Q4 2014 Snam Spa Earnings Call & 2015-2018 Strategy Update Call

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Presentation

Carlo Malacarne, Snam SpA - CEO [1]

Good afternoon, ladies and gentlemen, and thank you for joining us. Today we will all queue to 2014 results and the strategic update over the next four years. Today's presentation will be structured in three parts. First, I will start by outlining the main highlights of 2014. Antonio will then focus on our 2014 consolidated results. Finally, we will discuss our 2015-2018 strategy and target.

Let me begin with the main highlights for the full year 2014 as well as providing you with an update on the business. We are pleased once again to report a solid set of result for 2014 achieved despite a tough and challenging environment. Snam sound operating performance over the period is reflected by the EUR3.6 billion of revenues and the EUR2.8 billion of EBITDA, both at similar level to 2013. These remarkable results considering that 2014 is the first year of the four regulatory periods for transmission, regasification and distribution business. The significant increase of 30.6% in net profit is the combined result of firstly lower interest expenses during the period, mostly reflecting the significant reduction in our average cost of the debt. Antonio will share all the detail in a moment. Secondly, higher contribution from our associates, highlighting the sound return of our European investment. And finally, the reduction of the tax rate as well as the non-recurring effect related to the recalculation of the fair taxes due to the Robin Hood Tax cancellation. All these elements allowed us to reach a reported net income of around EUR1.2 billion, a remarkable increase of 30.6% versus 2013.

Turning to our growth part, our investments are aimed at increasing the flexibility, liquidity and security of both the Italian and the European system, enhancing gas flows and interconnectivity of the [EU] market. In 2014, we deployed total investment of approximately EUR1.8 billion. Around EUR1.3 billion was attributed to CapEx for infrastructure developments in Italy, in line with the guidance provided at the beginning of the year and around EUR500 million to financials investment for the acquisition of the 89.2% equity interest in TAG. Consistent with our strict financial discipline, the CapEx were covered by the operating cash flow which reach a sound level of around EUR1.5 billion. It allowed us to maintain a solid balance sheet with the net financial debt of EUR13.6 billion, up by EUR300 million compared to year end 2013. This is a significant result considering the EUR1.8 billion of investments carried out during the year. The acquisition of TAG strengthened Snam's leading role amongst infrastructure operators in Europe. It allow us to manage a strategic asset for the development of the European East-West energy corridor, encouraging increased integration of continental energy network, in part due to its potential use in reverse flow towards Central Europe market.

In the same gas corridor, we have an update of TIGF. The end of February 2015, Snam and its partners finalized the entry of Credit Agricole Assurances into the share capital of TIGF with a 10% stake. Snam receive slightly over EUR80 million, implying a value of more than EUR1.8 billion for the 100% of the equity. This represent an approximately 40% increase compared to the total equity value at the time of the acquisition of TIGF. This illustrates the value added by our management of the Company carried out in less than two years.

As you know, Snam has consistently been committed to delivering sustainable and attractive returns to its shareholders. On the basis of 2014 sound results and considering our solid capital structure, the Board of Directors yesterday decided to propose at the Annual General Meeting a dividend distribution of EUR0.25 per share for the fiscal year 2014, thus confirming our announced dividend policy. The fiscal year 2014 dividend, subject to the approval at the Shareholders' Meeting, results in a dividend yield of around 6%, at the top range of the utility sector.

I will now hand over to Antonio, who will discuss our 2014 consolidated results in more detail.

Antonio Paccioretti, Snam SpA - CFO [2]

Thank you, Carlo, and good afternoon, everyone. 2014 Snam results were characterized by some relevant events. First year of the new regulatory period for transport, regasification and distribution activities, low gas demand, the consolidation starting from July 1, 2014 of AES Torino, the gas distribution company operating in Turin, the Robin Tax that in 2014 decreased from 10.5% to 6.5% and in 2015 has been cancelled, generating a one-off positive adjustment of EUR120 million to differed tax plan. Moreover, at the end of 2014, we have finalized through a dedicated capital increase the interest acquisition in TAG, which will contribute to consolidated results starting from 2015.

Looking at 2014 consolidated income statement, EBIT amounted to EUR1,973 million. The resilience of regulated revenues in the first year of the new regulatory period and the strict control of operating costs have supported 2014 results. Debt reached a level [substantially] in line with the previous year. On a like-for-like basis, not taking into consideration some one-off item accounting in 2013 and 2014 that would be discussed later on, EBIT show a slight decrease of approximately 0.4%.

Net profit grew by around 31% to EUR1,198 million benefiting from the significant reduction in our average cost of debt reflecting the debt optimization measures carried out so far. The increase in incomes from associates driven by the positive contribution of TIGF and non-recurring positive item related to the equity interest in AES Torino, a positive effect related to the Robin Tax due to both it's reduction to 6.5% in 2014 and to the positive adjustment of deferred tax fund for EUR120 million following its consolidation starting from this year. 2014 adjusted net profit, net of the deferred tax fund adjustment, recorded an increase of around 50%.

2014 total revenues amounted to EUR3,566 million, showing an increase of EUR37 million. Regulated revenues, net of positive components, increased by EUR37 million, up 1.1% compared to 2013, reflecting the following contributions by business segment. Transport revenues marked an increase of EUR17 million, the positive contribution from the investment carried out in 2012 equal to EUR86 million was partially balanced by the tariff adjustment of the new regulatory period of EUR60 million and the effect of the decrease of gas injected into the network of around EUR9 million. Distribution revenues grew by EUR9 million. The growth is the result of the slight reduction in regulated revenues following the new regulatory period and the contribution of the consolidation of AES Torino from July 1 equal to EUR37 million. Storage revenues increased by EUR14 million, mainly due to contribution of the investment carried out in 2012. The decrease in pass-through revenues was mainly due to the overall gas transport system balancing service. Other revenues amounted to EUR60 million, an increase of EUR22 million compared to the previous year.

Moving to operating expenses, total cost in 2014 amounted to EUR790 million. Net of pass-through components, operating costs were equal to EUR673 million, recording an increase of EUR86 million, mainly related to some one-off risk fund provisions of EUR95 million accounted among other costs. Controllable fixed costs in 2014 amounted to EUR471 million, an increase limited to EUR11 million compared to 2013, mainly due to the incremental cost for the consolidation of AES Torino of around [EUR80 million]. Considering the same parameter of business, controllable fixed costs result substantially flat in nominal terms confirming our continuous attention to cost control and the capability to achieve efficiency target. Variable costs reduced by EUR10 million, mainly in the distribution business due to the energy efficiency certificates. Other costs equal to EUR154 million increased by EUR89 million due to the above mentioned one-off risk fund provision of EUR95 million, no impact on the cash flow for sure. EUR75 million referred to the balancing activities accounted for in 2012 both in the transport and storage segments and EUR20 million were relative to some local infrastructure in the distribution business. Non-regulated costs amounting to EUR40 million decreased by EUR4 million, mainly in the distribution business.

Moving to the cost breakdown by business, net of pass-through costs, we accounted a growth of EUR42 million in the transport business, and of EUR27 million in the storage business, both related to the risk fund provisions.

Consolidated EBIT amounted to EUR1,973 million, with a decrease of EUR61 million. Net of one-off item, EBIT remained substantially flat, with a growth of approximately 0.4% on a like-for-like basis. As a result of the increase in regulated revenues of EUR37 million, the increase in controllable fixed costs of EUR11 million, the increase in depreciation and amortization for EUR34 million, mainly due to the new asset enter into operation for EUR14 million, the change of certain asset technical life in the distribution business according to the new regulatory framework for about EUR12 million and for the remaining part to the consolidation of AES Torino from July 2014. Finally, other positive effects of [EUR60million] mainly reflecting the reduction in variable cost and the positive contribution from non-regulated activities.

