



**Snam 2015 Interim Results  
Earnings Call  
July 29, 2015**



## Corporate Participants

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

## Conference Call Participants

- [Harry Wyburd](#)  
Merrill Lynch - Analyst
- [Pablo Cuadrado](#)  
HSBC - Analyst
- [Javier Saurez](#)  
Mediobanca - Analyst
- [Cosma Panzacchi](#)  
Bernstein - Analyst
- [Anna Maria Scaglia](#)  
Morgan Stanley - Analyst
- [Olivier Van Doosselaere](#)  
Exane BNP Paribas - Analyst
- [Jose Ruiz Macquarie](#)  
Research - Analyst
- [Maurice Choy](#)  
RBC - Analyst
- [Monica Girardi](#)  
Barclays Capital - Analyst



## Presentation

### Carlo Malacarne, Snam SpA - CEO [1]

Good afternoon, ladies and gentlemen and welcome to the Snam's 2015 First Half Results Presentation. Let me start by outlining the main financial highlights. In the first half of 2015, we have maintained our strong track record of delivering with an increase of more than 9% in the net profit, demonstrating the robustness of our business model.

The result of our solid operational activity were also supported by ongoing debt optimization initiatives as well as the increasing contribution of our international activities. Furthermore, our strong operating cash flow generation fully financed overall CapEx spending during the first half and ensured that our levels of net debt remain under control. Net debt stood at EUR13.9 billion at the end of June after the EUR875 million dividend payment to our shareholders. We remain committed to maintaining a solid and efficient capital structure.

Let me now provide you with a quick overview of the gas demand in Italy. In the first six months of 2015, gas consumption totaled 35.5 bcm, up 7.9% versus the same period of last year. The total demand adjusted for the weather effect reached 36.3 bcm with an increase of 0.8% compare to the same period of last year.

The growth was due to the increase accounted both in the residential and thermoelectric sector. Gas consumption in the residential sector was up by 12.4% reaching 17.2 bcm. This was mainly due to the harsh weather conditions during the last winter compare to the same period of 2014.

In the thermoelectric sector, gas consumption was up by 9% driven by the significant reduction in hydroelectric productions due to rain fall back to the normal levels compare to the unusual heights reached in 2014. This [busty] factor was only partially offset by the increase in the electricity production from renewable sources, mainly solar and wind. Gas demand in the industrial sector decreased by more than 2% on a like-for-like basis.

Finally gas injected into network for the first six months of 2015 was perfectly in line with the same period of last year, since the growth in gas demand was matched with higher withdraw from gas storage. That's all from me.

I will now hand you over to Antonio, who will discuss our first half consolidated result in more detail.



## Antonio Paccioretti, Snam SpA - CFO [2]

Thank you Carlo and good afternoon everyone. The 2015 first half consolidated financial results show a net profit growth of 9.1% to EUR612 million. Driven by the reduction in net interest expenses, the higher contribution of incomes from associates and the positive effect for the Robin Hood Tax consolidation on income taxes. This result was achieved despite of an EBTIDA almost flat due to the new regulatory framework in the storage business and the higher operating cost in the distribution activity and a EUR32 million reduction in EBIT due to the increase in depreciation.

The first half 2015 total revenues amounted to EUR1,837 million with an increase of EUR55 million compared to the first half 2014. Regulated revenues net of pass-through items rose by EUR41 million, up 2.4% reflecting the fall in performances by business segment. Transport revenues registered an increase of EUR80 million compared to the same period of 2014.

The positive contribution from the investment carried out in 2013 equaled to EUR38 million was partially offset by tariff adjustments of around EUR29 million. Distributional revenues grew by EUR39 million, thanks to the consolidation AES Torino, EUR34 million from July 2014 and Acam gas, EUR5 million from April 2015. On a like-for-like basis, the level of revenues confirm the stability of the business framework. Storage revenues decreased by EUR7 million, mainly due to the effects of the new regulatory framework and in particular to the different timing profile in the tariff mechanism, which switched from a season to a constant outline.

At year-end, we expect storage regulated revenues almost in line with the previous year. Other revenues rose by EUR7 million mainly reflecting the disposal of gas inventories not used for operational activities in the transport business, partially offset by lack of revenues recorded in 2014 from contractual agreements between Eni and Stogit as part of activities connected to the Legislative Decree 130/2010.

Moving to operating expenses, total cost amounted to EUR403 million. Net of pass-through items, operating costs were EUR329 million with an increase of EUR42 million compared to the first half 2014. This was firstly due to the growth of EUR23 million in known regulatory activities mainly driven by the disposal of gas inventories previously commented.

