



TGI & Cálidda Results and Key developments 2Q 2017

Operator: Good morning Ladies and Gentlemen and welcome to the Earnings Conference Call TGI and Cálidda Results and Key Developments 2nd Quarter 2017. As a reminder this Call is being recorded.

Under the tab download you will find today's presentation, today's presentation will be divided in two parts, first we'll have with us Mr. Antonio Angarita TGI's CFO presenting TGI's Key Developments and Results, and then we will have with us Mr. Martin Mejía 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.



Mr. Angarita: Thank you, good morning and welcome to our Earnings Conference Call for the 1st Half of 2017 of TGI, my name is Antonio Angarita I'm the CFO of TGI.

This presentation is divided into four parts, first we will have some introductory comments, second we will briefly review the main Key Updates during this second quarter, third we will have a look of TGI's Operational and Financial Performance during the quarter and the most important financial indicators, fourth we will review the stage of the projects in execution and then we will open the conference to the Question and Answer session.

Moving on key updates, I would like to mention as was informed to the market two weeks ago, Mr. Julián García stepped down as CEO of TGI, with effective date from last August 4th. The Board of Directors of the Company appointed as interim CEO to the engineer Jaime Orjuela who is part of the executive team of EEB and during the last two years has been part of the Board of Directors of TGI, while the headhunter performs the search of the new CEO for the company.

Let me highlight some facts of TGI on slide number five, our network as you know, is strategically located along the country, connecting the main fields with the main cities of the country, the transport of natural gas in Colombia is a natural monopoly in a regulated environment, our network covers most of the company covers, serves 70% of the population of Colombia. The company owns 55% of the national gas pipeline network with more or less 4.000 km and the company transport 47% of the gas consumed in the country.

Moving on slide number seven please, we have the regulatory schedule. As of today the regulator has not defined the final methodology for tariff and Wacc. Now the date of the regulator for these definitions is September 2017. So with this schedule, new tariffs will enter into effect in the third quarter of 2019 more or less in two years, so for this period we will continue with the same tariff that we had for the last years and for today.

Moving to next slide, we have an overview of the new opportunities in evaluation; TGI continues working in the projects defined by the UPME, the Planning Unit of the Ministry of Mines and Energy. As was presented previously, four of these projects are in the TGI network and the objective of the company is to develop them after approvals of the regulator.

For the regasification plant we are hiring the team, we have now people working on that project performing the preliminaries activities, defining the project, the initial steps of the project and maybe a partner for develop it. Regarding the pipeline from Buenaventura to Yumbo, also TGI is interested in building this pipeline that is an extension of the current TGI's network.

Moving on slide number ten, we have the main indicators of the Operational Performance. During this quarter we have an addition of 20 million cubic feet per



day in the capacity of the network, corresponding to the Cusiana Phase III project that is still in construction the commercial operation started on last June 9th of this year.

Also the firm contracted the capacity increased to 687 million cubic feet per day. The transported volume decreased according to the situation that we have explained during the last quarters.

Remember that on previous years we had the meteorological phenomena of *El Niño* and now we don't have that, we have normal rainy season in Colombia so the thermal generation plants are not dispatched, so we have lower transported volume for that reason, and according to the transported volume, the load factor decreased to 53%.

On slide number eleven we some highlights of the revenues of the company, 96% of the revenues are coming from regulated tariffs. The main sectors served by the company represent 85% of revenues and they present stable revenue patterns. 100% of the contracts of TGI are firm contracts with an average remaining life of 8 years. And 66% of revenues are coming from tariffs nominated in US dollars and the remaining part is coming from tariffs in Colombian Pesos.

Moving to next slide number twelve, we have the TGI Financial Performance. Revenues decreased in this first half of the year; this is due to lower transported volumes and also to suspension of the transporting contracts required by some of our customers for operations and maintenance of the network. Total revenues closed for the last twelve months in 408 million dollars.

The EBITDA follows the behavior of the revenues; mainly our expenses are mainly fixed, so the EBITDA closed in 330 million dollars.

Funds from operations for these twelve months also decreased and the decreased is more because of the tax effect in this indicator.

