



**Snam 2014 Interim Results Conference Call  
Transcript  
30<sup>th</sup> July 2014**



## Corporate Participants

- [Carlo Malacarne](#)  
Snam SpA - CEO
- [Antonio Paccioretti](#)  
Snam SpA - CFO

## Conference Call Participants

- [Alberto Gandolfi](#)  
UBS - Analyst
- [Javier Suarez](#)  
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- [Giuseppe Rebuzzini](#)  
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- [Olivier Van Doosselaere](#)  
Exane BNP Paribas - Analyst
- [Enrico Bartoli](#)  
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- [Cosma Panzacchi](#)  
Sanford C. Bernstein & Company - Analyst
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- [Anna Maria Scaglia](#)  
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## Presentation

### Operator [1]

Good day and welcome to the Snam 2014 interim review 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 2014 interim review presentation. Today's agenda will be structured in two parts.

First I will start by outlining the main highlights of the first half and some recent developments. Antonio will then focus on our first-half financial results in more detail. At the end of the presentation, we will be pleased to answer any questions you may have.

Let me begin with the main highlights for the first half, as well as giving you an update on the business. For the first half of 2014, I am pleased to report a solid set of operating and financial results consistent with our track record of delivery, despite a tough environment characterized by a declining gas demand.

Snam's operating performance over the period is underlined by the EUR1.044 billion of EBIT, up 2.4% versus the same period of 2013. The growth in the operating results was driven by an increase in consolidated revenues and our continuous focus on maintaining strict control of operating expenses, with controllable fixed costs down 1% in nominal terms in the period.

From a business segment perspective, growth at EBIT level was driven by the higher contribution of both the storage and distribution businesses, in which EBIT increased by approximately 15%, EUR25 million, and 2%, EUR5 million, respectively. The transport business accounted an EBIT of EUR591 million, almost in line with the level of the same period of last year, despite the reduction of gas volume transport.



Leveraging the solid operating profit, the significant increase of 21.4% in net profit is also the combined result of the lower interest expenses during the period, the higher contribution from our associates, the reduction of the tax rate.

Turning to CapEx, in the first half of 2014 we executed EUR526 million in investments, up 7.3% versus the same period of last year. Around 75% of the consolidated CapEx received a remuneration higher than the base return; 68% was the [quarter] of CapEx, with higher remuneration in the first-half 2013 under the previous regulatory framework.

The cash flow from operations of EUR647 million, fully financed the overall CapEx and enabled us to reach the level of net debt of EUR13.7 billion at the end of June.

Last but not least, during the first half of the year, we took significant measures toward lowering the average cost of debt and achieving maturity extension. Among all the actions already completed, let me just highlight the most recent one.

Last week we completed the renegotiation of four facilities signed in the mid-2012 for a total amount of EUR3.2 billion, achieving savings in our cost of debt as well as a maturity extension. Antonio will comment on this in more detail later on.

Let me now provide you with a quick overview in the gas demand in Italy, focusing on weather-adjusted data, which better represents the overall trend, considering the unusually mild weather condition experienced during last winter.

In the first half of 2014, gas consumption totaled 36 BCM, down 4.7% or 1.8 BCM versus the same period of last year. Total demand, not adjusted for the weather effect, reached 32.9 BCM, with a reduction of 14% compared to the same period of last year.

The decrease was mainly due to the 15.5% reduction in gas consumption in thermoelectric sector, driven by: the reduction of 3% in electricity demand, 4.7 terawatt-hour, mainly due to the negative trend in the macroeconomic environment; the 11% increase in hydroelectric production, 3 terawatt-hour; and a 3% increase in electricity import as well as the increase in electricity production from renewable sources, mainly solar, for 1 terawatt-hour. These negative elements were only partially offset by a lower use of coal and oil products in the thermoelectric production.

Gas demand in the industrial sector decreased by more than 1% on a like-for-like basis, as a consequence of the declining trend in industrial production in Italy throughout the period. Gas consumption in the residential sector decreased by approximately 20%; this result was mainly due to the milder weather conditions during last winter compared to the same period of 2013.



Adjusted for the weather effect, the sector registered a consumption almost in line with the same period of last year.

Finally, gas injected into the network for the first half of 2014 was down by 5%. The decrease is driven by the reduction in non-weather-adjusted gas demand, partially offset by a positive change in storage flow.

Before concluding my section, I would like to give you some information regarding Italgas. On July 11, 2014, the Court of Palermo served to the subsidiary Italgas the measure for asset protection provided by Article 34 of a new legislative decree of 2011, pursuant to a law and to the measure aiming to protect the assets of Italgas from any infiltration and/or collusion, and to verify the duration and actual magnitude of a set of evidence concerning contractual relationships with certain suppliers.

The powers to manage Italgas assets and economic and business activities were conferred upon an administrative board composed of four members appointed by the Court. Italgas Board of Directors has been suspended for the duration of the measure.

Snam retains full ownership of the entire share capital of the subsidiary, with the associated rights. The measure is temporary and has a maximum fixed duration, which in this case is 6 months, and may be extended for an additional 6 months at most.

Based on the information currently available, Italgas's supplier relationships identifiable in the decree appear to be limited and began in the first half of 2009. Currently, their cumulative value up to today does not exceed 1% of the actual overspending of Italgas on third-party suppliers in the same period.

