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ENG.MC - Half Year 2018 Enagas SA Earnings Call

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PRESENTATION

Unidentified Company Representative

Hello. Good morning, everyone. Welcome to the first semester's results presentation of the year 2018. The results were published this morning before the opening bell and are available on our website, as it's normal, www.enagas.es. Antonio Lladen, Chairman of Enagás, will host the presentation. We expect the call to last around 20 minutes. And afterwards, there will be a Q&A session, during which we will try to answer any questions as fully as possible.

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

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

Good morning, ladies and gentlemen. Thank you very much for your attention. To begin, I'd like to point out that the results for the first 6 months of 2018 are fully, fully in line with the objectives set for the whole of the year that we'll see afterwards. As well as presenting the main highlights this morning, I shall be using this call to discuss some key issues for Enagás at present.

I'd like to remind you that in the figures for the first half of 2018, the consolidation of GNL Quintero by global integration is already homogenous with the first half of 2017. I must also recall indices that in that half, a one-off accounting effect was recorded in nonrecurring net profit of EUR 52.4 million.

I shall now comment the headline figures, which are shown in detail in the presentation. They are grouped into 5 points. The first point is the net profit after tax. That is EUR 219.8 million. This figure is just 1% higher than the figure for the first half of 2017 if we exclude the goodwill accounted in -- for January in 2017 as a result of the revaluation of the stake in GNL Quintero that we were talking about before that's the surplus. This growth is in line with the expectations for the whole of the year 2018. These results have been, of course -- been possible, thanks to 2 key factors: first, the comprehensive expenditure control, both operational and financial, which we announced in our 2017-2020 outlook; and secondly, thanks to the strong performance by our affiliates. At the closure of first semester, they represented 21.2% of net profit after tax. This is 12.6% higher than the one -- that what we had in the first semester 2017. The second point is that the funds from operations stand at EUR 416.6 million. The third element is that dividends from subsidiaries represent EUR 44.3 million. The difference compared to the first half of 2017 comes from the different timetable for obtaining dividends from affiliates. We still expect to receive dividends for value of EUR 120 million from indices for the whole of this year. The fourth point, funds from operation over net debt ratio, including consolidated GNL Quintero, continues to pick up and ended at the first half at 17.7% versus 15.9%, which we obtained in the first half of 2017. And finally, the fifth point, during the first 6 months of 2018, Enagás has invested



EUR 102.1 million. Our main investment was done at the Trans Adriatic Pipeline with EUR 84.8 million. The rest corresponds to small investments in GNL Quintero and the Spanish-regulated business.

If we follow the trends shown in the first quarter, this first half of 2018 has been featured by strong cash generation and by the reduction of debt in the sum of EUR 454 million. Allow me to make 4 points on this issue. First, consolidated net debt as of 30 of June, as a consequence, is EUR 4.554 billion. This strong debt reduction follows the deleveraging initiated in 2017. And this is the result of the strong cash generation at Enagás and the reduced need to invest in the Spanish-regulated business. The second element is the net cost of consolidated debt represents 2.7%, slightly below that 2.8% that we had on the first half of 2017. Also, our sources of funding are still diversified. 68% of funding of the debt is in capital markets. 22% of this debt is funded with loans from the Official credit Institute, ICO, and by the European Investment Bank. And 10% is funded by commercial debt. And the fourth element of the financial position is that over 80% of our debt is at fixed rate. At the end of the first half, Enagás' liquidity totaled EUR 2.850 billion, and this allows us to maintain a high solvency level and comfortably cover over upcoming debt maturities. And I must say that they will not be significant until 2022. As they reflect of this strong financial situation, it's important to highlight that both agencies -- rating agencies, Standard & Poor's and Fitch, have confirmed our A- rating in the past month. Both agencies stand out our credit rating, which is one of the best in the Spanish market.

Now I'd like to bring you up to date with our internal investment. First of all, I'll start with the Trans Adriatic Pipeline, T-A-P or TAP project. There's been some media and political coverage of this project since the recent elections in Italy in last week. So let me summarize for you what we believe are the project's main aspects.

First of all, the TAP's management team has met with the Italian administration in (inaudible) to explain the strategic and the pan-European relevance of this project and Italy's importance as a natural gas hub. It seems that these talks have been very positive. The progress, on the other hand, surpasses 74% of completion, as the last news given by the Board of Directors of TAP, and there have been no delays on the schedule.

On the other hand, the Trans-Anatolian Natural Gas Pipeline, the TANAP, which is the gases that -- which precedes geographically TAP, is now operational and supplying gas to the Turkish market. This is excellent piece of news.

