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ENG.MC - Q3 2019 Enagas SA Earnings Call

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## PRESENTATION

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

[Interpreted] Good morning, ladies and gentlemen. Welcome to the conference call for the results of the first 9 months of 2019 of Enagás. The results were published this morning before the opening of the market and are available on our website, enagas.es.

Mr. Antonio Llarden, President of Enagás, will lead this conference. We have foreseen a duration of around 20 minutes for the conference, and then we will give the floor to the Q&A session that we will try and answer the questions as detailed as possible.

Thank you for your attention. I shall now give the floor to Mr. Llarden.

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

[Interpreted] Good morning, ladies and gentlemen, and thank you very much for your attention. You all have the presentation in hand with all the information and figures since first thing this morning. I'm going to discuss the main points regarding the figures for the first 9 months, but also I will comment on other highlights that we understand are interesting for you.

The results of these first 3 quarters are in line with the company's objectives for the year as a whole. So please let me summarize the first 5 main highlights for you.

First, net profit, that is EUR 333.1 million, which is 2.3% higher than the results of the same period last year, 2018. This quarterly growth is slightly higher than what we expected in the annual -- in the original annual target, mainly due to the contribution of Tallgrass and DESFA starting this year. Our affiliates continue performing especially well in this sense, contributing almost 30% of our net profit after tax with a significant contribution from our international subsidiaries.

The demand for natural gas, and the third element is -- in the first 9 months, is the highest in the last decade, and I'm talking cumulative figures. They have grown 16.9% versus the same period last year. In fact, as of today, we would be at around somewhat higher than 17%.

Element number four says that the company is still having a strong financial position with over 80% of our debt being fixed rate, with a financial cost of 2.1% and with no significant maturities until the year 2022.

And the last element of the summary. During this 9 months, we have invested EUR 756.5 million, corresponding mainly to our acquisition of a major stake at Tallgrass Energy.



Let me now address other international issues. First, the Trans Adriatic Pipeline, the project TAP, is almost at 90% complete. And it -- commercial operations are foreseen to begin by 2020 as planned. We are very, very pleased by this piece of news that says that the new Italian government is supporting the project. And one of the first things that the government did at the end of August, beginning of September, was to approve the expansion of the Environmental Impact Statement. Therefore, we just have to have a last pending permit, the one of the offshore pipeline, the laying of the offshore pipeline. And we expect having news during this last quarter. Another important piece of news is that we expect that in this fourth quarter, we will start the technical test, gas test, in Greece and also in Albania.

With regards to GSP, let me give you an update, as I always do, on the arbitration procedure. The Arbitral Tribunal has been constituted. And in September, we had, in Washington, the first hearing with the parties. Furthermore, this Arbitral Tribunal has issued its first procedural resolution, that's how it's called, establishing a specific schedule for the process.

Five period -- 5 phases for this resolution: One, statement of complaint and response to the complaint, which is the state that we are right now living; the second phase is to reply; three, rejoinder; fourth, taking of evidence; and the fifth, hearing. According to this calendar of these -- to these phases, our legal advisers believe that the decision completing the arbitration should be handed down by 2022, maybe the end of 2021, 2022. So let's take the year 2022 in order to be cautious. In any case, at Enagás, we remain at the disposal of the Peruvian government to negotiate an agreement that could end the arbitration process.

With regards to the natural gas demand in Spain, as the year has evolved, we've reached accumulated -- the highest accumulated figures since 29 (sic) [2009] at 295 terawatts -- 294 terawatts hours, 16.9% higher than the first 9 months of last year, 2018. This is mainly explained because there's been a growth in the gas demand for the electricity generation, which have doubled between January and September, mainly due to 2 factors. First, it's a structural factor, which we lower -- the higher participation of gas in the -- substituting coal. And another element is the lower hydroelectric generation in the year. We know that this generation varies every 4, 5 years. So this is a factor that repeats in some years, but not in other years. But the thermal gap has come to stay.

