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- Q2 2003 Altagas Services Inc. Earnings Conference Call

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CORPORATE PARTICIPANTS

DAVID CORNHILL *Altagas Services Inc. - Chairman and CEO*

GARY HOLDEN *Altagas Services Inc. - President and COO*

MARILYN PFAEFFLIN *Altagas Services Inc. - Treasurer*

CONFERENCE CALL PARTICIPANTS

Fay Lee *RBC Capital Markets - Analyst*

Robert Catellier *Clarus Securities - Analyst*

PRESENTATION

Operator

Welcome to the AltaGas Services second quarter results conference call. (CALLER INSTRUCTIONS) I would like to advise everyone that this conference call is being recorded, and will now turn the conference over to Ms. Marilyn Pfaefflin, Treasurer. Please go ahead, ma'am.

MARILYN PFAEFFLIN - *Altagas Services Inc. - Treasurer*

Thank you. Good morning everyone. I would like to thank you for joining us this morning. We're pleased to provide you with an opportunity to discuss our 2003 second quarter results and other generalities (ph) pertaining to AltaGas.

With me today are David Cornhill, Chairman and Chief Executive Officer; Gary Holden, President and Chief Operating Officer; and Patricia Newson, Senior Vice President and Chief Financial Officer. David will begin with comments on then we will turn the call over to the conference coordinator for questions.

Before David begins I would like to remind you that certain information presented today includes forward-looking statements. Such statements are subject certain risks, uncertainties and assumptions that would cause actual results to differ materially from those contemplated in the forward-looking statements.

These risks and uncertainties include operating performance, regulatory and environmental issues, weather and economic conditions, competition and financing availability. For additional information on these and other factors, see the report filed by AltaGas with Canadian securities Regulators.

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I will now turn the conference call over to David.

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

Welcome. Good morning. After that, I'm not sure what I should say, so I will keep it very brief. It will be shorter than Marilyn's comments. We will talk about year-to-date performance; six-months compared to last year; talk a quick overview of business development, opportunities, expectations for the remainder of the year; a couple personal notes and some concluding thoughts.

How I describe the second quarter was a strong quarter. I'm pleased with it. Things unfolded as expected. There's always little things that happen that surprise you, but over all it's exactly as we expected.

When you look at our six months results, I think you should focus on a few numbers -- net revenues up 32 percent to \$105 million -- that shows the economic growth of our company, taking out commodity price; EBITDA is up 28 percent to just under 60 million; funds from operations up 38 percent to 42 million; and net income of \$16.5 million, up 35 percent. If you take out the gain that was in last year's numbers, net income is up 59 percent, and we did have a one time tax adjustment for future income tax, which someday I may understand, that impacted about \$800,000 negatively in the second quarter.

You see capital spending around \$12 million, down slightly from last year. However, that does not include the investment in Taylor, and we were constructing the Joffre plant last year. And dividends have increased, as we announced, to 11 cents from our 8 cents.

It's a strong quarter, it's as expected and we continue to deliver strong performance of 35 percent growth in earnings.

When I look at the business and activity that we see things are busy. We had some 85 rigs drilling in our field gathering processing areas right now, an all-time record in our areas. We have seen some decline in production in the second quarter. Our June tied in about 30 wells and we saw increasing production there. July has been an extraordinary month for tie-ins, and I had one of our engineers e-mail that he just filled another plant and he only had one left to fill, "so get out there and buy me a big plant to fill." So, that's the type of activity level that we're seeing in the field gathering and processing side.

On energy services side, the power business was strengthened in the second quarter. We're looking for another strong performance in the third quarter as well.

So when we look at the business going forward it's just as expected, and as we said in the last quarter, and as we said in the annual report, Q1 strong; Q2 will be weaker compared to Q1 because of heating load, but all-time record -- we delivered an all-time record Q2 performance. We're expecting a stronger Q3 and a record performance in Q4. And we're on track for that business. Looking out to 2004, we're still expecting a good year there with strong power prices continuing.

The other thing I'd like to talk about is acquisitions, which we're still working hard on acquisitions, but being very disciplined and conservative in our pricing. There's still a lot of opportunities, both small and large there. I think you'll see some interesting things that we're doing to structure some acquisitions that enhance value for the Company and you will see those coming over the remainder of this quarter.