In terms of business segment, net of one-off items, the total underlying positive contribution of storage reporting an EBIT growth of EUR30 million, up 9.4%, the transport business growing of about EUR13 million, up 1.1%. The distribution segment registered an EBIT decrease of EUR19 million, down 3.7% mainly due to the slight reduction in the regulated revenues following the new regulatory period.

Given the significant and growing contribution granted by our non-consolidated associates, it's worth underlying their results in terms of both impact on income and our cash flow. Net income from associates amounted to EUR131 million, recorded an increase of EUR86 million, mainly due to the higher equity contribution of TIGF EUR51 million that as you know last year was negatively affected by a tax burden related to the acquisition.

And secondly, the consolidation of AES Torino from July 2014, which has two effects. Firstly, it's equity contribution is limited to the first six months of the year. Secondly, the transaction generated a one-off positive effect from the restatement of the equity interest at its fair value. As far as cash dividends are concerned, in 2014, they amounted to EUR99 million, recording an increase of EUR29 million essentially related to TIGF.

Now I would like to conclude the review of our income statement further commenting the net profit performance. Net profit in 2014 was EUR1,198 million, up 30.6% compared to the previous year. Net profit adjusted for the special item increased by 15.4%. 2013 net profit was adjusted for the net effect of the early retirement plan, EUR70 million while 2014 net profit is adjusted for the effect of the first tax plan following the Robin Hood Tax cancellation. Analyzing the item below EBIT, net profit growth has been supported by, firstly, the reduction in interest expenses of EUR75 million mainly due to a lower average cost of debt that benefited from the significant debt optimization measures carried out so far, partially offset by the higher average outstanding debt and some upfront fees accounted last year following the repayment in advance of a term loan financing [subscribed in 2012. It is on this structure] and cost of debt evolution will be provided in the following slide.

Secondly, the net profit growth was supported by the already commented increase in net income from associate of EUR86 million. Finally, we accounted the reduction of the tax rate to around 37%, mainly due to the decrease in 2014 of the Robin tax to the rate of 6.5%.

Moving on to the results of the 2014 debt optimization exercise, the main actions executed may be summarized as follows. New recourse to debt capital market, both via publications and via private placement for a total amount of EUR1.750 billion, exploiting favorable market conditions and the compressions of Snam's spread in the debt capital market. As regards banking facilities, in 2014, Snam showed a proactive approach performing in advance full and bilateral banking facility refinancing for an overall amount of around EUR5 billion in order to extend the maturity and reduce the cost of the line.

This intermediation of certain UK investment bank financing for around the EUR300 million with a significant cost savings of -- following cost savings. Growing role of uncommitted credit lines that reached more than EUR1 billion at the end of the year, leveraging on abundant market liquidity in recent Central Bank actions. It is worth stressing the fact that the actions carried out in 2014 are in line with our financial strategy and achievement, consistent with our target.

In 2014, cost of debt decreased to around 3.2%, versus 3.7% of the last year. The fixed rate portion is 69%, in line with our plan to have around two-thirds of our [debt] fixed rate, the maturity profile is well spread over the time avoiding major concentration issues going forward and without making refinancing until 2017 with an average maturity of around five years. The strong liquidity profile covers 24 months maturities.

In 2014, Snam confirmed once more its strong capability in the cash flow generation that reached the level of about EUR1.8 billion. The working capital absorption of EUR275 million was mainly related to the tax payment of about EUR135 million due to 2013 tax balance of about EUR88 million and 2014 advanced payments higher than the tax accrued in the year of EUR47 million. For the remaining part, to non-structured payable accounted at year-end 2013 and paid at the beginning of 2014.

Moving to net investment, Snam confirmed also in 2014 its growth strategy fueled by a level of net investment higher than EUR1.7 billion, of which EUR1.2 billion related to CapEx in the regulated business in Italy and EUR0.5 billion referred to the TAG acquisition, which as you know, was fully financed through a dedicated capital increase. The result is in 2014 positive free cash flow close to EUR300 million.

Given the evolution of the cash flow from operation and net investment already commented, net financial debt at the year-end 2014 amounted to EUR13,652 million, well in line with our target. The debt increase of EUR356 million compared to the year-end 2013 was related to the AES Torino debt consolidation and to the payment of 2013 dividend balance.

Turning to the balance sheet, fixed assets increased by EUR1.2 billion versus year-end 2013, as a result of CapEx realized in Italy, the TAG acquisition and the consolidation of AES Torino for a total amount of EUR2 billion, partially offset by asset depreciation of EUR0.8 billion.

In conclusion, coming to the leverage, the growth of our asset base together with our strict financial discipline allowed us to achieve a ratio of debt to total RAB and associates of around 52% compared to 53% recorded in 2013.

That's all from me. I will now hand over to Carlo for the strategic plan, 2015-2018.

Carlo Malacarne, Snam SpA - CEO [3]

Thanks, Antonio. Let me now walk you through our 2015-2018 strategy and target. Our goal of achieving sustainable returns and profitable growth will be obtained through a focus on four strategic priorities that preserve our low risk profile. First, disciplined management of investment opportunities will allow us to exploit the optionality of our asset portfolio through capitalizing on high-quality growth opportunities in Italy, focusing on two main European gas corridor. The East-West and the North-South corridor to integrate and complement our asset portfolio as well as to diversify our country and regulatory.

Second, we will continuously improve our operational management. This will be accomplished by progressing forward obtaining the role of a market facilitator providing integrated services to shipper and final customer. We will also continue to control cost.

Third, pursue sound financial discipline through investing in value-additive CapEx as well as consolidating our solid and efficient capital structure. M&A activity will be selective and aimed at returns accretion. Drive value for all of our stake holders through profitable and the steady growth even in a low inflation environment. We will continue to pay a sustainable dividend, thereby delivering attractive shareholder returns.

Starting with the business environment, I would like to draw your attention to the following main trends in the European gas market. Gas demand in Europe is expected to remain almost flat over the coming decade. However, this would not imply a static marketplace as a decline in the regions of gas reserves and production, particularly North Sea. We will increase Europe's net gas import from around 65% of total demand in 2013 to a remarkable 75% in 2013. And this import deficit will be geographically imbalanced, the highest import needs being contracted -- concentrated in all Europe.

Overall, Europe will become more dependent on non-EU sources, Russia, Middle East, North Africa, with an important new contribution by the Caspian region where most gas reserves are concentrated. This market development will generate a significant shift in EU internal gas flows with Southern EU becoming a crucial entry point for additional import flows. Furthermore, there is a growing need to balance peak in gas demand due to its increasing volatility as intermittent renewable energy sources need to be backed up by production in gas fuel combined cycle. These peaks, which require intensive availability of transport and storage capacity, are increasingly uncorrelated to the overall trends in gas demand. These trends imply the need to build out gas infrastructure to facilitate the matching between imported gas and gas demand, as well as to integrate gas market to efficiently balance supply and demand.

The European natural gas industry is being challenged by several factors beyond the global economic downturn and competition in the energy production market. The market is still looking for the right equilibrium between new market needs and security of supply. It will be a big challenge for years to come.

Along with the gas trend, we can observe our definition of a long-term established role. Upstream players are willing to get closer to the consumer market, thus bypassing the traditional gas import. The latter will also face increasing competition, growth by traders and by final consumer. Both these translate into a higher degree of volatility in the market. It will become even more evident with more gas supply contracts being renegotiated and linked to the gas spot market rather than to long-term contracts.

On the other hand, it's important to stress that the complete cancellation of the take or pay contract may become an issue as it affected the security of supply that remain a priority at European level, particularly considering high dependence of single supply sources and political instability of a certain exporter. Infrastructure availability will need to change accordingly and be much more flexible than in the past. Its development will no longer be driven only by the growth of gas demand, but will be required to improve the security of supply, enable the integration of domestic market into a single European marketplace, connected to the highest number of supply sources and provide efficient services, encouraging energy price competition versus cheaper, but more polluting fuel like coal.

