de Bogotá -EEB- the head of Grupo Energía de Bogotá. My name is Nicolas Mancini, I'm the Investor Relations Manager of EEB.

Today's presentation will be made by Mrs. Sandra Fonseca, Chief Executive Officer of EEB, and by Mr. Felipe Castilla, EEB's Chief Financial Officer.

A slide deck is available by web cast, and will be posted on EEB's website.

This morning's presentation is divided into four parts. First, our CEO will make some introductory comments and key updates of our business strategy. Next we will present a summary of the recent developments in our expansion plans. Third, we will review EEB's Financial Results for the first six months of the year and most important financial indicators. After that, we will be pleased to open the call to questions.

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

Sandra Fonseca:

Good morning everyone. I would like to give to all of you a warm welcome to our Earnings Conference Call 1H 2014. We will start by giving you an overview of the

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strategy execution during the first six months of the year, then a brief overview of our future plans, and then I will provide some insights on our key financial recent developments. Then I will turn on the call to Mr. Felipe Castilla, our Chief Financial Officer.

You can see our current strategy execution. EEB as you know has focused its long term strategy on three core businesses, electricity sector, the natural gas sector, and the services related to these two first sectors, engineering and other related services, regarding electricity and natural gas projects.

On electricity business, our main developments have been on the transmission segment. You may know that we have been awarded recently with two new projects to strengthen the national transmission system reliability in Colombia. You can see a positive balance for us, out of nine offers in the last two years that we have bid to the UPME, in the UPME project, EEB has been awarded with seven of them, which means that we are the ones currently expanding the development of the national transmission system in Colombia. These projects, these investment projects will approximately account for a nearly six hundred million during the next three years and will increase our market share up to 13% on the national transmission system. You can see that it is really a good outcome of our strategy.

On natural gas, as you probably might know, we have successfully acquired the remaining 31.92% of TGI's stake, a transaction valued at \$880 million dollars and that allowed us to now hold 99.97% of this company. TGI is one of our main current and future EBITDA contributors. At June 2014 approximately 39% of total EEB's last twelve months consolidated EBITDA came from its transportation business. TGI also developed an expansion phase –new loops and national transportation systems– all along Colombia, which besides improving will add additional transportation capacity and business scope to EEB.

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In terms of our businesses service companies, we have incorporated to our investment portfolio three new companies, as follows: EEB's Engineering and Services in Guatemala, EEB's Engineering and Services in Peru, and Empresa de Movilidad de Bogotá –EMB. The first two companies have projects already under execution, related to the areas of engineering and services valued at nearly \$111 million dollars. In terms of the new mobility company –EMB, our recent incorporated subsidiary, which is committing to the development of electricity, electric mobility projects in Bogota, and in other cities of our interest, is currently analyzing some public and private partnerships in electro-mobility projects which will enable us to improve electricity demand.

I want to emphasize here that in some cases we will be part of the PPP special purpose vehicles in partnership with specialized transport operators, looking forward to develop, operate and maintain electric infrastructure. These are three related projects that are currently under stage of feasibility and pre-feasibility, such as partial electrification of Transmilenio Phase I and II trunks, commissioning zero or low emissions buses; the second is Train-Tram in the western and southern corridors, and a light rail transit –LRT in the eastern corridor, among other mobility projects. All of them under review.

This year we have executed or committed nearly \$1.2 billion dollars out of the project investment plan, related to the \$7.5 billion investment plan, for the period 2013-2017. So as you can see we have really advanced our execution efforts to comply this investment plan that we've been telling you about.

