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Corporate Speakers

- Jorge Andres Tabares; EPM Group; Executive Vice President of Corporate Finance and Investment Management

PRESENTATION

Operator: Welcome to the second quarter 2015 EPM Earnings conference call. My name is Hilda and I will be your operator for today. At this time, all participants are in a listen-only mode.

Later, we will conduct a question and answer session. Please note that this conference is being recorded. The host and speaker will be Mr. Jorge Andres Tabares, Executive Vice President of Corporate Finance and Investment Management of EPM group.

Before I leave you with your host, let me remind you to take a look at the disclaimer of today's presentation. Now, I will give the floor to Mr. Tabares.

Jorge Andres Tabares: Good afternoon and thank you for tuning to our quarterly conference call. So, I'll start with our relevant facts in the second quarter of 2015.

Regarding our growth strategy, we highlighted that upon the approval by Econsa in Chile, the (inaudible) closed June 2nd purchase of the Chilean company, Aguas de Antofagasta, ADASA, a transaction worth [CLP596,000 thousand million trillion] and the largest acquisition so far conducted so far by EPM.

ADASA, the new subsidiary of the EPM Group, will continue to strengthen the conglomerate’s current operations in water businesses in Colombia and Mexico. ADASA has a concession expiring December, 2033 for delivery of services, production and distribution of potable water and collection and disposal of certain waters in the municipalities of Antofagasta, Calama, Tocopilla, Taltal, Mejillones, Sierra Gorda and Baquedano in the region [second] in Northern Chile in the Atacama (inaudible) region.

This acquisition is EPM Group’s venture into production and distribution of potable water for Chilean municipalities and into waste water treatment for the complete sewer system, implementing the business model to contribute to the sustainable and competitive territories. ADASA will continue as a strategic ally of the residential and agricultural sectors answering their needs.

Regarding corporate social responsibility, we highlight the alliance between Veolia, the global French group and EPM to promote the energy efficiency in Latin America. This alliance seeks to establish (inaudible) energy services company type business to deliver solutions for development, installation, financing, operation and maintenance of projects to improve energy efficiency of our clients.

The alliance will offer solutions on lower consumption and group efficiency of customer processes and services in the Latin American market.

Move to slide five, please.

Regarding commercial energy demand in Colombia, in the first half of 2015, it was 32,000 gigawatt hours; [3.3%] up on the same period of 2014. This growth rate is higher than in the Colombian historical average of 3 %, but lower than the [previous] recorded for the end of 2014 (inaudible) which was 4.4%.

This mainly due to the slowed down Colombian economic cycle explained in term by lower earnings and investment in the energy and mining sectors due to oil prices drop. Nonetheless, an increase in temperature is expected for the second half of the year caused by the El Nino phenomenon, something which could increase power consumption in the country.

In Central America, the growth rate for electricity demand was 9.6% with a recovery of the good growth [win] of the last five years. Growth by the end of 2014 was comparatively low, 4.8%. This was due mainly to the savings programs conducted in the country in answer to restrictions in energy supply, something which has already been overcome in 2015.

The country with the lower demand growth continues be El Salvador with 2.9%. In general, its growth of electric demand and GDP are lower than those in other countries in the region, but it still energy consumption (inaudible) in the second quarter o0f 2015.

The economy of El Salvador is closely tied to that of the United States, so better economic performance can be expected in the medium term.

In Guatemala, in the first half of 2015, electricity demand has grown at a good rate of 4.9% which is higher than the rate of 2014 of 3.7% and higher than the historical average for the last five years of 3.2%.

This can be explained among other factors by the decline in electricity prices resulting from the expansion in supply, the economic recovery in the United States, and the continuation of the democratic processes, issues that together favor economic performance.

The commercial demand of EPM's group in Colombia grew 3.9% in the first six months of 2015, basically due to the arrival of customers that until April of last year were served by Enermont, a trader that has withdrawn from the market. The electric growth rates of some subsidiaries in Colombia is explained by the transfer of their unregulated users to EPM's parent company, a fact which shows 7.1% growth in EPM demand.

Isolating the effects of user movements between traders, the high demand growth of EDEQ and CHEC deserve to be highlighted with rates close to 4% in this first six months, resulting mainly from a coffee -- a coffee boom in those regions.

In Colombia, EPM Group maintains its 24% national demand share of the energy trading activity. Internationally, the companies of EPM Group recorded positive demand growth.
DELSUR in El Salvador is the only company with demand growth above the country's total.

ENSA in Panama and EEGSA in Guatemala have positive growth rates, also lower than the country's total. This is explained mainly because these companies cover urban areas where utilities coverage has reached comparatively high levels. Regarding COMEGSA in Guatemala, the large consumer segment demand is still on the rise despite being an increasingly competitive market.

