Earnings Conference Call TGI and Cálidda:
Results and Key Developments Full Year 2015

Operator:

Good morning ladies and gentlemen. Welcome to the Earnings Conference Call TGI and Cálidda: Results and Key Developments Full Year 2015. As a reminder this conference call is being recorded. Under the tab downloads you will find today's presentation. Today's presentation will be divided in two parts: First, we will have with us Mr. Julián García, TGI's CEO and Mr. Antonio Angarita, TGI's CFO presenting TGI's key developments and results. And then, we will have with us Mr. Isaac Singer, Cálidda's CFO presenting Cálidda's results and key developments.

I would now like to turn the call over to Mr. Antonio Angarita, TGI's CFO. Please go ahead Mr. Angarita.

Antonio Angarita:

Thank you. Good morning and welcome to our Earnings Conference Call for the full year results 2015 of TGI. Today's presentation will be made by Mr. Julián García, the new CEO of TGI, and then by myself. As you can see on slide 3, this presentation is divided into four parts: first, our CEO will make some introductory comments. Second, we will briefly review our main key updates during the first quarter 2016. Third, we will have a look over TGI's operational and financial performance during the full year and the most important financial indicators. Fourth, we will inform about the execution of the expansion projects. And to conclude this conference we will be pleased to open the call to the questions and answers session.

Just for a start I want to do a small presentation of our new Chief Executive Officer. Mr. García was appointed by the Board of Directors of the company on February 22nd and we are pleased to have him in our company. He has 30 years experience in the oil and gas industry, holding executive positions in different companies, including CEO of [unintelligible] University, MBA from University of Birmingham, and Master in Economics of Universidad de Los Andes, Bogotá. Having said this I will turn the call over to our CEO. Please go ahead.

Julián García:
OK. Good morning. It's nice to be in this conference. So, I just want to say I am here, I have been in the post 10 days. So, understanding the company and looking forward to work hard to seek the growth of the company. As Antonio said, I have some vast experience in the industry. Part of that experience has been in the gas industry. So I hope to contribute a lot to the growth of the company.

Antonio Angarita:
Thank you Mr. García. Now moving on slide 5, I would like to highlight some factors related to TGI. Some of the factors that are listed there. First, the stable and growing Colombian economy. Despite some problems in our economy and the economic environment all over the world, Colombia continues growing a little higher than other countries in the region, which is very important for our company

and for all the economy in our country.

Next the strong and consistent financial performance of TGI. TGI shows very good results as you will see later. Even with the high depreciation of the local currency. We have some protection, very important protection from our revenues and from the decisions that the company took recently.

Next the experienced management team with solid track record in the sector. Besides Mr. García as CEO, the Management team who also sessioned with the new Growth and Development Vice President Mr. Mauricio Vera, who also has extensive experience in the oil and gas industry, which is very important for this position that is responsible for leading the future plans and expansion for TGI.

Moving on slide 6, the most important thing for 2015 that we remark in this slide are the IFRS implementation and the merger process that we started with IELAH on the previous year.

Moving on slide number 8, please, we have the Key Updates for the year. First, the two mentioned in the Management. On January 27 the Shareholders Meeting elected new board members for the company. All the list of the members of the Board of Directors is in the Investor Report 2015 that you can download from our website, including the biographies that will let you know the experience and contribution of every one of them.

Second, on February 22nd the new CEO that was appointed by the Board of Directors, Mr. Julián García.

Regarding the final steps of TGI's stake acquisition by the parent company EEB, as you know EEB completed TGI's stake acquisition in 2H2014 through the acquisition of IELAH that is an SPV located in Spain.

For this acquisition EEB got an international syndicated loan amounting to USD $645 million, this was disbursed on September 11, 2014. This financing was obtained by IELAH on behalf of EEB. And the current outstanding debt of IELAH is now USD $394, after two partial repayments done in March 2015 (USD $76 million) and on September 2015 (USD $175 million). The next interest payment will be this month –March 2016 and TGI will disburse an international company loan to IELAH amounting to USD $175 million in order to prepay another portion of the loan. So the final payment of that loan will be USD $219 [unintelligible].

