



EDITED TRANSCRIPT
SRG.MI – Snam SpA: Italgas Capital Markets Day
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Presentation

Marco Alverà

Good afternoon, everyone, and welcome. It's good to see you again here in London for the culmination of our process for a standalone Italgas. In March, we announced a review of Snam's structure and the future of Italgas. After a thorough examination of the prospects for each business, their capital structures, and strategic position within the market, our conclusion in June was that two companies would have a more prosperous future as separate public entities.

Both Snam and Italgas would be able to pursue their own growth aims with greater efficiency and focus. We wanted to complete the demerger process by the end of this year, and today, as promised, we're here to present to you the strategy for a new, independent Italgas.

I would now like to introduce you to the new leadership team at Italgas. Paolo Gallo, the CEO, is an experienced leader who brings with him knowledge of the energy sector as well as regulated utilities. Having among other senior and significant jobs, been CEO of ACEA, the municipality in Rome. Apart from his business and leadership experience, Paolo has proven to be very effective in dealing with local municipalities, which would be the main focus of Italgas going forward.

With Paolo, you will have noticed Antonio Paccioretti; someone many of you have come to know well over these years, and whose skills and qualities as CFO have greatly contributed to Snam's success over the last decade. Antonio will be general manager of Italgas.

As Snam moves to its new role as shareholder of a publicly listed Italgas, we do so with great confidence. We're excited to be investors in a business with significant market opportunities, a robust capital structure, and a strong and focused management team.

I will now turn over the floor to them to illustrate their strategy and the results they expect to achieve. Thank you very much for your attention. (Video Playing)



Paolo Gallo

Good afternoon to everybody. Welcome to be here. Let me just start the presentation. So welcome here for this Capital Market Day presentation. As you have seen, Italgas may be a new company to you, but in fact it has 108 years of heritage. And let me just move on, let me just start. And the first thing that I want to show to you, as you have already seen in the video, is the logo.

We were able to get the ticker IG back from Borsa and I think it is a good sign that the new future will start, because that was the ticker that was used by Italgas until 2003 when it was listed on the stock exchange. And we were able also to bring an older logo that was used by Italgas, and we were able, of course, to transfer the logo in the modern characters.

The logo, in fact, represents our values that you have seen in the video; competence, safety, reliability. And I have to thank you, all those non-personnel and those in Italgas personnel who have worked in the last months to establish this logo. You see, the logo represents a cornucopia; cornucopia is linked to the energy, colors are linked to the traditional color of Italgas and they represent the flow of the energy. So again, thanks to the people who have worked in these months to bring us this new logo that represents the future for Italgas.

Let me just recap what happened in the last three months. Marco, that I just told you, the step that we're taking by Snam, and in fact in the last few months we were able to put together a new management structure, negotiating -- and Antonio will talk later -- the financial commitment with the banks, get the shareholders' and the bondholders' approval. And today we are here to complete the last two weeks before November the 7 that we expect to be the date that we should - will happen the demerging and the listing of the Italgas. Before that, we will sign the demerger legal documentation, we will sign the financial agreements that were already negotiated, and then finally we will arrive on Monday at 9:00 at the Borsa to open the listing and, of course, the demerging will take place.

But before arriving that, I would like to review with you some details of Italgas. I wanted to bring to your attention Italgas' major elements in order to let you evaluate the Italgas investment case. And therefore, I will go through the market overview, the market position of Italgas, its operational excellence strategy. And Antonio Paccioretti will take you through the regulatory regime, the regulatory framework, and the financial structure.

Let me start with the describing Italgas as overall. I mean, it is evident, it is clear to everybody that Italgas is a leading gas distributor in Italy. It operates 65,000 kilometers with 7.4 million delivery points; that means a market share of 34%, delivering to the final customer around 8 billion cubic meters.



This number has inside embedded the affiliates, what we call the affiliates. So mainly the Tuscany region for which we don't have the majority but we have the management. If you - all in all around the 20 million in Italy are served by Italgas. But Italgas is not only a leader because of the number, because of the national footprint; it's also a leader because of the core competence.

With such a national footprint -- and I will show you later some number, we are able to manage in parallel multiple projects; small, medium, and large. In 118 years of age, we have been able to manage the network in a situation, in all the situations, and we have unrivaled expertise in respect to our competitors. But also innovation is present in our activities. If you think about that we are installing the new smart meterings, we have already installed more than one million smart metering in Italy and by 2018, at least 50% of our customer will have smart metering. That's, again, an innovation point.

And thanks to our national footprint, we have developed a local knowledge and we have been able to establish positive relationship result the regulatory bodies starting from a local point of view up to national point of view. If we take a look at the shareholder structure and the corporate governance structure, Marco has already anticipated to you the structure of the demerging, after the demerging, Snam will stay with 13.5% of shares and the remaining shares will be distributed pro rata to these now-existing shareholders.

Each of the existing now-shareholder will get one share of Italgas every five shares of the Snam. So you can appreciate the fact that with such extensive shareholding base that we will have a significant free float in liquidity. From a governance point of view, we have established a governance that is in line with the best practice in Italy, in Europe. Our board members have four independent member out of nine, three women out of nine. And we have already established the four committee of which one, the sustainability committee, is not compulsory by law but we have immediately established.

And all four committees are already working, have started working since a few weeks in order to be fully prepared when Italgas will be listed and independent. And then something about the perimeter, as you know after the demerging, Italgas will have 100% of Italgas rate in ACAM gas and nearly 100% of Napoletanagas. That represent the consolidation perimeter that amount in terms of RAB to EUR5.7 billion.

And then we have what we have already called the affiliates, in particular the area in Tuscany where the total RAB significantly is a little less than EUR1 billion of RAB. This is the structure of the demerging that we will inherit from Snam, but I can promise to you that in the next years, next coming years we will evaluate how we can further rationalize this structure.



Now I wanted to show you some numbers to give you a flavor of Italgas in the last three years. You can see in those numbers, you can appreciate that the business has been strong, stable, reliable, and EBITDA has reached 70% of the total revenue, net income has been over 30% of the total revenue.

But I wanted to say a couple of things about 2016 that is very important. As most of you know, since January 2016, a new regulatory value has been set by the authority; the [WAC] has been reduced from 6.9% to 6.1% for distribution, and from 7.2% to 6.6% for metering. And that will affect the 2016 on the revenues for Italgas. It has been reduced because of the low interest rate.

Antonio will explain to you later that we have also the good size of that on the interest cost of our [VAT], but that is the result of the authority decision. In addition, as you can imagine, in the demerging we will have during 2016 and 2017 additional cost. When somebody's coming to you proposing a merging, they normally bring to you, well, we are going to do such and such of serving; what we are doing is exactly the opposite, so it's natural that additional cost will emerge. But I can promise to you that during 2017 we will work hard and I will tell you some example later that those costs by end of 2017 will completely disappear.

About cash flow, cash flow in the last three years has been consistently robust and they were able to significantly cover the annual CAPEX program. Nevertheless, we have seen an increase of debt, but that is linked to the dividend policies set by Snam during those years. What is going to happen with the demerging is that the net debt will increase, but nevertheless we will have enough financial flexibility to maintain, of course, a solid balance sheet, to maintain the credit rating that was provisionally assigned by the credit rating agency, and with such a financial flexibility to fully fund our business plan and reward our shareholders. Antonio later on will explain in details what I'm talking about.

Finally, I want to give you a flavor about our client base. As you know, we don't deal with the final customer, we bring the gas to the final customer on behalf of the sales company. Most of the sales companies that you see on the picture, they have a very nice credit rating, but some of them may not have. In that case, they are obliged by the authority to provide financial guarantees or insurance guarantees.

That's the reason why in the last years, we had a negligible amount of credit losses and bad debt provision and that's the reason why we can say that our client base is a very strong client base.

Let me just recap everything that I said up to now. Italgas is an attractive investment proposition because first of all, as we said, we are leader in natural gas distribution, and more over than that, we are in a unique position to increase our market share through the



internal process. And we will do that in a clear and visible regulation regime. The authority for the energy and gas in Italy has a very high reputation. They've been working in the sector since probably nearly 20 years and they are recognized as one of the best regulators in Europe.

If we take a look inside Italgas, Italgas is let me say the best in class, the leader in competence and the leader in profitability, we'll see later, and there's moreover the opportunity to create value through economy of scale, efficiency and investing in the existing network. The investment in the existing network is, of course, done at the remuneration currently recognized by the authority. So we are talking about 6%-plus.

