

Operator: Welcome to the TGI and Cálidda Conference Call second quarter 2018. First we'll have Cálidda's Conference and Q&A then TGI's Conference and Q&A. My name is Ana and I will be your operator for today's call.

At this time all participants are in listen only mode. Later we will conduct a question and answer session, during the question and answer session if you have a question please press "star" then "1" on your touch tone phone.

Please notice that this Conference is being recorded, I would now turn the call over to Mr. Martín Mejía CFO Cálidda. Mr. Mejía you may begin.

Mr. Mejía: Well, good morning everyone and thank you for joining us today, on behalf of the company I would like to welcome to the Cálidda's second quarter 2018 results call.

My name is Martín Mejía and I am the Chief Financial Officer of Cálidda. Well, I would like to start this presentation giving you an overview of our business achievements; first of all I would like to mention that during this first semester of 2018, and according to the schedule established by the Peruvian authorities, we have concluded with our tariff process review, having incorporated in our tariff around 320 million dollars in additional investments to expand our distribution network in almost 3,500 new kilometers during the next four years.

This new structure will allow us to connect more than 300,000 new clients and to reach more than 1 million clients in the year 2022.

It is important to mention that despite our average distribution tariff has been increased 12%, the final tariff applied to our clients which consider also the gas and the transportation tariff has been increased in only 2% as average, maintaining our difference with the other alternative fuels between 37 and 70% depending on the client which you compare.

Regarding our metrics, we concluded this first semester with better than expected results, having connected more than 78,000 new customers through our distribution network, showing an increase of 24% comparing to the first semester of 2017.

Also I want to share with you the important progress that Cálidda has made with the implementation of our business strategy by defining the focus of our new commercial approach, we have identified our different potential markets and we are developing energy driving solutions according to each market needs.

A proof of this progress is that we have sold almost 15,000 domestic gas appliances in 2017, and only in the first semester of 2018 we have sells for almost 25,000 appliances.

So, after this introduction please follow me on page 5 to show you some of the highlight numbers obtained in this first semester of 2018.

Well, as you may see in the slide, on the bottom of the slide you will find two charts which contain our key operational and financial results as of the second quarter 2018 compared with the second quarter 2017.

Regarding these key operational results, as of June 2018 we reached around 655,000 clients, adding more than 153,000 clients since in the end of second quarter 2017. This means a 31% increase in our clients base over the past 12 months.

Taking in consideration this additional number of clients, the invoiced volume increased 2% compared to the second quarter 2017 as to a total of 773 million cubic feet per day.

In the case of our network length, it reached a total of 8,926 kilometers of new pipeline structure, which means an increase of 1,015 kilometers in twelve months.

Regarding our financial results, which are the second chart on the bottom right, we obtained a total of 302 million dollars in revenues, also total adjusted revenues which are our revenues less pass/through concepts, reached a total of 123 million dollars. Both when compared to second quarter 2017 results had an increment of 6% and 11% respectively.

Meanwhile the EBITDA is around 74 million dollars, which represents an increase of 11% mainly due to higher distribution revenues, due to a greater invoiced volume and the increment of the approved tariff by Osinergmin since the beginning of May.

Well, I will now hand over to Miss Ana Bazan in order to continue with this presentation, with the detail of the commercial and operational results of Cálidda.

Thanks.

Ms. Bazan: Thank you Martín, we would go to the presentation, in the following slide, page 7; you will find our commercial performance, at first you can see the development of our client base.

Regarding the power generation segment, Cálidda has connected 22 clients, out of 3 were connected to Cálidda distribution system during the last twelve months.

About the industrial segment, Cálidda reached 596 industrial clients, which reflects our steady growth, out of 44 clients were connected to Cálidda distribution system in the last twelve months.

In the case of NGV segment, 14 NGV stations joined our distribution system during the last twelve months, reaching a total of 265 stations.

It is important to mention that NGV stations supply gas to more than 179,000 vehicles in the city of Lima and Callao.