On the transition process to International Financial Reporting Standards –IFRS, we completed the process on the previous year and the first financial statements to be released under IFRS will be for this closing 31st of December 2015.

Among the analysis done by the company, it is important to highlight that according to IAS 21 the company decided to use US dollar as their functional currency, which is very important as now the balance sheet and profit won't be affected so strong by the depreciation of the local currency. This is a very important fact for TGI.

Besides the natural protection, the natural hedge of the revenues of the company, now we have US dollars as the functional currency of our financial statements.

Regarding TGI's credit ratings, it is very important to mention that TGI continues with investment grade from the three most important rating agencies with a stable outlook, except from S&P –Standard & Poor's as they consider core the relation between EEB and TGI, so TGI received the same outlook of the parent company EEB.

Moving on slide 10, we have a summary of the timetables of the regulator of the process of reviewing the tariffs proposed by the regulator in Colombia. According to the regulation, the tariff methodology is reviewed every five years, but actual enforcement is usually delayed. For example, the previous tariff period was effective from December 2003 to December 2012, a total of 9 years.

There are two important milestones in the line presented in this slide. The first one is the definition of the final tariff methodology that is located on December 2016. This is the new methodology that is expected to be approved. And the other milestone is the approval and implementation of the final charges for TGI that is located more or less in the second half of 2018. So, it is not a fixed date but it is more what the regulator proposed to the market, proposed to the company and we expect to continue working with them and to propose an alternative for the methodology that the regulator proposed in any moment.

Now, regarding Operational and Financial Performance, please go to slide number 12. We have a summary of the main important indicators of the network of TGI. On 2015 the total capacity of the network increased to 734 mmscf/d, a very small increase compared to the previous year. But regarding firm contracted capacity, the final figure for 2015 is 672 mmscf/d, which represents a 3% increase compared to 2014. And now we are contracted in the 94% of the total capacity of the network. Also an increase of 3% compared 2014. In the transported volume the final figure for the year was 522 mmscf/d, which is a 5.7% increase compared to 2014. And this is due to an increase in demand of industrial customers mainly. In the gas losses, we continue [unintelligible] closed at 0.59% for the 2015 year. And the load factor is now 67% according to the increase in the transported volume.

Moving on slide 13, we have now that the revenues are very stable and predictable, as always in TGI. And more or less 99% of the revenues are coming from regulated tariffs, which is very important. As I mentioned before, they are reviewed every 5 years, by the regulator. The two main sectors served by the company represent 75% of revenues. Those sectors are distributor and refinery. As you can see in the graph below, these sectors represent a stable consumption pattern with almost no seasonality, which is very important for our revenues. And on the side of the contract quality, 100% of TGI's contracts are firm contracts with an average life of 9.5 years. 89% of regulated revenues are fixed tariffs that do not depend on transported volume. In 2015, 67% of the revenues are based on tariffs in US dollars and only 33% are based on tariffs in COP, the local currency, which is very important to protect the EBITDA from changes in the exchange rate.

In the graph below right you can see that our five customers, our five main customers, which are Ecopetrol, Gas Natural, Gases de Occidente, EPM and ISAGEN represent 73% of revenues, which is very, very good for us because all of them are ‘blue chips’ for companies.

Now, moving in slide 14, we have the main indicators of the P&L. Revenues closed in 2015 in USD $439, which is a small decrease compared to 2014 and this is due only for the effects of the local currency depreciation. As I mentioned before we have 33% of our revenues coming from tariffs in COP and when you divide that amount in a higher exchange rate you will get lower amount in USD and this is the only reason for this 2% decrease when compared to the previous year.

On the side of the EBITDA the final figure for 2015 was USD $361 million, which is 3% lower than the previous year and the margin closed in 82%, which is the highest in TGI’s history and is one of the highest in the industry not only in Colombia but also in Latin America.

