2012-2015 Strategy Conference Call

Transcript

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Presentation

Carlo Malacarne, Snam SpA - CEO [1]

Good afternoon ladies and gentlemen. Thank you for joining us for today's presentation of a Group strategy and the target for 2012-2015 period.

To begin, I would like to remind you of the principal that has served as the foundation of Snam's successful business model in recent years. First, our [year] focus on operating in the regulated gas sector which provides us with a stable and predictable earnings and cash flow.

Second, our proven ability to execute large scale project on time and within budget. Third, our aim to achieve superior operational efficiency which enhances our ability to drive returns. Fourth, our experience in building a trusted and constructive relationship with the regulator which has enabled us to obtain fair levels of remunerations. Lastly, our solid capital structure which provides the funding security required to execute our investment plan.

All of these factors have enabled Snam to continuously grow the business and deliver industry leading operational and financial results for all of our stockholders. However, while these pillars will continue to form the foundation of Snam's strategy for the years to come, we must acknowledge and adapt to an evolving industry landscape.

The European gas market is becoming increasingly dependent on imports. This increased dependence means that security and diversification of supplies have become even more important across the European Union.

With the implementation of the third energy package European regulators are seeking to create a more unified framework across the region. This means increased cooperation across country borders and more homogenous regulations.

In the context of the developing a more homogenous market, nations will now have to move from focusing on domestic policies to a broader common view in line with the evolution of the European gas market. This shift will enable both countries and institutions to work together to develop a common energy policy and targets which will foster the development of integrated cross-border infrastructure projects.

This evolution creates opportunities for experienced operators with the industry know-how, trusted regulatory relationships, and expertise to develop this complex infrastructure project.

It is clear that Snam's proven business model with its expert know-how in developing and managing complex infrastructure projects, its long-standing relationship with the regulators, and the solid capital structure make it a natural leader in contributing to the development of the European gas network.

We will do this by fostering four strategic priorities. First, we will continue with the disciplined execution of our CapEx plan which will allow us to drive organic profit growth. Second, we will exploit opportunities to enhance profits through cost-saving programs, efficient capital management, and synergy across our business.

Third, taking into account the evolving industry environment, we will pursue value creating opportunities for new and efficient investments aimed at contributing to the integration of the European gas network and development of the new and innovative services. Fourth, all of this brings us to our ultimate priority which is to drive attractive and sustainable returns to our shareholders.

To expand on these priorities farther, we will take you through our full strategic plan in four parts. I will begin by discussing the environment in which we operate as well as our planned investment and international growth plan, followed by Antonio, who will explain our efficiency and capital management plans, after which I will return to a few summary remarks before taking your questions.

Starting with the business environment, a number of themes have emerged which affect the European gas sector as a whole. Looking at the regulation, the implementation of the third energy directive aims to create a homogenous regulatory framework across the Europe gas sector. This includes unbundling of production and supply activities from gas infrastructure services as well as integrating Europe's diverse energy market increasing competition and security of supplies.

In addition, Europe's dependence on imported gas continues to increase due to declines in domestic production and the long-term increases in demand. To meet these challenges and ensure the security of energy supply, an integrated pan-European network is required. This integrated and enlarged network will provide the flexibility for gas flows between local markets and enable the diversification of gas supply sources.

Energy issues have become a priority in the European debate in relation to the progressive increase of import dependence, high energy prices, and climate changes. In order to address these crucial challenges, the European Union has identified the three main goals of its energy policies, competitiveness, sustainability, and security of supplies.

In order to achieve these goals, the European Union has adopted specific provisions aimed at boosting the creation of the internal gas market. Such provisions can mainly be grouped in several areas of intervention.

Firstly, the unbundling of the regulated assets from the companies performing the function of production and supply to guarantee an efficient access to a central infrastructure without discrimination.

Secondly, harmonization and cooperation. Member states, national authorities, and transmission system operators are requested to cooperate at the regional and the European level to integrate a different national market into a European one. New European regulators and industry bodies should facilitate the coordinated development of the gas infrastructure and the harmonization of network access roads.

Moreover, various provisions have been introduced in order to enhance marketability. In particular, the introduction of entry/exit tariff systems in all countries has been required together, with the establishment of a market based balancing regimes and the development of gas exchange.

Finally, measures for infrastructure development to ensure security of gas supply and to facilitate market integration has been introduced. In this respect, security of supply has to be achieved by diversifying the sources, by enhancing the infrastructure flexibility, and by creating reserve flow capacity.

Moreover, the creation of an internal market requires the possibility for gas to be exchanged between different systems through the increase of interconnection among national networks. This measure could boost investment in new infrastructure as well as in the development of existing facilities even in an environment of moderate gas consumption growth.

At an Italian level in recent years several measures have been adopted to support market integration. First of all, following the third gas directive, the Italian government has adopted an independent transmission operator as the model for Snam to comply with the EU unbundling requirements and recently in the wake of the liberalizing effort that the government is conducting to promote economic growth, a further step forward has been taken by envisaging the full ownership unbundling of Snam to be completed before the end of 2013.

Snam is also actively participating in the work of the European transmission system operator, also called ENTSOG, in order to progress the harmonization of roles at the

European level. Some important steps have already been taken through the definition of a common European and network code to establish the mechanism to sell transport capacity.

The code has been adopted by ENTSOG last week. Further issues under consideration include balancing rules, tariff structures, and the development of the second European 10-year Network Development Plan.

Some important actions have also recently been taken at national levels to further boost the liquidity of the Italian gas market. In particular, new start-up services have been introduced for industrial and power customers with additional capacity allocated for periods of up to five years.

Moreover, on December 1st, 2011, a new market based balancing regime has been introduced. Such a regime envisages a central role for Snam, into balancing activity as well as in the cooperation with exchange operators. This is the first step towards the evolution of and intraday gas market which could provide potential for new valuable services.

The availability of new transmission and storage services as well as the presence of an entry and exit tariff system together with the balancing market are essential conditions to the development in Italy of a European gas hub.

Finally, several measures have also been adopted in respect to infrastructure development. As far as the storage is concerned the legislative decree [Snam] 130 has require the realization of additional of 4 bcm of new capacity by 2015 through the development of existing and the new storage fees.

Moreover, to support the investment requirements for the development of the transmission network and spread aside the regulatory framework provides attractive incentive for new investments allowing premium above the base return -- the base rate of return.

The contrast between the market today and tomorrow can be seen in the following areas. Regulation, currently each member country of EU maintains its own regulatory framework. Under the directive, the regulatory framework will be unified into one homogenous scheme across the EU.

Investment plan, national investment plan for maintenance and upgrading of gas networks will be replaced by a coordinated plan which will address supply and demand requirements for the entire European system.

Transmission System, the system will be upgraded to allow for increased flexibility. Gas flow will not simply be point to point through the creation of [ops] and reserve for flow capacity, gas will be more freely transported across the European market as demand requirements dictate.

Market players, network operators will work independently from integrated payers. There will also be increased partnership on cross border infrastructure project to facilitate gas flows from varied supply sources.

Looking at the environment in which Snam operates, it is also worthwhile to briefly discuss the outlook for the European gas market in the medium and long-term. As demand and growth is expected to increase steadily from the levels of 2010 around 550 bcm to around 650 bcm in 2013 with an annual average growth of a rate of around 1%.

But fundamental drivers continue to underpin this demand in Europe throughout the period. Chief [amount is] is the use of gas for electricity generation.

The [thermal sub-sector] is expected to grow on average slightly below 2% per annum in the period. More notably, the grow in that demand combined with the decline in the [Rete process gas] (inaudible) and production, particularly in UK and in the North Sea, the increase that Europe's net debt [import] around 65% of the total demand in 2010 or a significant level to a remarkable [9%] in 2013.

