



**INTERIM RESULTS 2016 SNAM SPA**  
**Earnings Call**  
**July 27, 2016**



## Corporate Participants

- [Marco Alverà](#)  
Snam S.p.A. - CEO
- [Antonio Paccioretti](#)  
Snam S.p.A. - CFO

## Conference Call Participants

- [Cosma Panzacchi](#)  
Bernstein - Analyst
- [Javier Suarez](#)  
Mediobanca - Analyst
- [Harry Wyburd](#)  
BofA Merrill Lynch - Analyst
- [Enrico Bartoli](#)  
MainFirst - Analyst
- [Maurice Choy](#)  
RBC Capital Markets - Analyst
- [Jose Ruiz](#)  
Macquarie - Analyst
- [Olivier Van Doosselaere](#)  
Exane BNP Paribas - Analyst
- [Antonella Bianchessi](#)  
Citigroup - Analyst
- [Stefano Gamberini](#)  
Equita SIM - Analyst



## Presentation

### Marco Alverà - Snam S.p.A. – CEO [1]

Good afternoon, ladies and gentlemen, and welcome to Snam's 2016 first half results presentation. Let me start today with a quick overview of gas demand in Italy. In the first half of 2016, gas consumption totaled 36 billion cubic meters, up 1.2% versus the same period of last year. Growth was primarily in thermoelectric sector, along with the first evidence of recovery in the industrial sector, which more than offset the decrease in residential. In thermoelectric sector, gas consumption was up 10%, driven by the reduction in hydroelectric production due to lower rainfall this year versus the same period of 2015. Also thanks to a lower use of coal and oil in thermoelectric, which increased gas consumption by 1 billion cubic meters.

These positive factors were only partially offset by the 2% decrease in electricity demand, which was 3 terawatt hours and impacted 0.6 billion cubic meters in terms of gas. Gas demand in the industrial sector showed an increase of 3% on a like for like basis, mainly due to higher consumption accounted in the iron and metallurgy sector, as well as in the building construction materials sector. Gas consumption in residential and commercial sectors was down 4.3%, mainly due to milder weather this year. And adjusted for the weather effect, there was still a decrease of 1.7% or roughly 0.3 billion cubic meters. Gas injected into the network for the first six months of 2016 was up 4%. Finally, storage capacity is up 2.5% versus 2015, thanks to the start up of the operation of our Bordolano storage project.

Let me now walk you through a highlight of our performance. Regulated revenues net of pass-through showed a decrease of EUR78 million, entirely due to the reduction of WACC in the transport and distribution sectors, which was EUR66 million and EUR23 million, respectively. This has been partially offset by the EUR10 million increase in storage revenues. Net of this effect, regulated revenues would've reached the same level of last year. EBITDA is impacted by the already mentioned decrease of regulated revenues and by other effects of about EUR42 million, mainly related to the fund provision dynamics and the merger one-off costs, and Antonio will provide greater detail in a short while.

Overall, this performance is in line with our expectations, both for the first half and for the full-year 2015. In summary, in the first half of 2016, we achieved resilient results in an environment impacted by the regulatory review that led to a reduction in WACC at the beginning of the year. This was widely anticipated and impacted all our main lines of P&L.



Moving to CapEx. We are continuing to invest to increase the flexibility, liquidity, and security of both the Italian and European gas systems, enhancing gas flows and the interconnectivity of markets. In the first half of this year we deployed total CapEx of EUR526 million, up by 8% on a like for like basis, fully financed by operating cash flow of EUR1.2 billion, up 5% compared to last year. CapEx spending in the first half is well in line with our full-year target and is mainly devoted to transport for both the new network development in the north of Italy and maintenance activity. Net debt stood at EUR14.2 billion at the end of June, after the EUR875 million dividend payment. We remain committed to maintaining a solid and efficient capital structure.

Before leaving the floor to Antonio, let me give you a quick update on the de-merger process. We are progressing well and in line with our schedule. Credit rating agencies have assigned a rating to Italgas in the higher part of the BBB area, with BBB plus by Fitch and a provisional Baa1 by Moody's. We have obtained the financial commitments by a pool of banks for the full refinancing of Italgas, as well as Snam lenders' waiver. Snam Board approved the transaction and we also published the de-merger document. The next steps, envisaged on August 1, are EGM, when the investors will have the opportunity to approve the deal.