The potential impact of the measure on consolidated shareholders equity and consolidated net financial position, as well as on the business continuity of Snam and the Group as a whole, is considered to be not significant, also with the reference to the covenants relating to a part of the debt.

By virtue of the control it exercised over Italgas for the entire first half of 2014 and its full access to the company's flow and information as of June 13, 2014, in accordance with the provisions of the international accounting principle IFRS 10, Snam maintained the procedures for Italgas consolidation within the Group. Consob informed Snam that in-depth inquiries are underway concerning the repercussions that Italgas matter may have on the procedures for entering the subsidiary in the accounts pertaining to the period during which the preventive measure is in effect.



Snam is actively cooperating with the court-appointed administration of Italgas in order to preserve also consistently with the Group's strategy guidelines its business continuity. Specific information are provided in the first-half financial statement.

That is all for me. I will now hand you over to Antonio, who will discuss our first-half consolidated results in more detail.

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

Thank you, Carlo, and good afternoon, everyone. I am now going to review Snam's first-half 2014 consolidated financial results in greater detail. First-half 2014 EBIT amounted to EUR1.44 billion, with an increase of 2.4%, which is a significant result, consistent with our business model and RAB growth. Moreover, net profit increased by around 21.4% to EUR561 million, benefiting from the significant reduction in our average cost of debt, reflecting the debt optimization measures carried out in the last 12 months, the increase in income from associates, including the contribution of TIGF, and the reduction of the tax rate.

Regulated revenues of the first half of 2014 amounted to EUR1.748 billion, down by EUR7 million compared to the first-half 2013. Net of passthrough components, regulated revenues increased by EUR5 million, reflecting the following elements.

Transport revenues marked an increase of EUR9 million compared to the same period of 2013. The positive contribution from investments carried out in 2012, equal to EUR43 million, offset the tariff adjustment of EUR29 million and the effect of the decrease of gas injected into the network of around EUR5 million.

Distribution revenues decreased by EUR9 million, mainly reflecting the effects of the reduction of regulated return in the new regulatory period. Storage revenues grew by EUR7 million, mainly due to the contribution of investments carried out in 2012.

The decrease in passthrough revenue is mainly due to the overall gas transport system balancing services. Other revenues amounted to EUR34 million, with an increase of EUR14 million compared to the same period of 2013.

Moving to operating expenses, total cost of EUR354 million registered a decrease of EUR25 million, benefiting from the reduction of both regulated activities, net of passthrough components, and nonregulated activities. Controllable fixed cost in the first half of 2014 decreased by EUR3 million compared to the same period of the previous year. The strength of the performance in the



period gives us the confidence to confirm controllable fixed cost as flat in real terms on a full-year basis, assuming the current perimeter and level of activities.

Variable costs also reduced versus the same period of 2013, down by EUR5 million, while the decrease in passthrough cost was mainly due to the overall gas transport system balancing services. Nonregulated costs amounting to EUR13 million decreased by EUR6 million due to the dynamics of risks and provisions, mainly in the distribution business.

Moving to the cost breakdown by activity, net of passthrough costs, I highlight the reduction in the distribution segment, which was down by EUR18 million. Consolidated EBIT amounted to EUR1.44 billion, an increase of EUR24 million, up 2.4%, which was the result of: the increase in regulated revenues of EUR5 million, as already commented; the reduction in controllable fixed costs by EUR3 million; the increase in depreciation and amortization by EUR8 million, mainly due to new asset and starting operations; and other positive effects of around EUR24 million, mainly reflecting the reduction in variable and other costs and the positive contribution from nonregulated activities.

Looking at the contribution by business segment, the storage business registered EBIT growth of EUR25 million, up 14.5%. The distribution business grew by EUR5 million or 2%, while the transport and regasification business decreased by EUR4 million.

Now I would like to conclude the review of the Group's income statement by commenting on the net profit performance. First-half 2014 net profit was EUR561 million, up 21.4% compared to the same period in 2013.

In addition to the already explained EBIT increase, the other elements supporting the net profit growth were, first of all, the decrease in interest expenses of EUR58 million, mainly due to the upfront fees accounted last year following the repayment in advance of a term loan financing, which was subscribed in 2012; lower average cost of debt, down around 60 basis points to 3.4%, that benefited from the significant debt optimization measures carried out in the last 12 months. This was partially mitigated by the higher average outstanding debt.

Secondly, the increase in net income from associates of EUR14 million, mainly due to the equity contribution of TIGF, which as you know was acquired in July 2013. Thirdly, the reduction of the tax rate to around 37%, which offset the effect of increase of the earnings before tax.

Now let me give you the update on the progress achieved on our debt structure. The first half of the year was characterized by a further disintermediation of the banking system, while maintaining a strong liquidity profile, via the new recourse to debt capital markets, both via public agencies and via private placement, for a total amount of EUR1.250 billion; the reduction of



banks' commitment for a total amount of EUR700 million represented by the cancellation of a portion of certain relatively expensive credit facilities. Secondly, with regard to Snam's maturity profile, the issuance of a 10-year bond in January further supports our goal to have an average maturity of our outstanding medium- to long-term debt consistent with our business and regulatory profile.

