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PRESENTATION

Antonio Velázquez-Gaztelu - *Enagás, S.A. - Director of IR*

Good morning, ladies and gentlemen. Welcome to the results presentation of Enagás for the 2017 year. The results have been published this morning before the opening bell and are available as always on our website at www.enagas.es

Mr. Antonio Lladen, Chairman of Enagás, will host the presentation. We expect this conference to last about half an hour, and afterwards, we will open the Q&A session, during which we will try to answer any question as fully as possible.

Thank you for your attention, and I will now hand the floor to Mr. Lladen, our President.

Antonio Lladen Carratalá - *Enagás, S.A. - Executive Chairman*

Thank you, Antonio. Good morning, ladies and gentleman. Thank you for your attention. My speech today will be structured into 3 sections. First, I will summarize Enagás's 2017 earnings and results and comment on the most important aspects. I have to say that I'm delighted to confirm that once again we have delivered and in some cases surpassed the objectives that we had set for this year.

Secondly, I will talk about the noise concerning the industry regulation, which has triggered significant market volatility during the recent weeks that has affected the whole energy sector in Spain. And finally, I will give an overview of our prospects for 2020 as well as the challenges facing the industry over the coming years.

As you can see in this slide, in 2017 we have delivered on our objectives for the 11th consecutive year. As you know, our results include two accounting changes: the global consolidation of GNL Quintero as of January 2017 and the fact that the contributions to equity affiliates are posted to the line of group operating profit.

Main figures; as you see that the group net profit consolidated has increased by 17.6%; that is above the initial objective which we had which was 12% net profit in standalone with GNL Quintero consolidated; by the equity method has grown by 5%, meeting the target that we had set for the year.



The year 2017 has been featured by strong cash generation allowing us to reduce the standalone net debt by EUR 725 million. We have also improved considerably our leverage ratio, the funds from operations to net debt, that by the year end they were at 17.8%, which is well above the 15% we had set forth “we had in 2016. The operating cash flow, as you see in this slide, has grown by 76% versus the previous year.

So which have been the key factors in this positive performance of our cash flow? Well, first of all, the good performance of the regulated business in Spain but also thanks to the contributions made by the dividends from our subsidiaries that have amounted to EUR 125 million.

Secondly, of course, the financial stability of the Gas System, which has helped to ensure the successful transfer of the 2014 tariff deficit collection rights. Of course, on one hand we have eliminated the risk on our balance sheet and we have generated a cash inflow amounting to EUR 354 million.

If you hear some noise, it's that I'm sipping some coffee, so I do apologize. So with regards to the investments during 2017, we have invested a total of EUR 328.5 million and out of which EUR 68.5 million correspond to the investments carried out in Spain and EUR 260 million to the international investment.

And so now, as we have always been doing during the year, I shall give you an update of our stake in the Gasoducto del Sur Peruano, GSP. In December, we took the decision to begin the direct talks process with the Peruvian government, and Enagas remains engaged in these discussions. This was reflected in the relevant [fact] corresponding. We believe that this is the best approach to safeguard the interests of the company and interest of our shareholders. We will provide you with full information as the talks progress.

I will now like to comment on the Trans Adriatic Pipeline, TAP or TAP project, which is now more than 65% complete. Maybe the most important piece of information is that a few days ago the European Investment Bank, the EIB, has agreed its “to provide EUR 1.5 billion in funding for the pipeline. This is excellent news for all the partners of the project and for the project itself. During 2018, the year we're starting, the partners of the Trans Adriatic Pipeline expect to close full funding, and this is a major milestone to ratify the calendar of the (inaudible) functioning of the schedule by 2020. Based on the 16 percentage held by Enagas in TAP, our investment in project equity would amount around EUR 270 million.

As far as the financial structure is concerned, Enagas maintains at the year-end 2017 a very robust financial situation with diverse sources of financing at an average cost of stand-alone net debt of 2.2%, which is below the 2.4% we had seen in 2016.

On the other side, the Enagas liquidity at the close of the financial year amounted to EUR 2.484 billion. It is important to stress that this allows us to have high solvency levels, and we can comfortably cover the upcoming debt maturities, which are not significant until 2022. And finally, but also very important, during 2017, Standard & Poor's and Fitch both restated their long-term ratings for Enagas at A minus.