Additional transmission system and storage facility will have to be developed to cope with highly volatile demand, providing the required peak capacity to ensure a secure, reliable and sustainable response to the needs of consumer. [Storage] is the main resource to tackle potential gas flow shortages. Institutions and the regulator should work together to design appropriate measure to pull part of existing and new gas security stock at European level including the full utilization and farther development of our strategic storage for the continent. It would be possible under several conditions. A common set of rule to establish transit condition of gas from the countries where product is physically located to consumption site. And an international body able to coordinate Pacific rule and condition for the EU of strategic storage. The bottlenecking of national gas grid and the availability of reserve flow capacity at cross border interconnection ports.

The European gas market is characterized by a number of challenges, which can only be addressed by the creation of an interconnected pan-European gas network to diversify gas sourcing and increase the security of supply as well as to foster the flexibility. The integration of European gas network will be supported by the development of efficient and bidirectional cross-border gas corridor. It is the key to guaranteeing security of supply, enhancing competition of the gas market and promoting as mood transition towards an efficient and sustainable low-carbon economy.

Infrastructure operators needed to design a sustainable investment strategy to capture the opportunities generated by the rapidly changing business environment. Their role is evolving from being a mere asset owner, simply managing infrastructure, to market facilitator providing innovative integrated services to shipper] and final customer. At the same time, the availability of market responsive services to meet the evolving needs of shippers and customer in particular in terms of flexibility and service integration, is becoming increasingly crucial. A more flexible and shipper-friendly commercial offer and the implementation of common rules are necessary to promote the efficient functioning of the market to foster its liquidity and to preserve the security of supply. Specifically more advanced (inaudible), we aim at an integrated offer for transport, storage and LNG services with the latter more focused on short-term requirements. A higher degree of consistency between capacity and volume transported supporting shippers in the optimization of their logistic portfolio.

The development of new activities would allow an optimal access and utilization of the gas system by traders and shippers, thus improving their performance. This will translate into revenue and investment sustainable for infrastructure operators.

Let me now briefly focus your attention on Italy and specifically on the distribution industry. From the chart, you can see that the Italian distribution market is still very fragmented between many smaller operators. The result is that the whole system works at a suboptimal level of efficiency. The recently completed legislative framework is expected to further enhance the consolidation process and increase the efficiency of the distribution through the substantial enlargement of concession areas to seek economy of scale, implying their significant reduction in other. A set of standard rules for the tender process based on economic conditions and parameters on security and quality of the service. The new business environment represents an important opportunity for Italgas as a leading, highly competitive and national-wide position player in the Italian market to unlock additional value.

Let's now focus on how Snam can develop the strategy in this evolving environment. Let's start with our investment priority. Snam's CapEx plan has to be analyzed in the context of the changing market environment we just described, which provides us with the optionality to pursue growth opportunity with a long-term vision. In order to support the development of the Italian European gas market, gas network will have to guarantee high level of security, flexibility and liquidity. This will be achieved through the creation of substantial transport and storage capacity in Italy, including additional capacity to allow for the physical reverse flow of gas from Italy to other European countries, paving the way towards connecting North African countries, the new Caspian area and Eastern Mediterranean gas sources to Continental Europe. In particular in the transport business, capital expenditure is devoted to meeting capacity requirements and to providing supply source diversification to the shippers. These developments should facilitate not only a higher level of security and flexibility of the system but also gas transit to European market via the reverse flow of gas from Italy to other countries.

Moving on to storage, our substantial investment program has been designed to guarantee greater storage capacity in the gas system, both in terms of modulation and peak capacity, optimizing the balance of the overall system. The same time, by increasing capacity, we can create a favorable condition for the development of higher liquidity in the [gas grid]. It will set the path for facilitating the use of our storage system for gas swap opportunities as well as to put it for security purpose at the U level in coming years.

With regard to the distribution business, investment will be focused on the development of new distribution networks, mainly in south of Italy, and on the smart metering project which will allow Italgas to guarantee a higher level of service quality. More importantly, the new legislative framework, Italgas will both exploit consolidation opportunities and will begin optimizing its portfolio and construction, which we will discuss in further detail later on.

The plan for CapEx in Italy is EUR5.1 billion over the next four years, which will support an estimated 1% annual growth in our consolidated regulatory asset base by 2018 starting from the 2014 estimated base just below EUR25 million.

We plan to manage the pace and timing of our investment to maintain our track record of profitable growth, improving capital efficiency and return. The change versus the previous four-year CapEx plan is mainly due to the shifting of spending related to the certain investment in the south of Italy in order to match the capacity needs related to the [DAT] project as well as to the completion of some development project for the new storage capacity.

2015, we expect to invest EUR1.3 billion with the remaining EUR3.8 billion to be spread over the remainder of the plan period.

Furthermore, we will consolidate the profitability of our asset base, leveraging the incentive scheme set by the authority. With around 70% of total investment incentivized with higher remuneration, the share of the overall RAB benefiting from incentivized remuneration will account for an average one-third of the total for the plan period. Over the four-year business plan, 60% of the total CapEx or approximately EUR3.1 billion will be spent on the transport business, 30% on distribution and the remaining 10% on the storage business. As you know, we traditionally provide four-years CapEx plan as a solid estimation of our Future spending. This is underpinned by the fact that around 75% of the overall spending is already [authorized].

Let's now focus on the project in the transport business. The project we are developing in Italy around EUR3.1 billion over the plan period and will strengthen both import and export infrastructure, facilitating the establishment of (inaudible).

With regards to export, the project will involve new pipeline development in the Po Valley for 150 kilometers to new compressor station, 100 megawatt of installed power capacity as well as the empowerment of an existing station to allow for [physical gas flow] in the pipeline. The overall investment dedicated to the north gas market and the creation of (inaudible) capacity is around EUR0.6 billion over the plan period.

With regard to import, the key project in our plan is the South and North development. We plan to build pipeline of over 420 kilometers, which will increase the capacity at the (inaudible) entry point by around 8 Bcf. This new project will be on stream by 2021 and will require the investment of around EUR1.5 billion, of which EUR0.1 billion in the plan period 2015-2018, mainly related to the engineering and permission activities. This project represents the bulk of the CapEx to be put in place after 2018 in order to complete the main development projects over the plan period.

Our forecast for gas consumption in Italy shows an increase of around 1% per year for the period 2014-2025, largely driven by growth from the power generation sector of around 2.7% while the industrial and residential and commercial sector are expected to be flat. Combined with a decline in domestic production and growing export fuels to Northern Europe, we expect import and transit volumes to significantly increase beyond 2020. The project I have outlined in the previous slide, and in particular, the development in the Po valley are primarily devoted to consolidating the security of supply in each Italian region, taking into account the expected improvement in gas supply diversification and therefore change in how entry point are utilized. Furthermore, this project paved the way for the development of greater export capacity. Specifically, our import project will increase the import capacity from 347 million standard cubic meter per day of gas in 2014 to around 370 million standard cubic meter per day beyond 2020.

Regarding export to Northern Europe, the program is to boost export capacity from the current 24 million standard cubic meter per day to 46 in 2018, mainly at Passo Gries where we plan to create the capacity to export over 5 million standard cubic meter by 2015 to reach 40 million standard cubic meter by 2018. These projects are well supported by the expected development of the Italian and European gas market dynamics, which is non-gas transmission network increasingly playing a gas transit role.

Looking at historic business, the approximate EUR0.5 billion of projects include in our investment plan should lead to an 11% increase in modulation capacity. It is expected to reach approximately 12.6 BCM in 2018 from the current 11.4 BCM excluding strategic storage, which is currently at the level of 4.5 BCM. The expected capacity development represents the completion of the project started in order to meet the requirements of the ministerial decree issued in 2010. In addition, there will be an 80% increase in peak capacity, which is expected to reach more than 30 million cubic meter per day in 2018 compared to the 281 million cubic meter per day in 2014. These advances will increase the level of security and liquidity in the [gas grid]. We are committed to providing new modulation services to old shippers which give them a growing level of short cycle flexibility. Furthermore, we will support development of new services that allow for the integrated management of transport and storage capacity. Last but not least, this capacity development will also provide a sound base for the Italian storage system to participate as a central player in the potential pooling of existing and new gas security stop at European levels.

