CONFERENCE CALL TEXT

TGI & Cálidda Results and key developments 3Q 13

Operator - Hilda:
Welcome to the Earnings Conference Call TGI and Calidda results and Key Developments Third Quarter 2013. My name is Hilda and I will be your operator for today. At this time all participants are in a listen only mode. Please note that this conference is being recorded. This earnings call is divided in two parts. First we will have with us Mr. Santiago Pardo, Chief Financial Officer of TGI, presenting TGI´s Third Quarter 2013 results and key developments. And then we will have with us Mr. Adolfo Heeren, Calidda´s General Manager presenting Calidda´s Third Quarter 2013 Results and Key Developments. I will now turn the call over to Mr. Santiago Pardo. Mr. Pardo, you may begin.

Santiago Pardo:
Thank you, good morning to everybody and thanks for your participation in the call. I would like to start the presentation of our third quarter results showing obviously our, giving you a little bit of background on the company, I'll be brief on this, because most of you guys already are very familiar with our company, but just to put you in context, TGI is the largest gas transportation company in Colombia, we own approximately 51% of the infrastructure for transportation of natural gas in Colombia, and this is a network of approximately 4.000 Km. We serve the area that has 70% of the population and 82% of Colombia's GDP and we own our assets, we are not a concession and we own 25% interest in Contugas, which is a company in Peru dedicated to the transportation and distribution of Natural Gas and in which our parent company EEB is 25% owner as well and we are interconnected also to the all the main producing basins in, for natural gas in Colombia which gives us great flexibility and strategic advantages. In terms of our shareholders, you all know, EEB is our main shareholder with 68% and our minority shareholders are CBCI, a private equity fund, with 32%.

Moving on to our financial and operating highlights, let's start with our operating highlights, I think I want to highlight in this piece that we are having a very good year in terms of our operations, you see from the graph starting on the top left, our network length has remained stable as we have not put into operation any new extensions during this year; that was as expected, both our network length and transportation capacity remained stable. However we have continued to increase our contracted capacity and we had 604 MCFD contracted as of December 2012, by September we have increased up to 630 MCFD of our capacity and this is actually what drives our earnings and our income, and so this has enabled us to post very strong results in this year.

Also in terms of transported volume we've seen increases in the transported volume this year, we've transported in average 446 MCFD and in fact, during the month of September, we had, I believe it was on September 20th, we had a record of transportation in our system which is 570 MCFD we transported on that day, which is our record, and that is, I think, goes to, I guess, the very strong demand for natural gas that we've seen this year in Colombia, driven not only by distribution companies but also to great extent we've seen the significant dispatch of power producers in the interior of the country that has resulted in higher transported volumes for us.

Finally, you can see, we've been able to reduce gas losses from, by almost half, from 0.5 in 2012 to 0.24 in 2013, and this is something we're quite proud of and actually results in a more efficient operation for us.

Moving on to the following slide, we have a 48% Market Share in terms of gas transportation in Colombia and the other main companies in our industry in Colombia, is basically Promigas, which is the transportation company in the north coast of Colombia, they're not actually a competitor of us, their region of operation is completely separate from ours and then, there's a few smaller transportation companies that account for about 15% of the market.

In terms of our sales this year, you know, most of our revenues are derived from long, from capacity charges that are not based on volume transported, so that gives us great stability, and we do have some proportion of our income that comes from variable charges that move with the volume that gives us some upside when we have situations like we have this year, but at the end of the day, approximately 83% of our regular revenues are from fixed tariffs.

We, all of our revenues, all of our contracts that we have signed, are firm contracts, they are not interruptible contracts, and they have an average life of 8.3 years. In terms of the revenues breakdown, what we have seen is a significant increase in the distribution sector, the distribution companies represent now 58% of our sales, that is increased by about 5% from their participation at same point in time last year and this companies have very stable consumption pattern with very minimum seasonality, as there are no marked seasons in Colombia, so this results in very stable consumption; the refining sector is 11%, also very stable consumption pattern and the vehicle sector is about 7% also with very stable consumption patterns.