Also, the current global context of low prices for natural gas and increasing prices for CO2 rights has given competitive advantage to gas over coal for electricity generation. So thanks to the substitution, the gradual substitution of coal by natural gas, we have been able to reduce CO2 emissions by 20%. That is that we have avoided the emission into the atmosphere, 7 million tons of CO2. In order for you to have a more visual idea, that is equivalent to avoiding the emissions of almost 3 million traditional vehicles, cars during a year. That's what we have avoided. This is a lot. In Spain, we have 10 million cars. And so we have reduced by 30%, the CO2 emissions, of the whole car park just by substituting gradually coal for gas.

Industrial demand is also continuing with a good evolution with an increase of almost 3%. And this is a very, very good indicator because industry is one of the drivers of the Spanish economy.

So this is one of the main functions of gas -- natural gas because, as of today, there is no energy alternative for the industry neither on the short or the medium term. We estimate that this positive trend of gas demand will continue in Spain until the year-end, and we will be closing the year being cautious around 14%, thinking that maybe the last quarter would be of milder temperatures.

So in this context of a strong demand, we are also [living] high use of -- high use moment of gas infrastructure. Let me give you some facts. We are regasing the plants 71% more than the average of the last 5 years, so 74 -- 71% higher regasification. This shows the flexibility of the Spanish gas system in order to respond to any demand situation. So the global performance of gas market and spot market liquidity mean that the liquefied natural gas is globally abundant at very competitive prices. So regassed Spanish plants are consolidating their position as a benchmark. The liquefied natural gas plants and our plants are at levels close to their maximum technical capacity. And contracting storage capacity is continuing to rise, and it's currently at over 90%.

Now as pertains to regulation, as you very well know, the approval process of the 17 circulars of the CNMC is still underway. The circulars pertain to the activities of the gas and electric sector and specifically into what -- regarding what pertains to us. It concerns transport and regasification of the natural gas sector. I'm not going to go over everything that we already explained in the last meeting in the month of July and that you already know perfectly. You know how everything has been unfolding.

Enagás submitted arguments to the draft circulars that apply to us before August 9, which was the deadline established by the CNMC, thus contributing with constructive and technical measures focusing on improving efficiency and productivity that are indeed very consistent with the role that the national plan for energy and decarbonization attributes it to gas infrastructures and energy transition.

It is also very interesting to highlight that the role of natural gas within this transition has been highlighted by the European Union itself with their recent statements made by the new Energy Commissioner, Kadri Simson. This is why Enagás believes that any update of the regulatory framework for energy in a European Union country must be fully aligned with the objectives of the energy transitions so that we can move towards a more decarbonized economy or even fully decarbonized economy. After having presented our submissions, we trust that the regulatory review will be consistent with the established objectives and will allow the energy sector to continue supporting energy transition and decarbonization. In order for this to happen, it is key that we ensure the economic and operational sustainability of the energy system as a whole and, in particular, the Spanish gas system with a reasonable remuneration framework that can be comparable to that of its European peers.

In these last few days, in the last few weeks, the regulator is currently studying the submissions made by the companies affected by this. And it's very likely that in the next few weeks, the CNMC plenary will begin the discussion on the circulars about transport and regasification for the natural gas sector. At Enagás, ever since we presented our submissions, we have held many meetings with CNMC, both at the institutional as well as the technical level, to try and clarify any doubt that could arise and contribute with any necessary information on the different issues raised in our submissions. The company and the whole management team are doing everything in our power, and we will update you on the progress as we have access to more official information about the progress, as we have always done. Nonetheless, the Investor Relations team, as you very well know, is always available to render and provide any information that we have.

Now I will talk about some very important news of this last quarter. I'll be briefer. Perhaps, this, as you know, we're shadowed by regulatory issues. But we must mention that for the fourth consecutive year, we are leaders in the sector, Oil & Gas Storage & Transportation. We are leaders in the Dow Jones Sustainability Index. For 12 years, we have been included in the Dow Jones Index. It's a very select index where, for instance, we can only find 15 Spanish companies. Therefore, we are very proud that we have been recognized because of our commitment to sustainability. Sustainability is one of our strategic priorities at all levels indeed.