Furthermore, with regards (inaudible - background noise) concentrated in Russia and the Middle East and in North Africa is inevitably implies that Europe will tend to depend more significantly on these (inaudible - background noise) to meet its gas needs in the future.

As a result, in Europe (inaudible - background noise) strictly correlated with the diversification of sources, the flexibility of infrastructure, and the increase of interconnection. Targeted investments in both pipeline and LNG infrastructure will be in line with this plan.

Looking in more detail at the Italian gas market using 2011 as our base year, our forecast of gas consumption show an increase in the medium and long terms mainly driven by the terminated sector the driver of future gas demand growth.

As consumption will grow at a CAGR of 1.2% for the period 2011-2013. The power generation sector will continue to be the key driver of this consumption also in the long run where it is estimated to grow at an unrivaled just above 2% or by around 15 bcm by 2013.

It is the result of growth in electricity demand estimate approximately 1% yearly through 2013, the decrease in electricity imports, forecast 1.5% down yearly through 2013 and finally the increase in thermoelectric production estimated at 1% yearly through 2013.

The growth in the natural sector approximately 3 bcm, 0.9% is mainly based on the estimated trend of growth of the Italian GDP for the future years. In the medium long term residential and commercial will show a typical trend of natural sector staying almost flat for the overall period.

Over the coming years, the Italian gas market will experience increasing import dependence from the current 70 bcm around 90% of the total demand to around 100 bcm in 2013, around 95% of the total demand as a result of both growing gas demand and decline in domestic production.

Over the coming years, new investments will be required in the European gas market to address the increased requirements for security and supply diversification. Investment to increase supply include LNG import terminals and gas storage facilities as well as capacity extension to existing pipelines and enter connectors.

Infrastructure development will take place in a gas industry that will be characterized by a more homogenous degree of liberalization and deregulation. The geographic position of Italy situated at the crossroad of the gas streams coming from North Africa and Middle East to LNG and in the future also from [Caucasian] area as well as its existing links with the Northern Europe and Russia makes Italy a crucial channel for energy supply into Europe.

Italy is therefore very well placed to leverage on all the opportunities deriving from development of a second European gas hub and can create a full direction all North South transmission access enabling greater trading liquidity across the gas system.

In order to exploit this opportunity, the Italian gas transport network will have to guarantee a high level of flexibility, substantial storage capacity, and sufficient cross-border infrastructure. The resulting CapEx potential for Snam is substantial.

Let me now analyze how Snam can develop its strategy in the evolving environment by analyzing our CapEx plan for the period 2012-2015. Let me start by underlying the key priorities that drive our CapEx plan. In order to support the development of the European gas market, the Italian gas network will have to guarantee a high level of security, flexibility, and liquidity.

This will be achievable through the realization of substantial transport and storage capacity and sufficient cross-border infrastructure, including additional capacity to allow for a physical overflow of gas from Italy into the other European countries. In particular, in the transport business capital expenditures is devoted to meeting capacity requirements and to providing supply sources diversification to the shippers.

This development should facilitate not only a higher level of security and flexibility of the gas system but also gas transit to the European market thanks to the physical overflow of gas from Italy to other countries and to establishment of additional interconnections with other national networks.

Coming to storage, our significant investment program is devised to guarantee greater storage capacity in the gas system both in terms of modulation and peak capacity, optimizing the balance of the overage system and to offering moderation services to the industrial client.

At the same time, by increasing capacity, we can create the condition to handle the development of higher liquidity in the gas system. This will set the path to facilitate the use of our (inaudible) system for gas swap opportunities in the European markets in the coming years.

Let me now explain how we can translate all of these investment priorities and capital expenditures. The 2012-2015 consolidated CapEx plan is set at EUR6.7 billion. The new investment will support an estimate 4% annual growth in our consolidated RAB by 2015 starting from 2011 estimated the base of EUR22.7 billion. We plan to manage the pace and timing of our investment to maintain our track record of profitable growth in proving capital efficiency and returns.

In 2012, we expect to invest EUR1.4 billion which the remaining EUR5.3 billion to be phased during the remainder of the plan period. Furthermore, we will increase the profitability of our asset base leveraging on the incentive scheme set by the authorities, having around 80% of total investment incentivized. The share of the overall RAB benefiting from the incentivized re-moderation will increase from the current 26% to around 40% in 2015.

Over the four year business plan, the composition of our investment will show almost 65% of the spending for the transport business, more than 20% for the distribution activities, and the remaining 15% for the storage businesses.

Now I will begin by discussing the details of transport activity focusing on the reverse flow project. To make the physical reverse flow in the pipeline possible, which is currently almost fully dedicated to the import of gas from Northern Europe to Eastern Europe, we need both the enforcement of Po Valley infrastructures and empowerment of Istrana in Masera compressor stations, the completion of which is expected by 2015.

Italian gas systems will then have the potential to export gas for around 2 bcm per year at the entry point of Passo Gries and 6 bcm per year at the entry point of Tarvisio. We consider this the first step in the development of cross-border infrastructure.

New projects involving new pipeline development, 80 kilometers, and two new compressors stations, 90 megawatt of in-store power capacity, as well as the empowerment of an existing station will be developed during 2012-2015 period to further increase the export capacity.

Beyond 2015, the maximum export capacity will consequently reach 13 bcm per year at the entry point of Passo Gries and 6 bcm per year at the entry point of Tarvisio depending on the utilization rate of Greece and the supply sources.

Both these project will facilitate the establishment of the future southern European gas hub in Italy and are perfectly in line with the requirements of the third European directive in terms of cross-border capacity development.

In the current CapEx plan, the amount of the overall investment dedicated to the creation of reverse flow capacity is around EUR1 billion. Other key projects in our transport CapEx plan are the South North development which will increase the capacity at a certain entry point by around 8 bcm mainly including the 8 additional bcm associated with the construction of new LNG terminal in the South of Italy.

All of these new projects will be on stream from 2013 to 2017 thanks to the development of around 1,150 km of new pipeline and two new compressors stations along with the upgrade of two existing stations for a total increase in storage capacity of 170 megawatts. The spending dedicated to this project in the plan period is in the range of EUR1.2 billion.

In terms of capacity, the project under development in our CapEx plan, we've created additional capacity of around 15 million cubic meters per day by 2015 which represents a growth of around 4% when compared with the 338 million cubic meters per day of firm capacity available in 2011.

In addition, let me emphasize that the project under way during the current plan period will establish a pipeline of investments beyond 2015 as they reach the completion stage. In particular, from 2016 to 2018, the condition of projects already under construction in the transportation business will result in an annual average standing in the range of EUR900 million.

Considering the expected gas consumption as well as the level of flexibility of the suppliers, we estimate that the total capacity at entry point should have to increase to around 420 million cubic meters per day in 2012. That is the reason why we envision in the medium and long-term other investment opportunities which we will require a high steady level of CapEx beyond the full year's plan period.

For the project to be potentially developed after 2015 and now in the feasibility study we've created an additional capacity at entry points of around 26 bcm per year. In particular in the North the project beyond 2015 will increase the capacity at the entry point by around 10 bcm mainly made up by 2 additional bcm associated with the expansion of the entry point of Tarvisio and Gorizia and the 8 bcm available for the construction of a new LNG terminal.

In the South of Italy, this project will create 8 bcm of new capacity. This upgrade is mainly related to the empowerment of the grid should one LNG terminal for a new gas import begin operations. Another 8 bcm coming from [Galsi] projects, we should be able to include the spending in our plan following the final investment decision of the project by the Galsi company and a decision is for now scheduled by the end of 2012 beginning of 2013.

I do believe that this project come on stream we can leverage a significant amount of investments delivering sustained profitable growth in the long term. Expanding beyond 2015 to 2020, for the new projects, the key project today under feasibility study is estimated around EUR5 billion.