In addition, controllable fixed cost recorded an increase of EUR23 million compared to the first half 2014, mainly due to a known recurring decrease in the amount of internal costs allocated to investment activities in the distribution segment. Higher cost of around EUR10



million related to the consolidation of AES Torino and Acam were almost offset by the efficiencies achieved in the period throughout all business segments. We are committed to continue to pursue efficiencies in order to minimize the growth of controllable fixed cost by the end of this year.

Other costs, equal to EUR34 million, decreased by EUR8 million, driven by a reduction in risk on provisions. Consolidated EBIT amounted to EUR1 billion and EUR12 million, a decrease of EUR32 million as a result of: the increase in regulated revenues of EUR41 million, net of pass-through items; the increase in controllable fixed cost of EUR23 million; the increase in depreciation and amortization of EUR38 million. This rise is higher than the organic depreciation growth because of the changes in the business parameter, EUR14 million and in the technical life time of some metering assets in the distribution segment, around EUR7 million. Finally, other negative effects of EUR12 million mainly reflects the changes in non-regulated storage revenues, which I previously commented on.

Moving to the net profit performance, it recorded a growth of EUR51 million, up 9.1% to EUR612 million. Analyzing the items below EBIT, net profit increase has been supported by; firstly, the reduction in interest expenses of EUR18 million, essentially due to a lower average cost of debt, partially offset by higher average debt during the period. Secondly, an increase in net income from associates of EUR20 million mainly due to Targa, which started contributing at the beginning of 2015, partially offset by the effects of AES Torino and Acam Gas consolidation. Finally, a reduction in income taxes of around EUR45 million, mainly due to the positive effects of the Robin Hood Tax consolidation.

Now, let me give you the update on the progresses achieved on the debt structure side. As regards to debt capital market, in the first half of 2015, Snam tapped again in the market by issuing a EUR250 million bond with maturity of eight years and fixed-rate coupon of 1.5%, therefore, supporting our goal to have an average maturity of our outstanding medium to long-term debt, consistent with our business and regulatory profile.

As regards institutional lenders' financing, I would like to highlight the consolidation of EUR300 million of relatively expensive European Investment Bank financing and a new cheaper European Investment Bank financing of EUR200 million related to Snam Rete Gas infrastructure project. As regards to banking facilities, Snam confirmed its proactive approach. In June, we performed in advance, banking facilities refinancing for an overall amount of EUR3.2 billion. We extend the maturity and reduced the margin by 25 basis points. The contractual arrangement allow the Company to further reduce the cost of this lines by around 10 basis points following the recent rating assignment by Fitch.



As regards to treasury management optimization, let me underline the important role played by the uncommitted credit lines in the first half 2015 thus allowing Snam to exploit abundant market liquidity and favorable interest rate scenario. The measures carried out by Snam in the first part of the year together with the full effect of the optimization exercise held in [Elk Horn] in 2014, made it possible to achieve an average cost of debt of around 2.9% in this period -- in the first half 2015.

Turning to the free cash flow, Snam generated a positive cash flow from operation of EUR1,146 million in the first half of 2015, fully financing net investment of EUR559 million and resulting in a positive free cash flow of EUR587 million. Cash flow from operation benefited from a positive contribution of EUR120 million of change in working capital driven by an increase in tax payable of around EUR70 million mainly due to income taxes accrued in the period.

Moving to net investments, cash absorption from the net CapEx in Italy amounted to EUR583 million, was partially mitigated by a net cash-in from financial investments of around EUR24 million related to: firstly, the reduction of Snam's stake in TIGF, EUR84 million; secondly, the acquisition of Acam gas, EUR46 million; and tax price adjustment, EUR40 million.

Finally, turning to the balance sheet, net invested capital amounted to EUR20.9 billion, substantially in line with year-end 2014 as the growth in fixed assets was partially compensated by the change in working capital. Net financial debt at the end of the first half amounted to EUR13.9 billion, an increase of EUR284 million compared to the year-end 2014, as the free cash flow generated in the first six months, EUR587 million was more than offset by the EUR875 million payment for the full 2014 dividend.

Thank you very much for your attention. We are now pleased to answer any questions you may have. depreciation and amortization of EUR17 million. This rise is higher than the organic depreciation growth because of the changes in the business parameter for the inclusion of AES Torino and the new shorter technical lifetime of some metering assets in the distribution segment.

Finally, other negative effects of EUR11 million mainly reflected to the changes in non-regulated storage revenues which I previously commented on.