And in this sense, I would like to say that a very important part of this commitment manifests itself in our support to energy transition. We are fully convinced of the role that natural gas, renewable gases and gas infrastructures have to play in decarbonization.

I would now like to share with you a new development. Yesterday, our Board of Directors in their monthly meeting approved, by the proposal of the CEO, the creation of a new subsidiary. That is now called EnaGasRenovable to foster renewable gas projects such as, for instance, hydrogen and biomethane, mainly with the goal of performing seasonal storage and network injection. This new company, EnaGasRenovable, is 100% owned by the parent company, Enagás S.A., and will bring together projects that are already underway, such as, for instance, Power to Green Hydrogen in Majorca to build a green hydrogen plant on the island with Acciona, CEMEX and Redexis and the Balearic Islands government and recent projects that are currently underway for power to gas.

And in this package, it also includes other agreements with our major waste managers in Spain to promote biogas and biomethane as well as circular economy. We are fully committed to a carbon-neutral future. This future that, according to the European Commission, will be made feasible in 2020 -- 2050, sorry. We'll not see that everything will be electrifiable currently. Electricity is 20% of the final power. Maybe we could multiply that by 2 and get even to 50%. That is reasonable. But going beyond that, technically, is almost impossible from the standpoint of cost, too. So we know that renewable gases will be essential, and that making the best of existing gas infrastructures to transport such gases is the key to the energy transition happening correctly and at the lowest possible cost.

And I would like to now wrap up so that we can have some time for Q&A, sharing some brief conclusions based on 6 points. Our first 9 months result, the first 3 quarters are -- have shown results that are in line with our expectations for the year as a whole. Our affiliates have already contributed nearly 30% of our net profit after taxes. And as a transmission system operator, we are fully aware that in order to maintain our efficiency and strength, we must keep up these differentiated and complementary parts of the company, our regulated domestic part and an international part, too.

The third point is that the demand for gas in Spain is performing exceptionally. We are hitting record levels in the last decade, and our forecast for growth for the year as a whole is 14%. The gas system is also demonstrating its flexibility -- its enormous flexibility at a time of very high and changing demand with very high contractive and intensive use of our infrastructure.

Fourth point, we are also [in] once again, that gas has a key role to play as a support for renewables. And we see that a good coordination between gas and electricity grid is essential, and it is more than necessary than ever, given the energy model that most countries are moving towards.

Fifth, the smooth operation is essential for the energy system as a whole to be able to continue to support the energy transition. In other words, we're talking about electricity and gas that 30 years ago where businesses that were particularly separate. And in the last 15 years, there's been great coordination between the 2 sectors. And we're fully convinced that in the future that will [move towards.] And given the transition economy and the decarbonization process, we will see an increase in the coordination between the 2 systems. And thanks to that, the system will possibly work. And in the case of regulation in many European countries, we also think that we need to have a comprehensive perspective over both systems, considering that they will be key so that in 15- to 30-year time, we can assure that we meet our objectives.

And finally, after having made our submissions to the CNMC circulars, in Enagás, we believe that the regulatory review will be consistent with the objectives of decarbonization and will, therefore, provide security and predictability for the energy sector as a whole. I can assure you that we are making all our efforts so that we can contribute to a solution that will be reasonable for everyone.

And now, this takes me to my last 2 points. First, sustainability remains a strategic priority for Enagás as is demonstrated by the Dow Jones Sustainability Index that has recognized us, once again, as a company that is indeed part of the -- closed the list as members and specifically, as a leader in our subsector. And finally, as we have just mentioned, we have newly created a subsidiary, EnaGasRenovable, to group up our biogas, biomethane and hydrogen project, which are directly linked to our contribution to the energy transition.

I would like to now thank you for your kind attention. I encourage you to ask any questions that you deem suitable. And as usual, the whole team will endeavor to answer them as fully as we possibly can. Thank you very much.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) The first question will be asked by Javier Suarez, Mediobanca.

