



**Preliminary 2011 Snam SpA Earnings Conference Call
Transcript
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Corporate Participants

- [Carlo Malacarne](#)
Snam SpA - CEO
- [Antonio Paccioretti](#)
Snam SpA – CFO
- [Marco Porro](#)
Snam SpA - Head - IR

Conference Call Participants

- [Javier Suarez](#)
Mediobanca – Analyst
- [Antonella Bianchessi](#)
Citigroup - Analyst
- [Stefano Gamberini](#)
Equita SIM – Analyst
- [Alberto Gandolfi](#)
UBS - Analyst
- [Olivier Van Doosselaere](#)
Exane BNP Paribas – Analyst
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Bank of America/Merrill Lynch - Analyst



Presentation

Operator [1]

Good day and welcome to the Snam 2011 Preliminary Results Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Carlo Malacarne, CEO. Please go ahead, sir.

Carlo Malacarne, Snam SpA - CEO [2]

Good afternoon, ladies and gentleman and welcome to the Snam 2011 preliminary results presentation. Today's agenda will be structured in two parts. First, I will start by outlining the main highlights of the year and some recent development. Antonio will then focus on our 2011 financial results in more detail. At the end of the presentation, we will be pleased to answer any questions you may have.

Let me begin with the main highlights for 2011 as well as giving you an update on the business. For 2011, I am pleased to report a solid set of operating financial results consistent with our track record of delivery.

The sound operating and financial performance of Snam in 2011 is highlighted in particular by the EUR1,958 million of EBITDA up 5.2% versus 2010 and by the EUR1,696 million of profit before taxes up 3.5%. In contrast, the net profit line has been affected by higher fiscal costs due to the windfall taxes, so-called Robin Hood taxes which now also applies to gas and the electricity transmission companies as outlined in the austerity package approved by the Italian Parliament last September.

As a consequence, in 2011 Snam recorded higher payable income taxes of EUR169 million which more than offset the positive operating and financial results of the period, leading to an adjusted net profit EUR978 million down 11.6% versus year-end 2010. Antonio will discuss this later on in detail.

Looking more closely to our operating performance, the increase in the consolidated EBIT was achieved, thanks to the growth in the regulated revenues of all our businesses and the continuous focus on the control of the operating costs.



From a business segment perspective, the growth at the EBIT level was driven by the higher contribution of both the distribution activity in which EBIT increased by approximately 24%, EUR107 million and the storage business in which EBIT increased by 17%, EUR36 million.

The EBIT of the transmission business, considering the non-recurrent EUR55 million of the revenues accounted for in 2010 as a fewer gas cost recovery showed a slight increase, note 0.6% versus the level of 2010 on a like-for-like basis.

Turning to CapEx, in 2011 we execute investments for the significant amount of EUR1,585 million which was fully-financed by cash flow from operations of EUR1,537 million. Furthermore, let me underline that more than 70% of the consolidated CapEx were incentivized with premium on top of the based return. This underlines the soundness of our growth path.

We continue to be strongly committed to maintaining a solid and efficient capital structure. As of year-end 2011, Snam net debt was below EUR11.2 billion representing approximately 49% of the 2011 estimated [ramp], EUR22.7 billion with and an average cost of debt of 3.1%.

Last but not least, our strong focus on efficiency brought us to reduce the controllable fixed cost by EUR9 million in nominal terms compared to 2010, even considering the continuous growth in our activity. This has allowed us to achieve our 2012 target of EUR80 million of selling in real terms in controllable fixed costs one year in advance, thanks to the faster than planned result obtained from projects already implemented.

Moving onto the environment in which we operate, I will now discuss the gas demand trend in Italy. In 2011, gas consumption totaled 77.8 bcm down 5.3 bcm year-on-year or 6.3%. Most of the decreases were concentrated in the last quarter of the year, particularly in the month of December and related to the reduction of gas consumption in the residential sector and in the power generation one.

In 2011 gas consumption in the residential sector reached 31.1 bcm with a 2.8 bcm decrease or down 8.2%, mainly due to the mild weather conditions. Adjusted for the weather effect, the sector showed gas consumption in line with 2010 levels, 32.1 bcm. As a consequence, total gas demand adjusted for the weather effect decreased by 3.1% compared to 2010.

The thermoelectric sector also experienced a reduction of approximately 2 bcm, down 6.9% driven by 0.3% decrease in electricity demand, one terawatt hour mainly due to the negative



trend in the macroeconomic environment. A remarkable increase in electricity production from renewables, specifically solar energy, five terawatt hours. A 3% increase, 1.4 terawatt hour in net electricity import, mainly due to the electricity variability in the European market at competitive prices compared to Italy.

A 1.7% decrease in the thermoelectric productions, furthermore thermoelectric production was mainly fueled by an increased use of coal compared to gas due to the competitive prices. These negative elements were only partially offset by the 9% decrease in hydroelectric production. Thus demand in the industrial sector showed a slight decrease 0.3 bcm on a like-for-like basis mostly driven by the trend in the industrial production throughout the period in Italy.

Finally, gas injecting to the network for 2011 decreased by 6%.