With regards to the demand for gas, the first thing I have to say is that it has increased for the third consecutive year since 2015, closing 2017 with an increase of 9.2%. We must highlight the particular pickup of industrial demand, which in Spain accounts for more than 60% of gas demand, and this increase is driven by the country's strong economic performance. There's a direct correlation between the evolution of GDP and positive evolution of our gas demand, and that is for a third consecutive year.

This year we've seen a growth in demand for electricity generation due to a lot of renewable generation during the year, and this, of course, depends because that renewable and hydroelectric generation depends on the climate conditions and the (inaudible) amount to generate electricity does not follow a pattern which is directly linked to the economic evolution but to the evolution of the climate as I was saying.

We expect for 2018 to have a total stable demand with a slight increase in the total demand. We confirm in any case the trend of growth of the natural gas demand in Spain, which has been seen since 2015. I'll give you some facts. In 2015 over 2014, we grew by 4.4%; next year we grew by 2.2%; this year we've grown by 9.1%. If we do the weighted average, this equals to an average growth per year of 5.4%. You must remember that the regulation [occurred] in 2014, the figures set too much the revenues and the expenditure of the system and to eliminate the deficit, I'm talking about “now we're talking about an average growth demand of 1.5%. So we're having a great margin for maneuver.



In 2017, we continue to advance in our entrepreneurship, corporates, and open innovation program fostering projects that will allow us to be more efficient, more sustainable, and more competitive. Some of the strategic interest for areas for Enagás include the new uses for gas, energy efficiency per se, digitalization, and the technologies of what we call the renewable gas. In the sense, 2017 has been a very active year when analyzing new projects, both internally but also externally, and Enagás has been acknowledged by its good practice. Four start-ups have been created in the company focusing on cutting natural gas emissions and adjacencies, and promoting new uses for natural gas. So right now there are new projects that are in quite advanced phases. I'd like to highlight that it is particularly special for us, the renewable gas projects, especially the hydrogen project as a new energy vector in a low-carbon economy.

And so Enagás is promoting the development of a business model, which is similar to the one used for natural gas, harnessing renewable hydrogen as a storage of energy and also why not as a fuel for industry and transport. Another success factor behind Enagás is our commitment to sustainability which we have integrated in the company's strategy and operations.

For the tenth consecutive year Enagás was included in the 2017 Dow Jones Sustainability Index topping the ranking in the oil and gas storage and transportation sector. Likewise, this month, we have included and renewed our presence in the Sustainability Yearbook from the well-known company, RobecoSAM. And Enagás is one of the first Spanish companies among the 19 selected, securing the Gold Class status, the highest possible category. Also, and I don't want to bore you with this information but they are interesting, our company is in the A list of the Carbon Disclosure Project with the most advanced companies managing climate change. All this represents further acknowledgement to the company's firm commitment to sustainability.

And before going and talking about projections and challenges until 2020, let me summarize the 3 main specific objectives for this year 2018. First, we must continue with a solid cash generation and after facing our investment commitments, our dividend payment, we want to reduce our net debt by around EUR 380 million. This should further bolster the company's leverage ratios.

The second one is to obtain net profit after tax of around EUR 443 million, which is in line with the growth objective announced to the market for the period 2016 to 2020 with an annual average growth rate of 3%. This positive evolution of the benefit is possible thanks to the control of financial cost but also financing costs. The Enagás efficiency plan, which is extended to our subsidiaries, remains a key means to ensure our short, medium, our long-term sustainability of our business. And the third objective is to increase the dividend by 5% against the dividend of 2017.

I would like to now quickly let you know what our main challenges are, ones that our company is faced for the next few years. Basically, (inaudible) next three years, we will be working with the regulators in the studies that are required, previous studies not essential. The second one is energy transition. This is a gradual and continuous process where Enagás is already working actively. The third one is international activities; in an increasingly interrelated environment where we still continue evaluate as an opportunity. And last but not least, the fourth group would be that of development of new activities that have to deal with our core business, activities which either did not exist until now or were not considered, but that are now an opportunity that are derived from the changes that are needed for a more decarbonized economy.