Everything is backed up by a solid balance sheet. As I said before, the business plan is fully funded and we have still significant financial flexibility to reward our shareholders and to evaluate any other market opportunity we may see in the future.

To conclude, the combination of high visible return and a creative growth opportunity underpin our attractive and sustainable dividend policy.

Now, I wanted to go through in some more details about the market overview and the position that Italgas has not only in Italy but also in Europe. Let me start with the business model.

Business model is very clear to everybody, it's very simple. We take the gas from the high pressure pipe of Snam and we'll deliver that gas on behalf of the commercial sales company to the final customer. As I said before, our clients are the sales company and not the final customer. So the business model is extremely clear, but as I said before, we are leader in Italy by no doubt, but we are third in Europe in terms of number of delivery points.

In front of us, we have only GrDF in France and National Grid. And as you can see, the ranking, we are not very far from that ranking. If we look at the same picture in Italy, with our 34% of market share, we're double the second, that is ReteGas that is the only one that has a national presence. And if we look the third one, we are five times the third one. The third, the fourth, the fifth are all local, meaning may have a strong presence but still in a local area. We, together with the ReteGas, we are the only national player in Italy.

And if we look the situation in Europe, the situation in Europe except Germany and Italy, it's very clear. There has been through the years a reduction in number of players in each European country. We have a limited number in general; we have a very small number when you look at the operator that has more than 100K customers.



That is the situation that is according to us is going to be the same situation we will have in a few years in Italy. Through the tender process that we will talk later is going to happen the same things, the number of players that will remain in Italy will be reduced significantly. That process has already started back in year 2000, when at the time there were more than 700 operators. Today, we are a little bit over 200, but we expect by the end of the tender process, the number of operators will be reduced what we say low double digit number; we can think about 40, 50 maximum operators.

Why is going to happen like that? You cannot announce before, saying, "okay, tender process will say the dominance of the largest player." There is all another answer that you can find on the chart in the right. If you take a look at the very small and small operators, they represent in terms of numbers 77% of the market, 77% of the market deliver 11% of the natural gas in Italy, so nothing. While 4% of the market, the very large, deliver nearly 60% of the natural gas in Italy.

What does it mean? One, you go for the tender, you have to have financial capability to win the concession, to invest and upgrade the network, to invest in innovation. I don't think the 77% of the operators will be able to do that. Simply, they will disappear through a combination, through an acquisition, during the tender process. And, of course, Italgas will be the first one operator positioned to increase its market share.

To give you another picture of Italgas position, except some area that are white, very limited, Italgas is present all over Italy, maybe some area a stronger presence, some other less presence but we are present everywhere. And that situation will give us a clear advantage in the tender process. I will talk later about it.

I have also to remind you that our largest concession, that is the concession in Rome that represents about 20% of our redelivery points, we've been - action will stay until 2024. More in general, all-in-all, 25% of our concession will be not - will not be action in the next years. And therefore, our position will be much stronger due to the fact that we have a strong base in term of redelivery point, but will remain for many years without an action.

But I was talking about tender process, now I'm moving the floor to Antonio that will go through the regulatory framework in which Italgas is operating. Thank you. Antonio?

Antonio Paccioretti

Thank you, Paolo, and good afternoon everyone. I will now touch on the main aspects of the gas distribution regulation.



The regulatory authority defines the criteria for the allowed revenues and the tariff determination. They are fixed for the entire six years duration of the regulatory period, the current one from 2014 to 2019. The reason regulatory review has introduced a specific regulatory period for the allowed rate of return which also lasts six years, 2016, 2021 and envisages updates every three years of the parameters reflecting the financial market trends. The value of the parameters which are sector-specific such as asset data and reference OPEX are instead reviewed at the end of the regulatory period.

The strength of our business model is based on the quality of our revenues. Looking at the 2015 figures, we can see that our revenues are almost exclusively regulated and 94% are strictly related to the carriage business. On top of that, Italgas benefits from other two revenue streams, regulatory services which are related to our gas distribution activities, and other activities such as water and heating distribution, services to affiliates, real estate rentals, which also help the company to sustain margins.

Let me briefly explain how the allowed revenues are set. The reference revenues at the beginning of each regulatory period are calculated as the sum of three main building blocks. The allowed remuneration, calculated by multiplying the weighted average cost of capital by the RAB, let me remind you that the work is real pretax. The allowed depreciation which is calculated on the basis of the economical and technical lives of the asset established by the regulator and the allowed operating cost based on parametric approach.

The capital cost remuneration and the precession of the RAB are then updated each year according to the RAB evolution, while the operating costs are updated according to the price cap methodology. In addition, ancillary assets are remunerating on the basis of parametric cost recognition.

[RAB] is calculated according to the re-valuated historical cost methodology at the beginning of each regulatory period and then updated annually. The RAB at the beginning of the year is increased by new investment carried out during the period, both maintenance and development including work in progress and working capital, which is calculated on a parametric basis, 0.8% of the gross re-valuated assets.

Finally, depreciation, disposals, and grants are deducted in order to determine the net asset value at the end of each year. Specifically I would like to draw your attention to the re-valuation process which implies that the RAB is adjusted every year by inflation which is consistent with the work which is set on real basis.

Operating cost are calculated the beginning of each regulatory period. They are defined as the average sector cost in the previous regulatory period and depend on the company site



and the client density. After the first year of the regulatory period, reference OPEX are updated as reference OPEX of the previous one, the previous year increased by inflation and decreased by an efficiency recovery parameter. Currently it is 1.7% for distribution, 0% for the metering OPEX.

Each operator retains all efficiency gains achieved during the regulatory period. The new level of operating cost and the new regulatory period will depend on the average cost of all of the operators in the previous period.

Let me [brought] up the main benefit of the current regulatory framework. First, it incentivizes the operators to be efficient due to the parametrical approach of OPEX and some of the CAPEX recognition with a benefit for both companies and final customers. Secondly, thanks to the link to the market parameters in the calculation of the base return and absence of exposure to volume risks, the regulation guarantees low risk profile for the infrastructure operators. Last but not least, the clear and transparent regulatory framework ensures visibility on future results of the player.

This slide shows the evolution of the legislative framework over the last 20 years. In this process, the gas distribution activities have been fully separated by sale and supply business, at the same time the distribution became fully regulated. The concession regime under which the distribution business is run has been progressively modified in order to favor efficiency and competition.

This translated into reduction of the duration of the concessions and introduction of new minimum gas concession area and the definition of clear and transparent criteria for awarding the concessions.

On the right, we have summarized the main aspect of the new tender role. The renewal of the legislative framework has been completed with the aim at improving the efficiency of the distribution industry, also thanks to further consolidation of the business. This objective will be achieved through the reduction in the number of the concession areas, a set of standard rules for the tender process based on economic condition and parameters on security and quality of the services, last but not least by setting clear rules for the payment of the reduction in value to the operators leaving concessions.

We want to stress that the item tender renewal process benefits from a transferring framework with protective termination compensation. This slide shows a comparison between the timeframe set by the budget law 2016 and the one considered in our business plan. As you can see, our assumptions is more conservative.



We forecast the duration of the renewal period of about five years. 16 tenders have been published in 2016 including Torino II, for which the offer has to be presented by the yearend. The new tenders have stringent requirements for participation in terms of financial and technical criteria.

Therefore, we expect that the competition will be mainly limited to operators which have proven technical skills and strong financial capabilities. Italgas can match both the requirements, leveraging on its competencies in managing gas network and its solid balance sheet.

According to the regulation, 100 points are allocated to the bidder, 27 points for the level of services taking into account in particular quality and safety, 45 points for the technical offer, taking into account the offerer's assessment of the status of the network and the offerer's ability to implement improve the investment plant of the contracting entity in connection with extension, maintenance, and technical innovation.

28 points for the economical element of the offer, taking into account in particular the fees offered to the relevant municipalities. We believe Italgas is well positioned, given its ability to put together a competitive business plan, attractive economics, and high levels of services for all the stakeholders.

I'll hand you back to Paolo for the next section.

Paolo Gallo

Thank you Antonio. Let me go back to the presentation. So now I wanted to talk to you about one element which for me it's very important. It's the operational excellence that Italgas has proved to have in the last let's say 108 years.

