



## **TGI AND CALIDDA RESULTS AND DEVELOPMENTS 4Q 2014**

### **Teleconference Text**

#### **Operator:**

Good morning ladies and gentlemen and welcome to the Earnings Conference Call TGI and Calidda - Results and Key Developments 4Q 2014. As a reminder, this conference call is being recorded. Under the tap downloads you will find today's presentation. Today's presentation will be divided into two parts. First we will have with us Mr. Antonio Angarita, Chief Financial Officer of TGI, presenting TGI's 4Q 2014 Results and Key Developments. And then we will have with us Mr. Adolfo Heeren, Calidda's General Manager presenting Calidda's 4Q 2014 Results and Key Developments.

I'd now like to turn the call over to Mr. Antonio Angarita, Chief Financial Officer of TGI. Mr. Angarita, please go ahead.

#### **Antonio Angarita, CFO TGI**

Thank you and I would like to give you a warm welcome to this conference 4Q 2014. As you can see in slide two this presentation is divided into four parts. First we are going to summarize important parts of TGI's strategy, then we will present TGI's key updates for 2014, third we will review company's operational and financial highlights and then the projects executed and after that we will be please to open the call for questions.

Now I am going to slide no. 4, today TGI is the largest natural gas pipeline existing in Colombia. We are in the national gas transportation business and we owe approx. 61% of the gas network. TGI transports basically 49% of the natural gas consumed in the country, 30 areas that represent 70% of the population of Colombia and 83% of its GDP. We also have access to the key gas main producing regions of natural gas, Guajira in the Caribbean Coast and Cusiana-Cupiaga in the Eastern region of Colombia. Moreover, TGI has a 38% stake in



Contugas in Peru with our parent company EEB. This is a 30-year concession for gas transportation and distribution in the Ica region to the south of Lima. Now I would like to give you an overview of the strategy execution during the year and then I would like to give you an overview of our future plans. Current Strategy execution: TGI has focused its strategy on consolidating the business in Colombia in terms of the current infrastructure. TGI completed the execution of the most ambitious natural gas transport infrastructure expansion project in Colombia. Enhancing of the Guajira and Cusiana pipelines. Moreover, to ensure production in the coming years, and the possibility to join industry development in Bogota and the departments of Cundinamarca and Boyaca, TGI has started the construction of the compressor station La Sabana, located on the south of Bogota, which entered into operation on July 7, 2014, generating additional revenues for the company. This station enhanced the capacity of la Sabana gas pipeline from 140 to 315MPCPD. TGI uses state-of-the-art technology that minimizes impacts to the environment by reducing noise, emission and pollution. Now the strategy for the future. We have been growing internally and we expect to keep this track for the future. We have huge experience in Colombia, which offers a great competitive advantage, to contribute with the development of the network required for the use of natural gas safely in other markets in Latin America. In Colombia, there is still plenty room for growth, and the expansion project of the existing natural gas pipelines and the construction of storage and compression stations and also project that will be using the availability of the natural gas pipeline grid such as new pipeline and storage facilities. There are also facilities for LNG Reliquefaction plants and associated pipelines under analysis. However, our strategy is not only focused in Colombia, we are really interested and have been analyzing other Latin American countries such as Peru, Mexico, Central America and Ecuador.

Mexico represents key [ph] opportunities in natural gas transportation and distribution in the next years again by the recent reforms. In Peru, we expect significant growth in natural gas distribution and opportunities in new pipeline.

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We expect to participate in new pipelines bids by ourselves or in our parent company EEB and moreover TGI is looking for events and opportunities through mergers and acquisitions in the region.

Now, please go to the slide number five. Number five, I would like to emphasize 3 important factors regarding TGI. First, we saw a constructive and stable regulatory framework in Colombia given the condition of the natural monopoly of the natural gas acquisition business in our country. Second, we had a stable and predictable results in cash flow generation given the regulation, but also given the operational performance of the company. Third, we have consistent financial performance reflecting still growing revenues and results as the composition of the Balance Sheet).