Regarding the future, our strategy is focused in our acquisitions maybe in pipeline opportunities that will also drive us, will guide our results in the coming future. We plan to execute on average an amount of \$1.5 billion dollars every year up to 2017 mainly concentrated in the [unintelligible] power activity, power generation

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opportunities. We are evaluating entering into this segment in Colombia and in other countries. In Colombia particularly we are doing right now some feasibility studies, from 300 megawatts that we plan to develop, we are evaluating the possibility to construct a 150 megawatts power generation plant in the east of Bogota city with thermal technology using natural gas, and we are also evaluating to develop a system using the waste produced in Bogota, burning it, which will have an impact on environmental issues. Generation business is a key factor for our future expansion plan, in all the countries we are interested in.

The second one is the electricity transmission opportunities. We are of course concentrating our efforts in the upcoming UPME projects that are valued at \$2.2 billion dollars which will be bidden during the next, this and the next year. We expect to win at least approximately 50% of the projects. Also, in Peru with REP and CTM we are being successful in the growth of the new extensions and the concessions that they are building at this moment. We continue to looking for new investment opportunities not only in Colombia, not only in Peru, but also in Brazil.

Regarding electricity distribution, we are focusing our efforts to grow the Empresa de Energía de Cundinamarca, to add value to this investment, and to keep reducing the energy losses, and maybe having a little bit more EBITDA from some power plants that are under evaluation.

In the natural gas transportation and distribution opportunities, we keep growing in Colombia through TGI, and in Peru through Calidda and Contugas. It is to highlight that the Mexican government has recently reformed the energy market and opened it to private competition, and as you know that this is really a new opportunity for all the energy companies, and we are expecting really to be part of this opportunity. We are now looking some of the projects that are already under the bidding process and we are reviewing all the opportunities that are coming in this market in

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the future. We have a lot of experience in Colombia and Peru that allow us to offer a very competitive advantage to contribute to the development of the gas in this country.

Then other businesses, energy and related services opportunities in Guatemala and Peru are in the initial phase, but we have the greatest potential of these services in the future. So, as you know, we are visualized as an integrated energy transportation company across the continent, based on the development of an integrated grid of energy and natural gas, composed mainly by transmission and transportation infrastructure. Our strategy is regional in scope and at the end of first half of 2014, EEB maintains its leading position as a regional corporation in electricity and natural gas, in addition to the consolidation in our major countries like Peru and Guatemala, where energy-intensive industries and pioneering investments are taking place.

We are [inaudible] for more opportunities to evaluate them and be sure that we can add them to our results. So you can see in the result of this first half of 2014 that in this period we are consolidated as one of the most economically important energy group in the region, always maximizing profits for our shareholders, as reflected in the increasing company profits during this period. This is as a result of the commitment and effort of all of our subsidiaries in terms of operational performance and execution of profitable investments. This growth comes from the operational results at the level of controlled companies, and a dividend stream from the non-consolidated affiliates. Our focus on natural monopolies and stable regulatory frameworks in which we operate, added to the broad access of the company to the capital markets, springboard us to reach stable stream of profits in a [inaudible].

At the closing of the first half of 2014, net profit of Empresa Energía de Bogotá – EEB, head of the Bogotá Energy Group, amounts to \$957 billion Colombian pesos

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exceeding by \$238 billion Colombian pesos the results obtained during the previous period, showing an increase of 33%. Such performance is explained mainly by growth in operational profits, reaching \$93 billion Colombian pesos, highlighting operational results obtained in the natural gas distribution business in Peru and in the electric power distribution business in Colombia.

Bogota Energy Group year-to-date EBITDA continues its steady growth and reaches \$1.97 billion Colombian pesos, representing an increase of 22% compared with the same period in 2013, and 11% compared to the closing of 2013. So, during the past four years, 2010-2013, EEB has delivered the Capital District nearly \$1.6 million Colombian pesos in dividends. The Capital District of Bogota is a major shareholder of EEB and owner of the 76.28% of its shares, will be receiving this year on account of dividends the sum of \$450.4 billion Colombian pesos.

So, this is how, really a short review of our results. I can tell you that I am really pleased, we are focused in the investment plan having the results that you can see, keeping going for the next phase of the year, and hope that you are very pleased with these results. Thank you very much, and now I will turn to the CFO.