Now, I would like to conclude the review of income statement by commenting on the net profit performance. First quarter 2015 net profit was EUR325 million, up 11.3% compared to the same period of 2014. Analyzing the item below EBIT, net profit growth has been supported by, firstly, the reduction in interest expenses of EUR6 million, essentially due to a



lower average cost of debt; secondly, by an increase in net income from associates of EUR19 million, mainly due to Targa which started contributing at the beginning of 2015, further supported by other associates in our portfolio, TIGF in particular, and partially mitigated by the effects of AES Torino consolidation.

Finally, the reduction in income taxes of around EUR40 million due to lower taxable income, following the Robin Hood Tax consolidation.

Now, let me give you the update on the progresses achieved on the debt structure side. With regard to debt capital market in general, Snam tapped again the market by issuing a EUR250 million bond with a maturity of eight years and a fixed rate coupon of 1.5%. Therefore, supporting our goal to have an average maturity of our outstanding medium to long-term debt, consistent with our business and the regulatory profile.

Looking at the European Investment Bank financing, I would like to highlight the optimization of our portfolio following the cancellation of EUR300 million of relatively expensive financings and a new loan of EUR200 million related to a Snam Rete Gas infrastructure project.

Examining the treasury management optimization, let me underline the important role played by the uncommitted credit lines also in the first quarter 2015 which enabled Snam to benefit from the abundant amount of liquidity and favorable interest rate scenario. These measures, together with the full effect of the optimization exercise carried out in 2014, made it possible to achieve an average cost of debt of around 2.9% in the first quarter 2015, in line with the full-year 2015 guidance announced during our latest strategy presentation.

Turning to the free cash flow, Snam generated a positive cash flow from operations of EUR653 million in the first quarter of 2015, fully financing net investment of EUR200 million and resulting in a positive free cash flow of EUR453 million. The working capital cash generation of EUR178 million was mainly related to an increase in tax payables of around EUR144 million, due to income taxes accrued in the quarter.

Moving to net investment, cash absorption from net CapEx in our Italian-regulated businesses amounted to EUR284 million in the period, partially offset by EUR84 million [cash in] coming from the reduction of Snam's stake in TIGF.

Finally, turning to the balance sheet, net invested capital amounted to EUR20.8 billion, substantially in line with 2014, with an increase in fixed assets compensated by the change in the working capital. Net financial debt at the end of the first quarter amounted to EUR13.2 billion, a decrease of EUR0.4 billion compared to the year-end 2014, due to the positive free cash flow generation already commented on.



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



## Questions and Answers

### Operator [1]

Thank you. (Operator Instructions) Harry Wyburd, Merrill Lynch.

### Harry Wyburd - Merrill Lynch – Analyst [2]

Hi, good afternoon everyone. Thanks for taking my questions. Two from me from the distribution side, please. So firstly, I understand that the distribution concession penciled in for July have been postponed and I wondered whether you could let us know what impact that might have on your strategy in expanding in gas distribution? And then secondly, could you tell us a bit about whether you'd consider partnering with financial investors to perhaps increase your footprints in the tenders for gas distribution? Thanks.

### Carlo Malacarne, Snam SpA - CEO [3]

The reason of the possibility of postponement of the distribution tenders is mainly due to their requested to have better phasing on the timing of the tender. According to the current schedule, are heavily concentrated during the last month of 2015 and the initial months of 2016. So we expect the starting of the process in the first months of 2016. I remind you that in addition, there are in place some appeal regarding the criteria to set the redemption value, which are expected to be decided by the end of September. That is the reason that the possibility of some delays in starting the process. Anyway, we are ready to follow the process, our strategy we announced at the beginning of the year is to take part to the -- bid for tender and to increase our portfolio of 10%, 15% is the preliminary evaluation considering our competitive possibility we have in the new geographical distribution areas.

For the second question, where the capability to bid directly with Titan Gas, anyway we are ready to evaluate the participation of financial operators. Today, we have no discussion in this way.



## **Operator [4]**

Pablo Cuadrado, HBSC

## **Pablo Cuadrado - HSBC - Analyst [5]**

Hi, good afternoon, everyone. A few questions from my side. The first one is on the equity associates. The performance during H1 has been quite strong EUR70 million, [almost]. I was wondering whether you can provided the guidance or the expectation you have for year-end and I'm not so sure that we should extrapolate H1for H2. So I prefer to listen that from you.

