



**SRG.MI - Q4 2015 SNAM SPA
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Presentation

Operator

Good day and welcome to Snam's 2015 full-year results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Carlo Malacarne, CEO. Please go ahead.

Carlo Malacarne, Snam SpA - CEO [1]

Good afternoon, ladies and gentlemen. Thank you for joining us.

Today, I will walk you through 2015 results with the presentation structured in three parts. First, I will start by outlining the main highlights of 2015 and market contest. Marco Alverà, who recently joined our management team, will then focus on our international developments. Finally, Antonio will discuss our 2015 consolidated results. We will be available to address all of your questions at the end of the presentation.

We are pleased once again to report a solid set of results for 2015 in what remains a relatively weak operating environment. In 2015, gas consumption totaled 67.5 BCM, up 8.9% (sic - see Press Release - "67.25 BCM" and up "8.0%") versus the prior year. This growth was due to the increase recorded in the residential and thermoelectric sectors, only partially offset by lower consumption in the industrial sector.

Net consumption in the residential sector was up by 11.5%, while in the thermoelectric sector gas demand was up by 16.8%, mainly driven by the significant reduction in [hydroelectric] production. Gas injected into the network for 2015 was up 8% compared to 2014.

Snam's sound operating performance over the period is reflected by the EUR3.65 billion of revenues and the EUR2 billion of adjusted EBIT, both increasing compared with the 2014. These are remarkable results that confirms the solid operation and capabilities of the Group.

The increase of 12.2% in adjusted net profit is the combined result of, firstly, the further reduction in our average cost of debt. Antonio will share all the details in a moment. Secondly, higher contribution from our associated, highlighting in particular the sound returns of our European investments. And finally, lower income taxes.



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

In 2015, we deployed total investment of approximately EUR1.54 billion. Around EUR1.3 billion was attributed to CapEx for interest charge to development in Italy, in line with the guideline provided at the beginning of the year, and around EUR0.3 million to financial investments, mainly related to the acquisition of the 20% equity interest in TAP.

Consistent with our strict financial discipline, CapEx was covered by the operating cash flow, which reached a sound level of more than EUR2 billion. This allowed us to maintain a solid balance sheet with net financial debt of around EUR13.8 billion, up by only EUR100 million compared to the year-end 2014.

As you know, Snam has consistently been committed to delivering sustainable and attractive return to its shareholder. On the basis of 2015 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 2015, thus confirming our announced dividend policy. The fiscal-year 2015 dividend, subject to the approval of the shareholder meeting, result in a dividend yield of around 5%, at the top of the range of the utility sector.

I would like to draw your attention to the market context of our main business, transmission and storage on one side and distribution to the other. Looking at the transmission and storage business, the European market is evolving rapidly. The ECS set out a plan for a single energy market through the integration of a national infrastructure and increasing import route diversification. All of this will boost the national -- all of this will boost the security of supply and requires flexible infrastructure.

Shippers are now demanding a full suite of services to meet short-term consumption needs, the answer to which is the offer of integrated short-term services of transport, storage, energy.

Snam intends to play a significant role in the integration process, leveraging on its strategic asset in Italy and trying to pursue further profitable investment opportunities abroad.

On the other side, the gas distribution business in Italy is very different when compared to the transmission and storage business. It is labor intensive, requiring daily interaction with the local institution, has a distinct regulatory framework, and it is characterized by small-scale investment on a continuous basis. In addition, the distribution business is entering an



important moment of change, connected to the recently started consensual renewal process, which is expected to enhance the cost [position] of the operators.

As part of the ongoing process of analysis and evaluation of strategic option to maximize value of its shareholders and taking into account the [devolution] of the business the Group is involved in at the domestic and international level, the Board of Directors of Snam identified the opportunity to launch a feasibility study on a possible industrial and corporate reorganization designed to separate Italgas from Snam. Snam plans to submit the outcomes for the feasibility study to the Board of Directors for approval and therefore to approve and present its 2016-2019 strategic plan to its two institutional investor and financial analyst by July 2016.

I will now hand you over to Marco Alverà, our Chief Operating Officer, who, among other, runs the international business.

Marco Alverà - Snam S.p.A. - COO [2]

Thank you, Carlo, and good afternoon.

First of all, let me say it is a great pleasure to have joined Snam, a company with a great track record, interesting opportunities, and a strong management team. Today, I will briefly take you through the results achieved in our international activities in 2015.

Overall performance has been positive, with EUR105 million of income from associates, mainly from TAG, that was not in the 2014 results and the good performance of TIGF, which had an EBIT 14% higher than 2014.