Let me now comment on CapEx in more detail. In 2011, the Group consolidated CapEx amounted to EUR1,585 million gross of subsidies with 2.9% increase compared to year-end 2010. EUR895 million around 55% of consolidated CapEx is related to the transport business almost in line with the 2010 level. New transport investments are mainly allocated to the expansion of the network in order to match the requirements of additional flexibility and security of the system.

It's worthwhile underline that around 70% of transport CapEx is incentivized with the premium of 2% and 3% in addition to the base remuneration. The 3% premium applied to around 40% of the transport CapEx and was related the expansion of the new entry point such as the construction of the Massafra-Biccari from North Africa, in Puglia and Basilicata, the delivery of materials and construction of the Montesano compressor station in Campania, the construction of the Montalbano-Messina pipeline in Sicily and the revamping of the Enna compressor station in Sicily, the construction of the off-shore pipeline to connect to the new LNG terminal in Livorno.

Looking at the storage business, investments amounted to EUR296 million, a 17.5% increase compared to 2010, contributing to around 20% of the Group consolidated CapEx. Around the 65% of storage CapEx received 4% extra remuneration for 16 years while 20% of storage CapEx received a premium of eight years.

Moving to the distribution activity, CapEx reached EUR394 million, around 25% of the total Group capital expenditure with a 2.1% increase on a like-for-like basis. Around 35% is related to the substitution of metering devices receiving a return of 8%.



Finally, 11% of the ether gas CapEx resulted from cast iron replacement with a tariff return rate at 9.6%. These developments in the Group capital expenditure are in line with our medium to long term investment plan and set Snam on a strong footing to continue to drive value for shareholders.

Let me conclude my comment on our results for 2011 by focusing on the dividend. Snam has consistently been committed to delivering attractive returns to its shareholders. Our aim has always been to combine an attractive dividend with capital growth.

On the basis of 2011's sound preliminary results and considering our solid capital structure, yesterday, the board of directors decided it will submit to the annual shareholder meeting the proposal for distributing dividends for 2011 of EUR0.24 per share that leads to an increase of 4.3% compared to the dividend per share for 2010. EUR0.10 per share was distributed as an interim dividend in October 2011. The balance of EUR0.14 per share will be payable on next May 24, 2012.

The fiscal year 2011 dividend subject to the shareholders' meeting approval results in a dividend yield of 7.1% in the top range of the utility sector. The 2011 fiscal year dividend confirms our strong commitment to delivering robust shareholder returns within a growing business.

Considering the positive evolution of our financial performance and our solid capital structure, we believe that this dividend level will be sustainable and will enable us to maintain one of the most attractive yields in the European utility sector.

Before leaving the floor to Antonio, who will comment in detail on the 2011 preliminary results, let me briefly discuss on the legibility framework in which we operate. The beginning of last December, pursuant to the Italian legislative decree addressing the third energy package, Snam ordinary and extraordinary shareholder meeting authorized the transfer of the gas transmission dispatching and metering business to a fully-controlled subsidiary company named Snam Rete Gas which operates as a transmission system operator from January 1st, 2012 with effect from the same date the change of the corporate company name from [Valata] Gas to Snam was also approved.

The wholly controlled Snam Rete Gas is subject to clear rules of independence and the transparency and operates as independent transport operator. As it is regard we submitted to the Italian regulatory body all the relevant documents in order to obtain the required certification.



On last January 24th, the Italian government issued the liberalization decree which requires the ownership unbundling for the whole Snam Group from the vertical integrate undertaking. According to the decree in the coming six months, a decree of the Prime Minister with the rules to follow in order to implement the ownership unbundling will be issued.

According to the present regulation and issued decrees if participation within two years after the issues of such a decree. Regarding the way to reach the change in this non shareholding structure will take place, Snam is not involved in the decision. In any case, the soundness of our business model along with the stability of our strategy won't be affected by any change in the shareholding structure of the Company.

What I can add is that I am confident that the overall process will be finalized at the most convenient conditions for any of Snam's shareholders in line with the provision of the decree.

That's all from me. I will now hand you over to Antonio.

Antonio Paccioretti, Snam SpA - CFO [3]

Thank you, Carlo, and good afternoon, everyone. Looking at the consolidated income statement, EBIT amounted to EUR1,958 million with an increase of EUR96 million up 5.2% compared with the previous year.

Revenues growth was related to the increase in distribution up 8.3% and storage business up 5%, while the transport business reflected the reduction in gas volumes transported and the effect of no recurring revenues recorded in 2010 for EUR55 million and related to the full cost recovery for the thermal year 2008, 2009.

On a like-for-like basis, excluding this non recurring item, the EBIT increase was equal to 8.4%. Operating expenses increased by EUR14 million compared to 2010, excluding the pass-through cost increase in the year equal to EUR16 million. The operating expenses reduced by EUR2 million.

Controllable fixed costs exhibited a significant reduction of EUR9 million, thanks to the efficiency initiatives put in place. Such a reduction was partially offset in terms of total operating expenses by some non-recurring costs in the transport business.