On the side of the Balance Sheet we don't have many changes, total assets remaining in 2.76 billion dollars. Cash and Cash Equivalents are in 236 million dollars, you can see a decrease in this indicator compared to the previous year, and this is due mainly to the dividends payment during the second quarter of the year. The dividend payment for this year was more or less 100 million dollars.

Property Plant and Equipment remain in the same level of 2.2 billion dollars and the composition between Equity and Liabilities is more or less the same also, 730 million dollars of Equity and 2 billion dollars of Liability.

On next slide number fourteen, we have the main indicators for our debt, as you



see the Total debt to EBITDA indicator is now in 4.3 but this is a controlled level, we know that in October of this year when we pay the hedges we will return to 3.9 in this indicator.

The other indicators remain in very good condition, remember that the covenants for the bonds are suspended, in this moment we have investment grade for three of the main rating agencies of the world. The Interest Coverage remains in very good condition of 4.8 so this is according to our budget and our plans.

Now moving to the investment projects on slide number sixteen, you can see the execution of the projects that we are constructing right now, *Cusiana Phase III* as I mentioned is still under construction but the commercial operation was declared on June 9th of this year, total revenues for this project are 790.000 dollars per month, the total execution of this project is 89% and the total investment is 31.5 million dollars.

For the *Armenia Loop*, the total investment is 24 million dollars, total execution at the end of June is 62%, the project is working now with a very good pace.

The next project *Cusiana – Apiay – Villavicencio – Ocoa* has a budget of 48 million dollars, now the execution is 45%, the expected completion of this project is December of this year.

The total CapEx for these three projects is 103 million dollars.

On next slide number seventeen, we have other two projects that the company is working right now, *Cusiana Phase IV* that is a project for increasing additional capacity in the pipeline from Cusiana to Vasconia increasing 43 million cubic feet per day in one part of that line, and in other part 17 million cubic feet per day, the total investment of this project is 78 million dollars, the project right now is under execution with 11%.

The other project that we are working is the pipeline replacement due to the end of the regulatory life; this includes 18 pipelines of the TGI system. For replacement of some of these pipelines we have a CapEx of 18 million dollars and for CapEx maintenance we have 39 million dollars for a total CapEx of 57 million dollars.

The total CapEx of these two projects is 135 million dollars, and the total CapEx of projects in execution is 238 million dollars.

This is our presentation, now we will open the conference for the questions and answers session; please note that right after this conference we will have Cálidda's presentation.



Operator: Thank you, we will now begin the Question and Answer session, if you have a question please press “star” and then “1” on your touchstone phone, if you wish to be removed from the queue please press the “pond sign” or the “hash key”, there will be a delay before the first question is announced, if you are using a speaker phone, you may need to pick up the handset first before pressing the numbers.

Once again if you have a question please press “star” then “1” on your touchstone phone. And we're standing by for questions.

Our first question comes from Mark Heins from BTG, please go ahead.

Mr. Heins: Hi guys. Thank you for your comments, I have three questions. The first one is regarding the Pacific LNG plant, I was wondering if you had any updated figures on CapEx and when would be the final date for the auction of this plant? Also I would like to know how you are seeing the competitive environment for this for this project. The second question is regarding Gasoducto Sur Peruano, I understand that the stake that is going to be auctioned would be on the first half of 2018, I was wondering if you could have any comments on that, are you still studying the project? And if your interest remains how you are seeing this project? And the third question is regarding the taxes line on TGI's second quarter, I understand this kind of behavior or variations are quite normal for the company but I would like to understand if there was something specific that made this figure such a big number. Thank you guys.



Mr. Angarita: Ok, regarding the LNG plant, the CapEx that we have right now is the CapEx that the UPME announced in the resolution, in the document where they formalize these projects. The date is the date that the Planning Unit defined, we know that they are now contracting the consultant for developing the project; it is pending to define for example how the plant will get remunerated and many things.

So we are working with the schedule under review, in our side we are preparing the preliminary steps of the project, hiring the team as I mentioned before and also we have now the Vice President of commercial development that is working strong in this project, we are working for selecting a partner for this, and we know that maybe that project would be very competitive, there will be international players interested in developing this plant but we know TGI has also the capacity to do it and we will work strongly in this.