Felipe Castilla:

Good morning everyone. Now, I will present the financial results and some of the consolidation of our strategies. First of all I would like to talk about the investment program that we have been executing during 2014. First, we will start showing what are the investments that we have been doing during 2014. In the first graph we will present what has been invested in our controlled subsidiaries. First, on the EEB's directive, we have been continuing executing our investment in our transmission projects mainly in Armenia, Tesalia, Chivor II Norte, and SVC Tunal. And, as we have presented in previous conferences, we have been recently

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awarded with the projects, with some additional projects in Bolívar-Cartagena, and Sogamoso-Norte-Nueva Esperanza, that are projects that will be executed in the next three years.

On the TGI side, we have been executing our investment projects. Recently we started our project in our station in Sabana, one compression station in the company that is allowing us to deliver more volumes of natural gas mainly to Bogota. On the Calidda side, we have been executing our investment program, our idea is that for the year 2015 we will expect to have more than 550,000 new users connected to our network, and this year we expect that these new users will be in the amount of 100,000.

On the Contugas, recently as we presented, we started operations, and now we are in the process of consolidating the new users for the company for 2014.

On Trecca, this project will be delivered next year, and we expect that in the first quarter of 2015 this project will be delivered and at this moment we are executing mainly the substations and the transmission lines that are included in the [unintelligible] projects.

On EEBIS, we are complementing the investment that we have in the network in Guatemala. We have started the investment and we have been awarded the new projects. The total investment expected for...to be executed by this company is going to be more than 100 million dollars in the next three years.

And on EEC, we are continuing executing all of our investments including the strategic plan for the company and that will be executed in the next five years.

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On non-controlled subsidiaries, at Emgesa the main project that has been executed is the Quimo project that will be in execution the first quarter next year.

For Codensa, we are still working in the investments that are related to the existing demand and quality service and continuity of service and all the controlled operational risk.

On CTM and REP, our participation in the transmission line in Peru we are being awarded with new projects, and we expect to invest in the next year the full program.

And we have continued investing in the [unintelligible] and one [unintelligible] plant and one pipeline that is Mamonal-Sincelejo. And on Gas Natural Fenosa, there are execution plans for year 2014 that correspond to the growth in the city of Bogota.

For the non-controlled subsidiaries, we have been executing in 2013 almost \$360 million dollars and for the first half of 2014 the execution has been for the amount of \$354 million.

Now, I will like to tell you what...an update on what has been TGI's acquisition of the 32% of the shares that were sold by DVCI. The transaction was closed on July the 2nd, from that moment we are working on the financing, and in order to close this transaction we reached with internal resources the acquisition and the acquisition was finalized on the beginning of July. Now we have additional two phases, the second phase is to merge the two [unintelligible], the one that acquired the company that holds the TGI company, the TGI shares, excuse me, and we are in the process of merging those two entities. We expect that by the end of this week or the beginning of next week the two companies can be merged, and once

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we are able to merge those entities, we will be able to disburse the financing with the syndicated bank.

At the phase three we are planning to merge this merged vehicle with TGI, that's a process that we expect...a period that we expect that is going to be from six months to nine months, and once we are able to merge that vehicle the loan will be [unintelligible] in the TGI financial statements. That...our expectation is that we are able to finalize that towards the first quarter next year.

On the financial review, fundamentally this has been a very good semester. As you can see in the consolidated results on the operational side we have been growing in revenues in pesos 19% and in US dollars 22%, and this is mainly explained by Calidda with the new connections. As you know the company is growing every month, and at this moment we have new connections and therefore higher volume distributed.

As we mentioned before, as Contugas start-up the commercial operation and now is making a small contribution, but from now on every month is going to increase this contribution to the operational revenue of the company, and also TGI is increasing the volume transported mainly because now the thermo power is requiring more volumes of natural gas.