On a personal note, before my concluding remarks, I just want to let people know a couple of things that I will be doing and you will be seeing -- one, my traditional gift to the United Way, so you will see some shares being sold with respect to that donation, and that will probably happen in early September; as well as I'm moving my our RSPs into being professionally managed, and the professional manager, I expect, will have some comments on my diversification of risk profile and you may see some things happening there with respect to my asset mix and my RSP. So those things are happening on a personal basis, so you may see some minor share sales. Also, you'll see in an insider report that I just exercised 40,000 shares and held those in my account.

In conclusion, very strong cash generation so far this year. We're well positioned for growth. Our debt is coming down. Our debt equity is improving. We have lots of financial capability and we're financially strong. Q3 will be a strong quarter for us, Q4 stronger and we expect this year to be consistent with our five-year growth.

So that is my quick overview. I would be happy to open it up for questions on the operational side Gary will speak to and I will speak some general -- answer questions, as well as will Patricia.

QUESTIONS AND ANSWERS

Operator

(CALLER INSTRUCTIONS)

Fay Lee (ph), RBC Capital Markets.

Fay Lee - *RBC Capital Markets - Analyst*

David, I just was wondering on a couple of things, in terms of your income tax rate going forward I am just wondering if I have interpreted it correctly. Last year your rate was around 31, 32 percent. Should we expect the rate -- the effective rate to go up to about to 34 based on what you released in your press release? Or is it -- I'm also wondering about the impact of the lower federal tax rate next year.

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

I think we had said that we thought, in the last conference call or the one before, 33 to 34. I think we look to between 34 and 35 now. A few things will be happening going forward. Large corporation tax being reduced that will reduce our rate. We expect to provincial governments to continue to meet their stated goals to reduce corporate rates, but they have not enacted, so that's still uncertain. And federal rates will continue to decline.

Fay Lee - *RBC Capital Markets - Analyst*

So 34, 35 is still a good rate to use going forward?

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

Yes.

Fay Lee - *RBC Capital Markets - Analyst*

And the second thing is, I'm just wondering about your power price that you expect to receive over the first six months. It looks like it's been about \$46. Is that sort of the range that we should expect going forward, say, for next year?

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

I think that's a comfortable number and that's consistent where we're seeing the market in '04 right now.

Operator

Robert Catellier, Clarus Securities.

Robert Catellier - *Clarus Securities - Analyst*

Good morning. I was wondering if there's any change to your full-year CapEx outlook, given that the year-to-date number is down year-over-year compared with last year, notwithstanding the investment in Taylor?

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

Not really. We see a number of construction projects, but we're being -- working hard to be very capital efficient and improve returns -- return on equity, return on capital. And acquisitions are, as you know, lumpy, and that can change very rapidly.

Robert Catellier - *Clarus Securities - Analyst*

The second question I had was with respect to the AEUB ruling and its impact on drilling activity in your areas. You did make some comments earlier which I interpret that -- it really hasn't impacted drilling strategies in any of your areas. Would you say that is a fair assessment?

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

No, I think there has been some impact in the Winefred area clearly. And I think as well in the Thornbury this last winter you -- the uncertainty -- people weren't willing to drill. So those are winter only access. I think we saw less drilling activity. Other areas it hasn't impacted at all and we are seeing very significant drilling activity. The drilling activity we're seeing can be both gas and oil, but the activity level is up considerably.

Robert Catellier - *Clarus Securities - Analyst*

What would you estimate the capacity utilization rate would be, exiting the year, failing any type of acquisition in the gathering and processing -- field gathering and processing component?

DAVID CORNHILL - *Altagas Services Inc. - Chairman and CEO*

I would say up maybe one or two. That okay with you, Gary?

GARY HOLDEN - *Altagas Services Inc. - President and COO*

Yes, I think we can expect that the capacity utilization will creep up a little bit. Drilling activity that has occurred will start to produce in Q3 and Q4, and that should improve our numbers over Q2.

Operator

(CALLER INSTRUCTIONS)

There are no further questions at this time. Please continue.

MARILYN PFAEFFLIN - *Altagas Services Inc. - Treasurer*

If there is no other questions, we can terminate the call. Thank you very much.

Operator

Ladies and gentlemen, this concludes the conference call for today. Thank you for participating.

(CONFERENCE CALL CONCLUDED)

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