

# NGC's Management Of Its Financial Investments

## FINANCIAL BACKGROUND

In 2008, The National Gas Company of Trinidad and Tobago Limited (NGC) earned Revenue in excess of TT\$14 billion and Profit after Tax in excess of TT\$3 billion. This follows on 2007 for which year the published audited financial statements indicate that NGC earned revenue of TT\$11.5 billion and Profit after Tax of TT\$2.9 billion. The high level of revenues and profitability arose mainly from unprecedented high ammonia and methanol commodity prices in 2007 and during the first three quarters of 2008.

## GENERAL STATEMENT OF NGC'S MANAGEMENT OF SURPLUS FUNDS

When NGC has surplus funds, it places these funds in short term deposits, for periods of one year or less, at the various approved financial institutions in Trinidad and Tobago as well as at investment-grade rated foreign banks. This is in accordance with the Company's policy for short term investments, which has maximum placement limits for any financial institution or group of financial institutions, computed as a percentage of total investment. This policy is approved by the Board of Directors; it seeks to diversify the Company's investment portfolio. From time to time the Company examines the recommended maximum limits and modifies them as deemed prudent.

Based on this portfolio mix, NGC's Treasury Department seeks bids from approved financial institutions for the available funds. The funds are divided into varying sizes and placement periods to match the Company's need for meeting future financial obligations as and when these fall due. These obligations include payment for natural gas purchases, operating expenses, taxes, capital expenditure including projects, repayment of loans and payment of dividends to its shareholder. Key criteria taken into consideration in the selection of the successful bid are the interest rate offered for the respective tranches and conformance to the approved limits in the portfolio mix.

Upon maturity, the investments are recalled to meet the Company's liabilities or they may be re-invested through the bidding process if they are recognized to be surplus to the Company's immediate needs.

It should be noted that in excess of 90% of NGC's earnings and expenses are in US\$ and the majority of surplus funds are invested in US\$ accounts.

## ISSUE: The Company's exposure with CL Financial group

At the end of 2008, NGC's investment with the CL Financial group - Clico Investment Bank (CIB), CMMB and Republic Bank was 37%, compared with 40% at the beginning of 2008.

In November 2008 CIB failed to return the principal and interest upon the maturity of an NGC deposit (US\$10 million). This deposit, plus interest, was paid in two amounts during the first week of December 2008.

An additional two deposits, which matured in December 2008, were similarly affected, notwithstanding promises made at a meeting held in December to repay by year end.

In early January NGC advised CIB that it would recall its deposits which were maturing in January 2009 at the maturity date. This amounted to US\$42 million (TT\$240 million). A second meeting was held at which CIB promised to repay the outstanding deposits by month end. Of this amount, only US\$1.9 million (TT\$12 million) has been repaid to date.

The other financial institution within the CL Financial group, CMMB, met its obligations to NGC as a depositor upon the maturity of NGC's short term deposits in December 2008 and January 2009.

## ISSUE: NGC's withdrawal of its deposits with CL Financial created the "run" on the company

NGC recalled US\$72.8 million in December 2008 from members of the CL Financial group.

In the 4th quarter 2008, a total of US\$162.97 million was recalled upon maturity from investments in seven financial institutions in Trinidad and Tobago and the USA. CIB and CMMB comprise 44.7% of the total recall. These funds were used to cover gas purchases, progress payments in various capital investment projects, dividends and some TT\$700 million for fourth quarter Corporation Taxes based on earnings of the Company in 2008.

The quantum and percentage of NGC's deposit withdrawal from CL Financial was a normal business transaction for short term deposits held by the Group. For the year 2008, NGC recalled an average of US\$151 million per quarter with a recall from the CL Financial group of 45.7%. The maturity dates of the short term deposits are known to the parties and NGC recalled the deposits on the maturity dates.

## ISSUE: NGC made heavy withdrawals because it had a take or pay problem at the end of 2008

In 2008, NGC did not incur any take or pay exposure in its gas purchase contracts. While it was a difficult year for the Company in terms of matching gas demand to gas supply, this was managed and credit must be given to the staff in the Commercial and Gas Transmission and Distribution groups in the company. As stated earlier, recalls of short term deposits were a normal business operation for NGC.

## ISSUE: NGC acted on instructions from the Government in withdrawing its deposits

NGC did not act on any external instructions with regard to its short term deposits in any financial institution.

Placements and recalls of short term deposits are managed by NGC's team of professional accounting staff in the Treasury Department in accordance with the approved short term investment policy of the Company.

## ISSUE: NGC acted improperly some years ago in the case of a deposit in CLICO for which a CLICO agent received a commission

The records will indicate that in 2001 NGC placed short term deposits with the CL Financial group through the normal bidding process where financial institutions provide bids in response to NGC's requests for quotations of interest rates for placement of short term deposits. In this case the successful bids came from the Colonial Life Insurance Company which offered the best interest rate. However, the final placement of these short term investments was made with Clico Investment Bank and the deposits were within the maximum percentage limits.

During the period April to June 2001 a total of US\$48.1 million was placed with CIB through bids from Clico Insurance Company. At no time did the portfolio mix exceed the approved limits.

It should be noted that NGC does not pay any commission on financial transactions regarding placement of short term deposits in accordance with its policy.

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