

# News@Facts



**The intervention:** Talking to Alessandra Pasini, Chief Financial Officer of Snam

## Proactive liability management operations and share buyback improve financial efficiency

Over the last few months, Snam actively focused on executing the 2016-2020 Strategic Plan presented to the financial community at the end of June. In this respect, the Company aimed to maintain a solid financial structure, to contain the cost of debt, and to stick to strict criteria of capital structure optimisation and financial discipline. On the debt side, the separation from Italgas, which is effective since 7 November 2016, led to a decline in Snam's indebtedness of around 3.6 billion euro and to a cash-in for the Company of approximately 3.2 billion euro, net of ca. 0.4 billion euro of EIB loans financing Italgas projects, which were transferred to the latter.

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Alessandra Pasini,  
Chief Financial Officer  
of Snam

**Performance:** Nine-month 2016 results

## Results reflect the WACC decrease

First nine-month results of current fiscal year do not incorporate the effects of Italgas' separation, which took effect from 7 November 2016.

Total revenues show a 5.9% decline compared to the first nine-month 2015 results, in line with Company's expectations. Regulated revenues, equal to 2,549 million euro, decrease by 5.4% vs. the first nine months of 2015, despite the positive performance of the gas injected into the network (+3.1%), which was driven by the demand from the industrial and thermoelectric sectors. The revenue performance is mainly referable to the new rate of return on net invested capital (WACC) in transport and distribution, starting from 1st January 2016. Such negative impact has been partly mitigated by higher regulated revenues in the storage business, which benefit from a WACC

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Results	9M 2015	9M 2016	Change
Gas injected into the network (bcm)	49.88	51.40	+3.0%
No. of active meters (mn)	6.516	6.522	+0.1%
Available storage capacity (bcm)	16.0	16.5	+3.1%
Total revenues (mn €)	2,748	2,586	-5.9%
EBIT (mn €)	1,472	1,296	-12.0%
Net profit (mn €)*	888	783	-11.8%
Technical investments (mn €)	803	842	+4.9%

(\* ) Net profit is attributable to Snam.

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Information as of 31 December 2016

Registered at the Court in Milan

Registration n. 534

as of November 26, 2009

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The demerger did not change the credit standing of the Company, which remains at the investment grade level, being rated BBB by S&P, Baa1 by Moody's, and BBB+ by Fitch, a notch above the Italy's rating from the first two agencies.

Following the demerger, Snam has rebalanced and reshaped the structure of its liability assets. With this aim, the Company has taken action on two different sides.

On the one hand, through a Liability Management operation, the largest in Europe to date – by repurchasing on the market approximately 2.75 billion euro bonds and issuing, at the same time, two new bonds for an overall amount of 1.75 billion euro. On the other hand, by launching a share buyback programme, consistently with the resolution of the Shareholders' Meeting held in August 2016. Let us first comment on the Liability Management operation.

Through a repurchase procedure defined as *Intermediated Tender Offer*, the same already used in November last year (when Snam was the first Italian corporate issuer implementing such arrangement), between 10 and 17 October 2016, Snam bought back on the market 10 outstanding bonds, for a total nominal value of 2.75 billion euro, with an average coupon of around 3.3% and a residual term of approximately three years. The buyback led to a disbursement of about 3.1 billion euro, financed partly through two 1.75 billion euro bonds, issued in October (average coupon of 0.625% and average term of around 8.3 years) and partly through available banking credit lines.

Exploiting a particularly favourable market momentum, with interest rates at their historic lows, under its 10 billion euro EMTN programme, Snam succeeded in launching two fixed rate issues; the first one with 1.25 billion euro nominal value, annual coupon of 0.875% and 10 year term; the second one with 0.5 billion euro nominal

value, annual coupon of 0% and four-year term, representing the bond with the lowest coupon ever issued by an Italian Company. As mentioned above, the proceeds of both issues financed the buyback of the bonds previously issued by the Company. The demand for the two newly issued bonds, coming from high-profile European institutional investors, resulted in being twice higher than the offered amount.

