Full Year 2013 Snam Earnings Conference Call

Transcript

28th February 2014

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  Mediobanca - Analyst
- Stefano Gamberini
  Equita SIM - Analyst
- Roberto Ranieri
  Banca IMI Equity Research - Analyst
- Jose Ruiz
  Macquarie Research - Analyst
- Anna Maria Scaglia
  Morgan Stanley - Analyst
- Charlotte Piet
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- Stefano Bezzato
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- Enrico Bartoli
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Presentation

Operator [1]

Good day, ladies and gentlemen, and welcome to the Snam 2013 full-year results conference call. Today's conference is being recorded. At this time, I would like to hand the call over to Mr. Carlo Malacarne. Please go ahead.

Carlo Malacarne, Snam SpA - CEO [2]

Good afternoon, ladies and gentlemen, and welcome to Snam's 2013 full-year result presentation.

Today's agenda will be structured in two parts. I will start by outlining the main highlights of 2013 and some recent developments. Antonio will then focus on the financial results in more detail. At the end of the presentation, we will be able to answer any questions you may have.

Let me begin with the main highlights for the full-year 2013, as well as providing you with an update on the business.

Despite a tough and challenging environment, we are pleased to report for 2013 a solid set of operating and financial results, consistent with our track record of delivery. Snam's sound operating performance in the period is highlighted, amongst other things, by an EBITDA of around EUR2.8 billion, almost in line with the 2012. Adjusted EBIT was over EUR2 billion, down 2.4% versus 2012, and the trend in the consolidated EBIT was driven by the positive contribution of both the transport and storage businesses, offset by the reduction in EBIT from the distribution business, mainly due to the one-off positive tariff adjustment in 2012 of EUR143 million.

If we do not take into consideration the positive one-off in the distribution activity in 2012, the adjusted EBIT shows a remarkable growth of approximately 5% on a like-for-like basis. Antonio will comment in more detail later on.

During the year, we focused on optimizing the structure and the cost of our debt, in line with our commitment to maintaining a solid and efficient capital structure. It allowed us to reach a reported net income of EUR917 million, a remarkable increase of 17.7% versus 2012.

Turning to our growth path, our investments are aimed at increasing the flexibility, liquidity, and security of both the Italian and the European system, enhancing gas flow and interconnectivity of EU markets.

In 2013, we deployed total investments of approximately EUR1.9 billion, in line with the guidance provided at the beginning of the year. Around EUR1.3 billion was attributed to CapEx for infrastructure development in Italy, and around EUR600 million to financial investment for the acquisition of the 45% equity interest in TIGF.

The acquisition of TIGF, in particular, gives us the opportunity to build up a strategic platform for gas infrastructure development in order to improve the cross-border interconnection in Europe. It also allows us to diversify our regulatory and geographical risk, allowing new investment opportunities with assets at various stages of the infrastructure investment cycle, and, therefore, enhancing our asset portfolio.

Consistently with our strict financial discipline, the investments in Italy and the acquisition of TIGF were almost covered by an efficient management of the operating cash flow, which reached a sound level of around EUR1.7 billion. This allowed us to preserve a solid balance sheet with a net financial debt of EUR13.3 billion.

Once again, in 2013, we remain focused on operational efficiency. In particular, our controllable fixed cost result equal to EUR416 million, flat in real terms versus 2012. This is a significant result considering the growth of our activities, as shown by the increase of transport and distribution grid, as well as our storage capacity.

Last year's result provides evidence of our commitment to disciplined execution of a high-quality CapEx program, to operational and financial efficiency, as well as to maintaining a strong balance sheet. This will allow us to drive a profitable growth, and to support our shareholders' return.

Last, but not least, as you probably know in 2013, we had the review of the regulatory framework for the transport, distribution, and regasification businesses, which represents around 85% of the total Italian RAB. The final outcome, once again, confirmed the stability and visibility of the criteria, generating a supportive regulatory environment for our CapEx program, which is devoted to the development of gas infrastructure in Italy.

Let me now provide you with a quick overview of the Italian gas market, bearing in mind that our business development is not strictly linked to the gas demand trend.