I brought you some KPI and I brought to you the result achieved in 2015 by Italgas in comparison with the standards set by the authority. It is evident that we outperformed by far the KPI established by the authority. What we have done in 2015, you can say we have inspected more than 23,000 kilometers, we have done 8,000 measurements, we have responded to 77,000 emergency calls, I mean, we have a clear proven track, proven experience in managing network and local situation.

We have such competence, one of our ammunition in the future tender process because we can bring those best practice to the future concession we will get. But let me get also some additional comments about project management. You can see that in the last six years we've



been able to deliver in terms of investment always around or even more of EUR400 million per year of new investment and it's not easy.

I mean, I can tell you that if you invest and if you do one power plant that has EUR400 million invested value, it maybe complex but it's only one project. But when you have to handle 1,500, more than 1,500 projects, each single project is different from the other. You have to be able to manage. And I think the history is proving that we are able to manage multiple projects even if they are small.

You say the average size is EUR200K, the average duration with less than one year. In the meantime, we were able also to manage larger projects, more than a couple of years duration, more than EUR3 million as an average size. And that is thanks to the knowledge that we have of the territories, to the good relationship that we have with local authority and all those number being delivered on time and in budget.

And as a result of what I said, it is clear why Italgas is leader in natural gas distribution in Italy and in Europe. It has also the higher profitability in comparison with the peers. Every one of us have seen a chart provided by the consultant. If you are on the top right of the chart, you are the best and Italgas is the best.

Let me talk now about the strategy. I think you are very interested about it. And I will describe the strategy in three pillars. The first one, efficiency, second one, investment, third one, market opportunities.

Thanks to our footprint, thanks to our dimension, we are in a unique position to extract value from our operation through further efficiency in respect to the numbers that we have today. Not only from an operational point of view, but also from a financial point of view and later on, Antonio will describe this strategy.

We have the capability to continue the investment even at the larger scale and why it's just demonstrated our ability to manage multiple projects and that investment will be deployed at RAB value with the return that you know very well by the authority.

And the third one is our financial flexibility, our solid balance sheet enables us to take and to look at every market opportunity, especially in the area of the concession tender. We set our goal and I will demonstrate to you that the goal that we set is not unfeasible, it's completely feasible. We set the goal to reach 40% of the market share, not including the affiliates. If you consider also the affiliate, that number will go up to 44%, 46%.

Let me go with the first area, the efficiency. We always talk about efficiency. But I will demonstrate in practice what we are already working on. That regards most of the area of



operation, workforce, ICT, facility, smart meters and asset management, CAPEX. And I can promise to you that we are working very hard already to identify and implement cost efficient that we'll be able to recover what I already said will be emerging cost in 2017 about the demerging and go even farther than that. But instead of just using single words, I want to bring you some specific example with numbers that shows that we have already started working on this subject.

About productivity, we are in the process to redefine the standard hours to optimize the transfer timing to site, to make a more efficient planning for all of our activity, to optimize the traditional metering reading system even though we know that three years, four year maximum, the traditional meters will be marginal in our activity. We expect by that time to reach EUR4 million of savings per year.

ICT. ICT normally represents an area where you can make significant efficiency. If you combine that with the fact that we are demerging from Snam and therefore we have to rebuild our ICT infrastructure, we have in front of us the opportunity to simplify it, we have in front of us the opportunity to make different choice why we should buy the other, maybe we go in cloud.

So we have several opportunity, but having said that, we see that a minimum we will say EUR2 million per year just going through the revision of the contractor structure. Regarding the facility, we buy gas and we buy electricity, I can bring some - my personal expertise in that, we have already launched tenders, European tenders to buy electricity and gas to enjoy the very low price that we have and I can tell you the EUR3 million will be in place in 2017, because we will award the new contracts by the yearend of 2016. So we'll enjoy the lower price for energy and gas already in 2017.

And then, as I said before, we are replacing the old meters with the smart meters. The smart meters require transmission of data from the smart meter itself to the center. Unfortunately, we don't have the electricity wire, and therefore we have to use the telecommunication. As much as our base, in terms of number of smart meters we increase, we will be able to negotiate better contract with the telecommunication. So we expect EUR8 million Euro saving at regime. And finally, on the CAPEX, we have already launched new tenders for smart meter supply and installation. And we have launched new tenders for network maintenance. We expect to have at regime EUR20 million of saving.

Second pillar, the investment. I'm talking about investment here with no consideration about the tender, so on the existing concession. EUR 2billion have been allocated on the existing concession in the period '16 to '20.



It's investment as you see that is mostly focused in smart metering. They represent nearly 40% of the overall investment, EUR800 million will be invested in replacing the old meters with the smart meters. By 2018, 50% of the smart meters will be installed in minimum.

That is our minimum goal but I'm sure we will do better than that. So the replacement speed will be even higher than that. And, of course, we will take a look at the network development. As you know, also by the end of 2018, we will complete the investment in the south of Italy, that was an agreement with the Ministry of Industry.

And that time, we expect to have, when we will finish the investment, new 54 concessions in place that will last 12 years. We have already had 40 that recently started -- that recently started. And then we have, of course, the activity on the maintenance of the network, the upgrade of the network.

I want to remember that investment will be remunerated at 6%-plus. I'm describing right now based on such investment the evolution of the RAB. The evolution of the RAB from '15 onwards until 2020, will see an increase year by year of more than 1%.

We start from EUR 5.7 billion of RAB, we will pass six billion by 2020. But the good thing is also that the mix of the RAB is going to change. The meter weight will increase, will pass from 11% to 15%, and as you know, the meter investment is remunerated at a higher number, 6.6%.

So RAB will increase, not considering tender process. And the remuneration of the overall RAB will increase also because the mix is changing in favor of the metering. And let me -- let me stay on the tender. Before, Antonio was explaining to you the criteria of the tenders. And here, I want to tell you which are the advantage that Italgas has regarding the single parameters. As you probably know, we have launched a three-year program to expect physically the network. After the three years, we will have 5% of the network will be physically inspected.

It's a program that will help us to better understand our network. The need to be upgraded, not only, but also to understand which is the need of somebody as operator of the network. We are the only one in Italy that are doing that. No one else are doing a physical inspection like we are doing on our network.

But that is good even if it's going to be a cost. For us, it's an investment because it will let us understand and plan a better evolution of the network of itself. So if we are talking about security and quality, by no doubt, we will have a better project in respect to all other operators to be presented to the authority.



The same for the development of the distribution system. We know better than anyone else the Italian network. 65,000 kilometers is a significant number and we can use the knowledge that we have on our grid, on our network, to be used also for the others. None of them, none of the others can do the opposite. And finally, the economic criteria. As Antonio was saying, there is cap and therefore the economic criteria is not going to be the criteria based on which the authority will award the tender.

But even though, the advantage for Italgas is even if Italgas is offering the maximum amount, thanks to the economy of scale, thanks to the efficiency, thanks to the large footprint, the impact of the return of the single concession will be very limited.

Think about a small operator. If it's going to offer the maximum, the impact will be very large. And therefore, that is our clear advantage. That's the reason why the economic criteria, even though it is capped, it is going to favor the large player because the impact on the return will be very limited.

How we have selected -- now, we have divided the different ATM. First of all, we have applied three criteria. The first is our presence in each single ATM. Namely our market share. Then we have looked in each single ATM which is the position of the other operators. We have one or maybe we have multiple operators and then understanding if our position is stronger just because of our market share. Are we stronger because the others are very fragmented? And then finally, the geographical proximity. Sorry for that.

Proximity. The geographical proximity of the ATM. Those are the criteria based on which we have divided the different ATMs. If we look at our strengths in our business plan, we have not put a very high win rate target. On the contrary, we have used a very conservative one. So we have a flexibility embedded in the -- in our plan. We have already said several times our advantage from a competitive point of view in terms of costs, in terms of best practice that we will apply to the new concession. In terms of cost of capital. Antonio will give you some details about the cost of our capital.

And finally, to face so many tender process, we have built, we have put together an -- it exists already, a large team that is handling all the tender process. They collect data from the field, they put data together, they develop with the field support and with the engineering support the project for the expansion of the network. And they put everything and they manage everything in one single team.

