

Conference Call Text

Results and Key developments
1Q 2013

Slide 1: Sandra Operadora

Welcome to the investor's conference call TGI Results and Key developments 1Q 2013 conference call. My name is Sandra and I'll be your operator for today's call. At this time all participants are in a listen only mode. Later we will conduct a question and answer session. Please note that this conference is being recorded. I will now turn the call over to Mr. Santiago Pardo, Chief Financial Officer of TGI. Mr. Pardo, you may begin.

Slide 2: Santiago Pardo

Thank you Sandra and good morning to everybody. Welcome to our quarterly, second quarterly conference call in this year and in this call we will be going over our first quarter results, for the quarter ending in March 2013.

Slide 4: Santiago Pardo

So, I guess that just for starters, just for anybody in the call, not familiar with the company, TGI is the largest company in the natural gas pipeline sector in Colombia, we have approximately 60% of the infrastructure in terms of volume, sorry, in terms of pipeline, and we transport approximately 46% of the volumes in the country.

Slide 6: Santiago Pardo

I guess, just to get started, we wanted to share the facts, the key updates that we were upgraded by Standard and Poor's in May 6th 2013, to BBB- from BB and this is, I guess the third investment grade we have received, so now the three major rating agencies have us at the BBB-, Moody's Baa3 and Fitch's is BBB-, this we believe as the result of our, obviously the recognition of the strength of our business, the significant improvement we have seen in our credit metrics over the past three years or so, as our expansion projects have come into place and the increase in tariffs as a result of the regulatory view has also been resolved, so we think that this is obviously good news for everybody and this should reflect in a lower cost of funding for TGI and more importantly, in a better access to a, a more diverse access to the capital markets, which comes with the broadening of our investors base.

Slide 8: Santiago Pardo

Moving on to page 8 in our presentation, we have our, we are going to show you some of our operational specifics, as, in terms our network plans, it probably have remained stable over this quarter, we have not brought any new projects into... into the system and we don't expect to

bring any new projects, actually throughout this year, so the network should remain stable as should the transportation capacity of 730 Million Cubic feet a day.

Our contracts, our firm contract capacity has shown continuous growing and we now have contracted on a firm basis, 632 Million cubic feet a day of the pipeline capacity, which is very good for our revenues. In terms of transported volume, and this compares for example with, as of the first quarter of last year we were approximately in the US\$560 Million, 560 million cubic feet a day, contracted capacity which is more than the 10% growth. In terms of transported volumes, the transported volume during the first quarter was 436 Million cubic feet a day on average, that is fairly stable when compared with the average for the year 2012 which was 422 plus when we compare it with the first quarter 2012, that number in 2012 was 403 Million Cubic feet a day, so if you look at the comparable quarters our volume grew 6%.

In terms of gas losses, we have continued to reduce our gas losses and we are right now at a 0.4% of the gas loss, and finally our load factor has, given that the transported volume has remained stable, we have been able to maintain our load factor stable as I mentioned in other of these calls this 60% number or so is actually something that we feel comfortable with and should start to grow, but the system needs to have some spare capacity to be able to accommodate this demand when natural gas fire power plants are dispatched and so is, for us it's probably ideal to be, to have our load factor kind of on the 70 – 75% in the long term, and with a lower capacity right now just gives us room to grow into the new demand that is coming in, as the Colombian economy continues to grow and is also obvious that the result of the fact that our expansion projects had just come into play and we just, the demand beginning to grow into the system.

Slide 9: Santiago Pardo

Moving on to page 9, in terms of our market share in terms of transported volume, we transported approximately 46% of the natural gas in the country. Promigas had a 40% and others are on 14% and it's important to note that these others, this 14% is gas that mainly also flows through the TGI system at some point, so, it's gas that in some way we to another, it's related to the growth in our system.

In terms, as I said before, in terms of our network, we have remained stable at approximately 4000 Km. In terms of our revenue...

All parties please remain on the line, your host has disconnected, once again all parties, please remain on the line, your host has disconnected, we are working to reconnect his line. Thank you for your patience.

At this time we have Mr. Pardo back on line. Please continue Sir.

Thank you Sandra and apologies. I will go back to finish up page 9, I don't know just to make sure that we didn't miss anything, so I guess in page 9 we were showing our market share in terms of transported volumes was 46% vs. 40% from Promigas and 14% for others, I guess the point we wanted to make there, was that the volume transported by others is volume that at some point or

another also flows through the TGI system and so it's related, so growth in others also implies growth in transported volume for us.

