



**Full Year 2012 Snam SpA Earnings Conference Call  
Transcript  
28<sup>th</sup> February 2013**



## Corporate Participants

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Snam SpA - CEO
- [Antonio Paccioretti](#)  
Snam SpA – CFO
- [Marco Porro](#)  
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## Conference Call Participants

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Mediobanca – Analyst
- [Pablo Cuadrado](#)  
Bank of America/Merrill Lynch – Analyst
- [Enrico Bartoli](#)  
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## **Presentation**

### **Operator [1]**

Good day, ladies and gentlemen, and welcome to the Snam 2012 full year 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 gentlemen, and welcome to the Snam 2012 full year results presentation. Today's agenda will be structured in two parts. I will start by outlining the main highlights of the year 2012, and some recent developments. Antonio will then focus on the financial result in more detail. At the end of the presentation, we'll be pleased to answer any question you may have.

Let me begin with the main highlights for the full year 2012, as well as providing you with an update of the business.

Last year was a significant year for our Company. Despite a tough and challenging environment, we are pleased to report a solid set of operating and financial results, consistent with our track record of delivery. The sound operating performance of Snam in the period is highlighted, among other things, by the 11.6% growth of revenues, and by the all time high EBIT of EUR2.111 billion, with a significant increase of 7.8% versus 2011.

The increase in the consolidated EBIT was achieved thanks to the growth in the regulated revenues of all our businesses, and a continued focus of the control of operating cost.

From a business segment perspective, growth at the consolidated EBIT level was driven by the higher contribution of both the Distribution business, in which EBIT increased by 24.7%, and the Storage business, in which EBIT increased by approximately 6%. EBIT of the Transport segment was almost in line with the previous year.



The positive trend of EBIT growth was partially offset by higher financial charges related also to the completion of the refinancing process. Antonio will discuss this in detail later on. As a consequence, in 2012, Snam recorded adjusted net profit of EUR992 million, a slight increase, 1.4%, compared to 2011.

Turning to the capital investment, we made a total of EUR1.435 billion in investment, in which EUR1.3 billion was attributed to organic CapEx, and around EUR135 million to financial investment for the acquisition of the participation in Interconnector (UK).

The spending attributed to the organic CapEx allowed us to complete all the project planned for the year, and at the same time, to achieve efficiency, underpinned by the optimization in the usage of cushion gas for new storage field. Such CapEx efficiency provides us the financial flexibility we used for the acquisition of the interest in Interconnector (UK).

Once again, in 2012, we achieved our target in operational efficiency. In particular, our controllable fixed costs remained flat in nominal terms versus the level of 2011, absorbing both the inflation effect and the larger perimeters of activity.

We remain strongly committed to maintaining a solid and efficient capital structure. At the end of 2012, Snam's net debt closed below EUR12.4 billion. This result was achieved thanks to the better operating cash flow, and the optimization of net working capital management.

The average cost of debt remained at the competitive level of 3.6%, even after completing the refinancing exercise in tough and highly volatile market conditions.

2012 was a paramount year of Snam. In line with the requirements set out by the Prime Minister decree of 25th May, 2012, Eni sold 30% of the voting share capital of Snam to Cassa Depositi e Prestiti on October 15, thus fulfilling the required ownership unbundling with Snam. CDP is now the majority shareholder in Snam.

In this context, we have successfully completed the refinancing of our debt in just six months, after having obtained an independent credit rating from both Standard & Poor and Moody's. This preserves Snam's strong liquidity position, financial profile, and ensures that we can maintain a fully funded business plan until 2015.

Today, we have financial resources available of EUR15.4 billion, implying a financial flexibility of around EUR3 billion on top of our current net debt level.



Finally, let me highlight the progress achieved in our strategy to expand abroad. Within the framework of the strategic alliance with Fluxys during 2012, we completed the joint acquisition of Eni's and E.ON's stakes in Interconnector, reaching a total interest of 31.5%. The Snam financial commitment for this stake amounts to around EUR130 million.

Furthermore, last August, Snam and Fluxys took another important step forward in strengthening the security of supply in the European gas market, through signing a memorandum of understanding to coordinate the development of commercial and physical reverse flow capacity between the Italian/Swiss and German/Belgian borders.

The international strategy is still continuing to take shape in 2013. The beginning of February, Total granted exclusive acquisition rights to the consortium constituted by Snam 45%, alongside of EDF, 20%, and government of Singapore, 35%, for the sale of TIGF asset in France. Snam will provide its industrial expertise and know-how to the consortium in order to leverage the best practice it has in managing and developing gas infrastructure.

TIGF could represent a strategic platform to develop gas infrastructure connecting the Iberian peninsula to the rest of Europe, and Italy, as well as the opportunity of shaping an offer of integrated services, including regasification, storage and transportation. It also provides a good opportunity to diversify the regulatory and country risk for our Company.

Let me now provide you with a quick overview of the gas demand trend in Italy. In 2012, gas consumption totaled 74.9 BCM, down 3.9%, or 3 BCM year on year. The decrease was mainly driven by the reduction in gas consumption in the power generation sector. In particular, the thermoelectric sector experienced a decrease of 11%, driven by the reduction of approximately 9.9 terawatt hour in (inaudible) demand, down 1.9 BCM of gas demand, mainly due to the negative trend in the macroeconomic environment. A remarkable increase in electricity production, 13.2 terawatt hour from renewable sources, around 2.5 BCM of gas demand, in particular, solar energy.

These negative elements were only partially offset by the 8.7% decrease in hydroelectric production. Gas demand in the industrial sector decreased by approximately 2.3%, or down 0.4 BCM on a like for like basis, in line with the negative trend revealed by the industrial sector in Italy during the year, around 3% reduction.

Gas consumption in the residential sector increased by 1.2%. This was mainly due to the colder weather conditions during 2012, compared to 2011. Adjusted for the weather effect, the sector experienced a decrease of 3.8%.



Finally, gas injected into the network in 2012 decreased by 3.2%, slightly lower than the trending gas consumption, thanks to the positive contribution of injection activity.