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

[Interpreted] Javier Suarez from Mediobanca. I have got 3 questions. First one is on the regulation. And rather than regulation, the timing for regulation. The question for the President is, is it reasonable to expect for the CNMC so they -- to decide before the year-end so the national [competence market] may decide before the year-end? Do you envisage a possibility for this regulatory decision to be delayed to the end of next year because the regulatory period starts January 1, 2021? So do you consider this possible? How much possible? Or is it something that you think would be reasonable because there is no regulatory urgency? That would be the first question.

The next question is on the contribution of the consolidated companies, companies consolidated into [equivalence model.] The EUR [126 million] you gave and when the guidance you gave for the year-end was around EUR 130 million. So is that guidance that you gave of EUR 130 million, is it conservative or not? And why you -- we've seen the strong results in the first 9 months of the year?

Another question is on Tallgrass. I'd like to know -- well, Tallgrass is already consolidated. In the last 2 quarters, it's been consolidated. So is there any information, any comment you can make on the -- how the company is behaving, how -- what your learning with this new -- such an important element for the company, for the group? And I'd like to know how do you see the supply or the offer done to -- from Blackstone to the company.



Would you participate in the process? And how much equity should you give in order to get that 20% allowing you to have a seat at the Board of the company?

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

[Interpreted] Well, thank you very much, Javier Suarez, for these 3 questions. First of all, the official timing given by the CNMC, and they haven't changed it at least that we know, is that they want to finish the work of all the circulars, the 17 circulars, before 31st December. It's true, as you say. And in the case of gas, this would be not necessary as the regulation we have doesn't finish until 31st December 2020. But if you ask me about the timing as of today, the reply I can give you according to the last meeting we held 3 or 4 weeks ago with the CNMC, with its president is that he will -- he was going to give the timing. Should there be any modification, well, we will closely follow.

As far as contribution, yes, the contribution we had for the whole year of the international activities was around EUR 130 million. We are at EUR 123 million, and this means that this has improved a lot, mainly because we have added Tallgrass, DESFA, too. And therefore, very probably, the forecast with it for the year, the whole year, will be somewhat short. But this is a good piece of news in the year with a lot of clouds of uncertainty coming from regulation. The fact that our international commitment is working well, well, that's very good piece of news. And in fact, the Spanish system is behaving very well. Otherwise, if we were -- we would be a sweet spot, a very sweet spot, if we were not talking about regulation. But reality is as it is, and we're devoting effort to regulation matters.

And finally, you were asking for information on Tallgrass. Let me give the floor to the CEO, Mr. Marcelino Oreja.

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**Marcelino Oreja Arburúa** - *Enagás, S.A. - CEO & Executive Director*

[Interpreted] Thank you, President. Tallgrass, I have to say that we're very happy with our investment. I'm the Board -- the CEO of Tallgrass, I'm accompanied by the CFO, Borja Alarcón. We meet 4x a year. And in this Board, we have gotten to know the company. We've created working groups to integrate good practices that Enagás has into Tallgrass because we can learn from each other. And the company is evolving even better than what expected. And I'm convinced that the budget for this year will be excellent. The U.S. is an increasing market with oil and gas projects, greenfield and brownfield. Our platform, Tallgrass, will give us the opportunity to enter into new investment possibilities with -- as Tallgrass or with Blackstone or others. As the take private announcement that Blackstone did in August, we're just waiting for the committee of conflicts on the company will give its opinion on that offer. And depending on that opinion, we will look for solutions trying to get our 20% and to still have a seat in the Board because we want to have an influence in that company in order to create value as an [industrial] partner as we have been always when we did, and as I expect -- as they said in March 11 this year when we entered into this association, if you can call it that way.

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**Operator**

There aren't any more -- let's start with the questions in English. The first question comes from Harry Wyburd from Bank of America Merrill Lynch.