Okay, so let's talk now about sector regulation. I will talk about the regulation, sector regulation because we started 2018 with much noise regarding this subject which has had an impact on all energy companies. Let me drink a bit more coffee if I may. So let me set up the history context. In 2014 with the approval Act 18/2014 on October 15, we introduced stability and legal security for the remuneration of gas companies. We linked regulation to the principal of economic and financial sustainability for the system and this has to be understood as the system's capacity to cover the entirety of its cost.

We also managed to find a balance between revenues and cost in the Gas System. In 2017, the Gas System has not generated deficit. Furthermore, every year we paid part of the accumulated deficit at a pace that should see the entire deficit eliminated in the 2023, 2024 period, earlier than 2031 which was the target envisaged by the Act.

What was the key for this to happen was a fluid communication between the different regulatory bodies. We understand that this dialog is still crucial as of today in order to convey to the market a stability message, a security and visibility message with regards to our regulatory framework up until January 2021 when a new regulatory period would begin.



That is why we at Enagás, and especially during this last few weeks, have established an ongoing communication with regulatory bodies. And in that sense and according to what has been said by the Minister for Energy, Tourism and Digital Agenda on January 31 when we appeared before the Energy Committee at the Spanish Parliament, the adjustment to the Gas System if it were needed would be in between 0 and a maximum of EUR 50 million. This is what the ministry said before the parliament.

So we understand the ministry does not consider that further adjustments to remuneration for gas activities in the current regulatory period is needed aside from what was expressly envisaged in the aforementioned Act, the 18/2014. (inaudible) considered a possibility in the mid-period to having a revision of the OpEx only if the deficit was still important and was above 10%. So this is a topic that will be studied by the ministry, and we trust that with the deficit solution that we have seen this revision will not be necessary. But what is really clear according to the minister's statement before the parliament is that in any case the ministry is not considering for the gas sector any regulation change, any important change or accelerating the new regulation that should be ready before the end of 2020. That is why in a secret that we shared with you with our (inaudible) until 2020, we used this as a basis.

As for energy transition, we should say that this has an impact on over the economy. The energy demand is linked to economic performance. We ended 2017 with global GDP growth of 3.7% which was above what was expected. There are also forecast that consider a growth in GDP, global GDP growth of 3.9% from 2018 to 2019 when the IMS reviewed the situation in January last year. This economic growth will allow for gradual expansion of energy demand all over the world.

As an example, I will say that in the last 2 years, we see that in our energy mix, renewable energies and natural gas have gained considerable share. They are now being used instead of coal mainly in China and Europe due to the decarbonization trend that we mentioned previously. In 2016, growth in world gas was twice as much as the increase of primary energy. On the other hand, LNG is the clear (inaudible) in the gas sector with a growth in 2017 of above 11% driven by sharply rising imports overcoming into China and into Europe.

Until 2020 we expect to have an annual growth in demand for LNG that will be around 7%. According to this global context, Enagás will be monitoring new growth channels in order to on the one hand generate opportunities in our core business, focusing on those regions where we are already present, and strictly adhering to our investment criteria. On the other hand, we would like to diversify into new businesses based on Enagás's possibilities of capitalizing on the opportunities offered by a shift towards more decarbonized economy. In that sense, and I have already mentioned this previously, we are fostering entrepreneurship and innovation in new energies, such as renewable gases, such as hydrogen and bio-methane. And furthermore, amid results -- demand for low-risk assets, we are also considering potential opportunities for asset rotation to exchange an asset for the investments. In any case, with the investments that have already been made and the projects that are ongoing, Enagás has laid the foundation to completely honor our commitment for 2020.

And I would like to end by just sharing a few perspectives with you for the period results from 2018 until 2020, 4 different elements. Firstly, in regard to cash generation until 2020 that will allow us to maintain our strategic priority, which is offering a sustainable growth in dividend with a 5% annual growth. This is a solid commitment. As you can see on the slide that we are showing, we will go from dividend per share of EUR 1.46 in 2017 to a EUR 1.68 dividend at the end of the 2020 financial year.