On the other side, this month, the European Bank for Reconstruction and Development has approved a financing for the project with net sum of EUR 500 million. This is in addition to the European Investment Bank's agreement to finance not long ago EUR 1.5 billion. We expect for the financing of the project to be due -- to end in 2018. And once it's due, our financial -- our final equity investment will be of around EUR 270 million.

I also want to detail the state of the art of the GSP, Gasoducto del Sur Peruano, project on July 2. Enagás filed a request for arbitration against the Republic of Peru before the International Centre for Settlement of Investment Disputes regarding our investment in GSP. We, Enagás, remains hopeful that an agreement will be reached at some moment to put an end to the arbitration proceedings. And we are at the disposal of the Republic of Peru to enter into the necessary discussions to reach in a friendly solution. After in the conference call, if you wish, we will give you more details on this issue.

I am now going to stop briefly in order to review our international investments. Ever since in 2011, 2012, we started our international expansion. In that sense, Enagás has invested around EUR 1.3 billion in brownfield projects. So projects that are already finished and are already working, that will contribute EUR 120 million to our cash flow during 2018, and that will bring a dividend yield of 10%. International investments that we have carried out in 2016 and 2017 almost covered all of the objectives that were established in our strategic plan up till 2020. The contribution of our affiliates to our net profit, as you saw, represents 21.2%. The current phase of the economic cycle in which the gas industry finds itself has caused for an out-of-proportion rise in the price of midstream assets. That is why we decided to slow down the rhythm of our international investment. If this trend is to be reverted and we start doing new investments, then we will increase the growth objective that we had established for 2020.

As for the demand for natural gas in Spain during this first semester, it's grown 5.9% when compared to the same period in 2017. Let's remember that 2017 was also a record year with regards to general resolution of demand. We still believe that it is noteworthy to talk about the industrial demand -- national and industrial demand that has grown, and that is completely linked to industrial demand, as I told you, represented more than 60% of total demand; as well as to temperatures, which were a bit cooler than the previous year. If we do a total calculation of the first semester



with the data we currently have, we estimate that it would be prudent to close 2018 with a volume of demand that is similar to that of 2017. This obviously is a prudent forecast, a conservative forecast, because if during the second half, we were to have a cold wave, growth would be greater.

As a consequence of this, the gas system is in balance. Since 2013, demand for natural gas has grown at a 5% rhythm a year, as an average. And forecasts show that it will keep on growing constantly in the 2018 to 2030 period at a steady growth of 1.1%. This is a bit more conservative than what we have calculated. This is what we find in the paper of our experts committee. We have, as I told you, been a bit more conservative than we were to expect in this scenario. So with this data, our estimate is that in 2018, the system will start to generate the surplus, and this trend will continue in the next years. This will allow us to pay all of the system's debt that had been accumulated during the 2010-2014 period in a shorter period than what we have presumed initially in the regulatory system.

On the other hand, it is important to -- or interesting to see how we find ourselves in -- with regards to energy transition and decarbonization. At the beginning of this year, let's remember that a document was published on energy transition that was drafted by an experts committee. We already mentioned it during the conference call on April. The conclusions of the report are positive for the sectors since we predict a key role for natural gas due to its advantages with regards to benefits in terms of environment, competitiveness and safety and as the main back half for decarbonized and more renewable economy. On the other hand, during the second half -- second semester of the year, there has been a change in government in Spain. The new government has shown its support to the acceleration of the development of renewable energies and its commitment to a low carbon emission energy model.

From Enagás, we consider in a very positive way this energy policy of the government because it establishes a positive environment for both gas demand as well as the development of new growth opportunities for our company. We are aware of the fact that decarbonization is a process that is unstoppable, and we are analyzing and participating in projects that are linked with renewable, nonelectric energies, such as hydrogen, such as biomethane and biogas.

And at Enagás, we also actively participate in projects to promote the use of natural gas -- liquid natural gas for maritime transport and, in some cases, for heavy road transport. This is what we call the CORE LNGas hive project. The objective is to develop an integrated, secure and efficient LNG logistics chain for the supply of LNG as the preferred source of energy for the transport sector, especially maritime transport. And this is something that has the support of the EU. And obviously, we mustn't forget our investment in all of the other various ways of improving energy efficiency.

And I have to also remind you of the fact that one of our strategic priorities is to offer our shareholders a -- an attractive and sustainable remuneration. On July 5, 2 weeks ago, we have paid a complementary dividend against 2017 for an amount of EUR 0.876 per share. This payment brings the total dividend payment charge to 2017 to EUR 1.46 per share. This dividend is on -- is in line with the commitment we engaged ourselves with, with our shareholders of having an increase of 5% of the dividend payout each year until 2020.