Let me conclude my comments on 2012 results 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 2012 sound results, and considering our solid capital structure, yesterday, the Board of Directors decided to propose at the annual shareholders meeting a dividend distribution for 2012 of EUR0.25 per share. This represents an increase of 4.1%, compared to the dividend per share for 2011.

EUR0.10 per share was distributed as an interim dividend in October 2012. The balance of EUR0.15 per share will be payable of next 23rd May.

The fiscal year 2012 dividend, subject to the approval at the shareholder meeting, results in a dividend yield of 7.1%, in the top range of the utility sector. Our future dividend policy will be illustrated at the strategic presentation next March.

Anyway, with our strong financial performance and solid capital structure, we believe that this dividend per share is sustainable, and will be enable us to maintain one of the most attractive yields in the European utility sector.

That's all for me. I will now hand you over to Antonio, who will comment in detail on the 2012 results.

### **Antonio Paccioletti, Snam SpA - CFO [3]**

Thank you, Carlo, and good afternoon, everyone.

Looking at the consolidated income statement, our EBIT amounted to EUR2.111 billion, an increase of EUR153 million, up 7.8%, driven by the significant growth of our revenues, confirming the sound operating performance by all the businesses.

The increase in our operating result was offset by the growth of financial expenses, which mainly reflected the one-off item, or the unwinding of our interest rate swap, and the refinancing activity carried out during 2012 as a consequence of the ownership unbundling from Eni.



Net profit adjusted for the year 2012 showed an increase of about 1.4%, compared to 2011. The adjustment in 2012 refers to the cost of the unwinding of IRS, net of taxes, while the adjustment 2011 was related to the deferred tax liabilities following the introduction of the Robin Hood tax.

Total revenues grew by 11.6%, compared to the previous year. Even if we exclude the pass-through component, revenues posted a significant increase of 10.4%. In particular, looking at the regulated revenues, Transport revenues increased by EUR25 million. This was mainly due to the positive contribution from the investment carried out in 2010, equal to EUR93 million, partially offset by the effect of the annual tariff adjustment of EUR38 million, by the conclusion of the incentives, of the investment carried out in 2004, EUR20 million, and by the decrease in the gas injected into the network, EUR8 million. The increase in pass-through revenues is almost entirely due to the overall gas transport system balancing services.

Storage revenues grew by EUR23 million, with a remarkable increase of about 6.2%, mainly due to the contribution from the investment carried out in 2010.

Distribution revenues jumped by EUR208 million, mainly benefiting from the tariff increase of EUR59 million, which includes the effect of the [graduality] mechanism for the year, equal to EUR20 million.

The increase also benefited from the one-off positive tariff adjustment of EUR143 million, which refers to the recovery of the graduality mechanism for the period 2009-2011.

Finally, Other revenues amounted to EUR144 million, with an increase of EUR77 million compared to the previous year, mainly in the Transport business, related to the disposal of inventories not used for operating activities. This had a positive impact on our cash flow, but take into account their book value, not significant impact on our EBIT.

Moving to operating expenses, the total grew by EUR171 million in 2012, mainly due to the pass-through element, or costs compensated by additional revenues, with no impact on EBIT, which determined the whole increase of variable and not regulated costs.

As far as controllable fixed costs are concerned, we achieved a strong result, with the reduction of EUR3 million in nominal terms, once again confirming Snam's ability to exploit operational efficiencies.



Controllable fixed costs don't include one-off costs arising from the ownership unbundling from Eni. These elements are accounted among other regulated costs, and together with risk fund provisions, are the most significant elements driving the non-recurring increase of EUR52 million.

Looking at the cost breakdown by activity, the cost increase was concentrated in the Transport segment, due to the growth of pass-through components and to higher risk fund provisions.

Consolidated EBITDA amounted to EUR2.817 billion, an increase of 7.8%, compared to 2011. Net of EUR706 million of depreciation, consolidated EBIT amounted to EUR2.111 billion, with an increase of 7.8%.

Looking at each business segment contribution, as far as Snam Rete Gas is concerned, the effect of the regulated revenues, structural growth related to investment carried out, was offset by certain factors. Firstly, the decrease of gas injected into the network. Secondly, the conclusion of incentives, of the incentives in the first regulatory period, and finally, the dynamics of our risk fund provisions.

Stogit operating results benefited from the growth of regulated revenues, driven by the investment carried out in 2010.

Italgas operating results benefited from the growth of regulated business, and the already mentioned one-off positive tariff adjustment of about EUR143 million, of which EUR128 million already collected.

Finally, the margin of EUR6 million generated by Snam corporate was a result of non-regulated activities.

Now, I would like to conclude the review of the income statement, commenting on interest expenses and taxes. Interest expenses grew by EUR481 million, from EUR313 million to EUR794 million, most of them related to the refinancing activity carried out in the framework of the unbundling from Eni.

In addition to the cost of the unwinding of IRS for about EUR335 million, 2012 profit and loss includes the one-off commission fees, for about EUR41 million, related to the [bridge to bond] financing fully repaid in the year, thanks to the success of the EUR6 billion eurobond capital market exercises executed in the framework of our MTM program. Secondly, the



costs for the non-recourse factoring of some receivable, related to the transport balancing activity concluded at the end of the year, for a notional amount of EUR300 million.

Net of these effects, interest expenses grew by about EUR90 million, reflecting the growth of the outstanding average debt, around EUR1.2 billion, and the increase of the average cost of debt, which, in 2012, was around 3.6%.

This increase also includes the (inaudible) of the commission fees related to the banking facilities at the end of the year, and to the bond issues paid in 2012, but amortizing over the period of the different financings.

The adjusted tax rate was about 42%, in line with the previous year, and therefore, adjusted net profit increased by 1.4%, to EUR992 million.

Turning to the cash flow, 2012 showed cash absorption of EUR1.2 billion, as a result of a negative free cash flow of EUR390 million, a dividend payment of EUR811 million. In particular, free cash flow of the year was affected by some one-off negative elements, mainly at net working capital level.