On the operational operating profit we are also growing, in the case of pesos we grow compared to the first half of 2013, we grow 14%, and in US dollars we grow 9%, this is mainly because of the increase in revenues, but as is expected also we grow in operational cost in Contugas and Calidda because once we start operations and we have new users the operational expenses grow, and also there is a small growth in personal costs in EEC.

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In the next graph you can see the EBITDA evolution. As you can see we have a very good first half of 2014. We have \$1 billion, almost \$1 billion 50 million dollars of EBITDA, in pesos it's one point nine, almost \$2 billion pesos, that's an incredible growth compared to previous years.

As you can see in the graph on the right, on the top of the right side, this is common in our case that in the first quarter we increase the EBITDA because we receive dividends for our non-controlled companies, and then on the following quarters we receive the contribution of our controlled companies. But in any case, we have a very good semester for our EBITDA.

Also as you can see, 52% of that consolidated adjusted EBITDA comes from controlled companies. That is a consistent growth compared to what we have in year 2006 in which only 19% of our EBITDA was contributed by controlled companies. 47% comes from non-controlled companies and in the graph located in the bottom of the right side you can see that the main contributors are TGI with 39%, Emgesa with almost 22%, and Codensa with 30.5%, but please take into consideration that now Calidda and Contugas are contributing a little more and in next projections that contribution for our Peruvian companies will be higher considering that they are in the process of growing and in generating more EBITDA for the Group.

On the next slide, on the next page we can see the consolidated results for non-operational activities. The dividends are growing, in the case of pesos they grow almost 8% and in dollars almost 11%, and that's mainly for contributions generated for higher dividends, generated in Emgesa, Codensa, and Gas Natural Distribution Company here in Bogota.

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On operating expenses, we have a reduction in the foreign, at this moment during the first half we have been having a devaluation and in that sense that account now is positive and not negative, and in that sense we have been moving expenses from \$218 billion pesos during the same period of the previous year to revenues of almost \$28 billion at June of 2014.

I guess that at this moment we have been having some devaluation and maybe this situation will change for the next quarter, but that has been a change compared to the first half of 2013.

On net income, we have had a net growth of 33% in pesos and almost 27% in US dollars, mainly, what I've been telling you before, the growing in operating expenses and also in dividends, and the reduction in the foreign exchange account.

In the next graph you will see how our metrics has been evolving; on the net debt and the consolidated adjusted EBITDA, we have been very far from the 4.5 that was included in our vision and in that sense we are very far from that limit. On the consolidated adjusted EBITDA and interests we are far from the 0.5 and 11.44. On the consolidated debt composition, we have been having a small growth on the debt for 2014 mainly for the acquisition of the TGI shares we have to have a small portion, almost \$120 million dollars from local markets to finance the acquisition.

On the maturity, you can see that this small portion of \$120 million dollars has to be repaid this year, but only our debt is concentrated for years 2021 to 2022.

On the share performance, as you can see the EEB share has been growing better than the market. We have a market capitalization of more than \$8 billion dollars. We have...the average target price is above \$1,800 pesos and [unintelligible] that

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was close...was \$1,700 pesos and we are still below what is our targeted price. The dividend payout ratio is 68%, that is the same for the average of 2008-2013 and the dividend yield pay for 2014 was 2.5% and for the previous year was in average 2.3. I guess that this shows you that we have very consistent numbers, we are currently in a growing process, and we are showing everyday very financially stable.

At this moment I will leave the session for questions, if you may have. Thank you very much.

Operator:

Ladies and gentlemen if you have a question at this time please press star then one in your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue please press pound.

And again, ladies and gentlemen, if you have a question at this time please press star then one.

And I'm not showing any questions.

Felipe Castilla:

Okay if there are no questions, I want to thank to everybody that participated in this conference call and I guess that we'll see in two months to present our next quarter results. Thank you very much to everyone.

Operator:

Ladies and gentlemen thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone have a great day.