Coming to the strategic reasons for the Liability Management exercise presented above, we think that the Company has achieved the following goals:

- Reshape the financial structure of Snam, in terms of both size and mix of technical features,
- Exploit the favourable market environment, characterised by yields at historic lows and abundant liquidity, anticipating the refinancing exercises of the coming years and reducing the resulting risks,
- Increase the average maturity of medium-to-long term debt of Snam (which moved from ca. 4.4 years to ca. 5.4 years following the operation), smooth the debt maturity profile and proactively manage future expiring terms (let us remember that, following such operation, bond debt to be refinanced in 2017 is around 0.5 billion euro, compared to the pre-LM level of 1 billion euro),
- Anticipate the declining trend of debt cost starting from 2017, with the aim of protecting the future financial outperformance of the Company,

- Prevent the potential effects of relevant political and macroeconomic events: actually, the recent increase in interest rates and credit spreads, which has suddenly occurred in the last two months of 2016, is presently awarding our choice.

Now, let us briefly comment on the share buyback.

On 7 November 2016, date from which the separation is effective, Snam has launched the share buyback programme, by charging an intermediary to proceed to the possible purchase in full independence over the following four months. The Programme was approved at the Extraordinary Shareholders' Meeting held on 1st August 2016, for a maximum amount of 500 million euro and up to the limit of 3.5% of post-separation Snam's share capital equal to 2,735,670,475.56 euro, with the authorisation to execute it within 18 months from the effective date of the demerger. On 7 December, Snam has changed the mandate conferred for the first part of the buyback programme, switching to an *enhanced buyback agreement* with the aim of optimising the cost of the actual buyback.

Following the share purchases, and considering the treasury shares already held, on 31 December 2016 Snam holds no. 29,905,180 treasury shares, equal to 0.85% of the share capital.

The use of the share buyback provides Snam with further flexibility in optimising the capital structure and represents an effective support to total shareholder return.

#### FEATURES OF THE TWO BONDS ISSUED IN OCTOBER 2016

**Amount:** 1,250 million €  
**Listing Market:** Luxembourg Stock Exchange  
**Maturity:** 25 October 2026  
**Annual coupon:** 0.875%  
**Re-offer price:** 99.506  
**Spread:** 50 basis points over the reference mid-swap rate

**Amount:** 550 million €  
**Listing market:** Luxembourg Stock Exchange  
**Maturity:** 25 October 2020  
**Annual coupon:** 0%  
**Re-offer price:** 99.705  
**Spread:** 20 basis point over the reference mid-swap rate

#### Performance: Nine-month 2016 results

increase for the year 2016 compared to 2015, while also reflecting the contribution of the entry into operations of the first facilities of the new Bordolano site.

The 12.0% decrease shown by consolidated EBIT in the first nine months of 2016 was due, in addition to lower revenues, also to the 3.4% increase in operating costs. This increase is attributable to expenses connected to the transaction for the separation of Italgas, to the dynamics of the provisions for risks and charges, as well as to higher depreciation,

referable to new infrastructure entering into operations. From a business perspective, the decline in consolidated EBIT reflects a 12.7% decrease in the transport business and a 19.5% decline in distribution, partly compensated by the 8.3% increase recorded in storage. In the first nine months of 2016 net profit is 783 million euro (-11.8%): a decrease mainly deriving from lower (-12.0%) EBIT, partly offset by the decline (-7.9%) in net financial charges, due to cheaper cost of debt, and from the 11.6% decrease in income

taxes, as a result of lower pre-tax profit. Free Cash Flow reached 669 million euro, thanks to the strong generation of operating cash flow, equal to 1,686 million euro, and largely exceeding the funding needs for technical investments (1,017 million euro). As of 30 September 2016, net financial debt, after the dividends' payment of 875 million euro, amounts to 14,019 million euro: a 240 million euro increase compared with 31 December 2015, while a 158 million euro decrease in comparison with 30 June 2016.

## Process for the separation of Italgas from Snam completed successfully

On 7 November, first Italgas trading day and effective date of the Snam's demerger, the process that led to the separation of the distribution business ended.

As a result of the demerger, each Snam shareholder has become owner of



two distinct shares that represent two different businesses: the Italgas shares have been assigned to Snam shareholders

on the ratio of one Italgas share for every five Snam shares held.