These elements are, the cash payment of the Robin Hood tax for 2011 and 2012, about EUR314 million, the cash payment of 60% of the consideration related to the unwinding of IRS, about EUR210 million, the absorption from receivable due and not paid related to the balancing activity around EUR124 million, not included in the factoring concluded in the year, the costs related to the debt restructuring process. All these items, partially compensated by some positive elements, including the cash received by Italgas for the tariff adjustment, and the disposal of inventories already commented.

In 2012, consolidated CapEx, gross of subsidies, amounted to EUR1.3 billion. At the end of 2012, capital expenditure for the Transport and Regasification businesses was EUR703 million, around 54% of the total. It's worth highlighting that around 61% of the total amount is incentivized, with a premium of 2% or 3% on the base remuneration. In particular, around 48% of Transport CapEx was on expansion projects, and new entry points, and was therefore remunerated with a premium of 3%.

Investments in the Storage business in 2012 amounted to EUR233 million, representing around 18% of the consolidated Group investments. Around 83% of the Storage CapEx received 4% in [accelerated] remuneration for 8 or 16 years.



Moving to the Distribution business, in 2012, CapEx amounted to EUR359 million. Around 14% of Italgas CapEx was related to cast iron replacement, with a tariff return rate of 9.6%, while 21% was related to the metering, with a tariff return of 8%. CapEx related to the Distribution business represented around 28% of the Group capital expenditure.

Finally, EUR7 million of CapEx was related to investments carried out by the corporate.

Let's now move to the balance sheet. Fixed assets increased by EUR789 million versus year-end 2011. This was mainly due to the new investments of EUR1.3 billion, to the equity investment in Interconnector of EUR133 million, and to the decrease of CapEx payable of EUR59 million, partially offset by depreciation for around EUR700 million.

Total net financial debt amounted to EUR12.398 billion, increasing by around EUR1.2 billion versus year-end 2011.

Our new debt structure secures adequate financial resources to fund our business plan, plus an adequate liquidity margin, represented by more than EUR3 billion of undrawn, committed credit facilities. The above figures does not include the uncommitted credit facilities of which EUR100 million drawn at the end of the year.

The total amount of committed banking facility in pool is EUR5 billion, maturing in 2015 and 2017. In addition, we have concluded bilateral loans for around EUR3.7 billion, with maturities up to 3.5 years. The structure provides an appropriate credit line mix aimed at balancing competitive pricing, and flexibility from banks, as well as stability from medium to long-term loans.

The total amount of outstanding bonds is EUR6 billion, with an average maturity of around 6 years, entirely at fixed rate, with an average cost of around 4%. This exercise confirmed our ability to attract strong demand with a balanced location of our paper by country and investor type.

Institutional lenders, such as the European investment bank Cassa Depositi e Prestiti, represent a cost competitive source of funding, granting maturities up to 20 years, longer than what is available in the other markets for the same amount.

We don't need to carry out any major refinancing and exercise until 2015. Our bond debt maturities are well distributed over the time, avoiding major concentration issues going forward.



Our total medium to long-term outstanding debt average maturity is now close to 6 years. 51% of our debt is at floating rate, 49% is at fixed rate.

Thank you very much for your attention. We will now be pleased to answer any question you may have.



## Questions and Answers

### Operator [1]

Thank you. (Operator instructions)

### Marco Porro - Snam SpA - Head Investor Relations [2]

Good afternoon, everybody. It's Marco Porro speaking. Let me highlight that we would like to focus this Q&A session on the 2012 results, and we will discuss all the guidance and the forward-looking statements made also from a strategic point of view in our next strategy presentation, next March 13th. Thank you, everybody

### Operator [3]

The first question comes from Javier Suarez from Nomura. Please go ahead.

### Javier Suarez - Nomura - Analyst [4]

Hi, good afternoon. Javier Suarez at Nomura. Three questions, if I may. The first one is on the cost of the Company Total, cost of the Company in 2012 has been at EUR804 million. But this is obviously including the one-off effects related to the balancing activities. The question is, what do you consider is a recurrent level for the total cost of the Company, excluding one-off effects, for 2013?

Second question is related to the debt structure of the Company. I think that the CFO has mentioned that average maturity is now 6 years, and that the distribution between fixed borrowing rates and variable borrowing rates is 50/50. How do you see -- do you feel comfortable with this distribution, or the Company intends to move their financing increasing fixed borrowing rates, or the other way around?

And the third question is an update on the timing for the conclusion of the negotiations for the acquisition of TIGF, and also, do you expect that timing for the first consultation payment -- third consultation document, excuse me, on Distribution and Transmission? Thank you.



## **Carlo Malacarne, Snam SpA - CEO [5]**

We start with the third question, TIGF. I can comment the point considering that you know, at the beginning of February, Total granted the consortium constituted by Snam, EDF and GIC exclusive rights for the acquisition of the Total gas transfer and storage business. TIGF, you know, is a southwest France network, and Snam, a quarter of the consortium, is 45%.

At this stage, as the process is not still concluded, I cannot, as we say, provide you a lot of detail. We -- our forecast is to conclude, to the closing of the operations by the summer or by the beginning of September, October.

Anyway, let me only give you, to offer a main comment for the public information we added today -- we have today. TIGF, I can say that it could represent a strategic platform to develop, but the gas infrastructure connecting the Iberian peninsula to the rest of Europe and Italy, as well as the opportunity to shaping an offer of integrated services. So, regasification, storage and transmissions.

For the consortium offer, the EUR 2.4 billion and the public number, which is the enterprise value, reflects the enterprise value of Total, and I can confirm that it is a strict -- the result of our strict financial discipline.

This means that the deal has been evaluated with the priority of achieving a risk adjusted return higher than the one of our current portfolio, or thus, of our asset, of maintaining our asset and our balance sheet.

Another -- the last comment, I think, would be important, is the regulatory framework in France today for the transmission. You know the transport business of TIGF, the regulation - - the regulatory regime has just started in -- will start, let me say, the next April, the new four years' regulatory period. And we have the full visibility for the next four years, in terms of revenues and cash flow.