That is a clear advantage for -- in respect to the other operators that have to handle maybe similar number of bidding but with lower resources. If we look at the position -- based on the criteria that I said before, if we look at the position of Italgas in the different ATM, out of 6.5



redelivery point menu or redelivery points, 75% of that are in the ATM where Italgas has more 50% of market share, 17 are in ATMs where Italgas has a market share between 25 and 50 and the remaining is -- the remaining 8% is in minor position.

That is one, let me say, one element that we should take a look, the other element is that 40 items represent -- are the number of ATMs in which Italgas has a market share over 50 and then 30 items where we have between 25 and 50% of market share. Just to get to the point, in 70 items, Italgas has very strong position.

Out of the first 40, 30 will be assigned within 2019. So in a very short period of time. That is our plan for the tenders. I want to give you another view of the tender process. So I'm trying just to mix different criteria in order to give you why we are strongly positioned.

So as of today, I said 75% of our redelivery points are positioned in the ATM where we are more than 50%. Now, we look at the ATM from a different perspective. From a return point of view. Still, the first 40 are positioned with an expected return higher than our target.

And those 40 ATMs cover 6 million redelivery points. So those represent tenders for which we feel we are very strong and we feel we can win most of them, if not all. If we look at the second category, what we medium attractive return, covers five million redelivery points, where Italgas has an average of 25%.

So, we may be strong, it depends about the other operator but still we have a significant presence. What I wanted you to take from that slide is that our target of 40% that it translates into eight million redelivery points is fully achievable because we have two cluster that represent 11 million delivery points where we have a very strong position.

We have a strong position and we can get interesting return. I have to add, as I said before, that out of the eight million redelivery point targets we'll have -- you have to consider the Rome concession is not going to be tendered so you should take out that from the tender viewpoint.

And so you will find that our target out of these tenders that you see in the chart is 6.5 million delivery points. So, maybe the chart is a little bit complicated but the message from this chart that I want to leave you is that our target to reach 40% is fully achievable and it will be achieved probably in the earlier period of the concession tender.

Timeframe of the tenders, just to remind you. When we expect that once the tender is started, it will take between one to two years to be awarded. But, of course, the authority will take a little bit more time before to prepare all the documentation. And maybe longer than expected if the tender will go through maybe some issues coming from the different operators.



Having said that, there are two tenders that will be awarded very soon. The first one is Torino II that will be -- the offer should be presented by December 27 and the Milano that is going to be the offer, the date is end of January. So my feeling is that once the big tenders will be awarded, also the others will move much more quickly than before.

If we, and we believe we will get there, we will get 40% of market share. This is the number of our RAB. So we will move from 6.5 million redelivery points to 8 million. Always affiliates are not considered here. And our RAB will increase by nearly to a little bit more than EUR2 billion.

In fact, we have foreseen EUR1.3 billion from new concession. This number is net of the redemption value of the asset or the concession that we are going to lose. In addition, there is EUR0.9 billion of new investment in the new concession. Of course, this number includes the organic investment plan, the two billion that I have talked to you about earlier.

Just to recap what I said, we are uniquely positioned for the new tenders. We have a solid balance sheet, we have a reliable cash flow. We have competence. We have the opportunity to further exploit economy of scale. We have the opportunity to formalize the process of acquiring new concessions. We have the opportunity to bring the best practice into the new concession. At the end of the day, we can deploy the capital at a very attractive return even though the new tenders will have, of course, more royalties to be recognized to the municipals.

Now, it's time to talk about financial structure and I will give the floor back to Antonio. Thank you.

Antonio Paccioretti

Thank you, Paolo. We expect three key drivers to underpin Italgas financial strategy. Strong average and cash flow generation. Solid balance sheet and efficient debt structure.

Over the plan horizon, cash flow generation is expected to remain strong and steady, covering both organic CAPEX and dividends. On top of this, we expect to have the significant investment opportunities driven by the tender process calendar.

However, we believe that a focused and disciplined approach in balance sheet management should allow Italgas to capture potential growth opportunity with a firm commitment to maintain its solid investment grade credit rating. As for its solid credit warrants, the



committed refinancing package and the commitment to a safe liquidity profile over the plan horizon support a strong credit profile.

On the 29th of June, Fitch assigned Italgas an expected BBB+, Moody's assigned the company provisional Baa1, both of which we expect to be converted in a definitive one on the date of the demerge. In the assessment of the credit profile, it has also be taken into account that for the future, the leverage could increase as a result of the new concession awards, but always remaining well within the boundaries of the solid investment grade ratings.

As regards to the structure strategy, firstly, target maturity and fixed floating breakdown will be consistent with the mechanics of the gas distribution tariff framework and with the goal to boost and protect our financial performance based on the regulatory assumptions. Secondly, flexibility of our debt capital structure characterized by an appropriate mix of funding sources will allow us to manage financial needs related to the tender opportunities. Let me now underline our solid rating metrics.

We believe that the growth of our business driven by the development of the tender process will be supported by our strong financial flexibility. Net debt to asset ratio is expected to increase beyond the plan horizon, reaching up to 70% as a maximum level beyond 2020, still remaining within a solid investment grade area.

After tender process completion, a progressive deleveraging is expected at a rate we estimate of more than 1% per year. Cash flow-based metrics are and will remain positioned in the high end of the range of the rating guidelines.

Now, let's move on the detailed description of the financial structure at demerger and at regime. Debt structure at demerger is based entirely on banking facilities for about EUR4.3 billion, out of which EUR3.9 billion resulting from already committed financing from 11 major international and domestic banks.

We expect to sign this week the final agreements. These funding sources are aimed at allowing the repayment of the whole inter-company debt with now at the demerge equal to EUR3.7 billion. The availability of funding over the whole plan horizon to achieve an adequate liquidity profile in line with rating agencies' requirements.

In particular, the financial package is composed of a bridge to bond for EUR2.3 billion, to be replaced by bonds in the following month. The European Investment Bank financing related to Italgas projects for EUR0.4 billion which will be transferred from Snam to Italgas with a residual maturity of around 10 years. EUR1.6 billion of banking facilities with maturing ranging from one to five years, namely revolving credit facilities for around EUR1.1 billion



aimed at managing infra-annual cash flow swing and providing backup facility for operating purposes. And bilateral term loans that are expected to benefit from TLL, TRO measures recently implemented by the European Central Bank.

The last could be reduced thanks to the new European Investment Bank financing of around EUR300 million currently under discussion. We expect the closing within the end of this year. The target financial structuring intends to secure the funding for the entire business plan.

As for the cost of the financial package, we highlight that the overall cost of this structure at demerge is entirely based on the current verifiable market conditions with attractive spreads around -- an average around 50 basis points. The current low interest rate scenario offers a significant opportunity for the company to lock in attractive long-term fixed rate funding with the debt capital market, exercises we are planning to be launched soon after the listing.

As for the future, this flexible debt structure is ready to be replaced by an important amount of bonds. In particular, in the following month, we expect to replace the bridge to bond facility at demerge amounts to two third of the total outstanding debt with the capital market.

In these days, we are completing all the activities that will allow the company to be ready just after the listing to have in place the new MTM program and therefore to tell the capital market. In this respect, I would like to stress how an appropriate mix of capital with diversification benefits will allow Italgas an adequate balance between the competitive cost and long turners, mainly via the institutional lenders and debt capital market, and flexibility via the banking system.

Finally, as for the fixed floating breakdown, our debt structure at the regime is expected to be a one to third at fixed rate so keeping under control cost of debt against interest volatility risk, the remaining at variable rate allow Italgas to benefit in case of a prolonged period of low interest rate scenario.

Now, let us recap our cash allocation strategy. Operating cash flow will fully fund our [attractive] dividends and our significant organic CAPEX program which, not considered in the process, amounts to around EUR400 million per year, supporting the expected RAB growth higher than 1% even in the current very low inflation scenario.

This should allow Italgas to capture the advantage of a profitable growth, maintaining a strong balance sheet and preserving our solid investment grade profile. On top of that, and taking into account the quality of our credit profile, we have the financial flexibility to participate in the market opportunities driven by the evolution of the tender process and announce shareholders remuneration.



To conclude, we have a very attractive investment position underpinned by a low risk profile, strong cash flow generation and attractive dividend, and significant organic CAPEX even without considering the opportunity coming from the tender process. Now, I leave you to Paolo for the closing remarks.

Paolo Gallo

We are at the end of this long presentation and then we'll open the space for Q&A -- for the Q&A section that is also open for the external call. Let me go to closing remarks. We gave you some data about 2016 results. The revenues will be over EUR1billion.