Earnings before taxes amounted to EUR1,696 million with an increase of EUR58 million, up 3.5% compared to the previous year. Adjusted net profit declined by 11.6% due to the impact



of the Robin Hood tax recurring effects on transport and distribution. This results excluded the non-recurring effect on deferred tax liabilities equal to EUR188 million.

I will now discuss the Group's revenues. Regulated revenues amounted to EUR3,197 million and marked a growth of about 2.6% compared to the previous year. In particular, transport revenues net of pass-through components decreased by [EUR19 million].

This was mainly due to the positive contribution of investment carried out in 2009 equal to EUR100 million offset by the effect of the annual tariff adjustment on EUR42 million. The reduction of EUR50 million due to the significant decrease of the gas injected into the network and EUR55 million of non-recurring revenues recorded in 2010 which was recognized by the regulator as a fuel cost recovery for the second regulatory period.

Storage revenues increased by EUR24 million. This was mainly due to the contribution of investments carried out in 2009 equal to EUR29 million to the recognition of the revenue component aimed to cover the cost of dismantling of EUR11 million and to the increasing volumes for EUR6 million.

This was partially offset by the effect of the EUR26 million tariff adjustment. Distribution revenues increased by EUR61 million. This result benefited from the tariff increase which included the graduality mechanism effect introduced by the regulator in the third regulatory period and the positive component of EUR32 million relating to the second regulatory period.

Finally, other revenues amounted to EUR83 million with an increase of EUR17 million compared to 2010 mainly related to distribution business.

Moving on to OpEx. Total cost in 2011 amounted to EUR633 million with an increase of EUR14 million compared to the previous year due to the increase of pass-through costs for EUR16 million in the transport business.

First of all, I would like to highlight the significant reduction achieved in controllable fixed costs of EUR9 million. This is mainly related to external costs as the effect of a set of results achieved ahead of time from projects already implemented and to the capability with Snam in controlling the trend of level cost. These results were negatively impacted by the increase of other costs by EUR 11 million net of pass-through costs due to the negative results of certain legal litigation, the dynamics of risk fund provision, and lower provision for early retirements.



Looking at the cost breakdown by activity, transport costs increased by EUR45 million despite efficiency achieved in controllable costs. This was due to the previously mentioned effects of parcel costs, legal settlement, and risk funds items. Distribution activity contributed significantly to the reduction on controllable fixed costs and benefited from the reduction in the provision for early retirements.

Now, let me take a look in more details at the results of our efficiency program following the integration of Italgas Stogit which, as you know, targeted a controllable fixed cost savings for 2012 for EUR80 million compared to 2008 in real terms and at the same parameter of activity.

In terms of efficiency, we achieved a remarkable result in 2011 of EUR81 million mainly related to external costs reaching our target one year in advance. This result is even more remarkable if we consider that it has been achieved in a growing business.

Consolidated EBITDA amounted to EUR2,612 million, an increase of EUR72 million compared to 2010. Depreciation and amortization amounted to EUR654 million, a decrease of EUR24 million compared to the previous year. The increase in depreciation due to the new investment coming into operation was offset by firstly, the recovery of EUR9 million of EUR10 million impairment loss recorded in 2010 and related to certain distribution assets.

Secondly, the extension of the technical life of the dismantling asset in the storage business in accordance with the new regulatory framework, which reduced the related depreciation for EUR27 million.

Consolidated EBIT amounted to EUR1,958 million with an increase of EUR96 million compared to the full-year 2010. This was due to the following elements. The transport business decreased by EUR48 million reflecting the extra revenue of EUR55 million accounted in 2010. Excluding this effect, the performance showed a slight increase of EUR7 million. We achieved this result despite the significant decrease of gas injected into the network for EUR15 million and the cost referred to risk fund provision and litigation for more than EUR30 million.

The storage business recorded a robust increase of EUR37 million at around 17%, mainly related to the growth in regulated revenues, EUR25 million, the decrease in depreciation commented above, and the strict control of operating costs.



The distribution business reported a significant growth of EUR107 million up around 24% thanks to the increase in regulated revenues of EUR61 million of which EUR32 million referred to items in relation to the second regulatory period. The effective control of the cost efficiency and the previously discussed positive non-recurring item relating to depreciation and amortization.

Now, I would like to conclude the review of the income statement commenting on interest expenses and taxes. Our debt structure allowed us to mitigate the severe financial market conditions limiting the interest expenses growth to EUR42 million from EUR271 million to EUR313 million. Such an increase was due to this likely average cost of debt from about 2.9% to about 3.1% and to the higher outstanding average debt over the period which increased from EUR9.8 billion to EUR10.5 billion.

With regard to our debt structure, during the year, we maintained a fixed rate portion of our financing in the range of 75%. Analyzing the bottom line, we have registered the growth in profit before taxes but the adjusted net profit decreased by 11.6% reflecting the impact of the Robin Hood tax.

I will now briefly explain the Robin Hood tax and resume its impact on the 2011 figures. The law approval of September establish the application of the so called Robin Hood tax also to the business of gas transport and distribution increasing the IRES base rate by 6.5% and a temporary increase in the additional IRES rate of 4% for the period 2011, 2013.