Looking at the storage business, the project included in our investment plan will lead to a 30% increase in modulation capacity which is expected to reach approximately 13 bcm in 2015 from the current 10 bcm excluding [strategic storage] which is currently at the level of 5 bcm.

In addition, there will be a 14% increase in peak capacity which is expected to reach 310 million cubic meters per day in 2015 compared to the 271 million cubic meters per day in 2011. This investment will increase the level of security and liquidity in the gas system in order to create [or sustain] to storage the condition necessary for the development of the gas hub in Italy.

We are committed to provide to all the shippers, including industrial customers, new modulation surfaces granting them a growing level of flexibility.

I will conclude our discussion on storage on investment by emphasizing that the expected capacity development is consistent with the requirements of the ministerial decree of 2010 reinforcing once again the fit between our strategy and the need for the Italian gas market.

In the storage business as in the transport, we are already evaluating the feasibility of additional projects. Specifically, I would like to develop -- the development of the new storage site at [Alfonsina]. Currently we are in the authorization phase of the development of the site and we're depending of the base -- and we are developing the base engineering. The development of the site will allow us to increase the modulation capacity by an additional 2 bcm beyond 2015.

In terms of the distribution business, our EUR1.5 billion CapEx program is aimed at consolidating our presence in Italy, increasing the profitability of the asset base, in addition to providing increased service quality and security across the network. The distribution CapEx plan includes the substitution of 300 kilometers of primarily cast iron pipes with a 2% premium on the base allowed return for eight years and of around 0.5 million old metering devices receiving an 8% return.

Investment in the full year plan will support the installation of around 0.5 million new gas meters bringing the number of the redelivery points to approximately 6.4 million, an increase of 80% compared to the 5.9 million redelivery point in 2011. The plan also includes the development of the distribution network either by adding new lines or by increasing the number of new connections of existing distribution networks, approximately 2,000 kilometers.

I also want to relay this start up of smart metering activity which will be applied to around 1.1 million meters as well as the development of the relative ICT hardware and software.

Let me know briefly focus your attention on our distribution activity in order to provide greater visibility on the Italgas strategy. The renewal of the legibility framework has been completed with the issues of [three] decree which aim to improve efficiency of the distribution industry also thanks to the further consolidation of the business.

This objective will be achieved through the reduction in the number of construction areas, a set of standard rules for the tender process based on economic conditions and parameters on security and quality of the service.

And last, but not least, by setting clear rules for the payment of redemption values to operator leading concession. Italgas is today the market leader in the Italian distribution market with a substantial competitive advantage in the tender process to be started in the coming years, both financially and operationally.

Moreover, due to its size and its long-standing presence in the industry Italgas has built up a very competitive cost position. Leveraging these competitive advantages and operating in the process characterized by transparency and efficiency [rework], Italgas aims to increase its current market share up to a range of 40%, 45% gaining both in terms of size, so triggering farther economies of scale, and the portfolio optimization moving from a fragmented geographic presence to concentration in more uniformed areas of operation. My opinion is to represent an important opportunity for Italgas to unlock additional value.

Let's now move to the most recent development of our strategy proposition, international growth. In addition to our plans for the Italian market, Snam is well-placed to grow internationally in current market environment.

The opening of the European gas market through the implementation of the direct give calls for strong network operators to contribute to the integration of the network and facilitate in the development of the flexibility in the system.

Furthermore, the convergent of regulations means that Snam's experience in dealing with the regulatory bodies will be a competitive advantage. Snam's position at the center of the key sources of supply and in numerous areas of demand means that it is uniquely placed to create a strategic gas hub for southern Europe.

As we discussed at the year and presentation, Snam has already developed the now required development and manage cross-border gas infrastructure. This knowledge of innovative technology can be leveraged to contribute to the development of additional infrastructure projects facilitating gas flow across Europe.

Furthermore, Snam's size and sound capital structure make it a natural leader in the development of more homogenous European gas network.

Snam has already positioned itself as a major player in the evolving market. As previously announced on January 16th, Snam and Fluxys agreed to evaluate future joint strategy aimed at pursuing potential development opportunities in the gas sector in Europe, including transport, storage, and LNG activities through projects enhancing the flexibility and security of supplies in the current European infrastructure.

This project includes among others, reverse flow initiatives in line with the recommendation and provision of the third [legibly] package for an integrated European gas market adopted by the European Parliament and the [Galsi]. These initiatives aim to promote cross-border flows and to link that gas trade in place in the Northwest and South of Italy, over Europe, sorry.

The leveraging the geographic position and the know-how in the gas infrastructure, Snam and Fluxys and promotes and facilitates the integration of the European gas system. In coming years we do believe that the overall European gas infrastructure business can offer significant deliver opportunities.

First of all, the scenario will be characterized by the evolution of the European network operator strategy with the disposal of regulated assets by integrated utilities mainly as a consequence of the implementation of the on binding required by the European energy policy.

Opportunities will also arise in terms of the new infrastructure projects. The aggregate value for the potential universe of opportunities is in the range of EUR90 billion for the new investments and around EUR70 billion for the merger acquisition deals. In line with our strategy approach, we will evaluate any opportunities on the basis of potential value creation and to use and strict financial discipline.

The first important milestone in the coming a major integrated player in the European regulated gas business is the agreement Snam reaches with Fluxys in mid February to jointly acquire stakes in the interconnected UK, interconnected Zeebrugge and terminal, and the Huberator.

In my opinion, this first achievement as well as a further development of the strategic alliance signed with Fluxys represents the confirmation of the active commitment of Snam in carrying out initiative to make the European gas system become more flexible, efficient and safer, and to create value of its own shareholders.

I will now hand you over to Antonio who will comment and details on the operational efficiency in our capital structure.

Antonio Paccioretti, Snam SpA - CFO [2]

Thank you, Carlo. Let me briefly focus your attention on our plans for the operation and financial efficiency. I will start with our operational efficiency plan. As you remember, following the integration of Italgas Stogit, we targeted a (inaudible) fixed cost savings in 2012 for EUR80 million compared to 2008 in real terms and with the same parameter of activities.

In 2011, we have been able to reach this target one year in advance thanks to the faster than planned results obtained from projects already implemented. The cost reduction of EUR81 million in real terms is a significant result even more remarkable if you consider that it is been achieved in a growing business.

In particular, in 2010 and 2011 we have developed the new meter reading activities in the distribution business that led to an increase in the [overall] cost base of around EUR13 million fully covered by related additional revenues.

Looking at 2012 and forward, we will continue with our efficiency defaults across a growing business. We are confident to achieve a level of controllable fixed costs in line with 2011 in real terms.

This target will be achieved nevertheless, the incremental costs arising from the implementation of the independent transmission operator from the last January 1st. At the same time, for the following years we are analyzing opportunities to exploit further efficiencies by leveraging the proven experience that this company has in carving the cost of personnel, supplies, and services.

With regard to our balance sheet, we confirm to clear targets. First, to maintain a solid balance sheets in the medium to long term to sustain both our challenging investment plan and return to shareholders preserving at the same time our current limited risk profile and our capability to directly tap the credit market.

Second, to manage our financial structure in order to maintain the cost of capital below the allowed return set by the regulator, limiting the exposure to the interest rate volatility. As for the soundness of our balance sheet, we expect our four-year investment plan, 80% of each is represented by incentivized CapEx to be fully financed by our operating cash flow.

This should allow us to maintain strong balance sheet with a giving level calculated as net debt RAB in the range of 50%, 55% in line with our long rate to rated target and preserving our financial flexibility.

Regarding the structure of our debt, we confirm our plan to keep around 70% to 80% of our total debt as fixed rate and medium to long-term financing. We believe this debt structure is consistent with the rough base profile of our business, the length of the regulatory period and our will to keep the volatility of our profit and loss under control.

Furthermore, it offers adequate room to fully exploit is potential opportunities offered by the credit market and the regulatory framework in terms of extra financial efficiency and sustainable value creation.