Moving on to slide number seven. It has a -- clearly it has a -- the key updates, the main key updates of the year. First, we have TGI's credit rating. In 2014, Moody's and Standard & Poor's affirmed corporate debt rating of TGI in local and foreign currency maintaining the investment grade with stable perspective. Additionally on October 2014, Fitch Ratings improved its corporate debt rating and issuance from BBB minus to BBB, but TGI in 2014 increased its investment grade issued by the three main international credit rating agencies. Moving to the next key update on page number eight, we have a summary of the hedge restructuring by the company performance. For explaining these, just let me summarize some history of our business. The 2009 and 2010, TGI conducted hedge operations related to the external debt by a total amount of US\$200 million in tranches of 50 million each. The operations consisted of the combination of forward and swaps where the principal is converted to Colombian pesos at the spot exchange rate when making the swap. (inaudible) long term debt issued in 2007 with a payment term of 10 years.

Then in October 2011, due to the fluctuation, the revaluation of the local exchange rate, the company performed a financial analysis the company saw the convenience and justification of issuing advanced hedging tranches in that moment. On the other hand, in March 2012, the company executed a liability



management operation related to the 2007 bonds and the maturity moved to 2022. Thus, the credit contracted (inaudible) is the underlying obligation.

So finally in 2014, as they evaluated the situation and (inaudible) in the government, TGI decided to execute the cross-currency swaps to a couple of external issuers related to the remaining cross-currency swaps. (inaudible) in October 2017. Moving on to slide number nine, we have another key update. First, related to the TGI's acquisition, in 2014, EEB took stake in TGI by acquiring 31.92% of outstanding shares through (inaudible) formally (inaudible). For this acquisition, EEB 145(inaudible) syndicated loan at the level of the (inaudible) TGI in the third quarter of this year 2015. Now regarding dividends. For the first time on 2014, TGI paid dividends to its shareholders amounting to US\$270 million. Income -- this amount comes from first distributable profits from 2013, US\$54 million, distributable profits from January to August 2014 US\$60 million and finally released (inaudible) in the equity, which of course is a non-recurrent dividend, amounting to US\$155 million.

Regarding the Sabana Compression Station the construction of this station is now completed. Remember that on July 7th the company started the commercial operation of this station in order to increase transportation capacity in Sabana pipeline system from 140 to 350 million cubic feet per day. This station ensures the supply of natural gas in the coming years in Bogota, the main city in Colombia and in the departments of Cundinamarca and Boyaca. Now we are going to review some key operation -- operating highlights on slide number 11. Length and capacity is the main concern in 2012, when the company especially ended the main expansion projects by Cuiaba Cusiana that the total in firm contracted capacity in 2014 increased 3% to 647 million cubic feet per day with total sales of 91%. Transported volume reached 494 million cubic feet per day corresponding to a 9% increase compared to 2013. Reliability of the network is about the limit defined by the local regulation and it reached 99.8% for the pipeline system and 96.5% for the compression station system, which is very good and allows the company to manage all the transportation of the volume that

the client needs at the moment they need. Finally the load factor closed at 64%. Moving to the next slide number 12. Here we present the composition of the TGI's revenues. Our revenues are highly predictable with approximately 98% coming from regulated tariffs that are reviewed by the regulator at least every five years, ensuring cash flow stability and attractive rates of return. Regarding contracts, TGI has an excellent composition. 100% are firm contracts or take-or-pay with an average remaining life of eight years. 84% of regulated revenues coming from fixed tariffs, not depending on transported volumes. 63% of revenues are linked to tariffs in US dollars that are indexed to the US PPI for capital equipment.