In August, we will also appoint the Italgas Holding new Board of Directors. By the end of the third quarter we will file the documentation to the Italian authorities and the Italian stock exchange and we expect to receive their approval for the listing of Italgas Holding by year-end, as envisaged. We will also hold an Italgas capital markets day in Q4 in order to present Italgas's business plan and strategy in greater detail.

I will now hand over to Antonio for more precise details on the numbers.

#### **Antonio Paccioretti - Snam S.p.A. - CFO [2]**

Thank you, Marco, and good afternoon, everyone. I'm now going to focus on our financial results for the first half 2016. EBIT amounted to EUR867 million, recording a reduction of EUR145 million compared to the first half 2015. This result mainly reflects the reduction of regulated revenues following the lower remuneration due to the work review and the increasing depreciation due to the assets that enter into operation. EBIT reduction was partially mitigated by the positive contribution of a lower cost of debt following the continuous optimization of our financial structure, leading to a net profit of EUR526 million.

Regulated revenues, net of pass-through items, showed a reduction of EUR78 million mainly due to the well-known work reduction in transport from 6.3% to 5.4%, or EUR66 million in the period, and distribution businesses from 6.9% to 6.1% or EUR23 million, as the positive



contribution of the investment was counterbalanced by the effects of the depreciation and tariff adjustment.

Storage regulated revenues recorded an increase of EUR16 million due to the positive contribution of the regulatory work increase from 6% to 6.5% and to the entry into operation of Bordolano site at 2015 year-end. Finally, the reduction of other revenues mainly related to the lower disposal of nonoperating gas inventories in the transport business of about EUR20 million.

Moving on to operating expenses, total costs in the first half 2016 amounted to EUR410 million, with an increase of EUR7 million compared to the same period of last year. Controllable fixed costs decreased by EUR13 million confirming our strong focus on efficiency in the context of continuing business expansion and benefiting from a slight increase of capitalized internal costs due to the higher investment activity in the distribution business. This significant performance in the period makes us confident to confirm a level of [regulated] fixed cost flat in real terms for the full-year 2016 at a constant [perimeter].

The increase of EUR33 million in other costs is mainly related to nonrecurring items. The dynamics of fund provisions amounts released in the first half 2015 and new provision in the first half 2016 led to a cost increase of about EUR26 million, while a further impact of EUR4 million is related to higher capital losses for the replacement for metering of meters in the distribution business. Costs of nonregulated activities totaled EUR38 million, with an increase limited to EUR2 million. The impact of some nonrecurring costs, mainly related to Italgas de-merge of EUR6 million and to the environmental provisions in distribution business of EUR7 million was mitigated by lower disposal of nonoperating gas inventories in the transport business.

To sum up, the effects on consolidated EBIT, the reduction of EUR145 million compared to the first half 2015 was the result of EUR78 million decrease in the regulated revenues; the positive effect of the reduction in controllable fixed costs of EUR13 million; EUR25 million increase in depreciation, primarily as an effect of significant asset capitalization in transport and storage businesses; EUR55 million decrease mainly related to net fund provision; EUR33 million along with along with one-off Italgas de-merger costs of EUR6 million; capital losses, EUR5 million; and energy efficiency certificate.

Turning to net profit performance, first half 2016 recorded a reduction of EUR86 million from EUR612 million to EUR526 million. The decrease was mainly driven by the previously commented reduction of EBIT, partially offset by lower net interest expenses of EUR10 million. The positive impact of the lower average cost of debt, EUR24 million, was partially mitigated by a non-cash item of EUR10 million, mainly due to the lower interest engineering



and construction following the significant amount on the investment entered into provision, and lower financial income due to the payment of the shareholder loan to TAG in the second half 2015, around EUR3 million. A reduction in the contribution of associates for EUR5 million was mainly due to the negative contribution of TAP related to the construction phase of the project. The tax rate for the period was around 30.3%, in line with expectation, with a slight decrease compared with the first half 2015.