In terms of the CapEx plan for the distribution business, our EUR1.5 billion program is focused mainly on the network expansion, and smart-metering and will consolidate our revenue growth. We will invest in the replacement of some existing pipes around 800 kilometers in development of the distribution network by adding new line and by increasing the number of new connection on the existing distribution network around 1,000 kilometers. We will also provide higher service quality and security across the network. The overall spending will reach approximately EUR0.9 billion. Regarding the smart-metering, the investment program will also require the development of the relevant ICT hardware and software. The total CapEx for this project in the plan period is approximately EUR450 million, representing around the 30% of the total CapEx, and it will receive a higher remuneration under the current remuneration scheme. Investment in the four-year plan together with the optimization of the construction portfolio, we will bring the number of consolidated delivery point to approximately EUR6.6 million compared to the EUR6.4 million delivery point in 2014.

Let me now briefly focus your attention on our strategy in the distribution business. Italian gas distribution underwent a market consolidation as seen a few slide ago and is now on the eve of a massive concession [error]. The newly adopted legislative framework should enable streamlined execution, thus reducing administrative litigation and improve clarity. As you know, this new scheme is now based on concession at our level. There are 177 gas areas with standardized condition service, quality, being one of the main granting criteria. The latest (inaudible) decree imposes an extremely strict calendar. Hence most of the auctions will take place within the next four years. Italgas is today the market leader in Italy with one-third of the total market share. In addition, more than 75% of its current business is carried out in gas areas where it holds a relevant market share. Italgas benefits from a competitive cost structure and strong cash flow generation, which grant us a significant return of investment. Leveraging its remarkable financial and operational competitive advantages, Italgas aims to unlock further value through the tender process of gas distribution concessions. The tender process will provide the opportunity to optimize the concession portfolio by moving from a fragmented geographic presence to concentrating on more uniform areas of operation, leveraging on synergies, economies of scale and applying its best practice in the newly acquired gas areas. Value creation will also be pursued through providing operational services to third party network, granting us an additional stream of revenue in coming years. In a process characterized by transparency and efficient rewards, Italgas aims to increase its current market share, gaining in terms of size and triggering further economies of scale. In the current plan, we are not considering significant additional financial commitments related to the consolidation process. We are monitoring the evolution of the tender process in order to capitalize all the opportunity that could arise to create further value.

As in 2014, over the next few years, we will work to develop new services to boost the liquidity of the gas market across three main work areas, capacity services, balancing regime and cooperation with gas exchanges.

Let me give you some example of what we have already launched and of where we will focus on our work in the near future. With reference to the new capacity services, we have implemented the new products envisaged by the European network code (inaudible) of the entering to force of the provision which is set on November 2015. The offer of the so-called bundled transmission capacity services allow for the transportation of gas between ops via a single capacity booking process facilitating trading and arbitrage activities. We are also working on the possibility to introduce short cycle storage services in addition to the basic modulation service to address the increasing flexibility needs of users. Finally, we have proposed an incentive-based oversubscription and buyback scheme to offer additional capacity on a firm basis in line with the EU regulation which is now under evaluation by the regulator.

Concerning the balancing regime, we have extended the balancing market to new flexibility sources, namely import and LNG in addition to storage and the new day ahead balancing session has been introduced. We are in the process of implementing the EU balancing code which will come into force in October 2015. In this framework, it is possible to envisage incentive scheme for the TSO in providing services aimed to support a better market functioning and to provide timely and accurate information to shippers regarding their daily commercial portfolio consumption. We are working to introduce incentive scheme in these areas.

Finally, we are working intensively toward the evolution of the Italian gas system and we have several cooperation activities ongoing with the gas exchange operators for the development of future and sport gas market with physically delivery of the gas commodity. As you already know, Snam is also shareholder in the new European platform, which was created to offer permission capacity in line with the future European rules and which allows the commercial connection of the PSV to the main North European gas ops. Considering the key role that all these services and activities play in the creation of the Italgas market, we are working with the relevant institution to introduce incentive scheme to exploit value not only for the gas system, but also for Snam. We estimate that the services already identified and under discussion with the regulatory body could activate a potential new annual revenue stream upto EUR40 million with [meaningless] related cost and capital employed within the current regulatory period.

Alongside our investment priority and our international development, delivering operational efficiency is a key focus for Snam. Our track record in driving operational efficiency has been achieved across different regulatory periods by leveraging the proven experience that this Company has in curbing the cost of personnel, supply and services. This has resulted in a reduction of our controllable fixed cost by 5% in nominal terms, still allowing us to create value through operational efficiency. That value creation is even more significant if you consider that our operating activities showed a significant growth in transport infrastructure, storage capacity and in the number of distribution customers.

Over the last few years, we are approaching a satisfactory level in terms of controllable cost. However, we will continue with our efficiency plan across the business. The target for our plan period aims to keeping the unit controllable fixed cost flat in real terms at constant perimeters. This is a sound approach considering that we are currently running the four regulatory period across all our businesses. We have achieved a satisfactory cost base and the current regulatory framework partially allows the recognition of the incremental cost related to the growing asset base. To give you more evidence on how we would like to manage our cost base, we set some KPIs for our different businesses. In all of them, we plan to achieve unit controllable fixed cost to flat in real terms in the next four years. This significant effort will well sustain our operating profitability line.

Now let's move to Snam international development. Moving abroad, as you know, our international expansion strategy is very straight forward. Snam intends to play a significant role in the integration of the European gas infrastructure, focusing on the European gas corridor connected to the Italian infrastructure to best leverage on the strategic positioning of the Italian category with respect to the future European gas flows. With this in mind, we commenced the journey to building a European platform by entering into strategic alliance with Fluxys which resulted in the reverse flow project from Italy to Germany and in the joint acquisition of a stake in Interconnector UK, acquiring a core controlling stake over TIGF currently is 40.5%, which is strategically positioned along the western leg of the European East-West gas corridor and providing us further value creation opportunities through the development of both a higher degree of market flexibility and integration in France and the interconnection of the French and the Iberian market with those of north central Europe. And more recently in TAG, around 84.5%, which further strengthen the Company's leading role amongst infrastructure operators in Europe, also thanks to its potential use in reverse flow towards southern German and Central Europe market.

All these transactions leave us very well positioned, position us to drive international growth. Our key objective are to optimize return from the existing asset base, to coordinate CapEx and commercial activities within our cooperation with Fluxys in the North-South corridor, to focus on completing our exposure to our two target corridors, the North-South and East-West corridor. I would now hand over to Antonio to further discussion on international development and financial efficiency.

Antonio Paccioretti, Snam SpA - CFO [4]

Thank you, Carlo. I will start with our international assets by analyzing the French market and TIGF's role. The current situation in the French market is not completely aligned with the European Union market integration expectations. This is because France is divided into three different markets and balancing areas. To comply with the European gas lines and improve the liquidity of the French market, the regulator is promoting the creation of a single French marketplace in two different steps. Step one, come TIGF (inaudible) by 2015, merging the two market areas while maintaining two balancing points. Step two, full integration of the French market to be achieved by 2018 and subject to the completion of new infrastructure to reduce congestion between the zones. Clearly, from this change in the business environment, TIGF will benefit both in transmission and storage activities. Storage competitiveness, which is already remarkable as shown by the positive result over the year's commercial campaign should further improve, thanks to the elimination of the current interconnection costs. There should be additional incentivised transmission investment to make a single French market a reality. The (inaudible) is already an investment decision. This CapEx was not including in business plan of the acquisition and has been already approved by the French regulator. New incentivised transport investment can also be envisaged to better interconnect this benchmark. It is a mid-cap project. The value creation of the asset has been recently proved by the investment bid of Credit Agricole Assurances which enter into the shareholder structure with a 10% stake with an impact value for the 100% of the equity or more than EUR1.8 billion. This shows the remarkable increase, around 40% in terms of equity value, compared to the valuation of the company at the time of the acquisition in 2013. On TIGF, we are now targeting a yearly contribution to Snam's EPS, earnings per share, of around 2% over the plan period 2015-2018. In addition, we confirm that we expect to repay more than 80% of our initial investment within 2023 with an equity IRR better than the low-double digit guidance we gave at the moment of the acquisition.