EBITDA margin will go around 65%. As we said before, we have experienced in '16 two major effects, one, the revision of the -- of the [WAC], and the other one the emerging cost from the demerging activities. But as I said, cost reduction will be at the top of our list in 2017.

EBIT versus RAB will be over 6%, so clearly, we outperform the cost of capital. And as Snam anticipated, the dividends, the part of the dividends to be paid by Italgas, we confirm that anticipation is going to be EUR0.20 for our share, EUR0.20 is coming from the EUR0.04 multiplied by EUR0.05.

So EUR0.20 will be our floor in the next years to come. And as Antonio showed to you, we have the financial flexibility to sustain over medium term this return and we expect in the period of the regulatory regime until 2018 to increase year by year these dividends with what we call low single-digit number.

And finally, just to close this presentation, I underline again the fact that Italgas is a very attractive investment case. I have shown to you our leadership in natural gas distribution in Italy with all the capability, the competence, the opportunity to grow. And we will grow in a clear and visible set regulation system.

We will bring to the benefit of the company and to the shareholders operational excellence, economy of scale, cost efficiency, innovation and our business plan is fully funded. And fully funded to support the organic CAPEX, but also to support the tender process and to still provide a significant dividend policy to our shareholder.

Having said that, we'll completely maintain our credit rating as Antonio was saying before. And therefore, the combination of a high visible return and attractive growth opportunity underpin our attractive and sustainable dividend policy. We thank you for your time and now we will open the Q&A session. Thank you.



Unidentified Company Representative

Before we start with the Q&A session, please let me advise you to keep, during Q&A, just refer to Italgas.

Questions and Answers

Cosma Panzacchi - Bernstein - Analyst [2]

Hi, good afternoon. Cosma Panzacchi from Berstein and thank you for taking my question. I have three quick questions. The first one is on smart meters. They are a key part of your organic CAPEX plan. Looking at the efficiencies in the presentation today, it doesn't seem to me that there is a number there yet, in terms of efficiency on the headcount of the company that can come from the deployment of smart meters. If I think about some of other utilities that have already deployed smart meters, we have seen savings in the order of 10% to 15%. Do you think that this could be also something that Italgas can achieve going forward?

The second question is on tenders. You have stressed also the importance of tenders to grow inorganically going forward. Two quick questions. The first one regards the composition of the committees that will decide on who wins the tenders in the ATMs. Can you remind us the criteria behind the composition of these committees? And do you think that they are fair so that they give a proper representation to anyone involved?

And second, again, regarding the tenders; of course we have seen so far the tenders being delayed multiple times. We also see that in your plan you are being much more conservative than the current official timeline according to the (inaudible). Can you actually tell us what you think are the catalysts that will make your plan be realized? And if we don't run the risk of being stuck once again.

And finally, regarding the dividend policy, you're talking about low single-digit growth of dividend. Do you also have a target or a range in terms of dividend payouts? Thank you.

Paolo Gallo

Regarding smart meters. What you have seen is a number that is just relevant to the negotiation of the contract with the telecom. It's not the overall efficiency of smart meters. You get efficiency, let me say, from a CAPEX viewpoint when you move from one million to eight million. It's evident.



You get efficiency like we have explained to you in terms of data communication between the smart meters and the center. You get efficiency from a personnel point of view. What I will show to you is just the pieces. It's not the overall efficiency, to show that there are clear action already in place to bring efficiency to our profit and loss account.

I'm with you that savings with the smart metering will be higher than that, no doubt. Because I mentioned two things; CAPEX side and personnel side. With smart meter, you don't have to send any more person to read each single smart meter, so while there will costs in terms of communication data, there will be, of course, saving from a personnel point of view. But what I told you was just a piece of that.

I think on the tender side, I think that the composition of the committee is fair, we don't see -- the way that the award criteria are set, we are very confident that they will be followed. You normally need to follow the rules. You cannot just go around. So I don't think it's going to be a problem.

From your question about catalysts, which is going to be the catalyst? As I said before, when the largest ATM would be awarded and in fact, we have in December, we have Torino and in January, we will have Milano, I think all the others will move very fast. I'm taking the example of Venice.

Venice, we blocked the tender. We required to stop the tender because the municipality did not comply with the rules set by the authority. And we were right, the authority was right. So now, Venice will be realigning its documentation to the rules and we expect that in March, the tender will be submitted.

So, once that you start moving the wheel, the wheel will run. So the catalyst is going to be, let's have the big ATM be awarded and then all the other will immediately be after. So we feel quite confident that the time schedule that we have shown to you will be respected.

On dividend policy on low single-digits, you know better than me what does it mean. It's between one, two, to three. So those are the numbers. But it will be too much early to say today. We expect to be able to grow our dividend policy in the years to come.

But in the next months, we will review our business plan to take into consideration the, let me say, major two things. The first one is the time schedule of the tenders. The second one is all the efficiency programs that we are going to put in place. And we will come back to you in spring with a new business plan with a guidance that will probably be more strict about dividend policy. What we can anticipate is that is going to be EUR0.20 as a floor with a low single-digit growth year by year.



I think Antonio was just bringing more details about the composition of the committee that I did not remember.

Antonio Paccioretti

I'll try to read the one, because we know that the commission -- represents the different municipality of the ATM. We'll give you the exact composition later on anyway.

Monica Girardi - Barclays. – Analyst

Hello. Good afternoon. Monica Girardi, Barclays. I have a few questions. I will be a little bit more open on the concession schedule than Cosma. Do you think the process is linked with the remaining employees of the government or not?

The second question is on the dividend. I appreciate that we review the growth in the coming months but just to be clear, do you think that the base DPS of 20 cent is sustainable even at peak of cash outflow for new concession? The last question is on the regulatory framework, again, here I know we are talking about 2019, so quite far from now, but your CAPEX goes beyond '19.

So I was wondering if you can share with us your thoughts on potential discontinuities, regulatory discontinuities, if the concentration of concession will trigger important changes on the regulatory side. Thank you.

Paolo Gallo

I may respond maybe to the first and to the last and then I will let Antonio talk about the dividends. On the tender side, we don't see any issue relevant to the government. I mean, the rules have been set. Authority for the energy and gas is looking very carefully about the process itself, is very keen, is pushing very hard toward the tenders. So I do not expect any problem.

So I don't see any link really between the tenders and the government. So we expect that that as I said before, the process is going to stay on our timeline more or less and therefore, we expect by 2020 to finish, all the tenders will be completed. Regarding the last -
(Multiple Speakers)



Antonio Paccioretti

Monica, for the dividend, the answer is very clear. Yes, we do have all the capability to maintain both, to combine both the maintenance of our balance sheet and for the solidity of our balance sheet and the dividend policy that we have already anticipated.

Regarding the regulatory review, first of all, we are talking about something that will be reviewed in '18 applying -- starting from year 2019. We do not expect very much difference from today because maybe some numbers will change but there are numbers that probably will be compensated.

In other terms, we are at very low interest rates so we don't expect that these will affect downward the work. Maybe it will be affecting the debt equity ratio but it will be limited. So all in all, we think that the WAC in the other regulatory period will be more or less very close to the numbers that we know today.

Unidentified Company Representative

Down in front.

Enrico Bartoli - MainFirst - Analyst

Enrico Bartoli. My first three questions on my side. First of all, a question on OPEX, you mention that according to the regulation, I think due to your size and your capabilities, you are more efficient than the others in the sector. Would you provide some color on let's say how much you benefit from the better operations than the average?

And also keeping on the OPEX. Since due to the tender process, you are going to acquire additional portion of network, do you expect that this process would provide also the possibility to create some operational efficiencies? The last one, could you remind us on how the value that you're going to pay to the residual portion of network will be determined?

And it would be fair to say that the cap is the RAB value with something that I think that the market is valuing something at a premium considering the kind of level of interest rates.

Paolo Gallo

Regarding the comparison between our costs and the competition costs, of course, we don't disclose any difference. I mean it would be not in our interest to disclose the difference in terms of cost but they should take -- they should go back and take a look at the EBITDA margin, you can get the number from that.



I mean, you have to do some math but at the end of the day, you will be able to get the difference. Regarding new concessions. The new concessions that we have included in our business plan, at the beginning, they will present some inefficiency in respect to our best practice.