In 2015, Snam also took an important strategic step through the acquisition of a 20% stake in TAP from Statoil. The TAP pipeline, which will bring 8 billion cubic meters of Azeri gas to Italy from Turkey is one of the key pillars of Europe's energy policy as it pursues the objective of diversifying gas supply sources.

TAP will support the creation of alternatives to Russian gas supply, open a southern corridor for supplies from the Caspian and the Middle East, as well as contribute to the creation of a gas hub in the Mediterranean. Collectively, this will increase European security of supply, market liquidity, and competition from different sources. Last, but not least, TAP will support important infrastructure developments by Snam in Italy.



Snam's decision to participate in this project will reinforce the Company's role and that of our Italian gas infrastructure system in Europe's strategic approach to gas security of supply.

I will now hand over to Antonio, who will discuss our 2015 results in more detail.

Antonio Paccioretti - Snam S.p.A. - CFO [3]

Thank you, Marco, and good afternoon.

We are pleased to report a positive set of consolidated results for 2015, a year characterized by significant events, the beginning of the new regulatory period for storage business; a significant recovery in domestic gas consumption; the consolidation of La Spezia's distribution company, ACAM Gas, into the distribution business segment starting from April; the implementation of a liability measurement exercise that allowed us to further optimize our debt structure in terms of both maturity and cost; and the cancellation of the Robin Hood tax and the reduction starting from 2017 of income tax rate IRES from 27.5% to 24%.

Looking at the 2015 consolidated income statement, adjusted EBIT amounted to EUR1.990 billion. The growth of [reported] revenues and the control of operating costs supported the 2015 operating margin, recording a level close to EUR2 billion, up about 1% versus 2014 adjusted EBIT.

Net profit grew by 3.3% to EUR1.238 billion. If we do not consider the nonrecurring items related to the one-off pension fund provision in the distribution business and the restatement of the [fair tax] fund following the reduction of the income tax rate, adjusted net profit amounted to \$1.209 billion, an increase of 12.2% compared to 2014 adjusted net profit. This growth is primarily driven by the increase in adjusted EBIT, up EUR17 million; the reduction in net interest expenses, down EUR13 million; and the positive effect of the Robin Hood tax cancellation, EUR87 million.

Total revenues amounted to \$3.649 billion, an increase of EUR83 million compared to 2014. Our regulated revenues, net of pass-through components, rose by EUR58 million, up 1.7%, broken down across the different business lines as follows. Transport revenues increased by EUR17 million, the positive contribution from investments carried out in 2013 equaled to EUR76 million, and the positive impact of EUR4 million due to the growth of gas injected into the network were partially offset by tariff adjustments of around EUR63 million.



Distribution revenues grew by EUR46 million as a result of the consolidation of AES Torino starting from July 2014, worth EUR33, million and of ACAM Gas in April 2015, worth EUR14 million.

On a like-for-like basis, [level] revenues confirmed the substantial stability of the distribution business. Despite the reduction of work from 6.7% to 6% in the fourth regulatory period, storage revenues were almost in line with the previous year, benefiting from the contribution of investments entered into operation in 2014. Other revenues increased by EUR16 million, mainly as a consequence of the disposal of nonoperating gas inventories in the transport business, EUR22 million.

Moving on to operating expenses, total costs amounted to EUR850 million. Net of pass-through items, operating costs totaled EUR724 million, increasing by EUR51 million compared to 2014. Controllable fixed costs increased by EUR11 million, mainly as a result of the consolidation of AES Torino and ACAM Gas in the distribution sector. Variable costs rose by EUR12 million, resulting from a non-cash item related to the devaluation of gas inventories.

Other costs totaled EUR164 million and were impacted by the pension fund provision of EUR40 million recorded in the distribution business related to the new law approved in August 2015 and the refund provision of EUR32 million related to the balancing activity in the transport business.

Finally, the EUR18 million growth in nonregulated cost is mainly related for the previously mentioned disposal of gas inventories with a positive impact on EBIT around EUR3 million.

I will now provide a brief breakdown of cost by business. In the transport business, cost increased by EUR68 million, mainly as a consequence of the gas inventory disposal and of accounting effects related to devaluation of gas inventories. In the storage business, the reduction of cost of EUR30 million is mainly related to the nonrecurring risk fund provision accounted in 2014. The distribution business reported an increasing cost of EUR26 million, mainly related to the change of pyramid.

Consolidated EBIT, adjusted for the EUR40 million one-off pension fund provision, amounted to EUR[1.919] billion, an increase of EUR17 million, up 0.9%, compared to 2014. This was mainly the result of EUR58 million increase in regulated revenues, net of pass-through items; EUR11 million increase in controllable fixed cost; and EUR46 million increase in depreciation and amortization, higher than the organic depreciation trend due to a EUR21 million effect of the changes in the distribution business pyramid.