As of the second quarter of 2018 Cálidda has connected more than 654,000 clients from the residential segment in 22 districts within Lima and Callao, out of more 152,000 were connected to Cálidda distribution system during the last twelve months.

We have also connected 8,000 commercial clients out of which more than 1400 clients were connected during the last twelve months.

As it was mentioned in a previous conference call, this last year most of the new residential clients have benefited by two subsidies established by the Peruvian government, increasing access to natural gas in Peru, covering up to 100% of the connection cost which includes the Promotional Discount and the Bonogas.

Up to 70% of the households have connections subsidy.

Please follow me to the next slide to see Cálidda historic invoiced volume as of the second quarter of 2018.

As shown in the graphics, second quarter 2018 invoiced volume reached a total of 773 million cubic feet per day which is 16 million cubic feet per day more than invoiced in the second quarter of 2017.

It's important to mention that the 80% of the total invoiced volume correspond to take-or-pay contracts which minimize the impact of volume volatility derived from the seasonal effect on volume demand from the Power Generation and Industrial segment.

Moving on to the next slide, you will find our invoiced volume breakdown by client segment in four charts, in terms of growth percentage, over the second quarter 2018, the most dynamic segment was the Residential and Commercial sector in which the invoiced volume increased by 22% explained by the successful addition of 147,000 customers in the last twelve months.

As well, the NGV stations segment has an upward trend of 6% in comparison with the second quarter of 2017.

Regarding the industrial segment, it had an increase of 7% % in comparison with the same period. And the power generation segment maintains a stable volume.

The next slide present our operational performance, as you can see in the first graph to the left, Cálidda's distribution system reached an extension of 8,926 kilometers of pipelines underground, out of which 577 kilometers were constructed during the last semester.

We constructed 18 kilometers of steel high pressure network and 559 kilometers of polyethylene low pressure pipelines network over the same period.

In the second chart you will find Cálidda's network efficiency in terms of its penetration rate, which is calculated by quantifying the connected clients over the number of potential clients located in front of Cálidda's network.

This efficiency ratio has increased to 74% in total, resulting in an 11% increment compared to the second quarter 2017.

We have a total of 886,000 potential clients, out of which more than 655,000 are currently connected to our gas distribution system.

As a reminder, our concession area has more than 2.5 million households.

Please follow me to the next slide, which presents the distribution supply and transportation capacity of Cálidda. As you may see in the first chart at the left, during the first semester of 2018 the volume of natural gas transported through our distribution network was 289 million cubic feet per day, which represents 69% of the total capacity of our distribution network within city gates and Ventanilla which is 420 million cubic feet per day.

From this distributed volume, 156 million cubic feet per day correspond to our regulated clients, which are clients who have contracted for Cálidda the supply of natural gas, the transportation and the distribution services.

This volume compared to the gas supply and gas transportation contracted by Cálidda with Plus Petrol and TGP represents only around 68% and 59% of the total contracted volume and capacity respectively.

We also have independent clients located in the north and the south of the city gates at Lurín, which has contracted with Cálidda only the distribution service and consumed 203 million cubic feet per day of Cálidda's capacity during the last semester.

These independent clients are mainly large power generators with take-or-pay contracts.

In total, as of second quarter 2018, Cálidda's distributed volume amounted for 492 million cubic feet per day, in contrast of the 773 million cubic feet per day of invoiced volume.

I will now hang over to Mr. Álvaro Roca.

Mr. Roca:

Thank you Ana, next topic is Financial Performance and key metrics which are presented in the next slide; you will find three graphs that represent our invoiced volume, our distribution revenues and our adjusted revenues for the second quarter of 2018.

In the first pie to the left you will see that the residential and commercial segment is only 2% in terms of invoiced volume, however if you see the second pie in the middle; Of the sin terms of distribution revenues this segment represent 13% and in the third pie in the right, the commercial and residential segment represents 37% of our adjusted revenues.

On the other hand, power generation represents 74% of our invoiced volume, segment relevance comes down to 49% in the distribution revenues and then to 33% when analyzing our adjusted revenues.

