Earnings Conference Call TGI and Cálidda:
Results and Key Developments 2Q2015

Operator Instructions

Good morning ladies and gentlemen. Welcome to the Earnings Conference Call TGI and Cálidda Results and Key Developments 2Q2015. 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. Antonio Angarita, TGI's CFO presenting TGI's key developments and results. And then, we will have with us Mr. Isaac Singer, Cálidda's Financial Manager presenting Cálidda's results and key developments.

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

Antonio Angarita, TGI's CFO

Thank you very much. Good morning everyone. Welcome to TGI's 2Q2015 Earnings Call. We would like to conduct this call in four stages. First, we'd like to give you a brief overview of the strategy of the company. Then I will present the main key updates of the quarter. Then we will go over and review the main operational and financial performance indicators. Next we will have a look at the current TGI expansion projects. And to conclude we will open the call to questions from you.

The strategy execution: Currently, TGI has focused the strategy in consolidating the business in Colombia and strengthening the current infrastructure. TGI completed the execution of the most ambitious natural gas transport infrastructure expansion project in Colombia [unintelligible] Guajira and Cusiana gas pipelines. Today, TGI is the largest natural gas pipeline system in Colombia. We are in the natural gas transportation business and we own almost 4,000 kilometers of pipeline through the country. TGI transports basically 51% of the gas consumed in the country, serving what represents 70% of the population of Colombia and 82% of the GDP, as you can see in slide 6.

We also have access to the two main producing regions of natural gas in Colombia, Ballena in the Caribbean Coast and Cusiana-Cupiagua in the Eastern region of the country. Moreover, we have 36.9% stake in Contugas in Peru with our parent company EEB. This is a 3-year concession for natural gas transportation and distribution.

Regarding the future, we have been growing internally and we expect to keep this trend. We are currently expanding our network with three main projects with investments amounting to more than one hundred million dollars in Colombia. First is the expansion, the third expansion of the Cusiana-Vasconia pipeline. Second is the loop to Armenia. And third pipeline expansion Cusiana-Apiay-Ocoa.

Additionally, TGI is evaluating three new projects in Colombia that will require investments of up to $460 million dollars and will increase our transport capacity. TGI has submitted the main features of these projects to its main customers and after receiving their capacity requirements finally we are checking its profitability before proposing the new contracts and then develop the projects. All of these six projects are focused in expanding our existing natural gas pipelines in Colombia with construction of loops and compression stations.

We are also in the very first stages of evaluating some projects that will increase the reliability of the natural gas pipeline network such as new pipelines and storage facilities and we will be talking of the evolution of the regulation of this important matter, and as always, TGI will participate actively in discussions with the regulator CREG, with proposals for contributing to develop the rules.

We expect to participate in new pipeline bid processes by ourselves or with our parent company EEB, and moreover, TGI is continuously looking for opportunities through mergers and acquisitions in the region.

Moving onto slide number 8 we have here the main key updates for this quarter. First, regarding TGI's credit ratings we continue with investment grade. The last update came from Moody's in last June when they affirmed the TGI corporate debt and issuer rating in 'Baa3', with stable outlook. The last ratings from Fitch and S&P were issued last year and are in evaluation in this moment.

Regarding the TGI stake acquisitions by EEB, we have been working in the merger process with the SPV IELAH as was planned in the EEB in the transaction. We already prepared the financial statements under IFRS, which will be used as [unintelligible] for the merge and the legal teams are preparing also the documentation for presenting the request to the Superintendence of Societies in October. We expect to conclude the process in the first half of 2016. As a result of this merger TGI balance sheet will receive the debt of the SPV and the outstanding balance at this moment is $569 million dollars.

Regarding the transition to IFRS, as we presented in the last earnings call, TGI performed all the required analyses for all the accounts with the support of advisors like KPMG and VWC, in order to define the impact of the different standards and to implement the new accounting policies according to the business. And after a deep analysis, TGI's functional currency will be US dollars, and has been implemented in our financial system SAP.

Moving on slide 9, we had an emergency fee in July 5th in the pipeline Cusiana-Apiay as a result of a leakage of natural gas and an explosion. Eight customers were affected in [unintelligible] delivery point resulting in a suspension of the service during [unintelligible]. By July 13th the pipeline had been repaired and the service was reactivated. All the technical equipment [*sic*] from TGI participated in controlling this situation and we had good results and the pipeline is now operating correctly.