TAG has as an overall length of about 1,140 kilometer and its operations are entirely subject to the Austrian regulation. The current regulatory period will last until the end of 2016. Annual revenues largely derived from long-term ship-or-pay contract expiring in 2022, which ensures a high level of cash flow visibility. Leveraging on our proven track record in driving operational efficiency, we will also support TAG in the search of additional efficiencies. The share capital increase fully dedicated to the big asset for the payment of TAG allows Snam to strengthen its capital structure and pursue its profitability. Despite the share capital increase, we expect the deal to be accretive starting from the first year and with an annual average [to 3%] EPS accretion on the four-year plan. In addition, we confirm, we expect to receive cumulative dividend up to around 90% of our initial investment for the equity within 2023. Finally, let me highlight that also for the acquisition of TAG, in setting the price, we consider the minimum threshold for our targeted equity IRR at a level of the low-double digit.

Let me now give you some highlights on the expected growth of our non-consolidated assets. In 2014, the contribution from our associates was EUR79 million, of which more than 40% from our international assets. As you can see from the chart, we expect by 2018 a net income from associate surging to around EUR130 million, 65% higher than 2014. This result is fueled primarily by both (inaudible). Keep in mind that we acquired the residual stake of A.E.S. Torino as of November 1, 2014, and therefore reducing the domestic contribution going forward.

Moving to financial discipline, let me now draw your attention to key themes, balance sheet solidity and financial efficiency. Starting from the soundness of our balance sheet, we expect our full-year investment plan to be fully financed by our operating cash flow. This should allow us to maintain a strong balance sheet and support our commitment to protect group's solid, creditworthy investment. As for [reg] metrics, we estimate a level of our net debt to assets in line with the current level. Also, if we consider the most severe adjustment carried out, pre-agencies it remains below 55%.

Regarding cash flow base metrics, they are in the high-end operating recognized, benefiting also from the soundness disability, and resilience of our cash flow generation.

But now, let me spend a few words on our strong liquidity profile. Our buffer is represented by around EUR3 billion of undrawn committed credit facilities. Going forward, we reaffirm our commitment to a safe liquidity profile in the medium term, to cover debt repayment schedule, to support a convenient approach in the debt capital market, and to provide comfortable financial flexibility while minimizing the cost related to undrawn committed lines.

As regard to maturity and debt breakdown, we stick our goal to maintain the average maturity of our spend in medium-to-long-term debt at around five years and to have two-thirds of our debt at fixed rate. The last two factors are consistent with the mechanics of our tariff framework and our goal to protect our financial outperformance. Aligning as much as possible debt duration with the regulatory review, frequency as a part on an appropriate asset and liability management approach and looking today's cost of debt conditions in the medium-term without keeping potential opportunity offered by the credit market. Having said that, let me elaborate on the elements that are expected to be the two pillars of our equity story going forward, financial outperformance and flexibility. As regard to first, we believe that our refinancing needs in the future could turn into opportunities for further cost savings, thanks to the rollover of around EUR5 billion of bonds over the plan period, of which EUR4.5 billion at fixed rate leveraging on the remarkable fall in interest rate and credit spreads experienced in the last few years with a leverage savings well in excess of 200 basis point for the potential new issues versus expiring ones. And secondly, a proactive and opportunistic attitude in the Treasury management optimization and banking clients renegotiation, leveraging on longlasting relationship with the core banks and several market condition.

Moreover, we expect to benefit from a wide portfolio of infrastructures projects, potentially eligible for [execution of] financing which represent a competitive source of funding versus bank and the intercapital market in terms of both tenure and cost.

Finally, please also take into account that 2015 will record the full-year effect of the optimization measures carried out in the second half of 2014. As a result, based on the current market condition, we expect the cost of our debt for 2015 to average around 2.9%. Now, let's comment about the restoration of our financial flexibility achieved thanks to, firstly, the considerable financial expenses reduction as I said before; then, the equity-based acquisition of target at year-end 2014 with a positive impact of both (inaudible) metrics and its overall creditworthiness; and then, thirdly, the consolidation of the Robin Hood tax from 2015 with an estimate positive impact of EUR90 million in 2015. Finally, the selective investment in accordance with evolution of the gas market needs. This financial flexibility is expected to support our equity story based on an attractive and sustainable return for shareholders, while at the same time preserving the low risk profile of the group's financial structure; the capability to capture potential opportunities and the opportunistic and proactive approach in our future refinancing actions.

Now, I hand you over to Carlo for the final remarks

Carlo Malacarne, Snam SpA - CEO [5]

Thanks, Antonio. Right now, I'm able to provide an attractive and sustainable shareholder return because we have a reliable result fueled by new potential stream of revenues, a solid balance sheet and we constantly seek operational and financial efficiency.

In this presentation, we have outlined the adaptability of our asset portfolio that the management team and I will exploit with selective and disciplined investment to create value, bringing a steady flow of growth even in a tough environment. Furthermore, the soundness of our balance sheet remains almost important and the cash flow generated by our operating activity during the plan period is expected to fund our asset growth that's providing the possibility to maintain the leverage within 55%.

Snam value creation is end will be supported by the increasing contribution of non-consolidated international [associated] which are expected to post remarkable growth at the net income contribution in the plan period. We are progressing our path to increase the flexibility of the overall gas system by developing new services for our customers. This will open up a new potential stream of revenues to further support the soundness of our result. Without forgetting that we remain committed that we're exploiting operating and financial efficiency in order to further strengthen our overall performance.

Last but not least, it was worth nothing [the restore] financial flexibility as a result of our solid cash flow generation and rigorous financial discipline. All this feeds our dividend policy aimed at paying a sustainable and attractive dividend. For the fiscal year 2015, we confirm that we intend to distribute EUR0.25 per share. We are entering a year of uncertainty due to upcoming medium-term regulatory review. Therefore, we do not consider it appropriate to set medium-term dividend policy, but is in our ultimate goal to maintain sound return of our shareholder.

We are ready to answer any question you may have. Please.

Questions and Answers

Operator [1]

We will start from the floor and then (inaudible).

Javier Suarez - Mediobanca - Analyst [2]

Thank you. It's Javier Suarez, Mediobanca. Three questions, the first one is that I have noticed that the Company has deals on the CapEx versus the previous business plan and that is particularly on the transmission and storage activities and I just wonder if you can guide us what the reasoning behind the decrease on the annual CapEx. And also, I have noticed that the Company has decreased the guidance for the RAB growth for the next few years. On the previous business plan, it was close to 3%; now, it's 1%. Obviously, part of the explanation has to be linked to lower CapEx, but part of the explanation is probably linked to the lower [deflator] use, you can kindly guide us to the reasoning behind this lower RAB growth.

And the third question that I have is on the financing of all the auctioning process for gas distribution because my understanding is that the business plan is not considering additional investment for the consolidation process. So the question is how Italgas intends to participate in this consolidation process, how this could be financed? Thank you.

Carlo Malacarne, Snam SpA - CEO [3]

Thank you. Our business plan consider, first of all, the CapEx plan completely in line with the European and Italian energy strategy. There is no intention of Snam to start with the spending of new transmission CapEx plan without the transmission contract. Anyway, we doubt to be sure the deadline for the new supply of gas in Italy. The 8 BCM we add in the previous CapEx plan.