For the second question about the Sur Peruano project, also through CONTUGAS and directly with EEB and TGI, the group has proposed different alternatives to the Peruvian government, and of course we are still studying different alternatives for transporting natural gas to the south of Peru, this is very important for us and this is very important for CONTUGAS also.

Regarding the last question about the tax impact during this quarter let me explain this, for preparing the tax return of 2016 we made a change in the useful life of Property, Plant and Equipment (PPE) on the assets of the company, this change was with the purpose of preserving the Net Equity for tax purposes as we have a big amount of debt as you know, and we need to preserve the Net Taxable Equity in Spanish is "Patrimonio Líquido". For that reason we changed the useful life of some assets, maybe all the assets of the company and this movement impact the tax of the previous year, but when we presented the financial statement we had only provision and estimation for that tax for the year.

So the figures that you are seeing we include 22 million dollars that corresponds to the adjustment of the taxes of the previous year, so this is important for analyzing the current year in terms of results and in terms of cash we will affect of course this year but part of the income tax belongs to the previous year for the reason that I'm explaining.

Regarding the differed tax, also because of the changing the useful life we have movement in the tax accounting figures for assets, so we have a provision and that is the reason why we are booking also an income, a revenue in the P&L .

So this is an effect that we will book this year but is only according to our tax planning and according with the objective to preserve the tax equity for allowing the company to discount interest expenses that are very important in TGI.



That is reason why you are seeing big impact in taxes at the end of June.

Mr. Heins: Perfect, thank you so much for your answers.

Operator: Thank you. Ladies and gentlemen once again, for any questions press “start” then “1” on your touchstone phone. Our next question comes from Diego Buitrago from Bancolombia. Please go ahead.

Mr. Buitrago: Good morning, thanks for the presentation. Taking the result during the first half of 2017 regarding gas demand in Colombia, the impact on revenues of TGI, I want to know how much flexible could be the cost and expenses of TGI to offset the behavior of the revenues. Thank you.

Mr. Angarita: Ok, the expenses in TGI are mostly fixed, but we have some expenses that are variable, mainly the cost of the natural gas that our compressors use for moving the gas so, as you see the EBITDA is affected directly by movements in revenues, so we are trying to control part of the expenses but we know that with the new projects in execution, when they will enter into operation we will receive additional revenues for capacity mainly, not affected by volume.

So we will recover revenues according to the new projects, we know that the increase of the demand will take some period, some time but it will recover.

The company is also promoting the use of natural for important uses mainly in transport, there's a big opportunity in different cities for using more efficient fuel, not that contaminating as diesel, so this is part of the strategy of the company.

Mr. Buitrago: Ok, thank you Antonio. Only one follow up, to get more color, if we accumulate cost and expenses, how could be the mix between variable and fixed? In revenues 10% is variable and 90% is fixed, in cost and expenses what could be this proportion?

Mr. Angarita: I think don't have the information right now but maybe 80% of total expenses are fixed.

Mr. Buitrago: Ok, thank you Antonio.

Operator: And at this time I see we have no questions on the line. I would now like to turn the presentation over to Mr. Martín Mejía, you maybe begin.



Mr. Mejía: Well, good morning everyone and thank you for joining us today, on behalf of the company we like to welcome you to the Cálidda's second quarter 2017 results call. My name is Martín Mejía and I am the Chief Financial Officer of Cálidda.

I would like to start this presentation by giving you an overview of our business achievements, we have concluded the first semester of the year with better than expected results, our EBITDA was 76 million dollars, 5% higher than the first semester of last year results which was 63 million dollars, in addition our adjusted EBITDA margin increased from 56% percent to 60% due to higher distribution revenues within our regulated business.

I will also like to mention that we connected more than 63.000 customers to our distribution which sets a significant milestone for Cálidda as our total client base is now composed of more than half a million clients. Thanks to this performance we now have more than 2.2 million people that benefits from the use of natural gas in the city of Lima.