Second, on the CapEx, technical investments were a notch below EUR500 million at the end of H1 and if I'm not wrong, I think the guidance in terms of infrastructure CapEx was EUR1.3 billion for year-end. So I guess, there had been probably some kind of a slowdown in some of the investments, but if you can clarify a little bit on that front.

The third one is on the cost of debt, which has improved again and clearly, Antonio has been explaining what has been done. The question I have here is basically if you are considering, let's say overall (inaudible) without changing the cost of debt like bond buybacks or bond swaps or simply you prefer to keep waiting for the ongoing refinancing of the debt that you have.

And lastly, I promise, there had been some press articles pointing about potential shareholders of TAP willing to sell TAP pipeline project. Could you just comment a little bit if you are ready to take part on that project if there is opportunity to take a stake? Thank you.

## **Carlo Malacarne - Snam SpA - CEO [6]**

Pablo, the first question is related to the affiliates, some more color on the affiliates, the performance of the affiliates in the first half and some guidelines for the full year. In the first half, we have a net income from associates, we accounted an income from our associates of around EUR69 million and this was due to the contribution of our integrational activities around EUR59 million in relation to Targa EUR39 million, TIGF EUR15 million and the interconnect of EUR5 million. The additional contribution derived from their distribution in our segment associates, which is Toscana Energia for EUR10 million.

The contribution of Targa, the important contribution of Targa during the first half, which again amounted to EUR39 million, was also due to the distribution of certain costs maintenance in particular. We believe that its contribution is not fully replicable in the second



part of the year. All in all, our best estimate today for the full-year contribution from our associates is in the range of EUR120 million.

And second question was for the CapEx for the third. For the third, the cost of debt and the possible contribution of some liabilities as they size -- you know that I would say that the liability management and the buyback of our bonds by cash, our existing bond, outstanding bonds by cash in line with -- we usually do, we are evaluating also this opportunity as we usually do with all the other potential optimization action. We are analyzing also this option in order to understand whether there is a solid ground behind it in terms of value creation potential and we will analyze this in the second part of the year, this opportunities.

#### **Antonio Paccioretti - Snam SpA - CFO [7]**

The second question on the CapEx estimate, during the first half of 2015, we were able, in the current market economic condition to achieve a better-than-expected efficiency in our CapEx spending. Anyway confirming the realization of the plan and project. Therefore, our best guideline in terms of CapEx is to reach level in the region of EUR1.25 billion by year-end.

The fourth question about the interest in TAP, we confirm our interest in evaluating our entry in the TAP pipeline. The development of the South Corridor is a key for the consolidation of the Southern European hub and the TAP is a key project in that respect sponsored by SOCAR, which is a key player in new gas supply reaching EU from the South Corridor. In case some of the current shareholders who would be (inaudible) sell their stake in the company; we are ready to evaluate our entry. We believe that anyway in the case, we have a relevant role in the shareholder structure. We can support the project with our skill and knowhow and the emergence of European Southern hub base in Italy making our network the key crossroads of the South North European Gas Corridor supported by the EU energy policy would be very strategic for us and contribute to enhancing our international development and increase further option in the medium and long-terms with respect to the additional flow coming from Azerbaijan both for Italy and Southeast European Corridor.

#### **Operator [8]**

Javier Saurez, Mediobanca.



**Javier Saurez - Mediobanca - Analyst [9]**

Hi, good afternoon and I'm sorry if I'm repeating some of the questions, because I have difficulties to connect into the conference, so apologize, since the beginning. So the first question is on the regulatory review. We have seen this first consultation document on the WAC. I just wanted to ask you an update on your negotiations with the regulator or point of discussion on where do you think that this consultation document can be improved in order to have a sense of what do you think could be a conclusion for these revision on your return on RAC for next regulatory period. Any update or light could be welcome?

The second one also on regulation. We have seen by the beginning of July, a document on the recognized cost for the electricity transmission grade, and I just wanted to know if there is any significant cross reading for Snam or how Snam is reading that document? I'm particular interested on the intention by the regulator to introduce the totex methodology from 2019. So any question on that would be extremely helpful too?

And the third question is a follow-up after Pablo's question on TAP. TAP is not a regulated asset and obviously has a loan execution phase, i.e., I just wanted to have a sense of how the Company may try to mitigate the execution risk of that project without increasing the risk profile of the company? Thank you.