Let's now move on the contribution of our non-consolidated associates and their impact on both income and cash flows. Net income from associates amounted to EUR135 million, recording an increase of EUR4 million, mainly due to the contribution of TAG, EUR73 million, partially offset by the absence of AES Torino contribution reported in 2014.

Cash in from associates amounted to EUR214 million in 2015, increasing by EUR106 million mainly due to the TAG ordinary dividend, EUR77 million; an extraordinary dividend distributed by TIGF following the restructuring of its debt in 2015 amounting to EUR61 million; and the reduction of dividends from the Italian associates, mainly related to the consolidation of AES Torino and ACAM Gas.

Moving on to the results of the 2015 debt optimization exercise, the main actions executed may be summarized as follows. New recourse to the debt capital market for a total amount of EUR1 billion, with an average tenor of around eight years, exploiting favorable market conditions and the further compression of Snam spread. In particular, the EUR750 million bond executed in November 2015 has been part of a liability management exercise, which included a buyback of EUR1 billion bonds with an average receivable maturity of less than two years and an average coupon of around 3.8%.

Regarding our banking facilities, in 2015 Snam performed in advance full banking facilities refinancing for an overall amount of EUR3.2 billion. We extended the maturity of these facilities by one year and reduced the relative costs.

The new contractual arrangement allowed the Company to further reduce the cost of these credit lines following the BBB+ rating assignment by Fitch in July. Cancellation of certain relatively expensive EIB financing for around EUR300 million with significant cost savings and new EIB financing for approximately EUR700 million at competitive conditions.

Uncommitted credit lines also played an important role, exceeding EUR1 billion at the end of the year, benefiting from abundant market liquidity and a favorable interest rate scenario.

It is worth stressing the fact that the actions carried out in 2015 are in line with our financial strategy and the achievements consistent with our targets. In 2015, cost of debt decreased to around 2.8% versus 3.2% in 2014. The fixed-rate portion is 64%, in line with our plan to have around two-thirds of our debt at fixed rate. The maturity profile is spread over time, avoiding major concentration issues going forward and without banking refinancing until end 2017, with an average maturity of around five years. The strong liquidity profile covering 24 months' maturities.



Turning to the net profit performance, net profit in 2015 rose to EUR1.238 billion, up 3.3% compared to the previous year. 2015 net profit adjusted for special items amounted to EUR1.209 billion, recording a 12.2% year-on-year growth.

Please remember that 2014 net profit was adjusted for the effect of deferred tax fund of the Robin Hood tax cancellation, EUR120 million, while 2015 net profit is adjusted for the effect of deferred tax fund on ERS tax reduction starting from 2017, EUR57 million. In addition to that, we accounted for the net impact of the one-off pension fund provision, EUR28 million.

In addition to the previously discussed impacts on adjusted EBIT, net profit growth has been supported by the following contribution, the further optimization of the financial structure, with a net positive impact on interest expense of EUR17 million. The benefits of a lower average cost of debt, more than EUR40 million, have been mitigated by the non-cash item, such as lower interest during construction, and the effect of the fair value of long-term liability relative to the [development] fund.

We already commented upon positive contribution from international activities, EUR4 million, and finally, the reduction in income taxes of EUR93 million, primarily due to the positive effects of the Robin Hood tax cancellation.

Turning to the cash flow, we are proud to present strong results. In 2015, the significant amount of CapEx, EUR1.2 billion; M&A activities, EUR0.3 million; and dividends, close to EUR0.9 billion, was almost entirely financed with the cash generated in the period, maintaining debt substantially aligned with the 2014 levels.

Cash flow from operations amounted to EUR2.054 billion, having recorded a stable level of working capital. The significant contribution of cash from operating activities fully financed net CapEx of EUR1.162 billion, resulting in a relevant position of free cash flow before M&A activities of EUR892 million.

2015 net financial investments absorbed cash of EUR121 million following the acquisition of a 20% stake in TAP, EUR280 million -- EUR208 million; the acquisition of the similar stake in ACAM, EUR46 million; and a TAG price adjustment for EUR14 million. These investments were partially financed by a positive cash inflow related to TIGF, due to the reduction of Snam's stake in the Company, EUR84 million, and an extraordinary dividend of EUR61 million following the refinancing exercise realized by the Company in 2015.

2015 free cash flow reached EUR771 million, financing nearly 90% of the full-year dividend payment of EUR875 million.



Thanks to the contribution of cash flow, net debt at the end of the year amounted to EUR13.8 billion, allowing the Group to maintain a leverage ratio of 52% in terms of net debt on RAB and associate.