Moving now to slide six, regarding the spot price, in Colombia, hydrologic generation represents close to70% of the country's total electricity output, a fact that translates into lower cost relative to other countries but also to high price volatility. It has to be noted that EPM's (inaudible) generation and distribution companies hedge against spot market volatility by means of long-term contracts.

In Guatemala, the energy matrix consists of 63% energy from renewable resources, mostly water with 37% share. Water inflows have been abundant. And in August of 2014, the hydraulic plant (inaudible) of 110 megawatts started operations. Because of this and also because of the strong expansion of the (inaudible) years under the financial crisis, the first half of 2015 saw spot prices lower than those of the same period last year.

In Panama and El Salvador, that depend to a large extent on thermal generation, the drop in international oil prices caused a significant decrease in spot prices. Panama also has had higher rain rates during this year. Region-wide, the (inaudible) is what's most significant.

In Chile in the (inaudible), the growing supply of the generation plants based on renewable resources added to decline in fuel prices, resulted in lower electricity prices in 2015. In terms of generation of EPM Group in Colombia, during 2015, water flows in most of the (inaudible) from the EPM system were below the historical need, causing lower generation with respect to 2014.

Additionally, keep in mind that the El Nino phenomenon is currently underway, increasing the probability of low river flows in Colombia, and a consistent rise in the spot price. As mentioned, starting this year, generators CHEC and (inaudible) are directed by our (inaudible) represented by EPM's (inaudible).

Internationally, I would like to highlight the commission of (inaudible) hydro plant in Panama which generated [57 gigawatt hours] in the first half of the year. Also, (inaudible) generated 103 gigawatt hour in the first half of 2015. During the first half of 2014, none of these plants was operating as reflected in the chart.

Moving to slide 7, relative to our main project, the most significant investments as of June 2015 were in the power businesses totaling $249 million. The Ituango hydro plant stands out with an investment of $179 million. Ituango's total investment today is $1.1 billion.

In the water business, the main investment was $64 million in waste-water treatment plant with a total investment to date of $191 million. Of the Group's consolidated investments, the power business participated with 77% and the water business with 23%.

Let me tell you now about the progress of such important projects. By the end of the second quarter, Ituango represented a 72% progress, advanced excavations in the powerhouse was 72%; in the tail (inaudible) tunnel, 100%; and in the spillway 52%. Down [fields] are at 19% of [advance] (inaudible) total work for the waste water treatment plant is (inaudible) at 50%. The progress of civil works is 57%. The mechanical component is 56%; and the electrical component, 27%.

The construction of the main infrastructure tunnel collecting sewer water has reached 91% of its plan.

Let's move to slide 8. Regarding the macro scenario for the second quarter of 2015, we highlight, global growth remains moderate with low dynamics for emerging economies, economies (inaudible) [signals] for advanced economies especially USA, United Kingdom, (inaudible) and Japan, due mainly to a better labor market, lower oil prices and low interest rates.

Despite the difficulties of Greek economy and (inaudible), the economies of the countries where EPM Group is present were less dynamic than expected. And the growth rates have been revised downwards with the largest decreases in Colombia and Mexico.

The main reasons we can name the price drop for commodities and fuel added to the availability of sources of external financing, with the inflation, Colombia was 3.33 and Chile was 2.31% have (inaudible) prices of goods and effect of the peso devaluation on the imported components.

Colombian inflation shows (inaudible) moderation for the second half of the year. All other countries remain within expectations and close to goal for each, except for El Salvador and Mexico that show deflation.

Regarding the foreign exchange market, the currencies of the countries under (inaudible) continue to depreciate, Colombia with the highest percentage followed by Mexico and Chile. And that is caused mainly by the drop in oil and copper prices, the decline of the direct foreign investment, the expectation about increasing the U.S. interest rates and big difficulties in the euro zone.

Moving to slide 9, during this second quarter, the company achieved positive financial results. Consolidated revenue totaled [6.3 billion], all these figures are going to be in Colombian pesos, 6.3 billion with 11% growth.

EBITDA stood at 1.9 billion with a 15% increase on (inaudible) EBITDA margin of 32%. The comprehensive income for the period is about [854,000 with a 2%] increase. Increases in revenue and EBITDA were due to the improved operation and performance of the Group's EPM business units.

Comprehensive income for the period was affected mainly by the Colombian peso [159,000 million exchange rate] difference resulting from U.S. dollar debt exposure and includes interest expense of [35,000 million] due to the domestic bond issued early this year and to new loan disbursements.

We were also affected by higher income tax provision of [28,000 million]. Positively, EBITDA margin increased two%age points. Operating margin increased one%age point and net margin fell one%age point.