In terms of who are our main clients, our three main clients continue to be in order Gas Natural, which is the distribution company in the Bogotá area, Ecopetrol, the national oil company and Gases de Occidente, which is the distribution company in the Cali area, those three are our main customers, and EPM and Isagen, also are very important customers for us, EPM is obviously the utility company in Medellin, and Isagen is the third largest power producer in the country.

Slide 10 shows the profile of our transportation contracts, which, as I mentioned before, have an average life of 8.3 years. We have significant maturities coming up in December 2020, but as I believe we have mentioned in previous calls, we are not very concerned of our re-contracting risk given that most of our customers, all of our customers need their gas to operate their underline businesses an in fact we expect that most of our customers will want to renew their contracts well in advance, and by this I mean a couple of years in advance of their maturity in order to make sure that they keep the capacity they have in the pipelines right now.

Moving on to slide 11, this shows our main financial results. And as you can see in terms of revenues, we, measured in US Dollars, we have grown to US$450 Million in revenues in the last 12 months up to September 2013, this compared to US$391 Million in the year 2012. The main drivers of this increase in revenues are threefold, I would say. One, we have a tariff reset in, it started in January 2013, this is a result of the review of our tariffs by our regulators, so we have new tariffs which are on average 10% higher than the tariffs that were in place in the prior regulatory cycle and these tariffs will be enforced for at least five years if not more; we actually expect that they will be enforced for at least six to seven years because the regulatory cycles tend to, although in theory they are five years, they tend to slip and are more like six or seven years. So first we have the higher tariffs, second during 2012, the second half of 2012, the Cusiana Phase II Project came into operations, and as a result of that, we're seeing for 2013 a full year with the benefit of that new project in operation, vis-à-vis 2012 which only had less than half of the year with the project in operation. And third as you saw previously, we have increased our contracted capacity from 604 MCFD to 630 MCFD, that also gives us and additional boost. And finally, the additional volumes that we are moving, also resulted in higher revenues for us, although as I mentioned previously, variable revenues are not the most important source of revenue we have.

This good performance, in terms of, in the revenue side obviously traduces itself in terms of EBITDA, we, as of the last 12 months of September, we are in US$350 Million of EBITDA vs. US$289 for the full year 2012, this is well above our forecast,. We have forecasted initially for 2013 and EBITDA OF US$224Million for the whole year, so we are already about 8% above that, in the last 12 months as of September, and obviously we would expect that by the end of the year, we would be at level similar at to where we are in September.

And finally, in terms of cash flow generation, measured as Funds from Operation, we are at US$244 Million which is a very significant increase from 2012, almost double. Now, part of the increase is a result of the fact that in 2012 we did the refinancing of our debt, and so, we had first of all, a few months with higher interests costs, and then we had the cost of the premium we had to pay for the repurchase of our bonds, which reduced our FFO, so those things were not present in 2012, not present in 2013, and so that makes the FFO for the last 12 months raise significantly.

Finally, in terms of CAPEX, we have them, CAPEX, for the first nine months of the year, of US$28 Million, that's well below what we had forecasted. A couple of the expansion projects in which we are working on, particularly Cusiana – Apiay - San Fernando, has not moved as quickly as we have expected initially, and so that has resulted in a delay of the CAPEX, and that we would be able to see in the next few slides.

Moving on to our Debt metrics, in terms of Total Debt to EBITDA, that's including both our senior and subordinated debt, as well as the Mark to Market Hedging operations, our Debt to EBITDA is at 3.6 times and if we look at Net Debt to EBITDA, we are at 2.77 times. These are indicators which are quite robust and which give us great financial flexibility. In terms of Senior Debt to EBITDA we are at 2.5 times, and if we look at Senior Net Debt to EBITDA we are at 1.68 times. Interest coverage is approaching almost 6 times.