The real pretax return set by the regulator is 6.5%, real pretax, well in line with the return we have on the same activity in Italy. And the framework is very close to the Italian framework and the regulators. And the TIGF assets on transport business receive a remuneration that, considering together with the premium of 3% for 10 years, for the new development investment, the premium granted to the new investment, means a total remuneration in line with the Italian regulations. We have opted to consider a corporate tax rate of around 33% in France.



### **Antonio Paccioretti, Snam SpA - CFO [6]**

Turning to the comment on operating expenses, so if you go to page 12, first of all, you can note that as far as controllable fixed cost, the amount is flat in nominal terms, number one. Variable cost increase is only due to the cost of the balancing -- for the balancing of the system, for our own cost of the balancing of the system, which is a pass-through cost allowed in the regulation.

It is not a balancing -- it is not the cost of the balancing for others that had, as a consequence, the credit of around EUR400 million. You can -- we have discussed several times. It's another thing. This is the balancing of the system, the cost of our own balancing of the system, which again is a pass-through. So it is not -- it has not any impact on our EBIT.

As far as the increase of the non-regulated activities, once again, it is due wholly -- entirely due to the -- to the fact that we sold part of our inventories, and therefore, it's not -- that's not -- it has not any impact on the EBIT.

As far as the increase of the other regulated activities, the EUR52 million are due partially -- in part by the costs arising from the unbundle, for the unbundling, and for the rest, the separation from Eni. The rest is due to some risk fund provisions that we accounted at the end of the year.

So, answering to your question, I would say that the increase of cost is entirely to be considered not recurrent.

In relation to our -- the evolution of our financial debt, the other point, today we have an exposure, if I understand your question was about the exposure to interest rates. Today we have an exposure of around 50% fixed, 50% floating rate. You know the guideline we gave is to reach, gradually reach an exposure to interest rates limited to one third of our total amount of debt. We will reach such a target gradually during -- take into account, also, of the evolution of our total debt.

### **Carlo Malacarne, Snam SpA - CEO [7]**

The last question -- I think we have the last question about the regulatory review of the distribution, if I have understood. You know, in February, last February, February 15th, I remember the Italian regulators has published a second consultation document of the tariff criteria for the full regulatory period for the distribution.



Firstly, my comment is that the consultation paper is, let me say, in line with our expectation, and the distribution business -- for the distribution business is confirmed the stability and the visibility of the rules in the medium to long terms.

Having said that, two or three comments. The discussion is today about the increase of the duration of the regulatory framework to 6 years from the current 4 years, which is a positive new, with the possibility of reviewing, of updating the [work] parameters, in particular, the risk rate base with the same technicality, based on the 10 years government bond and the tax rate. They are reviewing every two years, and in addition, the efficiency target should be reviewed every three years.

Another point, important point, is the confirmation of the possible introduction of 1% premium to cover the financial impact of the time lag between the spending and the recognition into the tariff of the investment.

We -- a general comment, I think it's positive. We are waiting for the next consultation document. My feeling is that there will be two consultation documents, I think one before the summer period, and one at the beginning of the autumn. The final decision will be -- is expected by, I don't know, October, November 2013.

**Javier Suarez - Nomura - Analyst [8]**

Many thanks.

**Operator [9]**

The next question comes from Pablo Cuadrado from Bank of America. Please go ahead.

**Pablo Cuadrado - Bank of America - Analyst [10]**

Hi, good afternoon to everyone. I will have three quick questions. The first one is, looking to the leverage of the Company, I think you have perfectly explained within the presentations which is the position that you have right now in terms of refinancing, which is a very comfortable position. I was wondering whether you can tell us if you have considered to issue potentially hybrid bonds. I think we have seen a clear wave of issuance of hybrid bonds in the last months among other utilities. Even this morning, I think National Grid was



commenting about that. I wanted to have your views about if it is something that you are considering.

Second question is, is looking to Italy and looking to the political landscape that (technical difficulty) have provided, do you see any risk at all looking to 2013 CapEx, if there is no actual government for a while, it could put in danger the investments that you were targeting for this year, or you don't see any risk there?

And third question, very quick, is just looking to the line of Other revenues, that has grown significantly in this year, I was wondering whether you can provide a little bit of light on how do you see that line of Other revenues performing during 2013? Thank you.

#### **Carlo Malacarne, Snam SpA - CEO [11]**

I will start from the first question, in relation to the so-called hybrid bonds.

I will say that first of all, the -- you know, after the -- let me say, the challenging exercise executed last year, we have resolved our necessities in terms of financing. We -- again, we don't expect -- we don't need to have to tap the market for covering financial needs until 2015.

So the capital market will represent for us a source of -- an opportunity, of having cheaper money for optimizing our debt. You know, it is different if the capital market is a necessity or an opportunity.

In terms of product, we have seen that hybrid is a [investment] product in particular during the last weeks. We think that having in mind our situation today, we don't have a strict -- we don't have any needs in starting this product. This product could be an opportunity for maintaining our solid balance sheet if it will be necessary in the future. Today, we don't have any evaluation, any dossier to be started about this product.

#### **Antonio Paccioretti, Snam SpA - CFO [12]**

As far as the Other revenues are concerned, I will say that this year, for us, has our reports at the end of this year, accounted revenues, important revenues coming from the inventories sold that has a similar amount, which has -- as I reflect, a similar amount in the cost. Apart



from that, we do not imagine any significant, let me say, evolution for the future, as far as these revenues are concerned.

### **Carlo Malacarne, Snam SpA - CEO [13]**

For the landscape of the political situation, my comment is that we have to consider that our company today is -- provides a lot of -- the role of our company is completely in line with the need of the country in terms of energy evolution.

The consultation, the document of the energy plan was discussed inside the technical commissions of the government, and I didn't see a different approach, or different requirement by the political -- the different political party, in terms of the strategic role which is playing, and will play the Company in terms of strategic investment, in terms of evolution of the strategy of the Company.