As a consequence the IRES rate to be applied to Snam Rete Gas and Italgas in 2011 increased from 27.5% to 38%. Income taxes for 2011 excluding Robin Hood tax effects amounted to EUR562 million with an increase of EUR30 million compared to the previous year, mainly due to the growth of earning before tax.

Total amount of Robin Hood tax for 2011 was EUR344 million including both covering taxes and the one-off risk statement of the deferred tax liabilities. Therefore, reported net profit amounted to EUR790 million. Excluding the non-recovering Robin Hood tax effects on deferred taxes amounting to EUR188 million, the net profit adjusted was EUR978 million, down 11.6%, with a tax rate of around 42%.

The growth of the business this year characterized by the challenging CapEx plan we executed was delivered with preserving our solid capital structure. In 2011 Snam generated a cash flow from operation of EUR1,537 million which almost fully financed the net investment of EUR1,589 million.



Looking at the cash component of the working capital, the result is a cash generation in the period of EUR130 million which was mainly due to the increase of tax payable related to the effect of Robin Hood tax of EUR169 million and the increase of payable to [Casa Conguay] related to the transport business of EUR107 million, partially offset by the reimbursement of EUR80 million by Stogit to the shippers following the higher cash in recorded in the thermal 2005 and 2006 and related to the revenues exceeding the low ceiling in connection with a strategic withdrawal actual at that time and the amount of deferred taxes due in the year for EUR68 million.

The increase in financial debt of EUR856 million mainly reflected the cash distribution of dividends to our shareholders.

Moving to the balance sheet, fixed assets increased by EUR806 million versus year-end 2010. This was mainly due to the new investment of EUR1,585 million partially offset by depreciation of EUR654 million and the reduction of dismantling asset value of EUR135 million.

Total net financial debt amounted to EUR11,197 million increasing by EUR856 million and representing about 49% of the [rab] the same date estimated at around EUR22.7 billion. Thank you very much for your attention.

Marco Porro, Snam SpA –Head IR [4]

Good afternoon, everybody, Marco Porro. Before we start the q-and-a session, I would like to invite you to focus the discussion on the 2011 results and as far as the 2012 guidelines and the strategic outlook for the following year. We will comment on these issues during our 2012-2015 strategic plan and presentation that we will host next March on the 13th. Thank you, everybody, and please go ahead with your questions.



Questions and Answers

Operator [1]

(Operator Instructions). We'll take our first question from Javier Suarez from Nomura. Please go ahead.

Javier Suarez Nomura - Analyst [2]

Hi, good afternoon to everyone. Many thanks for the presentation. Javier Suarez at Nomura. Three questions if I may. The first one is on the political environment in Italy, if you want, we have seen the discussion on the liberalization decree which is pointing to the necessity of lowering gas and electricity prices. And apparently this is passing through the strengthening of the gas transmission network. I would like you to update us on your view of what the system should do to reduce electricity and gas prices and how realistic is this to happen in the short to medium term?

Second question is regarding the agreement -- the statistical agreement with Fluxys that we have announced at the beginning of the year, would you be so kind of giving us some more color on this agreement and the effect that this could have in your CapEx plan at some point.

And the third question is on the numbers themselves. On the CapEx, I have seen that the transmission and the transmission business, the maintenance CapEx is up by 26% while the development CapEx is down by minus 10%. Can you explain us the reason why the CapEx with no incentive has been going up by 31%? I think that all that is in the base number 14 of your results and that's it. Many thanks.

Carlo Malacarne, Snam SpA - CEO [3]

Thank you. The first question, the political environment in Italy. Today, in Italy is under discussion, the liberalization, all the technicality and the rules for the liberalization decree, we are waiting the final update of the decree. We expect within middle of July, the final minister degree which fix all the liberalization rules. Not only in terms of the possibility of decreasing the prices, but for the shareholder structure of Snam.



In terms of your question, I don't have a specific comment. What I can say is that our investments are completely in line to provide more liquidity of the gas. There's more flexibility of gas exchange through, not only to the network in Italy but through the cross border network. So I think our investment is completely in line with the possibility to create competition in the gas price.

The second question, the Fluxys agreement, the strategic alliance agreement we already signed with Fluxys. In this hedge, the possibility to jointly manage and develop opportunities in the gas sector in Europe, including transport, storage, and LNG activity.

This initiative, represent, as you know, one of the key pillars of our strategy. That is the reason why I'd like to elaborate such issues in more depth during our next strategic presentation. We are analyzing today the projects and during the strategic presentation I can go in depth in some specific projects.

For the CapEx, the third question, the CapEx, I can say that for the maintenance CapEx, the reduction -- the relation -- the reduction, sorry, of the CapEx in 2011 in transmission is mainly related to the different phasing of the spending that in the first quarter 2010 was the peak of a (inaudible) project now near completion.

I remind you the OLT LNG terminal of Livorno, the Villesse-Gorizia pipeline as well as to -- the focus of the engineering phase of a new project during the first part of the year. The second -- I think the second consideration is that in 2010 we add an extraordinary spending in the real estate provisions for the new acquisition of the real estate which gave us the possibility to reduce the operating cost.

