



**Strategic Plan 2016-2020 SNAM SPA**  
**Transcript**  
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## Presentation

### Marco Alvera - Snam SpA - CEO

Good afternoon, ladies and gentlemen, and welcome to Snam's strategy presentation. Today I will start with an introduction that includes a summary assessment of Snam, an overview of the proposed demerger of Italgas from Snam, and the highlights of the two respective business plans. Antonio will then provide greater details of the demerger. I will spend the rest of the presentation focusing on Snam's standalone strategy.

Since my appointment a few months ago, I have had the opportunity to get to know the business from the inside: meeting our employees, stakeholders, and assessing the strengths and weaknesses of the Company. I am impressed by the skills and caliber of management and talent that I've found. I would summarize the strengths of Snam in three main areas.

First, its position as a leader in European gas infrastructure. Over the 75 years of the Company's existence, Snam has built Europe's largest, most accessible pipeline network interconnected with the highest number of sources.

Second, Snam's excellent track record and project execution. Looking at our investment history, the team has delivered projects on time and on budget in each of the last five years, as you can find in the annexes.

Lastly, Snam's proven ability to identify and execute investments at profitable returns. Snam has been a disciplined investor, both growing domestic RAB in an incentivizing regulatory environment and in new activities abroad, where it has generated even higher returns.

Our Chairman, Carlo Malacarne, and our team deserve the full credit for these achievements. Together, over the next few years, we will continue to build on this track record of success.

One of the first things we agreed with Carlo was that Italgas and Snam are two apparently similar, but actually quite different businesses. Our transportation, storage, and LNG businesses make large-scale long-term investments. Our distribution business, on the other hand, accounts for 20% of our RAB, 50% of our workforce, and is characterized by a very large number of smaller investments which need a strong and continuous relationship with local communities and local institutions.



Whereas, in transmission, we are the largest in a small number of European players, Italgas is a leader in a much more fragmented domestic market with over 200 operators. And the landscape in distribution is set to change dramatically over the coming years with government-mandated market consolidation in Italy.

There are limited industrial synergies between the two businesses, which is why they have been run as separate companies for many years and it's also why in other European countries the other players are thinking about separating transmission from distribution. These differences in the industrial aspects of the businesses prompted us to launch a feasibility study on the demerger earlier this year. The conclusion of the study shows clearly that a demerger is in the interest of both companies, which will be better equipped to pursue their own strategies independently, benefiting from dedicated management teams and an appropriate capital structure.

Snam will be fully focused on its significant CapEx program, strengthening its European leadership. Regarding Italgas, following consultation with CDP, yesterday's Board designated Paolo Gallo as future CEO. Paolo is expected to join in the coming weeks and brings with him significant and relevant experience both on the distribution business and in regulated assets, having been, among other things, the CEO of Acea, which you know is a listed municipality in Rome. Paolo and his team will be able to concentrate entirely on the market consolidation opportunity in Italy, which will be very absorbing of management time.

The demerger also creates additional flexibility because Italgas, which operates in a more highly leveragable distribution space, will have additional flexibility. That will allow Italgas to fully finance its significant growth strategy as a standalone company without limiting Snam's ability to invest and capture available growth opportunities.

In order to pursue these opportunities, the Board has decided to propose to shareholders a partial and proportional demerger of Italgas. ITG Holding will be listed on the stock exchange by the end of the year. In fact, Italgas used to be a listed company already and it was one of the first companies to be listed in Europe in 1851, so it's a return to the stock exchange.

Existing shareholders of Snam will receive shares equivalent to 86.5% of Italgas equity. As a result, CDP Gas and CDP Reti together will have 26%. Snam will retain a 13.5% stake in Italgas to benefit from its value creation potential. This stake has significant strategic value for Snam, which is supported by the three-year shareholders agreement that we have entered into with CDP Reti, which provides for governance rates for Snam.



Following the separation, Italgas will have EUR3.5 billion of debt pro forma for fiscal year 2015, or 59% expected net debt to RAB. As a result, Snam's net debt will reduce to EUR10.3 billion pro forma for 2015, resulting in a net debt to RAB of 49%.

The transaction is credit metrics accretive for Snam while maintaining the same rating, as confirmed today by Fitch and Standard & Poor's. Italgas has just received an expected public rating of BBB+ by Fitch and is expected to obtain a provisional Baa1 by Moody's soon.

Regarding the demerger process, yesterday a pool of banks have granted the financial commitments for the full refinancing of Italgas, recognizing the Company's soundness and the growth potential in the business. At the same time, we have secured all the necessary consents from our existing banking pool in order to carry out the transaction.

Tomorrow morning we will begin a roadshow which will finish with the EGM on August 1, when investors will have the opportunity to approve the transaction. We will hold in Q4 an Italgas capital markets day in order to present Italgas's strategy in more detail before the listing.

Italgas's strategy, just to give the highlights, should remain focused on three main areas. First, executing its current CapEx program, focused on the maintenance and development of the distribution network in Italy and the rollout of the smart meters. Second, delivering significant cost-cutting program that we've launched at the beginning of this year. And, third, competing effectively in the concession renewal process.

The concession renewal process will involve the consolidation from 6,000 concessions today to 177 ATEMs, which are larger local concession areas. This is a one-off restructuring that will benefit Italgas, which is the largest and most experienced operator, already present in 113 of these local areas with a significant market share.

We have developed a bidding strategy to focus on areas where Italgas has existing operations and a competitive edge. This will allow the Company to grow as well as to tighten its portfolio, achieving greater synergies and economies of scale as the market consolidates. Italgas will be able to target an important overall growth in market share from the current 30%, or 40% if we include the affiliates, to up to 40%, or 44% including the affiliates, by the end of the concession renewal process that we expect in 2021.

As a standalone business, Snam will be able to enhance its leadership position in the European gas market even further. We will do this by focusing on five strategic pillars which build on our strong legacy. Snam has always focused on delivering excellence in project execution. This fundamental tenet will continue to be at the core of our strategy.



Likewise, Snam has been working closely with regulators to create a fair and stable environment with clear visibility for future investments.

Third, we have a very significant pipeline of CapEx opportunities in our portfolio. We are also developing new regulated services and considering additional potential activities which will be clearly based on our strict investment criteria and desire for a low-risk business profile.

Our fifth pillar is a continuation of our sound financial policy. I will enter into each of these pillars in some detail in the next session and will now hand over to Antonio to provide you with additional details on the demerger.

#### **Antonio Paccioretti, Snam SpA - CFO [1]**

Thank you, Marco, and good afternoon, ladies and gentlemen. Firstly, we describe the perimeter that is going to be deconsolidated through the demerger. It includes Italgas SPA, but also all its Italian subsidiaries -- Napoletanagas, Acamgas, Toscana Energia, and other minor companies -- all being almost 100% focused on pure regulated business related to the gas distribution activity. On the other side, Snam Rete Gas, GNL Italia, Stogit, and all the foreign subsidiaries that will remain in Snam.

Let's now take a closer look at the main financials 2015 pro forma figures for both Snam and Italgas after the merger, as if the transaction had occurred at the beginning of 2015. Comparing Snam and Italgas aggregate figures with 2015 consolidated Snam financial report, we could note some differences mainly related to the following reasons.

Firstly, Snam revenues include fees for the services provided to Italgas for about EUR20 million with the same amount accounted for among Italgas costs, which before the demerger were offset in the consolidated account of the full perimeter. Secondly, operating margins, EBITDA and EBIT, are affected by some nonrecurring costs related to the merger in the range of EUR9 million, which we estimated to be distributed in equal parts between Snam and Italgas.

Thirdly, Snam income from associates includes the per-quarter contribution of Italgas, corresponds to the participation of 13.5% that Snam will maintain in the Company. Finally, in addition to the effects listed above, net of tax, aggregate net profit is affected by some additional net interest expenses following the assumption, the historical assumption that consider the proceeds received by Snam for the reimbursement of EUR3.5 billion from Italgas, a deposit which [is negligible] remuneration.