I remind you that the provision of the third energy package, in terms of regulatory regime for the European countries, is completely -- are completely in line with our strategy. You know, the rules, the European provision today requires to the TSO the construction, the realization of the firm bidirectional capacity, to allow for commercial and physical reverse flow. At the same time, in 2011, end of 2011, the government enacted a decree to confirm the provision of the third energy package.

If you check our strategic plan, all our investments are completely in line with Italian and European strategy. At the same time, we will guarantee the flexibility and the security of supply through the integration of the transmissions and storage system in Italy.

The reason why I think that the role of our Company will be very, very important, and will be confirmed in the future in Italy.

### **Marco Porro - Snam SpA - Head Investor Relations [14]**

Is there any more questions?

### **Operator [15]**

The next question comes from Enrico Bartoli from Fidentiis. Please go ahead.



**Enrico Bartoli - Fidentiis - Analyst [16]**

Hi, good afternoon. A few questions from my side, please. First of all, on the Distribution business, could you please clarify if there were any other one-offs in the revenues or even the costs, in addition to the EUR143 million related to the graduality system in 2012, and if there were any one-offs also in 2011.

Second question is related to your debt. Could you give us a guidance on the expected cost of debt for 2013, and possibly the value of the net debt you expect by the end of this year? And the third question is related to your RAB, if you'll give us the figure at the end of 2012 and possibly what you expect for the end of 2013. Thank you.

**Antonio Paccioretti, Snam SpA - CFO [17]**

Firstly, the method -- the subject of the non-recurring revenues for the Distribution, the EUR143 million, have been recognized by the authority in relation to the adjustment of the gradual mechanism for the year 2009, 2010, and 2011. We don't have any other non-recurring items in the revenues. And we do not expect any other non-recurring items for the future, at least for this subject.

In relation to our cost of debt, you know the cost of the -- the average cost of the current package, financial package we have in place, is around 4%. Let me say that we -- this package will remain in place for this year, and so, I think that the 4% guideline we gave in the past is also valid for this year.

In relation to our RAB, the RAB at the end of 2012, according to the tariff, the decision of the authority for the tariff 2013, the total RAB is EUR22.7 billion, at the end of 2011, EUR22.7 billion. It is expected to be EUR23.3 billion at the end of 2012, assuming an inflation rate of 2%.

As far as our debt, it is not today the occasion for giving you some guidelines for our debt at the end of this year. Thank you.

**Operator [18]**

We are now moving to Stefano Gamberini from Equita SIM. Please go ahead.



### **Stefano Gamberini - Equita SIM - Analyst [19]**

Yes, good afternoon, everybody. A few questions, if I may. First of all, regarding the slide number 13, looking this slide, it seems that the Transport contribution was negative in 2013 - in 2012, sorry. The Italgas contribution was up EUR140 million, just due to the one-off item. Could you help to understand what is the underlying growth of EBIT? If I'm not wrong, your guidance was a 4% growth per year, in line with RAB growth, but it's not easy to understand exactly what is the underlying, excluding the one-offs that are remaining in 2012.

Second question, regarding guidance on CapEx on 2013 is EUR1.3 billion, EUR1.4 billion, is confirmed, or are there any delays in investments?

And the third, regarding the potential acquisition of TIGF, are there any risks that your rating could be downgraded in the forthcoming months after the acquisitions, due to the leverage that will remain quite high, close to 60% of the RAB, considering your current CapEx plan of EUR6.7 billion to 2016 or, 2015, sorry, or you think that this is not a risk in this moment? And in this case, it's also a possible risk of a rights issues is completely out of the table. Many thanks.

### **Antonio Paccioletti, Snam SpA - CFO [20]**

I will start from the subject on EBIT. I would answer in this way. If we consider -- if we compare, let me say, on a like for like basis our EBIT without the recurring items, the non-recurring items for this year and for the previous one, we have to consider this EUR143 million for Distribution this year. We also have to consider, you remember, around EUR50 million of non-recurring items for the Distribution accounted at the end of 2011.

Therefore, I will say that the comparison among the two numbers confirm the 3%, 4% growth of our EBIT, which is perfectly in line with our -- with the business model we have several times announced.

For the other, the last question, the possible impact on our rating as a consequence of the conclusion of TIGF, of the acquisition of TIGF, I would say that we have to leave, we have to consider the preliminary opinion that the Moody's, that Moody's disclosed, Moody's published a few weeks ago, in particular, on the effect of -- on our balance sheet, on our financial strength, following such a deal. And as far as they explained, I think that the story is



that with this transaction, we use a significant part of our financial flexibility, and so without having the risk, facing the risk of a downgrade.

On such a point, I want to reiterate once again that anyway, we don't have any needs of new equity. The deal will be financed with the proper solution, having in mind that the priority -- we have, among the others, the priority of maintaining the current credit rating, but we don't need any equity injections.

#### **Carlo Malacarne, Snam SpA - CEO [21]**

For the comment for the CapEx, I confirm we are today completely in line with our CapEx plan. You remember, beginning of 2012, the guideline was for 2012 was EUR1.4 billion. As already commented during the presentation, the EUR100 million reduction is only -- is only due to the spending efficiency for the cushion gas in the storage investment.

In the strategic presentation next March, we will give you the visibility of the next CapEx plan, but I can confirm that we maintain our CapEx plan completely.

#### **Stefano Gamberini - Equita SIM - Analyst [22]**

Many thanks.

#### **Antonio Paccioretti, Snam SpA - CFO [23]**

Just for completing the first answer, you noted the slight reduction in the performance at EBIT level of the Transport. Please consider that for this year, Transport, the Transport segment, has to face, number one, the reduction of revenues for the incentives of the first regulatory period, which terminates, which went to maturities, for around EUR20 million. Secondly, the -- both the cost for the unbundling and the -- for the separation, coming from the separation from Eni, and the risk fund provision we accounted.

So, if we exclude these items, even in the -- also in the Transport segment, we would have had a growth in the range of 3%, 4%.



**Stefano Gamberini - Equita SIM - Analyst [24]**

Could you kindly quantify the level of provisions that are regarded the Transport in 2012 and 2011, please?