So there is a lump sum of EUR28 million in 2010, it is the reason why we -- sorry in 2011, that is the reason why we -- define a number, we represent a small reduction develop in CapEx but is only a lump sum provision for the real estate of EUR28 million in 2011.

Operator [4]

We are now taking our next question from Antonella Bianchessi from Citigroup. Please go ahead.



Antonella Bianchessi- Citigroup – Analyst [5]

Yes, good afternoon. Just a quick question on your debt. Can you just be a little bit more specific on the status of the debt at the end of 2011? You mention the fixed portion, but can you just update on the refinancing needed for 2012 and 2013 and the average maturity of the debt?

Antonio Paccioretti, Snam SpA - CFO [6]

The proportion of our medium and long term debt at the end of the year is around between 60% and 65% on the total debt. As far as the approach for the refinancing for this and the following year as you are asking, I have to say, Antonella, that first of all, it is clear that it is known that the total amount of our debt which is going to mature in 2012 is around EUR1.5 billion.

And on top of that, we have to consider the higher level of debt we have take into account the CapEx plan we have. But the point is that we believe that the refinancing issue must be analyzed also taking into account the consequences of the recent measures set by the integration decrease concerning the ownership unbundling -- the ownership of the company.

You know that in case of the consolidation from Eni, our current agreements provide for the right of Eni to request the repayment of our standing debt in the period which is in the range of six to 12 months after the consolidation for sure. And today since -- today is not possible to foresee the exact timing of the refinancing process since it is linked to the measure included in the decree of the Prime Minister, it is not possible to have much more visibility.

It is clear that for us the capital market is an important -- will be an important part of our financial of the Company and the capital market for us means the need of an independent credit rating. You know that according to methodology that's used or methodology used by the credit agencies it is reasonable to expect a debt, our rating -- expected rating would be in the range of the investment grade at least in line with the sovereign risk.

Having said that, let me say that the Company started -- already started all the necessary steps in terms of internal organization, resources, and all the activities for evaluating how to tap the (inaudible) the financial market to cope with the significant refinancing process that we will be called to execute during the next years.



Antonella Bianchessi - Citigroup - Analyst [7]

Thank you.

Operator [8]

The next question comes from Stefano Gamberini from Equita SIM. Please go ahead.

Stefano Gamberini Equita SIM - Analyst [9]

Good afternoon, everybody. Three quick questions. [So the whole] regarding the slide number eight where you underlined that the DPS is sustainable, so does it mean that this EUR0.24 you're saying should be sort of floor even for the future or not?

The second question regarding the refinancing. Have you done some refinancing here recently with Eni in this case, what was the last yield -- the last cost, sorry you have paid? And finally, as regard the distribution, we notice that the trend of growth in revenues was very strong this year due to the system of price increases year by year. So could we expect the same kind of growth in distribution of revenues even next year? Thanks.

Unidentified Company Representative [10]

Please repeat the first question because the line was not so clear.

Stefano Gamberini Equita SIM - Analyst [11]

Okay. At page eight of the presentation, you underlined the DPS is sustainable with an attractive yield so what do you mean with the sustainable that the EUR0.24 is sort of floor even for the future or not?

Antonio Paccioretti, Snam SpA - CFO [12]

Starting from the very first question, it is clear that our policy of dividends that has already been announced is valid also for this year and also for this year we already gave the guidelines of the increase -- of the additional increase of -- in the range of 4%.



Sustainable for us means that we do not see any evidence for changing our dividend policy and it is -- you know that for us investing -- the dividend policy is a very important pillar of our equity story and for the level of the dividend, the dividend must be attractive and sustainable in the long term. For us it's very important that the risk associated with the dividend is very long.

And for the second -- yes. For the second question which was -- which is the cost of debt in our last transactions, I remember that in the last financing we executed, which was in the second part of the last year, the spread paid for the usual tenor we have which was around the sixth year so was around -- the spread was around -- a bit below 300 basis points.

For the third question, which if I remember well was the composition of the EBIT, if the growth of the distribution -- the EBIT of the distribution is sustainable for the future.

Stefano Gamberini Equita SIM Analyst [13]

Yes.

Antonio Paccioletti, Snam SpA - CFO [14]

I tried to underline in the presentation out of the significant growth we have accounted of around EUR100 million -- sorry distribution accounted for EUR100 million, there was also a significant part of non-recurring items. I will say that around EUR30 million to EUR40 million was due to the usual growth due to the recalculation of the tax so it was due to the regulated business.

Another EUR50 million to EUR60 million was due to a payment of EUR32 million for all the regulated revenues but due to a connected in relation to the previous period, and other items which I think is reasonable to expect will be not recurrent for the next years. So I think that from EUR30 million to EUR40 million is a guideline for the growth of this segment of business.

Stefano Gamberini Equita SIM Analyst [15]

Thanks



Operator [16]

We now have a question from Alberto Gandolfi from UBS. Please go ahead.

Alberto Gandolfi UBS Analyst [17]

Yes, hi, good afternoon, it's Alberto Gandolfi in UBS. I have three questions please. The first two are related. First of all, when it comes to the divestment of Eni, have you been involved at all in any preliminary discussion with long term strategic holders or will you be happy to perhaps facilitate any such large international sovereign fund or some player like that in your shareholding? I'm asking because I've seen, like for instance, a lot of Chinese companies buy into Portugal or the UK.