Moving to the refinancing on last January 24th, the Italian government issued the [liberalization] decree which requires the ownership unbundling. Snam, as you know, is not involved in the decision regarding the way through which the change in the Snam shareholding structure will take place. On the other hand, as highlighted in the occasion of our 2011 preliminary results in the case of change of control, the existing financial agreements between Snam and Eni give Eni the right to accelerate the repayment of the existing facility.

In this view, Snam has already put in place an internal organization and taken its first steps towards and independent credit rating with the final aim to directly test the credit market by the year-end.

In this regard, Snam believes that the combination of its own sound balance -- business model and the solid financial structure will enable the Company to exploit the current market debt and credit conditions and access to a wide range of financing from banks, capital markets, and other lending institutions such as the European Investment Bank, thus covering Snam's financial needs in terms of maturity.

Summing up, the solidity of our balance sheet coupled with the low risk profile of our business and the fairness of the regulatory framework make us confidence about our capability to achieve an efficient refinancing within the targeted timeline.

Carlo Malacarne, Snam SpA - CEO [3]

Let me conclude with some final remarks. We are firmly committed to confirm Snam equity storage is one that combines profitable and sustainable growth with shareholder returns and as highlighted before, we have a strong and disciplined CapEx plan, with growth supported by the significant investment program is expected to translate into a robust 4% increase in the Group RAB over the next years.

The cash flow generated by the operating activities of the Company during the planned period is expected to fully fund the RAB, thus affording us the potential to maintain the level of the leverage in the range of 50% to 55%.

In addition, let me underline that we deploy our investment plan in a sound and clear regulatory framework which provides for a valuable incentive scheme that allows us an increase of incentivized quarter of the RAB up to 40% by 2015. On top of that, we are always committed to exploiting operational and financial efficiencies that enable us to further support the profit growth.

A sound growth partner leads to significant opportunities to further increase profitability and to create additional value for our shareholders.

On the basis of 2011's sound results and considering our solid capital structure, the activated Board of Directors decided it will submit to the annual shareholder meeting their proposal for distributing a dividend for 2011 of EUR0.24 per share that leads to an increase of 4.3% compared to the dividend per share for 2010 with a dividend yield of 7.1% in the top range of the utility sector.

For the current year 2012, I can confirm our commitment for a 4% annual increase of the dividend per share in line with our already announced dividend policy for the period 2011-2012. Considering the positive evolution of our financial performance and our solid capital structure, we believe that the dividend of 2012 will be sustainable and will enable us you to maintain one of the most attractive yields in the European utility sector.

To summarize, Snam remains focused on delivering its strategy committed to a sound combination of growth of the value of the Company and the shareholder return. Thank you for your attention.

Questions and Answers

Carlo Malacarne, Snam SpA - CEO [1]

We are pleased to answer any questions you may have.

Antonio Paccioretti, Snam SpA - CFO [2]

We will start with taking a questions from the room with Alberto.

Alberto Gandolfi - UBS - Analyst [3]

Thank you, good morning. It's Alberto Gandolfi, UBS. I have four quick ones, please. First one is on CapEx. Can you please highlight opportunities that you identified in Europe and what's your mindset and your framework when you think about opportunities over there in terms of CapEx commitment?

Secondly, when it comes to demand, you talk about over 1% demand to 2013, however have you done any scenario analysis thinking about prolonged recessions in southern Europe some efficiency measures, the industrialization of Europe as a whole? So what I'm trying to get to is can we see scenarios of non-demand growth for five years perhaps and therefore may be a requirement to take down your domestic CapEx commitment?

Thirdly, again sticking on investment, the idea of making Italy a European hobbit makes a lot of sense and it's a great stimulus for the Italian economy, however I'm trying to understand where do you see the benefits for consumers? Because it seems more a benefit for Europe as a whole but Italian consumers would have to pay for the bill, so what's the government support to this sensible strategy?

And lastly, I haven't seen any earnings targets. I know there's a couple of reviews in distribution and transport coming up from here to 2015, but could you give us a range, let's say bearish and bullish review, where do you see your earnings growth -- mostly EPS I'm talking about -- given your 4% RAB growth? Thanks a lot and apologies for the number of questions.

Carlo Malacarne, Snam SpA - CEO [4]

Thank you. I'll start with first question. The agreements, the alliance with Fluxys was a sector to analyze all the projects, all the possibilities of expansion in Europe of the existing network or new network to create the condition of North-South, East-West connection of the pipe. This is the main issue.

Today, we are analyzing a lot of projects with Fluxys. We are in the early stage because with all of the projects, we have to consider our capability in execution and return of the project.

When I said before that in the CapEx plan provided the last man to buy the [end], the number of the new connections reached EUR90 billion in the next period, the next 10 years, is the 10-year CapEx plan means that the main items in the European directive foresee the need of the new connections.

That means that we have to not only monitor the evolution in terms of acquisitions, but to define of the business plan for the specific project, to understand the possibility of value creation for our shareholders. That is the reason why we are today in the early stages. I cannot disclose the specific spending of this project, but it's a very firm the commitment that we have and the analyses we are today carrying out with Fluxys.

The interconnector is the first step, but I think it's important -- we have to consider the value of the acquisition, but with this type of acquisition, Snam and Fluxys can, let e say, manage the access condition to the pipe. That means to control the operation of the pipe, and if you consider that by the end of 2018 the pipe will be completely regulated.

Because there is not a [fee per pay] contract, that means that adding the possibility to manage the access condition, to operate the pipe, is very, let me say, a strategic opportunity. If you consider at the same time that there are other shareholders of the interconnector pipe are today integrated company, with fragmented shareholder share 10%, 15%, I imagine that for the integrate company after the regulated transmission access there is no interest to maintain the percent.

This is the reason why our evaluation is not in terms of a financial opportunity but it is in terms of an operational opportunity. With the same discipline we are analyzing today all of the interconnection pipes with the Italy system. That is the reason why the focus today is in Switzerland, Germany, and Italy network to finalize all the actions we can finalize today, all the actions to provide the coordination in the access conditional routes to the pipe.

All the in connection pipe today by the rules set in the European directive starting from end of 2015, '18 will become regulated asset. This is the reason why our intention is not only to analyze the acquisition, we don't have a rush on that acquisition, but we have focalized the attention for new acquisitions in line with our strategy.

If we can manage the access condition in reverse flow to the existing pipe means that we can improve the revenue in Italy with the reverse flow conditions. This is the main strategy. It is clear that we are analyzing the possibility of investment and acquisition but today it's too early to speak of spending at this point.

For the gas demand, the gas demand today, frankly speaking, there are today a lot of forecast, in terms of the evolution of the gas demand by 2013 in Europe and in Italy. In Italy, frankly speaking, I -- our estimate is the recovery of the economy in the second part of the four years plan, 2014, 2015, that is the reason why we consider in 2012 a very slightly increase, it's roughly 1%, is quite flat compared to 2011.

And 2012 and 2013, at maximum 0.5%, 1% increase in gas demand with the recovery of the gas demand of 2009 in 2015. That is the reason why the average or the CAGR for the four years is roughly around 2% in our estimation.

At the European level, the worst, let me say, I say worst for my -- for opportunities at Snam Rete Gas, for Snam Rete Gas transmission in Italy and for Snam South Italy, the opportunity -- the worst condition is a flat gas demand by 2013.

Considering the existing evolution in the nuclear plant, considering the renewal of the old nuclear plant today, considering the maximum percentage of renewable investment reaching roughly 80% in Europe as consumption.

In this case, the gas demand in Europe estimated is flat in the next 15 years, but anyway, in this case the new import need in Europe is roughly around 60 bcm in the worst case.

In the case, in the European estimates, by the European body, is 170 new import capacity. That is the reason why the strategy of increased -- the interconnection with South Italy and North Africa, Caucasian area with Europe, anyway is essential if you consider that in Europe we need anyway in the worst case of estimate, we need 70 bcm of new gas.