And now as for sustainability, to finish, Enagás maintains its leadership position in the main sustainability indices. And evidence of that are all the awards that we have won during this year. And the objective of reinforcing our commitment during this first 6 months, we have decided to be part of the gender diversity project and campaign called Equal by 30 with the objective of promoting women's leadership in the energy sector. And we have also signed commitment to adopt the principles to reduce methane emissions in the natural gas value chain.

And before I conclude, I would like to remind you of our main objective for 2018. First of all, we need to distribute dividend -- a dividend of EUR 1.53 per share, which represents a 5% increase compared to 2017. And that is in line with our dividend policy. Secondly, to obtain a EUR 443 million net profit, which represents -- or could represent a growth of 1% compared to the stand-alone profit of 2017. This evolution of the benefit is in line with the 3% increase in the compound annual growth rate that was announced or agreed for the period that goes up to 2020. And number three, we want to achieve a dividend volume for our affiliates of around EUR 120 million. And the fourth point is to continue reducing debt and maintaining a stand-alone funds from operation over net debt ratio of more than 15%.

So as the main conclusion, and as I said at the beginning, our first half results are in line with our 2018 goal. We are maintaining our leadership in sustainability. We are optimistic with regards to the role of natural gas for energy transition, and we see clear opportunities for our company in

this decarbonization process. And lastly and third place, we continue to strengthen our financial situation, which will enable us to continue undertaking international investments in the future that will create value and that will allow us to complement our regulated cash flow.

So in any case, I do thank you for your attention, and you are more than welcome to ask whatever questions you feel appropriate. And as we always do, we will try to give you detailed answers to your questions. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question will be done by Javier Suarez of Mediobanca.

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

I have 3 questions. The first question has to do with regulation in Spain. Could the President be so kind to give us an update on any conversation that you might have had or the last conversation you've had with the new government? It is interesting for me to notice (inaudible), you've mentioned it, but I would like to insist on it, what's the need you see on the new government to review the regulation? Do they feel they need to review the regulation of the sector? And from your point of view, what do you think will be the priorities or should be the priorities? And what are the -- what is the role of gas in this energy transition process that the government wants to implement? That would be the first question. The second question would be with regards to TAP, the Trans Adriatic Pipeline. I would like to know if you think that a delay could occur in the inauguration opening of this infrastructure is due to the political situation. If what is happening in Italy with the government, at some point, even question this infrastructure, et cetera, et cetera, do you think that this could have an impact on the opening of the infrastructure or the true-up of the renegotiation of this instrument? And this should happen at the end of 2018. Do you think that this political uncertainty could have some sort of impact on the true-ups? And the third has to do with the Peruvian situation. Could you give us more information with regards to your negotiations with the Peruvian government regarding the Peruvian pipeline? And with regards to pipeline, what do you think will be the right time line for the resolution of this situation?

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

Okay, thank you very much, Mr. Javier Suarez. I will start, following the opposite sense to your question, so I'll start with Peru. In Peru, we do maintain this will of finding at some point -- or reaching at some point an agreement with the Peruvian government. We are in contact with them. But I'm sure you know that the volatility of the situation, the political situation in Peru in the last few months has been quite high. There has been a change in the President and the First Minister. The change also affected the Minister for Energy. And there have actually been some other changes amongst the ministers. So we still don't see the circumstances to be the right ones for this to be closed, but we do believe that in the future, we will be able to slow the situation. So we still think that we will manage to reach an agreement in this process. And if not, obviously, we have initiated an arbitration process. So our international advisers, our counsel say that it is a very serious, rigorous pathway to follow. So we will be working on both ways in parallel. And now as for T-A-P, as for TAP, the last data that the board of administrators for TAP say -- said that there will be no delays. So the true-up will not be affected, and we will not necessarily see any delays in the works in the construction. And according to the contacts that we have maintained because I -- as a President, I have to travel to Italy so that I could talk to our main partners now in the project. They've told us that they were very committed to maintaining highest-level contacts with the government in Italy. And we have to make [an answer here] because although it is true that there have been some statements in the media regarding what are coming supposedly from the Italian government, planting doubts regarding to this, all the decisions that have been made have followed the right track. On the one hand, the third unanimity agreement, although the European Bank refinanced the project. And then a technicality, which is the fact that the current Italian government is that -- a union between (inaudible). And I believe that they have signed an agreement, which is the government agreement. And in this government agreement, there is one clause where they talk about some infrastructures that the new government did not consider enough or adequate, and the Trans Adriatic Pipeline project is not in this part. So what our partners and the board of administrators of TAP tell us that there will be no problem. So in that sense, that's the information that we have and that we have shared with you. And as for the Spanish regulation, I have already met during a