The breakdown by industry, we have the distribution sector as the main revenue generator with a participation of 59%. Thermal generators depend to a great extent on weather conditions and given that in 2014, Colombia expected the dry season longer than normal due to the El Niño phenomenon which affects weather in the Pacific region of Latin America and for that reason, natural gas volumes required for generation of electricity increased. So the participation is 18% of revenues. Then Ecopetrol uses natural gas for refineries processes, represent 13% of the total revenues. These three sectors represent 90% of the total revenues of the company. Breakdown by currency, US dollar increased by (inaudible) 63.4% of our revenues coming from tariff denominated in US dollars. In the next slide, number 13, these are the drivers to show the financial performance of TGI in 2014. First, I would like to mention that the devaluation of local currency in the year was 24%, which is very high and affected the account in US\$ when operating the account in US dollar for every company in Colombia. We can see that revenues amounted to \$477 million. That represents an increase of 2.5%. (inaudible) really our revenues in Colombian pesos were affected (inaudible) 9.8%. This lower percentage is due to the factor I explained, the devaluation of local currency. Now regarding the EBITDA, it is \$383 million that is 62.7% increase compared to the previous year explained by the



increasing revenues, while also recall in 2013, the company anticipates some costs related to the projects that was not executed and also because the cost of that used by the compression station decreased in 2014 driven lower prices negatively with the market. The EBITDA margin was 80% that is the highest in the history of the company. On the side of funds from operations, the entire year for 2014 amounted to US\$289 excluding payments of dividends that I believe we presented. This represents the funds from operations still represent 7.8% increase compared to the previous year. Total CapEx executed in the year was US\$36 million corresponding mainly to the Sabana Compression Station. Also in 2013, the CapEx executed was in a level similar US\$32 million and also was related mostly to Sabana Compression Station.

In the next slide, number 14, we have here the main account of the balance sheet. First total assets amounted to US\$2.3 billion. Again this figure was affected by the devaluation of the local currency affected total assets in 2014, our dividends paid based so it is decreasing mainly due to the devaluation. Increasingly, total and net PPE is \$31.1 billion that represent 51% of total assets that we can (inaudible). Cash and cash equivalents closed on US\$205 billion. This amount represents 9% of the total assets of the company. On the guidance liabilities, we have our equity very close to US\$1 billion, 0.96 billion that represent 41% of the total assets. It shows the solid financial structure of the company. 59% of the assets are represented by liabilities and mainly the debt of the company. In the next slide, number 15, we have the main drivers of our debt. First, the total debt has almost no changes compared to previous period. Total debt is US\$1.2 billion, including the US\$750 million of the senior debt, US\$270 of the subordinated loan with our parent company, US\$150 million, the mark-to-market of the hedges and 6.3 (inaudible) with local banks for our offices.

In terms of the total debt to EBITDA and senior debt to EBITDA, you can see an increase that is explained only by the devaluation of the local currency. Total debt to EBITDA closed on 3.8 and the senior net debt to EBITDA is 2, well below



the levels declared by the bond, by the indenture of the bond by 4.8 times. Even though it is worth noting that the relevant covenant related is indicated (inaudible) as TGI 2022 bonds, which is investment grade ratings on the two rating agencies that follow up on our earnings.

Now, moving on to slide number 17, we have the summary of the main projects that the company is executing now. First, we have Cusiana Phase III. This Project consists on adding compression units in three stations at Cusiana Pipeline System Phase III in order to increase the capacity with 20 million cubic feet per day. Total investment of this project is \$31 million and the expected completion is on December 2015.

The next project is the Eje Cafetero Branches. They consist of two new loops in the coffee region of Colombia, the first of which increased the capacity in the city of (inaudible) region and the total cost is US\$28 million and the expected completion in 2017. The next project is Cusiana-Apiay-Villavicencio-Ocoa. This project is for giving additional capacity to Ecopetrol for generating electricity in the production areas in the Meta Department of Colombia, which consists of two new compression stations. The cost is US\$48 million and the expected completion is 2017. The last one is Ballena-Barrancabermeja Bidirectionality this is an active pipeline system Ballena-Barranca in order to transport the natural gas in both directions. Right now it's only from north to south, but in the future we will need to send natural gas from Cusiana to the northern part of Colombia. Total investment of this is US\$20 million and the expected completion in 2016. Now I would like to turn the call to the operator in order to open our question-and-answer session.