**Carlo Malacarne - Snam SpA - CEO [10]**

Thank you. For the first, consultation document, the consultation document is related to the methodologies to assess and review the cost of capital, which will continue to be based on the existing methodology and in the first consultation paper that described the preliminary view of the regulator with particular reference to the evaluation of the risk-free rate, I think proposed by the range of 0.5% and 1.5% and introduction of account to risk premium for Italy proposed in the range of 0.5% and 1%. I can say that we are carrying out our comment and we will send the comment by the end of July. Anyway, the overall approach seem fair as it is aimed to preserve the stability of the regulatory framework and to provide the investor with adequate [return].

In any case, it's necessary to know the regulatory view on the other parameters in order to have a complete picture of the reviewing. But anyway, I can see that the approach seems fair. For some specific subject, you said the totex methodology, I think all at this point are under discussion and will be a part of our comments. Anyway, a movement towards the totex



methodology which means operating cost plus capital cost could happen also in the gas business in the future.

I remember that the regulatory period for the transmission will expire by end of 2017. However, I think that such methodology is still at an early stage and will need to be further developed and discussed before it can be applied.

The second question was by the TAP, I think it's early to comment on the TAP execution today -- executional risk today because we do not know the contractual arrangement underlying the project. We know that all the ship or pay contracts are in place. But frankly speaking, we need to analyze and to know the figures of the project. Today, we don't have up-to-date information about this subject. We will, in any case, analyze properly such potential risk, you know our financial discipline in major acquisition. We know the experience we had in the previous major acquisition and our evaluation, if there'd be the possibility to enter in the TAP shareholders structure, we'll be very pragmatic before evaluating our investments in TAP. Thank you.

#### **Operator [11]**

Jose Ruiz, Macquarie

#### **Jose Ruiz - Macquarie Research - Analyst [12]**

Yeah, good afternoon all, just two questions. The first one is, if you can please comment on your outlook regarding gas demand in Italy. You say you are expecting flat. I thought you'd expect a little bit of an increase this year previously. And the second, I've been trying to look at a little bit of where these cost synergies are happening. I just saw a little bit of a deceleration in terms of costs in the second quarter for transport activities to EUR105 million. If you could explain if that is happening there or it's just something seasonal in terms of cost. Thank you.

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

For the gas demand, by the end of the year, our estimate will be an increase of the gas demand about around 7% versus the same -- versus 2014. Anyway adjusted for the weather effect, the total increase will be -- the gas demand will be flat, an increase of 0.5%, 0.7%. We have to consider that the impact in our revenue coming from the injected into the network --



the gas injected into the network and we estimate an increase of the gas injected into the network about 5% by the end of the year around 76%, 77% bcm. Could you please repeat the second question, I did not understand it very well.

**Jose Ruiz - Macquarie Research - Analyst [14]**

Yeah, I was just trying to see where this cost synergies are hampering the efficiency and I just saw that in the second quarter, on a standalone, the cost in transportation activities were down compared to the first quarter, I was wondering if that is a signal of these efficiencies that you are talking about?

**Carlo Malacarne, Snam SpA - CEO [15]**

Yes, Jose, I would answer it by giving you some, in general, more color on our OpEx and you have noted that at least in the first half 2015, our operating cost are equal to EUR329 million, with an increase of EUR42 million. There reason, we have some elements for explaining these increases. First of all, the again, the non-regulatory cost due to the disposal of gas inventories, but without any impact on our EBIT. The second important element is in terms of controllable fixed cost, the increase of around EUR23 million mainly related in the distribution segment and such an increase was due, and no recurring increase, very important to be on the line again, was due to the decrease in the amount of internal cost which was allocated to investment activities.

We have other two elements. The first one is the increase of OpEx of cost again in the distribution, due to the different parameters. So the consolidation of AES Torino and Acam for around EUR10 million which was offset by the reduction of controllable fixed cost in the other sector, in particular, in the transportation and you noticed this point. On this point, I have, anyway, to say that this is the combination of both efficiencies and different distribution of cost. So all in all, for the full-year basis, we think that these reduction important reduction on EUR10 million in the transportation would be partially absorbed.

**Operator [16]**

Cosma Panzacchi, Bernstein



### **Cosma Panzacchi - Bernstein – Analyst [17]**

Hi, good afternoon and thank you for taking my questions. I have three questions, the first one regards your expansion abroad. So, I understand your interest about the TAP and I understand that a key point here is how the TAP will help Italy in becoming the Southern European gas hub. At the same point, however, could you help me understand what has changed in terms of risk profile of this project compared to the past, because if I remember correctly, in the past you had dismissed the project as not coherent with the risk profile of Snam.