Regarding net debt, the aggregate figure is in line with the reported 2015 consolidated results of EUR13.8 billion. Please note that the split between Snam and Italgas takes into account for Italgas the EUR1.5 billion additional debt following the demerger and EUR0.1 billion affect of the mark-to-market value of the fixed-rate financing to be repaid to Snam at the demerger. This gives you a starting point for your analysis and evaluation.

Italgas 2015 pro forma consolidated net debt is equal to EUR3.5 billion as the sum of the existing Italgas intercompany debt towards Snam at market value and EUR1.5 billion of additional debt which will be allocated to Italgas prior to the merge. By end of 2016, Italgas net debt is expected to reach EUR3.7 billion, mainly due to the distribution of fiscal year 2015 dividends to Snam expected before demerger for an amount of around EUR275 million.

As today, Italgas debt structure at demerger is expected to be based entirely on banking financing for about EUR4.3 billion, out of which EUR3.9 billion resulting from a term sheet mandate agreement with 11 major international and domestic banks signed yesterday. We are proud to highlight that the commitments undertaken by these banks are based on spreads in line with Snam's to-date level.

These funding sources are aimed to put Italgas in the condition to repay its intercompany debt with Snam at the demerger and to secure funding needs over the whole plan horizon and achieve an adequate liquidity profile following the demerger in line with the rating agencies' requirements. In particular, the expected financial package is composed of a bridge to bond for EUR2.3 billion assume to be replaced by bonds in the following 12 to 24 months.

EUR1.6 billion, or medium-term banking facilities, with spreads in line with those of Snam and maturity ranging from three to five years broken down as follows: full revolving credit facilities for around EUR1.1 billion, aimed at managing annual cash flow swing and providing [midcap] facilities for rating purposes; bilateral term loans that are expected to benefit from the TLTRO measures recently implemented by the European Central Bank; the European Investment Bank financing related to Italgas projects for EUR0.4 billion, which will be transferred from Snam to Italgas, with a maturity of around 10 years.

The structure provides an appropriate credit line mix aimed at balancing the stability from medium- to long-term banking facilities and the flexibility from bridge to bond financing with the possibility to invest in maturity at very competitive costs. Indeed, this initial setup is intended to be replaced in the short term to medium term by a target financial structure that



is expected to leverage on a rating line with the one of Snam, mainly composed of bonds and consisting with a low business risk profile and the regulatory framework of the Company.

As for cost of debt, the fact that at the time of the demerger Italgas financial structure is 100% based on current market conditions and largely relying on bridge-to-bond facilities gives the Company the opportunity to fully exploit the advantage of the present situation. Characterized by low interest rates and the flat interest rate curve to extend debt tenor at very competitive costs in the future.

Turning now to the Italian gas distribution market evolution and Italgas opportunities. Italgas has a strong position as the market leader in the sector operating 30% of the nation-wide redelivery points and 34%, including its affiliate, Toscana Energia. With the planned reorganization of concession areas into ATEMs, the bidding markets, all operators will be able to realign their portfolios.

For Italgas, which is currently present in 113 bidding markets out of 177, this presents a fantastic opportunity to exit marginal areas while strengthening core positions. 75% of total redelivery point managed today by Italgas are positioned in ATEMs where Italgas has a leadership position with a market share greater than 50%, while additional 17% of Italgas redelivery points are positioned in ATEMs where Italgas has a relevant position with market share between 25% and 50%. In more than 40 ATEMs, representing more than 6 million redelivery points, Italgas has a market share of around 85%.

The concession process is starting and will last for about five years. It will drive significant consolidation in the market, reducing the number of players from the over 200 today's operators. Players who are able to drive efficiency and economies of scale advantages and solid financial structure will be, in the long term, winners from this consolidation. Italgas will, therefore, be well-positioned to optimize its portfolio, consolidating its position in areas where the Company will exploit efficiencies and have the opportunity to deliver savings.

In addition, the Company will have the opportunity for significant accretive capital deployment. This will, in turn, generate benefits for customers and shareholders.

Post demerger, we expect three key financial pillars underpinning Italgas strategy. Strong [receiving] cash flow generation, solid balance sheet, and efficient debt structure. Over the plan horizon, cash flow generation is expected to remain healthy and steady, while net debt evolution should be mainly driven by the evolution of the tender process. However, a focused and disciplined approach in balance sheet management should allow Italgas to capture potential growth opportunity, while maintaining a solid investment grade credit rating.



As for Italgas solid credit worthiness, the secure refinancing package and the commitment to a safe liquidity profile over time supported a credit profile in line with the one of Snam. In particular, Fitch assigned Italgas an expected BBB+ rating; Moody's is expecting to assign Italgas a provisional Baa1 rating. As regard debt structure evolution, targeted maturity, and fixed floating breakdown, is expected to be in line with that of Snam in the last few years, namely two-third fixed rate, with an average maturity of medium- to long-term debt of around five years over the plan horizon.

This structure is consistent with the mechanics of our gas distribution tariff framework and Italgas goal to boost and protect its financial outperformance versus the regulatory assumptions.

That's all for me. I now had you over back to Marco, who will discuss now post demerger business plan.

### **Marco Alvera - Snam SpA - CEO [2]**

Thank you, Antonio. Let's now take a closer look at Snam's standalone strategy.

The European gas market is evolving in a way that is positive for infrastructure requirements and, therefore, Snam for three reasons. First, Europe will need additional imports of natural gas going forward. Natural gas will play an increasingly important role in European energy mix as Europe tries to achieve its COP21 objectives and move towards a lower carbon economy. Europe accounts for 13% of global gas consumption, but only has 1% of global reserves. And as you know, domestic production is declining quite rapidly.

Second, these imports will need to come from different areas as supply evolves. Third, Europe has a stated target to integrate and interconnect its markets in order to create the energy union. Snam is ideally positioned to capture the opportunities from these trends because of the location of our assets and our industrial capabilities. Let's look at these one by one.

First, import requirements. Given the rapid decline in domestic production, under most of the 20-year estimates that we look at Europe is set to increase its need of imports by around 40%. Though our profits are resilient to gas consumption trends, the growing need for additional infrastructure is positive as TSOs seek to increase their ramp.



Second, not only will the absolute import requirements grow, but gas will be coming from different sources and routes because of the fast decline in supply from the north, pipeline supply from the east, and the southeast will increase with Russia remaining broadly flat but perhaps with new supply corridors. In addition, Europe will also need more LNG.

Third, infrastructure demand will also be driven by the European objective of connecting its hubs. The energy union is a plan to go from 28 separate markets to a single European energy market with greater liquidity, flexibility, security, and cheaper prices. Within the list of projects of common interest, there are some -- dotted here in the slide -- some priority interconnection projects that Europe is hoping to execute as soon as possible in order to debottleneck single markets and enhance liquidity and security.

Infrastructure operators like us will play a key role, both in bringing new gas into Europe and integrating transportation with storage services and LNG to help build a properly-functioning market. Snam, as I said, is ideally positioned to participate in the over EUR70 billion of CapEx investment requirements in Europe over the next 20 years. We are at the heart of European gas transit routes with five different pipeline supply sources, which is the most in the world, and we expect Italy to move from being a destination market to a strategic hub at a key crossroads of the future European gas market.

Coming to our home market, Italy requires significant investments going forward in order to complete the projects that we have already launched; begin to replace parts of the existing network, which happens to be one of the first to be laid in Italy and in some areas has already been fully amortized; and third, to pursue new opportunities as Italy seeks to push for a low carbon economy and build on its leadership in gas usage and innovation.

In order to fully capture these market opportunities, as we saw before, we have envisaged a growth strategy based on five elements. First and foremost, we want to enhance our excellence in execution even further. We are reorganizing the Company to further leverage on our unique capabilities and extract efficiencies while maintaining an absolute focus on HSE.

Our second pillar is based on a constructive dialogue with our European and domestic regulators. We have shared our planned investment with them and I can confirm that there is significant support. The third pillar is our rich pipeline of organic investment opportunities. Fourth pillar, the new opportunities in the form of new regulated services and new activities which are not included in the plan.

In general, we are keen to look at projects that not only provide attractive returns, but also increase the strategic value of our existing infrastructure over the long term. This will all be



underpinned -- all these four pillars will be underpinned by very solid capital structure with continued focus on financial efficiency and careful management of risk and returns. Let's look at these pillars one by one, starting with operational excellence.