Now, moving on slide number 10, we have a summary of the regulation perspective of the company. The current tariff period started in December 2012 and will go until December 2017. Now in August 2015 we received a definition of the final regulatory WACC calculation methodology from the regulator and the company performed some comments and is participating in the final process for defining this with the regulator. For the next year in January we are expecting definition of final tariff methodology and also the information requested by CREG for the definition of charges. We expect that the new tariff period will start in 2018.

Regarding the WACC methodology, TGI recommended to CREG related to the WACC methodology to consider some aspects, for example, related to the cost of debt of the company, also related to the period of time to be taken into account for the calculation of the risk free rate, also parameters for the definition of the [unintelligible] premium, and finally a proposal for estimating the [unintelligible] based on public information in Bloomberg but not direct calculation as the regulator was proposing.

Moving on slide 12, we have the summary of the operational performance at the end of twenty…second half…first half of 2015, the length of the pipelines is the same, 3,957 km; the capacity 734 mmcf/d; the contracted capacity is now in the highest level 671 mmcf/d; and the percentage of the capacity contracted is 94. The transported volume also has a maximum in this period 500 mmcf/d. All the indicators for reliability of the pipeline and compression stations are in a very good level, above of the requirements of the regulation in Colombia, and the load factor also increased to 66%; that means that we have still 28% more or less available for additional volume to be transported.

Moving on slide 13, we have a summary of the revenues of the company. Sixty-six percent of the revenues comes from tariffs in US dollars. That is very important for us given the high depreciation of our local currency. We have this feature that gives the company an advantage to support all the pressure of these changes in the local currency.

TGI's revenues are predictable, with approximately 99% coming from regulated tariffs. That is very important. As I mentioned, the period of the tariff is reviewed every five years. The main sector served by the company represents 80% of the revenues, and they have very stable consumption patterns with almost no seasonality. The company enjoys excellent contract quality. 100% percent of TGI's contracts are firm contracts with an average life of 10 years. 89% of the regulator's revenues comes from fixed tariffs, not dependant on transported volume. And the sensitivity of the EBITDA is very low to changes in exchange rate because of the fact that the revenues are based on US dollars.

Moving on next slide, number 14, we have here the main TGI drivers, financial drivers. The last two bars in green represent that the figures come from the IFRS financial statements. You can see that for the second quarter of the year we have revenues amounting to 443 million dollars. That is more or less a 5% decrease compared to the end of 2014. This is because of three main reasons: the precision of the COP of the Colombian currency affects the revenues when you present them in US dollars because we still have 34% of the revenues in Colombian pesos. I emphasize we don't have now occasional revenues because of change in regulation and because now in Colombia we have a clean house for trading natural gas, and third because the natural gas…the volume of natural gas transported decreased compared to the first half of 2014, because in previous year many thermal generation plants were dispatched in order to support the demand of the electricity in Colombia.

The next graphic, Gross Profit and Gross Margin both remained above 300 million dollars in this indicator, with a margin of 69%. Regarding EBITDA the amount at the end of June is 362 million dollars, which represents more or less 2% decrease compared to the previous year, and this is due mainly because of the variation in revenues but also because of the operational expenses are lower now compared to the previous year. And the last indicator, Funds from Operations remain above 300 million dollars. And we closed June in 341 million dollars. That is very important because that is the amount available for CapEx, for dividends, or for new investments of the company.

Moving to the next slide, number 15, we have the summary of the balance sheet of the company. Total Assets at the end of June amounted to 2.9 billion dollars. In cash we had 330 million dollars. That is very important. This is the cash available for all the projects of the company, for all the needs of the company. PPE fixed assets represents 2.3 billion dollars, that is, 78% of the total assets. In terms of the Liabilities, the equity represents 43% of the total assets and the liabilities 57% of the assets.

In the next slide, number 16, we have indicators related to debt in TGI. And all the indicators as you can see are in very healthy levels. First, Debt to EBITDA is 3.4, more or less very similar to the previous year. Net Debt to EBITDA is in the level of 2.5. [Unintelligible] in a [unintelligible] position. Senior Debt to EBITDA is 2.4. And Interest Coverage above 6 that is the trend and is very close to the figure at the end of 2014.