The second question again regarding your expansion abroad, regards to your potential tie-up with the international operations of Fluxys, because we don't see any update on that. I wonder if the deal is still on the table or if it has been scrapped once and for all. And if it's still on the table, what are the current hurdles that prevent it from being completed? Are there elements on the valuation of the assets or are there elements on the governance issues of the new entity?

And finally, I have another question regarding Italy in a longer-term view. So if I look at what the authority is doing, the authority is trying to push power consumption more and more with the change in power tariffs and in particular, the head of the authority Mr. Brothonne has clarified in his presentation of the Annual Report to the Parliament that he sees an increasing role of what he calls the electrical vector versus the gas vector going forward in consumption especially at the residential level?

Now I wonder, in such a future, where progressively we move from gas consumption into electrical consumption at the residential level for environmental reasons and efficiency reasons. Is there a risk that the distribution infrastructure of gas going forward becomes sort of a stranded asset or at least sees its value decrease overtime? Thank you for your answers.

### **Carlo Malacarne, Snam SpA - CEO [18]**

For the first question, we don't change our strategy abroad. I said that our risk profile to remain close to the regulated activity, it is the reason why where the activities are completely regulated. We will evaluate very well their risk profile. If the question is related to TAP [NUA] is the only possibility of acquisition without regulatory framework in place. I remind that TIGF and the Targa are completely regulated.



For the TAP, we have to consider the ship-or-pay contract in place and the evaluation of the risk will be linked to completely cover of their revenues coming from the ship-or-pay pay contracts. The evaluation of the risk will be when the final investment decision will be taken. Today the interest in the shareholder participation, let me say, is to understand the evolution and how we can take part to the final investment decision. It is not today, let me say their participation, the investment decision with the full commitment of our strategy. Anyway I confirm that we will follow and we are (inaudible) our strategy in terms of risk. The risk in the future possibility of acquisition have to be in line with the regulatory -- the evolution of the regulatory framework.

For the second question Fluxys is and approval, let me say consequence of our evaluation in terms of value creation. Snam and Fluxys are continuing to work in a coordinated way for investment and commence their activities along the south-north corridor, which is the main priority -- was and is today the main priority in our strategic alliances. We know, you remember that the strategic alliance was base of the possibility to create without risk, the reverse flow capacity.

Anyways, Fluxys have also carried out thorough analysis of the potentialities of the corporation in international activity and their analysis has confirmed the value creation potential of the coordinated development in the south-north corridor, while the value creation associated in the present business environment to a wider scope of the partnership does not support, let me say, to proceed at this stage with more comprehensive integration in the international assets of the two companies.

We work and the time is due, that we work with that analysis of the possibility of value creation and today with the evolution of the strategic infrastructure development at European level we cannot recognize with the integration, a strong value creation of the Company. That is the reason why we will continue the collaboration and the coordination for the investment and commercial aspect in the corridor but we stop at this moment and it of course could be a new evolution. But at this moment, the possibility of a share, the participation in the, both in the companies, European companies is Snam and Fluxys.

For the third question, I can say that I don't know, frankly speaking, the analysis done by the regulators in terms of the evolutions of the power consumption. It's clear that in the long terms, we don't see, frankly speaking, an increase and the substitution of the gas consumption by the power consumption. In the long term -- in the medium, long terms the gas will remain the main, let me say, transition fuel for the evolution of the renewable. It is the reason why, frankly speaking, there could be some reduction at the residential sector due to the efficiency of the heating system and so on. But anyway, automatically with an



increase on the power consumption, anyway we need more power generation by gas to combine the production of the renewable. So frankly speaking, I don't see a strong risk in the evolution of our business in the distribution. Thank you.

### **Operator [19]**

Maurice Choy, RBC

### **Maurice Choy - RBC - Analyst [20]**

Hi, good afternoon. I've got three questions. My first question is on gas storage, can you just share with me how the regulated revenues for gas storage will move between 2014 and 2015. My understanding is that, it was supposed to be stable, but I'm doing some [back available] calculation right now. If you'd at, I guess the lower returns, the loss of the work in progress revenues offset by rapid growth in CapEx, it seems that revenues probably should fall around EUR30 million but just help me with how revenues probably could be flat, I guess 2014 and rest of 2015.

A second question is about TAP again. Recently I did read a newspaper article saying that the Turkish government or Turkish utilities are also looking to the same 20% stake that Statoil might be putting up for sale. Wanted to get your color about how if you define that this is something you want to go for, what puts you on the competitive edge. And the last question is more about a news from yesterday the Cheniere Energy in the States, they are looking to create an LNG facility that will bring gas, US gas through Croatia and Hungary and into Central and Southern Europe and just want to know your views, I guess, about how disruptive this could or could not be for your plans? Thank you.