This shows that the residential and commercial segment and power generation segment are equally important in terms of adjusted revenues, and this allows us to have diversified portfolio.

Other revenues represent 6% of our adjusted revenues, mainly explained by pipeline relocation services and maintenance.

Please follow me to the next slide, at the end of second quarter 2018 the total revenues were 601 million dollars including pass-through & IFRIC 12 revenues, which represent a 7% increase when compared to 2017 results.

Adjusted revenues also increased by 11% when compared to 2017.

On the second chart to the right, we can see Cálidda's historic EBITDA, which total 145 million dollars; it is an increase of almost 8 million dollars when compared to 2017 results.

Also average growth as shown is around 15% over the past years and our adjusted EBITDA margin has been on the rise accordingly, proving Cálidda's organic cost structure growth.

In the third chart bottom left, we can see the capital expenditures which were 84

million dollars and in the last chart to the bottom right fund from operations, calculated on net profit plus depreciation plus amortization (FFO= Net Profit + Depreciation + Amortization).

In the next slide, the first chart is about our ratios of total debt and net debt to EBITDA, and as you can appreciate we have a slight increment of our debt to EBITDA ratio, but if we compare to what we had before the bond emission in last month. Bu if you see the trend over the past years, it has been liquid over several years.

To sum up, you will find more key financial metrics; they reveal that our financial performance over the last months and years is consistent with the company's vision and expected results of our shareholders.

For instance we can see debt to capitalization ratio, interest coverage which is 8.7 % and funds from operation to net debt which is stable at 25%.

In the next it's like you can see our current debt, amortization schedule, our equity, net income and total assets evolution, in which you will find that our indicators are consistent with the company's vision.

I will now give the word to Mr. Mejia in order to close this presentation.

Mr. Mejia: Well, thank you Álvaro, I would like to end you presentation by mentioning that this year we will continue growing in clients and improving our financial results.

We anticipate that at the end of this year 2018 we will connect more than 145,000 new clients to our distribution network, obtaining this will means that we are going to obtain a new record in connections for the Cálidda history.

This will allow us to close the year with more than 7,000 clients consuming natural gas in the city of Lima and Callao.

And this will allow achieving an EBITDA more than one 142 million dollars, and these will be the figures that we are thinking now to close this year 2018.

And that's it.

Well. Thank you for all, for your time and we open this session to attend any question you may have.

Operator: Thank you, we will now begin the Question and Answer session, as a reminder if you have a question please press "star" and then "1" on your touch tone phone, if you wish to be removed from the queue please press the "pond sign" or the "hash key".

And we have no questions that this time, I will now turn the call over to Manuel Naranjo VP TGI.

Mr. Naranjo you may begin.

Mr. Naranjo: Thank you, good morning everyone. We're going to present the second quarter 2018 TGI results and key developments.

Please move forward to page 1 with highlights. The company continues to present a small growth in its network with the expansion projects that has been

concluded during this first half of 2018.

Regarding financial performance, the company provided a capital injection to Contugas in the range of 12.9 million dollars that was made in last May. And that was as a result of the arbitration panel that concluded that Contugas had to pay around 38.4 million dollars, which of what we already paid, and that's why TGI had to provide that capital injection.

Payment of dividends was made, was declared in the range of 100 million dollars, and half of that have already been paid and the remaining portion will be paid in October 2018.

Regarding expansion projects, the company has concluded the expansion of the compression unit that is located in one of the main tranches of the pipeline in a station called Puente Guillermo.

That is providing additional 17 million cubic feet per day of capacity and this expansion is supported by firm transportation contracts in the range of 50 million cubic feet per day. Those contracts have been signed from 2018 to December 2024 with the main distribution companies in Colombia. This is adding around 2% of additional capacity to our network.

We concluded the crossing of the Magdalena River; that was a very important infrastructure that needed to be done in order to provide reliability to the south and southwest of the country and that was successfully concluded last June.

