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Corporate Speakers

- Jorge Andres Tabaresl EPM ESP EVP - Corporate Finance and Investment Management

Conference Participant

- Mitchell Moss Lord, Abbett & Co Analyst

PRESENTATION

Operator^ Welcome to the first 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 Salvares, 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 like to give the floor to Mr. Tabares.

Jorge Andres Tabares^ Thank you very much, operator. Good afternoon everybody, and thank you for participating our call. I will start on page for with our relevant facts during the first quarter of 2015.

In the financial side, we highlight EPM's domestic bond placement in the amount of COP630,000 million with maturities of 5, 8, 12, and 20 years. This placement corresponds to the second batch of the first tranche and the first batch of the seventh tranche of EPM's bond program; which has been rated AAA by Fitch Ratings Colombia.

Worth highlighting that this is the highest credit rating by the Agency Domestic Rating Scale compared to other issuances in the country.

Regarding our operations, I will highlight three points. Transportista Electrica Centroamericana, TRELEC, our company in Guatemala won an international bid to design and construct 160 kilovolts of lines of 69 kilovolts together with 12 substations at 230, 138, and 69 kilovolts to supply high quality electric energy to the Guatemalan southeastern regions.

Secondly, through an agreement subscribed between PEMEX [within Ayemollero] and COMAPA; which is the regulator that operates the water systems in Tampico, [EXO] is our subsidiary in EPM in Mexico will be in charge in carrying out and operating a treated whitewater plant serving PEMEX Refinacion, which is refinery in Ciudad Madero. We will invest $45 million in this project.

Third, Bonyic, the EPM's Look First Hydrogeneration station built abroad started commercial operations in the Panamanian power market. The hydropower plant has the capacity of 31.8 megawatts and uses the flow of the Bonyic River, which is stored and regulated in an 18 hectare reservoir with an upper conduction tunnel of 3,621 meters long, and a dam 44 meters.

For the second year in a row, EPM has been included in the Sustainability Yearbook 2015. EPM's rating for 2014; 78 points out of 100 in the multiservice and water sector. It is one point above that of 2013. We have received the bronze category recognition with high performance in issues such as water access, biodiversity, scorecards, and assessment systems, price risk management, and supply chains.

Moving to the page five commercial demand in Colombia during the first quarter of 2015 was 15,891 gigabytes an hour; 3.3 percent up on the same period of 2014. This represents a growth rate similar to the Colombia historical average of around 3%. However, it's lower than the 4.4% of 2014.

This drop in growth rates [arise] to the moderation of the Colombian economic cycle, explained mainly by the decline in returns and investments of the mining and energy sectors. The oil price is falling, and the migration of foreign capital towards the USA, (technical difficulty) returns potential.

In Central America, growth rates for the Panamanian electric energy demand was 6.6% with a recovery of the good growth pace of the last five years. The growth by the end of 2014 was 4.8% and was affected mainly by the savings programs conducted in the country due to the restrictions in energy supply.

The country with the lower demand growth continues be El Salvador. Generally, its growth of electric power demand and GDP are a lot lower than in the other countries in the region. Its economy is [striking] to the USA and we think that higher economic growth rate can be expected in the mid-term.

Guatemala ratifies a good moment with 4.2% demand growth in the first quarter of 2015, above the 3.7% growth rate of 2014; and higher than its historical average over the last five years; which was around 3.2%.

The commercial demand of EPM's growth in Colombia grew 4.1% in the first quarter of 2015, basically due to the arrival of new customers that until April of last year were served by Enermont, a trader that has withdrawn from the market. Then I guess with growth rates of Colombian subsidiaries; it's explained by the transfer of their regulated users to the market of EPM's Parent company; which meant for the latter, a 7.4% demand growth in the first quarter.

Isolating these effects, the high demand growth of EDEQ and CHEC deserve to be highlighted with rates close to 4% in this first quarter. This is explained mainly by the price environment in the Coffee sector.

In Colombia, EPM's Group maintains its 24% participation in the national electricity energy demand. Internationally, the demand growth was positive for all of EPM's Group companies. DELSUR in El Salvador is the only company with a growth rate above the country's total.