Our approach to sustainability is embedded in all our business processes. Industrially safety and environmental responsibility are our first priority, because Snam will thrive only as long as our mission is supported both internally and externally by employees, local communities, and the wider social context. We have best-in-class business and procurement processes and transparent reporting across the Group, because we feel that this is the best safeguard of the value of our business.

Last week Snam scored top ranking in the Integrated Governance Index in Italy. This has been possible thanks to the constant dialogue with our stakeholders and to the alignment of Snam's corporate governance with international best practice.

In order to further consolidate our operational performance, we have launched two projects, a structural reorganization and a cost-cutting program. We will reshape our organization from a holding company with fully functioning operating companies underneath to an integrated group with centralized operations, engineering, and support functions. This will shorten reporting lines, reduce the duplication of activities, enhancing synergies and removing costs, and further improve our ability to exploit our distinctive competencies.

Moving to cost control, Snam is already an efficient operator. On top of this, we have launched with Antonio an efficiency program which will tackle overheads and maintenance costs, allowing us to pursue our new strategy without incurring additional costs. Specifically, the cost-cutting program will address more than 40 different initiatives, including ICT for infrastructure and application management, facilities management, and energy efficiency, and more. We expect the sum of these initiatives to more than offset the increase of costs due to growing operations complexity already by 2018 when we expect about EUR20 million of annual savings from this program.

Turning now to the second pillar, Snam benefits a regulatory regime that is one of the most advanced in Europe and a clear reference for other countries, thanks to its proven transparency, stability, and visibility; not only in each single regulatory period, but also across regulatory periods. The current framework is balanced. We are maintaining a constructive dialogue with the regulator to strengthen the incentives for the new services that Snam, as a system operator, is expected to put in place to respond to evolving market needs.



The third pillar of our plan is our large pipeline of organic CapEx opportunities. Over the next five years, we will invest EUR4.3 billion in Italy, supporting a 1% annual growth in our consolidated RAB to 2020. In 2016, we expect to invest EUR0.9 billion with the remaining EUR3.4 billion to be spread over the next four years.

Over the five-year business plan, 88% of our total CapEx will be spent on transport, marginally on LNG, and 12% will be spent on storage. Looking beyond 2020, we expect CapEx to remain in line with the plan, as Snam completes the investments that have already begun and starts substitution projects with potential upside coming from new activities. This opportunity to deploy capital at RAB value will remain the fundamental pillar of our strategy.

Let's now go into a little more detail on the main projects in Italy. Starting from transport, we will invest EUR600 million in two pipeline developments in the Po Valley, two new compressor stations, as well as the empowerment of an existing station. This will complete our reverse flow program in order to export potentially significant volumes of gas from Italy into northern Europe starting in 2018.

We are already exporting small volumes. We can export small volumes already, but the ramp up will be completed by 2018. This will complete the reverse flow and integrate our network to the European network in both directions.

With regards to imports, the key project in our plan is a south-to-north development where we plan to build a 50-kilometer pipeline in (inaudible) to receive TAP. This will require around EUR150 million of CapEx.

Moving to storage, we will complete the new Bordolano field. The availability of working gas and the withdrawal peak will be -- will continue to increase and reach full capacity by 2019.

Income from Snam's international business is set to almost double in the plan period, mainly thanks to TAP entering into operation in 2020. We have invested EUR1.4 billion to establish our international portfolio, which is expected to generate annual returns of around 10% in the plan period. In the past we have focused on assets that fit within Snam's risk profile: strengthen our leadership position in Europe and provide accretive returns. We will continue with this approach in the future as we seek to enhance the value of our existing international assets.

Turning now to the fourth pillar of our strategy, we see new opportunities in regulated services. The role of the system operators is evolving and so is Snam. We are transitioning from being an asset owner mainly focused on managing its infrastructure to being a market



facilitator, providing integrated services to our customers, changing the way we contribute to balancing the market, and actively supporting the development of the PSV.

Starting with new capacity services, we are already offering bundled transmission capacity services that allow to move gas between hubs via single-capacity booking process. And this is already facilitating trading. We are also working to introduce short-cycle storage services and an incentive-based oversubscription and buyback scheme to offer additional products to the market.

The new balancing regime will become operational in October 2016, this October. We are pleased that the regulator has recently introduced incentives for the TSO to provide accurate market data, as well as to prioritize the gas exchange when balancing the market. We also expect to be able to capture additional incentives for our efforts to increase liquidity at the PSV. These new services will provide additional profits for Snam in the course of our five-year plan and contribute to making our gas market increasingly attractive.

There are then additional growth opportunities that are not included in our plan. In our core business in Europe, there are several proposed projects to support import diversification and integration. The ones we have greater visibility on are the Midcat project to interconnect Spain and France and further interconnection requirements that are needed in Eastern Europe.

We are also looking at a number of new activities to see if they can unlock additional value leveraging our strong capabilities and know-how, as well as supporting long-term growth in the gas market. In particular, supporting the potential natural gas utilization in the automotive sector in Italy, as an example, such as further developments in biomethane, also in Italy; new LNG and many LNG infrastructure in Italy and abroad; engineering and technical services that we could provide to our international portfolio companies, leveraging our expertise and energy efficiency initiatives. Again, that we can start by applying them internally and then assess the opportunity to provide this expertise externally as well.

Any additions to our portfolio must deliver accretive returns with a risk profile similar to our current business.

Moving on to our financial strategy, we expect cash flow from operations to cover CapEx and dividends over the plan period. This, together with the positive effect of the demerger on Snam's leverage, will allow us to benefit from a stronger balance sheet and strong liquidity profile. The average maturity of our outstanding medium- to long-term debt will remain around five years, aligned with the regulatory time review, regulatory frequency, and two-thirds of our debt will be at a fixed rate to lock in favorable rates.



We will proactively manage our balance sheet to reduce our cost of debt from the 2.5% expected in 2016, mainly through the rollover of around EUR5 billion of bonds over the plan period, where we expect to average savings above 200 basis points; treasury management optimization and banking line renegotiations; and institutional financing, which may be available for some of our infrastructure projects.

Coming to our targets, over the next five years we will invest EUR4.3 billion across our businesses. Our regulated asset base will grow approximately 1% thanks to the significant CapEx plan that will be deployed during the plan period. This, combined with cost control, the contribution of additional income from our associates, and balance sheet management, will support an expected net income growth of mid single digits per annum to 2020.

With regards to our cash allocation strategy, operating cash flows will fully fund our significant CapEx program and our growing dividend. In addition, taking into account the quality of the portfolio, we have the flexibility within our current rating to further increase our leverage, net debt to RAB, by an additional 5 percentage points. This flexibility could be used to support new initiatives, as well as for potential additional shareholder remuneration.

We clearly see the potential for additional investments. Consistently with our track record, we will evaluate projects using the following criteria. They should be returns accretive, consistent with our risk profile, fit within our portfolio, and ideally also contribute to enhancing the strategic value of our existing infrastructure. We are also prepared to return additional cash to shareholders if we see this as creating more value than external growth or as an alternative to optimize balance sheet and shareholder returns.

Growing shareholder remuneration is a top priority for Snam. For fiscal year 2016, post-separation Snam will pay a dividend per share of EUR0.21. Italgas, whose dividend policy will be approved by its new Board, will be in a position, given its capital structure and financial resources, to start paying a dividend in 2016, allowing current Snam shareholders to receive total dividends at least in line with 2015.

After 2016, Snam is committed to a dividend-per-share growth of 2.5% for both fiscal year 2017 and 2018. On top of this, we will request at the next EGM in August shareholders' authorization for a share buyback of up to 3.5% of the outstanding shares with the maximum amount of EUR500 million to be executed over a period of 18 months. We do not intend to activate the buyback immediately, but it will provide additional flexibility if and when deemed in the interest of shareholders and according to our net debt evolution.