And also the company in that same month of June concluded the construction of what is called the loop in the coffee region, we constructed 37 kilometers and we added 8.3 million cubic feet per day of additional capacity, so this an expansion of 1%. So this expansion together with the Puente Guillermo compression unit is giving roughly 3% of additional capacity to our pipelines.

If we now move to the next slide, we are looking at new opportunities in evaluation, the main opportunities that the country is seeking is the Rega project in Buenaventura together with the connection pipeline that is going to be all the way to Cali.

That project is being promoted by the national government by UPME, and the tender documents for that have not been finalized and have not been released, we are expecting those documents to be released by October this year, that's what has been announced and for that tender to be due by first half 2019.

Also within this first half of 2018 expansion project are been discussed, both with UPME and with Creg, by the end of 2017 a resolution came out by Creg providing TGI with the capacity to invest around 200 million dollars in 4 expansion projects.

One of them is the loop in the Departments of Huila and Tolima it's called the loop Mariquita-Gualanday, and now the system has to be bidirectional, so investment need made in order for the system to allow the flows in the future to come from the west, from the Regas Project.

So those investments are the bidirectionality Jumbo – Mariquita and the other one in Barrancabermeja – Ballena.

And the fourth project which TGI as the incumbent transporting company should

undertake, it's a compression station that is going to be in the south of Cali. And those are there four projects that I'm mentioning that are in the range of 200 million dollars.

Those have not been yet sanctioned are being discussed with Creg, during this first half of 2018 TGI announced its intention to move forward and presented estimated cost to Creg, and it's awaiting Creg decision on those estimates to then move forward to final investment decision.

If we now please move to operational and financial performance; so as a result of the expansion projects that were finalized during the first half of 2018, 37 kilometers were added to the pipelines, that is a growth of 1%.

Also as a result of this our capacity expanded from 754 million cubic feet per day to 785, this is a growth in capacity of 4%.

Our transported volume remain very steady, this is a dry year, it means that power companies that are connected to the grid are having a very low dispatch and that is why we see very similar figures to the ones we saw in 2017, in the range of 440 million standard cubic feet per day. And those are below the volumes that we saw in 2015 and 2016 when we had a dry season called "El niño".

Our firm contracted capacity remains at very high levels; we continue to be above 90% and our load factor mainly due to this has been a dry year, it's going to be close to 50%.

Please now move to the next slide, you can have a look at revenues; so we saw an increase in the first half of 2018 in the second quarter of 2018 compared to second quarter of 2017. Second quarter of last year revenues was 204 million dollars, now we grew to 280 million dollars, that is a 7% increase and that is related mainly to the completion and operation of the expansion projects that were mentioned at the beginning of this presentation.

Now the breakdown of our clients, of our sector; that's very steady; TGI has long term contracts so that revenue is very predictable, so no major changes there.

Now please move to the next slide, we do see that the costs in this second quarter of 2018 compared to the ones of last year have grown. This increase in costs is due to we have increased our maintenance in our pipelines, also the pipeline that was before operated by Transgas de Occidente between Cali and Mariquita in the second half of last year, and that also still brought an increase in our operational expenditures which is reflected and explaining most of the increase in this operational and management expenses compared to last year.

This is also explaining why our EBITDA has presented a very small decrease compared to last year, last year second quarter was 170 and this year is 169, so there's a small decrease also mainly explained because of the increase in maintenance, and the direct operation of that tranche of the pipeline.

Now, our net profit saw an increase compared to last year, second quarter 2017 to TGI had a net profit of 54 million dollars, this second quarter of this year we're looking at 60 million. This is also explained by the expansion projects, by the additional revenue that has been provided by these projects which are subscribed and have long term contracts.

If we now please move forward to the next slide we can see TGI financial performance. First of all our total assets remain very close to what they were last year, so 2.5 billion U.S. dollars, billion dollars excuse me; compared to 2.6.

We don't see big differences in that area; also in our plants the case is pretty much the same.