ENSA Panama and EEGSA in Guatemala have positive growth rates, also lower than the country's total. This is explained because these companies cover urban areas where utilities coverage has reached comparatively high levels. In the case of COMEGSA in Guatemala, the large consumer segment is still on the rise, although it's also the one where we face bigger competition.

Moving to page six, as to the spot price, hydro generation in Colombia accounts for about 70 percent of total energy output; which is ratified in the higher price volatility and lower costs than in the countries depending on thermal generation.

In local currency, the price grew 11% compared to last year because the water inflows in this first quarter of 2015 had been lower than in the same period a year ago. Nonetheless as a result of the depreciation effect, 7.67% in the first quarter, the chart expressed in U.S. dollars shows a decline in export prices in Colombia this year. It has to be remembered that EPM's Group companies hedge against market volatility by means of long-term contracts.

In Guatemala, the energy matrix consists of 63% of energy from renewable resources, mostly water with 37%. Water inflows have been abundant. In August of 2014, the hydraulic plant when asset [to] 110 megawatts plant that started operations. This is the reason why the first quarter of 2015 saw spot prices lower than those of the same quarter last year.

In Panama and El Salvador, that depend to a large extent on thermal generation. The drop in international oil prices caused a high -- a significant decrease in export prices in both countries. Panama also had higher water inflows; the reason why the decrease in export prices was more noticeable.

I'll move to page seven now. The most significant quarterly investments as of March 2015 were in the power business totaling $107 million. The Ituango hydropower plant stands out with $81 million in investments. The total investments so far in Ituango is around $1 billion.

In the Water business, investments totaled $36 million where the major investment was in the Bello waste-water treatment plant with $27 million. The (inaudible) total investment today is $161 million. Of the Group consolidated investments, the power business participated with 75% and the water business with 25%.

Let me give you then some highlights about the work progress of such important projects. By the end of the first quarter, the Ituango hydropower plant, it presented a 30.4% progress. It's worth highlighting the advanced excavations in several fronts.

In the powerhouse, the progress was 72%; in the spillway, 46%; and in the discharge tunnel, it was 100% completed. Meanwhile the construction of the Bello wastewater treatment plant ended the quarter with 45% progress.

Furthermore, progress was also achieved from the Nueva Esperanza and in the Bello-Guayabal-Ancon energy transmission projects. Work progress reached 45% and 17% respectively.

We'll move to page 8. In compliance with the regulations in Colombia related to the adoption of IFRS, the Board of Directors of EPM approved on April 28 the financial statement of EPM and its Group as of December 31, 2014 and 2013, under this new standard framework. EPM's figures in terms of IFRS standards include indicate again as happened with the balance sheet and their Colombian standards called GAAP that 2014 was yet another great year for the Company.

With this new standard, consolidated profit for the year amounted to COP2.6 billion in the Colombian billion as of December 2014 compared to the financial statements under Colombian standards at the same cut-off rate. This result increased by COP765,000 million, the equivalent to 40%; which is mainly explained by the recognition of the extraordinary dividends received from the [multi] contract transaction.

After discounting the effect of these dividends, consolidated profit for the year totaled COP1.6 billion; which is 11% lower than the results in the financial segments prepared under Colombian GAAP. This decrease between one standard to the other is mainly explained by first is hydro depreciation value originated mostly by the fact that the reappraisals recorded under the local standards now under the international standards are part of the depreciable basis.

Second is higher deferred tax, which affects the income tax production and third is the addition of new provisions in the statement of comprehensive income of the Company. The adoption of international standards leveraged EPM's good growth strategies, facilitating financial integration while improving the performance analysis, and evaluation of the companies of the Group; which allows us to compare with the best companies worldwide.

Changing from call GAAP standards to international standards does not implicate changes in EPM's Group capacity of generating cash flows, and furthermore, the financial soundness of the Company remains and business continues to operate in the same way. This is just another view of the same company.

Moving to page nine; as of December of 2014, the statement of financial position under international standards dropped 7% compared to the balance sheet under Colombian standards. That decrease explained mainly by four items.