In 2013, gas consumption totaled 70.1 BCM, down 6.5% or 4.8 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 approximately 16%, approximately 4 BCM, driven by the reduction of 4%, 14 terawatt hours or 2.7 BCM, in electricity demand, largely due to negative market economic trends; the remarkable recovery in hydroelectric production, 9.5 terawatt hours or 1.8 BCM, driven by high levels of rainfall; a significant increase in electricity production, 7 terawatt hours or 1.3 BCM from renewable sources, in particular solar and wind energy.

These negative elements were partially offset for 1.5 BCM by reduced usage of coal and oil products in thermoelectric production. The demand in the industrial sector decreased by approximately 2% on a like-for-like basis, as a consequence of the declining trend in industrial production in Italy throughout the year, approximately down 2.8%.

Gas consumption in the residential sector decreased by approximately 1%. This was mainly due to a milder weather condition during 2013, compared to 2012. Adjusted for the weather effect, the sector experienced an increase of more than 2%. This was mainly due to the higher usage of gas versus other sources, in particular oil for household heating.

Finally, gas injection to the network is in 2013 decreased by 8.9%. The difference between gas injection to the network and the gas demand trend is related to storage flows. In particular, the higher withdrawal from the storage side, and the lower injection activity versus 2012 resulted in a negative balance of around 2 BCM.

Let me conclude my comments on the 2013 results by focusing on the dividend. Snam has consistently been committed to delivering attractive returns to its shareholders. Our aim has always been to maintain a sustainable combination of attractive dividends and capital growth.

On the basis of 2013 sound results and considering our solid capital structure, the Board of Directors yesterday decided to propose at the annual shareholder meeting a dividend distribution for 2013 of EUR0.25, per share in line with the dividend per share for 2012. EUR0.10 per share was distributed as an interim dividend in October 2013. The balance of EUR0.15 per share will be payable on May 22nd.

The fiscal year 2013 dividend, subject to the approval at the shareholders' meeting, results in a dividend yield of 6.2%, in the top range of the utility sector. Our future dividend policy will be outlined at the strategy presentation in March.

That's all for me. I will now hand you over to Antonio, who will comment in detail on the 2013 results.

Antonio Paccioretti, Snam SpA - CFO [3]

Thank you, Carlo, and good afternoon, everyone. As we have said before, 2013 was an eventful year for Snam, which was characterized, in particular, by the interest acquisition in TIGF for around EUR600 million, the significant optimization of our debt structure, and subsequent positive impact on financial charges, and the reduction of gas consumption in Italy with a negative impact on revenues limited to around EUR20 million, thanks to the Group's low exposure to volumes.

Looking now at the 2013 Consolidated Income Statement, EBITDA amounted to EUR2.803 billion, almost in line with 2012. Adjusted EBIT decreased by EUR51 million, down 2.4%, reflecting the increase in depreciation. The adjustment is related to the early retirement plan cost of EUR26 million, which we will comment on in more detail later on.

Net profit for the period amounted to EUR917 million, increased by 17.7% compared to 2012, affected by the one-off financial cost of the unwinding of the interest rate swaps.

Regulated revenues amounted to EUR3.491 billion, with an increase of EUR14 million compared to the previous year, up 0.4%. Net of pass-through components, regulated revenues decreased by EUR32 million, reflecting the following elements.

Transport revenues grew by EUR65 million due to the positive contribution from the investments carried out in 2011, equal to EUR102 million. This was partially offset by the annual tariff adjustment of EUR16 million, and by the effect of the decrease in gas injected into the network, amounting to around EUR20 million.

Distribution revenues decreased by EUR147 million, mainly because 2012 revenues were positively affected, as you remember, by a one-off tariff adjustment of EUR143 million related to the [gradwalley] mechanism. Net of this effect, distribution revenues were almost in line with the previous year.

Storage revenues grew by EUR51 million, a remarkable increase of about 13%, mainly due to the contribution from investments carried out in 2011.

The increase in pass-through revenues was mainly due to the overall gas transport system balancing services.

Other revenues amounted to EUR38 million, a decrease of EUR106 million compared to 2012, mainly in the transport business due to revenues related to the disposal of inventories not used for operating activities, which was accounted in 2012.

To wrap up, net of the non-recurring revenues accounted in 2012 in the distribution business, total revenues again grew in line with the increase in our activities in 2013, consistently with our business model.