long meeting with the new minister, Ms. Teresa Ribeiro; and Secretary of Estate, Mr. José Domínguez. And we -- I had another work meeting with the Secretary of State dealing with more specific issues. So my impression has been very positive. I believe that the minister has a -- an energy transition project that is quite clear, very much focused on renewable energies and with a clear intent of going to a decarbonized economy always within the framework of the general decision in the European Union. So it's not for each country to follow its own path. We should have a harmonized plan agreed upon at the EU. As for Enagás, this perfectly fits with the philosophy that we have developed in our strategic plan. And at some point, we have talked about that plan with all of you. So we do believe that the role the natural gas could have in this transition plan to a decarbonized society is something that's quite clear and very well recognized by all experts in the sector by the EU. So in that sense, we do believe that we could very well fit in our strategy, we could be complementary, we will not be protagonists, obviously, but we can be complementary in this decarbonization process. And now going to the specifics, the minister as well as the Secretary of State did not communicate or did not give me any element that would make me think that they have the intention of modifying the gas regulation before the end of the period. Being completely honest, this is something that I put on the table, I have to say. I talked to them about what the regulation looks like currently. And the conclusion that I drew, it is my personal conclusion, but it was a -- perfectly understood that there was a period and that before that period is done, we will have to initiate a process to discuss and analyze and take stock of how the regulation has fared during the 2014 to 2020 period. And then we will have to find some new mastery lines or mastery lines for the new regulation. And I think that they understand this process well. It will be initiated during the year 2019, this process of analysis that the government has barely been a month in their position. So as of today, I don't really detect any different elements or any element that is different to this scheme. So we're not worried in that sense. And the evolution, I'm talking about the gas system, there are other aspects -- other energy aspects which I recognize are a bit more complex, closing or not closing nuclear stations, closing or not closing coal stations. These are aspects that obviously will be one of the priorities for the minister much more so than gas because gas is behaving in a fiscal way, we could say. So during these work meetings, I thought it was a very positive situation. And I do believe that we can modestly help, and we can complement this energy transition process that will obviously last years. This is not something that can be solved in a year's time. And maybe at some other point, with more time, we could talk about that, if you want. We could talk about Enagás' ideas in this decarbonization process. Okay, thank you very much, and I'm sorry it took too much for me to answer this question. Thank you.

Operator

Next question by José Ruiz from Macquarie.

José Javier Ruiz Fernandez - Macquarie Research - Analyst

Two questions. One, regarding your project of vehicular natural gas, are you talking with the regulator or with the government if this could be a partially regulated business, or would it be a fully liberalized business? Are you thinking about alliances with other oil companies? Second question, just out of curiosity, what caused the change in the calendar in the payment of dividends by the international affiliate?

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

Thank you, Mr. José Ruiz. For the transport LNG and the use of liquid -- LNG for a vessel, you make your track when you walk. These are very new norms we're developing -- not us, but Europe is developing new norms and standards, so we don't have visibility if this is going to be something strictly regulated in the end or not. It's clear that the -- at the header, we are in a regulated system, so LNG used will come from the regas plants, our plants, or the plants of other countries that do have them. On the other side, as carriers, we don't want to neither sell or buy what we're doing. And what we're going to do is to facilitate to the maximum infrastructures and facilities, facilitates facilities so this mechanism can be done. If this will be on a regulated field in Europe, well, right now, I cannot give you an answer. I guess, the regulators themselves will -- as long as things happen well and as long as they develop, they will take decisions. But I insist, in the end, the raw material to be used comes from regulated elements, which is the LNG, liquefied natural gas, that can be transported in a vessel, in a truck, as it's already done, which is used as a fuel for big vessels. And as for the calendar, there are no specific elements. Every year, due to reasons in the subsidiaries, there are payment that is done from the second to the first semester and vice versa. So right now, I cannot tell you specifically [and continue we see] elements, but there are no elements to be told. And I -- if I recall, every year, we have some dividend that maybe was to be paid in June and was paid in July and vice versa. So this can change. This is normal to happen. Thank you.



Operator

Next question will be asked by [George Kamaras].

Unidentified Analyst

I have 2 questions, sir. Could you explain in greater detail what the idea is for the next regulation, the one that will go from 26 to 20 -- '21 to '26? You said that the government doesn't want to change until the beginning of the next regulatory period, but I would like to understand how you see that. What are your ideas for the next regulatory period? Because it is still possible for there to be some cuts in payments. And the second question has to do with the projects in Morocco. Could you explain to us how it would go? Would you go from Spain to Morocco or from Morocco to Spain? Could you give us more information regarding these projects?