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

Thank you very much. The first question of the gas storage, I can say that we are waiting for the final approval of the tariff for 2015 and I don't see -- you remember that 2015 is the first year of the regulatory period for storage and I can say, I don't expect surprise and I expect that the revenues in 2015 will be close in line with the revenue of the previous year. There will be -- the renewal of the storage will be in terms of exogenous parameters, we expect starting from 2016 for transmission, storage and distribution. There is no change in the regulatory framework of the storage, but frankly speaking, we are discussing and we are cutting out our comment about the [risk free] about the current risk and I said before, I don't



expect negative impact of anyway a reduction which we cannot manage in terms of value creation by Snam. I give you some detail, Antonio about this questions.

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

Few details for your method on that might be too detailed anyway. In understanding the evolution of the revenues, we have to take in -- for storage for 2015; we have to take into account the two negative effects that you have already mentioned. The reduction of the return and the different treatment of the work-in-progress. On that -- but there are other two positive elements that compensate in our evaluation, the reduction -- the reduction of the first two. The first one positive element is the increase of the RAB that is due to the important investments in 2012 in 2013 and the second element is the new regulatory reference RAB which has been used or which is used for the revenues of 2015, which instead of being the RAB at the ERT minus two is in the ERT minus one..

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

For the third question, there has been many press rumors on potential -- the second question is on TAP, sorry. There had been many press rumors on potential investor in TAP and it is hard to comment their ability. We will continue to monitor the process to be ready to examine the investment opportunity when it will actually appear. Anyway, I can say that we are the strong infrastructure partner. We could be a strong infrastructure partner for SOCAR. SOCAR is the supplier of gas to Italy and the collaboration in terms of managing the south-north corridor to Europe with Snam will be very strong. The reason why it is only a generic comment, but I think that our approach will take into account the joint collaboration with SOCAR.

For the third question of LNG, first, let me remind that I said a lot of time the LNG market could represent in the medium and long terms an important opportunity in order to increase the liquidity and the flexibility of the gas market. And the gas to gas competition for example, in Italy providing an important tool in order to increase the supply diversification. Frankly speaking, I don't think that will increase the regasification activity very quickly in Europe. My opinion is that in the next two or three years, we will remain a strong supplier to Eastern countries in UAE to Asia.

But anyway in the national energy strategy in Italy, which will be revised and will be set some technical -- specific technical document to identify the possibility the LNG strategic, let me say, LNG plant. We are monitoring, we are following the Ministry of Development in analyzing the possibility to set some specific criteria for the strategic LNG plant. In this case,



I remember that, I remember to you that the strategic plan will be regulated with specific rules, if the plan will be appointed strategic will be -- will represent a specific -- new regulatory framework will be set by the regulators.

#### **Operator [24]**

Anna Maria Scaglia, Morgan Stanley.

#### **Anna Maria Scaglia - Morgan Stanley - Analyst [25]**

Hi, good afternoon, everyone. I've got just a very few quick questions. The first one is, can you please update us on your net debt guidance for the year in average cost of debt [computation], if you confirm the data you gave at the first quarter? Second question is regarding to associates. In your business plan, you were expecting associates contribution to be around EUR130 million by 2019, for this year you're guiding for EUR20 million higher. Is this better performance anticipated or should we think that by 2018 as well, the performance should be EUR20 million higher?

And last question, regarding the other revenues of EUR40 million you spoke about at the strategy presentation for which you expected the regulator to issue statement. Can you please update us, are you still confident that these can come? What's the timeline there? Thank you.

#### **Antonio Paccioretti - Snam SpA - CFO [26]**

In relation to our financial -- to the guidelines, our debt at the end of this year, the guidelines remain the same. We confirm the guideline between EUR13.8 billion and EUR13.9 billion, again, if you remember the guideline is a range also because it depends on the evolution of our working capital due to the balancing -- through the balancing system activities, which does not depend on us, but it depends on the decision of the shippers.

In relation to the contribution from our affiliates, there is an increase for this year, the increase is significant because we're talking about EUR120 million, which is the guideline that the new guideline instead of around EUR100. For the time being, I would prefer not to change our guideline in the medium term of EUR130 even if we are experiencing that the contribution to our profit and loss coming from Targa and also from TIGF are higher than expected.