**Operator:**

Thank you. Ladies and gentleman if you have a question at this time for TGI, please press \* and then 1 in your touch-tone phone. If your question has been



answered or if you wish to remove yourself from the queue, please press the pound sign. Again please press \* and then 1 to ask questions regarding TGI. One moment for further questions. Again ladies and gentleman please press \* and 1 now to ask a question or to make a comment. It appears that we have no questions in the queue. Please continue.

### **Antonio Angarita**

Thank you for attending this conference call. We will continue with Calidda conference call. Thank you very much.

### **Operator**

Ladies and gentleman I would like not to turn the conference to Mr. Adolfo Hereen, Calidda's General Manager. Sir, please go ahead.

### **Adolfo Hereen:**

Good morning and welcome to Calidda key developments and Q4 2014 results call. We would like to start by giving an overview about our business during the past year and some insight about Calidda's recent accomplishments. We had an outstanding 2014, achieving all our goals. Volumes, connections, revenues, EBITDA and results were according to our projection. We successfully concluded the year with over 255,000 connect clients, 56% more than last year and expanded the network in 1,200 additional kilometers. We are also proud about having increased the penetration rate of our grid from 50% to 55%. In May, we reviewed the distribution tariff with the regulator and set investment plan and tariffs for the next four years. Now talking about our future plans, we expect to keep growing. The commercial strategy will remain its focus in low-income districts, where the savings produced by the use of natural gas against alternative fuels are more appreciated. In the next year, we expect to develop operation in four new districts and connect around 100,000 new customers and

at the same time maintaining similar level of past year investment, which has been around US\$90 million. In the Industrial segment during 2015, we plan to reach Puente Piedra, a peripheral district, where we can find an important industrial hub. We expect to connect important textile, paper and brick manufacturers. Finally in the Power Generation segment, there are natural gas power plant projects looking for feasibility in Lima. Now, I would like to pass the word to Mr. Isaac Finger, our CFO.

**Isaac Finger, Chief Financial Officer**

Good morning to all and thank you for joining us. In the next slide, page six, please, you can find the operational and financial year-end results comparing 2014 to 2013. Talking about 2014 results, there are some highlights we want to discuss. First of all, we connected 92,000 additional customers. We increased the volume sold by 18% and expanded our infrastructure by more than 1,200 kilometers of network.

The key financial metrics for 2014 are in the right table. We increased our adjusted revenues and EBITDA by 27% compared to 2013 mostly explained by a much larger customer base and the addition of full year consumption of two power generators that were connected in the second half of 2013.

Now going over the commercial performance. Here is a map, where you can find the districts, where Calidda operates. The company has residential networks in 15 districts and industrial networks in 34 districts within Lima and Callao. During 2014, Calidda connected 91,151 residential and commercial customers, 90,000 were residential and around 1,000 were commercial.

In page nine, we can see the commercial performance for the other segment. During 2014, no power generators were connected, but we connected 23 new industrial plants, 14 new NGV service stations joined the distribution system and almost 200,000 converted vehicles are attended in the City of Lima.

Page 10, please. You can see for 2014, the take-or-pay contracts amount 80% of total invoiced volume, which minimized the impact of volume volatility. During



2014, the volume sold increased by 18% compared to 2013 from 577 million cubic feet per day to 679 million cubic feet per day. 84% of this increase came mainly from two power generation plants, Fenix Power and Termochilca.