Well, after this introduction I will go to start the presentation, please follow me to the first slide which is our highlights of the second quarter 2017, in the right side of the slide you will find two charts in which you'll see our key operational and financial results, comparing the results obtained in the second quarter of 2016 with the second quarter 2017.

Regarding the operational results, at the end of June 2017 we reached a total of 501.000 clients adding around of 106.000 clients in the second quarter 2017, this means a 27% increase in our client base.

Taking in consideration this additional number of clients, the invoiced volume had an increase of 2% compared with the second quarter 2016, having obtained a total invoiced volume this second quarter 2017 of 762 million cubic feet per day.

In the case of the network length, it reached a total of 7.908 kilometers of new pipelines infrastructure, which means an increase of 1.115 kilometers in a year.

Regarding the financial results which are in the second chart, up to June 2017 we have obtained a total of 285 million dollars in revenues, which without a pass through revenues concept explained in the three of this chart, it reached a total of 111 million dollars. Both in comparison with the figures obtained in the second quarter 2016 had an increase of 9% and 6% respectively.

In the case of the EBITDA it was 66 million dollars, which is 5% over the EBITDA obtained in the second quarter 2016.

These are the highlights for this second quarter 2017.



In the in the next slide you will find our commercial performance. As of the second quarter 2017 Cálidda has connected more than 500.000 clients from the residential segment in 20 districts within Lima and Callao out of which more than 63.000 were connected to Cálidda distribution system during this first semester of 2017.

We also have connected more than 6.500 commercial clients out of which over 550 were connected during this semester.

As it was mentioned in a previous conference call, to the second quarter 2017 the majority of these new residential clients has been connected to our gas distribution system thanks to the subsidy for covering up to the 100% of the connection cost established by the Peruvian government in order to massify the use of natural gas in Peru, the name of these subsidies are *Bonogas* and the *promotional discount*.

Well, if you move to the next slide, you will find our connection performance of our three main client segments in terms of invoice volume. In the Power Generation segment there has been no thermal plants connection this year, however a co-generator client has been connected, only one.

In the case of Industrial and NGV segments, 17 industries and 11 new NGV stations have joined our distribution system during the last semester. It is important to mention that NGV stations supply natural gas to more than 179.000 clients in the city of Lima and Callao up to June 2017.

Well, please follow me to the next slide in which you will see Cálidda's historic invoiced volume as of June 2017, as you can observe in the graphic, during the last semester the invoiced volume reached a total of 762 million cubic feet per day, which is 17 million cubic feet per day more than the invoiced volume of the second quarter of 2016.

The main explanation of this increment is due to the additional invoiced volume from the Industrial and Power Generation segments.

In the case of the Industrial segment it was 8% more, and in the case of the Power Generation it was 6% more, is important to mention that 69% of the total invoiced volume correspond to a firm contract, which minimize the impact of volume volatility derived from the seasonal effect on volume demand from the Power Generation segment.

Well, moving to the next slide you will find in our invoiced volume breakdown by client segment in four charts. As you may see the most important increment in terms of volume comes from the Power Generation and the Industrial segments



with 13 million cubic feet and 9 million cubic feet per day respectively.

However in terms of growth percentage, the most dynamic segment was the Residential and Commercial sector in which the invoiced volume increased by 14% explained by the successful additional 63.000 customers in the last semester.

In the next slide please, you will see our historic operational performance as of the second quarter 2017. You can see in the first graph on the left that at the end of the second quarter 2017 Cálidda's distribution system reached an extension of 7.908 kilometers of underground pipelines thanks to the construction of around 19 kilometers of steel high pressure network, and 464 of polyethylene low pressure network during the last six months.

In the second chart you will find Cálidda's network efficiency, which is calculated by quantifying the connected clients over the number of potential clients located in front of Cálidda's network. This efficiency ratio increased by 4.8% just in the last semester which allowed raising the network penetration rate up to 63.5%.

We have almost 791.000 potential clients out of which almost 502.000 are currently connected to our distribution system.

In the next slide please, you will see at the left the natural gas volume that Cálidda transport inside the distribution system which is less than the maximum capacity of our distribution network, during the first semester of 2017 the volume of natural gas transported by our distribution network was 201 million cubic feet per day which represents around of the 47% of the total capacity of our distribution network.