Secondly, we expect to invest around EUR 650 million during the same period, 80% of that investment would be made in Spain where MidCat, (inaudible) are our main projects and the rest would be international investments that has been committed to the Trans Adriatic Pipeline before the financing close as well as some lower investments in GNL Quintero.

And thirdly, at the end of 2020, the standalone debt of Enagás and excluding GNL Quintero would be of around EUR 3.65 billion. This means that there would be a debt reduction during this period of around EUR 1.44 billion since 2016. This allows us to maintain a funds from operation to net debt ratio that is well above 15%, which as you all know is the established threshold by the rating agencies so that we can maintain our standalone rating of A minus. This also will allow us to have enough leeway to consider new investment opportunities, brownfield opportunities that could present themselves during this period. And we maintain for 2016-2020 an average growth rate of around 3% considering that there has been a bit of a delay in our MidCat construction projects and (inaudible).



The emergency plan that was “the efficiency plan, sorry, that was set up last year has allowed us to compensate the lesser revenue due to the delay I just mentioned. As I said previously, this 3% could be greater if we could find brownfield investments that are interesting during this period. We could reach 4%, even 5%.

So the conclusion and I will be done. Our 2018-2020 strategy can be summarized into 5 drivers: first would be operational efficiency; second driver would be sustainable growth with an average annual growth rate of 3%; third lever, a robust financial position and liquidity position. The anticipated cash generation in the period will allow us to honor our dividend commitments and strengthen our balance sheet by reducing debt levels; fourth lever, an attractive and sustainable shareholder remuneration with a dividend growth of 5% up to 2020; and finally, maintaining and reinforcing our leadership and sustainability as a cornerstone of the company, not just because we are in the time that we live but rather because many of our shareholders already have amongst their investment objectives these sustainability elements as a priority.

So thank you so much for listening and after this presentation, we will have a road show set up to meet with investors and analysts so that we may answer any of their questions. And once we finish this conference call, we will have a Q&A with all of the Enagás team who is present here today, and we'll all try to answer to your questions as precisely as possible. Thank you so much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question Javier Suarez from Mediobanca.

Javier Suarez Hernandez - Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst

First on regulations, the President said that the minister said in the parliament that the cut downs for the gas sector likely will be implemented during 2018 is between 0 and EUR 50 million. I'd like to understand what are they “you including in your guidance for 2018 of that possible cut? And if you consider that the maximum EUR 50 million, how would be shared? Do you consider a lesser percentage or EUR 50 million, or what do you expect? And from the regulatory terms, what is the proposal that Enagás has to improve the regulation of the sector? I know that the regulation is stable until January 1, 2021, but if the government were to change the regulation before, what is the proposal that Enagás has to improve the regulation and to improve the grid. If we now go to the international expansion, I'd like to have an update on the situation of the Gasoducto Peruano situation. If you could reach any kind of agreement with the local government in order not to get to the courts, but would you have a friendly settlement with the government? And lastly, on international expansion, too, I'd like to know about the possibility that Enagás could consider the spinout of international activities because do you still want to grow in international markets? And then my question is does Enagás see a value to have the spinoff of those international activities but would it partner with international players?

Unidentified Company Representative

We are going to ask to answer. Thank you, Mr. Javier Suarez. First the appearance of the minister at the parliament, you have a lot of [information] for what the gas sector is concerned. He literally and I commented this with the minister personally the day before, he told me that “- what he said is that the minister said that the gas sector does not seem to need any regulatory review of major nature. Tops, it could change slightly from meeting between 0 and EUR 50 million. This is the words that the minister used. We can, therefore, understand that if these were to be true, we would have the corresponding part from the 0 to EUR 50 million in the worst case. If we use 37% or 40% of the market, that would represent EUR 20 million. That is what we have used to make our figures for 2020. I insist that the minister was clear when he said that even this could not be necessary. So what is the context the minister used to explain about the sector, a double one. In order to give you a context of his words, he was concerned because in general terms, not only concerning gas but gas and electricity, he was concerned that we could have lack of control of course, making the government to take measures. That was the initial concern he had in the case of the gas sector as you see to reduce these amounts greatly, and he even limits this concern and he stress that it could be 0. So this is the official panorama that we have had. It is also true and I do believe that it creates certain confusion that the minister referred in the case of specific assets that do not have end of regulatory life that he had