Snam retains a 13.5% stake of the share capital of Italgas, as part of a three-year shareholder agreement with CDP Reti SpA and CDP Gas Srl; together they control 26% of the share capital.

## Snam is the best company in Italy for digital communications



With a score of 93.6/100, Snam has taken first place among 70 companies analysed in the Webranking provided by Comprend in collaboration with Lunsquist.

The score achieved represents a significant improvement in comparison with the previous one – of 85.9 points – that allowed Snam to rank third in 2015. It is also an excellent result, being

the highest ever achieved by a Company in the 15-years-history of Webranking. Mr. Marco Alverà, Snam's CEO, received the prize during the Lundquist seminar dedicated to digital communications. The position achieved in the 2016 Webranking confirms the complete success of the policies that Snam pursues, which are aimed at building the stakeholder relations on the principles of clarity, transparency and continuity of communications. A commitment that has allowed Snam to rank among the top ten companies in each edition from 2005 onwards.

The analysis that Comprend has conducted in 2016 has highlighted that in the pages of the corporate website "Snam not only provides detailed information about the company, business, strategy, governance and sustainability, but has created a distinctive communication that goes far beyond the level of transparency of other companies". The award acknowledged the proactive use of the most important social networks that Snam has put into play in order to make its communication as much timely and interactive as possible.

## Snam has purchased, in consortium with Allianz, a 49% stake in CGA, a central hub in the European gas network

On 22 September 2016, in a consortium with Allianz, Snam has signed an agreement to purchase from OMV the 49% of Gas Connect Austria (GCA), the company that manages a 900 km high-pressure pipeline network in Austria, markets and provides transport capacity at border points, and the transport capacity required for domestic natural gas demand. In this way, Snam can take the opportunity of strengthening the long-term relationship built with OMV, the leading Austrian player in the oil&gas sector, at the same time consolidating the strategic



objectives of GCA. The target company represents a central hub in the European gas network: with an entry/exit volume capacity of 152 billion cubic meters per year, it ensures the supply of gas not only in Austria, but also in Germany, France, Slovenia, Croatia, and Hungary. In order to complete the purchase, a special purpose vehicle, 60% controlled by

Allianz and 40% controlled by Snam, has paid to OMV a total consideration of 601 million euro, which includes 147 million euro for the pro-rata repayment of the current shareholders' loan, through the signing, at the closing of the acquisition, of a new shareholders' loan with GCA. The transaction, which is subject to the authorisation of the German and Austrian antitrust authorities, was concluded at the end of the year and takes effect from 1 January 2016. The agreements envisage that OMV receives the entire dividend for the 2015 fiscal year, for an amount of 80 million euro.

## Environment and Innovation the issues at the heart of the 2016 edition

The annual event that Snam has dedicated to the supply chain - this year taking place on 29 November – has been focused on Environment, Innovation, Transparency and Business Ethics: crucial issues in the assessment of corporate sustainability, in which Snam is aware that suppliers play a relevant role.

Around 300 people, representing above 140 companies, joined the workshop. For the first time, Snam's foreign subsidiaries and their suppliers took part in the event.

In 2016, Snam invested approximately 1 billion euro, generating a countervalue of nearly 2 billion euro in terms of procurement, spread among ca. 1,000 companies.

## Snam and the financial markets

### STOCK PRICE PERFORMANCE (4 JANUARY 2016 – 30 DECEMBER 2016)

STOCK PRICE (CLOSING PRICE OF 30 DECEMBER 2016 = 3.92 EURO)  
COMPARED WITH SECTOR AND MARKET INDEX (BASE 4 JAN. 2016 =100).



In line with the whole sector of European utilities, in the second half of the year 2016 Snam shares were penalised by the rise in bond yields, which result in higher rates at which the market discounts future cash flows, putting pressure on the stock evaluation.

The stock recovered just in the late weeks of 2016, achieving a -1.8% performance compared to 31 December 2015. Anyway, Snam outperformed the sector index that in 2016 decreased by 8.9%. Also the FTSEMIB index has shown a significant recovery in late November and in the first week of December, thanks to which it could regain pre-Brexit levels.