Slide 10: Santiago Pardo

Moving on to page 10, I guess obviously our revenues have remained highly predictable with 34% coming from regulated tariffs, which, you know, are reviewed every five years, and we just went into that review process. 100% of our contracts are from contracts with an average life of almost 9 years, and in 2% approximately of our revenues are fixed tariffs, not depending on transported volumes, so you know, we like the fact that the volumes grow and it's healthy for our business to have volumes grow obviously, having a different volume or a couple of bad quarters in volumes, will not reflect itself in a reduction, in a significant reduction in our results and I guess this is also amplified by the fact that, is shown in page, in the graph in the bottom right hand corner, the sectors that represent the most stable consumption patterns and also growing consumption patterns in the natural gas industry in Colombia represent the majority of our revenues; the distribution sector which comprises not only residential but also commercial and some industrial customers represent today 61% of our volumes, refine... our revenues, sorry, refining sector which is the Ecopetrol refinery in Barranca is 10% and the natural gas vehicles sector which is also pretty stable around 8%. Those are approximately 80% of our revenues and they have been, their importance has been growing over time, if you look for example at the distribution sector in 2011 it represented 51% of our revenues and the distribution sector in 2012 was, for the whole year, was 55% of our revenues, so I guess the point is we, the customers with the most stable consumption patterns are where we are seeing the most growth.

The customers, the type of customers that have seen a reduction have been those that do not, that are traders basically and do not consume natural gas but rather sell it to others, to other customers. And finally the thermal power plants are important customers for us and they have around 15% of our revenues; these are the ones who represent the more volatile in terms of volume.

Slide 11: Santiago Pardo

In terms of customers, our five largest customers represent 77% of our revenue and as you can see in page 11 these five, are the most stable and credit worthy companies in Colombia, starting with Gas Natural Fenosa, Ecopetrol, Gases de Occidente, EPM and Isagen, all of them rated investment grade internationally or AAA locally, with all of whom we have contracts for at least eight years.

Slide 12: Santiago Pardo

Moving on to page 12, we see the profile of our contracts, our average life in terms of contracts is 8.7 years, as you can see we have renewals coming up in December 2020, which is still seven years away, but that it's something we are already focusing on, the reason for that structure, is that we put most of this contracts in place in 2008 for a period of 12 years and as I mentioned before we already have in place the commercial strategy to ensure timely rollover of the contract.

And, one thing, two things that go on our favor are our customers really need to use our pipelines, there's no competing pipeline if you will, so the contracts will be renewed eventually and the distribution companies, which I mentioned before are over 60% of our revenues, are required by regulation to have their gas transportation need under firm contracts in the long term, so those two things should ensure that there's no problem with the rollover of the contracts.

Slide 13: Santiago Pardo

Moving on to page 13, in terms of our financials, I think we had a pretty good quarter, our revenues for the last twelve months grew from US\$390 Million in the fourth quarter to US\$413 Million in the first quarter and EBITDA grew from US\$293 Million to US\$309 Million for the last twelve months, ending in this quarter.

We look at the statistics also in a quarter over quarter basis, so comparing the first quarter of 2012 to the first quarter of 2013, we are seeing a pretty significant growth, we are seeing a growth in revenues of approximately 24% over that period, measured in dollars, and we are seeing a growth in EBITDA of around 22% also measured in dollars, and the reasons for these are first of all, our expansion projects, Cusiana Phase II came into effect, or came into operation in, you know, August 2012, so in the first quarter of 2011 we were not seeing those volumes, so that increase in volume is significant, and results in higher revenues. Second, the increase in the regulated tariffs that also resulted in higher revenues for us; and finally we mentioned at the beginning we have seen around a 6% increase in volumes rents for this, so all this factors together have combined to make a very significant increase in our revenue and EBITDA in this first quarter.

In terms of, we are also seeing a very, very significant increase in our funds from operations statistics, that one increased from US\$133 Million to US\$250 Million, the main reason for that is that in 2012 number we have embedded in the cost of refinancing our debt so, our going forward number, is gonna be more in the range of US\$250 Million and the increase in the revenues and EBITDA hopefully will continue to increase during the rest of the year.

And finally our CAPEX have shown a decrease in the first quarter, that is a result of the fact that we have finished our expansion projects but that is not what we would like to, this expenses to be, actually we would like to have continuing investments in, and as you will see in a few minutes, we already have a couple of projects coming up soon.

Slide 14: Santiago Pardo

Moving on to page 14, it shows our credit metrics, debt to EBITDA continuing to decrease in terms of total debt to EBITDA were of 4.1 times in senior net debt to EBITDA were 2.2 times, and in terms of interest coverage were 4.8 times already and we should end the year, kind of close to 5 times, in that statistic.

Our financial debt breakdown, the structure has not seen any changes during the quarter, we are just maintaining our senior debt and our subordinated debt as it is, and we have not incurred any new debt during this quarter.

Slide 15: Santiago Pardo

And finally, just a quick word in our expansion projects.

Slide 16: Santiago Pardo

First we have two main expansion projects on the drawing board, first one is Cusiana – Apiay – San Fernando, which is a project that we’re developing together with Ecopetrol, which could be, CAPEX could be approximately US\$245 Million, we’re already doing engineering for that project and we will be spending time and money during this year on engineering studies for that project, and we expect to start construction in actually the beginning of next year, and commercial operations in 2015.