With regard to the cost of debt optimization, Snam carried out bilateral committed facilities negotiations on margin for an amount of around EUR400 million and finalized the disintermediation of certain European Investment Bank financing for EUR300 million. Moreover, in April Snam issued a 5-year bond with a fixed rate annual coupon of 1.5%. These factors allowed us to achieve an average cost of debt of around 3.4% in the first-half 2014, representing another step towards reaching the guidelines announced during the conference call for our first-quarter results presentation.

I will also point out that first-half 2014 cost of debt does not factor in the renegotiation completed in July 2014 of the pool banking facilities for an overall amount of EUR3.2 billion, resulting in maturity extension and debt cost reduction.

Turning to the cash flow, in the first half of 2014, the Group generated an operating cash flow of EUR647 million, fully financing net investments of the EUR543 million and resulting in a free cash flow of EUR104 million. After the payment of the 2013 dividend bond, the change in the net debt at the end of the period was equal to EUR404 million.

Looking at the change in working capital, the increase was EUR256 million, roughly half of which related to payment of the non-structured trade payables accounted at the end of 2013; and the remaining part related to the [billing] seasonality that will be absorbed by the end of this year, therefore, not changing our previous expectations for the change in working capital at the end of the year.

Let's now move to the balance sheet. Fixed assets increased by EUR163 million versus year-end 2013. This was mainly due to the new investment of EUR526 million; the reduction of CapEx payable of EUR38 million; and was partially offset by the depreciation of EUR384 million and subsidies of around EUR29 million. Total net financial debt amounted to EUR13.730 billion, up EUR404 million compared to the year-end 2013.

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



## Questions and Answers

### Operator [1]

(Operator Instructions) Alberto Gandolfi, UBS.

### Alberto Gandolfi, UBS - Analyst [2]

Yes, hi. Good afternoon; it's Alberto Gandolfi, UBS. I have a few quick ones, please.

The first one is: Can you please elaborate on what you expect for the second part of the year and potentially 2015 in terms of cost containment? Specifically, will you be able to provide some million euros cost reduction you would expect versus business as usual?

Secondly, could you also give us some guidance for the rest of the year and next year on the cost of debt?

Then a couple of more strategic questions. The first one is on Italgas. I understand the day-to-day business is effectively unaffected; the day-to-day operations, let's say. But under the event of this case prolonging for, let's say, the worst case of 12 months, would you be able to access the cash sitting in Italgas or generated by Italgas to pay dividends at the Group level? So put in another way, is there any risk to the dividend if the court case were to prolong?

Very last question. What is your qualitative thinking about what has been recently happening in terms of developments between Russia and Western Europe, and any discussion at a European Union level about new sources of supply into Europe? Could you be a main actor -- longer-term, of course -- into this scheme of things? Thank you so much.

### Antonio Paccioretti, Snam SpA - CFO [3]

Talking for the first two questions, in relation to the OpEx of the Group, you had the opportunity to see that the controllable fixed costs in the first half decreased; decreased by EUR3 million compared to the same period of last year, mainly due anyway to a different phasing of activities. On a full-year basis, we are confident in confirming the level of controllable fixed costs flat in real terms, assuming the same -- the current level and the current perimeter of activities.



As far as the other costs are concerned also they are, you know, more volatile and more difficult to be predicted. We believe that anyway, excluding the passthrough, the levels we accounted last year could still represent a good proxy for 2014.

Second question, the cost of debt. We think that starting from the average cost of debt, we accounted in the first half, which is 3.4%, and on the basis of what we did also at the end of July with the conclusion of the new syndicated loan, we confirm the guidance we already gave of around 3.3% on a full-year basis.

#### **Carlo Malacarne, Snam SpA - CEO [4]**

That is all for little questions. Before to answer the specific question, let me explain what has happened to you in the simplest possible terms. Between 2009-2011, a limited number of contracts were signed with a supplier; and to give you a sense of the magnitude of what we are talking about here, the aggregate value of the supplier contracts amount to less than 1% of the total value of the third-party supplier spending by Italgas between 2009 and today; only to give you a magnitude effect.

The Court suspected that the supplier in question had links to the Mafia during this period or before. As a consequence, the Court has decided to invoke an Italian law specifically aimed at preventing Mafia activity and protecting the Italian company from the influence of the Mafia.

The Court has therefore appointed a new administrative board to oversee our business and the economic activity of Italgas. This arrangement will remain in place throughout the investigation into potential Mafia links, and the Court decree has set duration of this arrangement at 6 months, with a possible extension for a further 6 months to a maximum 12 months in total.

I would like to stress that this is not a criminal investigation; it is an administrative process. Snam is fully cooperating with the judicial administrative board, and they are cooperating with us. We have an open and constructive dialog with them.

After the investigation is complete, it is clear that we expect Italgas to be returned to the administrative oversight of Snam and for it to continue to be run in alignment with Snam's strategic plan.

So after the picture I have described, to answer your specific question, Consob has informed us that they are carrying out their own analysis of the repercussions of the Court decision to appoint this administrative board to oversee all the business and economic activities of the Italgas,



specifically with respect to the question of how Italgas will be treated in Snam accounts. We are obviously cooperating fully with Consob in this process.