Secondly, still sticking to the Eni situation, would a change -- would a disposal of 32.25% stake trigger a change in control and therefore potentially allow Eni to renegotiate entirely their loans to you? I'm not asking about intent from Eni, but I'm asking legally, would they be allowed to do that or is there any written agreement that would protect you 100%?

And last question. Can you -- I'm a bit lost on this one, can you please update us on the status of the tenders in gas distribution. Thank you.

Carlo Malacarne, Snam SpA - CEO [18]

Alberto, the first question. Snam is not direct involved in the process which relates to the shareholders, anyway. We -- presently, the liberalization law provides according to the previous government decree for any to [decrease] the shareholder at least a 20%, but the means to the decree is under discussion today. We have to wait the final issue of the decree to understand the right percentage, but any way today, we are not involved directly in the process.

What I can say is that I'm sure that the final decision will define appropriate time and the methodologies of the shareholding decrees by Eni, which should provide, I imagine, value creation for all the shareholders at Eni and Snam, but we are not directly involved today.



Antonio Paccioretti - Snam SpA - CFO [19]

In case of the consolidation, again, I'm trying to be clear. In case of change of control of Snam, Eni has the right to ask the acceleration of the loans. Again, has the right. As mentioning before -- I was mentioning before, the right can be -- is of size in a period of between six to 12 months after the consolidation occur.

Carlo Malacarne, Snam SpA - CEO [20]

For your third question, for the distribution concessions, the renewal of the legibility framework is now completed and Italgas is ready to comply with the start of the tender regime. By year-end, our concession will expire by law. And in 2012 we foresee to put in place all the activities to collect the data to be submitted into the local authorities in charge, the municipality in charge of activating the tender procedures. We expect that some tender could start before year end, but anyway, no assignment for the new concession is expected before 2013.

One comment about the Rome municipality, the tender of Roman municipality. On September 26, the municipality of Rome published the new tender procedure regarding the concession of the gas distribution network in the city of Rome which is presently run by Italgas. And Italgas has officially appealed against the court for tender on the basis of the fact that the tender was published after June 29th 2011, the date foreseen by the decree which establishes the deadline after which all the tender for the concession must refer to the new tender rules, specifically, the minimum concession areas, 177.

Last week, the judicial authority, the TAR preliminary rejected the Italgas appeal and clearly speaking, Italgas received their solution. And nonetheless, Italgas confirmed the interest in the concession for Roma gas distribution and it will participate in a tender offer compliant with the law requirement. It is the reason of the appeal.

Consistently, Italgas challenges [our] solution before the administrative Supreme Court consider the startup. I remind you that the deadline for the starting of the bidder is middle of March and that is the reason we are waiting for the final decision of the administrative court in case of a rejection, we are ready to present the offer for the municipality of Rome.



Alberto Gandolfi UBS Analyst [21]

Thank you.

Operator [22]

We are now taking a question from Olivier Van Doosselaere from Exane. Please go ahead.

Olivier Van Doosselaere - Exane BNP Paribas - Analyst [22]

Yes, thank you. Three quick questions on my side. Firstly one relating also to the tender process in the distribution. I understand that one of the new items in the regulation will be that the municipalities will be able to charge up to 5% of fee on the concessions. I wonder now that I see also that there is a regulation in place to also protect jobs of people working in these areas if there was actually an issue that you might actually now be able to offset that new fee through cost savings.

Second point, but that is maybe something that you would rather comment on, I imagine next month, but I wonder if you have received any positive indication in terms of the timing of the Galsi project if that one would go through. And, yes, that will be all from my side. Thank you.

Carlo Malacarne, Snam SpA - CEO [23]

Okay, for the first question, I said before that all the rules are set up today and I confirmed the 5% is the fee set in the decree. The tender will be assigned on the basis of the three main issues, economic conditions, and is of high percent I said before, safety and service quality and the plants development plan.

The official in the 4th May, 2011 was issues the official -- inside the official journal, the new provision to govern the social effect associated with the new awards of tenders of the gas distribution concessions. And the number of people affect in the decrees is completely in line with our expectation. We don't see, let me say, any risk of the overall operating cost due -- the operating let me say, the field force present today in the Company.



For the Galsi project, I update -- the Galsi consortium received at the beginning of March 2011, the final environmental authorizations. So is currently performing the design and the pre-engineering activity and is working to obtain the permission of the construction. We expect that the ministry of economic development will start in a few -- I imagine in the few month. The conference, so-called conference, (inaudible) with the local municipality and the region which authorizes the construction of the pipeline. So there is no let me say, problem -- I don't see problem for the authorization. The Tuscany region and Sardinia region, there is a general approval by the constructions.

I expect that during 2012 the final investment decisions by the gas project will be defined. Before starting with the construction, we are in charge of the construction, we have to -- we are waiting and we have to sign the transmission contract. That is the reason why the final decision will take into account the supply of gas and have to provide the final sale contract before we will sign the transmission contract.

