

### Research Update:

## Transportadora de Gas Internacional Outlook Revised To Stable From Negative; 'BB' Corporate Credit Rating Affirmed

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## Overview

- Despite TGI's weaker-than-expected financial performance, we expect that future support would be forthcoming from parent company EEB.
- We are revising the outlook on TGI to stable from negative, while affirming our ratings, including the 'BB' credit rating, on the company.
- The stable outlook reflects our expectation that TGI will maintain a stable business position in Colombia's natural gas transportation sector.

## Rating Action

On June 1, 2010, Standard & Poor's Ratings Services revised its outlook on Transportadora de Gas Internacional S.A. E.S.P. (TGI) to stable from negative. At the same time, we affirmed our ratings, including the 'BB' corporate credit rating, on the company.

## Rationale

The outlook revision reflects our expectation that, despite TGI's weaker-than-expected financial performance, support from parent company Empresa de Energía de Bogotá S.A. E.S.P. (EEB; BB+/Stable/--), as evidenced by its support in the financing of TGI's expansion projects, will continue.

TGI's ratings reflect its aggressive financial profile resulting from the acquisition of Ecogas E.S.P.'s assets, contracts, and gas transportation system; and its relatively concentrated customer mix, with the top-five customers representing about 80% of its total revenues.

TGI's stable and predictable cash flow generation projected for the next 10 years as a result of its status as gas transporter, and its ownership of the longest pipelines in Colombia (totaling 3,529 kilometers), partially offset these weaknesses.

The ratings also reflect TGI's competitive advantage as the only system with access to Colombia's Ballena and Cusiana gas fields, and a natural monopoly in its markets. The ratings further incorporate Colombia's promising 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.

In our opinion, the company's ability to generate most of its revenue through long-term gas transportation service contracts, of which about 80% are based on fixed-capacity charge payments regardless of the amount of gas transported, helps its financial profile. TGI's exposure to currency risk is

partly offset by approximately 60% of its revenues being linked to the U.S. dollar; also, the company has used derivative instruments to hedge part of its principal foreign-exchange exposure since the beginning of 2009. The company's coupon payments are completely hedged.

TGI's aggressive financial profile is reflected in its key financial indicators. For the 12 months ended March 31, 2010, the company posted total debt-to-capital, total debt-to-EBITDA, and funds from operations-to-total debt ratios of 63.1%, 5.5x, and 5.5%, respectively. We don't expect the company will take on additional debt in the coming years; however, we assume a total debt-to-EBITDA ratio of about 5.7x in 2010, weaker than our original forecast, which assumed leverage going to less than 5.0x by 2010.

## Liquidity

TGI's liquidity is adequate. As of March 31, 2010, the company had cash and short-term investments of approximately \$89.9 million, which compares favorably with short-term debt of \$12.5 million.

We expect a negative free operating cash flow (FOCF) of approximately \$630 million because capital expenditures, committed mainly for the Cusiana project, will reach approximately \$509 million. TGI intends to finance this project through capitalization during 2010, an equity sale of approximately 35.4% of its stake, and cash on hand.

The company has adequate covenant headroom under covenants on its senior unsecured notes due 2017, stipulating total debt to EBITDA of 4.8x and EBITDA interest coverage of 1.7x--according to the methodology for the calculation of the covenants in the offering memorandum.

## Outlook

The stable outlook reflects our expectation that TGI will maintain a stable business position in Colombia's natural gas transportation sector, with growth potential for natural gas consumption in the residential, motor vehicles, and thermoelectric power generation segments, and from national economic expansion. A sustained improvement in the company's EBITDA margins and financial ratios could lead to a positive rating action. Failure to generate FOCF during 2011 from its Cusiana and Ballena projects, or higher-than-expected capital expenditures, may prompt a negative rating action.

## Related Criteria And Research

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

## Ratings List

Ratings Affirmed; Outlook Action

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

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

Complete ratings information is available to RatingsDirect on the Global Credit Portal subscribers at [www.globalcreditportal.com](http://www.globalcreditportal.com) and RatingsDirect subscribers at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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