Regardless of the outcome of this analysis, Snam continues to own 100% of the equity in Italgas. Therefore, in terms of what is important to our investors, your question, this I think is important cash flow to service debt and pay dividends and the net come to contribute to the net equity.

As we stand here today, nothing -- I repeat, nothing -- is expected to change. Any cash flow and net income generated by Italgas will continue to accrue to Snam results. Any concern around the fact of how Italgas will be treated in our account for the period in question should not impact on your view or analysis of Snam ongoing financial strength.

For the first questions, the discussion at European level of Russian supplier, the discussion is in place. All the countries in Europe, in Italy particularly, are elaborating how to face with the emergency in supplier during the winter period. We are evaluating all the possible connection with the European countries to support the new supply of gas in case of a stop of the Russian gas.

Today, the Italian gas market has not suffered from any gas supplier into Russia from Ukraine. You know we are in the summer period; consequently, we have lower risk of peaking demand. And we are confident that any potential disruption in Russia gas from Ukraine may be replaced by other supply sources.

My opinion is that that is possible to reach some agreement and to resolve by the next winter the discussion in place from Russia-Ukraine. Anyway, I can say -- let me add -- that we have available for the next winter the full capacity of the storage. Today, we have a booked capacity of 11 BCM of the storage; and by the end and of July we are refilling with 9 BCM the storage.

So frankly speaking, I don't see strong risk in case of interruption of Russian gas is clear during the winter period, and with all other supply from North Africa and Northern Europe, in the best working process.

#### **Operator [5]**

Javier Suarez, Mediobanca.



**Javier Suarez, Mediobanca - Analyst [6]**

Hi, good afternoon; this is Javier with Mediobanca. Thank you for taking my questions. I have also three.

The first one is, again, insisting on Italgas. I am right in saying that your message this afternoon is that you do not see any risk that, as a consequence of the investigation, of the judicial administration of Italgas, Snam may have any difficulty to pay the dividend? I just wanted to have a 100% clarification on that.

The second question related also to Italgas is if you could clarify if you see any risk that the RAB of the assets under investigation could be also questioned by the regulator; in the sense that, if there is some contract that has been, let's put it this way, inflated, someone could question the RAB value of the underlying asset. Do you see that as a risk?

The third question is related to the cost of debt and the renegotiation of some of the banking facilities that you have completed on in July. I am correct in saying that your target of reducing the cost of debt to 3.3% by the year end is conservative?

And putting the question in slightly different terms, could you give us a sense on the positive effect that the renegotiation of this banking facility could have on your average cost of debt? Many thanks.

**Antonio Paccioletti, Snam SpA - CFO [7]**

Starting from the last question, in relation to our cost of debt, in the first half we accounted an average cost of 3.4%. The guideline is 3.3%, also considering the benefit that we expect to have from the renegotiation of margins in the syndicated loans.

Actually, we have at the same time extended the duration. Now we have EUR2 billion at 3 years, and the other EUR1.2 billion at 5 years, with a reduction of the relevant spread as an average of around 80 basis points. The new conditions on those facilities are also the elements that are leading us to give you the guidance of 3.3%.



**Carlo Malacarne, Snam SpA - CEO [8]**

For the next question, as I said before, as we stand here today nothing is expected to change. The same for the valuation of the RAB.

**Javier Suarez, Mediobanca - Analyst [9]**

Thank you.

**Operator [10]**

Giuseppe Rebuzzini, Fidentiis.

**Giuseppe Rebuzzini, Fidentiis - Analyst [11]**

Good afternoon, everybody. Apologies if I get back again on Italgas, but just a question to understand how things are going there. I understand you don't actually have control over the Board of Directors at the moment because the control is retained by the Court of Palermo, as far as I understand. So again, you say there is no impact at all in dividend policy, or even the possibility for Italgas to deliver its CapEx plan?

Can you just comment a little bit maybe on the capability to deliver the CapEx plan? Since there is somebody else actually which is in charge to take decision about that, at least as far as I understand.

Second question is on the tax rate. We see that it is about 37% in the first half of the year. Can you please update us on your guidance for the full year?

Third question is about, again, on distribution. It is about Resolution 367/2014 of the regulator about the gas distribution tender; if you can give us some comment about that and if the outcome of it was what you expected it to be. Thank you.



**Carlo Malacarne, Snam SpA - CEO [12]**

I start with the first question. I can reassure, let me say, that we are in active engagement with the Court-appointed administration and cooperating with them fully. The powers of the Court-appointed administration allow them to ratify all the ordinary and extraordinary decisions for the business; and inside the ordinary decisions there is the CapEx plan.

But frankly speaking, I don't see a risk of a negative impact. I repeat, we have an active engagement, an active cooperation. And one point of the law set in the decree is the commitment by the new appointed administration to maintain and to increase the value of the company. That is the reason why, with the cooperation we have with the Court, we don't see a risk in terms of execution of the CapEx plan

**Antonio Paccioretti, Snam SpA - CFO [13]**

We have also other two to answer. As far as tax rate is concerned, the one we accounted in the first half is a reference for the full-year basis. We expect to pass from the tax rate for the last year of around 43% to something between 37% and 38%.