received reports from the CNMC in the past that they might need a change in the regulation of these specific assets. Enagás does not have assets with end of regulatory life. I would love to have these kind of assets. But in any case, this does not apply to us, maybe there are other sectors, other companies that do have these kind of assets, and the minister didn't say that he was going to change. He was saying that he was concerned about the existence of these kind of assets. So, as of today, we think that regulation for the gas system, we believe is firmly limited to what the law of 2014 said. And this law was mainly based on the control of deficit. This is well in track. I cannot "â€" because it's not my turf to tell you what the regulator is going to do in the coming months and years, but all the objective information that we have on the table allow us to think that there will be no major changes and that it doesn't seem that the government intends to accelerate change in the regulation because in order to do that he should approve a specific law that they don't seem to be working on. So I respond with this to your second question, proposals. New proposals from us to a possible regulation change; well, you must understand that for polite matters, whenever we start the discussion, the first one that we will get the proposal will be the regulator and after that we will talk to them -- talk about them with you. But I don't think it's polite to talk about proposals that are not being done yet. I don't think that's correct. With regard to GSP update, the major milestone is that we took the decision in December to use a path that was correctly defined since the beginning and I shall recall that I've already commented in previous conference call. And due to the delay of the possible measures that the administration approve had to take to launch a new project and without doubting that they're going to do it because it seems that the government is going to do it but with a certain delay that we deemed not to be adequate. We have activated the way of direct talk with the government, and if we do not reach an agreement that would lead automatically to an arbitration process before the World Bank through the protection agreement between Spain and Peru. And as we've talked with the Peruvian government, they do agree on this line of action. What's the situation right now? Well, we have talked about the first formal administrative aspect of acknowledgement by the Peruvian administration of receiving our proposal. This week we have a conference call between the official Peruvian entity doing these functions (inaudible), that's the acronym. I can't explain you right now what these acronym means, but this is going to contact our lawyers and they have contact us to start all the diligence. During this period of time, we do trust that once the political situation in Peru is more calm, that we will be able to talk with the administration, with the government to set these negotiation and dialog leading us to a possible agreement. But right now I cannot give you more information. It is true that just after presenting these requests of a direct talk. In Peru a series of events have taken place you are aware. An attempt of impeachment of the President that was unsuccessful, as of course the President has changed its government and therefore the months of December and January have been, let's say, shaky political months and it seems that things are more calm and, of course, we do maintain the contacts and dialog level with the Peruvian administration at a very formal levels. And we will give you updated information. And lastly, with regard to the spin off, I'd like to just clear something. When we talk about having a spinoff of international activities with certain partners or with a preferential partner. We're not talking about selling stakes. We're talking about associating to grow, merging to grow, because with other events in other companies, one might think that we're going to take the jewels off the ground and sell them and something different is to try and merge and partner by joining assets with other entities to grow. And we're in that second line. We have an international activity. We believe it's working well or at least reasonably well, which is providing performance and revenue that we did not have in the past and that will allow us to balance the dependence of the Spanish regulated sector and in that line we would like to continue to grow in an indefinite way. And to do so the best way, though this is not automatic and is not simple to do in 6 months, is by finding a partner which will have similar objective to us so we can merge some of his and our assets so we can have a better base for growth. We're working on that. And during 2018, I'm sure that we will be providing results in this sense. This does not impede us to continue to start projects on our side. In any case, these works will add "â€" if we find this partner will be added afterwards, but we're not thinking about selling a part of our assets providing cash because that is a non-recurring cash and what we're looking for is to join forces to grow in a sector which is at a major change movement because of the energy transition, et cetera. So I do apologize for this long answer, but I think that those 2 questions embrace all the activities that Enagás carried out.

Operator

The next question will be asked by Mr. Javier Garrido from JPMorgan.