Now, let me give you another view on Snam's debt structure. As regards debt breakdown, the fixed rate portion is 62%, in line with our plan to have around two-thirds of our debt at fixed rate. The maturity profile is well spread over time, avoiding measured concentration issues and going forward with an average maturity of our medium to long-term debt of around five years. As regards banking facilities, in June 2016, Snam signed amendment agreements with each lending banks in order to extend the maturity of the lines while maintaining the same pricing condition. In addition, Snam has obtained the necessary consent to the execution of the de-merger of Italgas from its lending banks.

Let us underline our continuous focus on treasury management optimization, justified by the important role played by our committed credit lines also in the first half 2016. Thus allowing Snam to exploit abandoned market liquidity in favorable interest rate scenario. The last factor, together with the visibility of the full effect of the optimization measures carried down in the second half 2015, in particular the liability management exercise carried out on last November, made it possible to achieve an average cost of debt of around 2.5% in the first six months 2016.

Turning to the cash flow, funds from operations amounted to EUR1.2 billion with a positive contribution of working capital for EUR195 million, mainly related to net trade receivables in transport and distribution businesses and to tax payables accrued in the period. The cash flow from operations fully financed net investment of EUR692 million, resulting in the positive cash flow of EUR508 million. Following the distribution of dividends for EUR875 million, the cash flow was negative for EUR367 million. Net financial debt at the end of the period amounted to EUR14.177 billion with an increase lower than EUR400 million compared with year-end 2015.

Finally, turning to the balance sheet, net invested capital amounted to EUR21.4 billion, substantially in line with year-end 2015. The growth in fixed assets driven by new Capex, EUR0.5 billion, and by the change in net Capex payable, EUR0.1 billion, [non heard for technical difficulty: was partially offset by depreciation (0.4 billion euro)]. The decrease in working capital was mainly due to the already mentioned reduction in net trade receivables (0.15 billion euro) and to non cash items (0.1 billion euro). Thank you very much for your attention. We are now pleased to answer any questions you may have].



## Questions and Answers

### Operator [1]

Ladies and gentlemen, we are experiencing a momentary interruption in today's conference. (Operator Instructions) Cosma Panzacchi, Bernstein.

### Cosma Panzacchi - Bernstein - Analyst [2]

Good afternoon and thank you for taking my questions. I have three questions. One is on the international transport business. The second one is the -- on the status of the additional opportunities for growth that you were mentioning in your strategic plan. And the final one is on distribution. So, starting from the international expansion, you mentioned your investments in TAP during the presentation today. I was wondering if you could give us an update on the timeline for TAP and if it has been affected in any way by the opposition of the Melendugno comune, which has gotten a little bit of traction in the Italian media recently. And again on international -- on the international expansion, and in particular on potential inorganic growth opportunities, again in media we have seen that you have been shortlisted for Open Gas Connect. Can we have an idea of the timeline on this potential dossier for inorganic growth?

Second, moving to the potential new development projects in Italy that you mentioned in your strategic plan, in the last couple of weeks, we have seen that there has been a step ahead in the strategic plan for the methanization of Sardinia. And last week there was a meeting at the government level on sustainable mobility in Italy, including gas-fueled vehicles. I wondered if you could give us an update on these two items and if there are more concrete opportunities here after these recent events. And finally, looking at distribution, could you give us an idea of at what point we are right now in terms of the deployment of smart meters on the Italgas network? And which type of OpEx savings do you expect to achieve through smart meters? Thank you very much.

### Marco Alverà - Snam S.p.A. – CEO [3]

Okay, thank you. I will answer the first and then maybe ask Antonio to answer the question on the smart meter savings on Italgas. Regarding TAP, let me clarify the situation. We are a shareholder in TAP. We are 20% shareholder. We are not the operator of TAP.



What we have announced is the project's timeline, which is to be ready to ship gas by January 1, 2020. TAP has all the necessary national approvals that are in place, and we have regular meetings with all shareholders of TAP, including the shippers, and also the shareholders involved in the upstream part and other parts of the project. And we confirm that we see no reason to change that date and we are on track to achieving first gas in 2020.

Regarding the additional international growth, I would say that the strategy review was only a few weeks ago, so I don't have much to update on. I would say that the -- we don't comment on Gas Connect or other opportunities in the media, generally. In regards the Italian situations, the developments you've mentioned and you've noticed in Italy are certainly positive and going in the right direction. We don't have anything more specific to comment, either on Sardinia or on the use of natural gas in vehicles.