The reduction is due to the Robin Tax, to the additional part of the Robin Tax, which is more in effect starting from January 2014. We also have some positive impact coming from the application of the so-called ACE, and the reduction of IRAP which are enforced for this year.

**Carlo Malacarne, Snam SpA - CEO [14]**

For Italgas, the new delibera by the regulatory body in terms of criteria and rules for the new bid for tenders, you know in last week the regulatory body published the new delibera and introduced the new provision to be applied exclusively for the new concessions in the multi-municipality areas. I think the delibera is very complicated, but I'll try to explain in a very simple way the result.

First of all, the delibera envisaged the following. The asset base value at the beginning of the first tender cycle is defined in very specific way by the regulator. First of all the redemption value, so-called VIR, in the case of the concession following the tender procedure is assigned a new [camera], will remain -- the asset base will be the redemption value.

The regulatory asset base, the RAB, in the case of the concession following the tender procedure is assigned to the existing distribution company. And at the end of the first concession period,



after 12 years, the asset value in both cases, which is VIR or RAB, will be defined considering the update of the redemption value of the VIR. And the methodology is the same updating methodology of the RAB.

Only to say that in case of Italgas concession, of the new possibility of bidding for the new concession, we don't see different approach with the new delibera. If you consider that in our case the industrial value, VIR, should be calculated net of subsidies, and so it is very close to the value of the RAB. So I don't see difference in applying the criteria for the new tender.

The other two points are, I think, the positive return. Because one point is the allowed operating costs will not be differentiated by company size, but they will be defined on the basis of dimension and client density of the concession area. So I think it is positive, because you know that there is a different approach by the regulator to recognize the operating costs in line or considering the company size. In this new delibera the costs are differentiated only for the dimension of the concession area, not for the operator who will bid for the new concessions.

The last point, I think important point, concerning the allowed depreciation, the economical technical life will be aligned to the depreciation life established by the ministerial decree to calculate the redemption value, which is the VIR. And in terms of impact, there could be a positive impact in the calculation of the new RAB, anyway.

#### **Operator [15]**

Olivier Van Doosselaere, Exane.

#### **Olivier Van Doosselaere, Exane BNP Paribas - Analyst [16]**

#### **Olivier Van Doosselaere, Exane BNP Paribas - Analyst [17]**

Yes, thank you. I just wanted to clarify one thing. The tax rate that you were talking about, 37% to 38%, is that the one you expect for 2014 only? Or is that the one that we can take going forward, please?

#### **Antonio Paccioletti, Snam SpA - CFO [18]**

This is the tax rate we expect for 2014. But anyway there is no -- we don't have any element for not confirming this tax rate also for the future.



**Olivier Van Doosselaere, Exane BNP Paribas - Analyst [19]**

Thank you.

**Operator [20]**

Enrico Bartoli, MainFirst

**Enrico Bartoli, MainFirst Bank - Analyst [21]**

Hi, good afternoon. A few questions on my side. First of all, on the distribution business, if I'm right, EBITDA growth grew significantly in the second quarter, despite the reduction in the return on RAB. I guess this is mainly due to lower costs. But could you please elaborate a bit more with some details about that? And particularly if the cost reduction that we saw in the second quarter is due to a different phasing compared to last year, or is something that can be repeatable over the next few quarters.

Then I have a general question on, let's say, the regulatory environment in Italy. You are under discussion about the new regulation for storage. First of all, when do you expect the new consultation document to come out? And in general, since the government is very, very focused on trying to reduce the final cost of energy in Italy, if you see from your discussion with the authority any chance or possibility of changing significantly the parameters within the usual formula for the calculation of the return on RAB.

Then if you can provide us an update on the possible acquisition of TAG.

And finally, if you can update us on the guidance for net debt at the end of the year, thank you.

**Antonio Paccioretti, Snam SpA - CFO [22]**

Starting from the first one, the first question, it is true that there is also a different phasing in terms of cost. But I will say that the result in the distribution of the second quarter -- in particular, compared to the second quarter of the previous year -- is different.

The distribution revenues for the first-quarter 2014 were accounted using a preliminary estimation pending approval of the reference tariff by the Authority. You remember that the new



regulatory framework was approved in December 2013; and then only in March 2014 the authority approved the provisional tax.

Before, in the first quarter, we accounted a preliminary estimation of reference tariff. And then in this quarter, having starting from March the provisional tariffs from the authority, with the application of such tariffs starting in the second quarter we have such tariffs higher than the ones we have estimated before.

We have concentrated in the second quarter the benefits. So it is just a matter of phasing of these kind of revenues. So for the rest of the year, I think that it is reasonable to expect the result not projecting this increase for the full year.

**Carlo Malacarne, Snam SpA - CEO [23]**

For the consolidation paper of storage business, considering the timetable set in the first consultation paper, we expect the second one to be published in the coming weeks.

The question for the energy business, I can say that up to now all the measures approved by the government -- but still to approve by the parliament -- refer to the renewable sector and are focused to reduce the impact on end-user price of the subsidies received by the power producer. But anyway, there is some general highlight by the Minister of Industry and general indication to the authority to set the tariff in line with the market condition of today.

And I think we agree. I think it is the job of the authority to set the [walk] there free in line with the market condition of today. It's not news.