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

Okay, thank you very much, [Mr. George Kamaras]. As with the regulators and the regulation, the meetings I've had with the government, I gave them -- I've given you already my personal opinion. I have not detected that they have any intention to introduce changes in the regulation at this point. That is my impression right now. Maybe in a few months, they will decide something different, but we'll see that, but that's my opinion. Now the minister has told me that she wants, due to her personal experience in other responsibility, positions that they need regulatory stability. She is very much aware the regulatory stability is one of the key elements for the needs of a line for the system in general. And as with the gas system, I am aware that there are other questions. We have, for instance, the issue of closing or not closing nuclear stations that are obviously a hot topic that will be dealt with in the next few months. And it is a hot topic not just in the country but in the EU in general. As for us, we believe that the key factor, has already been explained a number of times, is that the objective of the Regulation '14-'20 was to eliminate the entire deficit, to be more precise, not to continue creating more entire deficit and try and get rid of what was accumulated. And we are very much in line to make it in a shorter time period. And this leads us to think that a new regulation that would have to start in January 1, 2021, would put the regulator in a much more comfortable situation than the one that the regulator had in 2013, 2014. That's our opinion. And after my conversations with the minister and the Secretary of State, I understand that they know that, for that change in regulation process to begin, they can't improvise it. They will have to start it with time enough for it to be well fine-tuned. So in 2019, they will start the analysis and the conversation between the regulator and the sector so that they can take stock of the current period and what could be the needs in the future. Our idea is that the system, the revenue and cost system for the gas sector is not just balanced, but it's actually creating a surplus. So our opinion currently is that it doesn't seem that the regulation of the system after '21 -- 2021 should be dramatically different to the one that we currently have. Actually, nothing seems to be leading us that way. Nonetheless, if the opinion and my analysis are right, I think that during the next year, we will see that the whole sector and all of the companies will keep on having formal contacts with the regulators so that we can take stock on the current regulations so that we can set the basis for a new regulation, which will be decided by the regulator, obviously, but after having heard what all the parties involved or the stakeholders have to say. So in that sense, we will feel comfortable with the scheme that we have before us. And now as for the projects in Morocco, well, we've -- and this has been published in some of the media. We, at this point, are involved in a project -- a small project, but nonetheless, an interesting project, in my view, which is the following. In the south of Morocco, some time ago, a few gas associates were found. There is a company that owns these sites. This company has already reached an agreement with the main electrical consumer in Morocco, which is Office National de l'Electricité, to sell them this gas so that they can use it in combined cycles. And there was private offer tenders. And many consortiums have presented themselves so that they can find an operator -- a transmission operator, a TSO, that will be in charge of the construction, operation and maintenance of a small gasoduct that will have to link the wells to the consumption site. So this is a project that is worth EUR 150 million to EUR 200 million. And we have been retained. We had been hired as the -- we have been kept as the main actors. We have a 4 to 5 month period to decide with the owners of the project if our proposal is good enough for them. And if that is the case, we will be together with some partners because we hold 45% of the consortium. We would be in charge of building the gasoduct and operating it during a certain period of time in a shipper pay agreement so that we can send the gas to the consumption site. It is a small project with regards to its volume, but from a qualitative point of view, we are thrilled with it because we consider it an interesting project within our -- the general gasification plan of the Kingdom of Morocco, which is much more ambitious. This is a plan that has been started by the Kingdom of Morocco, which I'm sure you already know, that wants to build a big gasoduct that would cross the country from north to south, that would end with the regasification plant in the south of Morocco, and that would then branch out with (inaudible) and whole country. So in that sense, we are also following up closely, just like other gas companies are, what happens. But this



project is still not mature enough. It is -- this -- they're just starting. The government is just starting that. I think I have answered your questions. Thank you very much.

Operator

Next question by Rui Dias from UBS.

Rui Dias - *UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst*

Three questions, very quick ones. First, in terms of the regulatory review, could you recall what's going to be the time line for the review -- regulatory review process? And I'd like to ask also, have you, meanwhile, had any news on the review of the standard cost? Otherwise, should we expect any news by the year-end? That was the first question. Second question, I'm curious about the nonelectric renewable project that you were mentioning before. My question is, how will this impact the business of Enagás in the future? And what are the opportunities for growth coming from these to the -- for the company? And the last question, and this is out of curiosity, too. I'd like to know if Enagás will be able to or will have any interest for the concession that Naturgy has in the pipeline that will be renegotiated by 2020.