From this volume transported, 147 million cubic feet per day correspond to regulated clients, which are clients who have contracted Cálidda for the supply of natural gas, the transportation and the distribution services.

This volume compared with the gas supply and the gas transportation contracted by Cálidda with Plus Petrol and TGP represents only 65% of the total contracted volume and capacity.

We also have independent clients located in the north and the south of our city gates at Lurín which have contracted with Cálidda only the distribution service and had consumed 53 million cubic feet per day and 268 million cubic feet per day during the first semester. These independent clients are mainly large power generators with Take-or-Pay contracts. In total, Cálidda's distributed volume amounted 469 million cubic feet per day and this is lower than the 762 million cubic feet per day invoiced volume due to the Take-or-Pay contracts that we have mainly with the power generators and the industrial clients.



In the next slide you will see our financial performance and key metrics. As you will see there, we have three graphs that represent our invoiced volume, our distribution revenues and our adjusted revenues for 2017. In the first pie to the left you will see that the residential and commercial sectors are only 1% in terms of invoiced volume, however if you see the second pie in the middle; in terms of distribution revenues this segment represents 12% and if you see the third pie, the installation service made by Cálidda to these residential clients means the 35% of our adjusted revenues.

On the other hand, while Power Generation represents 74% of the invoiced volume, this segment relevance comes down to 51% when analyzing our distribution revenues and to 33% of our adjusted revenue.

This shows that the Residential and Commercial segment and the Power Generation segment are equally important in terms of adjust the revenues for Cálidda.

Other revenues represent 8% of our adjusted revenues and it's mainly explained by the income through the NGV client's connection fee and pipeline relocation service that we perform when some clients request Cálidda to change the routes of our pipeline in order to do a new route or a new highway in the city.

Well, follow me to the next slide please; at the end of June 2017, last twelve months total revenues were 559.000 million dollars including pass-through and IFRIC 12 revenues which represent a 4% increase compared to the second quarter of 2016 result. Also last twelve months adjusted revenues increased by 3% from 207 million dollars to 214 million dollars.

On the second chart of the right you can see Cálidda's historic EBITDA which was as of the twelve months 128 million dollars, showing a steady increase since 2011.

In the third chart bottom left, we have Fund from Operations calculated on net profit plus depreciation plus amortization ($FFO = \text{Net Profit} + \text{Depreciation} + \text{Amortization}$) from the last twelve months were 89 million dollars in the first semester of 2017.

And in the last chart bottom right you can find the Debt and Net Debt to EBITDA ratio, as you can see we have maintained our debt ratio below 3.5 times target and closed last semester with a ratio of 3.2 times our EBITDA.

If we go to the next slide, we have two slides where we show you our key financial metrics. They reveal our financial performance over the last months and years. This is consistent with the company's vision and expected results to our



shareholders.

In these two next slides you will see the Total Debt, the Debt to Capitalization ratio, the Interest Coverage, Fund from Operations to Net Debt, the ratios related to our Balance Sheet and investment indicators like Total Assets, Equity, Net Income and CapEx.

And that's it; this is the presentation, only to conclude with this presentation I would like to mention that 2017 will be a year that will mark our transition towards a robust business model and close to the needs of our customers. We anticipate that this process will be followed by an evolution in the financial performance of our company that will be reflected in a sustained increase of our revenues and profitability.

In this sense, it is important to mention that the results of the first semester shows that we are on track to meet our annual targets which includes to connect 120.000 clients to our distribution system of natural gas and to achieve an EBITDA of 130 million dollars.

Well that's it, thank you for all, for all for your time and we open the session to attend any questions you may have.

Operator: Thank you, once again for any questions press "star" then o"1" on your touchstone phone, standing by for questions.

And at this time I'm showing we have no questions in queue, I'd like to turn the call over to Mr. Mejía for any closing comments.

And once again I'm showing we have no questions in queue.

Mr. Mejía: Ok thank you for all.

Operator: Well this concludes today's presentation.

Thank you ladies and gentlemen this concludes today's conference, thank you for participating you may now disconnect.