Go to slide 10. Regarding results by businesses and segments the power business accounts for 87% of total revenue and EBITDA and 84% of the gross comprehensive income for the period. The power distribution needs to be highlighted with a 103,000 million increase, thanks to higher average unit revenue [6%] up, and higher demand of 75 gigawatt hours in the regulated market.

On the other hand, revenue of the power generation increased by [45,000 million] due to (inaudible) energy regulations related to the reliability charge, the price rise of power (inaudible) and to the increased [natural generating unit].

The [gas] business accounts for 5% of the revenue and 2% of both EBITDA and gross comprehensive income for the period. Including revenue and EBITDA are the result of larger number of customers (inaudible) as of sales increase in municipalities in the region and higher rates due to higher [exchange rates].

The increase in revenue and EBITDA of the water and sanitation services which accounts for 8% and 12% respectively, were due to the inclusion of the new subsidiary ADASA in Chile and to hydro revenues of the subsidiary (inaudible) Group in Mexico and also to an increase in EPM's parent company because of larger number of users and other revenue and consumptions.

Comprehensive income for the period was affected mainly by exchange rate differences, interest expenses in the power and water business due to U.S. dollar debt exposure and to the inclusion of the debt of the investment vehicle used sued for the acquisition of (inaudible) Chile.

Move to slide 12, please.   The latest geographical footprint, EPM parent company represents 38% of the Group's revenue, 8% up in the same period of last year; 65% of EBITDA, 10% up in the same period, and 80% of comprehensive income for the period without annual variation.

The power subsidiaries in Colombia represent 16% of the Group's revenue, 6% up in the same period last year; 13% of EBITDA, 8% down on the same period of last year; and 13% of comprehensive income for the period, 17% up on the same period last year.

The (inaudible) subsidiaries represent 35% of the Group's revenues, that is 13% up on the same period last year; 20% of EBITDA; 83% up on the same period and 7% of total comprehensive income for the period, 27% increase in the same period last year.

(inaudible) water a subsidiary of EPM in Chile which recorded [CLP107,000 million] net expense resulting from exchange rate (inaudible) related to the $791 million loan and other investment related adjustments.

On the other hand, (inaudible) Panama posted an [88, 000 million pesos] increase related to more electricity transported, [157] gigawatt hour. DECA Group in Guatemala and DELSUR in El Salvador posted a [60,000 million pesos] increase explained by the five-year revision current adjustment on larger number of gigawatt hour sold which were [57] gigawatt hour in EEGSA and 13 gigawatt hour in COMEGSA.

Let's move to slide 12. Now, to the statement of financial position, the Group's total assets amounted to amounted to COP38 billion with a 5% increase where hydro investments for the purchase of ADASA and the Ituango project and the waste water treatment plant stand out.

With 8% increase , the Group's liabilities totalled COP20 billion, product of the domestic bond issue and the consolidation of ADASA debt equivalent to COP303,000 million. Regarding ratios, the Group total debt to total assets amounted to 53%; financial debt to total assets was 32% and the debt coverage ratios for the quarter were EBITDA to financial expenses of 6.49 times and debt to EBITDA 3.47 times.

Slide 13, regarding the debt profile, the debt of EPM's Group total COP12,000 million. According to financial results, 42% of the debt is domestic while the remaining 58% represents foreign debt; 84% of EPM's Group debt is held at EPM's parent company.

Balance sheet financial headwinds stand currently at [$255 million] and natural hedge stands at [$1.1 billion] which is related to intercompany loans going to the subsidiaries. As to maturities, EPM's parent company holds three international issues maturing in 2019, 2021, and 2024. These values are continuously analyzed, taking into account the rollover alternatives in order to adjust to meet and comply with the strategic objectives of EPM's Group.

Move to slide 14. To conclude my presentation and before answering questions, I would like to highlight the quarter's major subsequent events. We ended the negotiations between the private capital firm [FIP Coliseu] and EPM due to the inability to meet certain conditions precedent in the attempted acquisition of [35.7%] of common shares of Taesa in Brazil.

Important among the conditions precedent was reaching an agreement with (inaudible) a shareholder of Taesa, estimated value of this transaction was [BRL1.5 billion] approximately.

I would now move to any questions that the audience may have.

QUESTIONS AND ANSWERS

Operator: Thank you. We will now begin the question and answer session.

(Operator instructions)

Thank you. We have no questions at this moment. I would like to turn the call back over to Mr. Tabares for any closing remarks.

Jorge Andres Tabares: Thank you. Thank you, all, for your participation. We look forward to hear any possible questions through our investor relations contact and look forward to hear [you] in three months.

Operator: Thank you. And ladies and gentlemen, with this we conclude today's conference. We thank you for your participation. You may now disconnect.