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

Thank you, Mr. Peiro (sic) [Mr. Dias]. As for regulation is concerned, the calendar really is the one I explained before. The current regulation foresees that 1 year before the expiry date, we shall start formal contact with -- contract, well, between the regulator and the sector -- the company -- sector's companies will start. That should be done next year. And I get the feeling, as I said before, that's the idea that, as of today, the ministry has. Of course, they've been, for very little time, the Chair, so may -- they might change their opinion. But I -- my feeling is that I've had is that the team and the Chair knows very well the regulation, and they know these working plan. And I think that's what they're going to be following. The CNMC, since long -- since months, has been commissioned by the ministry to make a survey on OPEC, et cetera. And this commissioning is done by the ministry, but which is not relevant -- I mean, sorry, not relevant, is not compulsory, is not binding. It's not binding. It's not relevant, but it's not binding. It's not -- it's reported that the ministry can ask for the CNMC, they required it some time ago. So as far as I know, they're working on it. And I cannot give you any news on the content, which we don't know; neither when is it that the report is going to be transferred to the ministry and when it's going to make public and when the ministry will take specific decisions or not or will they just add it to the business plan to review the regulation when time comes. That will have to wait. As for nonrenewable gas, I don't have the time to give you more details. But as the telegram reply, nonrenewable gas is normally centered or the experts of the sector focuses on 3 legs, hydrogen production with renewable electricity. Hydrogen can be produced in different matters -- manners, but this will not be green -- could not be labeled as green if it's not produced with the system that exists through electricity produced with renewable. That's a working path that we're analyzing. The second possibility, to use the biogas coming from the processes of cyclical recovery to, for example, take the remains of garbage, organic waste or organic agriculture and treat them and produce, with this treatment, gas that can be used -- perfectly used in the grid. And then we would have natural liquefied gas used as a fuel -- substitution fuel for heavy transport. These are the 3 major paths. Right now, we cannot give you specific figures, but I can tell you, nonetheless, for the first time, that in the updated level, we'll do -- on our strategic plan, whenever we present the results of 2018, we are going to, on this aspect, make some specific comments. We'll give you more explanation with more time, and we will even give you some of first investment figures for a period of time that could go from 4 to 5 years. These are issues on the table developing in Europe. This is a work in progress in Europe. But I think that we will be able to even give you more specific investments that Enagás will do in these projects, in these ideas, but this will be seen later on, on the year. And then the Maghreb-Europe gasoduct that crosses Morocco, when this concession expires, the concession goes back to the Moroccan government. So we do not know what the -- what will the Moroccan government will want to do, if they will call for another tender or not. If Naturgy, that has all the granted rights will continue or not, and -- but we have a very good relationship with Naturgy, with the Moroccan government. So when this government takes the decision, well, we will be listening. And if there's any possibility for collaboration, we will be willing to do so. As of today, I cannot tell you anything else because we don't have any more visibility. Thank you very much.



Operator

The next question will be asked by Victor Peiro from GVC Gaesco.

Victor Peiro Pérez - *GVC Gaesco Beka, SV, SA, Research Division - Head of Research*

I have 2 questions, very specific questions. First of all, could you remind us what are the profitability goals with regards to internal return rate for the TAP project, the IRR for TAP? What are the current operation data? And the second one, do you consider the possibility, following Naturgy's policy to have some sort of provision for some assets that have low usage percentage in Spain?

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

Thank you so much. Allow me to correct one mistake. I am now answering Mr. Peiro, and I think that previously was Mr. Rui Dias, so I'm sorry. I confused the name. So the profitability of TAP, it is around 10% to 11%. That's the IRR that we, the shareholders, are expecting. And as for the second question, we need to make an important distinction here. The assets that you referred to that Naturgy did a write-off are assets -- are production assets. They're isolated in the sense that they either work or they don't work. We don't have the tender assets, and let me explain myself. For instance, regasification plant, the regas plants that we have, in average, have the usage of 40%, 45% more or less currently. But there are 2 important questions. On the one hand, it is the complementary system to provide with safety to the gasoduct that we didn't have these plants. If we didn't have gasoduct, the one that would remain would work at 100%. But if we were to have a problem, we wouldn't have a plan B. We wouldn't have a safety net. And the second thing is that the plant works like a lung. So sometimes, they are at full; and sometimes, they are completely empty. So this average is hiding somehow the fact that at some points or times, they're full. And for instance, during this wintertime, when we had the highest chicken consumption in Europe, we got gas from our storage and from the plants as well. And that's why we didn't have any problems in Spain. And not just that, we could even sell that gas to other European countries. So our working schedule is not the same one that our clients might have. We do have some terminals that either work or they don't, depending on what the electrical system will require from them. And in that line, I wanted to remind you that we have a technical directive or technical rule from -- coming from the EU that forces us to make calculations at the beginning of the season -- at the beginning of the winter season so that we can run some calculations for a forecast to know what would happen in the whole system if one of the main entries of the system, the biggest one, were to be blocked. I mean blocked if it couldn't work for whatever reason, for instance, the Maghreb-Europe gasoduct or the Medgaz or the biggest plant, which is one in Barcelona. So in those situations, we would have to run a simulation and consider that the whole system without that point of entrance could provide gas to all of its clients and they could get to wherever it is needed. So we start from a basis that forces us to have an overcapacity so that we can face issues such as these ones or increases in demand that are not normal. So the answer is we don't have any intention to do this. And if we were to do this, I don't think we would be allowed to do so. The regulator wouldn't allow it. So this is a scheme, and I think I've answered your question. Thank you very much.