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

Three questions for me, please. So firstly, back on the regulation. There have been press reports suggesting -- it was sort of slightly vague source that's suggesting that there could a softening in the regulation. So given your conversations with the CNMC, you mentioned that you met them recently, do you think that's a valid expectation in the press that there will be a softening? I think a lot of investors think that the shares are pricing in some kind of softening. But do you think that's fair? Or should we just be cautious and assume that the proposal is enacted in full?

And then on Tallgrass, you -- as I understood it, what you just mentioned was that you are keen to maintain your stake in the company and put some extra investment in. I think the press is suggesting about EUR 400 million of potential extra investment in Tallgrass. But could you comment on whether you think that's the right figure? And how does that potentially leave the balance sheet, particularly if you have a worst-case outcome on regulation? How do you think about your debt ratio? If you're having to make that extra investment in Tallgrass.

And then finally on -- you mentioned a write-down on the STEP project which you provisioned basically against what was a pretty good EBITDA number for the 9 months. So could you just talk a little bit about what triggered that write-down? And what's happening with that project?

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

[Interpreted] Thank you very much, Mr. Wyburd. First point, regarding our submissions, the submissions that were made after the presentation delivered by the CNMC when the CNMC circulated its circulars, and this can, of course, have a tremendous impact on the company. Now given the situation, we have presented our submissions, and we honestly think that our submissions are technically and legally solid.

We think that -- well we know that the submissions have been studied by the members of the CNMC. And actually, in the last few days -- or in the next few weeks, rather, we think that the plenary of the CNMC will hold 1 or several meetings, and they will examine our submissions as well as the submissions made by other companies. And that will be the moment of truth. And I don't want to speculate. I don't know whether the technical and legal data that we have submitted will indeed allow for a change in the initial opinion of the CNMC. I don't really want to speculate because I don't have any scientific basis to foresee any changes, but we would like to insist on the fact that we as well as our advisers are fully convinced that the submissions that we have made are fully constructive. We have endeavored to present submissions that stand by the company's interest but that are, at the same time, consistent with the future regulation that will have to be fully coordinated with the energy transition plan of Spain and of the European Union as a whole. I cannot say anything else on that. But as you very well know, we're very transparent. And whenever we receive information of any nature, we will convey it to you.

Regarding Tallgrass, we must just say that we are very satisfied with this investment. We will examine possibilities to continue to invest in it. And we must, of course, know that the balance sheet and the financial structure of the company is very sound. And it allows us to indeed see future in these operations.

And now about STEP, we must say that the reason why we have done this write-off is crystal clear -- early this year or mid this year, actually, because this was in the months of summer between June and August, there was a decision. Well, I don't know if it's the last decision in -- but -- if it will be the final decision in the process, but it's the latest decision that we have. And the 2 regulators that are most affected by this project, the Spanish and the French regulators, they decided that in their perspective, the project didn't deserve to go on for the time being, and I say for the time being because that is mentioned in a way. But for now, we don't really have any signs that in the next few months or in the next 2 years, that project will come to light. So we've done the right thing. We've done the write-off, and we will be on top of this. Perhaps, in the future, with a new European Commission that will come into power in November 1 or the few weeks after. If this project comes back to life, we would perhaps revert the situation. But given the current situation, we think it's honest to say that we cannot expect that for 2020 or for 2021. We don't expect the project to go back to the playing field again.

And once again, the contribution that it made to our accounts in the current situation was very limited, and we determined that we had to go for this decision. And once again, we would like to insist that we don't really think that the project is completely dead. It may happen that a new European Commission will reopen the project. But as of now, the project is on standby. Our French counterpart is in the same situation. And if in the future this came back to life, as we said, we would revert the write-off. And I think I have fully answered you...

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**Operator**

We will now take our next question from James Brand from Deutsche Bank.