Finally, in terms of things that we want to highlight, we want to highlight that in terms, there were a few important recent regulatory decisions in Colombia in terms of the natural gas market, the first one, I'll go I think that the first one is the CREG resolution 088 of 2013 which basically liberated the natural gas prices in the North of the country. The, previously, the natural gas produced in the Ballena fields in La Guajira, was regulated by the government and the price was around US$6, the government wants to continue to promote natural gas as a fuel, and there was a significant differential between the prices in Ballena and the prices in the middle of the country, and so they took the decision to liberate the gas prices there, and then through the resolution 089 they established regulation for the market of natural gas, meaning mostly the natural gas molecules, the actual gas, and so they went through definitions of structural arrangements, and actually that resolution basically requires that there'd be a process of negotiation of natural gas contracts in the month of October of 2013, so that all parties that are interested in purchasing natural gas, including ourselves, could negotiate our natural gas contracts for the next few years with the producers, that process has already taken place and we think that is quite positive for the development of market because the prices that most the consumers of gas have been able to obtain, have been very advantageous and we think will result in growth in the demand of natural gas in the long term.

And finally this resolution 089 also defined in terms of the gas market, including transportation, they put in place what they called a "Gestor del Mercado", which is an entity that is going to kind of run the market for natural gas, much as XM does today in the electricity market in Colombia, so there's going to be this entity, that's going to be, if you will, like the clearing house and is going to run the market for both the natural gas physical molecules as well as transportation so we can generate more flexibility in the market and at the end of the day, more growth. And then there is the decree 2100, which has more to do with reliability and to great extent will probably result in new business opportunities for companies in our sector.

Finally, I want to spend a few minutes in terms of our expense and projects, telling you about how those are progressing and first of all, the La Sabana compression plant, this project is on schedule, we are already doing work on the site, and expect to have a completion of the project and operations in August 2014. Cusiana –Apiay-San Fernando which is the project with Ecopetrol, we have actually just finished the basic engineering work for that and are in discussions with Ecopetrol, regarding the gas transportation contracts that we are going to sign to make this project viable; once we do that, which we expect will be either done in the first quarter of next year, then we will move to detailed engineering and selection of contractors to do the actual work.

Moving on to the next, and this would be expected to start operations in, probably in either late 2015 or more likely in 2016.

Next, we have the following, we have smaller projects that are not less important, first we are thinking about expanding one segment of the pipe that is called La Belleza-Vasconia, which has become basically a bottle neck that, if we are able by sending about a very modest amount of money, US$14 Million we would expand capacity to 230 MCFD in that segment, and that would enable us to basically sell some excess capacity in other segments of our pipe, where we are not currently able to sell because of these bottle necks. So this US$14 Million project, could generate as much as US$4 or US$5 Million of additional revenue per year once is completed, and this is something we can probably complete either on late 2014 or early 2015.

Then, we, there is a mistake in the next one, that should not be La Belleza-Vasconia expansion, but that's a project to change the, to do some investments to allow us to reverse flow in the Ballena-Barrancabermeja Pipeline so by spending about US$20 Million will be able to have the flexibility to move gas on the Ballena-Barrancabermeja pipeline either north to south, which is the direction it's coming right now, and by sending this US$20 Million, will be able to move gas to move from south to north and this will provide greater flexibility to the system and we think it's going to be quite interesting for some of our customers. Finally, we have the Eje Cafetero branches, which we talked about in previous calls, the cost of this is about US$28 Million and then we are spending about US$5 Million to make some adjustments to infrastructure to allow us to receive gas from Venezuela. The Venezuelan government announced, I believe a couple of months ago, that they would sometime in 2014 or 2015, start exporting gas into Colombia, right now Colombia exports gas into Venezuela, and this CAPEX that we are going to spend, will allow us to make the adjustments to be able to receive that gas.

So, that is our presentation. All of these projects finally, are fully financed, we do not need to issue any additional debt to undertake these projects, and we are actually quite happy with, we hope you would be too, with the performance of the company in this year 2013, and have good expectations for the following quarters. With that, I'll turn it over to questions and answers.

Operator - Hilda:
Thank you. We will now address your questions. 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 sing or the hash key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again if you have a question, please press star and then one on your touch-tone phone.

Santiago Pardo:
If there are no questions, I guess I'd just like to thank everybody for their time and also thank you, to thank everybody for their continued support of our company.