Operator

Next question by Fernando Lafuente from Alantra.

Fernando Lafuente Seseña - *Alantra Equities Sociedad de Valores, S.A., Research Division - Research Analyst*

I wanted to make a very quick question. Well, first of all, thank you for all the clarity with the regulation messages because the message is very clear for 2021 on your side. The question is basically following the line of international investments. In the past, you talked about the possibility to sell or to look for a partner for any corporate operation providing funds to that part to be able to invest. I know the investment options are not so clear right now, but I'd like to know how that is. Have you changed your mindset? Or is there any relevant matter? Or how the situation evolved, if it has evolved?

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

Thank you, Mr. Fernando Lafuente. As for regulation, of course, I've already said how we do see right now, as of today, after the new government, the situation. So we will -- we know -- you know that we are very transparent. So if at any moment in time, there's any piece of news, we will let you know. As far as international investments, well, we maintain the general conceptual lines that you know as for the capital objectives. And in that sense, there are 2 matters that might be related to one another. First, the possibility to find -- instead of having project after project, to find a more or less permanent partner, allowing us to jointly see these investments, analyze them. We are still in that process. We have contacts with different possible partners. But as you've perfectly said, if -- for that operation of that nature to become real, probably -- very probably, we need for this to be more specific with the new project, that's the time -- the timely operation. So we're working in both directions. There's nothing new in that sense. We are not in a hurry in a stricter sense. So I mean, this is an idea that looks as a nice idea to be done in the coming 2, 3 years. So very probably, if we find an opportunity together with that hypothetical partner and we find a new opportunity that will allow us to do the new operation and that greater effort together. The other dancing partner that goes hand in hand, but there's no hurry at all here, and I was asked this in different conference calls, it is the possibility of rotate assets. We're fully open. I mean, we do have assets in which we try to have some kind of efficiency, so they are more efficient with the time passing. If there's any asset, I would think that their efficiency is reaching its flat rate. And if somebody is telling us, "I'm interested on that," well, we would be open to doing that switch. I'm not thinking about big assets, but this is also something that, as we buy, we can also sell. The time or the opportunity has not appeared. If it appears, we will analyze it. And if it's good, we would do so. So as a conclusion, we're at a certain standby right now. I've explained it before. We think that brownfield assets already existing are very expensive for us, so we're just stopping the -- those investments, thinking that what comes in the short and midterm will be an increase of interest rate, so the price of these assets might change. As for greenfield assets, right now, we have got a major asset, which is the Trans Adriatic Pipeline. And we had still haven't detected new greenfield assets that are real assets to start in 6 months' time. So that's what we have on our plate, and that's enough, and that we are following our cautious investment line. But as you have seen, this semester represents more than 20% of the net profit coming to complement our revenue's stable flow from the regulated business in Spain. But we know that it's not going to grow at least in the coming 6, 7, 8 years. Thank you.

Operator

The next question will be asked by Jose Lopez from Millennium.

José López

I wanted to, first of all, know about these last few weeks, we have seen that there has been much controversy with regards to Nord Stream 2 project that is going to link Germany and Russia. You say that the EU should have some sort of energy transition policy that is coordinated. And I see that Spain has a high regasification capacity. Don't you think it'd be a good moment for Enagás and the Spanish government to put on the table the topic of increasing the interconnections with France? And beyond that, when do you think -- how much do you think we would need with regards to CapEx for this to become a reality?

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

Thank you very much, Mr. José López. Yes, obviously, in Europe, we are currently discussing in depth -- and not just in EU but also in the NATO conference that took place recently, Nord Stream was one of the items that were tackled. And we and the Spanish government in general have -- for some time, having a clear strategy. Trans Adriatic Pipeline is a clear example of trying to find in Europe some sort of complementarity so that we can get gas from Algeria; from Russia because the Russian one is the one that controls the whole of the market; but also having gas come from other parts of the world. And so there are 2 elements. You have regasification plants that allow you to receive gas from any point in the world. This obviously has an increased cost because you have to liquefy, transport, reclassify, but it provides you with a supply certainty. And the TAP is the only example. It's a gasoduct that tries through Turkey to recover gas from Azerbaijan so that we can complement the European gas offer, not to substitute anyone but rather to become a complement. And it's true that during this month, the month of July, in Lisbon, there will be a meeting with the chief of state of governments in Portugal and the EU, let's say, to discuss, amongst others, interconnection. And this is a European topic, really. It's not about Spain saying yes or no. We need to reach agreements, agreements by all the involved parties. We also need to see what the