I would make a general comment, though, that in going around talking to our peers in Europe, the concept of natural gas vehicles is gaining more and more traction in no way as an alternative to electric vehicles, but really as a way to address the emissions issues that are becoming more and more apparent with other fossil fuels. And natural gas vehicles really have a big part of the solution already available in terms of technology, and what's really missing is the distribution infrastructure to enable greater growth in natural gas vehicles.

Italy already has a fleet of close to 1 million natural gas vehicles, so we are starting from a very high base. Antonio, do you want to take the question on distribution?

**Antonio Paccioretti - Snam S.p.A. - CFO [4]**

For the distribution -- the installation of metering devices for the distribution is concerned, the number are the following: at the end of June we -- Italgas have installed around 700,000 metering devices. We expect to install at the end of this year 1.1 million. In relation to the possibility of the impact on operating costs and synergies, I would say that the most important effect of the smart metering is the most capacity, the possibility the possibility of the Group to provide much more accurate forecasts for the flows and for to increase the advantages for our customers. In terms of our operating costs, we do not expect significant advantages.



### **Cosma Panzacchi - Bernstein - Analyst [5]**

Thank you.

### **Operator [6]**

Javier Suarez, Mediobanca.

### **Javier Suarez - Mediobanca - Analyst [7]**

Good afternoon to everyone. Three questions on my side, too. The first one is on the share buyback program. Can you update us on the timing for this share buyback program? And also can you clarify if you intend to cancel the shares bought back? That is the first question. The second one is on the Medgaz project. Can you update us on the next step for the approval and execution of this infrastructure? Because obviously there has been some opposition from the French regulator. And I just wanted to hear from you your view on the likelihood for this interconnection, timing for the approval, and execution. And the third one is coming back to the slide number 5 on the other effects that are affecting the EBITDA, and that's probably for this year. So can you kindly repeat the effect that are under -- below these EUR42 million of other effects? Many thanks.

### **Marco Alverà - Snam S.p.A. - CEO [8]**

Okay. Thank you, Javier. Regarding the buyback, as we said, we do not envisage to do the buyback before the de-merger. We are seeking approval for this EGM on August 1 to do up to EUR500 million. Italian law requires us to be specific in the timing, so it's up to 18 months is the time frame -- technical time frame of this specific plan that we're seeking approval for. So this was highlighted in the strategy document in June. This does not mean that we intend to do all the buyback within 18 months. As we said, we see the buyback as giving us additional flexibility to increase the gearing in case we don't see organic or inorganic targets that meet our industrial and financial requirements. We have -- we are not seeking permission to either cancel the shares, nor are we seeking permissions to use the shares. At this point we are asking the EGM to approve a very simple buyback program of up to EUR500 million within 18 months.

Moving to Medgaz, we've seen positive progress in recent weeks. This has become more and more of a priority project for Europe. It addresses and meets a number of top European priorities in terms of security of supply, stress tests, diversification, interconnectivity



of markets. It's -- the process there is quite straightforward. The first step is to do a CBA, a cost-benefit analysis. Hopefully this should start by September, and would have about 6 to 9 months to have its outcome. Hopefully, we get all the stakeholders to agree and approve that. At least the first phase of this project has more benefits -- the benefits far outweigh the costs, in our view. On the details of the EUR42 million, I would ask Antonio to provide more clarity.

**Antonio Paccioretti - Snam S.p.A. - CFO [9]**

In relation to your question about the so-called other effect at page 5, I would say that, first of all, we have taken into account the effect of the dynamics of the legal risk fund. We had a provision last year of the -- in the first half of last year, of around -- a release of around EUR20 million. And we have this -- in this first half 2016 a provision of around EUR5 million, EUR6 million. So the net -- the dynamic of the net cost is around EUR26 million. On top of that we have to consider that we have a provision this half in 2016, a provision of around EUR7 million in relation to environmental risk fund.

All these elements have been -- are related to the distribution sector. On top of that, we have EUR6 million which are the costs accrued, not recurring costs accrued at the end of June in relation to the de-merge, to the transaction, the de-merge. So all in all I would say we are talking about nonrecurring items, mainly focused in the distribution.

**Javier Suarez - Mediobanca - Analyst [10]**

You mentioned also a capital loss related to the replacement of some gas meters, is that right?