Operator Hilda:
Thank you Mr. Pardo. And now I would like to turn the call over to Mr. Adolfo Heeren, Calidda's General Manager. Mr. Heeren, you may begin.

Adolfo Heeren:
Thank you. Good morning to everybody. We are going to start our results and significant development of our third quarter of 2013 from Calidda.

The first slide we are going to show are the significant developments that we have in the last quarter, first we want to mention that the construction of the main grid expansion project was completed in May, increasing Calidda's natural gas distribution system capacity from 255 MCFD to 420. We had the final approval by the government to start the operation by August. So right now the whole system is running.

Second important or significant development for last quarter was that Calidda 5 year investment plant, this is for the period 2013 to 2018 was submitted to the regulatory entity, that is OSINERGMIN, in July and the last proposal was submitted in October, and we expect to have the approval by May 2014, that's the regular period for this process, and after that approval we're going to have the new tariffs scheme for the year 2014 to 2017.

Another important issue, or another important development for this last quarter was that in August the Peruvian government approved the provision to improve the mass operation of natural gas, and I want to mention it here because, under this approval were included a couple of benefits for the company. The first one is that we can continue using the promotional discount system, for up to 10.000 household clients per month. There is a phase here, that starting with the number we had at August, increasing up to 10.000 by next year, actually we are, last month we achieved 7.500 installations, so we are pretty close to achieve the 10.000 in the next months.

And the second point is it was approved that to require building internal installations in all new constructions of multifamily buildings. The idea is that the government wants to facilitate natural gas supply and distribution in all the districts were natural gas distribution exists or may exist.

Moving to the next slide, we have the operational performance for last quarter, we can see that our network in the first graph is increasing over Q3, Calidda's distribution network was expanded by 237 km, reaching a total of almost 3100 Km.

At the end of Q3 Calidda's high pressure system will build 17 km of high pressure network and 572 Km of our secondary network. All this network helps us to have more clients, in new districts in Lima. Additionally part of this pressure also serves to connect industrial customers.

In terms of capital expenditures, in Q3 Calidda invested, for the whole year and the Q3 Calidda invested US$61 Million, on the expansion of our distribution network. We expect under our investment plan proposal for 2014 to 2018, to invest close to US$500 Million, for that whole period, and that's part of what we presented to OSINERGMIN as our investment plan for that period.

These investments will help us to increase and to reach more than 10.000 customers per month, as I mentioned before, aligned with the government proposal and scheme to benefit more households in Lima.

Moving to the next slide we have the commercial performance. In the first part we have the power generators, we included one more in Q3 that was Fenix Power, a thermo electrical plant, with more than 500 MW, was connected on August, and we expect that they'll start operations the next month, but they are going to consume us close to 82 MCFD once they are in full operation. We expect fully operation for them for next year.

In the case of the industrial segment, we have in the last month, 21 new industry plants were connected, and the average monthly volume consumption increased in 5% compared to the same period of 2012. In the case of the NGV, that is Natural Gas for cars, we have ten new service stations, that were joined to Calidda's distribution system, but more important is that right now we have 155.000 converted vehicles using natural gas in the city of Lima. This represent more than 50% of all the taxi that we have in Lima using natural gas.

On the other hand, something that we are working with the Lima municipality is to accelerate the migration of all the Lima Public Bus Transportation system to natural gas. Actually the principal buses of the municipality of Lima are using natural gas, but we are looking for almost all the buses of the municipality that they move to natural gas in the near future.

Finally in the residential and commercial side, with the last quarter we had 16.000 new customers on that sector, I think this is probably the best quarter that we have during the whole Calidda operation, since we started, we have two records during that period, we can say that in October has a new one, so we are growing and growing this sector month by month. Actually we have close to 140.000 customers using natural gas in the residential and commercial sector.

Moving to the next slide, in the commercial performance is important to mention that our penetration rate, increased over the year, and at Q3 we have 47% of penetration rate. Considering that the first year we had a rate that is close to 20- 28%, and we have here an average, we can see that the last month we are having performance above 50 or 60% in some cases, that generates that we increased the whole average of that whole network. Our idea is to maintain this trend and continue growing the penetration rate so we can be more efficient in our network and in our CAPEX.