Javier Fernandez Garrido - JP Morgan Chase & Co, Research Division - Head of Utilities and Senior Analyst

I had a couple of questions, but some have already been answered. The first one has to do with the gas storage. And I wanted to know what were the -- what do you think will be the consequences with regards to the maintenance of (inaudible) and the maintenance expenses. With regards to the compensation to change the compensation mechanism that we currently have, I would like to know what the impact would be on your P&L, the whole adjustment process of compensations and legal adjustment? And the second question would have to do with what you mentioned



about the adjustment of revenues of 0 to EUR 50 million for the gas sector. I would like to know if you could give us more details regarding what it is that could be reviewed according to the current legislation? So with the mechanism that we currently have, if the tariff deficit were around 10%, if I understand this correctly, there is an adjustment for the OpEx and CapEx side of things. But I would like to know if there would be a possibility of making some adjustments according to the current regulation in the tariff deficit does not go beyond what the law establishes. And in that case, what would be the percentage of its impacts on Enagás because depending on the adjustments, the impacts on Enagás and the rest of the sector would be completely different. So those are my 2 questions.

Unidentified Company Representative

In the case of [gas store], first of all, the requirements regarding compensation according to the current legislation, this is something that has no impact whatsoever on Enagás. And the constitutional court, we have to remember that what they told to government about compensation was not about the commitment done, but what you saw that calls for finding the deficit solution is not might have to go into details here, but these of course does not affect Enagás at all. It affects though partially the fact that in the judgment of the constitutional court does not doubt the need for the government to transfer to Enagás, not the concession, but solely the maintenance operations for safety reasons of the platform. But it's true that when they say that they have to review how it was used, we technically no longer get paid these OpEx. Of course, with the contacts we've had with the ministry, first of all, we have to say that does not affect the Enagás profits because we're working at a cost, pure cost. So the ministry is paying OpEx, which is exactly the same amount of the OpEx that we have for maintenance. So in principle, in any case it does not affect the profit revenues, and we also have the statement of the services of the ministry who understand that that OpEx will be included by them in the next ministerial decree for the system because they understand that they're not affected by these elements. So we trust that this will be something that will be solved easily. As per the OpEx (inaudible), but with OpEx, the current OpEx I'm talking about safety and maintenance, for instance, we would be close to EUR 8 million. The day after tomorrow "not the day after tomorrow, tomorrow the minister will appear before the parliament to talk about derivative of this topic which is the dismantling or not of the facilities. But I will refer to that when the minister has already touched upon this and as for revenue adjustment, I think that I was not clear. So the current legislation does allow in the case of gas sector an OpEx revision. The OpEx has (inaudible) standard, so the regulator always have the competence in a regulated service to modify their standards. But in the case of the gas sector, it clearly establishes that this would be for the minister to do if they were to find a difference, a deviation, meaning the (inaudible) of the tariff deficit that were above certain percentage. But with the current figures we do not feel it is necessary, but obviously the legislature can decide whatever he believes in that sense. But I said it previously, the minister has already talked about an impact for the whole system of 0 to EUR 50 million. So we think that if this were to happen, it would not be a big impact, and we also need to understand that the context in which the minister made his statement was a more general context where he was talking about the fact that for the gas sector he didn't want to increase the tariff (inaudible) years, something that had already been considered by the law and we also have to say although I'm mixing things up here, but this deficit, this tariff deficit has always been considered with our (inaudible) costs. So if at the end of this procedure and as a consequence of the Constitutional Court's judgment, part of (inaudible) was not according to the tariff deficit, then we will solve the deficit even earlier, but it's not for me to say. And as I said previously, the minister also referred to some assets in the gas sector as well as in the electrical sector that had nothing to do with our own assets, which are assets that don't have an end of regulatory life. This is a different discussion. And lastly all the rumors that started were due to the fact that we understood that the ministry was going to apply before the parliament for modification of the gas and electricity laws in order to initiate bigger changes. And for that they needed a parliament authorization for the law to be drafted. But it does not seem that this is amongst the minister's objective. And if it does happen, we will talk about it at that point. But I think that I have already answered to your questions and I have been able to clear the situation with all this noise, I think that with our patient work in the sector, we will be capable of certainly back to where it belongs.

Operator

Next question will be asked by Jose Ruiz by Macquarie.



José Javier Ruiz Fernandez - *Macquarie Research - Analyst*

Just 2 of them. One, the operating surplus of 2018, EUR 137 million, 2017. I'd like to know what is the dynamic of that impact and the sensitivity to grow (inaudible) functions for 2018. Second question refers to the consortium that where you are sending binding offers, what is your stake in the consortium and what's your exposure to the situation?