**Antonio Paccioretti, Snam SpA - CFO [25]**

Between EUR40 million and EUR50 million.

**Stefano Gamberini - Equita SIM - Analyst [26]**

Many thanks.

**Operator [27]**

We are now moving to Olivier Van Doosselaere from Exane. Please go ahead.

**Olivier Van Doosselaere - Exane BNP Paribas - Analyst [28]**

Yes, thank you very much. Olivier Van Doosselaere from Exane. Good afternoon, everybody. Most of my questions were answered. I was just wondering one more thing, actually, going through the strategic rationale of the TIGF acquisition. Actually, two points there.

One, you mentioned that TIGF is well positioned to help on the gas structure coming from Iberia towards Europe and Italy. On that last part, actually, on Italy, do you actually see it feasible to have a connection, direct connection managed by you that would connect TIGF with Italy, and do you think that TIGF would then really fit into the gas, Italian gas hub story, or do you think that the TIGF acquisition is more, let's say, something that has been explained for your intention to diversify in terms of country risk?



And then the second point is, you said that you're looking at adjusted risk/reward, depending on returns, and why you're investing, but what about the fact that there's quite a big part of the TIGF assets that are non-regulated? How do you look at your returns that you should get on those type of activities? Thank you.

**Carlo Malacarne, Snam SpA - CEO [29]**

We have to consider two main strategic aspect of TIGF. One is through what you said, the country risk diversification, I think, in an important point. But the strategic aspect is that we don't need the connection directly to the network of TIGF to Italy. We have to consider that today, what we are doing at European level is to create the possibility of a gas exchange, more liquidity through the existing hub, the existing exchange point in Europe.

And TIGF, in the network south of France, there is a strategic exchange point, completely not connected to the north of France, and automatically through Swiss through the pipe through Italy and to Germany. So we have to consider the evolution of TIGF to create all the condition of interconnection of existing France network, to have the possibility to exchange gas with the other -- for example, with the [pass-through] in Italy, or the exchange point in Italy.

In this respect, the role of the storage will be very important. It will be very important because in a way, merchant of a regulated storage, the interconnection for transmission storage is very strategic for the gas exchanging at European level. We can imagine if there will be the possibility of interconnection with Spain, we can -- you can imagine that the role of the storage with the possibility of LNG Spain gas will be -- it's very strategic.

Our intention is to follow our strategy we have today in the corridor north/south Europe, to provide the same strategy for the corridor east/west of Europe. So in terms of investment, we have not to consider only the big connection directly from TIGF to Italy. But improving the capacity transmission from south of France to north of France, automatically we have the possibility today, and we have to consider the difference in the price evolution from south of France and north of France. We have automatically the connection to all the European hubs.



**Antonio Paccioretti, Snam SpA - CFO [30]**

And on the last part of the question, the fact that the storage is within the portfolio of TIGF is not a regulated activity, I would add that it is clear that when we talk about the target of increasing the value for our shareholders, of not diluting the return of our shareholders, we take into account even the natural business, and therefore, the fact that storage is there are not regulated have been considered in the target return, and the target return has been, for sure, calculated risk adjusted, and the same has been done -- the same consideration has been done in understanding the soundness, from a financial point of view of such an asset within our entire portfolio, in order not to jeopardize the risk profile of the entire Group.

**Olivier Van Doosselaere - Exane BNP Paribas - Analyst [31]**

Okay. Okay, thank you

**Operator [32]**

The next question comes from Roberto Ranieri from Banca IMI. Please go ahead.

**Roberto Ranieri - Banca IMI Equity Research - Analyst [33]**

Yes, good afternoon, gentlemen. Three questions, please. The first one is on working capital increase. My question is, I understand that, and you told us that it is also related to some trade receivables, which is -- which are increasing. My question is, when you -- so the timing for recovering this kind of trade receivables, and when the net debt could go back to previous level, or -- you know, with that, this component [margin].

The second question is about the pass-through revenues. My question is, if these pass-through revenues, are they generating some trade receivables, and in that case, are you also have this working capital increase again? And my question is, if you are discussing with the regulator to take this cost, I would say, financing cost related to the pass-through revenues, and are -- would be recognized on your P&L?

My third question is about the Adriatic backbone pipeline. We read on some papers that the pipeline had stopped authorization from the [Abruzzi] region. So my question is if you are



planning some actions to speed up this pipeline, some -- you know, contingency plan on this pipeline. And that's all for the moment. Thank you very much.

**Antonio Paccioretti, Snam SpA - CFO [34]**

I will start from your first question, both, I would say, starting from the possible impact of pass-through revenues on our working capital.

If you go to page 11 of our presentation, the pass-through revenues we are talking about are in the range of EUR100 million per year. Exactly EUR137 million in 2012. The impact on our working capital is negligible, and all -- we don't have any problem of collecting on that kind of revenues.

As far as the working capital in -- more in general, I would say that you know in -- that in this phase, our business model is based, and will be based in the future also, on our operating cash flow, which finance in full our CapEx.

In 2012, the less that we have a net debt increase, our net debt has been increased for around EUR1.2 billion. So, higher than the amount of payment, amount of our dividend paid, following some significant one-off, some significant one-off elements, many related to the working capital.

First of all, I would remember the Robin tax, we paid two years of Robin tax for more than EUR300 million. Secondly, we paid, as I was mentioning before, more than EUR200 million for the unwinding of IRS. And then we have also the result of the balancing activities.

But from a cash point of view, this -- at the end of this year, the result is an increase of our asset, of our receivable, starting from the beginning of 2012, limited -- limited of around EUR120 million, because the balance has been sold. [Prosoluto], the object of the factoring activities, Prosoluto, so they already transformed in cash by the year-end.

So the amount of the receivables, we are waiting to -- which are, will be [object] to the repayment in installment by [Casa Conguario] is limited to EUR120 million.



**Carlo Malacarne, Snam SpA - CEO [35]**

For the last question, for the comment about the authorization for the Adriatic pipeline, you know, usually the process of the authorization in our business, I think, is very long time. We need usually four, five years for the authorization. This is the reason why we started four, five years before, to discuss with the local authority and the Ministry of Development of Environment.