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

Yes. The element I gave you are the main one. There are also some losses due to the substitution of meterings -- smart meters, old meter devices, which -- losses which are in the range of EUR4 million.

**Javier Suarez - Mediobanca - Analyst [12]**

Okay, many thanks.



### **Operator [13]**

Harry Wyburd, Merrill Lynch.

### **Harry Wyburd - BofA Merrill Lynch - Analyst [14]**

Three questions for me, please. Firstly, I wonder if we could just revisit your slight guidance downgrade at the first quarter. I wondered whether partially that was driven by some transaction costs associated with the Italgas spinoff, which you may not have been able to talk about back at the first quarter results, ahead of the [CMD] vote. Could you let us know whether there was any contribution to the guidance downgrade from transaction costs from the restructuring?

And then secondly, without touching on any specific transactions, if you were to do a theoretical transaction perhaps in the range of about EUR500 million in the next six months, what could be the impact of that on your share buyback plans? Would you adjust the quantum of share buyback if you did a deal of about EUR0.5 billion?

And then finally on TAP. Just on your net income assumptions for 2020, Enagas gave some detail on their assumptions for TAP for 2020. And on my math they were slightly below your assumptions. So could you clarify that the exact net income contribution from TAP that you are receiving for 2020 and the net income for 100% of TAP that that's based on. And then why that might be slightly different from Enagas? I think they mentioned theirs was based on budgets from 6 to 9 months ago. So I'm wondering whether there is a later budget (technical difficulty). Thank you.

### **Marco Alverà - Snam S.p.A. - CEO [15]**

So, on the guidance, the line was breaking when you first -- if I understood correctly, if we understood correctly, you are asking what the one-off cost impact is on the EBIT full-year guidance. Is that your question, Harry?



**Harry Wyburd - BofA Merrill Lynch - Analyst [16]**

Yes. So it was just a question, back when you cut the guidance, obviously we were just coming up to the CMD and obviously you were limited in what you could talk about in terms of the Italgas split, so I wondered whether there were some transaction costs that drove guidance downgrade which you couldn't have talked about then. So, was there a contribution from transaction costs in that guidance downgrade?

**Marco Alverà - Snam S.p.A. - CEO [17]**

I would say that, for what we are concerned, there was no guidance downgrade. There was an indication that was given by the Chairman in the context of an AGM in the context of a conversation with the press, which was a general reference in a conversation that started with the revenues, and there was a number that was given. We subsequently had a Board. Antonio presented the Q1 results in that context, following that Board meeting, as we do every quarter. We review for the first time the -- we have a forecast mechanism, so after Q1 results we have the forecast for the full-year. That's when we came out with the guidance of up to 1.75, which Antonio has confirmed today. What he said is that, compared to that guidance, up to 1.750, there is the extraordinary one-off costs of the de-merger which he has estimated in EUR15 million for the full-year, 1-5. I hope that clarifies the guidance point.

Moving to the buyback, let me remind you that the EUR500 million that we seek authorization is not a decision that we've taken to fully utilize this authorization. So, it's neither a floor nor is it a cap, because we could always ask for additional approvals, additional buyback measures, should we reach that limit and still want to do more. I wouldn't think of the buyback as a tactical measure linked to whether we do or not do M&A in the coming months. I really see it as a long-term strategic flexibility instrument that we want to have at disposal because we don't want to remain under-levered for too long in case we don't see opportunities. So that's really our approach to the buyback.

Regarding TAP, we have clarified with our shareholders what everyone's assumption is. I'm glad to say we are all on the same page. What Enagas I think has done is -- has fewer months of 2020 in their profit estimate. I don't want to comment for them, but that's the answer I think you would get from them. Whereas what we've said is we have a full-year impact starting on January 1. What we have also said in the context of the previous Q&A session a few weeks ago is that we have enough contingencies overall to confirm our 5% net



income growth targets even should there be a couple of weeks or a few months delay in the TAP.

**Harry Wyburd** - BofA Merrill Lynch - Analyst [18]

Okay, thank you.

**Operator** [19]

Enrico Bartoli,

**Enrico Bartoli** - MainFirst - Analyst [20]

Good afternoon, everybody. A few questions on my side. First of all, I'd like to go back to the cost base and to slide 11, particularly on the distribution business. Could you provide an indication of the -- out of the EUR188 million of costs in distribution, how much is, let's say, an organic figure, without the movement in provisions that you explained? And regarding the second half of the year, if we can expect that this kind of movement in provisions will continue to affect the cost base in the distribution business?