Regarding expansion projects, as you can see in slide 16, we have here a summary for the main projects that we are executing right now. First one is

Cusiana Phase III, which is an increase in capacity in 20 mmcf/d by adapting three compression stations with one unit in each station. The total investment is $31 million dollars. The progress right now is 34% in this project. And the expected completion is at the end of this year.

The next project is the Armenia Branch. Previously we considered another branch in the coffee lands of Colombia but after reviewing the financial feasibility we decided to develop only the Armenia loop. This is a project for increasing the existing capacity in 2.2 mmcf of this branch for giving additional volume of gas to Armenia that is an important city in the coffee region. For this purpose the company will build a loop 37.5 km long with a diameter of 8 inches that will be parallel to the existing one. Total investment in this project is 18 million dollars. The project is now under execution and TGI has already signed the firm transportation contracts for this capacity, for TGI capacity. Financial and engineering studies are in progress right now. The environmental licensing is in progress also. And the expected completion of this project is the second quarter of 2017.

The next project in execution is Cusiana-Apiay-Villavicencio-Ocoa. This is a project for increasing the capacity in 32 mmcf/d in the pipeline Cusiana-Apiay with a 7.7 mmcf/d, and in the other segment this increase will be a little lower. Total investment will be 48 million dollars. It is important to remark that this project will be executed through a BOMT contract, not directly by TGI. And the expected completion for this project is the first quarter of 2017.

The other project that we included here is the Ballena-Barranca Bidirectionality that consists in adapting the compression stations, delivery and receipt locations along the Ballena-Barrancabermeja pipeline so that it can transport natural gas in both directions, in order to allow natural gas to be transported from the central region to the north of Colombia. Now we adjust the capacity for this project, as the investment is a little lower, 10 million dollars. And the expected completion is also the second quarter of 2017.

Now I will open the call to Questions & Answers session. Please operator.

Operator Instructions

Thank you. Ladies and gentlemen, if you have a question or comment at this time please press the star key and the number one on your touchtone telephone. If your question has been answered or you wish to remove yourself from the queue press the pound key. Again, for questions just press the star key and the number one. One moment while we wait.

And we have a question from the line of Mitchell Moss from Lord Abbett. Sir your line is now open.

Mitchell Moss, Lord Abbett

Hi. I have a couple of questions. On one hand, the WACC methodology calculation. Can you just give us a sense on where the WACC, I mean can you just give us a sense on where the WACC is currently set? And just any, any big changes you could expect either in the cost-effect or [unintelligible] you know the big drivers for that. Hello.

Antonio Angarita, TGI's CFO

Hello. Thank you. The methodology for WACC is based on the [unintelligible] movement and the maximum expected impact for this rate is 300 basic points. But that will…the final amount will depend on the period that the regulator will define for calculating the different drivers, the different components of the CAPM formula. And the methodology is the standard, the one based on the CAPM. What we have been discussing with the regulator are mainly the source of information, the periods for calculating all the main…all the different components of the formula, and also the source of the information.

Mitchell Moss, Lord Abbett

So where's the current WACC at?

Antonio Angarita, TGI's CFO

The current one?

Mitchell Moss, Lord Abbett

Yeah.

Antonio Angarita, TGI's CFO

Fifteen, fifteen percent, but this WACC is for tariff purposes only. The current one is 15.5%; that is very good. That is very good. It is part of the features of these revenues, for stronger behavior in Colombia.

Mitchell Moss, Lord Abbett

Okay. And um, can you just give us an update on your CapEx for 2015 and if you've worked that out for 2016? And then also any expansion plans uh you've talked about outside of Colombia.

Antonio Angarita, TGI's CFO

Okay. The total CapEx for the current year is more or less $80 million dollars. And now it's a little lower because the depreciation, because of the depreciation of the local currency, but currently is $80 million dollars. And the main projects are, in execution, are the ones that I mentioned before. For next year we are evaluating the projects that we presented on the first half to the market and we received, we already received requirements from several customers in the different projects. Those are three new, three expansion projects here in Colombia amounting to $450 million dollars. But of course not all the investment will be done in next year. And the execution of these projects will depend on the final stage that is very close. The final stage is now evaluating total requirements to re-dimension the projects in terms of capacity and to calculate again the final investment to verify finally the feasibility and profitability of every project and then we will proceed to require the signature of the contracts with the customers that require the capacity. And then we will start to develop the projects. This is the common way for developing new infrastructure here in TGI.