On the side of the Funds From Operations that reflect more realistically the cash flow generation in the company, we closed the year in the level of USD $293 million, which is very close to the figure of the previous year. So there is no important impact of the other accounts despite the decrease in revenues.

Moving on slide 15, we have the main accounts of the balance sheet. The total assets of the company closed in USD $3.2 billion, a small increase compared to 2014. All the figures that I have presented the two final years are under IFRS but the previous years are in Col GAAP. And the 2014 and 2015 were re-expressed to IFRS according to the rules, according to the [unintelligible].

In cash and cash equivalents, we closed with USD $256 million. This figure includes [unintelligible] from EEB related to an intercompany loan that was disbursed in previous year, in 2015 amounting to USD $139 million. And this intercompany loan will be repaid by EEB this year 2016.

In PPE, which is the network of TGI, we closed in USD $2.2 billion, which is a small decrease compared to the previous year and this is only because the depreciation of this year was higher than the CapEx that occurred in the year. And that's the only reason of this decrease.

On the side of liabilities, the equity of the company closed in USD $1.2 billion and liabilities in almost USD $2 billion. The change between 2013 and 2014 is only mainly because of the effect of the IFRS implementation.

Now moving on slide 16, we have the indicators of the debt. The first one is total debt / EBITDA, which closed in 2015 in 3.4, which is very, very good results even with the US dollar as the functional currency. The other indicator total net debt / EBITDA closed in 2.7, discounting cash and cash equivalents from the debt.

The senior net debt that corresponds only to the bonds 2022 closed in 1.7, which is very, very good; and the interest coverage in 6.3, which indicates a very good capacity to repay all the interests and all the obligations of the company.

Now, regarding growth projects, please go to slide 18. We have the summary of the execution of the projects, of the investment projects of the company. The first project is Cusiana Phase III, which is a project for increasing the capacity in 20 mmcf/d by upgrading three compression stations between Cusiana and Vasconia. Total cost of the project is USD $31 million. The execution now at the end of December was 38% and TGI has already signed all the contracts for transportation. The expected completion is the second quarter of 2016.

Next project is Cusiana Phase 3.5, which is an increase of capacity of 17 mmcf/d by upgrading one of the compression stations in the line from Cusiana to Vasconia. With this the total capacity of that line will be 412 mmcf/d. The total investment for this project is USD $7.1 million. For this project we are working with the customers to sign the firm transportation contracts. The expected completion is the first half of next year.

Next project is Cusiana-Apiay-Villavicencio-Ocoa for increasing the capacity 32 mmcf/d of the Cusiana-Apiay line, and 7.7 mmcf/d in the continuous line Apiay-Ocoa through the construction of two new compression stations. The total investment will be USD $48 million and TGI has already signed all the contracts for this capacity, which is very important. The expected completion is in the first quarter of 2017.

And the last project that we are working on is the Armenia Loop for increasing the capacity of that branch in 2.2 mmcf/d. The total investment is USD $18 million. Execution at the end of December was 25% and also TGI has already signed all the transportation contracts. The expected completion is in the second quarter of 2017.

This is our information. This is information for 2015. We are very happy with our last results. We are very happy with the results that are now isolated more or less of the effects of the depreciation of the Colombian peso. We present very important figures for the closing of the year. And now we will open the conference for Questions & Answers session.

Operator:

Thank you. Ladies and gentlemen, if you have a question at this time please press the star key and the number one on your touchtone telephone. Spanish questions as English questions are welcome in this session. To remove yourself from the queue just press the pound key. Again, for questions just press star and then one. One moment while we wait.

And I'm not showing any questions at this time. I would like to turn the call over to Mr. Isaac Singer, Cálidda's CFO presenting Cálidda's results and key developments. Please go ahead sir.

Isaac Singer:

Thank you very much. Good morning. My name is Isaac Singer and I am the CFO of Cálidda. On behalf of the company I would like to welcome you to the first quarter 2016 results call. I would like to start by giving you an overview about our business during the past year. We conclude 2015 with excellent results. We exceeded our EBITDA goal increasing from USD $94 million in 2014 to USD $104 million in 2015. Also, the adjusted EBITDA margin increased from 49.1% to 52.1%.