What we're going to do is, similar to the tender process, we are going to establish a team that will immediately work on the integration as soon as we get the new concession. And we'll bring in a very short period of time the KPI of the new concession in line with our KPIs. And, of course, when you had more redelivery points, more personnel, you have the opportunity to make more synergy. But it's going to be a curve at the beginning. We are going to have a little bit higher cost depending on the efficiency of the concession that we acquired. And then we will bring those costs down to our levels and then we will get efficiency later on.

On the last one, maybe -- what we normally do in the tender process is, as you know, there are two situations. If we win from other operator, we pay what is called VIR, reconstruction value. If we buy from the municipality, we pay RAB. Those are the rules, so we don't have to waive any premium over what we pay. And if we pay the VIR, the reconstruction cost, then it's going to be our RAB starting from that point on.

Antonio Paccioretti

You have seen in the -- in the list of the different elements, the offer, the economical offer, the VIR, the RAB is not a part of that. The economic offer would be paid, let me say, on the basis of the fees to be offered. The RAB or the VIR is set. It's a number that everyone has to commit to pay in case of the option is awarded to him.

Unidentified Company Representative

Olivier has the microphone.

Olivier Van Doosselaere - Exane - Analyst

Thank you so much. Olivier Van Doosselaere from Exane. I just had two unrelated questions on the amount of money you expect to spend on the concessions and the impact on the RAB. So I think the indication of growth in the RAB including the new concessions from EUR5.7 billion to more than EUR7 billion is in line with what was already said before.

But if we look at the numbers, we see an organic RAB -- actually, grow by 2022, EUR6 billion. And then EUR1.3 billion of net investments on new concessions plus another -- I think you mentioned EUR900 or EUR800 million of CAPEX to be spent on those new



concessions. Will it actually get closer to around EUR8 billion? So if you could help us to understand really those figures there.

And then the second question was you mentioned that you are quite conservative on the target market share that you speak about, 40% and that your balance sheet could maybe allow you to do more than that. I guess you can't be too specific, but I wonder if you'd give an indication of maybe a broadest case scenario on market share expansion or maybe, on how much you think your balance sheet to allow you to invest? That's it.

Antonio Paccioretti

As far as the first question it's very easy the answer, the EUR0.9 billion of investment for the auction is something that will be spent later on. We have given you the situation at the moment at the end of the auction.

So if you just take into account the expenditure for around EUR1.3 billion for the concession to be acquired and the CAPEX plan of EUR2 billion, less depreciation, you will arrive to that number.

The other one is?

Paolo Gallo

Regarding market share I think we have built our target market share through detailed analysis of each ATMs one by one. So we have concentrated ourself to the ATMs where we feel we are stronger and therefore we expect higher returns and we feel that 40%, maybe it can be 42% is probably the right number to preserve also our returns.

Then you should consider that we cannot face all 177 ATMs tenders, I mean, to face all the tenders, it's a cost that is not only a matter of cost, it's a problem of resources. So we have concentrated ourselves where we feel we have higher return and where we have higher probability of success. And that we arrive at the 40%.

But when I say it's a conservative win rate is because supposing that we lose one concession that we feel we could not win, we have other opportunity just to match the 40% market share.

We feel that that 40%, 42% is probably our best case if you combine resources, human resources and returns and efforts. I don't think it's a problem of capital, it's a problem that we have to deal with already so many tender process, more than anyone else.



Unidentified Company Representative

Enrichment to the sustainability, the financial sustainability of this growth, our exercise has been started from the number of ATMs in which we think that we can play all our cards. And so, with the marginal remuneration higher than our threshold, then the second part of the exercise has been to set the starting point in terms of balance sheet that could sustain or able to sustain all this growth for the next years.

Unidentified Company Representative

Roberto?

Roberto Ranieri - Banca IMI - Analyst

Hello, yes. Good afternoon. Roberto Ranieri from Banca IMI, three questions please.

The first one is if you can share with us the, any low cap on the 13.5% participation in Italgas. The second question is about synergies and regulation. Suppose there is a claw-back on efficiencies, so can you share with us which is there, to remind us and which the share, the claw-back in terms of the percentage would be at the end of the regulatory review.

The third question is again on the tender process. We understand that the Italgas was very conservative on the gas tender process and success rate. In particular, my question is if it is not dependent on Italgas, are there any risks depending on, external risk I mean, on which the government or regulator is working and trying to speed up the tender process and shorten the period between the operator and Italgas will win the concession, and when the Italgas and the operator will start the operations on this concession. Thank you very much.

Paolo Gallo

Maybe on the 13.5% I will leave the floor to Marco Alverà to respond to you.

Marco Alverà

So we have a shareholders' agreement with Casa Deposite for three years. As you would expect inside that shareholders' agreement there's all sorts of items relating to the stake. I don't want to comment on specific lock-ups but it's clear that what we do will be coordinated.

The three years is a duration by Italian law, it will then be extended in case we're still shareholders at that time.



Paolo Gallo

Regarding the second question, I should remind you that the regulations set to standard on a sector basis. So if we are better than the standard, then we enjoy the efficiency. So all the efficiencies that we were talking about is in respect with the levels that the authority is setting as a standard, so we don't have to -- I mean, as long as are better than the other, in considering that the fragmentation of the system, the 227 operators for the time being is making at the level of the cost as an average higher than the cost that we have, and therefore we can enjoy the difference.

On the third question, again, it's similar to a question that was posed before, was said before we don't see external risk. I mean the process has been reviewed, it's followed by the authority for the energy and gas. The authority for the energy and gas wants to have the consolidation in place, wants to see the tenders going on.

So we have already set a timeframe, a schedule for all the tenders, let me say quite conservative. So we don't really expect further delay, so we don't see external listing changing in that time schedule.

Stefano Gamberini - Equita SIM - Analyst

Stefano Gamberini, Equita SIM, three quick questions if I may.

First of all, regarding still the item of the tenders, so there were a lot of appeals in the beginning when there was the issue of the concession tenders, so do you expect that all these appeals will be solved, and then the concession part of the process will speed up?

The second regarding the competitive environment, who are the main players according to you in this sector, and how do you expect the competition -- you said in some ATMs you expect no competition and in others probably higher, but what are the main drivers for this competition, because what I understand that 200 small operators, they probably will disappear and they couldn't compete with you anyway.

And the last thing regarding the -- if in terms of some other businesses regarding the -- at the beginning of the presentation you said that you intend the municipality business at the end of the day through this concession and if there are some other businesses that could be interesting for you speaking as the regulated ones. And thanks.



Paolo Gallo

Well, I was bringing to you the example of Venice because I think there has been some several appeals against tenders that were issued.

I think the appeals are good as long as they -- and they have confirmed the fact that the authority was right, that certain documentation should be prepared according to the authority regulations. So once that you set the standard or I don't think there will be, from the authorities preparing the tender they will probably align themselves to the rules set by the authority. And from the other side, nobody will appeal as long as the tenders are correct, are done in a correct note. So I think the recent appeal will be utilized to align the process in the right direction.

Regarding the competition, we see competition in certain areas more strong than the others. I was mentioning about IRA here in [Adwiya]. They have a strong position in certain areas. They still have such position after the tenders. So we expect that some players like the municipalities will still remain in the business, will probably grow around the area where they are.

But we do not expect anyone else entering, I mean, a big player, like a European player entering to our market, because when you do a tender, tender is expensive. Tenderer needs to know very well the network in order to prepare a good development plan, so the criteria that you have seen requires a very good knowledge, a very good competence in the local network. And if you are not present it's going to be very difficult.

Regarding the other businesses, as of today we don't look to any other businesses, so I don't have to say anything more than that.

Unidentified Company Representative

Anna Maria?

Anna Maria Scaglia - Morgan Stanley - Analyst

Anna Maria Scaglia from Morgan Stanley. A few questions if I may.

First one is on the concession fee. What's your assumption in terms of the average concession and how this is going to increase? And also when we talk about efficiency certificates, how those could impact your profitability?



Second, regarding the concession of Rome which is not part of the tenders, can you discuss -- is there any risk that this would be a part of the tenders in the future? And also can you discuss about the outlay in terms of assets and cash you have will created in 2024?

Third, debt, you have a mark-to-market impact I guess from the debt repayment to Snam, is this all going to be booked in 2016 or it's not going to affect your future cost of debt?

A last just a confirmation, you expect -- is it correct that you expect 12 to 13 months to pass between the date of the tenders and the date when you start to have the first CBDA, the first revenues and the cash outlay for the numbers and the value to be paid. Thank you.