For the obvious -- I imagine that the question for the cost is for the consumer, the final consumer, the residential consumer. Today in Italy, I can comment on Italian situation.

It's quite the same in terms of percentage of transmission costs in the total cost apart from the taxes and so on, but anyway is the same in the European countries.

Today the impact for the final consumer for the transmission is roughly around 3.8% so it's very poor, very small in this case. The investment in the reverse flow anyway give to Snam but give the possibility to the finance customer to have an increase in the transport capacity because with the reverse flow the exchange of gas and the liquidity of gas means in terms of transmission an increase in the capacity.

And an increase the capacity means to maintain flat the tariff of the capacity, because the tariff is the revenue to the final capacity. And so, the reverse flow initiative anyway is in line with an increasing of transmission capacity for us. That means the revenues at the same time without increase the final cost for the residential customer. For the EPS --

Antonio Paccioretti, Snam SpA - CFO [5]

For the EPS in relation to the results for the next year, you know that the Company is not used to make any guidelines in terms of earnings per share. We -- our practice is to give guidelines in terms of EBIT.

In our case, in our business, the -- we have a high correlation between our EBIT to the growth of the EBIT and the growth of our RAB. And before -- take into account the investment plan, we have just announced we can confirm that the growth of our EBIT in the medium term is expected to be in the -- at least in the range of 4%. Why 4%? 4% because it is in line with the RAB evolution, but at least 4% because on top of that, we have the opportunity to exploit further operational efficiencies and to exploit the value of the incentives.

In particular for this year, I would say that we are in a position to confirm this 4% in terms of consolidated EBIT. Having in mind, anyway, that the results for 2011 was positively affected by some non-recurring items in particular in the distribution sector. If we neutralize, let me say the EUR1,958 million of EBIT in 2011 with non-recurring items of around EUR50 million, this is the right reference for calculating the growth that we can expect for this year.

Next question from Javier?

Javier Suarez - Nomura - Analyst [6]

Hi, many thanks. Javier Suarez, Nomura. A couple of questions follow-up, after Alberto's, on the CapEx for the period 2012-2015. The question is regarding the risks that the Company sees that this CapEx could be delayed for whatever reason, the question could be which part of the CapEx has been already fully authorized by the different administration? And from where the risks would be coming from in your opinion?

The second question is very much related to this regarding the current utilization rates for the transport -- your transportation, degasification, and the storage facilities? I think that the common criticism to companies similar to yours is that a lot of investment is made, and maybe these investments are not required. We have seen a document from the Spanish regulator on Friday last week, saying that basically the utilization rates in Spain were very low indeed, but I just wanted to have evidence that utilization rate for you are high and there is necessity to expand on the network.

The third question is on the dividend. Why the visibility on the dividend has been not extended for 2012? I think that you have said during the presentations that this level is sustainable. Let me put the question in slightly different terms, which is the level of payout that in your view a company like Snam should have in the period 2012-2015? Many thanks.

Carlo Malacarne, Snam SpA - CEO [7]

Thank you, Suarez. For the first question, answering the first question. You know, usually, our CapEx plan is a firm commitment, because we consider the CapEx plan a spending plan anyway. Today, for EUR6.7 million, 70% of the CapEx is completely authorized. The reason why -- and frankly speaking, we have only the final authorization for the second part of the (inaudible) C I expect beginning of 2013 -- end of 2013. So there is no, let me say, risk in terms of CapEx execution.

I think it's important because give us the possibility to be flexible in the spend, in the yearly spending to take into account our capital structure in terms of working capital, in terms of debt structures. Having 70% of the investment authorize give us the possibility to link the constructions of the new project with the transmission contract. The reason why usually we start to get construction when we have the firm commitment in terms of transmission contract.

The reason is only because with the transmission cost done, we have automatically a binding capacity. So there is a reason we don't increase the tariff without, let me say, using the pipe is one of the reason why you know in 2012, we confer EUR1.4 billion of spending. And we have an increase in the spending in the second part of the period, but not, frankly speaking -- we have -- and the impact of the Robin tax, it's a very strong impact. But the reason is only because we are waiting the final transmission contract. And we have received a final transmission during 2013. That is the reason we increase the spending in CapEx plan in the last two year.

The same time, we can control the debt increase and the debt structures without, let me say, stop of reduce the project in our investment, but only tuning the investment spending. In terms of low factor, we -- in the evolution in the implementation of our network, we follow the requirements of the third energy package. The third energy packet today by 2015 set the rules of which all the country have to consider the development of inside infrastructure without one supply sources.

In our case, we have to consider the expansion of the capacity without Russian gas or without Algeria gas. That is the reason why the factor today is roughly around 65% to have the possibility of the transmission of the swapping, let me say, the different source of gas we need to reach 50%, 55% maximum load factor in our network. So it's completely in line with the European directive.

The dividend -- the reason why we -- our commitment today is knowing long term visibility of the dividend per share is only because in 2012 -- by end of 2012, we have the new regulatory period for the distribution. In 2013, we will start the discussion for the transmission regulatory framework which will start in -- beginning of 2014.

We prefer, I think it's serious to have some visibility in the new regulatory start. We don't expect, let me say, change in terms of the main figures. But anyway, I think it's better to have the visibility of new regulatory before to finalize the new two years or three years the dividend policies. But anyway, we confirm that the 2012 estimate is sustainable anyway today. Considering that that is no strong change in the regulatory framework, but I don't think that could jeopardize our strategy in terms of dividend.

Javier Suarez - Nomura - Analyst [8]

Thanks, [Alberto].

Alberto Ponti - Societe Generale - Analyst [9]

Good afternoon, Alberto Ponti, SocGen. I have two questions. One is on the operations, the other one is on the financing. On the operations, Italy, is in a quite curious situation on having sort of a tight capacity during peak hours or peak demands. But there is ample spare capacity during off-peak times. So I was wondering, the tightness during peak hours suggests that more investments are needed, whereas the spare capacity during off-peak hours suggests that actually cheaper gas can flow to Italy and lower the gas prices. So would you agree with this statement?

And the second point is about financing. The CapEx plan you have presented today self financing, we understand it. But were there to be a large or a larger opportunity to invest, either it's an M&A deal or a Greenfield project, how would you think about financing? What options do you have in mind? That could be [hardly bonds will start] for that, but what are the options you would be considering? Thank you.

Carlo Malacarne, Snam SpA - CEO [10]

Thank you, Alberto. The peak capacity today in our system, the Italian system, Italian network is strictly linked to the storage capacity. We considering that -- the import capacity is around 70. Today is the maximum in care capacity is 78 BCM per [years] with a daily -- the daily capacity of roughly around 270, 280 million cubic meters per day.

In the harsh condition, the winter harsh condition, we need 400 last winter. Last month, we reached 460 million cubic meters at the day. That is the reason why today is very strategic, the storage capacity in terms of modulations, but is strategic the peak capacity, because we have to reach the daily peak capacity of 270, 280 million cubic meters per day, considering historic capacity, the real situations.

I think it's important, because we can reach the two objective we said before. Because our project to increase following the decree, but anyway, was in our program, the increase of the storage modulations means automatically to increase the peak capacity. So today, we have 270 million cubic meters per day of big capacity in the storage, in the four years, we have reached 310, which is enough for the strategic point of view for the security of supplies.

But what is important is that with higher modulation capacity, we can provide for the industrial sector, not only for the residential sector, but for the industrial sector, the storage capacity in terms of commercial [points]. Look, it's important because in these days the liquidity of the gas market will increase. So I don't comment today the competition in the price because I know price in gas. And so, I cannot say is their reduction or not.

But anyway, more liquidity in the best system, I imagine means competition to price automatically. That is the reason why the develop of the new field automatically, new field means increase on the peak capacity, but the (inaudible) increase of the modulation capacity, so.