Unidentified Company Representative

Your first question will be answered by CFO, Mr. Borja Garcia-Alarcon.

Francisco Borja García-Alarcón Altamirano - *Enagás, S.A. - CFO*

2017, the RCS component regulatory revenue is EUR 264 million. For 2018 according to the gas demand evolution projected by the company RCS that's EUR 254 million, a reduction of EUR 10 million. And regarding the second question, I'm concerned by the CEO that our stake in this consortium working with [Vespa] is 20%. We're jointly working with 2 other European TSOs for them with the majority stake and the Fluxys Belgian consortium with us.

Operator

Next question by (inaudible).

Unidentified Analyst

My question has to do with a variable remuneration RCS and how you see it in a context of regulatory changes and in context where the gas sector in Spain is much more developed. Don't you think that this could cause rates probably to go down in the future and it has been mentioned in the press when we talked about regulatory changes 2 weeks ago?

Unidentified Company Representative

RCS is just a very specific part of the regulatory system for the gas sector that is only applied to Enagás. The origin for this is mainly when the regulator drafted the laws 4 years ago to maintain 2 different aspects. On the one hand, the financial remuneration should be reasonably similar to that of other sectors or energies sectors. So we were somehow confined to a certain model, but you have to understand that our activity and the remuneration of our assets required an increase in revenue. And this increase in revenue came by setting up a formula called RCS that is not to be amortized and that is somehow linked to the demand evolution and that is very clear. I very well know the opinion that many analysts have because they would rather our revenues came to be simpler and that it would be just on a certain part. But the regulator in 2014 due to the reasons I just mentioned decided to do differently, and we don't think it's bad since we have two different revenue streams that are complemented and that allow us to have the remuneration reservation that you know. RCS's risks, well the risks are very limited. It's true that it is linked to the growth of demand that were thresholds, both top and down thresholds. If the demand were to grow very much, RCS would not increase its revenues, but if the demand was to go down, it wouldn't be very reduced. It is more of a monetary mechanism. So the revenue of the company should be somehow linked to the demand's evolution without leaving us in a difficult situation or in too much of a bountiful one. So could this be changed in the regulatory period? Impossible, unless the law has to be modified and the ministry has already said that they don't want to do this. So next regulatory system, well, I think it is soon for us to say what system the regulator will want to set up. We actually have to see the next period might be decided by a different government because there will be elections in 2020. So I believe it is too difficult to start thinking now about the new regulatory system that the regulator want to set up in 2021. Currently the scheme that we have at Enagás is reasonable. It is reasonable for us, we obviously could [deal] with regulator in certain things. But we do believe that this is a system that provides us with a revenue basis that is linked to the assets and then another part of our revenues are linked to the evolution of the activity which with all the figures that I have shared with you are the



positive evolution. So we feel comfortable. We feel comfortable in the scheme of things, and we don't have the intention of asking for changes and we haven't detected with regards to what is interesting to us or what impacts us, any wish from the regulator to change any of this.

Operator

There are no further Spanish questions, so we will now give the floor to the English speaking room. The first question comes from Harry Wyburd from Merrill Lynch.

Harry Peter Wyburd - BofA Merrill Lynch, Research Division - VP and Junior Analyst

I've got 3. Firstly, just back on the regulation changes. I just want to understand the government's or your view on the government's motivations and the initial proposed cuts that were leaked to the press were EUR 200 million. That then quite quickly fell to below EUR 50 million. So what do you think could change in that intervening period? So what if the government changed their mind during that period? And then secondly, on my math your payout ratio would get to about 86% by 2020 based on the guidance you've given today, what's the feeling for your payout ratio? And does that mean that by 2021, you might need a dividend cut if your tariffs go lower? And then finally, could you just give us the affiliates income that you expect for this year?