But I can comment, I can confirm that in the decree there are a positive approach for the gas business, because there is the confirmation that we need the investment or flexibility and we need the interconnection with the European network for the gas business. The new investments in the gas business are considered in the decree and weigh to reduce the final cost of the energy.

Our strategic approach the strategic view by the government to improve and to finalize the investment, to decrease the final bill in the gas business.

The last question for the TAG. For TAG, I think there is no different news from the last comment. As far as TAG deal, we are in the process of the valuation, the details of the agreement with CDP, with Cassa Depositi. And we are confident to be able to maintain the schedule to complete the project by September.



#### **Antonio Paccioretti, Snam SpA - CFO [24]**

There was also a question about our net financial position at the end of this year. We think that the result we accounted during the first half confirm the expected trend we have for the net debt evolution of this year. Today, our best guidance is to reach at the end of this year a net financial position in the range of EUR13.7 billion, clearly without considering any -- many transactions, but -- it is important to say -- but including the additional net debt of around EUR110 million related it to the 100% ownership of AES Torino, which we have held starting from July 1, 2014.

So the guidance is EUR13.7 billion, including the EUR100 million of additional debt coming from the 100% ownership in AES Torino.

#### **Operator [25]**

Cosma Panzacchi, Bernstein..

#### **Cosma Panzacchi, Sanford C. Bernstein & Company - Analyst [26]**

Hi, thank you for the time; Cosma Panzacchi here from Sanford Bernstein. Two questions. One is more on the strategy.

In the last few months we have seen, I would say, several gas network players -- like Gaznet, Rosneft, also Enagas, GRTgaz -- pursue increasingly aggressive expansion plans outside Europe and in particular in LatAm. At the same time, we have also seen the remuneration of network operators coming under increasing political pressure in Spain and now even in the UK.

Within this context, do you still uphold your European-focused strategy? Or are you open to extra-European ventures? Are you considering them? And what is the status of your collaboration with Fluxys going forward?

The second question is more operational. We know that you are planning to invest in smartmeter and distribution in Italy. I was wondering whether this could actually change if gas tariffs are actually cut according to what the government is planning to do? And if not, if you imagine to get from smartmeter implementation actually a better, let me say, operational efficiency than the one actually highlighted in your strategic plan, which if I am not wrong, projects flat controllable fixed cost per redelivery point. Thank you.



## Carlo Malacarne, Snam SpA - CEO [27]

For the first questions, to be very clear, our today activity of expansion in Europe is strictly linked to increasing the value of the interconnection from Italy to the European country. So we are focused on the corridor North-South of Italy; and the alliance with Fluxys is to implement and to manage in the best way the booking capacity of the transmission from South of Europe to North of Europe.

We don't -- our strategic objective is not a financial acquisition, but is very close to the regulated business where we are sure to create value inside the regulated return of the country. This is the reason why we are focused where we can finalize our investment, but at the same time we can operate the network transmissions to increase the revenue capability not only in the country but, with the connection, the [both] connection from the close country -- Italy, Switzerland, Germany, UK.

It is very finalized focus activity in Europe. At the same time, we are working to consolidate the business in the corridor Eastern and West. That is the reason of the acquisition in France 1 year ago, 1.5 years ago. And that is the reason why we are discussing the possibility of acquisition of TAG in Austria.

So it is very concentrated, very focused our possibility of expansion. There is no intention for us to look at or to analyze acquisition outside Europe. But I can say more: outside the corridor of which we are finalize our business today.

For the distribution, frankly speaking, we don't have in our CapEx plan an expansion with acquisition in the distribution business in Italy. We are monitoring the evolution of the new consolidation process set with the new criteria for the new concession bidding process.

Our intention is to manage in the existing assets in the distribution business with stronger attention in control to operating cost. We have the capability to manage strong value creation in the operating cost.

So our activity and our objective will be to consolidate the existing [market] of Italgas with the possibility, let me say, of new acquisition, new concession, but very focused to the management figures in the distribution business. Our objective is to maintain under control the EBIT to RAB.

We are ready to increase our RAB; that means new concession if we are able to increase our EBIT. This is the objective we have in the possibility of expansion in the distribution business.



## **Operator [28]**

Stefano Gamberini, Equita SIM.

## **Stefano Gamberini, Equita SIM - Analyst [29]**

Good afternoon, everybody. Three question if I may; the first regarding the estimate of the RAB at the end of 2013, in view of the very low RAB deflator of the last quarters, which should be around 0.3%, if I am not wrong. So what is your best estimate of RAB at the end of 2013?

The second, just here again on the TAG acquisition, and I understand that you don't have any visibility right now. But if it's possible to have some information about TAG, like net profit or also the RAB which was set by the end of 2013.

The last thing, regarding your dividend policy, you fixed a minimum DPS at EUR0.25 of 2015. The feeling we have, the market has, is that you could keep such DPS even in the following years. And what is your evaluation in the current scenario with a 10-year bond at 2.7%, if you can share with us if you see some risks regulated to the DPS on 2016 onwards?

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

Starting from the question on TAG, as you know, we are in the phase of negotiating and we have some confidential agreement that does not permit us to provide a lot of details on the target. What we can say is that TAG operates under a fully regulated tariff regime after the approval by the Austrian regulator and -- of the tariff for the period of 2013 and 2016. And the regulation is RAB-based, has a RAB-based mechanism backed by long-term contracts with shippers.