To summarize, this is an exciting time for Snam and Italgas. Thanks to the demerger, both businesses will be better positioned to deliver their strategies, creating additional value as stand-alone entities. For Snam, this means we will continue to build on the success of the past, generating value organically through operational excellence and improving efficiency, stable regulation, attractive investment in the Italian system and our international portfolio.

Snam has always operated with financial discipline and value delivery as key pillars of its strategy. These will continue to drive our company going forwards, enabling us to deliver superior returns to shareholders.

Thank you again for your attention today. Antonio and I will be happy to take your questions.



## Questions and Answers

### Stefano Gamberini - Equita SIM - Analyst [1]

Stefano Gamberini, Equita SIM. A few questions, if I may.

First of all, regarding the re-leverage room you have in Snam. You said that you can increase leverage by 500 basis points, so if I understood correctly, to around 55%. So my question is why in Italgas you can increase the leverage up to 60% and in Snam just to 55%; so you have further room to increase your leverage?

The second regarding you said we will have a strict financial criteria in acquisitions. Could you elaborate a little more what are the minimal return you expect in your investments and what are the main targets that you can look after?

The last thing regarding Italgas, if I understood correctly, more or less, the EBIT on RAB on 2015 was in the region of 8%. Could you spend a target after the growth you expect in new concessions? What could be more or less a target of EBIT on RAB for Italgas in the long run? Many thanks.

### Marco Alvera - Snam SpA - CEO [2]

Thank you, Stefano. Saw the leverage point, I think generally when we look at our peers, we see distribution companies have a greater and higher leverage than transmission companies. I think that's true across the sectors.

These numbers have been verified with the rating agencies. And when we say that there is support to confirm both the ratings, they fully take into account the starting leverage as well as they take into account the plan, which in the case of Italgas, as you saw, is a significant market share growth in Italy. So a successful participation in the auction.

We have studied this very carefully and we believe that the starting as well as the evolution of Italgas's leverage is fully consistent with the rating. And Italgas's plan, as we see it today, is, let's say, fully fundable within the current Italgas capital structure, current post demerger Italgas capital structure.



Your second question was around the investment criteria. We have never given precise targets. I don't think it's appropriate to give precise return targets because they will vary on the type of geography where we look for investments.

I would -- and we are very clear about this internally. The first priority is the organic CapEx, because when we do organic CapEx, whether it's within our existing pipeline of projects, whether it's in Italy, whether it's in Europe, we are investing at RAB. We're not paying a premium to RAB for the opportunity to invest, so we clearly prefer this.

Where we see M&A opportunities, we look at those, as I said, only if they are accretive. When we look at returns, they have to add more value than the opportunities that we see within our organic projects. So I think the criteria we set out before are the criteria that we will use.

But in terms of priority, organic comes before inorganic. When we say returns accretive, it means that when we look at the analysis it has to be returns accretive on a risk-adjusted basis.

I think, when it comes to Italgas's specific targets, I would ask you to wait for the Italgas day. I wouldn't think it's appropriate to provide too many details on forward-looking statements for Italgas but you will have a chance to -- we will have a chance to elaborate on Italgas's fully-detailed strategy during the capital markets day in October.

Antonio, do you want to add something on the leverage?

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

No, I would say that you have been very completed.

**Jose Ruiz - Macquarie Research - Analyst [4]**

Jose Ruiz, Macquarie. Just two questions. The first one: as the new CEO is in your agenda the aim of re-initiating relationships with Fluxys, saving the joint venture that is not in place anymore.



And the second one is on consolidation in Europe. Could you tell us how are you going to compete with asset managers which have lower cost of financing or lower cost of capital than you? Thank you.

#### **Marco Alvera** - Snam SpA - CEO [5]

Thank you, Jose. So in my experience, I would start by saying we have a relationship with Fluxys. As I said, on the transmission side it's a small club; it's a very limited number of players.

We are -- in fact, I think spending even more time today with Fluxys because of our joint involvement in TAP, which is a very strategic project for both of us. We are together here in the UK in the interconnector. So I think we have a good relationship and if opportunities emerge, we will talk to them as to other people.

Which leads me to your second question, which is why we prefer CapEx -- organic opportunities and CapEx opportunities to simple plain-vanilla M&A which will attract and have been attracting significant competition.

I think we have a lot to offer to a potential financial investor in terms of our capability. In terms of our ability to assess some of the trends that we've talked about when it comes to flows, we can somewhat derisk the investment. And so we will look to see if there are situations where we can play the industrial role and have someone else play the financial role and not end up competing head-to-head for something which is actually quite a different role.

It's more easily said than done, but that's the philosophy that we use when looking at these opportunities, when we think about making sure that we bring to the table our competencies or expertise and making sure whatever we look at to buy fits within our portfolio.

#### **Olivier Van Doosselaere** - Exane BNP Paribas - Analyst [6]

Olivier Van Doosselaere, Exane. Just a few questions from myself please.

One, if you could give us an indication of the assumption on inflation that you are taking in your plan that would be interesting. Secondly, I was wondering if you could give us any sense of quantification across the plan period, maybe a target of what you hope to achieve. I



know it's not in the plan, but what you can expect to get from these new services that you spoke about.

Third one, on the mid single-digit per annum earnings growth that you spoke about, does that -- can you confirm it doesn't include any M&A assumption? And then the last one would be maybe on that M&A strategy. To what extent are you waiting for assets to become available in the market as being for sale versus you taking a proactive approach to actually go and speak with certain infrastructure or asset owners which maybe have assets that you think could be very strategic for your portfolio? Thank you.

#### **Marco Alvera - Snam SpA - CEO [7]**

When we talk about inflation, we have two inflations. We have the inflation that the regulator uses for its WAC calculation. I'm assuming you're not referring to this, but this is the theoretical inflation target that the European Central Bank has. And that goes into the WAC.

Then we have the deflator, which is the amount by which we increase our RAB every year. Now the deflator is a little more than inflation. Historically, there's been a premium to inflation I think of around 0.2%, 0.3%. The methodology we use is we take the forward curves for CPIs and apply to that the historical correlation between CPIs and the deflator metrics.

So you have -- for 2016 we can say you have a 0.7, which is -- to sum it up -- it's not as simple as that, but it's kind of 0.5 plus 0.2 is the way we think about it. And so you apply the forward curves and you get to what we have in the plan, which is some slight growth to that.

When it comes to targets for new services, we had provided targets in the past. I don't like to provide targets because I think once you set them out they become kind of a ceiling on what you can achieve.

I really think there's an opportunity in today's market for TSOs to play a role in providing new services that are actually very appealing for (technical difficulty). This is -- we could, in the future, provide re-gas storage and transport. We could provide multi-transport routes, bundle products to offer hub-to-hub connectivity.

There's quite a lot that we can do, so I don't want to put a number that then becomes -- or kind of target, because this will depend on the evolutions of the markets and the dialogue that we are having with the regulator. I would say it is not too dissimilar to what you have been told before, with perhaps some upside.



It's not easy to execute these services. We need to invest in IT, in people, and we need to have the regulator really focused on it. The good news and, as the regulator thinks about output-based incentives, the regulator and the policymakers and the European regulators really want the hubs to become more liquid. So there's a role for us to play.

You wanted more detail on the mid single digit. Well, it does not include any type of M&A. It does not include any of the other activities as we've described them. It's quite easy to get to that mid-single-digit number just by taking our RAB and then you take the cost-cutting that we have, which gives you an EBIT growth which is greater than RAB.

Then we have the income from associates growth, then we have the cost of debt reduction, and then we have some tax benefits as well. As you know, for next year we have a lower tax rate from the end of next year. So that's really how you build that mid single digit.

When it comes to M&A strategy, as I said, if we wait for a process to start and if the asset, as we would hope, is interesting and appealing, there will be a lot of competition so I think being proactive is always a better starting point. That's kind of a general comment, not to infer anything specifically right now; but I think in this market there will be opportunities as companies clean up their portfolios.

It's clear that the upstreamers are shedding a lot of their midstream assets. It's clear that some of the utilities are focusing a lot more on consumers and renewables as opposed to infrastructure. So I expect that in the kind of less visible corporate takeover there could be some asset disposals that may be of interest.