Moving to operating expenses, total costs decreased by EUR78 million, reflecting our effective control of regulated activities costs, and the reduction of non-regulated costs.

Controllable fixed costs in 2013 amounted to EUR460 million, an increase limited to EUR7 million in nominal terms, corresponding, therefore, to a flat evolution in real terms compared to 2012. Such a positive result is even more remarkable if we consider the growth of our activities during the year.

Variable costs increased by EUR14 million, mainly due to the change in the gas inventory used for the operating activities.

Other costs decreased by EUR71 million compared to 2012, when we accounted some risk fund provisions, mainly in the transport activities.

The increase in pass-through costs was mainly due to the overall gas transport system balancing services.

Non-regulated costs amounted to EUR44 million, decreasing by EUR74 million compared with the previous year, mainly reflecting the disposal of inventories in 2012, as previously mentioned.

2013 total costs include a provision of EUR26 million related to the early retirement plan for 300 employees that will be implemented during 2014.

To wrap up, 2013 operating costs, net of pass-through, marked a significant decrease of EUR124 million, because 2012 costs were affected by some risk fund provisions and disposal of inventories, many related to the transport business, partially compensated by the provision for the early retirement plan accounted in 2013.

- Consolidated adjusted EBIT amounted to EUR2.060 billion, with a decrease of EUR51 million, down 2.4% compared to 2012, mainly due to the positive contribution from regulated revenues, amounting to around EUR111 million and mainly related to the transport and storage businesses;
- the one-off tariff adjustment accounted in 2012 in the distribution business, down EUR143 million; the slight increase in controllable fixed costs of around EUR7 million;
- the increase in depreciation and amortization by EUR63 million, mainly due to the new assets entered into operation;
- and the higher depreciation in the distribution business, and mainly related to the depreciation of net consideration accounted for the new concessions;
- other positive effects for around EUR25 million, mainly reflecting the risk fund dynamics, and finally the adjustment of the early retirement plan equal to EUR26 million.

If we don't take into consideration the positive one-off items in this distribution activity, growth in the adjusted EBIT would be 4.7% on a like-for-like basis.

Looking at the contribution by business segment, the transport and storage businesses registered an EBIT growth of EUR95 million, up 8.4% and EUR48 million, up 17.8%, respectively, mainly driven by the increase in regulated revenues and the significant reduction of operating costs.

Now, I would like to conclude the review of the Group's income statement by commenting on the net profit performance. 2013 net profit was EUR917 million, up 17.7% compared to the previous year, when we accounted the one-off item for the unwinding of IRS equal to EUR213 million, net of taxes.

In addition to the EBIT decrease we have already explained, the other components impacting net profit were, firstly, interest expenses registered a slight increase of EUR13 million, mainly due to the increase of debt. At the end of 2013, we had around EUR13.3 billion of net financial debt, with a higher outstanding average debt of around EUR600 million.

All in all, the remarkable result on financial charges has been achieved due to the significant debt optimization measures carried out in the year, and that will be better explained in the following slide.

Secondly, a EUR10 million decrease in the net income from associates. The increased contribution from both distribution associates and Interconnector UK, up EUR17 million, was more than offset by the negative equity contribution of TIGF, down EUR27 million, which was impacted by a non-recurring tax burden paid by the French [bitco] for the TIGF acquisition, as already mentioned in the 2013 third quarter results presentation.

Let me remind, once again, that this component was included in the total consideration of EUR597 million paid by Snam, and was already priced in the total target return assumed for the acquisition.

As far as income taxes are concerned, tax rate in 2013 was around 43%, in line with 2012.

Moving on to the results of the 2013 debt optimization exercise, we would like to highlight that at the end of the year, we have a significant liquidity buffer with around EUR4 billion of undrawn committed credit facilities, excluding the outstanding debt of around EUR1 billion of uncommitted facilities used for treasury management optimization.

The maturity profile is well spread over time, avoiding major concentration issues going forward. The average maturity of our outstanding medium to long-term debt is around five years.

I would -- I'd now like to spend a few moments explaining the key drivers behind our optimization activity in 2013.