And second question is related to the action that you are planning regarding the restructure of the debt. The fact that now we have some banking financing related to Italgas, what are the actions that were planning regarding Snam? You will get the payment of the money from Italgas. What are you doing in terms of trying to reducing the negative carry that will derive from keeping the cash in your pockets?

And the last one is related to the revenues in the storage business. If I'm right, this year there is a different seasonality between quarter in the revenues. Could you also in this case provide a figure in terms of organic revenues without these kind of effects for the first half? Thank you.

**Marco Alverà** - Snam S.p.A. - CEO [21]

We'll ask Antonio to take all three of these questions.



### **Antonio Paccioretti - Snam S.p.A. - CFO [22]**

Thank you, Marco. OpEx, Italgas OpEx. The number in the first half 2016, the level of cost for Italgas was EUR188 million. So an increase of EUR32 million compared to the EUR156 million of the previous period. This increase let me say is substantially -- entirely to be attributed -- can be attributed entirely to nonrecurring items. I can repeat risk fund provision. Dynamics, because in the last year, again, we had release of some of these -- of some refund provision before -- in terms of increase must be considered. Capital losses and risk fund provision for loss for the substitution of meterings and the risk fund provision for the environment issues. These EUR32 million, according to the element we have today, according to our knowledge, are all the costs we measure. It is clear, so it is not correct to imagine another, similar amount for the second half.

As far as the management of our debt, it is clear that we will have to manage the significant part of cash debt we will receive after the de-merge. We have in mind some actions that will permit us to take under control the cost of our debt. It is clear that, as we did last year in November, we have some ideas in terms of liability management. It's not the case to discuss at this point now, but it's clear that we don't want to have cash on the side of our balance sheet. We will use the amount we will receive from Italgas for taking under control our cost of debt, so reshaping a part of our debt in the framework -- with a target to maintain under control these costs.

As far as the last question related to the revenues for the storage business segment, in the first half of 2016, we had accounted revenues -- regulated revenues net of pass-through for storages of EUR252 million. The increase compared to the previous period was EUR16 million. I would say both due to the work increase and the Bordolano site, which entered into operation at the end of last year. The message that I would give you is that these level of revenue, EUR252 million, represent an important reference if you want to project your guidance at the end of this year. So, for the full-year 2016

### **Enrico Bartoli - MainFirst - Analyst [23]**

Thank you.

### **Operator [24]**

Maurice Choy, RBC



### **Maurice Choy** - RBC Capital Markets - Analyst [25]

Thank you very much and good afternoon, everyone. Just two questions from me. Firstly on gas demand, I noticed that in the press release in page 10, discussions about gas demand have now shifted from Italy only to now a European-wide market. Recognizing that most of your volumes transmitted obviously used to meet Italian gas demand only today, or mostly, I wonder whether if you could just give us a quick update on your views of Italian gas demand. And then with that, as you increase your reverse flow, not just capacity but also volumes, could you also discuss how you see that increasing over the years to come across the next five years?

The second question is more broadly about LNG. Recognizing that LNG is a very small part of your RAB and your operations today, I wonder if you could discuss any opportunities, whether within the Italian market or even abroad, where you see opportunities, if any, within the LNG market for Snam, specifically on RABable or I guess regulated cash flow basis. Not necessarily on a services perspective. Thank you.

### **Marco Alverà** - Snam S.p.A. - CEO [26]

Okay. So, we think it's important to keep European gas demand in observation, even though we have no impact on our direct P&L from any changes in European gas demand, and for a very, very small amount only the Italian gas demand has an impact on our P&L. We talk about European gas demand to promote projects like Medgaz to support our own efforts on the reverse flow, as you mentioned, to talk about the benefits and necessity of doing projects like the TAP and more. So, that's really why we are beginning to record gas demand numbers in our press statements.