In this case, I remind you that the two first steps of the Adriatic Sea have completely the authorization for the construction. We started with the first step, because we need the first step, (spoken in Italian), to implement the gas transmission to the center of Italy. We have the authorization for the second step, (spoken in Italian). And we are waiting the authorization for the last part, (spoken in Italian) and to reach the center of Italy.

We received the environment authorization by the Minister of Environment, and today, we are waiting for the inter-Ministerial discussions, to have the final authorization.

But I remind you that the first spending for the Adriatic Sea in our CapEx plan is in 2017. There is -- the reason why, in our CapEx plan today, we don't have spending for the (spoken in Italian), nor the (spoken in Italian) in [northern] Italy.

I think that we have the proper time to put in place all the measures for obtaining the authorization. We have in front of us another three years for the discussion. That is the reason why it's no -- let me say, it's no strategic issue for us.

The second comment is that, you know, we have very great type network in the center of Italy, and we are ready to put in place all the technical solution to support the transmission capacity from the center of Italy to northern Italy. This is not the case today, because we don't have [energies] in this respect. But we have all the technical solution in this respect.

**Roberto Ranieri - Banca IMI Equity Research - Analyst [36]**

Thank you very much. Very clear.

**Operator [1]**

And now we are moving to Alberto Gandolfi from UBS. Please go ahead.



### **Alberto Gandolfi - UBS - Analyst [37]**

Thank you. Good afternoon, it's Alberto Gandolfi, UBS. I have three questions, please. The first one, [probably] (inaudible), but just to be clear, the EUR992 million adjusted recurring net income you are showing, does that adjust also for the non-recurring items in the Distribution business? Second, can you please tell us -- I'm not entirely clear, when is the next review for TIGF, please?

And thirdly, you had recently talked about, the balance sheet has room of about EUR500 million. Am I correct in assuming that following TGIF, this would basically bring the balance sheet at your limit? So there wouldn't be any head room beyond that? And if you see any opportunities in Europe, would you still consider an expansion at this via -- I don't know, hybrids, or equity issuance, or [scrip] dividends. Perhaps this is for mid-March. I am aware of that, so forgive me for the question. Thank you.

### **Antonio Paccioretti, Snam SpA - CFO [38]**

In relation to the first question, I mean, I thought to have already this -- explained this point very clear. The net income adjusted in the amount of EUR192 billion is adjusted for taking into account the consolidation of the -- the [position] for the unwinding of the IRS. It is not adjusted for the tariff adjustment from distributions. So the distribution -- for arriving to this value, we have included amount of revenues as such, EUR143 million. Even as it was in the last year. We never neutralize such an item in our accounts.

As far as the last question is concerned, I think that again, we have to read the papers written by Moody's a few weeks ago about this point. It is clear that this deal will -- for this deal, the flexibility of the Group will be used for a significant part. Again, we don't have today any project for evaluating any instrument with equity content. Equity, script dividends, convertible, we don't think about it.

Hybrid could be an instrument to be used for defending the strength of the balance sheet without diluting the position of the shareholders, and so, with an accretive effect on the result. But even this product, for the time being, is not something that we are evaluating.



**Operator [39]**

We are now moving to --

**Carlo Malacarne, Snam SpA - CEO [40]**

I think, Alberto, we have -- you have another question about, the regulatory -- I didn't understand --

**Alberto Gandolfi - UBS - Analyst [41]**

Yes, when is the next regulatory review (multiple speakers) transport? Thank you so much.

**Carlo Malacarne, Snam SpA - CEO [42]**

The new four years, I said before, regulatory period will start next April, for 2013, for four years. So we have the visibility. It's completely set, all the framework, I said before, 6.5% real pretax in the next four years.

**Alberto Gandolfi - UBS - Analyst [43]**

Thank you so much.

**Antonio Paccioretti, Snam SpA - CFO [44]**

If I can add, it is the best moment for having proper evaluation of that business, because we have four years of full visibility of -- or, in front of us.

**Alberto Gandolfi - UBS - Analyst [45]**

Thank you.



### **Operator [46]**

We are now moving to Sarah Laitung from JPMorgan. Please go ahead.

### **Sarah Laitung - JPMorgan – Analyst [47]**

Hi. I had another question regarding the recovery of the working capital from the balancing activities. I understand that most of it has been securitized, the cash has been received. But regarding the remaining EUR120 million that you mentioned, can you give an indication on the timing for receiving this, whether it's from the operators or from the [CCSE], will it be in the first quarter of the year or the first half of the year?

And my second question is also on the balancing activities. I understand that these are pass-through items, but I was just wondering if you were planning to negotiate any remuneration for this activity that Snam performs with the regulator?

### **Carlo Malacarne, Snam SpA - CEO [48]**

As far as the first question is concerned, I would say that the EUR120 million, around EUR20 million, which are the receivable part, the receivable from the balancing activities, such an amount is, as the other EUR300 million, to be paid in equal installments of EUR6 million per month, and therefore, the collecting of this amount will be for the Company, at least, in the medium term.

The other way we have for collecting immediately such an amount is to factorize, even in this case, this receivable. We have already experienced the instrument, the capability, the efficiency of the instrument. We do not exclude to use also for, in this case, such an instrument, in order to make our balance sheet more efficient, let me say. It is not our job to have an asset employed, to have employment in this receivable. We want to use our balance sheet for having, for executing our investment.

As far as the other question, I mean, if we are negotiating with -- we do not negotiate, we are discussing with the regulator the possibility of receiving a remuneration for the, if I understand, understood well the question for the balancing activities, I think that this is not the case, at least at this moment.



**Sarah Laitung - JPMorgan – Analyst [49]**

Thanks.

**Operator [50]**

And now we are moving to Stefano Bezzato from Credit Suisse. Please go ahead.