Moving to the next slide, we have the accumulated volume consumption by client segment, we can see in the first part the power generators, we have a decrease of 8%, the main reason is that two main power generators moved to a combined cycle, that generates that they need less gas to operate. And here for us is important that we have a take or pay contract with them, so really they pay us no matter if they decrease their volume the same amount. So, here in the case of power generators the whole segment is under a take or pay contract, so the impact in the volume is no significant as can be in other segments that we don't have take or pay contracts.

In the case of the industrial, we increased 5%, and we have as mentioned 21 more industries, but at the same time current industries are using more and more gas, and as part of the Peruvian economy growth year by year, they are increasing the production, therefore they are using more gas. In the case of the stations, as I mentioned, we have almost 155.000 cars using natural gas, and increase of converted cars to natural gas are increasing significantly every year, as you can see in this graph the volume also is increasing a lot, in the last year it was at the average of 37%, we compared Q3 2013 to 2012, we can see a growth of 13%, and the main reason here is that as we are almost at 60, 65% of the whole taxi capacities or number of taxis that we have in Lima, the average of growth is going to decrease a little bit also in the next year, and for that reason we are looking for new segments, as I mentioned, as we mentioned like the public transportation that is handled by the Lima Municipality, and also we are looking for different companies that have bus transportation across Lima and outside Lima.

Finally, in the residential and commercial side, we can see a significant growth in the last four years, with an average of 52% per year, and in the last quarter we can see a 30% average growth compared to 2012. We expect that we will continue in that trend for the next, in the next quarters, as I mentioned we are doing new records in the last months, and we expect to do more records for the following months.

Moving to the next slide we have the financial performance and key metrics. Revenues are growing year by year in an average rate of 32% and in the last quarter compared to 2012 a 12%, this is a consequence of the volume as I mentioned, we are growing all the volume, and you can see here that the power generators impact is not so significant and we are growing a lot. Also is important to mention as you can see in the right side of this slide, how the revenue is distributed by segment, how (audio interrupted), less risk in some way because we have all of our segments more close to each other, in the first year we can see that we have more volume or more revenue coming from a particular segment, but year to year we are having a better split, minimizing the risk and having more income from all the different segments.

Also, as we have different tariffs for each segment, in the case of the power generators are the lowest one and the residential are the biggest one unit margin, our focus you can see that we are growing more and more the residential and commercial side, that is the one that generates more margin. But also is important for us to increase the installation services, that also is growing a lot, if compared to the first years, 2009 for example, and that generates a significant margin for us.

We can see the revenues in the bottom of the slide, and the EBITDA, we can see that EBITDA is growing also year for year, in the last quarter compared to 2012, we increased from US$48 to US$51 million, we expect to close the year around US$57 to US$58 Million. In the case of the cash, of course you can see we still have a significant cash as part of our bonus and we expect to use all this money as part of our CAPEX program and growth program in the next month and part of next year.

Moving to the next slide we have key metrics. Here we can see, in the case of the EBITDA margin and the EBITDA, how much we are generating, we are, last year we closed at US$64 Million and this year we expect to grow about US$67. Is important to mention that as middle of last year we had a tariff adjustment, that obviously impacted us in terms of the unit margin, but as a consequence of having more and more volume and at the same time having more and more installation services, we can compensate that decrease and even grow in the terms of the EBITDA margin generation.
The EBITDA margin is a little bit low, obviously with that effect, but if you compare to previous years to that adjustment, 2009 and 2010 you can see that we are above the usual margin that we had in the past.

In terms of the interest coverage and the net Debt - EBITDA ratio, you can see obviously the impact in the case of the Net Debt EBITDA ratio of the bonus we just made, we expect to mention to decrease these ratios in the next years, and in the case of the interest coverage of course that we have more, more debt we would want to decrease all of these ratios and as part of our next year plan that we expect

to generate more EBITDA and more Net Income, we expect to reduce hopefully these ratios for the future.
I think this is the last slide, and we pass here to the questions that you can have.