Regarding Italy and our own expectations, I think it's very encouraging to see a reversal of the trend on the industrial side. This is very good news and we discussed the numbers earlier in the call. The thermoelectric -- I wouldn't read too much positive into that. Hopefully there will be a continuation in Europe of switching, like the UK has shown, from coal to gas. In Italy the gas increase was mainly due to a very exceptional hydroelectric year last year, and that was really an anomaly in 2015. So, we don't adjust for that in our weather adjusted, and so you see a big increase in thermoelectric use of gas that's mainly driven by hydro and by the closure of a coal plant which was, let's say, done from executive decisions from the magistrates. Also some reduction in oil consumption for electricity, which is very positive. So I think the trend is encouraging.



On the residential side, there is a slight contraction. This is an ongoing efficiency process; also has to do with the art of weather adjustment is not very precise as we look into this difference of 0.3. Let's say it's mainly due to efficiency gains.

Moving to LNG, we would not invest in a project taking volume risk or price risk. I think this is very clear for us. We would, however, look at projects like TAP which are not regulated, but are fully contracted. So you are not taking any volume and price risk, and we can see these projects are more likely in the LNG space than the expression you used is fully RABable projects. Talking in Europe, we see Europe has a priority to build additional regasification capacity. We think regas capacity will tend to go where storage is because there will be a lot of availability for summer LNG as the market becomes more liquid. So we think Italy is a good candidate to have that combination of offering people the chance to regasify and store and then have future deliveries in the winter anywhere in Europe.

We've already seen this summer this has begun to happen with the Panigaglia being utilized, [Igor] being utilized, and [Rodrigo] being utilized.

#### **Maurice Choy - RBC Capital Markets - Analyst [27]**

Thank you very much.

#### **Operator [28]**

Jose Ruiz, Macquarie.

#### **Jose Ruiz - Macquarie - Analyst [29]**

Good afternoon, everyone, and thanks for taking my question. I just have one. You released this morning also a press release on 2016 allowed storage revenues, and I was wondering if you could help me to reconcile the RAB number, the EUR4 billion. I understand it's calendar year 2014, last 2015 CapEx, and then you deduct the work in progress. Could you tell me or share with me the number of work in progress you are deducting? Thank you.

#### **Marco Alverà - Snam S.p.A. - CEO [30]**

Antonio?



**Antonio Paccioretti - Snam S.p.A. - CFO [31]**

The value of the RAB recognized at the end of 2015 for the [targets] 2016 is EUR4.040 billion. On top of that -- and this is the reference for the calculation of the tariff of the revenues for this year. So, something more than EUR500 million already. The level of CapEx executed in 2015 with the new regulatory framework, not yet entered into the RAB, so the work in progress, is EUR80 million.

**Jose Ruiz - Macquarie - Analyst [32]**

Thank you very much.

**Operator [33]**

Olivier Van Doosselaere, Exane.

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

Thank you very much for taking my questions. And I apologize in advance should you already have spoken about that. There was some interruption on the line. I was just wondering about TAP, whether there was any discussions and whether you had any uncertainty with regards to the timing of the commissioning of that, specifically with regards to the current situation in Turkey. As I believe that the gas actually that will initially come from Azerbaijan will have to pass through Turkey before getting to the TAP pipeline.

And then the second one is just to make sure I understand clearly, the reiteration of the guidance up to EUR1.75 billion in EBIT, does that exclude the EUR15 million de-merger costs? Thank you.

**Marco Alverà - Snam S.p.A. - CEO [35]**

Yes, okay, so regarding TAP, we did speak about it. What I said is that we confirm the 2020 number, which is the number that comes from all the shareholders in the project. We've confirmed this number actually just today in an earlier meeting we've had with the shareholders. And this includes the estimates of all the parties involved, so it's BP, SOCAR, Enagas, Fluxys, Axpo and ourselves for the commissioning of TAP in 2020. Regarding the guidance, up to 1.750, which was the Q1 guidance, does not include the EUR15 million one-off transaction costs. Thank you.



**Olivier Van Doosselaere** - Exane BNP Paribas - Analyst [36]

Thank you. That's very clear.

**Operator** [37]

Antonella Bianchessi, Citi.

**Antonella Bianchessi** - Citigroup - Analyst [38]

Yes, just a very quick question for me. Can you elaborate on the number of employees that has increased over the last year? How many of those are due to consolidation perimeter, and what we should expect going forward? The other questions is on the debt. Which do you think is the level of net debt to RAB that you think would be sustainable in the long term? Or increasing the leverage is more of an opportunistic approach, given the very low rates, and how this is, in your view, if this trigger some regulatory risk.?