Firstly, further disintermediation of the banking system while maintaining a strong liquidity profile via new recourse to the debt capital market, both via public issuance and via private placement for a total amount of EUR2.7 billion. Then reduction of banks' commitment for a total amount of EUR2.1 billion, out of which EUR1.5 billion is represented by the five years term loan repaid in April, while the remaining part consists of the cancellation of a number of relatively expensive credit facilities.

Pool banking and bilateral facilities renegotiation of margins for an amount of debt of over EUR5 billion, mainly in the first part of the year, resulting in a margin reduction of more than 100 basis points.

Growing role of institutional lenders by a total amount of EUR0.65 billion. The contribution from institutional lenders is currently around EUR1.3 billion. Institutional lenders represent a cost competitive source of funding, granting maturities of up to 20 years, longer than what is available in other markets for the same amount.

These factors made it possible to achieve an average cost of debt of 3.7% in 2013, in line with what was announced during the conference call for Snam's first half result.

In addition to the reduction in our cost of debt, we have also improved the quality of our financing base, and the soundness of our debt structure by reducing the risk related to the interest rate exposure -- the fixed to variable interest rate ratio is from 49% at the year end 2012 to 64% currently, with an average duration of around five years -- and extending the average term of debt.

In 2013, we achieved a strong cash flow result. Our activities generated EUR1.698 billion of cash flow from operations, which almost fully financed the disbursements for both CapEx and financial investments.

It's important to underline that Snam invested around EUR1.9 billion in 2013, being able, at the same time, to minimize the change in net debt, which was basically equal to the dividend distributed to shareholders.

Looking at the cash component of working capital, in 2013, cash generation was EUR53 million, mainly related to the growth of tax payable of around EUR49 million accrued in connection with increasing earnings before taxes, and the positive effect of balancing activity of around EUR128 million, which was partially offset by the payment of EUR141 million related to the balance of the consideration for the unwinding of IRS. Such a satisfactory result in net working capital management is even more remarkable taking into account that we did not factor any receivables during 2013.

Let's now move to the balance sheet. Fixed capital increased by EUR1.016 billion compared to year-end 2012, mainly due to the acquisition of the interest in TIGF, which drove the increase of EUR561 million in equity-accounted and other investments.

In addition, new CapEx for EUR1.290 billion were partially offset by depreciation of EUR769 million, and subsidies of around EUR71 million.

Total net financial debt amounted to EUR13.326 billion, up EUR928 million compared to year-end 2012.

Comparing the net financial debt at year end to the estimate of RAB and the value of associates, we reached a ratio debt to assets of around 53%.

Thank you very much for your attention. We are now pleased to answer any questions you may have.

Questions and Answers

Marco Porro, Snam SpA - Head of IR [1]

Good afternoon, everybody. It's Marco Porro speaking. Let me invite you to focus the question-and-answer session on the full-year results. We will provide all the strategic guidance, as well the financial and operational guidance during the strategy presentation next March 19th. Thank you.

Operator [2]

Thank you. (Operator Instructions). We'll now take our first question from Javier Suarez from Mediobanca.

Javier Suarez, Mediobanca - Analyst [3]

Hi. Good afternoon and many thanks for taking my questions. I have three of them, hopefully focusing on the result.

I just wondered if you can give us an update on the latest -- your latest calculation for the calendar RAB by the end of 2013, and, if possible, also 2014, and which deflator assumption that calculation displays? That would be the first question.

The second question is on the [valenti] distractor. I think that the CFO has mentioned quite clearly that the effort of making the financing of the Company more efficient is an ongoing effort. I guess that the latest guidance that the Company gave was 3.5% cost of debt for 2014. Without entering in, maybe, the territory of the next presentation, can you give us a sense, do you think that that tariff is realistic or even conservative?

And the final point is, on the outlook, I think that there is on the press release a mention on the focus on efficiencies. I just wanted to have a sense on the -- from a management point of view the capacity that the Company has at this date to continue digging into efficiencies?

Many thanks.

Antonio Paccioretti, Snam SpA - CFO [4]

Cheers, Javier. Starting from the -- at the first question, which is the guideline for the RAB at the end of 2013, I will start from the RAB which we had at the end of 2012, which is in the range of EUR23.3 billion. This is the sum, the aggregate amount of the transport, which has been approved in the amount of EUR14.8 billion, LNG EUR0.1 billion, storage around EUR3.7 billion, and as far as distribution, we expect that in the range of EUR4.8 billion.