Paolo Gallo

Regarding concession fee you know that the concession fee, the maximum amount is set at 10%.

We expect that the new tenders that we are going to win will have concession fee higher than the present one. So by no doubts it's going to be higher. But as I said before it will have a very limited impact on our return. As you know, those concession fees are not OPEX, cannot be considered and recognized by the authority. So those numbers will impact all the operators. But as I said before, the impact now on our numbers is very, very limited even if it's going to be increased.

Regarding the Titulo Eficiencia Energetic, the certificate for the energy efficiency, we are working at in order to be as much as efficient in buying and using them, we are not selling. Buying and using them. As you know we are the second largest distributor considering electricity and gas that has to buy more than 1 million certificates every year. So we have recently set a new organization that will deal just with the energy efficiency.

And we buy them in two areas, one, buying on the exchange, let me say on the stock exchange of the certificates. And the other one, we buy on a bilateral basis. So we have activated a number of contacts with companies that are producing certificates. We would buy them on a bilateral basis. It's going to be an important issue.

In 2016 we will have negative numbers in terms of margin because the level of the price, the level of our cost is going to be higher than the amount recognized by the GSA. But as I have said we have a dedicated team that will be working on that to minimize that number in 2017. Regarding Rome, I would pass, because you have requested many details, I will pass the floor to Antonio who will tell you more about it.



Antonio Paccioretti

Anna Maria, for one, we tried to explain the situation in the documentation we have published for the spin-off. I'm trying to recap.

First of all, let me say that the comparison between the total value of RAB in our consolidated perimeter and the total value of VIR, they are almost aligned. We are talking about EUR5.7 billion of RAB, EUR5.6 billion of reconstruction redemption value.

The second step is that within this total value, there are some diversification for different concessions. We have a difference between the two values for Rome which is today something around EUR300 million to EUR400 million which is the result of the concession expired in 2012. In that concession there was some contractual arrangement providing for the (inaudible), the transfer for free of some assets, and now we still have the same situation.

It is clear that since we have the total RAB, the total VIR aligned on the total perimeter, it should mean that on the other concession we have an important positive value between the two and therefore all in all, those values are aligned. It is important to say that it's a matter of brackets value or -- sorry, since at the end of the new concession, at the end of the 12 years, so the new concession this value will be recognized, and therefore, it is not a problem of value for the company. It's just a matter of cash flow that can be distributed differently from our initial expectation.

The other, the mark-to-market, according to the present situation, we are talking about around EUR100 million mark-to-market. Those are the fixed rate position locked between 2012 and 2013. The loss should accrue in the account of the Italgas rating after the demerge.

Unidentified Audience Member

So it's going to be in 2016?

Antonio Paccioretti

In Italgas rating. So it will be a part of the new consolidated -- the two amounts of the consolidated accounts for Italgas, not the [none of the potentials have cheats] of the result of Italgas SPA.



Paolo Gallo

Regarding the tender, we can only confirm for each single phase what I showed to you in the previous charts.

James Brand - Deutsche Bank - Analyst

Hi, it's James Brand from Deutsche Bank. Three questions, please.

First is on -- we see you've outlined very clearly where you want to get to in terms of your market share for gas distribution. But is there a limit in terms of whether a regulator -- or you think the regulator might be happy for you to get to; just thinking of maybe a merger opportunity came off in the future, you know, whether there would be any constraints or cross-buying out some of the minorities and some of your networks where you own stakes, whether there would be a theoretical limit on where you could get to there.

The second question is on the mini-review of gas distribution, and the regulator has said that they have been looking to potentially introduce more output-based incentives and potentially even kind of [toss X] regime a bit like the UK. I was wondering what you thought about that; is that an opportunity for you to receive it as such, or are we still waiting for more details for, you know, what to think about it?

And thirdly, as you mentioned, you're in a very good position on costs - you know, across your networks and also on CAPEX. I was wondering whether you could give any more clarification just how much you think you've out-performed your regulatory settlement in those two areas in the past?

Paolo Gallo

Let me speak about the first one and the second and the third Antonio will answer.

Regarding the future in fact there is no limit as long as you win market share for the tenders. Of course there is a limit if you try to acquire existing concession from somebody else before the tenders. So you may be impacted by limit given by the antitrust authority. But in theory you can get 100% of the market share as long as you win all the tenders, so there is no limitation.



Antonio Paccioretti

As far as the tactics, I mean this is as we discussed without our jackets let me say, this is an important opportunity for the company because it is clear that the level of efficiencies of OPEX and CAPEX for us in this business in particular depends on the best performance, the best practice but in particular for the economy of scale.

Having one-third of the market we also have volumes in terms of purchase that could give us some important significant advantage should this new methodology occur. We have seen some discussion on electricity, nothing for the time being for gas, but for the distribution, that is something that we will monitor in very closely in the future.

As far as the level of outperforming in the past of our OPEX, I would say that we had an efficiency in the range of 10% of what we were recognizing in terms of OPEX which means in terms of millions, some around EUR30 million, EUR 40 million. Now our job would be to recover part of this advantage that has been reduced due to the spinoff costs that arise.

Jose Ruiz - Macquarie - Analyst

This is Jose Ruiz from Macquarie. I have just one question. Do you think the timing of the roll-out of smart meters will be affected by the timing of the tendering? And most specifically to you guys, have you already contracted all your smart meters, or are you waiting to see what kind of market share you achieve to have the final contracted number? And if you can share with us the cost per meter? Thank you.

Paolo Gallo

To the last point, no of course, we cannot share the cost per meter. It is very sensitive information.

We have launched and we are in the process to close the tenders for new smart meters and installation separately, because we feel that is not convenient to have the same guy that is selling you the smart meter is also being the guy that is going to install the smart meters. That is an area where we will get significant efficiency.

To respond to your question, now there is going to be a very limited impact about the tender process considering that only Rome representing 20% is not going to be affected until 2024. So we will continue and we are going to buy the smart meters for all our actual delivery points. And if we are going to lose some concession, we will switch those smart meters on the other concession that we are going to win.



So our plan is to cover, let me say, even more the six million but to cover the eight million. Of course we will not do it in one single tender, but we will continue to monitor the market and see if there are significant innovations that can be brought into the smart meters. But we are talking about tenders for a few million of smart meters, tenders already in place.

Harry Wyburd - Bank of America Merrill Lynch - Analyst

Hi, it's Harry Wyburd from Bank of America Merrill Lynch. Three questions for me please, so mainly earnings-focused questions.

If you do the math based on what you've already disclosed on your pro-forma net income you come out to an EPS number for 2015 of about EUR0.33 which would suggest, based on what you've disclosed on dividend today, a payout ratio of 60%. I know you've touched on payout ratio earlier, can you clarify or confirm or deny that 60% is the underlying starting payout ratio?

And then secondly just to try and get a flavor for your earnings growth is that payout going to be fixed, so do you think earnings will grow in line with your dividend growth or earnings growth be higher?

And then finally could you give us an idea of what your bidding costs are for the ATM tenders in 2016, and how those will develop over the next few years? Thank you.

Antonio Paccioretti

As far as the first answer, the answer is that the payout implied in what we said is between 60% and 65%. And we do not intend to increase the payout with increasing dividends but we want to recover in the efficiency gains. We have tried to describe to you the sources for our dividend policy.

Paolo Gallo

Then you mentioned the tender cost, again, it's very sensitive information. I can tell you that each tender is very expensive, especially if you do not have internal resources and you have to go out and get resources.

That is not the case of Italgas. Mainly we are using, as I said, internal sources, we are creating an internal team that is dealing with the tender process. So again it's here we have a clear advantage against our competitors. We are using internal resources to deal with the



tender process. Costs will be lower and result will be much more reliable by not using external resources.

While the other operator, they do not have internal resources to face the tender process. They have to go and buy external resources. We have a lot of confidence in terms of results. That of course I cannot disclose. We have a clear number in our mind which is going to be the cost of a single tender, but we are not going to disclose it.

Harry Wyburd - Bank of America Merrill Lynch - Analyst

And just to clarify on the earnings growth, will earnings growth be or EPS growth be higher or lower than dividend growth?

Antonio Paccioretti

We were saying before it is quite premature talking about that. We can say that we will work for sustaining the dividend policy with the increase of our EPS.