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

Marco Porro - Snam S.p.A. - IR [4]

Good afternoon, everyone. Marco Porro speaking. Before starting the Q&A session, let me remind you that the question regarding the strategy looking forward will be addressed during the next (inaudible) presentation, expected within July. So we will be grateful if you can focus today's question on 2015 results.



Questions and Answers

Operator [1]

(Operator Instructions) Cosma Panzacchi, Bernstein.

Cosma Panzacchi - Bernstein - Analyst [2]

Cosma Panzacchi from Bernstein. Thank you for taking my questions. I have a couple on gas distribution and one on the international activities of the Company.

On gas distribution, you have said that the tender process is finally underway; however, the number of tenders so far is relatively limited and appeals are slowing down the process, like, for example, the one in banks. So, do you still see the timing of the tenders as coherent with your current strategic plan, and do you think that the recent communication by the antitrust and the regulator to the government could change the process or speed it up?

On top of this, in the past you have indicated that you would be willing to cooperate with partners in gas distribution tenders. Is there any way in which you can highlight what are the key characteristics that you would look for in such partners?

And finally, on the international business, we have seen the presentation of the TAP deal. We also know that you have been expressing some interest in the Gas Connect in Austria. Could you give us a brief update on the status of the Gas Connect discussions and when are the next milestones in that case? Thank you very much.

Carlo Malacarne - Snam S.p.A. - CEO [3]

Thank you. I answer the first question. We are ready for the start of the concession tender process. However, if you consider the new [miliprory] decree, the decree envisages one year's postponement of the start of the tender, so we believe that the first concession could be awarded in 2016.

Anyway, I think we have in the program of our objective to increase [10] per share in the share market of Italgas. In particular, we estimate that Italgas will take part in three or four tenders in the second part of the year 2016.



Marco Alverà - Snam S.p.A. - COO [4]

Regarding Austria, it is Marco speaking, in general we don't comment on M&A activity. On this case, I would just highlight how Austria is an important country for us. We have the TAG infrastructure. Whatever we look at in Austria is aimed at maximizing the value of our existing assets, always with our strict financial discipline. At this point, we have no update on the process or on any dates to report back to you.

Carlo Malacarne - Snam S.p.A. - CEO [5]

To complete the question for the distribution, your question, today we don't have on the table option for a partner in the distributions.

Operator [6]

Jose Ruiz, Macquarie.

Jose Ruiz - Macquarie Research - Analyst [7]

Thank you for taking my question. I just have two. The first one is regarding the outlook for 2016 you put in your press release. You are talking about flat gas demand. You have increased this year -- gas have seen increase of 8.9%. What makes you so confident that gas demand will remain at this high level?

And secondly, if you can share with us what is the ratio of net debt to EBITDA in Italgas at the end of 2015? Thank you.

Carlo Malacarne - Snam S.p.A. - CEO [8]

Thank you for the question. In the gas demand evolution, we have to consider that the decrease in the hydroelectric power generation is, let me say, in line with our expectation. Usually, the existing consumption 2015 is a standard consumption during the last three, four years, apart from 2014, which is an unexpected evolution. We expect, we estimate a gas demand in 2016, weather adjusted, around 69 BCM.



Operator [9]

Olivier Van Doosselaere, Exane.

Olivier Van Doosselaere - Exane BNP Paribas - Analyst [10]

Thank you very much for taking my questions. I have got three questions. One is just a quick one on number with a big increase in the cash flow amount from associates raising by EUR106 million this year. I was wondering if the EUR214 million is a level of recurring dividend stream that you expect going forward.

And then, a second one is on Italgas. Essentially, you wouldn't comment at the moment on your future strategy, but I was wondering, the other thing that you're looking the possibility of a demerger. I was wondering if you could just a bit more on the reason and the rationale of actually doing an operation like this.

And maybe my third question would be relating to that. I guess it is tricky to phrase it in a way that you can answer it, but you have just said that you have no option on the table with regards to a partner in distribution. I think that may seem a bit surprising relative to press speculation that we have seen recently with regards to Italgas. I understand you can't comment on any operation, but what you seem to suggest today is there are actually no discussions at all taking place, and I wonder if that's indeed the case. Thank you.

Antonio Paccioretti - Snam S.p.A. - CFO [11]

All right, first and easiest answer, in connection with the cash flow coming from the affiliates, this year we had an amount of around (technical difficulty) EUR200 million, out of which around EUR60 million comes from distribution of extraordinary dividends from TIGF.

I will say that the rest, EUR130 million, EUR135 million, can be considered as a reasonable deadline, a reasonable level for having -- for the projection next year. Next year, 2016.

Carlo Malacarne - Snam S.p.A. - CEO [12]

I answered the second question and -- after we have the previous question, Antonio.