The performance of the Italian blue chips' index also reflects the significant increase in the price of the Eni shares, following the Opec deal reached on 30 November to curtail oil production.

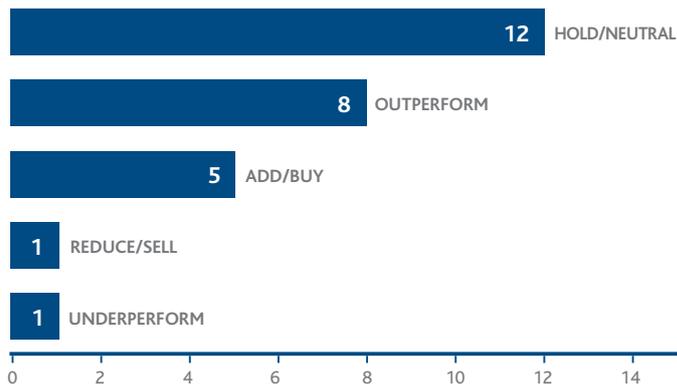
In particular, the index benefits from the driving role of the entire banking sector that heavily weighs on the index by market capitalisation.

Banking stocks were oversold in the days before the constitutional referendum, also through short selling, but they were at the heart of significant purchases in the trading days following 4 December 2016. Banks' stock prices positively discount certain measures in place to enhance the solidity of the institutions with the highest exposure to NPLs' risks.

They also significantly benefit from the ECB's decision, announced of 8 December 2016, to extend the QE programme until at least December 2017.

## BROKERS' RECOMMENDATIONS

NUMBER OF BROKERS 27



Overall, the picture of analyst recommendations improved compared to the last newsletter, issued on 16 September 2016: the number of Hold/Neutral ratings moved from 14 to 12, while the number of Add/Buy ratings rose from 3 to 5.

At this stage, the analysis of consensus target price has less significance, as 15 brokers out of 27 covering the Snam stock have the same target price that they had before the completion of the Italgas separation.

## SNAM AND THE STOCK EXCHANGE

**OFFICIAL LISTING MARKET** > BORSA ITALIANA EQUITY MARKET

**TYPE OF SHARES** > ORDINARY SHARES

**INDEX MEMBERSHIP** > FTSEMIB / FTSE ALL-SHARE / EURO STOXX / EURO STOXX UTILITY / STOXX EUROPE 600

**ETHICAL INDEX MEMBERSHIP** > FTSE4GOOD / ETHIBEL / CAPITAL PARTNERS / DOW JONES SUSTAINABILITY WORLD/ STOXX GLOBAL ESG LEADERS INDICES / VIGEO WORLD 120 / VIGEO EUROPE 120 / GC100 / CDLI / MSCI GLOBAL SUSTAINABILITY INDEX

**CREDIT RATINGS** > S&P'S: BBB; MOODY'S: BAA1; FITCHRATINGS: BBB+  
**CODES**

**ISIN** > IT0003153415

**REUTERS** > SRG.MI

**BLOOMBERG** > SRG IM

**HIGH (365 DD)** > € 4.46 – 30 MARCH 2016

**LOW (365 DD)** > € 3.43 - 28 NOVEMBER 2015

**LAST DIVIDEND PAID (FISCAL YEAR 2014)** > € 0.25- 25 MAY 2016

**TOTAL N. OF SHARES OF THE SHARE CAPITAL** > 3,500,638,294

**MKT CAP (BILLION EURO)** > 13.73

## News: Sustainability

### Snam in the CDP "A List" for corporate actions in response to climate change

In late October 2016, for the fourth year in a row Snam has been awarded by CDP (formerly known as the Carbon Disclosure Project) as corporate leader at the highest level of excellence for strategies and initiatives pursued to fight climate change.

This year Snam has also been included in the "A List", i.e. among the group of companies with the highest scores according to the CDP assessment model. In 2016 only 193 companies globally succeeded in entering the "A List", i.e. 9% of those

participating to the assessment.

CDP is a non-profit organisation that runs a global disclosure system aimed at measuring and managing the environmental impact of companies, cities, states and regions. Over time, CDP has built the most comprehensive collection of reported environmental data in the world. Institutional investors and environmental policy-makers use the CDP analysis to take their decisions on the back of such an exhaustive set of information and assessment.