Alberto Ponti - Societe Generale - Analyst [11]

I guess the question was also in relation to the (inaudible) but now on transit gas and [10], you were referring to innovative commercial products. And I was thinking as well with storage, I was thinking as well with storage that also means you are connecting capacity. So I was thinking at that utilization [rate] for interconnection will lead to cheaper gas going to Italy.

Carlo Malacarne, Snam SpA - CEO [12]

Yes, so it's clear, I agree because one, the first objective of our budget today following our four CapEx plan in Italy is to create the condition -- the key condition without risk to use 100% the [reversal] the existing pipe in Switzerland and in Germany.

One of the first, let me say, main agreements with Fluxys is create the roots and the agreement with Fluxys use in this way, the pipe in Switzerland and in Germany. It is very important point. After we speak increase of investment, increase the potential capacity of the pipe, today is very important to let me say to firm -- to have a commitment of 13 BCM starting from 2015 of reverse flow capability in Switzerland and in Germany.

The strategy is not completely, let me say, different of the storage modulation increase, because a reverse flow capacity needs to give the possibility to our Italian clients, to the shippers, for example, I imagine [Sonatrek] of the new integrated company to bring gas in the Central Europe or to compete with the price in the Central Europe.

Having the possibility to sign a storage contract in Italy means automatically to stop completely the risk in the modulation capacity in Europe. So having the possibility to increase the exportation capacity, but at the same time to have capacity possibility in the storage system for industrial clients or operator client, not only residential, means to facilitate the exportation from Italy to Central Europe for the big operator, because I reduced the risk of the modulation capacity, the daily modulation capacity.

The safe time, one of one, a lot of project we are today analyzing with Fluxys is the possibility of exchanging the storage system in Europe in this case. So the storage and LNG, which frankly speaking, the LNG, the strategy in the LNG could be considered in part the storage tanks, let me say. So the exercise to analyze the possible strategy in storage in the LNG, not only in Italy, but outside Italy, the Fluxys is completely in line with the possibility of exchange exportation outside Italy.

Antonio Paccioretti, Snam SpA - CFO [13]

If I remember, there is a second question? Yes, Alberto, as far as the financing of our growth, let me say that first of all, I want to confirm once again that in relation to our organic growth, which is associated with the CapEx plan expected in Italy of EUR6.7 billion, we'll finance all such a growth with the cash flow generated by our operating activities, and therefore, maintaining preserving the balance sheet and maintaining the ratio, the leverage, at -- in line with our target.

In -- as far as the additional opportunities that we could have in terms of external growth, I would say, it is important, first of all, to underline that even if -- even after the Robin Hood tax we believe that the Company has an additional receivable flexibility of around EUR1 billion. But on top of that, I have to sort of consider that in case of greater -- bigger opportunities, the Company will evaluate the best alternatives in terms of funding, including equity, which anyway, I can assure you that will be evaluated according to our financial discipline that we have demonstrated also in the past.

That's Stefano?

Stefano Bezzato - Berenberg Bank – Analyst [14]

Good afternoon. Just two quick questions. First of all, regarding the gas distribution CapEx plan of EUR1.5 billion, does it include most of the acquisition of other concessions to arrive to your target of 40%, 45% market share? Second, when do you expect that these tenders will start? Do you expect something relevant in 2013 or not? And finally, if you have an update with Romana Gas situation? Thanks.

Unidentified Company Representative [15]

For the distribution business, the CapEx plan on EUR1.5 billion is only for I said before the substitution of the whole pipe, iron, cast iron pipes, the new metering. There is no acquisitions investment today in the CapEx plan.

We -- what I said is that we consider having monitoring, let me say, having the completely situations of the distribution market in Italy, we consider that an expansion from 33% to 40% give us the possibility to increase the synergy in terms of management cost, in terms of operational cost.

We can consider, if you consider that today, the RAB of the distribution is EUR4.5 billion, the 100% is 33%, 40% means investment of around EUR1 billion in five, six years if you consider the existing situation of the concession.

Today, all the rules are set in terms of bid for tender criteria, in terms of redemption value. I think I imagine that the new bid, the new tender we start by the end of the year. I don't think that will be easy for the municipality to carry out the bid for -- the call-for-tender. I imagine that some tenders will start by the end of the year, but I don't imagine that the new assignment or concession will be before end of 2013.

Apart from Rome, the municipality of Rome, which as I comment, but for the rather concession, I expect four, five years of let me say with a strong running, the decrease will set the deadline for the concession. So 50% of the concession in the two years, in the first two years is the first -- specifically is in the first year is a 50 call-for-tender to prepare in the second year, 50 call for -- out of 177 geographical area.

50% -- sorry 50, the number, 50 call in the first year, 50 in the second year, 50 in the third year, 27 in the fourth year is very strong program. Frankly speaking, I don't imagine that we can expect by the end of 2012, 50 call-for-tender for the new distribution area, because we have to consider that means to start from 1,500 and to reach 177. So I imagine that we need four, five years, frankly speaking. This is decree. I -- let me say, in our expectation, if there are two or three, that we can consider the best situation, the best solutions in terms of new call, but I don't imagine it would be so easy in the next two years.

For the municipality of Rome, you know, we in September 26, the municipality of Rome published the new tender procedures regarding the concession for the distribution activity in the city of Rome. The city of Rome is now one of the 177 geographical area, because it's only the city of Rome, without some neighboring municipality. The reason why Italgas has officially appealed against the call for tender, the reason is that there was no let me say line with the new decree for the geographical area.

The final, let me way, administrative supreme court to consider this data, the end of February rejected the Italgas appeal. We were already to -- let me say, to participate to the tender, five months ago, because the first -- you remember, the first call-for-tender for Rome was in beginning of September. Anyway, so we will participate to the tender. And dependent area will be in the second part of March, 23rd or 24th of March.

Unidentified Company Representative [16]

Pablo?

Pablo Cuadrado - Bank of America/Merrill Lynch – Analyst [17]

Thank you, good afternoon. It's Pablo Cuadrado from Bank of America/Merrill Lynch. Very two -- very quick, two questions. First one is that if you can update us with the refinancing calendar that you have for 2012 and 2013? And more precisely wanted to check which is the -- how you see the cost of debt performing in 2012?

And the second question, also is you can provide us a little bit of color on the 2012 expected net debt with the CapEx that you have mentioned today of EUR1.4 billion? And lastly, if you can tell us which is the group RAB that you expect by year end 2012?

Unidentified Company Representative [18]

I will start from the evolution of our debt in relation to this subject, you know that the -- I can confirm that the business model remain the same. So from a financial point of view, the model -- let the model provide for growth of our RAB, which has financed 50% from our operation cash flow and the rest by debt in order to permit us to maintain our targets in term of leverage.

For 2012, we have to consider on top of debt the disbursement for the Robin Hood tax, in particular, the disbursement for the fiscal year 2011, which has been not paid yet and 2012. The aggregate amount is around EUR300 million. So having said that, the best guideline that today we can pass to the market is a total amount of debt at the end of the year, which is around EUR12.3 billion.

As far as the evolution of our RAB, I have to take a lot of numbers, but the -- I would start saying that the RAB at the end of 2010, which has been set, already set by the authority for the revenues of the fiscal year 2012 is EUR21.7 billion. This is the starting point.

If we consider we are estimate, assuming -- we assume an inflation rate for 2011 in -- of 2.3%, the best estimation we can do at the end of 2011 for our total RAB is around -- 2011 is around EUR22.7 billion. Again, giving you the guideline for the end 2012, assuming that 2% inflation, which is the inflation we use in our forecast, the total RAB is -- can be estimated in the amount of EUR23.5 billion.