I think what is important to state is that we are not in a rush at all. We have enough to do until 2020; we have enough to do beyond 2020. We are in this game for the long term. We're the largest in Europe; we have no desire to grow just for the sake of growth.

### **Cosma Panzacchi - Bernstein - Analyst CEO [8]**

Good afternoon and thank you for taking my questions. Cosma Panzacchi, Bernstein. I have three questions.

The first one is on LNG infrastructure. In your presentation, you mentioned multiple times the role of LNG at European level, but also increasingly at Italian level, and one of the potential new development projects is actually new LNG plants. So in Italy in particular we have seen some sort of slow development of this type of opportunity in the recent past.



So what needs to happen for this to actually restart? And what needs to happen for this to be, from a regulatory point of view, attractive for Snam going forward? That's the first question.

The second question regards gas distribution. We have seen the charts in which you are talking about the strategic approach of the Italgas in the gas standard process. At the same time, it seems that in some of the ATEMs where you are incumbents, there are some I would say frictions with the existing municipalities. So how do you plan or how do you see Italgas managing this going forward and overcoming this?

The third and last one, looking at TIGF in particular and the additional value-accretive opportunities, could you comment on what is missing in order to have a final, full decision on the Midcat development going forward? Thank you.

#### **Marco Alvera - Snam SpA - CEO [9]**

On LNG, the market has been very tight in supply of LNG. Post-Fukushima as you know, the market was very tight, so there's a lot of spare capacity in LNG right now.

The LNG market is going to be a very seasonal market. 95% of LNG demand is in the northern hemisphere. The summer-to-winter ratio in natural gas is around 3 to 1 and a lot of the buyers of LNG don't have significant storage. And we have been seeing this for a while.

We are now seeing this summer already a huge demand for regasification capacity. Where is this demand? This demand is where there is storage capacity, because these are traders trying to capture summer spreads, summer/winter spreads, or very cheap LNG cargoes that, in the summer, don't have a lot of places to go because there's not a lot of flexibility on the main LNG markets in Asia.

We think this trend will continue. We think, as we showed on slide 21, that because of the reduction in domestic production and the reduction in North Sea production, there will be a need for additional LNG.

And we think Italy is an ideal candidate because we have significant storage; we have actually quite cheap storage. Not only is it cheap because of the regulatory subsidy, it's also cheap industrially. We have the cheapest industrial storage because of the nature of the reservoirs of [storage], etc.



So the combination of re-gas storage and transport, I think, is a very appealing one going forward for consumers, for shippers and traders, and for infrastructure providers, as well as for Snam, obviously. Now, whether we will have another regasifier in Italy is a question for the government and for the regulator and we have a discussion that will be ongoing with multiple players. As you know, there are multiple projects in Italy, so it's not under our control.

When it comes to the tender processes for Italgas, yes, there are appeals that are happening. The appeals in part are done by us or by other operators. We tend to appeal when the tender documentation is at risk, meaning that in some cases we've had the municipality issue a tender document that hasn't been preapproved by the regulator. The regulator has said, if it's not preapproved by us, the additional network expansion is at risk of being incentivized, which is obviously a huge risk.

So part of the appeal is to actually make sure the tender documents are correct and fair and allow for a fair competition. This is part of the -- this, to me, signals that the process is really underway. We don't see these appeals as attempts to stop or derail the project.

The same with the [Mila Protoge]. The [Mila Protoge] didn't postpone the process, the [Mila Protoge] simply acknowledged a delay that was already there, avoiding penalties for municipalities.

So we are confident that the project is a very strategic project; it's a necessary project. Italy is the most fragmented market in Europe and the consolidation will happen.

Could there be some delays? Yes, we have provided for these delays. That's why we say five to six years, even though before we were running on a tighter schedule.

In terms of TIGF, it's a hugely strategic project. It's incredible how easy it would be to just get it done and connect Spain to France and give the rest of Western Europe access, direct access to the huge spare capacity you have in Spain on regasification.

There's some political stumbling blocks. I think there's a right set up. We're working proactively with TIGF, with the other shareholders in TIGF, with the Spanish and French and regulators in Brussels and policymakers to try to get it done. I think it's very good news that we've had at least the first money given to Midcat the fund the feasibility study, which is good news.



## **Stefano Bezzato** - Credit Suisse - Analyst [10]

Stefano Bezzato, Credit Suisse. Three questions, if I may.

The first one: can you elaborate on the rationale behind the 13.5% stake in Italgas? If it's strategic, why not more than that?

Second question, if you can break down the growth of the Italgas RAB between 2015 and 2020, what is organic growth and what are new concessions? And finally, are you expecting -- are you assuming any change in the allowed returns from here to 2024 any of the three activities?

## **Marco Alvera** - Snam SpA - CEO [11]

Okay, so 13.5% is a stake that allows CDP Reti to have more than 25%, which is the takeover threshold in Italy. It's a stake we are very happy with because it's a clear -- we wanted to be a minority stake.

It's a financial investment. We call it a strategic investment because we have governance rights associated with this investment, but it's really a minority financial investment. And it's bigger than 10%, lower than 15%. It's a good -- it's kind of a good kind of minority stake to have.

In terms of Italgas's RAB, so Italgas has a RAB of EUR5.7 billion. This RAB, without the tenders, grows to EUR6 billion in the plan and the tenders give it a bridge from EUR6 billion to EUR7 billion. Now in that EUR1 billion of RAB increase, you have two effects: You have CapEx spend to buy concessions and you have some cleaning up where you actually lose the concessions.

So as I said, Italgas's bidding strategy is designed not only to grow market share, but also to focus and tighten the portfolio. So we will be spending net around between -- Italgas will be spending to EUR1 billion and EUR1.5 billion net, which will be a greater number of acquisitions with around EUR600 million of disposal. This is in theory based on the model that we have for tenders, but again the management of Italgas will provide more clarity.

Changes to the allowed revenues. As you know, we have two periods, we have two moments. We have end of 2017, which will then be operational in 2018, and here we have,



let's say, potential consultations with the regulator around the beta of the business and around the risk-free rate. And I would say we don't see significant risks.

There's been a slight beta reduction for Terna. We think there are ample arguments to say that the gas business shouldn't have any change on the beta.

Then we have in 2018, applicable in 2019, the WAC review. Now the WAC review in today's environment is very straightforward because the methodology is well laid out. We will have exceptionally for this year, on top of the WAC review, the potential debt-to-equity review again in 2018.

I think all-in-all we don't expect significant change. As I said, the dialogue is there, the visibility is there, the methodology as there, so that's what we expect.

#### **Antonella Bianchessi - Citigroup - Analyst [12]**

Good afternoon; Antonella, Citi. I have three questions. The first one is on the gas hub.

We are waiting for the increase of an import need in Europe since many years and the demand is structurally disappointed even in the recent years. The point is that now, on top of potential low demand, you have additional LNG coming from the US and also the Nord Stream too that is kind of competing in the gas supplier, the European market.

Which is the role of Italy; why you would expect Italy to play a role in this market? Would having Italy as a gas hub imply that Russia will continue to sell its gas via Italy, so the Ukrainian, Slovakia, Austria, and Italian, and then reverse it to Europe or not? So this is -- and what would happen to Snam if a gas hub in Italy doesn't materialize?

This second question was really on the EPS grow of Snam. You said your RAB is going to grow by 1%, but of course you have a number of regulatory reviews. Usually regulatory review time to claw back a little bit of the extra profits. So basically have you assumed that there will be some impact from the regulatory review in your target?

And then can you quantify which is the impact of the TAP in 2020 and which are the risk that the TAP might not be there by 2020, given the delay in the implementation? And my last question is on Italgas standard. Yes, it's true Italgas standard are (inaudible), but the Company can offer a concession fee to the municipality.



Do you see a risk that you will have to pay additional concession fee compared to today's situation? And also can you elaborate on the return achieved by the Company that you're targeting if those could be diluted acquisitions?

**Marco Alvera** - Snam SpA - CEO [13]

Sorry, just to be clear; on your last point, which --?

**Antonella Bianchessi** - Citigroup - Analyst [14]

The risk that the acquisition of Italgas could be dilutive if you put together concession fee that you have to pay and also maybe the underperformance of the targets.