**Stefano Bezzato - Credit Suisse Europe – Analyst [51]**

Yes, hi. Stefano Bezzato, Credit Suisse. Just two questions in relation to your answer previously on the regulator [and their views]. Can you clarify whether you expect the move to a 6 year regulatory period to apply both to the Distribution and Transportation business? And in relation to the second question, do you think that this move would increase the risk of the regulator to reduce the current incentive schemes on development CapEx? Thank you.

**Carlo Malacarne, Snam SpA - CEO [52]**

For the Distribution, I think we have to wait, the second consultation document to understand more inside the figures set by the regulator. But today, with the general analysis for the existing consultation document, I don't see a risk in jeopardizing, let me say, the visibility of the Distribution business. It's clear that the new [work] will be set, but we know that the work, the technicality of [referring] 10 years Italian bond is set today in the guideline. And so we don't see, let me say, a risk, a negative, a strong negative impact in our business today.

For the Transmission, we have to wait the consultation document. What I can say is that -- I think the interest of the regulators, in terms of a new development of the investment in Italy, the new development of the network in Italy, linked to the flexibility, more liquidity in the gas exchange, I think my feeling is that it will be an objective by the regulator.

You know, considering that the regulator will, last year, will -- last year, pushed Snam to start with the balancing regime, the reason is that the liquidity of the market and the gas exchange of the market is the priority in the objective by the regulator. The reason why we have to wait, the consultation document, but frankly speaking, I don't think that could be completely new framework in terms of return of investment.



It's clear, that is very important, the efficiency. I imagine that the regulator, as the regulator set in the distribution business, and as the regulator set in the regulator regime often, I think it's very important to have the possibility to guarantee the efficiency in the investment CapEx.

So -- but I can say that is the same objective of Snam. It's not our intention, let me say, to spend more because we have a return of investment. There is the reason why I am confident that the new regulatory regime will not change the visibility we have today in our activities.

**Stefano Bezzato - Credit Suisse Europe – Analyst [53]**

Thank you.

**Operator [54]**

We are now moving to Edoardo Montalbano from Centrobanca. Please go ahead.

**Edoardo Montalbano - Centrobanca - Analyst [55]**

Hi, good afternoon. Two questions, if I may. One is on M&A. You are close to finalize the deal for -- with Total. If we can expect other such kind of deals in 2013, or in the coming years?

Second question is on associates of Italgas. If you have an estimate around at the end of 2012 of these companies, and their related [net debt]. Thank you.

**Carlo Malacarne, Snam SpA - CEO [56]**

Thank you, Edoardo. Merger/acquisition, first of all, I would say that the merger/acquisition is not for us a financial activity. No different, the merger/acquisition is completely in line with our strategy in Italy and in Europe together. I think this is important.

That is the reason why, TGIF, I said before, there is a strategic aspect very linked to our strategy in Italy and outside Italy. We are working today in the corridor north/south. The network and the company who managed the network in north of Europe, Swiss/Germany and through the UK Interconnector are very fragmented, the share participation of this type



of company. That is the reason why we prefer to proceed with MOU, and with the binding commitment with Fluxys to create the conditional reverse flow.

The last memorandum of -- with Fluxys in August 2012 was set to finalize the very strong commitment in providing the reverse flow capacity, the commercial and technical -- not only technical, not only investment, but the reverse flow capacity starting for 2015.

Our feeling is that the overcapacity of gas in Europe, and more liquidity in Europe, needs an increasing of the gas exchange to the different hubs. Today, the Italian operators cannot exchange gas with the center of Europe.

Starting from January 2013, today we have the possibility of gas exchange, because we entered in the network our platform at the European level, and Snam, it's the first time that an Italian operator is inside the operative, the platform of the gas exchange in Europe. But we need at the same time to create the condition of reverse flow revenues. That is the reason why we proceed, we will proceed in very pragmatic way. We finalize all the agreement to have this type of condition.

In the future, there will be some opportunity in terms of new governments, new companies, new joint venture. We will evaluate the possibility. But today, our approach is very pragmatic. We -- our intention is to maintain our risk profile, and to have the possibility in the medium, long term to increase our revenue in this respect. So the merger/acquisition will be completely finalized with this type of strategy.

#### **Antonio Paccioretti, Snam SpA - CFO [57]**

In relation to the RAB of the not consolidated companies in the distribution sector, I don't have here the exact numbers, so it would be our duty to give you through our colleagues of Investor department such a number. I would give you this number, which is something that could be useful for you.

The equity RAB -- this is not a RAB, this is the equity RAB per quarter of our affiliates, not consolidated affiliates, at the end of 2012, is at a level of around EUR600 million. We will give you RAB and debt later on.

#### **Edoardo Montalbano - Centrobanca - Analyst [58]**

Okay. Thanks very much.



### **Operator [59]**

The last question comes from Antonella Bianchessi from Citi. Please go ahead.

### **Antonella Bianchessi - Citigroup – Analyst [60]**

Yes, good afternoon, everyone. I appreciated the comments of the rating agency on the strength of your balance sheet, and also your confidence. You think these elements could be considered by the regulator when starting the gearing at the next regulatory review?

### **Carlo Malacarne, Snam SpA - CEO [61]**

Antonella, I think it's an important result for the Company. Frankly speaking, I don't know if the regulator will start with this point, to design the letter or the -- some other figures inside the regulator. But what I can say is that anyway, it is in the interest of the regulator to take into account the capability of the Company to develop the investment, and to develop the strategy we have in Italy.

So, this is a question for the regulator, but I can say that is important to evaluate from the regulator the capability of the Company.

And in this respect, affecting the new figures, I think is an important point to take into account.

### **Antonella Bianchessi - Citigroup – Analyst [62]**

Thank you.

### **Marco Porro - Snam SpA - Head Investor Relations [63]**

So, if there are (multiple speakers) --



**Operator** [64]

(multiple speakers) --

**Marco Porro - Snam SpA - Head Investor Relations** [65]

Sorry. Is there any more questions?

**Operator** [66]

There are no questions.

**Marco Porro - Snam SpA - Head Investor Relations** [67]

Thanks a lot. So, thanks all to everybody, thank you for participating, and speak you in a couple of weeks.



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