In our liabilities we do see a change because of the payment that was made of the outstanding facility for the IELAH credits, and that explains why our liabilities have shown a small decrease.

And also this explain why cash and equivalent is also looking that difference between what was a closing number at the end of 2017 of 79 million compared to 21 million, it's also mainly explained by the quick payment of that loan facility.

Now looking at the financial performance, the debt structure remains the same as compared to a year ago, the bond represents 64% of our total indenture, we continue to have the intercompany loan, and that is mostly the debt structure that we have.

When we look at our ratios, our total debt to EBITDA we still have some room to grow, we are today at a level of about 3.6 compared to our goal of 4.8, and this is providing the company with a comfort to continue these growth projects which we will explain in a moment, and to look forward to having new expansion projects mainly the ones we had mentioned the range of 200 million dollars at the beginning of the presentation.

Now to give some numbers, the total net debt to EBITDA, we're looking at 3.5 which is pretty much on the same range that it was during 2017.

And when we look at the EBITDA to cover our interest expenses, also we are constantly above the 1.7; we are at a level of 4.1 times.

If we please now move to the growth projects; so, the first project that was concluded at the beginning of this year was the Cusiana – Apiay – Villavicencio – Ocoa project that had a cost slightly below 50 million dollars, the project is already in operation and it provided 32 million cubic feet per day of additional capacity.

Then the Cusiana Phase IV project, this is a project that is going to be concluded in 2019 but the portion that corresponds to the compression station in Puente Guillermo that was mentioned before has already been concluded, and it already added 17 million cubic feet per day of additional a capacity.

The rest of the project which is going to add a total capacity of 58 million cubic feet per day and consists mainly of 39 kilometers of loops of 30 inch diameter, that is the portion that is expected to be concluded by fourth quarter of 2019.

If we now move to the next slide, so the company concluded the construction of what is called the Loop Armenia, which increase the capacity of the system by 8 million cubic feet per day, and it consisted of a loop of 36 kilometer of 8 inches. The project is already in operation and had a cost of 19.2 million U.S. dollars, and it was concluded in the second quarter of 2018.

Then, the company as part of its operations, those assets that meet their regulatory run life and that need to be replaced, plans to replace four pipelines.

Those are very small pipelines, with and an added CapEx of 32 million, that project is expected to be completed by second quarter of 2019.

If now we can move to questions and answers.

Operator: Thank you, we will now begin the Question and Answer session, if you have a question please press "star" and then "1" on your touch tone phone, if you wish to be removed from the queue please press the "pond sign" or the "hash key".

And we have a question from Diego Buitrago from Bancolombia, please go ahead.

Mr. Buitrago: Thank you for the presentation, I have three questions. The first one is regarding the behavior of costs and expenses of the quarter. We want to know if that level of costs and expenses will maintain for the year, and if it is a new norm for the level of costs and expenses to the company.

If it is possible you give us a guidance of EBITDA margin to the rest of the year, it would be great.

And the second question is regarding what would we expect regarding dividend policy on the next year.

The number three is regarding regulation, the Creg published resolution on the number 113, it establishes some constraints and limits the participation of some agents in the project of Buenaventura and the regasification plant of the Pacific Coast, and we want to know if some of these constraints could apply to TGI or not.

Thank you.

Mr. Naranjo: Ok, so thank you Diego for your questions. So first regarding costs and expenses we expect the percentage of the income over cost to remain the same, what we saw in the first year was the requirement to make additional expenses that will not maintain throughout the year.

And then the EBITDA margin for the rest of the year, the estimate that we have is that's going to be in the range of 75%.

Regarding dividend policy, TGI does not have a dividend policy. What we can give you is a guidance on the dividends that has been paid, and well I think you already heard the numbers, for 2017 what was declared was 300,000 million Colombian Pesos, in the range of 100 million dollars. So we don't expect any changes in the behavior of the dividends but as I said, we don't have a dividend policy.

And then regarding regulation, this resolution 113 it is actually the confirmation of two draft resolutions that were issued before, the previous one 46 that was issued in April, 202 that was issued in December both of these resolutions are changing the idea that was posted initially by Creg.