If we consider inflation rate, if we assume an inflation rate for 2013 of around 1.4% and the investment we made, the estimation of the RAB at the end of 2013 is around EUR23.7 billion.

The second question around -- about our consolidated debt, you remember that the preliminary guidance of 3.5% in terms of average cost of debt for 2014 which we provided was the one we provided during the third quarter conference calls, the result. This guidelines, I believe, is still valid, but could result somewhat prudent.

As a matter of fact, to say that the funding exercise carried out in January and the further optimization measures to be potentially implemented in this first part of the year, could create, actually create the conditions for further financial efficiencies.

Let me say that we will give you an updated guidance for our cost of debt for 2014 during next -- the next strategy presentation.

Carlo Malacarne, Snam SpA - CEO [5]

For the third question, our commitment is today to maintain the operating cost flat in real terms in the next period, and considering that the perimeters of the activities will increase a lot in the storage system we are starting to manage a new field, a new storage field, we have an increase of around 100 to 200 kilometers in the transmission pipelines, but we think we have some opportunity of increase our synergies, our decrease in operating cost in the distribution business.

That is the reason why we confirm our commitment to maintain flat in real terms our future operating costs.

Javier Suarez, Mediobanca - Analyst [6]

Many thanks.

Operator [7]

The next question comes from Stefano Gamberini from Equita SIM.

Stefano Gamberini, Equita SIM - Analyst [8]

Good afternoon, everybody. A few questions.

First of all, could you comment on your evaluation of your other stakes. If I'm not wrong, considering the 53% debt to RAB ratio, it should be around EUR1.5 billion. How you reach this figure?

Second, regarding the new regulation in the transport business, could you elaborate a little bit about the development CapEx incentives? What do you expect after 2015 onwards, and could this regulation accelerate your CapEx plans, or the opposite, postpone them?

Third question, regarding the distribution area. Shortly the tenders will start. Could you comment on the rules regarding these tenders and the risk that you pay -- that you will be forced to pay higher value compared to the RAB due to this fear that risk could be higher, and consequently, if your target to keep EBIT on RAB in the region of 9.5%, 10% is still confirmed or is at risk in some way?

Many thanks.

Antonio Paccioretti, Snam SpA - CFO [9]

First question is very straight. The valuation is for our non-consolidated affiliates is between EUR1.4 billion and EUR1.5 billion.

Carlo Malacarne, Snam SpA - CEO [10]

And the second question, Stefano, our investments are supported by different elements. One is the government strategy to -- the energy strategy. But, anyway, you know, the new rules. We provide our CapEx plan to the Minister of Development to analyze the evolution of our CapEx plan.

So, there is a formal -- let me say there is no formal approval, but there is a formal confirmation that our CapEx are in line with the strategic evolution in the energy sector. This is the reason why I don't think -- I don't -- not I don't think, but in the regulatory review, there is -- all investments are supported by incentives over the walk, considering, it's clear, the strategic aspects of the investment.

This is still the reason why I don't have a doubt that our investments will remain in place without risk of discussing delay of investments or, let me say, approval of the strategic aspects of our investments. Our CapEx plan is completely -- in the next full year is completely in line with the evolution of the energy strategy.

The second part of the Adriatic investment is foreseen beyond the existing CapEx plan, starting from 2018 and the reason is that times, let me say, is in line with the commitment by the new suppliers, I can say, LNG, TAP, South Stream.

So, frankly speaking, I don't see the reason why our investments could be, let me say, discussed or any way evaluated in a different way.

For the third question, for distribution, I can say that the rules today for -- to set the different tenders are very clear. I don't see a risk. The discussion today is only to finalize, to tune the difference of [vera], the industrial value, and the RAB, but with the last decree, which is the last evaluation, if you consider that the industrial value vera will be set net of subsidies, the value should not differ significantly from the RAB value.

That is the reason why I don't see a risk in the future tenders to -- like you say, to pay more or to have some extra valuation in terms of RAB.

Stefano Gamberini, Equita SIM - Analyst [11]

Thank you.

Operator [12]

We'll now take the next question from Roberto Ranieri from Banca IMI.

Roberto Ranieri, Banca IMI Equity Research - Analyst [13]

Yes, good afternoon, gentlemen. Two quick questions, please.