And then the La Sabana conversion plant which is a conversion station near Bogota, approximately US\$53 Million, that we have already acquired the land for that project, we have done the engineering and we have signed the contracts for the purchase of the equipment, which are being right now constructed in Switzerland, the EPC contractors which are in the process of being selected; by the end of this month, we should have selected the EPC contractor who will build these projects for us and we should have operations on this expansion during, approximately in the middle of 2014. And then finally, kind of smaller projects are the, what we call the SRT’s, Regional Transportation Systems, which will connect smaller population centers that currently do not have access to our system, so they can’t benefit from natural gas directly. We are at this point discussing with the regulator, what the appropriate tariffs would be consistent, will be... and in the graph we show three of these new systems potentially and we also have two or three additional in the drawing board but until we come to an agreement with the regulator, we will not start investments on those until we make sure that the tariffs that we’re getting for those compensate us for the investments we have to make.

Slide 17: Santiago Pardo

At this point, that is all I have for now, I’ll turn it over to kind of Q&A session.

Operadora Sandra

Thank you. We will now begin the Question and Answer session. If you have a question please press star, then one, on your touch-tone phone. If you wish to be removed from the queue please press the pound sign or the hash key. If you’re using a speakerphone, you may need to pick up the hand set first before pressing the numbers. Once again, if you have a question, please press star, then one, on your touch-tone phone. Standing by for questions.

And once again press star one to ask a question.

At this time we have no questions.

Ok. Well, let's give a minute but I hear no further questions I would just like to thank everybody for the participation, and we look forward to...

Pardon me, Mr. Pardo, we do have a question that has arrived.

We have a question coming from Guillermo Alarcon, from Davivalores.

Please go ahead.

Guillermo Alarcon

Good morning, I would like to know where do you see more growing potential, if you see some specific projects here in Colombia, and I also want to ask if you see some regulatory risk in the gas sector, here in Colombia we have been talking about some changes in electricity. I don't know if in gas we have also some, like some risks related with the regulatory issues. Thank you.

Santiago Pardo

Well, thank you Guillermo. Regarding the first question as I mentioned just a couple of minutes ago, we have two projects we're working on right now in Colombia, which, those two projects will represent investments of approximately US\$300 Million, so that is a nice thing to have. We're looking for new opportunities, and we are looking for new opportunities not only in Colombia, but also outside Colombia. In Colombia, I think the development opportunities will be tied to the growth of demand, and the continuing development of the sector, so to the extent that there are either new fields found that we could be interconnected, we will have opportunities to the extent that demand will continue to grow, we will continue to make organic increases to our system, to keep up the pace for demand, and as you know the government has also, the regulator since last year has talked about investments and reliability to the system, the regulations there are not fully developed, but we think there will be opportunities there, and finally I would say that in Colombia there's a longer term project we see for example, when the expansion of the Barrancabermeja refinery is finished, that will require significant additional volumes of natural gas, approximately 100 Million Cubic feet a day additional and so we will have to figure out with them, with Ecopetrol, how to bring back gas to Barrancabermeja for the refinery. So that's kind of a few years on the road. But still something we are keeping, we are keeping a close eye on.

And terms of internationally, Peru is a country where we already have investments, we are continuing the development of the Contugas project in Peru, which we own 25% of, and we'll also continue to look for further investment opportunities in the gas sector in Peru, which we expect to show significant growth over the next few years and finally, the other countries that we are focusing our efforts in terms of additional growth is Mexico, where we see investment opportunities related to basically new projects that are being brought today by either, Comision Federal de Electricidad, CFE or Bemex. So, we see a potential for growth there and we're focusing on the Mexican market as well.

In terms of the second part of your question, the regulatory risk, I think the good news for us is we just went through our regulatory review process, so we have our tariffs in place for a period of five years, so we have flexibility and stability for those five years, of course there will be discussions with the regulator with regards to methodology, etc, etc, potentially for the next regulatory cycle, which should begin in 2017, or the tariff should be ...should end in 2017, that is the next tariff period, although our experience has shown us that the regulator has taken longer than the five years, so it could be 2018 or 2019, but we have a good dialog with them and you know that the way the regulation works here in Colombia, there is sort of a dialog over the solutions and all the new regulations are put up for the comments of all the participants in the industry, so we think that that will continue and we're comfortable; there might be changes but we are comfortable with the fact that the regulator understands the stability and profitability of the transportation factors and it's not necessary to have a robust natural gas industry in Colombia that will not lead us to shortages of gas or electricity. So, I think that is something well understood and stability and regulations have been something that Colombia has been very strong in, so yes, there could be some changes, there's going to be changes in the way for example Natural gas is bought, so over the short term, but we don't think that those will have a major effect on our business.

Thank you.

Operadora Sandra

And once again if you would like to ask a question, please press star, then one on your touch-tone phone.

And at this time we have no additional questions.

Slide 18: Santiago Pardo

Ok. Ok Sandra thank you and thank you to everybody participating in the conference call, as I've said previously, I look forward to maintain a dialog over the next two quarters, the presentation is already on the website and as well as a transcript of the thing and also our financial result should already be there on the website and should you have any further questions, please be sure to contact our Investors relation team and we would make sure that we'll get you the answers at the questions that you need.

So, with that, I say good-bye. Thank you.

Operadora Sandra

Thank you ladies and gentleman. This concludes today's conference. Thank you for participating, you may now disconnect.

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