So the approach is no to cancel investment, but is only the intention to delay some spending, maintaining completely our project, align our spending with the new supply of gas, which today the deadline is end of 2020, beginning of 2021. This is the reason why is a shift of investment, but completely in line with the previous businesses.

For the storage, the intention is -- first of all, we completed -- we will complete the investment linked to the decree 130. We have the capability and the possibility of the new investment in the storage system. We have the possibility to improve the capacity in the Bordolano field. We have a new field today, which is Alfonsine which is a concession, but it's clear that we are very prudent and the intention is to increase the investment in the storage system when we are sure that the strategic plan by the government, I'm confident that the approach will be fair.

Secondly, if you consider the Snam cash flow generation, the solid balance sheet and the [a reminder, restore] of financial flexibility we have to date, all this item should provide us with a good room, I can say, to manage the potential impact of the tariff, [I said]. I cannot say today we could be all this in practice, but considering cash flow production, balance sheet and restore flexibility, I think we can face the tariff reset without jeopardize our business model. Italgas, as for the debt, Antonio.

Antonio Paccioretti, Snam SpA - CFO [4]

(multiple speakers) debt to *[Monica].* You know the rules of our Company is to give guidance in relation to the current year. So it is at 2.9% for 2015. Let me say that for -- when we prepare the presentation, it was clear that the -- also for us that it is clear that the benefit of the current situation will be exploited in the following years. And so we try to give the market, to give the analyst some element for the market. I would say that first of all, it is useful to have a look at the refinancing exercise, so the bonds that are going to expire to -- are going to terminate within the four-year plan. So the EUR4.5 billion of bonds that according to the market condition of today could give us some advantages in the range of -- above 200 basis points. So this is very easy for you to calculate the impact.

I can add one other element, which is the cost of our [2014 requisition], which is the average of the banking facilities, our bonds at floating rate, the cost of the significant part of the European Bank funding, which is today at floating rate. As an average, you can assume something below 50 basis point of spread.

Carlo Malacarne - Snam SpA - CEO [5]

An update over the Italgas, I think there's no appropriate litigation. Without summarize all the process, we informed you in July that the situation in a way is important to outline that that court decide to invoke a specific Italian law which is a preventive measure anyway for Italgas. The duration of this arrangement was set six month with the possibility of extension of further six months and maximum 12 months. The last decision in January was to expand the period, expand it six months because it's the time set. The reason is that the administrator appointed has to complete the assessment. It's not completely the assessment. We are today we are working with the court about this point and it's positive that the court are governed to the administrator to set a technical roundtable with Snam and Italgas to let me say to agreeing of the measure we can put in place to resolve the problem. So that means that the intention is to speed the acquisition. I can remind you that it's no crime investigation, it's only an assessment if the procedure and the measure which Italgas has inside are adequate to stop the impossibility of infiltration of crime, is the reason.

I have to say that in the last, starting from the summer, it's clear that we have commissioned a third-party independent advisor in particular [the law] if I mean to say, we had committed an assessment to understand if the procedure of the Company are adequate for this type of procedure and their result is autonomously independent advisor. Their result is that the procedure of Italgas currently in place are capable by preventing infiltration or facilitation of organized crime only to say that we are confident that we can speed with the time set by the court, frankly speaking, but we don't have a reason to identify or to expect some impact in the Company. It is the reason why there was no discussion with the consolidation and we checked not only with the court which has said that we have to consolidate, but frankly speaking, we have to work together to try to resolving in the best way the problem. At the same time, it's clear that we -- is a decision by the court for the consolidation, they appointed an administrator as to follow for the managing of the Company, the guideline, technical (inaudible) guideline of the control company (inaudible). So there is no -- there is let me say a formal control that the manager of the Company will be in line without the risk of some [lack] in the management system.

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Antonella Bianchessi - Citigroup - [6]

Hello, good morning, it's Antonella Bianchessi from Citi. Just two very quick questions. The first one, if you can give us a little bit of insight on what is the ongoing debate with the regulator, which are your target, which are the most important things that you would like to achieve during this regulatory reset?

The second question is on the debt, you mentioned that you have EUR1 billion of headroom, if you can clarify how this has been calculated and how this can change, expand or reduce depending on the regulatory decision, the regulatory allowed return and also the market condition in general?

And the third question is, you said that the ideal duration of your debt would be five years. But in reality, the regulator is resetting your cost of debt every two years. If this were to remain, why would you take the risk to maintain a longer duration and what is the regulator thinking about it? Thank you.

Carlo Malacarne - Snam SpA - CEO [7]

Thank you, Antonella. After the last November, the last -- the [liberal] end of the year, the (inaudible) the regulators, today, we are waiting the consultation document. Usually, our approach is not to discuss a figure or an element about these to understand the total revenue. We can (inaudible). It is the reason why only with the consultation document which we expect, the issue of the consultation document by May roughly. We are ready to start all the discussions or all the figures inside the document, not only [February free]. Today, we are not -- is a technical, and let me say a discussion which is general. There is no, let me say, specific point for the new consultation document.

I think the consultation document, the intention of the regulator is to align all the businesses, power and gas, so to be very clear, that is important consultation document, it's not only for Snam, that is the reason why it's quite difficult today to discuss before the regulator what could be the feeling or intention of the regulator.

The second point, the flexibility, the EUR1 billion flexibility, unfortunately, it's just a matter of fact. If you consider at least two elements, the first one is the [relative] metrics, it's just a matter of numbers. If you apply the credit metrics on our numbers, you can easily understand that the EUR1 billion is a fact. It is also confirmed by the assessment of one of the two [average engagers] is that for Snam which, in addition to the rating level, also disclosed the so-called standalone rating, which now a case is A minus, which is downgraded by some steps to the current one because of the rating of the [republic], a sovereign REIT. So, it's just a matter of metrics, if you can -- if you want, you can share with you the calculation.

And in relation to the second question, I mean this is the financial facility that we want to maintain, and we can use -- we could use in the future this financial flexibility for helping, supporting the equity story, both I would say first of all supporting the dividend, supporting the capabilities of the Company to capture all the opportunities we can have. I mean we discussed that before about distribution is that having this flexibility, the financial aspects that would be much more [effective] for us; and therefore, at the end, you also have to consider that the metrics calculated did not consider the cancellation of the Robin tax. Robin tax means in our case a higher cash flow, our net income and cash flow of something around EUR90 million per year, which at the end is very, very (inaudible). No. Sorry, it is my bad English. For me, the duration is the tenure, average tenure of five years. In terms of duration of the fixed rate, duration of the interest rate, our duration is very, very close to the one of the authority. If you consider, we have two-third of debt at fixed rate with the duration of four to five years and we have one-third of our debt at floating rate. So, the aggregate duration is very close to the [one, two years] that is the duration of -- which is the length of the review of the authority.

Unidentified Audience Member [8]

(inaudible). Three questions if I may. The first one is, if you could help us to understand a little bit more of this EUR40 million of additional revenues from gas facilitation. More specifically, is that the service that you are going to be providing by 2018 and I understand that this is just a minimum because, I understand you will have more reverse flow around the gas corridor? The second one is, if you could update us on the launch of the vehicle, the joint venture with Fluxys, the assets you want to put together? And the third one is, you mentioned gas storage increasing to. 10 bcms. My question is, is this a signal that the gas that Europe has been sending to Asia and diverting to other destinations is coming back to Europe?