The first one is on financials, of course. The first one is on controllable costs. You reported transmission costs materially decreasing in 2013. My question is probably -- I mean, it's the reason why these costs are decreasing. So, if you can give us one more time the -- an elaboration about that.

The second question is about distribution costs and -- which are increasing a little. So, I'm wondering if you expect this kind of a trend in 2014?

On distribution, as well, if you see in 2014 also some increase in revamping CapEx on -- replacement of the cast iron investments in 2014?

And my last question is about the TIGF, if you can give us the equity contribution to the equity results on your P&L from TIGF? I'm afraid I missed, also, this data.

Thank you very much.

Antonio Paccioretti, Snam SpA - CFO [14]

A full list of questions. First of all, I will start from the reduction of costs we accounted in this year and particularly, I would say, concentrating in the transport segment, in the transport business. As I tried before to explain in 2013 if we exclude the increase of pass-through elements, the decrease in our operating cost is in the transportation of around -- more than EUR120 million.

First of all, we have to consider that last year we had risk fund provision of -- in this segment, business segment, of around EUR50 million. Last year we used significant inventories, which were sold and so it is another contribution to such -- the reduction of cost.

We have to take into account that all these two elements in reduction were offset by the increase of costs related to the early retirement plan that we accounted in 2013, which -- in the amount of EUR26 million.

In the distribution, you can see the level of operating cost is in the range of EUR300 million. We are maintaining the level of efficiency we had in the past, and we are maintaining the advantage we have towards the perimeter as an average, maintaining -- therefore permitting us to maintain a return in terms of EBIT to RAB in the range of 9%.

A few seconds, please.

The other -- another question was around -- was about the equity income contribution for the year. I would prefer -- I would prefer to comment to the full-year trend, not the last quarter.

The -- so, first of all, we have to start taking into account the negative one-off transaction -- one-off tax expenses cost related to the transaction of TIGF. We are talking about the cost, the tax cost, for the acquisition in France. And -- which was -- has been accounted for EUR35 million.

This is -- this has been mitigated by three positive elements. The first one is around EUR5 million of additional contribution for the -- from the Italian gas distributions affiliate, so the non-consolidated activities in the distribution. The other positive contribution is the higher contribution we received from the UK, the Interconnector UK, due to the full-year consolidation. The third positive -- this is in the range of EUR12 million. The third positive contribution is due to the five month consolidation of TIGF, the net income of TIGF, which per quarter for five months represented for us around EUR8 million of contribution.

Roberto Ranieri, Banca IMI Equity Research - Analyst [15]

Thank you very much. I'm sorry if I asked more than two questions. Very sorry.

Antonio Paccioretti, Snam SpA - CFO [16]

Oh, no. Three is fine.

Operator [17]

We'll now move to the next question from Jose Ruiz from Macquarie. Please go ahead.

Jose Ruiz, Macquarie Research - Analyst [18]

Yes, good afternoon. Just one question. If you could share with us a preliminary booking rate in the French gas storage campaign for the thermal year 2013-14? Thank you very much.

Antonio Paccioretti, Snam SpA - CFO [19]

I will start from the level of storage booking capacity accounted in 2013, which we remember was at the level of 78%. As far as the year 2014, actually the booking capacity has not been completed -- the process has not been completed at all, but we already have some indication, and we can confirm the new booking capacity for the year is something close to 85%.

Jose Ruiz, Macquarie Research - Analyst [20]

Thank you very much.

Operator [21]

The next question comes from Anna Maria Scaglia from Morgan Stanley.

Anna Maria Scaglia, Morgan Stanley - Analyst [22]

Hi. Good afternoon. I've got two questions, if I may.

The first one is concerning the level of net debt. If I'm not wrong, at the nine months you guided for a net debt at the end of the year at EUR13.6 billion, so the actual number is some EUR300 million lower. Can you just give us a sense of what are the main differences to your previous expectation? And if you think that this is the new base, i.e., there is nothing that is going to be a reversal next year, so the net debt going forward is going to be some EUR300 million lower?

Second is regarding the cost for the redundancy plan. Is it full? I mean, are you going to book anything next year, or it's all booked for the whole plan, therefore we shouldn't expect any further restructuring charges going forward?