Moving to the question related to RAB at the end of this year, the projected year-end RAB, we estimate at the end of 2014 is around EUR24.8 billion: assuming CapEx planned for this year of EUR1.3 billion; assuming a deflator for 2013 of 0.3%, and for 2014 for 1.3%; and assuming also the value of the RAB which is related to AES Torino, which you know starting from July 1 of this year is 100% owned by Italgas.

The estimation also include the upside of the distribution RAB that is expected to come from the positive -- again, positive effect of the new methodology applied for subsidies inside the calculation of the RAB itself. So again, EUR24.8 billion is the guiding for this year-end.



**Carlo Malacarne, Snam SpA - CEO [31]**

Stefano, we have a third question. Could you repeat the question? It's about the dividend.

**Stefano Gamberini, Equita SIM - Analyst [32]**

Yes. In the current environment with the 10-year bond yield at 2.7%, do you see any risk on the EUR0.25 DPS from 2016 onwards?

**Antonio Paccioretti, Snam SpA - CFO [33]**

[Marginal]. The answer is the same we also gave you some weeks ago. We are committed for a dividend policy limited for the next 2 years, also taking into account that we have uncertainty front of us due to the new reset.

You know the capability of the Company due to the following the regulation is to capture advantage or disadvantages in the medium term, or different risk-free rates. We could have an impact in the medium -- in the short term, which we will evaluate.

Today, the position is that, as you know, in our business plan we do not assume a different dividend policy.

**Stefano Gamberini, Equita SIM - Analyst [34]**

Many thanks.

**Operator [35]**

Antonella Bianchessi, Citi.



**Anonella Bianchessi, Citigroup - Analys [36]**

Yes, good afternoon. Just to come back on the RAB at the end of the year, can you specify how much of the RAB was Italgas, and for how much is the contribution of AES Torino to the new estimate?

Then more over on Italgas. You were planning to increase a little bit the size of your distribution business, opening the capital of Italgas to potential minorities. Is this still something that you are considering? And if you can give us any visibility on when the first tender on the gas distribution that you are interested in will be implemented.

The second question is on CDP Reti sale to China state grid, if this has an impact on your dividend policy, in the sense that maybe the changing shareholder structure, the fact CDP Reti has some debt to be financed, could add pressure on your dividend policy; or if you don't see any issue there.

Then a more general question on the debt, on the net debt to RAB. Basically, Terna just said that given current market conditions they think that it won't be an issue to have a net debt to RAB above 60%. Which is your view on that? How much can be the debt?

Last question. You are talking about expanding internationally. Do you think the pending acquisition or additional investment could be self-financed? Thank you.

**Antonio Paccioretti, Snam SpA - CFO [37]**

Starting from the first one, the RAB pertaining to AES Torino is according to the -- is around EUR360 million. As a whole, the contribution to the total RAB coming from Italgas is in the range of EUR5.1 billion, EUR5.2 billion.

**Carlo Malacarne, Snam SpA - CEO [38]**

Antonella, for the second question



**Antonio Paccioretti, Snam SpA - CFO [39]**

Sorry; oh, no. For sure, EUR5.1 billion, EUR5.2 billion plus AES Torino, for sure.

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

For the second question, Antonella, it is clear that it is our strategy -- and for all the businesses -- is to create value for our shareholders. In case of the distribution, when I said we don't have a strong plan on the expansion of the distribution, the meaning is that we are ready to increase our investment in distribution only if we have the profitability in our expansion. In this way, we will take into account all the possibility to proceed directly on the new bid for tender, to analyze the possibility of potential minority.

We don't have on the table today the specific solution. But I don't think that the new bid for tender -- the new procedure will start before the beginning of 2015.

There is the reason why are ready, in relation of the evolution of the consolidation of the market, to analyze all the possibility for creating value for our shareholders. The possibility means direct investment, minority, potential minority. But all the possibility will be open.

The third question for CDP Reti, frankly speaking, I am not used to comment about the decision of the main shareholder, our main shareholder. Anyway, we don't see change in our shareholder - - in the shareholder structure of CDP Reti. The new shareholder structure of CDP Reti will not affect neither the corporate governance nor our strategy or the day-by-day management of activity. That is the reason why today I can't see impact in our dividend for these reasons.

**Antonio Paccioretti, Snam SpA - CFO [41]**

As far as the net debt to RAB ratios, what we can say is that we are committed to maintain the metrics that we think underlying with our supporting the present rating of the Company. And we confirm the guidelines on maintaining our net debt to RAB and affiliates at around 55% during the plan.



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

Sorry, Antonella, there are four questions. For international expansion, I -- could you please --?

**Antonella Bianchessi, Citigroup - Analyst [43]**

Yes, basically, if you will consider growing internationally, and if this could be self-financed. Or if you will have to buy assets with shares, or in a different way.

**Carlo Malacarne, Snam SpA - CEO [44]**

You know, Antonella, today we have -- considering our evolutions after the completion of the acquisition of TAG, you know the discussion today, which is we are in the negotiation phase. But I said a lot of time that one point of the negotiation is the evaluation of different funding schemes, including a dedicated capital increase in order, let me say, to allow to maximize the value of the deal, and preserving at the same time the financial sustainability of our Group.