We expect anyway [only to review an idea] we expect that the project will be coming on stream beyond 2015, so during 2016 roughly is my -- in terms of the value, the cost, we are ready to update our investment when the final investment is issued, will be take. And today, the preliminary value, cost of investment, are around EUR1.5 billion.

Antonio Paccioretti - Snam SpA - CFO [24]

Sorry, I think it's important to underline as far as the concession -- the list concession -- the leasing to be paid for the concession, the 5%, you mentioned before it is important to underline that the lease is already paid by Italgas. You don't have to consider such a payment as an increase incremental cost for the Company. Today, in the count of 2004-2011, the Company pays leasing for concession which can be evaluated in the range of 4% of the revenues.

Olivier Van Doosselaere - Exane BNP Paribas - Analyst [25]

Okay, thank you very much.

Operator [26]

The next question comes from Anna Scaglia from Morgan Stanley. Please go ahead.



Anna Scaglia - Morgan Stanley - Analyst [27]

Hi, good afternoon. Two questions from me. The first one is can you please give us an update in terms of what has been the average utilization rate of the grid in 2011? And second, regarding the evolution of non-regulated revenues, which were particularly high this year, is there -- are there any non-recurring items? Thank you.

Carlo Malacarne, Snam SpA - CEO [28]

For the first question, the loss factor of the network, the average loss factor during 2011 is around 70%. We have a different percentage during the summer period of -- and the winter period, but anyway is 70% is the average loss factor of the national grid.

Antonio Paccioretti - Snam SpA - CFO [29]

For the non-regulated revenues I think that it's a basket where there are a lot of items. I think that it is important -- I think I would underline first of all the capital gain, let me say realized by Italgas for the sales of certain concession which, for the year, permitted Italgas to realize around -- between the EUR15 million and EUR20 million and this let me say explains an important part of the non-regulated revenues increase.

Anna Scaglia - Morgan Stanley - Analyst [30]

Thank you.

Operator [31]

Your next question comes from Albert Ponti from Societe Generale.

Albert Ponti - Societe Generale – Analyst [32]

Good afternoon. I have two questions. The first is, when do you think you're going to have your own rating, by when, the rating agencies would have finished their job? And the second question is, I know you cannot comment, so I would ask you to comment on one comment of



mine. And it relates to the fact that Eni will sell down and the six to 12 months grace period you have mentioned.

I thought that is not -- would not be very smart for Eni not to allow an orderly refinancing of your debt, because if they don't obviously they would be penalized by selling Snam Rete Gas shares at a lower price. So would you agree with that? Would you agree that given that Eni would pay a price and in any case given cash to deposit it would be involved i.e. the [Italia] state, it is very likely that they will leave you there having to refinance EUR11 billion of debt in 12 months. Thank you.

Carlo Malacarne, Snam SpA - CEO [33]

The first question I think we are starting to analyze all the process, not only to provide the rating but to provide the new organization in our company to go directly the market. I imagine for the rating we need three, four months. It's completely in line with the deadline of the decree.

For the second consideration, it's not a question, it's a consideration is generally speaking, I agree. But what I can say is that the decree today is completely under discussion and so I don't have a specific comment. I imagine only that the technicality and the deadline inside the decree will give the possibility not only for Snam, not only for Eni, not for Snam, to provide some value creation for shareholder. I don't think that could be penalized or jeopardize the process of liberalization.

Albert Ponti - Societe Generale – Analyst [34]

Sorry, just a follow on because in the end, the grace period is a private contract between you and Eni and vice versa and it's not cast in stone.

Antonio Paccioretti - Snam SpA - CFO [35]

The point is that we had today some contractual arrangements as you know. The term is that after the [debt] consolidation they had right to accelerate the financing. The timing I think is not -- is consistent with the possibility we have to bid all the new organization and tools for refinancing the -- for starting the important exercise we have to deliver for refinancing our debt.



It is important also to underline that for obtaining the rating you know that everything must be clear for the investor and for the rating agencies, one of the points is the assured structure and therefore, I think that we have to wait for -- having the visibility of the result which will be designed by the privatization decree.

Albert Ponti - Societe Generale – Analyst [36]

Very clear. So I was right. Thank you.

Operator [37]

The next question comes from Jose Lopez from HSBC. Please go ahead.

Jose Lopez - HSBC – Analyst [38]

Hello, good afternoon, it's Jose Lopez from HSBC. I had some questions. Given that you now have a new government that's obviously more technocratic and a lot less erratic than the previous one, have you been putting your case forward to the new government that random sector specific taxation on infrastructure is a value destroying move, overall for Italy as a whole?

And are they more open to revising this Robin Hood -- so called Robin Hood tax and revisiting it? If not, have you had discussions with the government and have they reassured you regarding that there will be a step down from 10.5% to 6.5% in 2014. Could you comment on this please? Thank you.

Antonio Paccioretti - Snam SpA - CFO [39]

I'm afraid that I have to answer that we are not in a position to discuss the fiscal politics with the government.

Marco Porro - Snam SpA - Head - IR [40]

If there are no questions.