Antonio Paccioretti - Snam S.p.A. - CFO [13]

In term -- in relation to the previous question, the financial ratios of Italgas, Italgas today -- today, sorry -- at the end of 2015 has a net financial debt in the range of EUR1.9 billion; an EBITDA of EUR740 million, so a debt on EBITDA ratio of 2.5 times; and a debt to RAB of around 33%.

Carlo Malacarne - Snam S.p.A. - CEO [14]

And the distribution evolution, as part of the ongoing process of analysis and evaluation of the strategic option to maximize the value for its shareholders, the Board of Directors identified the opportunity to launch a feasibility study on a possible [investor] and corporate reorganization designed to separate Italgas from Snam.

I can say that the separation could have a strong strategic value and could provide a number of benefit to both Snam and Italgas and to all our shareholders. The potential growth of Italgas could be better exploit by Italgas as an independent operator. At the same time, the separation could be designed to maintain a solid capital structure for both Snam and Italgas and to unlock financial flexibility for Snam. We give you more visibility of the operation at the end of the feasibility study during the next strategic presentation.

The second aspect, you said the potential merger between Italgas and 2i Rete Gas. There is no -- there is not any pending negotiation with third party relating to the possible combination involving Italgas.

Olivier Van Doosselaere - Exane BNP Paribas - Analyst [15]

Thank you very much.

Operator [16]

Enrico Bartoli, MainFirst.



Enrico Bartoli - MainFirst Bank - Analyst [17]

Thanks for taking my question. A few on my side. First of all, on net debt, actually, you did much better than what consensus was expecting. Are there any, let's say, one-off in terms of evolution of working capital that are going to be absorbed during 2016 or can we assume that the level at the end of 2015 is, let's say, a clean starting point for next year?

Regarding that, if you can also give us a guidance on the cost that you expect over 2016. Then I have a question regarding dividends, so if I'm right, so your dividend policy, actually the current one, official one, finishes with 2015. Now we will have to wait four months before the strategic presentation. Could you elaborate a bit on the EUR0.25, the sustainability? Should -- in the case that the transaction related Italgas doesn't go through, so it can still be considered a floor for the Company as a whole?

And the third one is related to international activities. If you can update on, let's say, the projects regarding Snam and Fluxys about the possible integration of international assets, if there are any development there? Thank you.

Antonio Paccioretti - Snam S.p.A. - CFO [18]

Starting from our net debt at the end of this year, it is true that compared with the last -- our last guidance we [actually just] an improvement in the net debt mainly thanks, I would say, to, first of all, a structured improvement of about EUR100 million related to better operating cash flow performance and the extraordinary dividend from TIGF for EUR60 million. So, these -- both these elements can be considered structural.

We also have an additional EUR100 million of advantage coming from the working capital, the working capital optimization. 50% of that, I would say, can be considered structural. The other one, the other 50%, is the result of the balancing activities that you know does not depend to the Company, but depends to the -- depends on the position of the ship, the choices of the ship.

Therefore for 2016, we do not have and do not expect significant deviation from our usual guidance on neutrality of the net working capital, unless the item that could arise from the balancing mechanism. All in all, I would say that this level can be considered to direct reference for next year.



In terms of cost of debt, the cost of debt of the Company -- of the Group for 2015 was at the end of 2.8%. The guidance for next year is 2.6%, arising from -- just giving you some color -- that we have around EUR1.1 billion of refinancing exercise on bonds that are going to maturity at -- 70% of debt are at fixed rate with a coupon of 4.375%, and you can understand the possibility opportunities that we have in front of us for reducing our cost of debt from these exercises.

Carlo Malacarne - Snam S.p.A. - CEO [19]

The second question, Enrico, the future dividend policy, it is clear, would be outlined during the strategic review. Also take into consideration the outcomes of the feasibility study.

But let me say we are fully aware that the dividend policy is one of the key pillars of our equity story and therefore we are committed to maintain an attractive and top-ranking return of our shareholder and we have been doing in the past.

Marco Alverà - Snam S.p.A. - COO [20]

Regarding Fluxys, I would just note we have a constructive ongoing relationship as regards to the reverse flow to bring the gas outside of Italy. And that is -- it is for what concerns our agreement with them. As a consequence of our acquisition of Statoil's stake in TAP, we also have now become co-owners in TAP and therefore participate with Fluxys to the governing board of the Company.

Operator [21]

Antonella Bianchessi, Citigroup.

Antonella Bianchessi - Citigroup - Analyst [22]

Just a quick question on TAP. Can you just highlight the economics of this infrastructure, because in the light of very low gas prices, is still new infrastructure something that you think it is -- is the future of this industry or you would expect a different gas prices to be able to support this type of investment?



The second question is on the equity-method income participation, if you can give us a split of what is -- of the different component.