We successfully closed the year with 345,000 connected clients, 35% more than last year. And expanded the network in 1,300 additional kilometers. And developed operations in three new districts: Callao, Ate and Independencia.

Now moving forward to commercial agreements, as we announced before, last year we signed with the Camisea Consortium, the gas supplier, and with TGP, the one who provides the transportation service, the renewal of our contracts. Thanks to these agreements we can ensure enough gas to our regulated market for the next coming years.

In the next point I would like to talk about the dollar appreciation. In 2015 the dollar appreciated 14% over the sol, the local currency. And during 2016, it has appreciated 1.7%.

Now talking about Cálidda, the functional currency of the company is the US dollars. That's why we have an exposure when the exchange rate fluctuates. We incur in a loss in the assets accounts in soles when the exchange rate rises and again when it goes down. The company has taken the following strategies to cover the exchange rate exposure: first of all, we have changed our main supply contracts to soles, to decrease our net asset position in soles. Every month we close first-day non-deliverable forwards to cover the short-term exposure. We took last year a loan in soles in order to acquire a natural hedge for our loan portfolio in soles. We keep our liquidity position always in US dollars.

Now, I will like to go over the presentation. Let's begin with the significant developments. In the next slide you can find 2015 in soles compared to 2014. The first chart illustrates the key figures. As you can see, we have increased the number of customers. Now Cálidda has 345,000 clients, which represents 35% of growth in terms of connected clients, a 31% increase in terms of potential clients compared to 2014. In the same way, the network length and the invoiced volume increased as well.

In the chart below we can find the financial results. As it can be noted, total revenues from 2015 increased 6% compared to last year. The adjusted revenues, the ones without the IFRIC and pass-through effect increased 7%.

Equally important is the growth of the EBITDA, which grew last year 14%. And the adjusted EBITDA margin increased from 49.1% to 52.1%. The factors that contribute to this increase are the following: higher distribution volumes, an increase in the new distribution tariff set for the period of May 2014 to May 2018, extra revenues that came from relocation services, and new contracts with our main contractors, as lower prices.

Now, going over the commercial performance, here is a map where you can find the districts where the company operates. The company has residential networks in 18 districts. Three were added during 2015: Callao, Ate and Independencia. During 2015, Cálidda connected 90,000 residential and commercial customers. 89,000 were residential and 1,000 commercial.

Next page, please. During 2015, 19 new industrial plants were connected. Twelve new NGV service stations joined the distribution system and more than 212,000 converted vehicles are attended in the city of Lima.

Please move forward to the next slide to see the volume sold. As can be observed, the volume sold shows a sustained increase over the past year. It increased 3% compared to 2014, mostly driven by an increase in the power generation segment. This segment is very important in terms of volume because it concentrates 74.4% of the volume sold, whereas, take-or-pay contracts 78% of the volume, which minimize the impact of volume volatility particularly important considering the seasonality of the volume demand by the power generation customers.

Now please move forward to the next slide. The volume breakdown by client and segment is shown in the following charts. As mentioned before, the most important volume increase comes from power generation, 70 mmcf/d mostly explained by additional volume agreed to distribute to Enersur. The industrial sector shows a slight decrease compared to 2014. This decrease is mostly explained by a lower consumption of Cementos Lima due to its maintenance plan. The residential and commercial and NGV stations segment shows an increase explained by a successful addition of new customers.

Now, going over the operational performance, in the next slide please. During 2015, 29 kilometers of steel high-pressure network and 1,282 kilometers of polyethylene secondary network were built.

In the second chart we can find the network efficiency. We can measure the productivity of our network by quantifying the connected clients over the number of potential clients located in front of Cálidda's network. As we can note, we finished the year with a 57% penetration rate. There are more than 600,000 potential clients among households and other types of clients, out of which 345,000 are currently connected.