costs could be for each of the countries. And for us, the CapEx involved in this first phase would be a small CapEx. It could be around EUR 100 million, more or less, round figures. For France, it'd be a bit more, around EUR 140 million, EUR 150 million during this first phase. So these are now important figures, but it is true that, that would lead in the French side of things for other investments in other points of the French territory, which would be higher. And that is one of the most sensitive points, if this will happen or won't happen, who's paying for that cost? Will it be the EU who will pay for it or the French consumers or Portuguese and Spanish consumers? Will everyone pay for this? So this is a debate that is ongoing, and that is out of the scope of companies. We are simply providing our government with all the technical data that they require, and we are supplying the general directors of energy in the EU with that data as well. And we will just wait for whatever they decide in that line. Now as for general terms, I do agree with you. A balance -- a positive balance for Europe would be to keep on having a good Russian gas supply, which is the main gas coming to us and the closest to us from a geographical standpoint, especially in Northern Europe and Central Europe. But that needs to be balanced with other sources -- other gas sources to provide more supply certainty. And the Trans Adriatic Pipeline is following this line. And it is also true that in Russia, currently, there are complementary projects, such as liquid gas from Yamal that tries to provide with -- not just provide with liquid natural gas and coming from Russia now to Europe but also other parts in the world. So the gas sector is moving around. And especially due to this decarbonization process, currently in China, they are consuming much more gas now than a year ago. Why? Because Russia -- Chinese are closing down their coal central. So this is something moving. And it is difficult for the picture to give us -- it is difficult for us to get a general picture because I would have never known that, a year ago, that China would be consuming so much more gas. But they are now doing it. Liquid gas coming from many parts of the world. And this is the framework we will be moving around in the next 5 to 10 years. And this is very much linked to the decarbonization process. But I am now giving too long an explanation, and I guess this is not the time to do so. Thank you very much.

Operator

There are no further Spanish questions, so we will be giving the floor. Ladies and gentlemen, the first question comes from Olivier Van Doosselaere from Exane.

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

My questions, I have 3. One point you mentioned is that you have and you'll continue to look at possibilities to invest further in places where you already are. I think we know that in Chile, you actually have some capital invested there that you could deploy more. I was wondering if you could give us an update on where things are in terms of potential new opportunities in Chile. Second one -- well, question 2 and 3 are related. I was wondering, you mentioned in the press release some nonrecurring items that helped the strong increase of your associates in the first half of this year. I wonder if you could quantify that. And then secondly, also, if you could just reiterate the full year guidance on EBITDA and net income for the full year at this point. And maybe you can help me if I make a mistake somewhere. But from what I understand, I think the full year EBITDA guidance is for a decrease by 3% year-on-year, although you're up 2% in the first half, whilst the net income guidance is for an underlying increase of 1%, which is in line with what you have in your first half. I kind of wonder, in H2, to get to those targets, it seems like EBITDA should drop by 7%, but net income go up by 1%. I wonder how these things are reconcilable. And is it not possible that, actually, those nonrecurring items in your EBITDA end up driving some upsides to your full year EBITDA target for the year, which includes those associates?

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

Thank you very much, Olivier. I will be answering to your questions, and I'll start with EBITDA. Well, the small modifications that have been made are nonrecurring modifications, some tax benefit derived from prior investments, some accountancy details that will help you have a greater revenue or more reduced revenue, but it's not relevant. For the end of the year, the -- our EBITDA should be around EUR 1.07 billion. And the [PDI] would be EUR 443 million. Obviously, there are always upsides and downsides that we can't foresee. But if things go well, we consider that those would be the 2 figures that we should have as an objective. And as for Chile, there are 2 positions to be made. GNL Quintero, as a company, as a consolidated company, has its own investment plan, which I believe is around EUR 50 million, small investments that they do to improve efficiency and volume in their plants. And then we are also continuing to consider a couple of things in Chile. The change in government was almost mandatory because every time there are elections, and you know that there were, at the end of the year, investment stops, but some projects have started once again to move. And we are actively following up on a couple of possibilities that, in the next 12 months, could be mature enough for us to do something about that, either as Enagás or through GNL Quintero. That would be our idea, really. The company that we already have there with



some partners could be present in these new opportunities. So we are screening in a very detailed way all of these opportunities, and there are 2 things now on the table. This sort of investments -- of energy investments, you know that they take some time, so I don't think that this will be done in the next 2 to 3 months. But I do believe that in the period of 6 to 12 months, we will have more specific news with regards to this. And I think that I have answered all your questions. Thank you very much.

Well, if there are no further questions, we will consider the conference closed. So thank you very much, everyone.

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