The other question is on Italgas. You mentioned the financial flexibility. Does it mean that there will be a sale, that there will be a placement of the company at some point, and that -- do you think that really that Snam needs more cash availability, or I misunderstood? Thank you.

Marco Alverà - Snam S.p.A. - COO [23]

I will start with the TAP question. I think overall these types of projects in today's environment will clearly only be built if there is a long-term commitment underlining them.

In the case of TAP, there is a 25-year ship-or-pay commitment for 100% of the volume, so there is no volume or price risk for the developers of the project. The return we target is in the low double digits and our overall equity commitment to the project is around EUR400 million. This assumes around a 70%/30% financing, debt to equity financing, coming into play in 2017.

Antonio Paccioretti - Snam S.p.A. - CFO [24]

As far as the contribution of our equity investments, the contribution of our profit and loss is the following. The total contribution from affiliates in 2015 has been accounted in the amount of EUR135 million, out of which EUR30 million is due to the distribution, to the Italian distribution; EUR20 million from Toscana Energia; and EUR10 million, it is a pure accounting item coming from the revaluation ACAM Gas following the consolidation of the Company.

The rest, EUR105 million, are the result of the international activities, EUR73 million from TAG, EUR23 million from TIGF, and EUR10 million from the interconnector.

In terms of our cash flow, the total cash flow received is in the amount of EUR214 million, out of which EUR197 million from the international activities.

Antonella Bianchessi - Citigroup - Analyst [25]

Thanks (multiple speakers)



Carlo Malacarne - Snam S.p.A. - CEO [26]

To be very clear, currently the attention of the feasibility study is only focused on the spinoff.

Antonella Bianchessi - Citigroup - Analyst [27]

Okay. Thank you.

Operator [28]

Stefano Gamberini, Equita SIM.

Stefano Gamberini - Equita SIM - Analyst [29]

A few questions. Regarding the CapEx, I understood that the guidance was for EUR1.3 billion, slightly lower of operating CapEx in 2015. Now there is also this EUR121 million of financial investments. I didn't catch clearly what this EUR121 million was because there are many different financial investments during 2015, and if you can give us a guidance of operating CapEx that you expect for 2016.

The second question, regarding the situation of the bubbling of Nord Stream from Russia, it seems that the project is going ahead. If so, do you see any risk for the TAP project or do you think that at the end of the day the project was already approved and you don't see any risk on that?

And finally, regarding the tax rate in 2016, what is the tax rate, the net tax rate, you expect for the Company? Thanks.

Antonio Paccioretti - Snam S.p.A. - CFO [30]

Stefano, for question net financial investment, at the end of the year it was around EUR120 million in terms of cash. The result is the following -- EUR200 million of investment for TAP, EUR40 million -- around, sorry, EUR40 million for ACAM, so EUR240 million, less EUR80 million received from the following, the entrance in TIGF of one partner, so the decrease of our participation from 45% to 40.5%, and the receipt of about EUR60 million coming from the



-- starting our dividends, also in this case coming from TGIF following the restructure of their debts during this July. So the net is EUR120 million.

Carlo Malacarne - Snam S.p.A. - CEO [31]

For the CapEx, Stefano, you remember our guideline 2015 was EUR1.3 billion. We have some saving in the cost of materials and the final number is EUR1.270 billion and the estimate of the CapEx for 2016 is EUR1.250 billion.

Marco Alverà - Snam S.p.A. - COO [32]

Certainly, as you know, we are not involved in Nord Stream 2, so we are not in a position to comment if and when and how it will be built. But certainly for regarding TAP, it could not have an adverse impact. In fact, TAP is all about Caspian gas. It is about diversifying away from Russian gas, adding new sources, so the case for TAP would be even stronger in a case of Nord Stream 2.

TAP is on schedule to deliver in 2020, I would say, regardless of what happens in terms of other sources. And just a more general comment, I think the more infrastructure projects there are landing to the outside of Europe, the more need for additional CapEx into Europe connecting especially eastern Europe will be necessary, which just strategically tends to be good news for TSOs like Snam.

Stefano Gamberini - Equita SIM - Analyst [33]

One quick more question, if I may. Regarding the costs, in 2015 there were a lot of different items that impacted the costs. Could you give us a sort of clean cost base for 2015 and what is your guidance for 2016?

Antonio Paccioretti - Snam S.p.A. - CFO [34]

I would also answer to your question about the tax rate anyway. The tax rate, in 2015 the reported one was 27.4%. Adjusted for the one-off component is 30.7%. So, I would suggest a guideline for the next -- for the following, for the current year, of around 31%.