Mitchell Moss, Lord Abbett

And outside, outside of Colombia? Do you have anything doing now, some update on opportunities?

Antonio Angarita, TGI's CFO

Yes. We are checking the opportunities in Mexico with [unintelligible]. Also evaluating some possibilities in Peru but nothing, nothing secure, nothing confirmed right now. And not really, we are always evaluating the opportunities in the region and the main…the countries that are in the target of TGI are Mexico and Peru right now. And the…we don't have information, additional information right now.

Mitchell Moss, Lord Abbett

Thank you very much.

Antonio Angarita, TGI's CFO

Okay. Thank you.

Operator Instructions

And I'm not showing any questions at this time. I would like to turn the call back to Isaac Singer, um, for Cálidda's second part.

Isaac Singer, Cálidda's Financial Manager

Thank you very much. Good morning everyone. Welcome to Cálidda 2Q2015 Results Call. We are very glad to announce that we concluded this first half of the year with excellent results. We achieved three hundred, around three hundred thousand connected clients. Our last 12 months EBITDA reached $100 million dollars, which represents an increase of 17% compared to the similar period in 2014. Also our Adjusted EBITDA margin increased from 49.1% to 51.4%. In general we can conclude that we are in a good position to achieve our 2015 goals.

Now I would like to go through the recent financial events. Then with a summary of our short and long term goals. And finally go over our presentation.

Well, as you know the dollar appreciation is nowadays a variable that concerns every company. From January to June the foreign exchange rate soles to US dollars has increased from 2.97 to 3.17. This information has been taken from Bloomberg, which means an increase of 6% over such period. To cover the exchange rate exposure the company has taken the following strategies:

Regarding the short-term exposure even though our distribution tariff is dollar indexed our service is billed in soles. So we have a twenty to thirty days' exposure between the time we bill and the time we collect for the customers. To hedge this exposure we have been closing every month a 3-day non-deliverable forward. Additionally, in order to reduce our exposure to foreign exchange movements we have changed our main supplier contracts to soles. So our net position in soles, current assets minus current liabilities, has been decreasing. For the long-term exposure we have a loan portfolio in soles related to the financing we give to the customers for their internal installations. In June 2015 we closed at 91 million soles financing, which is around 29 million dollars, with two local banks to finance our 2015 CapEx plan. We took the loan in soles in order to have a natural hedge to our accounts receivables in soles, which is classified as a non-current asset. It is important to mention that also with this disbursement of the loan we have met our target to keep the debt/EBITDA ratio below 3.5 times.

In April of 2015 shareholders agreed to distribute dividends in an amount of 31 million dollars and in June a capital reduction of 5.2 million dollars. It's under Cálidda's policy that as long as the company keeps a solid financial position, a low leverage ratio, and keeps the CapEx funded, extra cash available will be distributed to our shareholders.

Now, moving forward to our future plans. In the rest of the year we plan to enter into three new districts reaching by the end of the year Residential operation in 20 districts in Lima and Callao. We estimate that if we continue with this growth rate, which is around 100,000 clients per year in about, in 2020 we can reach around one million connections, which means 4.5 million people using natural gas.

Now I would like to go over the presentation and review the main operational, commercial and financial performance indicators. Let's go to page four, six. In this slide you can find the year to date results comparing the second quarter of 2015 to the second quarter of 2014. Cálidda has a client base of 299,790 customers, which represents a 39% percent increase compared to first half of 2014. The invoiced volume increased mainly due to high contracting volumes from Kallpa and Termochilca Power Generators.

The total revenues increased by 6% compared to similar period of last year and the total adjusted revenues increased 9%. This semester, in this half of the year the EBITDA and adjusted EBITDA margin grew mostly driven by an increase in the distribution tariff, higher total volume invoiced, and the renegotiation with our main contractors to change the currency of contracts from dollars to soles.

If we go over slide, in page 8, over the commercial performance of the company, here you can find a map where you can see the districts where Cálidda operates. During the first half of the year, Cálidda added around 44,000 clients in the Residential segment and 622 clients in the Commercial segment.

The company has Residential network in 17 districts and Industrial & Commercial network in 34 districts within Lima and Callao.

Let’s go to the next slide. During the first half of the year we connected 7 new industrial plants. In the following month we plan to reach Puente Piedra, a district where we can find an important industrial hub.