In resolution 152, that resolution 152 was limiting the participation of companies that where were related to commercialization and distribution of natural gas in the country.

Now the main criterion is to limit the participation of companies that are related

to production, and commercialization related to that production.

And to be very very direct, TGI can participate in this tender, and actually this was a resolution that was awaited by TGI.

Operator: And we have a question from Angela González from Credicorp Capital, please go ahead.

Ms. González: Yes of course. Good morning gentlemen, thank you for your presentation, I have a couple of questions, the first one is if there has been any adjustment related to the negotiation of the regulatory wacc between CREG and TGI?

And also I would like to know what do you expect to make additional capitalizations to Contugas in the remainder of the year, I would like to know so if you could remind me the payment that you mentioned of 29 million dollars.

Thank you.

Mr. Naranjo: Thank you Angela, regarding the wacc, it was regulated in resolution 95 of 2015, that resolution remains unchanged and that resolution is providing the main guidelines to what is going to be the calculation of the wacc.

What was posted as a draft by resolution 90 of 2016 we're still waiting what is going to be the new resolution that CREG is going to post. We did make comments to that resolution, but we are expecting in any case a reduction in wacc, and that we are expecting that reduction in our forecast to take place early 2020.

This year in the first quarter CREG was supposed to release the new draft resolution replacing resolution 90, they have not been able to do that, and that is mainly due to what happened in Hidroituango, so that's why we are thinking that this new draft is going to be in effect by perhaps early 2020 and we do expect reduction in wacc.

Now regarding your question of additional capitalization of Contugas, we do expect to inject more capital during the remaining of the year, and what we are expecting is to inject three million U.S dollars.

And regarding the decision that was made by the habituation panel, that was related to the construction of the pipelines that are comprised within the Contugas system and the decision that the habituation panel made was, I mean; the net effect of that decision was that the company had to pay 31 million U.S. dollars to the construction company called Graña & Montero, that is a net effect because within the awarding some payments were due for Graña & Montero and some payments were due for Contugas but that is the net result.

Operator: And we have a question from Camilo Franco from Poli Investments, please go ahead.

Mr. Franco: Good morning, thanks for the presentation. I have two questions, the first one is regarding the plans of refinancing the bond, there was some news in the market about the company planning to issue a new bond to refinance the current one, so do you have any update about that? Probably the date or the conditions that you're expecting for the bond.

And second regarding the tariff adjustments, do you expect any tariff adjustment

by the CREG in the next years? And do you have any estimation on the impact of that tariff adjustment in the EBITDA of the company?

Mr. Naranjo: Thank you Camilo, regarding the refinancing of the bond we concluded the exercise by midyear, at the time we saw a window, that window closed, and we don't have a specific plan to refinance the bond at this point. We're looking at market and based on market behavior we will be making a decision of refinancing, today we don't have any explicit refinancing plans.

Regarding the tariff adjustment, the main tariff adjustment is going to be the wacc, as I mentioned this is a known methodology that has been in place since 2015, that is already reflected in our projections, and yes we do see an impact in EBITDA, if we don't continue to build expansion projects, the effect of that adjustment could be in the range of 80 million dollars. But as I mentioned, that is if we don't offset that impact by the construction projects that we already have in place.

So by 2021 taking into account the finalization of Cusiana Phase IV plus the other expansion projects that have already been sanctioned in the company, we expect the EBITDA of the company to be in a level very similar to the one that we saw last year, last year the EBITDA was 224 million, by 2021 we expect EBITDA with a decrease in wacc, to be at range of 220 million.

Operator: And once again if you would like to ask a question, please press "star" then "1" on your touch tone phone.

And we have no further questions at this time.

Mr. Naranjo would you like to give some closing remarks?

Thank you Ladies and Gentlemen this concludes today's conference.

This conference will be available at www.tgi.com.co and www.calidda.com.pe

Thank you for participating. You may now disconnect.