Operator [41]

There is a question from Stefano Gamberini of Equita. Please go ahead

Stefano Gamberini - Equita SIM – Analyst [42]

Yes, sorry, a follow-up. Regarding the concession fees in the distribution business, you said that the decrees at a maximum at 5% of concession fees paid to the municipality. Have I understood well that you already paid around 4% of concession fees to the municipality, which are not recognized by the regulated to the final revenues?

The second question. Could you remind us your target in this business in terms of EBIT on capital employed that should be 10%, if I remember well, regarding the average return you expect, and second, what is your target in term of growth of capital invested in this sector? Thanks.

Antonio Paccioretti - Snam SpA - CFO [43]

As far as the first question is concerned, I can confirm you that Italgas paid for 2011 around EUR30 million for concession fees, which according to the current regulation, are not part of the cost recognized in the tariff.

Carlo Malacarne, Snam SpA - CEO [44]

For the second question, the Italgas today with its leading position in distribution activity and its efficiency level has the possibility to optimize its concession portfolio through the clearly selection of the concession that guarantees an increase in our current average of return.

I remember that the average return in terms of EBIT to [Torab] is around 9%. We are open to evaluate any opportunity that could arise from the concentration process of the industry only in order to increase efficiency and maximize the profitability. We consider an appropriate -- a market share in the range of 40%, 45%. Today, we have 33%.



Stefano Gamberini - Equita SIM - Analyst [45]

Thanks.

Operator [46]

We now have a question from Pablo Cuadrado from Bank of America/Merrill Lynch. Please go ahead.

Pablo Cuadrado - Bank of America/Merrill Lynch – Analyst [47]

Hi good afternoon to everyone, is Pablo Cuadrado from Bank of America/Merrill Lynch. Very quick question. The majority of my questions have been already answered. Just one question on the depreciation looking to 2011, the level that you reported clearly is down versus last year. There is the impact on the change on the useful life of the storage, also there are a few changes on impairment. Could you give us an idea of looking to the CapEx that you have deployed in 2011 which is more or less the pro-forma depreciation that we should expect for this year?

Unidentified Company Representative [48]

A few minutes for allow -- for finding the answer, we need to send some datas, few seconds, please.

Pablo Cuadrado - Bank of America/Merrill Lynch – Analyst [49]

All right, thank you.

Operator [50]

We have a follow-up question from Olivier Van Doosselaere from Exane. Please go ahead.



Olivier Van Doosselaere - Exane BNP Paribas - Analyst [51]

Yes, thank you. Just a quick follow-up question on the financing of Eni. You might have mentioned this and I would have missed it, but what's your average maturity is of your debt? And then maybe just to come back to something that I had right at you that you had said a couple of weeks ago that you did not expect the change in ownership to have a negative impact on our financial costs. I was wondering what can actually -- if you have any (inaudible) that what can today really give you the confidence that this is indeed the case? Thank you.

Unidentified Company Representative [52]

The average tenor of our medium and long term debt is today around 4.5 years and it is in line with what we had also in the past. It is -- it was and it is in our strategy to maintain a tenor of around four, five years.

As far as the cost for the refinancing, what we have said in the past and we confirm is that what we are used to pay to our lender which is Eni is set -- the cost is set to take into account the cost that we would pay with the direct access to the market so taking into account the shadow rating of the borrower of Snam and not the cost of funding for Eni.

Just for giving -- repeating the example last financing, we obtained was paid for a tenor of six years if I remember well, just below 300 basis point. If I look at the condition of the market -- the current condition of the market, we have seen issuers -- Italian issuers with the same risk profile, with the same activities tapping the market for similar tenor, very, very recently with a cost of debt which is in line with the cost I was mentioning before.

Therefore, we think that the exercise of refinancing the entire amount will be important but we think at the same time that the nature of our business and the capital structure of the Company will permit us to obtain conditions that the same the condition we have today.

Olivier Van Doosselaere - Exane BNP Paribas - Analyst [53]

Okay, thank you.



Operator [54]

There are no further questions, Mr. Malacarne

Unidentified Company Representative [55]

Pablo, just coming back to the previous question around the -- about the depreciation. What we can give as a guideline after that we can be more precise during the following -- in the following days. But what we can say is that the investment that are respected -- take into account the investment that are expected to enter into operation, we expect depreciation -- the level of depreciation from 2011 to 2012 passing from an overall magnitude of EUR650 million to EUR700 million with a level of EUR40 million of ordinary depreciation and the additional EUR10 million due to the non-recurring effect in 2011 for the recovery of the 2010 re-impairment losses. So I would say that next year our depreciation will be close to EUR700 million.

Pablo Cuadrado - Bank of America/Merrill Lynch – Analyst [56]

Okay, thanks.

Unidentified Company Representative [57]

Next -- sorry, this year, 2012.

Pablo Cuadrado - Bank of America/Merrill Lynch – Analyst [58]

If there are no more question, thank you very everybody and if you need any type of follow up or detailed analysis, please contact the IR department. Bye-bye.

Operator [59]

That will conclude today's conference call, thank you for your participation, ladies and gentlemen. You may now disconnect.



Unidentified Company Representative [60]

Thank you, bye.

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