Antonio Paccioretti, Snam SpA - CFO [23]

Starting on the second, which is easier, the EUR26 million accounted at the end of 2013 is the full amount of cost related to the early retirement plan for the 300 employees. So, we do not expect any other cost related to this plan.

As far as the level of our net debt at the end of the year, it is true that the -- it is lower than anticipated. The lower-than-anticipated debt is mainly due to both lower cash interest expenses and net working capital improvement. I would say that roughly 50% of the net working capital improvement can be considered structural. So, it is something that we will maintain for this year, while the rest could be -- is expected to be re-absorbed in the next months. It's relates to the contingent action we put in place at the end of this year.

I would underline, once again, that such a result has been obtained without factoring any receivables, and, therefore, I believe it represents a real remarkable result.

As far as the net working capital evolution, let me say that the positive change in the year, which is the cash working capital positive contribution is equal to EUR53 million, which was mainly due to the cash generation of both commercial working capital for around EUR64 million and the tax payable -- the dynamics of the tax payable for another EUR100 million, EUR110 million, of which at least EUR70 million is due to the VAT paid in 2012 and refunded this year. So, it is another -- it is an element -- a structural element, let me say.

Those -- these positive elements have been offset -- partially offset by the payment related to the second installment for the unwinding of IRS in the amount of EUR141 million we paid in January 2013.

Marco Porro, Snam SpA - Head of IR [24]

If there are no more questions?

Operator [25]

We'll now move to our next question from [Charlotte Piet] from Schroders. Please go ahead.

Charlotte Piet, Schroders - Analyst [26]

All of my questions have been answered. So, thank you.

Operator [27]

We'll now move to our next question from Olivier Van Doosselaere. He's stepped away. We'll now move to our next question from Stefano Bezzato from Credit Suisse.

Stefano Bezzato, Credit Suisse - Europe - Analyst [28]

Yes, hi. It's Stefano Bezzato from Credit Suisse. Two pretty general questions.

The first one is, you can comment on what is your expectation on the new energy policy that the new government in Italy will have? Apparently, the aim of cutting electricity -- energy business is high on the agenda. The new prime minister has been publicly stating that returns for networks are too high. You are in an advantageous position since you are in the very early stages of your regulation, but I was wondering, do you see the risk of a change in the regulatory framework independently from what the current regulatory cycle is?

And the second question is on M&A. Can you give us an update on the possible acquisition of TAG? Is there being any progress there?

And more in general, have you identified any new target in Europe over the past few months?

Carlo Malacarne, Snam SpA - CEO [29]

Thank you, Stefano. I start with the first question. I can say that, frankly speaking, the previous government set the strategic energy plan take into account -- took into account all the aspects of the energy issues in Italy. Firstly, the price of the energy, the second the security of supply. I don't think, frankly speaking, that there could be some different approach by the new government.

In terms of cost reductions, the discussions in place were by incentive in some specific energy businesses, but I don't think that the problem can be the cost of the transmission of the regulated cost inside the (inaudible) of the energy. I think you know very well that the impact of the regulated business, transmission and storage together, is lower than 5% on the final price.

But at the same time, the investment we need for the interconnection of the different points of exchange, the different hubs in Europe are very strategic to maintain the Italian price aligned with the European one.

In particular, our investment in transmission and storage, our investment especially in storage, our investment defined by the government, set with a decree two years ago by the government. In the transmission, our program is to complete the linking, the interconnection of the European network, which would provide some opportunity in terms of increasing the liquidity of the gas market, the reason why I don't think that for our business perspective could be some change or, let me say, some different approach by the government.

The discussion today is -- the discussion in place is to speed and to confirm the new sources, the new supplier of gas in Italy through the different -- to the south of Italy to Azerbaijan or to the LNG.

So, it's only my -- what I can understand today is that the actions put in place two years ago, one year ago, in the energy sector, specifically for the gas sector, are completely in line with the existing strategy of the government. So, I don't think there could be some surprise.

For the second question, for the TAG, I confirm that TAG is an asset that could be interesting from a strategic investment point of view for Snam, and we -- today it's, let me say, premature to talk about it, and about the acquisition of TAG, but it is our intention to start and to speed with the devaluation of the possible acquisition.