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**James Brand** - *Deutsche Bank AG, Research Division - Research Analyst*

Two questions, if I may. First is just a clarification on your slide talking about the regulatory review. The way you've said and you've obviously repeated in the Q&A that the full proposal for Enagás won't be coming through for the next few weeks. You say on the slide that the proposals on the financial retribution has already been approved by the CNMC. And I just wanted to clarify, are you just talking about the allowed rate of return



there? Or are there other elements of the financial retribution have also been fixed and whether you could provide any details on (inaudible) but what CNMC is proposing?

And the second question is on some of the energy transition-related slides that you put out there. I just want to say, firstly, that it would be really interesting if you could provide a more comprehensive list of projects that you're getting involved in maybe through the IR team. Certainly, it'd be very interesting to me. The question to ask is just if you could elaborate maybe on what your strategy is in this area. Is your strategy to lobby government and to try and help, as a facilitator, make subsidies available for different [tribes]? Or are there other aims that you have that you think could help move these projects forward?

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

[Interpreted] Thank you, Mr. Brand. Let me try and answer your questions. Yes, we've been told that the CNMC has, through the Ministry of Economy, send a specific circular to the Minister -- to (inaudible). We have gone to the Council of State. They have accepted our presence. And this is something that maybe in July's conference, we didn't talk about because it still hadn't happened. We are very satisfied of having being admitted as a party of the -- part of a member of the Council of State. And on this topic, we're going to, in the coming days, present our allegations. That's the only thing I can tell you. But I can tell you that on the rest of circulars affecting us, we will also be able to present allegation submissions directly before the Council of State. This is very important because how this council works in Spain, you know that it is a very powerful institution with a backlog of track record and its procedures are fully, fully regulated. And in these kind of cases, it's not always possible to be present as a party. We've been accepted, and we will use our rights in this sense.

And then changing on the subject. Regarding the renewable gases, hydrogen renewable gases projects, I have given you in the presentation, just an overview. We have got 3 major lines of projects. Some of them are just projects, mainly projects. We're in contact, for example, with all the sectors that are involved in the biomethane process. We believe that it's going to be interesting. We've got a few projects of hydrogen that are very, very specific. I gave you the example of the island of Majorca. It is relevant because the regional government, as we've said, is also involved. And we've got a series of [contracts] near contracts with -- in different projects. Our idea is that the fundamental will allow us to contribute as the infrastructure or the party involved in the infrastructures, the -- we are -- because we are capable of generating hydrogen, to transport hydrogen, to store hydrogen, to put it back at the disposal of other parties, if it has to become electricity or direct fuel in other occasions. So we think that what's important here is that in Spain and in Europe, we must have an industrial clear policy related and coordinated to the energy transition process. And in that sense, the use of hydrogen and renewable gases will need some legislation going beyond the technical measures that exist today that we are aware of today, that we are using today. But very probably, we'll need further backup, formal backup and legislation coming from all the governments. We're convinced that this is going to be the case. Even this December, we'll go to Paris to -- under the umbrella of certain meetings with the energy national -- Energy International Association. We'll have talks on hydrogen. And we think that it's going to evolve quite quickly in the coming 3, 4 years versus what we have seen in the past. I would dare to say, and I'm very daring here, that just as renewables in the year 2000, we were talking about renewables, but that seemed to be something that -- well, that will come -- it will come in 26 (sic) [2006], 27 (sic) [2007], '08, they became true.

And as regarding hydrogen, we'll have -- we might have a very, very similar path or evolution. But I can tell you in any case that in our results presentation of February, coinciding with the presentation of results or slightly after, we would like to make an update on our strategy, partly stemming from regulation issues that we will expect to have by February and some final ideas of the impacts that we will be facing and introducing these new strategic aspects that are being started, that we are developing, but maybe we haven't given a clear explanation to our investors because of the circumstances, we haven't been able to do so. So we commit that by the beginning of next year, we will devote some time to this widespread field of activities, renewables, hydrogen, use of liquefied natural gas for different uses. We will give some time to explain that and give you more information on our strategy.

So James, I think that by February, we will be able to give more time and give you more details.



**Operator**

We will now take our next question, Jorge Guimarães from JB Capital Markets.