**Marco Alvera** - Snam SpA - CEO [15]

Sure, okay. So when it comes to gas hub, in our assumption, the Russian gas will stay stable so the delivery into to Tarvisio, whether it's through Ukraine, through Nord Stream will not impact at all what's happening in Italy. So we assume stable Russian flows into the north of Italy, we assume that the TAP will come, and we assume that, as we showed in the chart, demand doesn't need to grow for Europe to need to grow imports.

And I think the pace of decline in production is quite steep and it's happening and is being accelerated by certain decommissionings, by lower gas prices supporting less investments. It's declining even more rapidly than we thought. The reverse flow and the hub point is linked to the Southern Corridor and TAP potentially with this new regasifier if the country decides it can afford one and that it needs one.

There's no direct impact on Snam whether the hub happens or doesn't happen, whether it's happening into the future. I think it's such a priority for Europe to have a consolidated and integrated market that the strategic role of our infrastructure is thereby geography. The flows from the south and the southeast will happen; the discoveries in the eastern Med will materialize.

The lack of summer/winter spreads in the market mean that no one is developing any merchant storage, so the market is going to be short on storage going forward and we are long in storage. We have significant storage supply and significant new storage opportunities



in Italy. So I think Italy's position as a gas hub is much more a geographical positioning as opposed to reliant on whether Nord Stream 2 happens or it doesn't happen.

There's also, as I mentioned, significant infrastructure needed in Eastern Europe, which is another opportunity all together.

Coming to EPS growth, I think the regulatory risks we talked about, that's what we feel. In terms of claw back, the regulation is very clear: because the savings are done on the OpEx side, there's a target for the base for the recognized costs. We get to keep the improvements over those and then in the next regulatory review there will be a new cost base and a picture taken, and there will be a claw back at that point. That's fully modeled into our plan and the targets we give take fully into account our expectations around regulation.

TAP is there in the EPS, in the net income. The overall income from associates go from around 100 to around 200 and that has TAP coming into play at the beginning of the year. So TAP is assumed to come in January 2020.

**Antonella Bianchessi** - Citigroup - Analyst [16]

How much would be the contribution?

**Marco Alvera** - Snam SpA - CEO [17]

The contribution of TAP is about EUR80 million.

**Antonella Bianchessi** - Citigroup - Analyst [18]

And without TAP your EPS will be growing then?

**Marco Alvera** - Snam SpA - CEO [19]

Without TAP the EPS --?

**Antonio Paccioretti** - Snam SpA - CFO [20]

Without the EUR80 million.



### **Marco Alvera - Snam SpA - CEO [21]**

Yes, yes. You can do -- it's absolutely yes. There's a contribution coming from there. If you take that mid-single-digit EPS number, you get to a growth in income which you could say is around EUR200 million or more. EUR80 million of that is TAP, but if you then add up the cost reduction on the interest charges, the tax benefits, the EBIT benefits, the cost benefits you probably get to a bigger number.

Your last question was on the Italgas tender. The model, the numbers we shared come off quite a sophisticated model for the tendering strategies. I don't want to go into the specifics of the tendering strategy, but there is some, let's say, dilution of earnings coming from concessions that will be paid. That's fully reflected in the numbers that you see and that you will see in greater detail going forward.

There is some inefficiency that Italgas will have by acquiring typically less efficient businesses. Because Italgas is a leader, a market leader in terms of efficiency, the smaller concessions it will acquire tend to have worse efficiencies than its current portfolio.

But over time, in our plan, those are reabsorbed. We have launched a significant cost-cutting program in Italgas as well, which will contribute to reabsorb all these inefficiencies and come out of the plan stronger, in terms of profitability, than when it started.

### **Maurice Choy - RBC Capital Markets - Analyst [22]**

Maurice Choy, Royal Bank of Canada. Two questions for me. The first question relates to slide 35, where you have guided the 2016 net income for Snam ex-Italgas at EUR800 million. If I just divide that by 3.5 billion shares, that's around EUR0.23 versus the guidance of EUR0.21 for EPS.

I assume you are not intending to pay 90% in terms of payout ratio, so if you could just help me understand whether the EUR0.8 billion -- might have to scratch that question because I just spotted something. But if you could you tell me understand Snam ex-Italgas payout ratio, how do you understand that moving forward? Obviously, you can't comment on Italgas.

Second question is back to one of the first questions this morning about gas distribution. If gas distribution can actually sustain the higher leverage, surely Snam, ex-Italgas, you understandably cannot sustain as high as before.



If that 50% is what you come out at, what now becomes your new limit in the eyes of S&P or Fitch or Moody's for that matter? I understand that before that it was supposed to be 60%. Does that come down in terms of your benchmark? Thank you.

**Marco Alvera - Snam SpA - CEO [23]**

Thanks. I'm not sure I understood your calculation on how you get to the EPS, but I would say that you spotted correctly that the payout for 2016 is going to be quite high in the order of the numbers that you mentioned. That will reduce as the net income grows according to plan and that's fully consistent with sustainability of the dividend and the growth in the dividend that we can support. So notwithstanding the growth of the dividend because the net income and the EPS grows more the payout will come down.

In terms of leverage, we start at around 50% -- 49% 2015, 60% in 2016 -- and I've talked about a 5% potential increment in terms of net debt to RAB. Is that the absolute upper limit? Probably no. Would we get to 60%? Probably no. So I think between 55% and 60% is where you can think of as a limit, but we don't see any need to get there in the medium term.

**Maurice Choy - RBC Capital Markets - Analyst [24]**

And then just to add a small question on that. If you could quantify how much the one-off cost could be for 2016 and maybe in the 2017 in terms of whether it's the restructuring, demerger, so on and so forth. Thank you.

**Marco Alvera - Snam SpA - CEO [25]**

So there's about EUR8 million to EUR9 million of one-off transaction costs split around 50/50 or maybe 60/40, maybe 60% Italgas, 40% Snam. There is incremental costs as a consequence of the demerger. For Italgas these will be more than fully absorbed by the cost efficiency program.

So when we look at the numbers that you have seen and that you will see, you will have the, let's call it, cost of being a standalone company, which isn't today, you will have the inefficiencies coming to Italgas from the tenders; and the cost-cutting program will be able to absorb all of those.



When it comes to Snam, we have between 10 -- around EUR10 million of additional costs in Snam associated with losing Italgas because a lot of the Snam -- not a lot it, some of the overhead costs of Snam were transferred to Italgas. That will no longer be the case. The EUR20 million target that we have will obviously fully, fully absorb that so we expect Snam by 2018 to be, you could say, EUR10 million better off than before the demerger. So I don't know if that has answered your question.

#### **Unidentified Audience Member [26]**

Good afternoon. (inaudible), S&P. I was wondering, given the fact that PSV prices are higher than maybe the French gas prices or German gas price [and further up], I was wondering why do you think the shipper will see an interest in how -- we have seen an interest in using Midcat or the reverse flow from TAP, for instance.

Also very quick second questions. We heard from the media that you have some interest to buy some assets I think in TSOs in Germany and Austria, and I was wondering what was the plan behind. Is it linked with the reverse flow or what is the strategy behind? Thank you.

#### **Marco Alvera - Snam SpA - CEO [27]**

Thank you. In terms of the PSV prices, the PSV prices have come down a lot as you see, and we expect it to come down further. We don't think it's sustainable in the long term. When we talk about hub, we talk about the longer term; talk about 2020.

We don't think it's sustainable to have a PSV premium. Going forward, as the PSV becomes more liquid, it should be able to trade at the other levels.

There will be seasonal opportunities. We don't necessarily expect the structural outflow of gas on a baseload basis, but the interconnection points, as we see here in the UK, as we see in continental Europe, work quite effectively and generate quite significant profit without necessarily having to be full.

The second question on M&A, we don't comment on M&A. I wouldn't want to comment on any of the specific situations that you have mentioned.

I would say that Germany, regardless of the asset that was for sale, is an interesting market, has been an interesting market. It is a market where you have more than a dozen TSOs in



one form or the other and it's a market where, if the Nord Stream 2 happens, there will be the need for additional infrastructure, which is what we like, which is our bread and butter. So I think just Germany is, in itself, an interesting region. As I said, more to do organic CapEx and participate in projects and do open seasons, more than outbidding a financial investor for a takeover asset.