The first question was the refinancing needs and therefore the cost of our debt. I would start saying that the amount of the medium and the long term debt, current long term debt, which is going to maturity in 2012 is in the -- is around EUR1.5 billion, first of all. This is the first item that must be considered.

Secondly, the current cost of debt is the result of our different positions -- different categories of position we have. The first one is the -- what we call the structure fixed rate we have, which is represent more or less 60% of our total amount of debt, which has an average cost of 4.2%, 4.3%.

Then we have the 20% of fixed rate positions we locked in in 2010, that has the duration, which are going 100% on maturities at the end of this year for a cost of something less than 2%. The rest is floating. If you consider those position, and if you consider the marginal cost of our debt for at least the average tenure we need, which is five to six years, considering in the case of continuity of our debt positions we can estimate a cost of debt, which is around 3.6%, 3.7%. Anyway, the refinancing exercise could also influence this estimation.

Unidentified Company Representative [19]

Enrico?

Enrico Bartoli - Fidentiis Equities – Analyst [20]

Hi, good afternoon, Enrico Bartoli from Fidentiis. I have a question related to the opportunities that could arise from your pipelines, your energy plans in Italy. If you can give us say the status that you are experience on the market of this project, if you think that in order to lower the gas price in Italy, the Italian government could do something in order to speed up or incentivize more this kind of investment?

A second question is related to the -- your, let's say, idea of financial structure, your getting that you have in mind possibly in the huge amount of opportunity investment that you have now, that you are very European strategy.

And the third one is related to the CapEx in your business plan. If you can give us a profile, more or less, over the next four years, and give us some color of the slight decrease that you expect in 2012 compared to last year?

Unidentified Company Representative [21]

Starting from the LNG per reversion, per reaction, today, you know, in our plan, in our CapEx plan, we consider one LNG could be in operation starting from end of 2016, starting from 2017. Today, the LNG plant which completed all the authorization environmental and construction authorization is [important technically] in Sicily from Aneel. The other LNG is from -- in [Priolo] from the joint [Ergon], Shell, which obtained the environmental authorization and the approval of the municipality of August today. We need the final conference for the construction authorizations.

In LNG Trieste, in Trieste from Gas Natural as they receive the preliminary environmental authorizations, after we can comment our expectation. There is another LNG today, which is the 4 BCM offshore in Falconare carried by the [Happy] Energy, as it received the preliminary authorization by the minister of economic development.

The Livorno is under construction today, and will be in operation starting from the first month of 2013, roughly March, April 2013. We consider today the possibility starting from 2017 to have two LNG in operation or anyway under construction is more -- I -- frankly speaking, I don't have today strong signal for the LNG in northern Italy. I expect that the two LNG [Port en Peduclaye] and the Priolo could be the advanced authorization phase for the construction.

The reason why we consider one LNG in operation in our CapEx plan. And in the feasibility study of our investment, we have considered over 8 BCM farther 8 BCM for the second LNG or increase, for example, in the Libya of Algeria Gas.

Today, after the situation, the condition in the last we enter period, the intention of the minister of development is to set some specific rules to speed the authorization for the LNG.

I expect that there will be details in discussion some new, let me say rules of decree to speed the authorization.

But anyway, we have to consider the operators today, who are investing in the LNG. The reason why I don't see today a quickly starting of investment in the old LNG plant today under authorization. Aneel will consider the Port en Peduclaye I think is important, because anyway, Aneel today is utilizing the LNG in France forced to regasify the Nigeria Gas. So there is anyway the possibility and the capability to operate the LNG plan. That is the reason why we are very pragmatic, and we consider only one LNG.

But frankly speaking, I'm not the operator of LNG. And so, I expect that will be an increase in the investment in LNG. And there is the condition of which the technical structure of the Minister of Development are trying to develop to speed and to incentivate the investment in LNG.

LNG, I think, is very important anyway, because to create the liquidity I spoke before, I think is quite difficult to create more liquidity for the two importation Algeria and Russia. Today, anyway, only with LNG increase is easier than say to create competition or over capacity to create competition price.

For the third -- no, the second question, sorry?

Unidentified Company Representative [22]

It was related to the financial structure. As I was trying to explain in the presentation, we do not imagine -- we do not forecast to have a different target from the targets that we announced in the past, even in the past target of the Company was to find, let me say, the best balance between cost of capital and risk profile.

Even in the future, we'll maintain such a target. And we will maintain the guidelines for our balance sheet. First of all, in terms of capital structure, 50/50 debt drop. In terms of debt structure, we imagine to maintain the current 70% to 80%, both for the portion of fixed rate positions and in terms of medium to long term debt on the total.

Unidentified Company Representative [23]

The last question for the CapEx, despite CapEx spending in 2012, our target is EUR1.4 billion. We expect 2013, EUR1.5 billion and the rest sharing the two year, 2014 and 2015.

Unidentified Company Representative [24]

The last question from the floor, then we move to the conference call.

Francesca Pezzoli - Cheuvreux - Analyst [25]

Yes, good afternoon, Francesca Pezzoli, Agricole Cheuvreux. A couple of questions. One on synergies, you reached a target of EUR80 million cost savings. Don't you see any potential beyond 2012 to save costs? And regarding gas distribution, do you have an estimate of the potential of lower cost provided that you achieve the 40%, 45% target you have? Thank you.

Unidentified Company Representative [26]

For the 2012 synergy, you know, our exercise in cost cutting was and this is very strong usually, we have to consider that in 2012, we have an increase in the cost structure due to the IPO, you know, we in source the activity from Eni for all the financial activity of Eni, all the service, general service activity.

That is the reason why de facto we have roughly EUR10 million of increase of the cost, our objective is to recover a start up cost in 2012. That is the reason why our commitment is to maintain the cost flat in real terms. But what I can say is that we have a lot of project today in execution, which give us the possibility starting from 2013 to restart with the cost reduction in the two main business, transmission and distributions.

Anyway, we expect that the increase of the cost will be the cost recognized by the regulator. But in terms of synergy during the year, we are -- I cannot say conservative, but anyway, we have to recover the increase of the cost for the new structures.

For the distribution, I'm not so sure to -- I have understood the question. I try to answer. For the distribution today, we are very -- we have the capability to manage very well the cost reductions, because we can't exploit the economy of scale. And our investment in terms of new metering point, which are the main items, which give us the increase in the standard cost recognized by the regulator, is very strong and is very controllable by the Company.

That is the reason why we combine the investment for -- why the reason we focused the investment in metering, because we increase the investment in metering, but at the same time, we increase the cost standard recognized by the regulator. That is the reason why we have the capability to manage the cost in our program in the new concessions bid for tenders, we have prepared, but we are very prepared today. And we know today what are the concession of which we can exploit the synergy in terms of cost cutting. The reason why we are ready for the -- for the tender in terms of synergy, and in terms of cost cutting reduction in the future.

Unidentified Company Representative [27]

Let's now move to the conference call. We have some questions.

Operator [28]

There is one question from Antonella Bianchessi from Citi. Please go ahead.

Antonella Bianchessi - Citibank – Analyst [29]

Hello, good afternoon. I just would like to come back on the refinancing. So you are assuming that you will have to refinance the entire data you have with Eni within the next few months. Is this the base case? Are you discussing with Eni on this possibility? And what have you done so far? There has been some refinancing going on in the first few months of the year. Then, if you can give us the detail of this European investment bank option that you put in the slide?

The second question is on the timing of the CapEx. So assuming -- well, first of all, you are still confident that [gas] will be approved at the end or not? And if it is, how you see the timing of the spending? And also, on Alfonsina, as I have understood, is not in the CapEx plan if it happens, which could be the timing. And, yes, this is my major -- well, frankly, if I can ask a last question, realistically, some of all these option will materialize. So your base case is to rise equity to finance it, or there are other options under investigation?