In this respect, I can say that we can have in the future the flexibility of a new investment expansion. We had one years ago before the acquisition of TIGF, so this is the value of our flexibility in the future.

**Antonella Bianchessi, Citigroup - Analyst [45]**

Thank you.

**Operator [46]**

Jose Ruiz, Macquarie.



**Jose Ruiz, Macquarie Research - Analyst [47]**

Yes, good afternoon. Just one question. During the negotiations with Cassa Depositi or TAG, how did you perceive the news flow that Gazprom was interested in taking a stake in OMV, which I understand is the other shareholder in TAG? Linked to that, can you give us -- how certain are you today that South Stream pipeline will finalize in Baumgarten in Austria, and not in Tarvisio? Thank you.

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

You know, I can -- short answer of saying that there is no impact of all the scenario you presented in our discussion with CDP for the valuation of TAG. TAG will remain anyway strategic as the backbone in Austria.

You know that there is an evolution in the relationship with OMV and Russia. There is an agreement officially announced by OMV with Gazprom to connect the South Stream to Baumgarten.

Anyway, I can say that TAG is a reverse-flow pipe with a strong strategy interest in the reverse-flow connection with TAG. There is the reason why I don't see -- let me say -- not a risk, but I see anyway positive impact in the evolution of South Stream and in the evolution of the possibility in the Austrian country to supply the European countries close to Austria with South Stream gas and with the reverse-flow capability of TAG. So we remain TAG strategic anyway, considering the evolution of the new supply from Russia South Stream and consider the evolution of the possibility linking-point Baumgarten or Italy for TAG.

**Jose Ruiz, Macquarie Research - Analyst [49]**

Thank you very much.

**Operator [50]**

Monica Girardi, Barclays.



**Monica Girardi, Barclays Capital - Analyst [51]**

Hello. Good afternoon. I have a couple of questions. The first one is, just a clarification about what you, Carlo, said talking about the general indications by the government to set tariffs in line with market conditions.

In light of the interim review of transmission and distribution, do you think these comments by the government might open constructive discussion with the regulator to adjust not only the risk-related but also potentially the inflation parameter? And in case the answer is no -- i.e., the inflation stays at a level as we have right now -- do you have or do you foresee any flexibility in your CapEx plan in order to protect the value created?

The second question is on TIGF. I was wondering if you can just provide us a little bit of guidance on what you expect as a contribution for the full year and how, generally speaking, the business is progressing, especially compared to your project when you decided to acquire this asset? Thank you.

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

Thank you, Monica. For the possible review by the regulators in the regulated business, I think that we have to consider that in the consultation document of storage the intention of the regulators is to phase the update, not only for the risk-free but for inflation. I think there is not the same concept in the transmission, but is a signal by the regulator who today consider the inflation impact very important in the valuation of the total return of the business.

I cannot say today, okay, we can negotiate not only the risk-free but the inflation. But what I can say, I can confirm the attitude of the regulator to provide the condition for the company, take into account the general market conditions.

**Antonio Paccioretti, Snam SpA - CFO [53]**

As far as TIGF, the contribution we expect for this year is between EUR25 million and EUR30 million. You also have to consider that last year, due to the one-off tax burden that the [EBIT-co] had to face for the acquisition, the contribution for our profit and loss coming from TIGF was less EUR27 million



**Monica Girardi, Barclays Capital - Analyst [54]**

Antonio, sorry. Just one small question, because I totally missed the deflated parameter that you said is seeding through your RAB estimate.

**Antonio Paccioretti, Snam SpA - CFO [55]**

0.3% for 2013, and 1.3% for 2014.

**Monica Girardi, Barclays Capital - Analyst [56]**

Thank you.

**Operator [57]**

Anna Maria Scaglia, Morgan Stanley.

**Anna Maria Scaglia, Morgan Stanley - Analyst [58]**

Hi, good afternoon. Just one very quick question. The other revenues were up EUR40 million in the quarter. Can you just explain as -- sorry if I missed before in the call -- what was the reason for the increase? And is that sustainable for the rest of the year? Thank you.

**Carlo Malacarne, Snam SpA - CEO [59]**

Anna Maria, could you repeat the question? It was very harsh, the line.

**Anna Maria Scaglia, Morgan Stanley - Analyst [60]**

Yes, hi. The other revenues were up EUR40 million in the first half relative to the first half of last year. I was wondering if you can explain why is that; and sorry if I missed, if you already said before



**Antonio Paccioretti, Snam SpA - CFO [61]**

The other revenues increased, in particular; but we had the same element in the first quarter, increase for an amount of between EUR12 million and EUR13 million for the -- in the storage business due to the contractual arrangement that Stogit has with ENI, indemnifying Stogit from certain effect of the Decree 130. It is a one-off element, for sure.

**Anna Maria Scaglia, Morgan Stanley - Analyst [62]**

Yes, thank you. I remember.

**Carlo Malacarne, Snam SpA - CEO [63]**

Thank you, everybody, for participating to the call of the interim review. And if you need any follow-up or additional information, please contact the IR Department. I hope you have a good weekend and a good summer holiday. Bye-bye.

**Antonio Paccioretti, Snam SpA - CFO [64]**

Bye.



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