The first one is the fair value adjustment of property plant and equipment for a COP1 billion in the segments of water supply and sanitation. Second, are some assets were written off because they did not meet the conditions established by the international standard to be recognized as fixed assets.

Third is the accumulated depreciation that was recalculated including the devaluation of fixed assets into the depreciable basis. Fourth, due to the pension plan assets which under international standards are recognized as lower value of pension liabilities. Comparing IFRS and call GAAP, liabilities increased by 11% especially due to the following events.

Higher deferred tax as a result of the devaluation added to the cost of fixed assets. And the international standards, the lease of the EPM building where our headquarters is located, is treated as financial leveraging, which implies the recognition of the asset and the liabilities.

Third is higher continued liability for the purchase transaction of EMVARIAS from the Espiritu Santo project in 2013. Finally, the increasing devaluation of financial derivatives.

Last, the equity as of December of 2013, it decreased by 21% where the adjustments in assets and liabilities mentioned above are reflected.

Turning to page 10; regarding the macroeconomic scenario in the first quarter of 2015, we highlight the moderate worldwide loss with more dynamics in emerging economies especially in China, Russia, and Brazil. Pricing slowed down in the US economy with 0.2% actual growth versus a 1% expected and the persistence of difficulties in the Eurozone and Japan. Nonetheless, the developed world growth expectations are better than those with emerging countries.

As to the region, countries where EPM's growth is threatened, growth has been as foreseen with the exception of Colombia and Mexico that have had additional difficulties as consequences of the oil price environment and the weakness of domestic consumption and investment and that will grow less than forecasted at the beginning of the year.

Regarding inflation, only Colombia with 2.4% has higher inflationary pressures resulting from the price of food and the effects of the peso depreciation on the Colombian imported companies. All other except Salvador that has inflation continue as expected and close to the central bank target range.

Regarding the foreign exchange market, the currencies of the countries and their analyses devaluated. Colombia with the highest percentage of 7.67%. The main cause was the market expectation of increasing the interest rate by the Federal Reserve in the United States; and the exact moment when those adjustments will take place.

We will move to page 11. During the first quarter, the Company got positive operational results. Consolidated revenues totaled COP3 billion with an 11% growth.

Our EBITDA totaled COP931,000 million with an EBITDA margin of 30%. The total comprehensive income, it stood at COP358,000 million with a 15% growth. The dividends declared by EPM subsidiaries totaled COP408,000 million with a 30% increase.

Similar to operational results, financial margins did not present relevant valuations. The operational margin valuated 1 percentage point up, and the net margin, two percentage points below -- above, sorry. The EBITDA margin valuated two percentage points below.

Moving to page 12; EPM's growth revenue increased by 11%, mainly because of varied contributions [by] whereas the EPM with COP174,000 million. Power subsidiaries in Colombia with COP34,000 million. ENSA Panama with COP42,000 million; DECA with COP37,000 million; EPM Chile with 12,000 million.

The power generation and distribution business units of EPM posted higher revenues as a result of an increased energy demand and increasing unit prices. In turn, EPM Chile posted increased revenue due to the commissioning in July of 2013 of the Los Cururos Wind Park; and La Quensa and Deca had higher contributions as a result of a higher exchange rate.

Moving to page 13, the Group's total assets amounted to COP36.9 billion with an increase of 2% where hydrogen infrastructure investments for the Ituango hydro plant and the Bello waste-water treatment plant projects stand out. Additionally, there was a significant increase in available cash recurring assets; the results of an issuance of domestic bonds for COP630,000 million by EPM Parent company.

With a 4% increase, the Group liabilities totaled COP19 billion, also as a result of the domestic bond issuance. As for our [ratios], we highlight the Group's total indebtedness amounted to 52%, 2 percentage points above 2014.

The financial investments was 30%, 4 percentage points above 2014. The debt coverage ratios at the end of the quarter were EBITDA to financial expenses of 6.18 times; and debt to EBITDA of 3.23 times.