**Marco Alverà** - Snam S.p.A. - CEO [39]

Thank you, Antonella. I would say the increase you've seen in the first half on people have to do with four factors. The first is there have been some exits at the end of last year that have been substituted -- replaced with people that have been hired at the beginning of this year. We then have the Bordolano project entering into operation, which brings with it new people that were planned and envisaged on the transmission side, which is a third element. We have an overall empowering of engineering, construction and supply functions, which is consistent with our idea to strengthen the know-how and competence centers to redeploy those not only for our domestic business but also for our international development capabilities, supporting some of our subsidiaries.

We have also -- this is still related to transmission -- hired to some people to strengthen what we call the new services areas that we've highlighted in our plan related to the balancing code and to foster new competencies in the general commercial area. I would say the greater increase has been on the fourth area, which is distribution, where we've hired new employees related to the increase of competencies needed for the tendering process and the engineering associated with that.



Your question on the debt to RAB. So, as we said in our last presentation, we will have our 2015 equivalent net debt to RAB of 49% at Snam, excluding Italgas. We see a target or an upper end of the range at around 55% net debt to RAB. We think the corridor should be between 50% and 55%. The net debt increase that Antonio highlighted for the first half, and you can extrapolate that for the full year, will bring us slightly above 50%. So I think that's really the boundary that we consider the appropriate one. This is for Snam, excluding Italgas. Italgas as we've discussed can support higher gearing, but should still target to remain, even at the peak of its gearing, below 70%. But all this will be outlined in greater detail in our Italgas capital markets day in Q3 -- Q4, sorry.

**Olivier Van Doosselaere** - Exane BNP Paribas - Analyst [40]

Thank you very much.

**Operator** [41]

(Operator Instructions) Stefano Gamberini, Equita SIM.

**Stefano Gamberini** - Equita SIM - Analyst [42]

Sorry if you already answered my question, but (inaudible) you didn't follow the very first part of the call. Just a question regarding the operating cost. If I remember well, your guidance was EUR500 million of accountable costs for the full year, which should be around 70% of the [whole day], so this means that the total cost in 2016 should be in the region of EUR715 million. Could you help us to understand regarding the fixed costs, why we should see an increase quite relevant in the second part of the year? And what is the reason of this change compared to the first one? And the second -- which part of the remaining EUR215 million is considered as one-off in terms of operating costs. And the second quick question regarding if you have a guidance of the year end net debt. Many thanks.

**Marco Alverà** - Snam S.p.A. - CEO [43]

Antonio, both questions.



**Antonio Paccioretti - Snam S.p.A. - CFO [44]**

Stefano, in relation to the first question, I mean the level of controllable fixed cost is, as we tried to anticipate before, the slight reduction is to be -- is due to the capacity -- the reduction in the first half is due to the capacity of the Company to maintain and control our costs, but also due to some phases. So, we have accounted the reduction in the first half versus this half last year, but anyway, we maintain a guideline in the range of EUR500 million for the controllable fixed costs. And we also maintain the guideline under which the total cost -- the controlled fixed cost represent around 70% of the total cost.

In relation to the risk fund provision dynamics and capital losses, we had in the first half again, we don't have any evidence today for considering additional charges for these [voices], and the 4, according to our view, must be not considered additional charges for the second half. For our expectation in relation to net debt at the end of the year, we confirm the amount of EUR14.2 billion, EUR14.3 billion, being clear that these guidelines is made considering -- not considering M&A transaction.

And considering, as it was in the past, a neutral consequence in terms of working capital from the balancing -- for the balancing activity. You know that we expect the introduction of a new balancing system which could have some effects on our working capital. In these guidelines, we do not consider any effect from that. It is clear, EUR14.2 billion is our guidelines for the full perimeter.

**Stefano Gamberini - Equita SIM - Analyst [45]**

Perfect. Thanks again.

**Operator [46]**

We have no further questions in the queue.

**Antonio Paccioretti - Snam S.p.A. - CFO [47]**

If no more question, we thank everybody for participating to the call. And if you need any additional follow-up or information, please contact the IR department. Thank you, everybody.

**Operator [48]**

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



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