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Research Update:

Transportadora de Gas Internacional S.A. E.S.P. 'BB' Ratings Affirmed; Outlook Remains Stable

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Overview

- We believe that the company's network expansion through the new Cusiana and Ballena projects will improve its key financial metrics in 2011.
- We are affirming our 'BB' ratings, including the corporate credit rating, on the company.
- We expect TGI to maintain its current business position as Colombia's major natural gas transportation network and increase its cash flow generation as the new projects are fully consolidated.

Rating Action

On June 21, 2011, Standard & Poor's Ratings Services affirmed its 'BB' ratings, including the corporate credit rating, on Transportadora de Gas Internacional S.A. E.S.P. (TGI). The outlook is stable.

Rationale

The 'BB' corporate credit rating on TGI reflects its aggressive financial risk profile and its relatively concentrated customer mix, with the top-five customers representing about 80% of its total revenues. Also, we believe that geographic and market concentration limits TGI's competitive position, partially constraining its business profile. Support to TGI from parent company Empresa de Energía de Bogotá S.A. E.S.P. (EEB; BB+/Stable), the company's projected stable and predictable cash flow generation for the next 10 years, and its 51% market share in gas transportation in Colombia partially offset these weaknesses.

The ratings further incorporate Colombia's ongoing investments in gas infrastructure; favorable natural gas consumption trends that support long-term demand growth; and the benefit of operating in a proven and stable regulatory framework.

Colombia-based EEB owns the majority of TGI. EEB is an integrated energy company with interests in the natural gas and electricity sectors and operations in Colombia, Peru, and Guatemala, holding a 66.9% controlling share in TGI. In our view, EEB will continue to support TGI given the subsidiary's full integration into EEB's business strategy and financial polices, as evidenced by the financial support for its network expansion projects. Also, TGI contributed approximately 60% of EEB's total 2010 revenues.

The start of operations at the Ballena and Cusiana Phase I expansions (in

September 2010 and January 2011, respectively) had a positive effect on the company's financial results in first-quarter 2011. This was a major step forward in TGI's strategy of expanding its transportation system by around 56%. The remaining expansion project is Cusiana Phase II, which we expect to become operational before the end of 2011.

Also, after TGI's $400 million capitalization in 2010, Citi Venture Capital International (CVCI) became the second-most-important shareholder, with a 31.9% stake in the company. EEB remains the controlling shareholder, with 66.7%. TGI used the capital injection to pay in full the debt of the special-purpose vehicle it established to finance the Cusiana expansion, and earmarked the remainder for continuing financing of the company's expansion plan. This payment enables TGI to consolidate all assets and the revenue the Cusiana expansion generates in the company's financial statements.

TGI's key financial indicators show an aggressive financial profile, in our view. However, the company's ability to generate stable and predictable revenues through long-term gas transportation service contracts supports this aggressiveness. The company derives about 80% of its revenue base from fixed-capacity payments with an average maturity of 10 years. For the 12 months ended March 31, 2011, the company posted total debt-to-capital, total debt-to-EBITDA, and funds from operations (FFO)-to-total debt ratios of 47%, 4.7x, and 5.2%, respectively. Under our base-case scenario, we believe that the company will post a total debt-to-EBITDA ratio of about 4.0x in 2011 and FFO to total debt of 12.6%, on expected cash flow generation growth, but that these will remain weaker than peers'.

Liquidity

As of March 31, 2011, TGI had cash and short-term investments of approximately $377 million, which compares favorably with short-term debt of $22.2 million. Although we expect that the increase in capital expenditure requirements during 2011 for the completion of the Ballena and Cusina projects will result in negative FOCF for the year, we also believe the company's cash reserves, and potential support from EEB, if required, will support its liquidity position.

The company has adequate headroom under covenants on its senior unsecured notes due 2017. These stipulate a total debt-to-EBITDA ratio of 4.8x and EBITDA interest coverage of 1.7x--according to the methodology employed for calculating the covenants in the offering memorandum.

Outlook

The stable outlook reflects our expectation that TGI's aggressive financial profile will tend to improve as the company gradually deleverages its capital structure and increases its cash flow generation. A sustained improvement in the company's EBITDA margins and key financial ratios could lead to a positive rating action. A potential upgrade of EEB, coupled with our assessment that the support from EEB to TGI still holds, could also lead to an upgrade. Failure to reach the expected financial metrics during 2011, or higher-than-expected leverage, may, however, prompt a negative rating action.

Related Criteria And Research

2008 Corporate Criteria: Our Rating Process, April 15, 2008

Ratings List

Ratings Affirmed

Transportadora de Gas Internacional S. A. E.S.P.

Corporate Credit Rating	BB/Stable/--
Senior Unsecured	BB

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