Page 14, regarding the debt profile, EPM's [Group] debt total COP11 billion. According to the financial results, 50 -- 57% of the debt is domestic while the remaining 43%, it represents foreign debt. 84% of EPM's Group debt belongs to the EPM Parent company.

Currently there are $250 million of financial headwind for the balance sheet. Natural hedge represented by the investment portfolio of $500 million and intercompany loans.

Now regarding the maturities, the EPM 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 them to meet and comply with EPM's Group and strategic objectives.

On page 15, in close I would like to highlight a subsequent event, the acquisition of the Chilean company, Aguas de Antofagasta, ADASA, for $965 million. ADASA owns the largest desalinization plant in Latin America and is considered as one of the most relevant and invested [farming] utilities in Chile.

Its operations focus on supply potable water and sanitation services to 546,000 people a day north of the country, with the arrival of ADASA to the economic growth, we will have very relevant experience to continue advancement with our presence in the water and sanitation sectors.

And we will also venture into the activities of seawater [popularization] and bulk water supply to large mining and industrial customers.

Here is where we see huge opportunities for EPM, not only in Chile, but also in other Latin America countries where we are present. The transaction which was announced on April 23rd is subject to approval by Empresa Concesionaria de Servicios Sanitarios, ECONSSA. The sanitation company that corporated the state in its [bill] to warranty access to potable water and quality sanitation services for the community in Chile.

Page 16, I think it's worth going into more detail. ADASA is a little company in the production of water in Atacama, the driest desert in the world. With more than ten years of experience in the desalinization treatment plant.

Currently ADASA has a contract for delivery of services of production and distribution of potable water, and collection, and disposal of certain water expiring in December of 2033 in the towns of Antofagasta, Calama, Tocopilla, Taltal, Mejillones, Sierra Gorda, and Baquedano in the northern Chile.

In terms of coverage, ADASA serves seven populations of about 546,000 inhabitants, roughly 64% are located in Antofagasta; 28% in Calama; and the remaining 8% in the towns of Tocopilla, Mejillones, Taltal, Sierra Gorda, and Baquedano. In total, the Company creates 2.11 cubic meters per second; 30% of which is seawater.

For this purpose, it owns the desalinization plant in Taltal and Antofagasta; the latter being the largest in Latin America with 600 liters per second capacity. The EPM Group will assume delivery of services to the mining sector to which ADASA [give out] 18.5% of water produced and which represent 35% of the Company's revenue. At the same time, the groups will be on the look to satisfy the sector necessity to innovative solutions.

Page 17, I'd like to highlight some of the key guidance for our investment in Chile. For EPM's Group, this acquisition helped to strengthen our investment in Chile. Our second transaction in the country after the Los Cururos Wind Park; which opens the possibility to obtain potential synergies.

It also represents a safe and profitable transaction from which we diversify and balance the country risk portfolio in the Group's investments of abroad of Colombia. Moreover, regulatory stability and low tariffs in this sector are a great [extend] that gives tranquility to the investment.

It is noteworthy, the region of Antofagasta, which is Chile's main mining area; and is today one of the most economically dynamic with high urban growth and higher GDP. We are entering into our growing market with a good mix of regulated and non-regulated revenues.

The composition of revenues in ADASA is 65% regulated market and 35% unregulated market. That feature does not allow direct comparison of the Company with other companies in the sanitation sector in Chile because of revenues of loss of other companies is 100% regulated.

In terms of revenues and EBITDA, this acquisition represents 33% and 37% increase respectively related to a water business in the EPM parent company. In the future, we see ADASA primarily serving the growing water needs of the population in the region of Antofagasta and the mining sectors.

In the sense, we have in our business plan every four years starting from this year, a consortium of a 200 liters per second additional desalinization capacity; which will strengthen the responsiveness of the Company to meet the demand and will significantly increase ADASA revenues.

Also, we plan to have a program intercompany transfer of know-how on the desalinization of seawater, which undoubtedly will open the frontiers of our knowledge in the water sector. It will promote the realization of this new business segment for EPM in order to meet supply needs in other areas and regions.

With this, I end my presentation. I will now be pleased to answer your questions. Operator?