Unidentified Company Representative [30]

Antonella, starting from the first question. In relation to the refinancing, what I'd have to say before is that we do not know exactly which will be the situation during this year. So we have anyway to be able to position the Company to tip the market by the end of this year. And anyway, to face the worst, let me say, case. The base case is what would be the consequence of the decision of Eni [after the] consolidation.

So today, we are working for -- preparing the Company to refinance the amount necessary this year, that in the worst case, let me say, could be the entire amount. It's not the base case, but that was --.

Antonella Bianchessi - Citibank – Analyst [31]

No, but the entire amount, these EUR10 billion, so I think that some discussion might be going on with Eni on this front? Is this the case that you think is more likely? Or this is kind of theoretical assumption?

Unidentified Company Representative [32]

No, the discussion that we are doing are both with the financial communities, first of all, and we also need -- we also coordinate the activities with Eni, because it is -- it will be also our plan, our financing the consequence of the decision of Eni.

What I will -- can say is that according to the -- I can give you some colors about our discussion. According to the discussion we have with the financial communities, the -- due to the quality of the business of the Company, we have the possibility to finance in a very efficient way what we will need, even if the needs will be the entire amount.

Unidentified Company Representative [33]

Antonella, for the comment for the CapEx, the reason why we present the feasibility study for the new project strictly linked to the new gas supply, LNG and Galsi, is because, you know, we need in Italy for five years to obtain the authorization. And the authorization for the present plan today were started five years ago. The reason why we have to be ready for the spending of the new investment when all, let me say, the -- all the market or the gas need in Italy is ready.

Frankly speaking, I imagine that speaking about the Galsi, but the same for LNG, I imagine that today, without the possibility of strong gases change with the Europe, the supplier of gas with an overcapacity, we have today in terms of importation, but we imagine in the next two years, I imagine that is not so easy for Sonatrek or other supplier to sign selling contract in the market where we have an oversupply in terms of supplier.

That is the reason why our forecast in terms of spending are linked to the evolution of the reverse flow project, the reverse flow project, I said before, the entire reverse flow project is starting from 2016. The reason we expect at the same time, starting from 2016 in the three years after '16, '17, '18, the possibility of spending for the new project, which are today in the feasibility study.

So Galsi, I think, is very strategic project for Algeria company, but I imagine that the problem is to put on the market [ABC] and today. That is the reason why the tuning of our CapEx plan and the cheaper spending give us the possibility to maintain our total spending in line with an existing sort of spending in the four or five years beyond 2014. Without, let me say, strong pick of investment, but finalizing our spending with the strategy of the evolution of the gas transmission outside Italy. Is there a third question?

Unidentified Company Representative [34]

The third question was related to the option that could become concrete, let me say, the strategic option as you say, we're saying that there could become concrete. I agree with you, but I have to reiterate to confirm, again, once again, that the focus of the management today is to maintain the balance sheet, the risk, the financial risk of the Company line with the current one.

Also, Antonella, if you consider the consideration, let me say, that related to the for come increase ratings that will come soon, when the option will become concrete, we will evaluate the best opportunities in terms of funding. Once, again, without excluding any instrument.

Antonella Bianchessi - Citibank – Analyst [35]

Okay, thank you very much.

Operator [36]

The next question comes from Chris Moore from Hammer Partners. Please go ahead.

Chris Moore - Hammer Partners - Analyst [37]

Yes, good afternoon, everybody. I have just three quick questions. The first was on the dividends. Can you just confirm that you're not prepared to pay a dividend in shares, as script option? And can you also confirm that you're going to continue to pay interim dividends, because not everybody's doing that in Italy now.

Second question on the gas price, obviously, the multi government has been talking about getting the gas price down in Italy for a while now. And I guess the question would be is there anything in the new CapEx plan for today that you think will reduce the cost of gas in Italy by 2015?

And then, the third and final question is on gas distribution. Again, I guess here, the government would like to see a lower gas price for retail. Have you got any first thoughts you want to share with us in terms of how the regulatory review might be going or the -- well, the consultation process might go as well as the -- as of June this year? Thank you.

Unidentified Company Representative [38]

For the first question, very easy. Today, we are not consider any script dividends alternatives project. Interim dividend, we confirm on the way -- we confirm the interim dividend [policy].

Carlo Malacarne, Snam SpA - CEO [39]

The second question, frankly speaking, I want to comment the gas price. Our job is to create new infrastructure for the ship person. So I have not specific comment. What I said before is anyway, our aim in our strategy is to increase, it's very important to increase the liquidity of gas, exchange of gas is liquidity of gas.

So over capacity for us, for our long term strategic plan, let me say, is an advantage. Is not a risk in this case. We can consider if the liquidity and the possibility of a stranger could impact on the final price, but frankly speaking, I cannot comment on the price. For the gas distribution, it's the same the price.

Unidentified Company Representative [40]

About (inaudible).

Carlo Malacarne, Snam SpA - CEO [41]

Ah, sorry, yes, for the consultation process, we receive the formal consultation starting deadline, I hope that as soon in the -- starting from May or June, will start the discussion with the regulators. We frankly -- I don't expect considering the previews, the beginning of the year's regulatory framework set for term, I don't expect some change in the regulatory structure or in the regulatory framework of the distribution.

We are today at the beginning of the consolidation process in the distribution, we have to consider that we have today anyway 400 municipality, which are running the distribution business. And I don't think that the regulatory regime could jeopardize the exercise of the new consolidation in the market.

Chris Moore - Hammer Partners - Analyst [42]

Thank you.

Operator [43]

We are not taking a question from Anna Maria Scaglia from Morgan Stanley. Please go ahead.

Anna Maria Scaglia - Morgan Stanley – Analyst [44]

Hi, good afternoon. This is Anna Maria. Just a quick question going back to Antonella's regarding refinancing assumption. Do you expect the refinancing to led to an increase in your average cost of debt? And the second one is regarding [Vonigalia], can you just remind, the increase in capacity included in the plan? Thank you.

Unidentified Company Representative [45]

In relation to the first question, I would say that today, we can say that the cost of our marginal -- the marginal cost of our debt is expected to be in line with the cost that we would have tap in the market, not directly, but through Eni.

Again, the -- in our last financing executed the second part -- the end of last year as it was already mentioned in the previous conference call, we paid a spread between 250 basis points and 300 basis points for the tenor which is our -- which is our target tenor of five to six years. And we can expect that, take into account the market condition today. And the expectation we have to be awarded, to be -- to receive a rating which is at least in line with the sovereign risk, Italian risk, we could say that the marginal -- the cost of debt for the new debt will be in line with our debt raised more recently.

Carlo Malacarne, Snam SpA - CEO [46]

Followed Vonigalia, the starting construction time for Vonigalia is beginning of 2015, end of 2015. The reason why we don't have the CapEx spending in the existing plan, we have only

EUR60 million for the engineering phase. We use for the authorizations. We receive the environmental utilization. So it's only EUR60 million in the CapEx, ForEx CapEx.

Unidentified Company Representative [47]

Let's take the last question from [DeClou Fansco] then we will close the presentation. If there are no more questions, so here also from the room? Thank you, everyone -- the last one from [Stefan] and then we stop.

Unidentified Partecipant [48]

One quick clarification about the tender in Rome. Do I understand correctly is on the 23rd of March, the tender?.

Unidentified Company Representative [49]

It's 23rd March, yes.

Unidentified Partecipant [50]

And what do you expect about this tender, that is in a very short period. And second, what is your RAB, just for the room part of --

Unidentified Company Representative [51]

The value you know, there is the public number was EUR850 million, which is only the municipality of Rome. And we -- what we expect, we don't -- I don't think that there would be a lot of competition anyway, but I cannot today comment. We are in phase of the presentation of the offer.

Unidentified Company Representative [52]

Thank you, everybody for joining us, both here from the floor and from the conference call. And if you need any additional follow up, do not hesitate to consult the IR department.

Unidentified Company Representative [53]

Thank you very much.

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