I think the same applies to Eastern Europe, where there's a number of projects that were on the drawing board linked to South Stream. As South Stream has not happened or has been significantly delayed, these countries still need their regional and domestic interconnections.

#### **James Brand** - Deutsche Bank - Analyst [28]

James Brand, Deutsche Bank. Three questions, if I may.

The first question, there's a comment on one of the slides: cash flow from operations to comfortably cover CapEx and dividends. Does that mean you actually expect net debt to stay stable or reduce in absolute terms? Or are you expecting it to, which would have been my expectation, to stay relatively flat in terms of a net debt to RAB over the next five years?

Second question is on cost outperformance. You said there's a very clear target from the regulator in terms of what you've been allocated and you set very clear targets today in terms of what you expect to deliver. Could you tell us what the gap is in terms of how much you actually expect to outperform the regulatory sentiment on OpEx?

Third question is on the associates, the international associates and it's twofold. Firstly, the EUR20 million increase or EUR15 million increase you are expecting from the associates ex-TAP. Are you incorporating any cuts (inaudible) of the future reviews? Because are a couple of regulatory reviews coming up for two of those associates and getting to that EUR50 million increase.

As a second-fold, EUR80 million seems like a pretty spectacular return on capital for TAP. What's the risk around that?

#### **Marco Alvera** - Snam SpA - CEO [29]

What's the risk around that? Okay. So in terms of your question on cash flow and CapEx, maybe you can project the slide where we have our waterfall.



Absolutely cash flows cover our entire CapEx program and the growing dividend, so leverage remains at 50% flat throughout the plan. The light blue area below is that additional 5% that we refer to as financial flexibility. So CapEx and dividends will not absorb debt and will not increase leverage.

The second question was on cost outperformance. What happens is we have a base here, which will be 2016, for allowed costs. We get to keep the outperformance of those costs and then at the end of the regulatory period there's going to be new cost base and we will be allowed in the following regulatory period to have -- keep 50% of those savings.

In terms of income from associates, the numbers you see there reflect for each of our subsidiaries the regulatory reviews and the growths in them.

Antonio, is there something to add on?

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

(multiple speakers)

**Marco Alvera** - Snam SpA - CEO [31]

Yes, yes, yes, yes, the execution risk on TAP, EUR80 million. Let's say the only risk on TAP is that we don't foresee it all. In fact, since entering TAP, and with Federico we spent a lot of time at Board-level discussions reviewing the whole project. Following our entry into the Board, we are even more confident in the project. On May 17 we started works in Greece, in Thessaloniki, with a big international ceremony, so works have started.

There's no question on the number; the question is whether it comes in January. Any delay from January 2020 will reduce that EUR80 million kind of step that you see in income from associates. But there's no question around the number itself, which is fully backed by long-term commercial arrangements and ship-or-pay contracts. That's it.

**Rui Dias** - UBS - Analyst [32]

Good afternoon. Rui, UBS. I have three quick questions.



One is you mentioned that the interest rate at Snam by the end of 2016 is going to drop to 2.5%, but what I was trying to understand is what is the earnings accretion from all this transaction, from the demerge of Italgas, to shareholders? If -- by how much the interest rates of, I would say, the pre-demerge group would drop? How much are you dropping just on the back of this transaction in interest rates? So that will be the first question.

Then, maybe I missed it, but for how long do you expect to hold the stake, the 13.5% on Italgas? And, lastly, if you can just provide a breakdown of the net income from associates through to 2020. Thank you.

**Marco Alvera - Snam SpA - CEO [33]**

Okay, I will start by answering the first. Then maybe, Antonio, you can give some more color on this.

The sum of the two costs of debt will be similar post-demerge than they are pre-demerge, but we will have refinanced a number of bonds and extended the durations. So we will have a higher-quality debt at the same cost, so you could see improvement there. And this will be part of the continuing rollover and maintenance and liability management that we do.

I don't know if you want to add something on this.

**Antonio Paccioretti - Snam SpA - CFO [34]**

Yes, I confirm that it is clear that in terms of the aggregate amount of the financial charges of the two entities, it will be the same, the same. What we have as significant opportunities after the demerge is that we could benefit from the cash-in we will receive with the repayment of the financing from Italgas in order to better sizing our banking facilities, the receiver banking facility, and more than that, reshaping the structure of our capital market exercise.

We cannot create money from debt at the beginning, but we can reshape our debt structure in order to capture all the advantage that we have in front of us with the current market conditions.

**Marco Alvera - Snam SpA - CEO [35]**

Your second question on how long we will retain the 13.5% stake in Italgas, I think we're in no rush at all to sell it. As I said, it's a good investment for us.



Even if we decided, and I think we agree that there are no synergies at the industrial level between transport and distribution, financially it still makes sense because the risk profile of this investment is very consistent with our portfolio. So we have it; it makes sense. It's a strategic minority investment that we have.

When we say strategic, it means that because of the governance that we have it could be used also in the context of an extraordinary transaction as a currency, but that's not on the table right now. And as I said, we have no rush to exit the stake.

In terms of breakdown on the income from associates, we said already about two-thirds of the growth in that number is coming from TAP. So you can assume all the other foreign associates, this is international associates, grow about EUR20 million with EUR80 million coming from TAP.

I don't know if you want to give (multiple speakers).

#### **Antonio Paccioretti - Snam SpA - CFO [36]**

For the rest, the 70% is what we expect from TAG. The AGF will represent 30% of the aggregate contribution, excluding TAP, and 10% is the receiver part from the UK interconnect.

#### **Javier Garrido - JPMorgan - Analyst [37]**

Javier Garrido, JPMorgan. I have two questions. The first one is specific on the share buyback.

What is the rationale for the share buyback and the size of the buyback? Why did you go for a buyback versus bigger dividend payments?

And second question is, apologies for coming back to the leverage level of Snam, but if I am correct, you are starting from a 49% net to RAB. Your debt is going to stay stable. Your RAB is growing by 1% per annum.

The contribution of your associates is going to grow, therefore more dividends from associates. You are going to have a 13.5% stake in Italgas, which, as you said, can be sold any time.



I don't get it. I don't get why your payout needs to allow -- I don't understand why you need to have such a big room of maneuver. Is there anything I'm missing? Is there any particular reason why you have such a low leverage ambition? Thank you.

**Marco Alvera - Snam SpA - CEO [38]**

Okay, so I think the two questions are interlinked. So let me explain the whole rationale again behind the flexibility that we have.

I wouldn't say we have a low leverage ambition. I would say we have the ambition to have appropriately levered company. I would say that the buyback is a flexible instrument that we feel is a good instrument to have in our portfolio of options. This is the first share buyback program that we do. We don't intend to start it immediately. If anything, we wait for the demerger to take place.

There's nothing that forbids us to do more buybacks. We see the buyback really as the instrument of choice in these situations, where you are buying your own RAB, so to speak, which we think is very attractive opportunity for us. That's quite simply the way we think about this.

We are starting at 49%. It's not grossly under levered. It's probably not at the ideal efficiency. We have some opportunities that we will understand in the coming months, whether it's a regasifier in Italy, whether it's a decision to do new infrastructure in Sardinia, whether it's a new open season that's launched in Eastern Europe.

These opportunities could provide very attractive investment options for Snam, so that's very frankly how we see it without neither a rush to go back to 55% leverage. On the other hand, we don't have, let's say, a decision to not do anything on the shareholder side.

When it comes to dividends, we talked about the payout level before, which is already on the high side. So I think we are well-balanced; we are prudent. We are reducing the cost of debt as we go along, so I think it's a very kind of sound policy with some very interesting options embedded in that policy.



### **Harry Wyburd - BofA Merrill Lynch - Analyst [39]**

Harry Wyburd, Merrill Lynch. A couple of questions from me on Italgas.

Firstly, on the consolidation, how much flexibility is there in terms of how much market share you end up taking? In an environment where debt is almost free, you are buying these things for marginally above RAB probably. ROEs are huge. Even if it gets very competitive, surely this is a once-in-a-lifetime opportunity, so could you ramp that up if you wanted to?