## Focus: Regulatory framework

### 2017 allowed revenues in the transport business approved

On 17 November 2016, through resolution no.669/2016, the Regulatory Authority for Electricity Gas and Water has approved the allowed revenues for the transport, dispatching and metering service for the year 2017. Such revenues have been set at 1,880 million euro. RAB for the natural gas transport, dispatching and metering business is 15.0 billion euro.

## In-depth in Snam businesses - STORAGE

(data as of 30 September 2016)

**10** concessions.

**9** storage fields: 5 in Lombardia, 3 in Emilia Romagna and 1 in Abruzzo.

**1** concession not currently in use.

**4,5** bcm of maximum strategic storage capacity.

**12,0** bcm of maximum available storage capacity.

**15,85** bcm of gas volumes moved through the storage system in the first nine months of 2016.

The five-year Investment Plan aims at providing liquidity and flexibility to the gas system.

### INVESTMENT OBJECTIVES

Prioritise capacity increase with the aim to:

- Improve overall **liquidity** and **flexibility** in the gas system, also through greater interconnection at European level and the offer of new modulation services.
- Support **gas swaps** on the European market.

Snam has planned to invest 4.3 billion euro in Italy in the 2016-2020 five-year period, of which around **12%**, that is **0.5 billion euro**, in the storage business.

Projects included in the Plan are expected to raise **modulation capacity by approximately 5%** (from 12.0 bcm estimated in 2016 to around 12.6 bcm in 2020) and to lead to a **3% increase in peak capacity** (from 238 to 246 million standard cubic meters per day, over the 2016-2020 period).

**2016-2020 INVESTMENTS IN STORAGE** **0.5** billion euro  
(of which 0.2 billion in 2016)

### REMUNERATION RATE (WACC)

**2015: 6.0%**

**2016-2018: 6.5%**

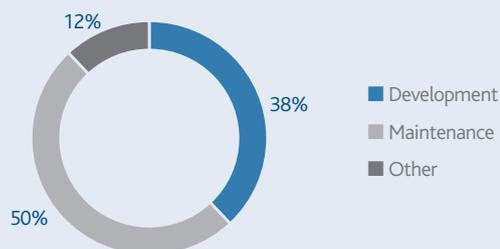
**EXTRA-REMUNERATION: 20%** withholding for 8 years for revenues in excess of revenue recognised resulting from insolvency procedures.

### Bordolano: efficiency, safety and sustainability of the new storage site

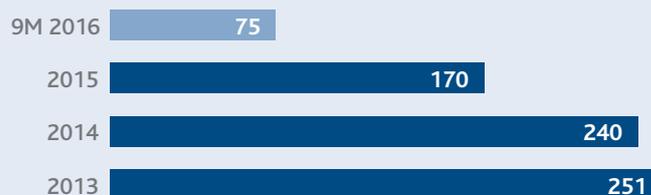
The increase expected in both modulation and peak capacity in the 2016-2016 Plan will develop in relation to the new storage field in Bordolano (Cremona) progressively coming into full operation. The works for its construction, which started two years ago, are about to be completed: the last activities currently underway are aimed at making Bordolano an excellent site, not only for the application of



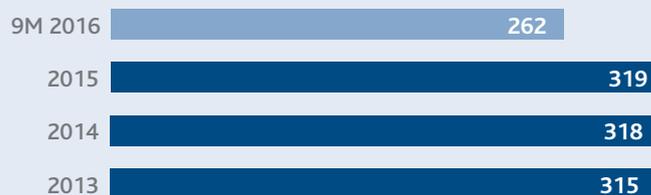
### INVESTMENT BREAKDOWN STORAGE 2016-2020



### STORAGE OPERATING INVESTMENTS (mn euro)



### STORAGE EBIT (mn euro)



cutting-edge technology, and the high efficiency and safety standards, but also for its sustainability features.

Evidence of this are the laying of sound-absorbing panels, for sound emissions' abatement, and the creation of a green oasis of approximately eight hectares in the area surrounding the facility, which is aimed at the full integration of the site with the environment.