It's clear that our approach is to follow our strict financial discipline in order to maximize the value of our shareholders. And we will evaluate all the options and we could -- let me say we could also consider a dedicated capital increase to [cash deposits].

But anyway, we are -- today it's premature to speak about the result or the opportunity which is running today.

Stefano Bezzato, Credit Suisse - Europe - Analyst [30]

Thank you.

Operator [31]

We'll now move to the next question from Enrico Bartoli from MainFirst.

Enrico Bartoli, MainFirst Bank AG - Analyst [32]

Hi, good afternoon. A few questions on my side.

First of all, could you update us on the discussions with the regulator about the regulatory review for the storage business? Which is the status? And when can we expect some publication of the consultation documents?

Then I have a general question on the Italian gas system. You provided a guidance of an expectation of flat demand in 2013 -- 2014 compared to 2013. Could you briefly elaborate on what kind of assumptions are below this kind of guidance in terms of industrial production or use of gas from thermal uses, and so on?

And finally, since we were talking about the national strategy for gas, just a general question on the investments in gas transport in order to have a hub for gas in Italy. So, actually, the gas would be not only used in Italy, but would be also for increasing the security of supply at a European level. Do you think that there would be any chance or there are any discussion in order to share the cost of building this kind of structure, not only to apply the cost on Italian consumers, but to share that with other countries?

Thank you very much.

Carlo Malacarne, Snam SpA - CEO [33]

Thank you, Enrico. The first question on the storage, we, frankly speaking today, we are not discussing with the regulators about their review of the storage. I -- my view is that a document could be published by the middle -- May-June period, but I imagine that as soon as possible, we will start with the discussion about the new regulatory regime.

For the gas evolution and the gas demand in 2014, I give you a detailed view next month, but, anyway, in our plan in 2014 we consider a flat evolution of the gas demand and the gas demand will be, in our expectation, in line with 2013. There could be some increase in the gas injection in the network due to the different storage refilling and so on, but, anyway, it could be very flat, around 70 BCM.

In the national strategy, I think it's better -- is a strategic, let me say, view, and we can discuss this point in March. But anyway, I give you some comments, some guidelines.

First of all, our investment today are strictly linked to create the interconnections with the European pipe. The hub will be a consequence of new supply in Italy. We need, anyway, independent of the new supply in Italy the interconnection with the Europeans. So, it's no -- let me say, the investment -- the part of the investment we are doing in north of Italy are not, let me say, linked completely to the future hub. We need this type of investment in the different periods of the year to increase the liquidity and the exchange with the different gas exchange points in Europe.

e had an experience starting from two years ago with aligning of the price due to the different -- the increase of the gas exchange through the different platforms, independent of a hub or future hub in Italy.

The second comment is that 80% of our investment in the Po Valley, which give us the possibility to increase the [revas] flow capability 2 million in 2015, 40 million in 2017, 80% of this type of investment are, anyway, necessary to improve the gas transmission in the northwest of Italy following, not only, let me say, the possibility, the security of supply in Italy, following the European guidelines, the European directive, for the N -- the name is N-1 rules, which means that we have to provide the gas in the northwest of Italy, in the Piedmont anyway, if you have completely stop of the Russian gas.

And if the Russian gas, 30 BCM per year will stop in the winter period, for example, we need to bring the same gas from Algeria gas or LNG and in this case, we need to improve the connection from east to west of Italy.

So, 80% of the spending, of the CapEx, is dedicated to this type of program, which, frankly, gives us the possibility to improve the revas flow, but it's not dedicated for the hub evolution. It's dedicated for the interconnection of Europe.

The second comment is that it's clear that an interconnection of Europe, a gas exchange, revas flow, could provide some advantages for the European countries, particularly Switzerland and Germany. The reason why there is in place some discussion at European regulatory level, which is [archer] of the name with the Italian regulations, plus the possibility to understand if it's possible, let me say, to share or to socialize some strategic investments in the different countries.

Marco Porro, Snam SpA - Head of IR [34]

Okay, if there are no more questions, thank you very much to everybody and we'll speak to you next March 19th. Thank you. Good afternoon.

Operator [35]

Thank you. That will conclude today's conference call. Thanks for participating, ladies and gentlemen. You may now disconnect.

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