Please go to the next page. I would like to talk about the installed capacity and how Cálidda has attended its customers during 2015. In the first chart, Cálidda's pipeline capacity is 420 mmcf/d from City Gate Lurin to Lima North. In 2015 the independent and regulated customers consumed 257 mmcf/d equivalent to 61% of our capacity.

In the next chart we can observe that in 2015 our regulated clients consumed 153 mmcf/d equivalent to 75% of our gas transportation capacity and 86% of our gas supply capacity. When we make these figures we are talking about the volume consumed by the customers not the volume invoiced to the customers because of our take-or-pay contracts we have in place.

In the next slide we can see the status of the new gas supply and transportation contracts. Last year, in November, we renewed the gas supply contract with the Camisea Consortium until 2021, increasing the capacity up to 248 mmcf/d. Also the contract capacity increased from 40 mmcf/d to 198 mmcf/d. In the same way, in October 2015, TGV performed an open season in order to grant additional transportation capacity. Cálidda was granted with 24 mmcf/d increasing its capacity up to 228 mmcf/d by January 2017.

In conclusion, in terms of transportation and natural gas supply we can safely say that Cálidda has enough supply contracts to attend its regulated market today and enough capacity for a future growth.

Next page, please. Now I would like to turn to the financial performance. These charts evidence that even though volumes are concentrated, revenues are dispersed. Please allow me to expand on that.

The first pie is the invoiced volume, as you can appreciate residential and commercial segment only represents 1% of the invoiced volume, but this segment explains 8% of the distribution revenues, which can be observed in the second pie. Then, in the third pie if we add the revenues generated by the internal installation business, we can see that this segment represents 34% of the adjusted revenues. On the other hand, power generators represent 75% of the volume, 52% of the distribution revenues but only 34% of the adjusted revenues, equally important as the residential and commercial segment in terms of adjusted revenues.

Please move forward to the next slide. 2015 total revenues were USD $541 including pass-through and IFRIC revenues. They increased 6% compared to 2014. Total adjusted revenues increased 7% from USD $186 million to USD $199 million driven by an increase in the distribution revenues and other income like network relocation.

In the second chart, the last 12-month EBITDA reached USD $104 million and adjusted EBITDA margin reached 52%. As explained before this increase is mostly explained by the higher firm volume invoiced mainly to power generators and an increase in the distribution tariff for the period of 2014 to 2018, more relocation services and new contracts with our main contractors at a lower price.

In the third chart, FFO also maintains last year levels, at also USD $57-USD $58 million. And in the last chart we can find the debt and net debt EBITDA ratio. As you can see we kept the EBITDA ratio below the target, which is 3.5x and closed the year in 3.23x.

Finally, to sum up in the next two slides we can see more financial metrics. We can see the total debt, which is around USD $300 million; the debt to capitalization rate, which is around 55%; the interest coverage, which is 6.8x at the end of 2015; the funds from operations to net debt, which is at the same level of 2014, around 22%-23%.

In the next page, please, the total assets, the total equity, the net income and the CapEx expense in 2015, which was around USD $85 million. All these financial metrics are consistent with our good financial reports over the last year.

And finally, I will like to go to the conclusions. The most satisfactory conclusion that we can bring on is that last year we had great challenges and great opportunities to grow. And we have accomplished more than our expectations. And we have closed in 2015 with even better financial results than 2014 and continue working to achieve our main goals: connect one million clients by the end of 2020 and promote the use of natural gas in Lima and Callao.

We are prepared for a Q&A.

Operator:
Thank you. Ladies and gentlemen if you have a question at this time just press the star key and the number one. To remove yourself from the queue just press the pound key. And as a reminder, Spanish questions are welcome.

And we have a question from the line of Mitchell Moss from Lord Abbett. Please go ahead.

Mitchell Moss:

Hi. Good morning; just a couple of questions. First, what do you project your CapEx to be in 2016 and going forward?