Unidentified Company Representative

About the regulations, well, the previous rumors that appeared in the media, we figured that on some cases, we're fully out of line. Look I cannot give you an answer where do they come from. The only reliable source we have is this personal statement done by the minister before the parliament, which is not a statement. It's just a comment. It's not a comment. It's a statement done before the parliament and that should erase any other figure that one might have read. In any case, it's just that statement. In that statement, the minister talked about other energy subsectors. A possible explanation is that those figures to be read by people having access to specific information or rumors by blending one thing with another. But the minister made a reference to the gas sector in a clear way, crystal clear way. The gas system he said, "I don't believe that they will need reforms or major reforms." And if they were to be needed, they would go from 0 to EUR 50 million maximum. That's for the whole of the sector. So I do believe that on our side, any other speculation of the origin of other figures, well, what can I say. We should ask. I don't know who. Probably the ones that published these figures, and I'm talking like in a friendly way where (inaudible) I mean this or that or someone said or someone told me that we're going to say, but what the minister said before the parliament, we have read it carefully and right now it is the Bible for us. I cannot say things more clear, right? With regards to the second which was -- the second question was, well, we've got a dividend for 2020, which is set with a growth of 5%. And as you may have seen, the cash flow and the cash flows we have allow us to think that this is solid. Starting from 2021, we can't wait to have a strategic plan. Probably by 2019 or 2020 when we have a clear view of what will be the regulatory structure of 2021, we will provide more information. But right now we can provide just any number. So we are working with 2 complementary hypotheses. The first one is that since 2020, 2021, we'll have complementary revenues coming from the Trans Adriatic Pipeline, increasing our revenues. That's doing nothing more. And in that period of time and later after 2021, we will continue making investments, brownfield investments, so that will increase our revenues. And thirdly, the third package or the third leg or pillar is our belief that despite all the noise regarding the regulation in January is that this Gas System situation by 2020, 2021 will be a much better situation than the one the system had in 2013, 2014, which is what originates the changes in regulation. So we believe independent on the technicalities that regulators may use, the gas system regulation in Spain luckily will not need to have major revisions. On the contrary, it will be a system perfectly in balance having frozen tariffs and eliminating tariff deficit by 2023, 2024 or before. Anyway, I'm just right now giving you forecast of dividends after 2020. It's not sensitive on our side. And the only thing I can tell you is that we firmly believe that we'll have a same growth rate, but we cannot give you more figures right now. Finally, by 2020, our affiliates' contributions will be around 25%. That if we understand that in this period, we will have no new investments carried out. If during this period, 2018, 2019, 2020, if we were to have another brownfield investment, that 25% could go to 30% or slightly above 30% of investment.

Operator

The next question comes from Olivier Van Doosselaere from Exane.



Olivier Pascal Michel Van Doosselaere - *Exane BNP Paribas, Research Division - Analyst of Utilities*

Most have already been asked. I actually just have 1 to clarify what you're assuming in terms of contribution from TAP. So do you assume any earnings contribution from TAP in 2020, but then dividend may be only in 2021? Is that the right way of looking at it for the commissioning already in 2020?

Unidentified Company Representative

Well, according to the figures that our Chief Financial Officer is sharing with me, in 2020 if we consider that in March the TAP will start working, then we will have a new revenue to our net profit of EUR 36 million. I'm not talking about dividend. I'm only talking about the increase in revenue that revenue that does not exist.

Operator

The next question comes from Maurice Choy from RBC.

Maurice Choy - *RBC Capital Markets, LLC, Research Division - Analyst*

Two questions for me. The first question is back again to regulation. I appreciate the comments that you have shared from the minister, but I wanted to know if your view of the tariff deficits is consistent with what CNMC has been (inaudible). And the second question, and this is more of a clarification. Back in this 0 to EUR 50 million potential (inaudible) roughly around EUR 20 million of this potential cut is included in the 2020. Is that correct?

Unidentified Company Representative

Maurice Choy, sorry. We do apologize, but before technical problems. Maybe you're somewhere where there is a lot of noise. We have not been able to understand the questions you've raised. Can you please--

Maurice Choy - *RBC Capital Markets, LLC, Research Division - Analyst*

Yeah, sure--

Unidentified Company Representative

Call us on the telephone. I will not provide you with an answer because we couldn't hear what you were asking. So can we ask you to call us in 5 minutes so we can answer.

Maurice Choy - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. I shall call.

Operator

If there are no further questions, we shall now close the conference call. Thank you everyone for your attendance. Thank you.

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