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**Jorge Guimarães** - *JB Capital Markets, Sociedad de Valores, S.A., Research Division - Analyst*

I would like to clarify something on Tallgrass. I understand that for you to keep your -- for Enagás to keep its seat in the board, it needs to have at least 20% of the capital. So my question is, one, is this correct? And second, if so, what would be the minimum amount required in investment to keep this -- to reach this 20% stake if the offer is successful? This question is then assuming that the Enagás wants to keep its seat on the Tallgrass Board. So I would also help -- it would also be helpful if you can confirm that you do want to keep the seat in Tallgrass Board.

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

[Interpreted] Thank you very much, Jorge Guimarães. Let me give the floor to the CEO, who will reply. Marcelino, you have the floor.

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**Marcelino Oreja Arburúa** - *Enagás, S.A. - CEO & Executive Director*

[Interpreted] Thank you, President. Thank you, Jorge, for this question. Yes, we would like to continue having a seat and a certain influence in Tallgrass in order to contribute value as an industrial partner. That was the reason that this [resulted] of our entry in this purchase. So we're doing our best efforts, and we will do our best efforts to keep our chair.

As far as the participation and the cost it may have to acquire new shares of the company, that will depend on the price, of course, and it will depend on the capital structure of the investing vehicle we have, together with Blackstone and GIC. So today, I cannot give you a figure, but our aim is to continue to commit towards that company that behaves very, very well while we contribute with value in improving its daily operations. Thank you. But in any case, regarding this issue and many other questions at any time we may have news regarding these issues, just have a peace of mind because we will communicate to you. I don't know if there are more questions. Yes, one question more.

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**Operator**

We will now take a follow-up question from Harry Wyburd from Bank of America Merrill Lynch.

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

Sorry, just one quick follow-up for your answer to James' question on the Council of State. So as I understand that you said you now have the right to make representations for the Council of State. And also, as I understand it, the regulation has to be sent to the Council of State. But am I right that the Council of State's decision is nonbinding? And if that's right, what does that actually mean having ability to represent the Council of State? I guess if the Council of State can't interfere with the process. And does it matter whether you can represent to them? Or is the decision of the Council of State actually quite influential even if it's not binding? Do you think you could actually influence the outcome (inaudible) Clarification on that?

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

[Interpreted] Thank you very much, Harry, for your follow-up question. The Council of State in this process will indeed issue final decisions that are not necessarily binding. Its decisions are nonbinding, indeed. But given the history and the prestige of the Council of State, I would say that, in 99% of cases, if the Council of State issues an opinion, the recipient of this opinion, which is normally the government of Spain, normally follows it. And we do consider that their opinions are going to be relevant in the process. This is why I said earlier on with objective satisfaction that the fact that we have requested to become a party and the fact that we have been accepted as a party gives us a second chance that we didn't have initially, a

second chance for our opinions to be heard and for them to be taken into account and for them to perhaps be reflected or not in their statements. And we will report on this in due time.

And by the way, I would like to now take the time to explain the mechanism when this type of thing happens. When a circular goes to the Council of State and it's issued by the CNMC, this is done through the Ministry of Economy. And after a few days' time, the Council of State sends us a note so that we present, that we participate. They give as a time line, 3 or 5 days. But the most important thing is twofold, actually. First, we will have access to the files. Ever since this project started -- since this process started, we will have access to the files as they stand. Anything different to that is mere speculation in the media. We, of course, follow the process with very much attention, but we cannot have access to the information, to this [other] information. And based on the contents of the file, we will be able to issue our opinion. And of course, we will make it known to the Council of State, and this will be conveyed to the CNMC for its treatment. And this is the process that we think is going to be followed for the different circulars

(technical difficulty)

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### Operator

There are no more questions in English.

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

[Interpreted] Thank you very much, everybody, for your kind attention. If there aren't any further questions, we will finalize the conference now. Thank you.

[Portions of this transcript that are marked Interpreted were spoken by an interpreter present on the live call.]

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