QUESTIONS & ANSWERS

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

(Operator Instructions)

We have a question from Mitchell Moss from Lord Abbett.

Mitchell Moss^ Just some clarification questions on the ADASA acquisition. When you talk about this should increase 30 -- by EBITDA by 37%, is that for --? Should I assume like in the first year of it closing that we should expect to see that rough EBITDA increase?

Jorge Andres Tabares^ Thank you, Mitch. The number is comparing the full year operation of our asset to our current full year operation. Since we're closing the transaction around late May or early June, the impact on 2015 will be roughly half of the numbers I quoted.

Mitchell Moss^ But I guess for a full year, if we think about it as 2016; if I guess your historic water, it's a little over $200 million of EBITDA. Is that roughly the level I should think of as a baseline before the ADASA acquisition?

Jorge Andres Tabares^ Yes. You're in the ballpark definitely, yes.

Mitchell Moss^ If I think about a 37% increase in the EBITDA, that would get me to around an additional $70 million to $80 million, $75 million or so of EBITDA for a full year? Is that roughly how I should be thinking about this?

Jorge Andres Tabares^ In the high year-end yes; so we're finalizing the business plan. But we expect the EBITDA to be closer to $80 billion.

Mitchell Moss^ You are said in the higher, but – as in normalized for, on the normal year.

Jorge Andres Tabares^ Right. Yes, no, higher compared to the range you described.

Mitchell Moss^ Okay.

Jorge Andres Tabares^ Our base case, we're expecting around $80 billion or close to that.

Mitchell Moss^ If I think about how much you guys paid for it at $965 million, that's sort of if I think about EBITDA as a cash flow type proxy.

It kind of gives me a return on asset of around 8% or a little over 8%; which feels kind of low. But maybe that is just where the returns are. Can you just give me some sense on is that your hurdle rate on these investments is in sort of the 8% to 8.5% range? Or, are there some other moving parts here either in terms of growth or in terms of leverage; or whatever that are boosting that return?

Jorge Andres Tabares^ You are not the only one trying to [math], Mitch. Let me give you some color. First is our expected ratings is close to two digits and the reasons for that is that we have the structure of the transaction and the way we do it for the business, we are capturing some other synergies.

Our one-time synergy that effectively basically lower our net price, if you will. We're expecting returns on double digits, low double digits and then when we compare it to the other transactions because there are like four other transactions in the Chilean market that are fairly comparable to ours.

Once we make the adjustments, we feel pretty good that we are in the market with the price paid for the transaction.

Mitchell Moss^ When you make the adjustments for the synergies or the other –?

Jorge Andres Tabares^ On the structure of the transaction; the way we structure the transaction from Chile [means that we can capture].

Mitchell Moss^ Okay. Is there, from a leverage standpoint, does it have existing debt to it? Or, is this just -- or is it all just parent debt structure?

Jorge Andres Tabares^ It has a small, some $7 million debt.

Mitchell Moss^ Okay. But otherwise, it's all just the --I guess any leverage metrics would really just be at the corporate, at the parent level?

Jorge Andres Tabares^ Because the Chilean bond market for this type of company, this industry is fairly developed, we're likely to go to the local Chilean market and get some money for the Company. But that's in the medium term.

First we need to take over the Company. Once we do that, we probably will start the financial strategy of using the local capital markets.

Mitchell Moss^ Have you guys thought about how much you would want to leverage this in the local market?

Jorge Andres Tabares^ In the local market -- in the capital market it's $400 million.

Mitchell Moss^ So, $400 million is of debt financing for the $965 million acquisition?

Jorge Andres Tabares^ In the Chilean local market –

Mitchell Moss^ OK. Those are my questions, thank you.

Jorge Andres Tabares^ Much appreciated, thank you.

Operator^ (Operator Instructions)

Mr. Tabares, at this moment I'm not showing other questions. Do you have any other remarks?

Jorge Andres Tabares^ Thank you for attending again. We remain open to answer any subsequent questions that may arise. Please contact our normal channels. We will be happy to provide you more information.

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