If I link that to something else you said in the presentation, you said that one of the benefits of the demerger was to have direct access for Italgas to capital markets. Should we take that as a coded signal that if there are some amazing opportunities that an equity raise might be on the cards?

And then secondly -- I suppose you are always going to get this question. To 2i Rete Gas, there's obviously a flurry of speculation on this earlier in the year. You obviously -- last time you spoke on a conference call you said there were no talks. I presume you will say the same thing now, but is that something that should be ruled out forever or do you think any merger of Italgas into IREIT Gas sort of makes strategic sense. And is that something that could happen a long time in the future?

### **Marco Alvera - Snam SpA - CEO [40]**

I will start with your second question. Just to give you an idea, I hadn't even picked up 2i it's so much off my radar screen. I think what we said before is still true today. There's nothing going on and Italgas -- we've clearly decided to take this approach. Italgas, over the next six months, will be an independent listed company and will pursue its own strategies.

Which leads me to the first question you had, which is are we sending any coded signals? No, we're not. It is kind of a one-off restructuring. There are opportunities going from 30% to 40% market share, or 44% if you add the associates, is already quite a significant increase.

I have asked your same question to Luca when I first joined, saying can we have a turbo plan where we really step on it and see where we get to? Why don't we get to 50%, 55% market share? And he was quite persuasive with a number of models that he had built to show that you get quickly to a point where, if you enter into too much competition, you are diluting your return quite significantly because of the way the tenders are built.



Some of the tenders still will be competitive. We have no visibility on what will happen. It is a competitive process, but we don't want to overpay in this context.

Now what could happen, and what is happening in some very small local areas, is some municipalities could be saying, could be approaching Italgas, probably after it is demerged, saying why don't we think about a transaction that doesn't necessarily imply the tender? Those are, let's say, roll-up opportunities that could exist in that market, like in every other European market where you quite often have changes of ownerships of some of these assets, and Italgas is certainly there with its size and its position to capture also those opportunities.

So there's no coded message for a rights issue down the line. As we said, the plan is fully funded and I think the new management will be on board soon and will give you more details on what they have in mind in October.

#### **Oliver Salvesen - Jefferies - Analyst [41]**

Oliver Salvesen, Jefferies. One quick question on the buyback. You mentioned that, should you find organic CapEx or other M&A activities, you may not consider the buyback. Does this mean it is a binary outcome; that if in the next 18 months you find such options, you are unlikely to carry out the buyback?

#### **Marco Alvera - Snam SpA - CEO [42]**

I don't think it's binary at all. As I said, I think a buyback is a great flexibility that management has to buy its own stock. Snam has had this before.

There is a number of companies that have multiple rolling buyback programs outstanding, so it's not a floor, it's not a cap, it's not a binary situation. It's really a flexible instrument to return more money to shareholders.

#### **Giuseppe Rebuzzini - Fidentiis - Analyst [43]**

Good afternoon. Giuseppe Rebuzzini, Fidentiis Equities. First question is about Snam operational efficiency targets.

Looking at slide 26, I would assume that the restructuring from a group of companies to an integrated player does not entail the elimination of the current legal entities. Can you just



confirm that? And if this is the case, can you elaborate a little bit more on the drivers of the cost efficiencies to be driven from this restructuring?

Second question, follow-up about the associates. We're talking about the international associates, but I assume that Italgas 13.5% net income is included into your plan up to 2020. Can you confirm that?

Last point about Italgas, you just mentioned again the 40% market share target. Is there no antitrust issue at all about the gas standards and Italgas growing in market share, so this way and the counter? Thank you.

#### **Marco Alvera - Snam SpA - CEO [44]**

On the slide 26, the legal entities will remain. There's benefits in having legal entities. There's regulatory benefits in having them. I think every -- a lot of the related assets we look at have the assets in a separate company. This is true for Terna; this will be true for Italgas Holding and Italgas.

And having the Company survive -- we're talking about Snam Reti gas, Stogit, and GNL Italia -- having the legal entity survive will not be to the detriment of putting some of the activities that are now done within these companies together at the group level. This is more true on the operating side, on the maintenance side, on the engineering side, on the project execution side.

It's less true, but it's also true at some of the staff functions. There are some staff functions still within these companies so we will take the staff functions out and take, as I said, some of the operational capabilities out of the Company and putting them at the group level.

Now this is not what the cost-cutting program is about. This reorganization will give us some cost benefits, but we haven't designed it to enough detail yet to tell you what those are. Antonio has launched a separate cost-cutting program that looks at all the controllable costs of the group, trying to address areas for improvement, and he has come up with 40 initiatives that give us this EUR20 million reduction. So these are two separate programs.

Of course, as we restructure hopefully the cost-cutting can become more, even though the real reason we are doing it is to shorten reporting lines, reduce duplications of activities, and really be able to use and transfer our expertise across the Group and also outside of the Group with our companies.



The Italgas stake, of course, is in the plan. It's there both in the starting point in 2016 and at the final point in 2020. So the growth coming from that 13% contributes partially to the mid-single-digit EPS growth.

In terms of antitrust, we don't see any issues. The antitrust will look very carefully if there is anticompetitive behaviors in the tendering process as such, but is not concerned and probably shouldn't be concerned about the overall market share because these are businesses where the greater the share, the greater the synergies for the benefit of consumers. And you have a number of countries in Europe where the dominant operator has 80%, 90%, 78% of the market and I'm quoting real markets in Europe. So we don't see antitrust as being an impediment to Italgas's organic growth.

Did I miss something, Antonio?

**Antonio Paccioretti - Snam SpA - CFO [45]**

For the sake of clarity, when we talk about the growth, the expected growth of our affiliates before from around 100, 110 to close to 100, Italgas was not included. We talk about only about the international affiliates.

**Marco Alvera - Snam SpA - CEO [46]**

Thanks, good.

**Unidentified Audience Member [47]**

Just a quick question. Regarding -- in the last conference call you spent a target of EBIT EUR1.75 billion for 2016. Could you give us the breakdown between Italgas and Snam of this target?

And the second regarding the accountable cost. You said that will be flat in real terms from 2016 to 2020, but what could be the increase in 2016 that you expect in the comparable cost for Snam? Many thanks.

**Marco Alvera - Snam SpA - CEO [48]**

So the guidance is up to EUR1.750 billion and the split is around -- between 75% and 80% for Snam and between 20% and 25% for Italgas. The second question was on costs.



**Unidentified Audience Member [49]**

You spend a flat trend in 2016 to 2020 in real terms for Snam, but 2015 to 2016 do you expect an increase of these comparable costs?

**Antonio Paccioretti - Snam SpA - CFO [50]**

You know the total amount of controllable fixed costs we have in mind for the full perimeter was -- at this point we can say it was around EUR500 million. Please assume debt -- around 55% of this amount is related to the Snam perimeter after the demerge.

**Unidentified Audience Member [51]**

So the trends 2016 to 2015 for the (multiple speakers)?

**Antonio Paccioretti - Snam SpA - CFO [52]**

For this perimeter I would say we can say that is to be considered flat for this perimeter.

**Marco Alvera - Snam SpA - CEO [53]**

Okay, it seems like there are no further questions. Oh, Antonella?

**Antonella Bianchessi - Citigroup - Analyst [54]**

I just wanted quickly to clarify; so basically your target for the net profit for Snam in 2020 is in the region of EUR1 billion, right?

**Marco Alvera - Snam SpA - CEO [55]**

That was quickly calculated. I think if you apply mid single digit to EUR800 million, you get close to that number, yes.

**Antonella Bianchessi - Citigroup - Analyst [56]**

Including the EUR80 million from --?



**Marco Alvera** - Snam SpA - CEO [57]

Including the EUR80 million from TAP.

**Antonella Bianchessi** - Citigroup - Analyst [58]

Thank you very much.

**Marco Alvera** - Snam SpA - CEO [59]

Thank you. So thank you, everyone, for spending the afternoon with us and, as always, the IR team is available to answer further questions. Thank you.



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