Paolo Gallo

It's like I said before, we will review in a few months our industrial plan considering the timeline of the tenders and we will work on the operating efficiency programs, so we will know much better in, say, six months from now what is the reward that we can give to our shareholders.

Antonella Bianchessi - Citi - Analyst

Hello, good afternoon it's Antonella Bianchessi from Citi.
Just three more questions. First of all if you repeat the amount of the out-performance of the OPEX that you are achieving at the moment.

The second question is can you quantify the concession fee that you are paying today. And the third question is if the new concession are less efficient than you are you have to pay the concession fee, how much is the return that you think you are going to achieve on the RAB of the new acquisition and which is the limit that you -- that you are, that you put to this concession. And in terms of return on RAB, do you expect that the acquisition process will be dilutive in the short term, and how long will it take to recover thanks to the cost-cutting efficiency? Thank you.



Antonio Paccioretti

In the level of concession fees we expect to pay this year is EUR54 million. So the 5.5% we were discussing before.

Unidentified Company Representative

She was asking to confirm the savings...

Antonio Paccioretti

Yes. As far as the saving and confirm with 10% was the level that we had in the past. If we just looked at the slide 36 we showed before you can compare the performance of our company and the best performer of the market, with these numbers are confirmed.

Paolo Gallo

Again, new concessions you are right. The concession fee, that we will be paying new concession will be higher than today's in the existing concession fee.

And you're right the new concession most probably, it not true for everybody, but most probably it will be less efficient than ours. We don't disclose other rates because it's going to be sensitive to any other competitor, but I can tell you that both elements, especially the first one, higher concession fees, as I said before, will have a very limited impact on our return.

Regarding the second point as I said we are going to put together a team, an integration team. Its task will be to integrate as much as possible in a short period the new concession into our portfolio. And I expect that this integration will not last more than 12 months, depending on the size of the concession of course.

Maurice Choy - Royal Bank of Canada - Analyst

Hi, this is Maurice Choy from Royal Bank of Canada. Two questions from me. The first question is about slide 30, in slide 30 you show the trajectory of the tender process. I recognize that you are planning to update that next spring for your reviews. I wonder if you could share where this has come from. Perhaps for example, six months ago how did this chart look like and how then have you updated it to today. That's the first question.

The second question is on slide 23, also earnings-based, this time about sustainability of your numbers. Slide 23 has three buckets of your revenues, and I'm only interested in the second and the third buckets which is 6% in total. Can you discuss how sustainable these



numbers are, and more specifically, are there any asset base behind these two numbers that is not captured in your 5.7? Thank you.

Antonio Paccioretti

Slide 23 for the second element of revenues, what we call other regulated service in gas distribution, it is the consideration Italgas receives for services that have been precisely defined by the authority, both in terms of quality of services and in terms of consideration of price. There's not any asset base on that.

Paolo Gallo

It's like when you are called to interrupt or to install a new connection based on the request of the sales company, for example.

Maurice Choy - Royal Bank of Canada - Analyst

Four is pretty sustainable year in and year out?

Paolo Gallo

Yes. The third element is in particular related to rentals, services to affiliates, not consolidated affiliates. Water, which is regulated, and we have some minor concession in (inaudible) and in distribution.

Antonio Paccioretti

In the last two examples there is an asset base, water distribution you have water asset and heating distribution –

Unidentified Company Representative

The minor one in the -- near Milan.

Unidentified Company Representative

The first question.

Maurice Choy - Royal Bank of Canada – Analyst

Changed since the last six months?



Paolo Gallo

Well in the last six months this chart has not been changed so much. The reason why we want to update the timeline is because we want to see

the effect of Torino and Milano tender being awarded and see how that will speed up the remaining tenders.

So I can answer to your question probably in February when Torino and Milano will be awarded, I mean if we have more precise indication.

Maurice Choy - Royal Bank of Canada - Analyst

So that chart hasn't been updated for six months I guess?

Paolo Gallo

Well, it's been updated in the last few months. Sorry, it is probably three months old. We updated just before summertime, so three months ago.

So if we do not have any more questions, thank you, everybody for coming –

Paolo Gallo

We should wait if there are any questions coming from the telephone. I waiting in the back to tell me if there are any coming. One?

Operator

We have an audio question from Javier Suarez from Mediobanca, please go ahead, your line is open.

Javier Suarez - Mediobanca - Analyst

Hi, good afternoon, everybody and thank you for taking my question after the presentation. I have three questions and just looking into the slide number 57.

So looking at the EBITDA margin that you are mentioning 65%, that is kind of indicating an EBITDA of EUR650 million, so if I'm not wrong, the EBITDA of the company 2015 was something like EUR742 million. So I was questioning myself what is behind that number of



EUR650 million in addition to the reduction in the WAC. So I think that the reduction in the WAC does not display in this reduction in the EBITDA of EUR100 million. That is the first question.

The second question is on the EBIT versus RAB that you are indicating at over 6%, that is kind of indicating there is no OPEX outperformance isn't it? Because the EBITDA or RAB should be they allow return on RAB that is on the regulation of 6%. So I was just questioning myself when you are including the operation outperformance to where this 6% can go on your, you know, latest numbers?

And then the final thing is the clarification on the dividend, can you clarify when you mentioned in this dividend per cent in 2016 of EUR0.20 per share; the numbers observed that is behind on the confirmation that an existing shareholder of Snam is to receive EUR0.04 per share for the completion of the EUR0.21 that Snam has already announced, and therefore, is going to collect EUR0.25 per share? Many thanks.

Paolo Gallo

As we said, in 2016, there are two mainly, two effects that are affecting our result. The first one is like you mentioned, the work reduction, the second one is an increase of cost, partially driven by the spinoff. Those costs as we said will be present also in 2017 and we promise to recover all of them by the end of 2015.

The second question was not to me very clear. If I well understood the ratio between -- the ratio EBITDA over RAB, it of course we will bring additional efficiency will increase because EBIT will increase, so that is what I understood being the question, if it is not please repeat the question.

And the last one is that we confirmed that we are going to pay EUR0.20 on the 2016 result, so it will be approved by the next shareholder meetings in 2017. So I don't know if I have responded to you, please.

Javier Suarez - Mediobanca - Analyst

Yes, I would have -- my second question was that the EBIT should be approximately from -- and the allowed return on RAB if you had not included efficiencies. So the thing that I was questioning myself is to what level the 6% could go including the efficiencies?



Paolo Gallo

Now, the numbers that we show for 2016 includes the efficiency. What I am saying is different, that in the future if -- and I'm sure we'll be able to bring more efficiency, that ratio will increase in the EBIT. So I was talking about the future, not about the '16.

Javier Suarez - Mediobanca - Analyst

Final question on the number of shares you are considering when saying that the dividend per share for 2016 is EUR0.20 per share?

Paolo Gallo

Yes it will be paid in EUR0.20 per share. It will be paid in 2017.

Operator

We will take our next question from Pablo Cuadrado from HSBC. Please go ahead your line is open.

Pablo Cuadrado - HSBC - Analyst

Hi, good afternoon to everyone. I will be very quick. It has been a long presentation. Just one quick question probably for Antonio.

Can you disclose -- where do you see clearly -- it is a complicated question for you, but where do you see the cost of debt for the new group of Italgas? Clearly you have all these new financing and it will need to be done. And clearly making the long-term and bridge to bond, et cetera, but to the best of your knowledge what is the cost of debt that you guide us in order to run the numbers beyond this year?

Antonio Paccioletti

It is not so difficult. It is just a matter of calculation and estimation. I mean, I would give you some elements for permit you to make your own calculation. The starting point is that the cost of the new financial package 100% banking given in -- granted by the banking system in terms of spread is as an average 50 basis points. The base rate now is zero.



In terms of evolution, we have seen very recently also in some gas companies or utilities in Italy issuing new in the debt capital market with the 10 years tenor, with a cost around 1%. It is not our - as we have described it is our intention to have such a long duration for our fixed rate. We could go for a duration which is in the average between 5 and 10 years. If you made your own calculation with two-third of fixed rate constructed with this kind of strategy and the floating rates with the cost of around 50 basis points, you can understand that an average cost of our debt of 1% is prudent.

Paolo Gallo

Any other question? No. So I would like to thank you, all of you for being here for this presentation. And I hope to see most of you at November 7 at the Borsa Italiana. Thank you very much. Have a nice day.

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