In relation to the OpEx, to the operating expenses, 2015 OpEx net of pass-through components increased of about EUR50 million compared to the previous year. The



difference, Stefano, is mainly due to, first of all, the higher [control of this] cost, EUR11 million due to the, as already said, the consolidation of AES Torino with ACAM. The second - secondly, an increase of EUR20 million due to the utilization of gas and stock sold in the period, and thirdly, another EUR20 million related to the accounting in non-cash item due to devaluation of gas inventories.

You know, shippers give us gas in kind. When the gas come -- enter into our stock, the price is the spot, the valuation is the spot when you -- exit to the price, the value is the average cost of our stock.

It is true that in 2014 we had a significant amount of one-off costs, or nonrecurring costs, in the range of EUR90 million. In 2015, we have some one-off item for similar amount, namely EUR40 million for the pension fund provision and something more than EUR30 million for the credit provision related to the balancing activity in the transportation. That concludes the provision for these items.

Now, every -- the entire amount of receivable in this cash shown with the authority of around EUR130 million has been -- there is a whole provision on that. And the last element is a EUR14 million of higher write-off due to the operational activities for the substitution of buy plans, in particular in the transmission segment.

All in all, I would say that our controllable costs, the guideline is something around EUR500 million for this year, EUR500 million for controllable fixed costs that traditionally present around 75% of our total cost.

Stefano Gamberini - Equita SIM - Analyst [35]

Thanks.

Operator [36]

Maurice Choy, Royal Bank of Canada.

Maurice Choy - RBC Capital Markets - Analyst [37]

Three very quick, hopefully easy, questions for management. First question is on TAP for slide 12. You have got EUR73 million as your income from TAG. I just wanted to -- TAG



being the Austrian one. I just wanted to make sure that that is, I guess, normal moving forward or should we expect something slightly higher due to the [stop year] held?

The second question is on Italian regulation. I recognize that we obviously finalized everything late last year. Just wanted to know whether -- if there were any updates for, I guess, next year's review that you can share if you at all have any discussions with the regulators.

And lastly, obviously the feasibility study is on Italgas. Can I just pick on your brains a little bit and ask why is this not also done for other parts of your business, such as storage, for example? Thank you.

Antonio Paccioretti - Snam S.p.A. – CFO [38]

The easiest one is for TAG, for sure. For TAG, the contribution to our net income for 2015 can be also -- be considered the reference for 2016, due to the fact that the regulation will remain the same. We expect the new regulation starting from 2017, the year 2017, therefore I confirm that.

Carlo Malacarne - Snam S.p.A. - CEO [39]

For the regulator, I think common in transmission regulator, which is 80% of our revenue, our business, that 2016 is the first year of the regulatory period, and then the next update will be end of 2017, starting from 2018, but I can confirm that the adjusted of the work in 2018 is only for the factor [VIR].

The last question is very -- why we don't consider the spinoff of the storage? I said, if you know, in my [speaking of] that the European strategy and the Italian strategy and the TSOs' Snam strategy is to manage an integration of transmission storage at LNG, which is very strategic to follow the gas strategy at European level for the interconnection of the different countries in Europe and specifically to maintain strong power in designing the modulation capacity we have in Italy with the storage.

Maurice Choy - RBC Capital Markets - Analyst [40]

Perfect. Thank you very much.



Operator [41]

Anna Maria Scaglia, Morgan Stanley.

Anna Maria Scaglia - Morgan Stanley - Analyst [42]

I have got a very quick question on the equity income contribution, in particular on TAG. What is the reason of the big change in the performance versus the guidance you gave at the beginning of the year? Because at the beginning of the year, we were talking about some negative impacts which were for the early years of the consolidations, and now since the performance is much, much better than what you guided at that time, so I am wondering what has changed, really? Is it operating or it is something else? Thank you.

Antonio Paccioretti - Snam S.p.A. – CFO [43]

I remember when we gave our guidelines in terms of the contribution from our international activities, we were prudent about TAG just because it was for the first very moment of the acquisition. We bought the company December, January -- December 2014, January 2015, and therefore the expectation -- the guideline we have were very prudent, in the range of EUR40 million, EUR50 million, which was the acquisition plan, let me say.

The results in the range of something more EUR70 million for the 89% of the company does not factor any nonrecurring item and can be considered again, I repeat, the guideline for next year.

Operator [44]

Rui Dias, UBS.

Rui Dias - UBS - Analyst [45]

Three quick questions from my side. I am sorry for pressing on Italgas again, this is the first question. And the question is, can we assume that one of the benefits from a full demerge of Italgas for Snam will be a high level of available capital to pursue growth opportunities?



And secondly, and it is a bit of a follow-up, can you just remind us by how much could you increase your net debt in order to pursue growth opportunities, excluding the EUR1.1 billion to EUR1.2 billion that you were planning to deploy in the gas distribution consolidation process?