In terms of the NGV segment, 8 new service stations joined the distribution system during this half of the year. 228 NGV stations attend more than 200,000 converted vehicles in the cities of Lima and Callao.

Go to the page 10 please. You can see the volume sold, in this slide. In the first semester of 2015 the volume sold increased from 669 mmcf/d to 698 mmcf/d, a 4% increase compared to the first half of 2014. This is mainly explained by an increase of the volume in the Power Generation segment. The Take-or-Pay contracts amount to 78% of total invoiced volume, which minimized the impact of volume volatility.

In the next slide we can see the volume breakdown by client segments. In the Power Generation segment the invoiced volume is higher because Kallpa and Termochilca increased its firm contract capacity in 25 mmcf/d. During the first semester the Industrial sector shows a slight decrease due to a lower consumption of Cementos Lima, one of our main industrial customers because of the execution of its management plan. This reduction affects the first half of 2015 and explains the inferior consumption for this segment compared to last year. The NGV segment shows an increase mostly explained by the addition of new customers. And finally the Residential & Commercial segment shows an increase explained by the successful addition of new customers in the districts where Cálidda has operations.

If we go to page 13, you can review the Operational Performance of the company. The first chart shows the evolution of the Distribution System. During the first half of 2015, Cálidda has built 568 km out of which 12 km were steel high pressure network. The remaining 557 km were polyethylene pipelines, whereby the distribution system reached a total of 5,246 km of underground pipeline.

The second chart shows the penetration rate. This rate is measured as the number of committed clients over potential clients as they are located in front of Cálidda's distribution network. We estimate that there were over 529,000 potential clients closing up to Cálidda's distribution network, all of which around 300,000 are currently connected. Therefore, the network penetration rate is 57%. As we can see over the last year the penetration rate has been increasing during the Cálidda [unintelligible] operations.

Going to page 14, you can see the capacity of Cálidda's pipeline, which is around 420 mmcf/d. As you can see in the chart, independent and regulated customers use nearly 298 mmcf/d, which is equivalent to 71% of our capacity. This amount doesn't include the consumption of the power generators located at City Gate, which is around 400 mmcf/d. So, this is why we have invoiced around 698 mmcf/d: 298, which is the consumption of the independent and regulated customers plus the 400 mmcf/d consumed by the power generators.

Our Regulated Clients consume 155 mmcf/d, equivalent to 76% of our Gas Transportation capacity and 87% of our Gas Supply capacity. So, as we have mentioned before, we have enough room to continue growing.

In the, we are going to start analyzing the financial performance and key metrics of the company. We can go to page 16. As of June 2015, 73% of our Adjusted Revenues are explained by the Distribution Revenues, which is volumes over related revenues. And 37% from installation services revenues and other revenues. In the first half of the year Other Revenues have increased substantially compared to previous periods because of extraordinary services like pipeline relocations.

In the next slide, we can see the Total Revenues of the company, which, the revenues were around $265 million dollars, a 6% increase compared to 2014. Meanwhile the Total Adjusted Revenues increased 9% from $91 million dollars to $100 million dollars driven by the increase in distribution revenues and other income that came from network relocations.

The second chart shows the increase of the last 12-month EBITDA due to higher [unintelligible] volume invoiced mainly explained by the two power generators of Kallpa and Termochilca, and larger volume demand due to a larger client base. Also it is explained by an increase in the distribution tariff since May 2014, and other revenues as we explained before and the renegotiation with our main contractors to change the currency of the contracts from dollars to soles.

Funds from Operations almost maintained the same levels of 2014. The Debt & Net Debt / EBITDA ratio includes the disbursement of the $29 million dollar loan, we kept the ratio target below 3.5 times, it’s around 3.47 times.

And in the next two slides we can find the key financial metrics for the first half of the year. Total Debt is around $347 million. Our loans, this new loan we have taken. The Interest Coverage is around 6.8 times, Total Assets around $712 million dollars, Equity $258 million. The last 12 months Net Income $37 million dollars and we have invested CapEx for around $38 million for the first half of the year.

We are very glad with our half-year results. We expect to maintain the same positive results for the last part of the year. So, this concludes our presentation. Thank you to all the investors.

Thank you very much.

Operator Instructions

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program and you may all disconnect. Have a wonderful day everyone.