Carlo Malacarne - Snam SpA - CEO [9]

The EUR40 million is the services revenues capability, you know, is an assumption we have done considering the set of proposal we have discussed with the regulator during this regulatory period. So, is revenues, part of the revenues are outside the regulatory regime, is 20% of the revenue are an update of the regulatory regime. So, considering all the capability of the service proposal roughly, we can estimate an increase of the revenue EUR40 million. The environment of the gas evolution and the trend of using more storage than the import, I think, frankly speaking, is my opinion. I'm not a shipper, a trading company but is only price, the problem of price competition, is economic problem. The reason why in Italy we have 90%, 100% because there is a part of industrial sector, the storage are 100% a regulated business, but is anyway to use as merchant the regulated storage. The possibility to fill the storage during the summer period with low, low tarrif. The tarrif is lower than the regulatory framework. That is a reason, is an advantage to cut the logistic cost for driving company or the shipper. That is the reason why there is interest to fill the storage and to use more storage in the winter period instead the take-or-pay import of gas. But I think its important because is an evolution, there is more volatility, is an evolution of the market condition of gas. That is the reason that is, let me say, an signal that a translation of take-or-paying spot. In terms of infrastructure, I think is an evaluation we have done because we need more flexibility and more interconnection of transmission storage LNG. We have to combine a network with strong interconnection not only for Italy but for at European level. There are another question? For Fluxys, we completed the agreement for the strategic alliance in terms of commitment of investment for Fluxys and Italy and we are working to set the final decision of enter in the share participation of the company, and so it's a share of -- is a share of the participation of Fluxys and Snam in the foreign company, in the asset company.

Anna Maria Scaglia - Morgan Stanley Analyst [10]

It's Anna Maria Scaglia from Morgan Stanley. Two questions if I may. The first one is related to the other revenue line you booked this year, EUR60 million. I was wondering what's the evolution expected there and also the EUR40 million we spoke before, if those will be included there, given they are not all regulated revenues. And the second question is related to dividend and regulation. Provided, of course, the level of disclosure by the regulator is almost zero at the moment. I was wondering, is there a scenario where with the end of the Robin Hood Tax, your payout actually would go down, if let's say, my numbers [are on the 5% allowed to return]. So under those scenarios, are you willing to consider longer term a minimum dividend plus a payout based policy or is it way too early to talk about that?

Antonio Paccioretti, Snam SpA - CFO [11]

It's not the easy one to achieve. Relating to other revenues, I remember the recent increase of EUR20 million from EUR40 million to EUR60 million. The major part of the increase is due to some revenues we had -- non-regulated revenues we had for the storage but is related to sub-contracts we have with Eni in relation to the Decree 130. So nothing related to the other new services. So for that item, I think that EUR40 million remain for the future, the level of EUR40 million remains a significant, reasonable at least level for projecting our net income and does not include anything of the additional revenues we were discussing before.

Carlo Malacarne - Snam SpA - CEO [12]

Then the (inaudible) regulation, I said before that apart from I'm confident that the regulatory update will be fair anyway for our -- to confirm our business model, our commitment, we said before, the main commitment that we have is to deliver to our shareholder a sustainable and attractive return. So only to say that it's clear that is serious to maintain the dividend not only 2015, waiting the evolution but the main commitment is to deliver a strong return to our shareholder. I think we can analyze the possibility to evaluate 80% payout, I think it's early today to set a dividend policy with the payout.

Antonio Paccioretti - Snam SpA - CFO [13]

I would say the payout has been always for us the reference for understanding which is the sustainability of our dividend. The target, again that has been always in terms of dividend per shares. Today, with the new tax rate, we expect that EUR0.25 would mean something around 80%. So, sustainable for the future. This is the starting point. We will see the evolution, taking into account the reset, the review of the tariff starting from 2016. But again, is not our policy was never, was not in the past linked to payout, was to our dividend per share policy.

Enrico Bartoli - MainFirst AG - Analyst [14]

Enrico Bartoli from MainFirst. First of all, two general questions. One, you mentioned that the midcaps is lets say a new level decision. So, this is going to unlock a lot of import capacity at European level through the Spanish energy. Do you think that this is going to cannibalize in some way the medium long term perspectives of investments in the gas system in Italy? Then, a question on gas series is, we know a very long process. There was recently some statement by the Algerian authorities saying that they will like to go on with this project and what is your feeling of the feasibility, considering the international situation at the moment. And then, a question on some figures, if you can give us the RAB at the end of 2014 and what's you spec for the end of this year and possibly also the net debt for at the end of 2015, please?

Carlo Malacarne - Snam SpA - CEO [15]

MidCap, I think would be an opportunity. No risk for the Italian reverse flow. You know, the first step of the TIGF CapEx plan, four years CapEx plan, is the interconnection from the hub of south of France to northeast of France. North east of France is the connection with Switzerland and Italy. In this case, I think, means to put on the market more liquidity of gas. So, is an opportunity. Is no -- let me say, the more Spanish gas, there is no possibility to jeopardize the investment on (inaudible) when you speak about reverse flow, we speak about interconnection. So, the way of the gas depend of the price competition. It's not a physical decision, but depend on the price competition. Today with the complete connection with the European gas exchange, all European gas exchange, we can buy in France, in Germany, or in Spain the gas at a different price. So I think what is important is that there is a strong interconnection through the countries. So it's not a problem of stopping the investments or running slow. For Galsi, frankly speaking today, in the last month, there were being a lot of rumors of (inaudible) of other operators to speed Galsi. I think Galsi in terms of value of investment, in terms of the possibility to bring gas in Europe by (inaudible) country, I think is an advantage, because reaching the north of Italy with the investment of connection from Algeria to Sardinia, I think is an opportunity. The problem is that I don't see today the environment ready to sign long-term contract. So could be a risk for the producer. The decision could be to enter directly in the market. I said before that without a shipper or to enter directly in the market, I don't know, but today I think the market in general -- the market is now ready to sign and to define, to take a final investment decision for gas (inaudible).

Antonio Paccioretti - Snam SpA - CFO [16]

The RAB, the estimation on the RAB at the end of -- starting from 2014. At the end of 2014, our estimation is EUR24.7 billion, which implies an inflation of 0.6% for [2015]. Starting from this element, assuming an inflation of 0.7% and the investment of EUR1.3 billion, the RAB at the end of 2015 is estimated in EUR25 billion. Debt, as far as our debt is concerned, at the end of 2015, I would say that if we consider the cancellation of the Robin Hood Tax, that should not be have any further payment for this year. So, a saving of EUR90 million and the cash in we have already realized for the entrance of Credit Agricole in TIGF, the guidance of our net debt at the end of the year is EUR13.8 billion, EUR13.9 billion. The difference in particular I would underline depends on the some item in the working capital that is associated with the balancing mechanism and is not in our power to manage. The result of these working capital balancing depends on the position that the shipper will take at the end of the year. So, this is the range that cannot be managed by the Company.

Unidentified Audience Member [17]

Very quickly, just two questions. The first regarding the RAB of the TAG at the end of 2014, if you can give this number. The secondary regarding the extra return, the incentives on investments. The regulator introduced an outward base system on the storage and it is probably doing the same also for electricity transmission. Do you expect that also for gas transport, we can see something similar? And what are the risk in this case and also if you have a time frame where this could happen?

Antonio Paccioretti - Snam SpA - CFO [18]

From the RAB of TAG, I would need a few seconds. First of all, it is clear that TAG operates under a fully regulated tariff regime with the RAB based mechanism, first of all, but it is somewhat different from the (inaudible), being in Austria the regulatory framework based on a fixed book capacity mechanism, which means that there is an exposure to the book capacity. So the quality of the quality, the structure is different. On the RAB, you know that the regulation in Austria recognized the return on equity, which is [9.9%] something, something more than 9% and the cost of debt, which is something more than 4% that are applied, the first one on the 60% of the asset at reconstruction value. The other one at 40% of the asset at the book value. We can give the name of RAB to the sum of this 60% and this 40%, even if 60% is at this current level and 40% is at book level. This value is more than EUR1 billion.