And the last question is if you currently see any interesting growth opportunities in Europe or elsewhere. I mean, apart from Gas Connect Austria, do you see any other attractive projects or M&A where Snam could be involved? Thank you.

Carlo Malacarne - Snam S.p.A. - CEO [46]

For the third question, let me say, to be very frankly, we can give you some granularity and visibility after the feasibility study. But, anyway, we have to consider that we manage as usual the financial policy with a prudent approach without jeopardize the capital structure, and this will be the result in our operation.

Marco Alverà - Snam S.p.A. - COO [47]

I would just add that the logic behind the feasibility study is the one outlined, which is purely looking at the differences between the two industrial activities and nothing else. And when looking at M&A, again we don't comment on specifics, but this is not the driver of the project that was announced today, and when looking at M&A, we look at a step-by-step prudent approach with financial discipline.

Rui Dias - UBS - Analyst [48]

Thanks.

Operator [49]

Olivier Van Doosselaere, Exane.

Olivier Van Doosselaere - Exane BNP Paribas - Analyst [50]

Yes, thank you very much, just two follow-up questions, actually, which are linked and again come back to Italgas, actually. I was wondering if you could remind us where you stand at the Group level in terms of net debt to RAB today.



And then, just another one when you talk about getting to an optimal, I guess, capital structure for Italgas and for Snam if the spinoff occurs. It looks like even if you expand by 10%, your market share, on the gas distribution business that your net debt to RAB at Italgas will actually probably still be below 50%. I think you can go up to 60% in that kind of businesses today, so I was wondering how you see Italgas as a possible tool to optimize the capital structure and if you think you can lever up your gas distribution business? Thank you.

Carlo Malacarne - Snam S.p.A. - CEO [51]

For being clear, today our -- today, sorry, end of 2015 our debt to RAB and roughly its leverage was 52%. The leverage I gave you before for the sole Italgas is not a reference because it is just the situation in Italgas within the wider consolidated accounts of Snam, and let me say that today for us the numbers that are taken under control for discussing with the - - for assessing our balance sheet, our financial stress, are the number at total, the total level of consolidation.

So, the number -- the leverage of 30%-something for Italgas is just the situation today within a wider situation for Snam. It is not the reference for the future.

Olivier Van Doosselaere - Exane BNP Paribas – Analyst [52]

Okay, that's clear. Thank you.

Operator [53]

Pablo Cuadrado, HSBC.

Pablo Cuadrado - HSBC Global Research - Analyst [54]

Just two quick questions probably for Antonio. The first one is on the equity associates. We have been discussing the contribution from TAG has been expected -- over than expected. I was wondering whether you can provide an overall guidance for the year on the overall equity associates. I mean, do you expect to maintain that 130 on the P&L or we should expect a minor decrease, taking into account a slightly lower cash back at TIGF, probably negative [PPA] from the TAP?



And second, just to confirm as well, because I am not so sure I understood correctly, for the guidance for net debt for this year, did you say that you are expecting basically the same amount that you have reported, assuming that working capital is not having any change and assuming the CapEx of EUR1.25 billion?

Antonio Paccioretti - Snam S.p.A. - CFO [55]

I will start from the affiliates. The end of 2015, the contribution from our affiliates onto our profit and loss was -- the number was EUR135 million, after which around EUR10 million -- actually, it was EUR9 million coming from the revaluation -- one-off revaluation due to the -- after the acquisition of the entire 10%, so the receivable for 51% of ACAM.

So the 125% EUR25 million could be the reference for this year. So between EUR120 million and EUR130 million is the guideline for 2016. We will have to assess if there is any negative PPA effect from TAP due to the fact that also TAP is under construction, but I do not think that we imagine a significant number.

So, also considering a possible impact from TAP in terms of PPA, the EUR120 million, EUR130 million is the number I would take into account for the projection.

In terms on net debt, at the end of this -- at the end of this year, the guideline we have in mind is a total financial debt of EUR14.2 billion, considering the usual activity, the operating activities, and EUR200 million of cash call coming from -- call to TAP. We do not include in this guideline any M&A transaction and disbursement for the M&A transaction. So, 14.2% -- EUR14.2 billion.

This is current. It is consistent with the guideline with the possession we have debt also for this year, the net working capital evolution will be neutral from a cash flow perspective.

Operator [56]

There are no further questions at this time. I would like to turn the call back to your host for any additional or closing remarks.



Marco Porro - Snam S.p.A. - IR [57]

Okay, thank you very much, everybody. And if you need any additional follow-up or any discussion material, please refer to the IR Department. Thank you.

Operator [58]

That will conclude today's conference call. Thanks for your participation, ladies and gentlemen. You may now disconnect.



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