Antonio Angarita:

Our budget for this year is around $80, $90 to $100 million dollars, which is the amount we have spent the last years and we forecast for the next year. This is according to our 5-year program that we agreed with the MTT and with Osinergmin, according to the volume or the new clients we should connect in the future. So, according to this plan, we will spend around $80 to $100 million dollars in the next years.

Mitchell Moss:

Eighty to one hundred?

Antonio Angarita:

Eighty to one hundred, right.

Mitchell Moss:

Okay. And so, I guess that looks like a higher range than 2014 and 2015. Um, is that just normal, is there any, you know, customer costs that you expect to be higher or is it just sort of normal costs?

Antonio Angarita:

Normal, according to the projects because we will go to the north, to the south, to Cañete, which is like 114 km south of Lima; we will go to areas, which are far away from Lima. Part of our concession is that we are going to these new areas. So we have some projects that are according to our plan, it's not something new, but as I mentioned this volume we will spend depends on all the…we need to have all the permissions. So it takes some time. So it's not like one year will be below $80 and the other will be above $100 million. Depends on many factors. So, we have the projects and they can be done last year, this year, depends on many, many factors. Okay?

Mitchell Moss:

Okay. Thank you.

Antonio Angarita:

It's normal. It's normal. It's part of our business plan.

Mitchell Moss:

Okay. And um, looking at the recent new industrial plans that were connected over last year too, what types of industries do those plans fall into?

Antonio Angarita:

What are these industrial plans we're going to do, what are the profiles of these companies?

Mitchell Moss:
Yeah.

Antonio Angarita:
Well, they are part of different industries, you know. It's like we built our network according to the clusters that are developed in the city. So it's like we should be in the new clusters, industrial clusters that are built in the city. It's not a specific industry that they belong. It could be in different industries.

Mitchell Moss:
Okay. And in terms of incremental demand as you add customers, um, how much in terms of I guess cubic feet per day does like 10,000 new residential customers do, whatever metric, how much incremental demand does that create?

Antonio Angarita:
I have the ratio in million cubic meters per year, around 100,000 clients, which is the new customers we expect to connect this year, they consume around 14 million cubic meters per year. It's really, if you see in the chart in page…the volume sold, the graph that shows the volume sold, you can see that the residential and commercial the market share of the total invoiced volume is around 1%, 1.1%. So, when we add the new 100,000 clients it won't increase too much, really. The

volume consumed by the new 100,000 clients doesn't affect or increase our total volume sold.

Mitchell Moss:

Okay. Okay, thank you very much.

Antonio Angarita:

Okay.

Operator:

And ladies and gentlemen as a reminder if you have a question just press the star and the number one. And we have a question from Susan [unintelligible] from GMO. Please go ahead.

Susan:

Thank you very much for the call. I have two questions please. One for Cálidda, I recently understood that in Peru they will be exporting a significant amount of electricity out of the country to neighboring countries. Can you tell me do you have any, have your power generation companies, what is their forecast for additional volumes of gas for 2016? Is there any change to that? And then for the gentlemen from TGI, you mentioned that tariff, the final tariff methodology is going to be changed at the end of the year, can you tell us what you expect the impact of that to be? Thank you.

Antonio Angarita:

Well, in terms of Cálidda we really don't have the information.

Susan:

Okay. So no change from your, your power generation companies haven't suggested that there would be any significant change in the amount of energy and electricity they will be producing or a need for gas.

Antonio Angarita:

No.

Susan:

Okay. Thank you.

Antonio Angarita:

Not yet.

Investor Relations Representative:

Susan, just here it's Fabián Sánchez part of Investor Relations of TGI, well, I have to…just accept my apologies but we are probably going to have to answer you after this call, unfortunately Antonio has to leave the room due to a call for the Presidency. So we are just going to attend the call, I will call you and resolve your question okay?

Susan:

Oh, no problem. Thank you very much.

Fabian Sanchez:

I’m sorry about that.

Operator:

And ladies and gentlemen, on behalf of TGI and Cálidda, we thank you for your participation in today’s presentation. This concludes our program and you may all disconnect. Have a wonderful day everyone.

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