Carlo Malacarne - Snam SpA - CEO [19]

The second question. First of all, we have to manage the storage. We don't have the final tariff which will be final tariff in July, so the problem and so we are discussing the problem of work in progress and so on. So, it's not a final decision. Any way, if there will be a final decision, the intention is to appeal to administrative court, only because the investment we are doing are linked to the Decree 130. So all the investments inside the 130 were committed two years ago. First of all, but this is -- it's not a question. For the transmission, I think is different situation, because the problem of the put-in operation, the investment is very strongly in the storage because the time of spending before the put-in operation for a new field is a four years, three years. For transmission, we can put-in operation step by step without this type of risk. There is no risk (inaudible). The problem is in the storage today because we are running the investment we started two years ago, so we cannot put in operation filled during the investment. It's completely different. The reason why you have to face this point of storage because it is very different, the storage are not investment we can decide step by step. When we start with the field, we have to complete field for putting in operation, so a different approach.

Operator [20]

(Operator Instructions). Alberto Gandolfi, UBS..

Alberto Gandolfi - - UBS - Analyst [20]

Good afternoon and thanks for taking questions on extra time. Alberto Gandolfi, UBS. If have a three please. The first one is that today the ten-year bond in Italy is 1.1% and I know the inflation used by the regulator is not the RAB deflator but from the RAB deflator, you're talking about the year, it would appear that you have like a [real rate] of like 0.6%, 0.5%. So the question here is two-fold. One, haven't you been maybe a little bit optimistic on inflation on RAB and your dividend sustainability contingent to inflation? So how do you think about the relationship, inflation and dividends please?

And secondly, what type of discussions are you having with the regulator to avoid the situation we incur towards the end of last year, when there was a clear mismatch between inflation and bond deals. Bond deals is a clear 12-month rolling average. Inflation, I still don't understand where the regulator gets it from. So, how can we make sure that this time around the regulator is very congruent, consistently in establishing the bond deals and inflation so that we don't have a mismatch for a couple of years?

Second one is that you talked about your ratio target, net debt divided by your RAB. Can I ask you, do you have a maximum level for 2016 as well, sort of an exceptional level, could you breach that if regulator where to prove particularly harsh and could you modulate effectively CapEx even further?

And the last one is that on (inaudible), when you talk about the new revenue stream, can you talk about please margins you would expect on those and perhaps if you can give extra indication on longer-term growth in these revenues, because the arrow is manually drawn, but it looks like suggesting an exponential growth?

Antonio Paccioretti - Snam SpA - CFO [21]

In relation to the first question, Alberto, the answer is very difficult. I mean, how can we be sure about the possibility of the matching or not mismatching and so on. I think that all of the people familiar with the problem know that there will be something of important. Our equity story, we would discuss with the regulator. Sure, that the outcome will be such affair that will permit the Company to maintain its equity story and to make the investment that the Italian gas market needs.

For the second question, I would say that the maximum leverage, possible answer is that we don't see in all our sensitivities is difficult for us to see the risk of touching level that exceed the one the metrics of the current ratings. One of the reference is the 60% that is considered one of the reference and it's difficult for us to imagine to touch this threshold in the four years plan even if some difficulties occurs. For the EUR40 million, I would say that the guidance is that we are discussing and we could expect support in terms of additional revenues for this four years plan up to EUR40 million. It is difficult to have guidelines after this duration of the plan.

Carlo Malacarne, Snam SpA - CEO [22]

Only to do some comment on the first question, if you remember all the regulatory review, there is no review where we discuss with the regulator each figures. Usually the discussion is in the framework of the regulatory decision and the regulator usually takes into account all the framework. So a risk free inflation, I don't see that the discussion will be to discuss the inflation without the other parameters to discuss the risk free without inflation is not a mathematical composition. So I imagine that the discussion and then clarification will be considering the possibility to set a return which give to the companies generally because (inaudible) the other company the possibility to maintain the business plan.

Operator [23]

Olivier Van Doosselaere, Exane.

Olivier Van Doosselare - Exane- Analyst [24]

Good afternoon everyone. Just two questions on my side. First one was on the unit costs that you mentioned, you are saying how you expect them to remain flat in real terms. I was just wondering if there wasn't a scope there to being aggressive because I suspect you could think that as you expand the network there should be some economies of scale there. So I was wonder why efficiency could actually be improved on that side on the per unit basis?

And then the second question that I had is again coming back to the review and I find it difficult to get some details at the moment but (inaudible) as it is today and we'll have to see if any quantitative easing in Europe (inaudible) you've done any further. Do you have any sense talking with the regulator that he maybe possibly stepping away from the previous attitude of (inaudible) 12-month historical average at (inaudible) rate and maybe take a longer-term horizon on this one because with the volatility that you've currently in those bond yields, one might say that it is pushing you to have I guess two-year average maturity as well on your debt which maybe not very sustainable from a financing perspective?

Carlo Malacarne, Snam SpA - CEO [25]

As far as the first question, the guidance that we are giving in terms of operating cost is flat in real terms with the current perimeter does not include the possible effect of the optimization of the portfolio in the distribution and the increase of our market share in the distribution. The guidance is maintaining the current perimeter, if I catch your question. So the upside, the arriving from a possible further optimization in our portfolio and the distribution is not included in this guidance. As far as the second question, the future ones that you explained, you described are some of the large part, large number of elements, parameter that we would discuss with the regulator for their review. It's not today the time for discussing this. I mean we will have the consultation document to be commented and that would be the occasion for us for giving a contribute on the discussion.

Operator [26]

Maurice Choy, RBC.

Maurice Choy - RBC - Analyst [27]

Good afternoon. I've got three questions. The first question is on storage, Carlo, I know that, obviously you've got a lower CapEx in storage for next four years. And part of it is because of the lack of I guess strategy, clarity in Italy as well as in Europe. Can you just share with us maybe what to look out for, what milestones should we be looking out for, is there a discussion on the EU level that we should be following and I guess once we see that we should expect a higher CapEx in storage. So, that's the first question. The second question is back to the international JV that you have with Fluxys. I recognize that discussions on future investments are finalized. Can we just get a little bit of a timeline as to when we should expect that? I assume, CapEx once announced is over and above the amounts that you've announced today. And then lastly, just very shortly on Robin Hood Tax, is there any discussion or appeals by the government on this, if you could just shed some light on that?

Carlo Malacarne - Snam SpA - CEO [28]

From the first question, my analysis coming from the increasing role of the storage not only in Italy but at European level, I think that the only possibility to have gas resources to substitute the take-or-pay, the import in case of let me say lack of import gas, for example, the Russia gas and so on. I think we have enough storage today at European level, we speak about the 100 bcm to consider to cover the emergency period during the winter period with the storage system and to make sense, to pulling part of the storage for the different countries to create a reserve as we have in the oil system. That is the reason why I said today we are ready to increase the investment in storage, but our objective, our approach is to create value for our investment. To pulling the storage system at European level is a new way to create value in the new storage investment. If you need to cover four months, five months of Russian gas in Europe, we need roughly 40 bcm, 50 bcm of storage. So, could be, let me say the possibility to share the existing storage if the storages remain empty or to build new storage system to guarantee a system with criteria and rules set by a European body to manage the gas exchange in the storage through the TSO to operators. So, is the possibility to improve the storage investment let me say without considering only the country situation, but considering the gas needed at European level. The reason why I said that it is no strictly connected with our CapEx plan in storage, we are investing to complete the Italian decree to resolve the Italian problem. But, make sense to consider an evolution in the storage system at European level. With Fluxys, there is no today intention to put capital employed in the joint venture we are doing today. So, is the share of participation without capital employed, right now. For the Robin Hood Tax, the question is, if -- okay, frankly speaking, today the political discussion is to reduce anyway the corporate taxes, not to increase the corporate taxes to improve the industrial growth. Anyway, some rumors in the last week was a replacement, is only rumors frankly speaking, I'm not information about this type of discussion or replacement of Robin Hood with the carbon tax. Anyway, only to say that the cost related to the CO_2 was negligible, close to zero. So, is not an impact for now.

Operator [29]

I think we have exhausted the -- more or less, two and half hours. So I think, thank you everybody. And anyway, if you have additional question, please contact the IR department. And just remember that the press conference will follow shortly on the same location. Thank you. Bye-bye everybody.

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