Operator - Hilda:
Thank you. We will now take your questions. If you have a question please press star and then one on your touch-tone phone. If you wish to be removed from the question queue please press the pound sign or the hash key. If you are using a speakerphone, you may need to pick up the handset first before pressing the numbers. Once again if you have a question please press star and then one on your touch-tone phone.
We have a question from Jeff Ulery from AIG. Please go ahead.

Jeff Ulery:
Hello Sir, thank you very much for hosting this call and all the information honest that you've put out, I just have one, I you would like to go back to your slide to your financial statements, so you could walk me through a reconciliation from your operating profit on September 2013, it looks like it was $37.5 Million, and if you can walk to how do we get from there to EBITDA of what it look like you guys said US$67 Million if I read the slide correctly, for LTM? Or I might be confused on your financial statements, I'm not sure, you have put the years ending September 2013, I assume that the last twelve months, I'm not sure, are supposedly year to date number.

Adolfo Heeren:
Yes Jeff, I have the slide here. Is that in the slide we have financial performance last twelve months, LTM, is the last twelve months.

Jeff Ulery:
OK.

Adolfo Heeren:
And, so it's not necessarily the same as that 2013 that we can have or 2012. It's not really the same numbers that is probably one part of the difference, and the second just to clarify, the numbers that we pass through that tool that generates a difference in the numbers.

Jeff Ulery:
Maybe you have a second model put together on your slide 42, where you have EBITDA 51 Million for Q3 2013, is that a year to date number? And if that, maybe we would find back to what you have for your financial statements? Cause I figure, I figure depreciation is something around 14 Million or should come, big numbers here. Is that what that 51 is, is that a year to date 2013 number through the third quarter?

Adolfo Heeren:
Yes, that's the year to date, that's the reason is 51.

Jeff Ulery:
Ok, that's the year to date. So if I take your financial statements and put something in a half, the difference is the depreciation then.

Adolfo Heeren:
And maybe the confusion I can made during the teleconference is that I mentioned that we expect for the year close 67.587, the same number that the last twelve months, that is the mixed roll.

Jeff Ulery:
Ok, ok.

Adolfo Heeren:
But today is, at the end of October we have US$51 Million of EBITDA. At the end of September, sorry.

Jeff Ulery:
Got it. Ok. I appreciate it. Thank you very much for the answer.

Operator - Hilda:
Once again for any questions, please press star one on your touch-tone phone.

Operator - Hilda:
We have a question from Erin Holfer, from Santander. Please go ahead.

Erin Holfer:
Good morning and we very much do appreciate this call. I'm sorry if I missed this, because I may have come late to the call, but what are your projections, I mean, what are your assumptions for how many residential customers you're likely to have in 2014. What's your target?

Adolfo Heeren:
Thank you for the question. As part of our target for next year we can mention, and this is also part that of what we included in the proposal for that next period target, is to have above 100.000 new customers for year. Probably, we are going to move next year to that ratio, that's our target, 100.000 customers for next year. Although we expect to pass that target, but we can be just around that number for next year.

Erin Holfer:
Ok. And I'm sorry, this is a dumb question but are these customers coming from the same areas of Lima and Callao that you're already in or are you entering new neighborhoods?

Adolfo Heeren:
No, we have our concession for that Lima Department and Callao. They are coming from Lima City that are the same place that we are actually are working and our actual customers. Just for your information, Lima City is one of the 30 biggest cities in the world, with almost 8 million persons, so we have a potential market of 1.4 million households in Lima.

Erin Holfer:
Ok, thank you very much.

Operator - Hilda:
Thank you. At this moment we are no showing further questions. I will turn the call back over to you for any closing remarks.

Adolfo Heeren:
We want to thank all the participants in the teleconference, and we are posting all this information in our webpage, in case you have any further questions during the next days or weeks, you can send us an e-mail, we have all our address emails on that webpage, you can call us and in case you're visiting Lima in the near future we are more than happy to be meeting with you and clarify any doubt or question that you may have. Many thanks.

Operator - Hilda:
Thank you. Ladies and gentlemen, this concludes today's conference call. We thank you for your participation. You may now disconnect.