### **Carlo Malacarne - Snam SpA – CEO [27]**

For the last question, you remember that last March in the strategy presentation I tried to give you more granularity about the opportunities arising from the new services areas such as capacity services, balancing regime and cooperation with gas exchange operators. We estimated that the services incentive scheme, which is already identified and under discussion with the regulatory body, it could activate within the current regulatory period a potential new annual revenue of EUR40 million.

We have some progress, because on July 24, the regulator has published a consultation document, which describe a first examples of new services, the balancing of regime particularly, which could be introduced in the gas system. And the economic incentive reserved to the two areas, the first one concerning the quality and accuracy of the information provided by the TSO to the network users to balance the commercial portfolio and the second one concerning the efficiency of the actions undertaken by the TSO in the market when buying, selling gas in order to keep the network in balance.

And in the -- in the document, the regulator propose a cap and floor mechanism for the economic incentive set at EUR20 million per year as the maximum amount achievable. Only to say that there is some progress. It is the first step and it's clear that the mechanism will enter into operation progressively and after the test phases.

### **Operator [28]**

Monica Girardi, Barclays.

### **Monica Girardi - Barclays Capital - Analyst [29]**

Hello, good afternoon everybody. I have just two quick question. The first one is on Italgas and the revocation of the judicial administration. I was wondering if you can just comment on what we might expect from here if we do have to expect any legal tail or if the -- since it's done. The second one is on -- it goes back to CapEx. Antonio, if you can just give to us this fleet of incentivized and non-incentivized CapEx in first half and what do you expect for the full year. Thank you.



### **Carlo Malacarne - Snam SpA – CEO [30]**

Monica, the court of Palermo has revoked the major ruling on the return of the company having considered the verification carried out as well the active and effective cooperation of Snam Group, not substantial gaps for the robustness of the Snam Group internal control system as a whole has been detected. Specific organizational and procedural measure within Italgas have been drawn up and the share through an effective consultation process between Snam and the court-appointed administrator. The outcome will be properly monitored by Italgas Supervisor Board. So the first step is a monitoring by the Supervisor Board of Italgas. Italgas will ensure the flow of information to the competent authority envisaged by the Italian law. Substantially, there is no limitation of any kind of activities, powers and duties of the Italgas Board of Director are in place. It is only a specific report aimed at informing on some operation already valid and executed.

### **Antonio Paccioretti - Snam SpA - CFO [31]**

For the investment at the end of the year, as Mr. Malacarne was said before, the guidelines is around EUR1,250 million, out of which 65% we expect we'll earn the return higher than the investment to it. It is more or less the same proportion we have at the end of the first half.

### **Carlo Malacarne - Snam SpA – CEO [32]**

Sorry Monica, only to complete the answer by Italgas, I think your question is related to the impact. I can say that we -- our estimate is an impact in terms of operating cost in 2015 for the administration, the year let me say, administration from EUR6 million to EUR10 million and there are no recovering costs. So we will have an impact, but is non-recurring costs.

### **Operator [33]**

Olivier Van Doosselaere, Exane.

### **Olivier Van Doosselaere - Exane BNP Paribas - Analyst [34]**

Yes, thank you very much. Good afternoon, everyone. I just have two questions left on the consolidation of the distribution markets. You just said that that would start in the first month of 2016, I was wondering if you could give us an indication on how long do you think the process will last and also separately, to what extent do you see, the concession fee actually



might increase through that process and to what extent that could possibly offset significantly the synergies that you could get from improving your geographic footprint? Thank you.

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

Thank you. We expect that when the process will start, the process of the consolidation of the market from four year to six year. It is true that there is being -- there was some change in the rules. One is the concession fee, but I remind you that today the concession fee are different in the different concession, but we have a concessional fee 10% to 15%, 16% today. So anyway, the result is a reduction in the concession fees.

The second aspect is that we have a wide geographical distribution in Italy and where we are in some regions in some concession, where we have a stronger synergy capability in managing the business. That is the reason why, I don't think that the increase, the possibility of increase of our portfolio could limited the margin we can create with the future consolidation.

**Operator [36]**

Thank you. As there are no further questions, I would like to turn the call back to our speaker for any additional or closing remarks. Please go ahead, sir.

**Carlo Malacarne - Snam SpA - CEO [37]**

Okay, if there are no more questions -- so thank you everybody and see you after the summer holiday and keep in touch. If you need any further follow-up, please contact the IR department. Thank you. Bye, bye.

**Antonio Paccioletti - Snam SpA – CFO [38]**

Thank you, bye.

**Operator [39]**

Thank you. That will conclude the conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.



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