Page 11, please. We can see the volume sold by client segment. The volume breakdown by client segment is shown in the four charts. As you can see, the most important volume increase comes from power generators and industrial segments. Positive trends were shown in all our four client segments for the current year, largely explained by the number of additional customers connected. The residential and commercial segment shows the strongest growth rate, explained by the successful addition of new customers. Secondly, the power generation segment shows also a high growth rate, explained by the addition of Fenix Power and Termochilca in the second half of 2013.

Now, going over the operational performance, the next chart shows the evolution of the length of the distribution system. In 2014, Calidda has built 20 kilometers of steel high-pressure network and 1,254 kilometers of polyethylene secondary network. Also, as it can be observed, the penetration rate has reached 55% this year compared to 50% during 2013. The network penetration rate is measured by the number of connected clients over the number of potential clients that are located in front of Calidda's distribution network. Now moving forward to the installed capacity in page 14, Calidda's pipeline current capacity is 420 million cubic feet per day from City Gate Lurin to Lima. As you can see in the chart, independent and regulated customers use nearly 298 million cubic feet per day, equivalent to 70% of our capacity. So, we have room -- enough room for future growth. In terms of transportation and natural gas supply, Calidda has enough supply contracts to attend its regulated markets. In 2014, our regulated customers gas consumption was 150 million cubic feet per day and we have contracts with Camicea 178 million cubic feet per day and with TGP for 204 million cubic feet per day. We are going to move to financial performance and key metrics. For 2014, our total adjusted revenues are represented by 63% from distribution revenues, which are volume sold related and 37% from installation

services and other revenues. Furthermore over 67% of our total adjusted revenues do not depend on demand volatility because our firm contracts revenues account for 32% and installation services revenues account for 35%. So, we move to page 17 to review the key metrics. In 2014, total adjusted revenues increased 20% from \$146 million to US\$186 million driven mainly by distribution revenues and the installation services. 2014 EBITDA amounts US\$91 million, which represents an increase of over 26% compared to last year due to higher volume invoiced mainly to power generation plants, higher revenues from household, internal general installation services, larger volume demand due to a largest client base and finally due to an increase in distribution tariff since May. The debt-EBITDA ratio has increased compared to 2013 due to the increase of our EBITDA given the same amount of long-term debt. Page 18 and 19, we can see all our financial metrics for 2014. Total debt was US\$320 million. The interest coverage ratio equal to 6.3 times. Total assets of around US\$700 million. The equity of the company US\$280 million, and the CapEx investment, around US\$83 million. Now we are going pass to Mr. Adolfo Heeren to finish with the conclusions.

### **Adolfo Heeren, General Manager**

Thanks. For conclusions, I would like to remark that this year company results evidenced our commitment to expand the use of natural gas in the City of Lima. We are on track to achieve 1 million connections by 2020, more car conversions to natural gas and keep connecting more industries and commercial businesses. Many thanks for your participation.

### **Questions And Answers**

#### **Operator**

Thank you. Ladies and gentleman if you have a question at this time for TGI, please press 1 and \* in your touch tone phone, If your question has been

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answered or if you wish to remove yourself from the queue, please press the pound sign. Again please press \* and then 1 to ask questions regarding TGI. One moment for further questions. Again ladies and gentleman please press \* and 1 now to ask a question or to make a comment. (Operator Instructions) And it appears that we have no questions on the phone lines. I'd like to turn the call back over to management for closing remarks. Mr. Angarita?

**Antonio Jose Angarita Vega, Chief Financial Officer**

Okay. Thank you very much for attending our conference call. I don't know if Adolfo Heeren want to mention something to close the Calidda presentation.

**Adolfo Heeren, General Manager**

No we already mentioned in our conclusions everything. Just to thank everyone to participate here.

**Isaac Finger, Chief Financial Officer**

Thank you.

**Antonio Jose Angarita Vega, Chief Financial Officer**

Thank you very much. We will be expecting our next conference call in April of this year.

**Operator.**

Ladies and gentleman thank you for joining our conference today, everyone may disconnect and have a wonderful day.