



EDITED TRANSCRIPT
SRG.MI – Snam SpA: 2016 3Q Results
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- [Cosma Panzacchi](#)
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Presentation

Operator

Good day and welcome to the Snam 2016 third-quarter results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Marco Alverà, CEO. Please go ahead sir.

Marco Alverà - Snam SpA - CEO

Thank you. Good afternoon, ladies and gentlemen, and welcome to Snam's 2016 nine months results presentation. I will give you brief overview of the most significant operational, corporate and financial highlights. I will then hand over to Alessandra Pasini, who recently joined Snam as CFO to comment on the results. Alessandra knows Snam extremely well, having worked on the Company's IPO in 2001 and having been a key financial advisor to Snam for some of the most strategic projects in recent years.

Let me start with an overview of gas demand in Italy. In the first nine months of 2016, gas consumption was up 2.3% versus same period in the previous year adjusted for the weather. This is encouraging after a long period of declining demand. Growth in the power sector is driven by the low price of natural gas, which makes gas more competitive for power generation. Demand has also been supported by lower imports of electricity from France and lower hydroelectric production. The industrial sector also shows the first signs of a recovery. And in the residential sector, performance has been in line with expectations.

The recovery of demand in 2016 is a good sign for the Italian industry and of course for our sector. We expect this trend to continue in Q4. In this environment, Snam made important operational progress. Starting with the transport, our investment program continues in line with our targets. We have more than 600 ongoing projects in Italy. The reverse flow development that will foster the interconnection with Europe and transform Italy from a destination market to a transit country is expected to be completed by 2018. Meanwhile, the new balancing regime is in place since the beginning of October with incentives linked to the promotion of efficient functioning of the balancing markets.

In storage, working gas reached a maximum peak of almost 12 BCM, supported by favorable regulation with 100% of working gas conferred. Since 2008, we've registered an annual increase of 5% in working gas. In LNG, we continue to see extremely significant price differential between summer and winter. As expected, low summer prices have generated new LNG demand. As a consequence, the Panigaglia terminal returned to operation with



four cargos arriving between May and June.

Moving now to the corporate activity. Last week, we completed the demerger of Italgas in advance of our stated target of doing it by the end of the year. Snam is now in an even better position to pursue our value creation strategy. Following the demerger, we have also reviewed our internal organization evolving from a holding company with dedicated subsidiaries to an integrated group with centralized operations. This is allowing us to shorten reporting lines, reduce the duplication of activities and enhance the synergies. We have also completed a significant liability management exercise, taking advantage of the low interest rate window after the summer to further improve our debt structure following the demerger. As Alessandra will explain in more detail, we have completed a bond repurchase program and issued new debt, lowering the cost of debt as well as improving our maturity profile. Lastly, we have recently activated the share buyback program authorized by the AGM and have signed an agency agreement for up to four months.

Among the highlights of the third quarter, we have also signed an agreement to buy 49% of Gas Connect Austria from Omv. The deal was carried out in partnership with Allianz and the stake will be held in a leverage vehicle where Snam and Allianz will have equal governance rights. The total equity investment for Snam is in the region of EUR130 million. This investment will enable Snam to further strengthen our presence in Austria where we already have 40 years of experience through TAG, which as you know, we bought in 2014 for EUR519 million. A strong presence in Austria is important for us because the country under any scenario in Europe will remain a key transit hub for Europe and particularly for Italy.

Turning now to our financial performance. The business performed well in Q3, in line with expectations and reflecting the new WACC for this regulatory period. CapEx was 5% higher compared to last year, reflecting the positive investment opportunities that we have to increase our RAB. Overall we confirm the guidance provided in July for Snam excluding Italgas with EUR800 million of adjusted net income in 2016 on a pro forma basis, which for clarity represents numbers as if Italgas had demerged at the beginning of the year and includes our 13.5% stake in Italgas.

I will now hand over to Alessandra, who will discuss our nine months results in more detail.



Alessandra Pasini – Snam SpA - CFO

Thank you, Marco, and good afternoon everybody. I'm now going to focus on our financial results for the nine-month 2016 that as you know are not influenced by the effect of the Italgas demerger apart from some non-recurring costs already arisen nor the recently completed liability management exercise. EBIT amounted to EUR1,296 million, recording a reduction of 12% compared to the same period of last year. This result mainly reflects the reduction of regulated revenues following the lower remuneration due to [the WACC review] on both transport and distribution, and the increase in depreciation due to new assets entering into operation. Positive contributions from higher storage regulated revenues and lower controllable fixed costs, partially counterbalanced those effects.

EBIT reduction was partially mitigated by the positive contribution of a lower net financial expenses for EUR22 million, despite lower capitalized interest for EUR7 million. Following the continuous optimization of our financial structure leading to a net profit of EUR783 million corresponding to a reduction of 11.8% versus the same period of last year. The cash flow from operation fully financed net investment, including those related to TAP resulting in a positive free cash flow of EUR669 million, ending the net debt at the end of the period of EUR14 billion.

Now, I'll give you some more color on EBIT reduction in the period. Regulated revenues, net of pass-through items showed a reduction of EUR108 million, mainly due to the well-known WACC reduction in transport from 6.3% to 5.4%, worth EUR103 million, and distribution business from 6.9% to 6.1% worth EUR38 million, as the positive contribution of new investments was counter balanced by the effect of depreciation and tariff adjustments related to (inaudible). Storage regulated revenues recorded an increase of EUR33 million, due to the positive contribution of the raw regulatory WACC increase from 6% to 6.5% and to the entry of operation of the Bordolano site at the end of 2015.

All in, the effect of the change in WACC on regulated revenues was around EUR121 million for the period. Controllable fixed cost decreased by EUR4 million, confirming our strong focus on efficiency in a context of continuing business expansion and benefiting from a slight increase of capitalized internal cost due to higher investment activities. The significant performance in period make us confident to confirm a level of controllable fixed cost, substantially flat in real terms for the full-year 2016 at constant [perimeter] of activity.

The increase in depreciation of EUR36 million was primarily due to asset entry into operation and transportation and storage businesses. Other effects of around EUR36 million refer to some increase in other cost mainly related to the one-off of Italgas demerger worth EUR10 million, capital losses for EUR6 million, of which EUR5 million related to the distribution



business for the replacement of metering devices, and net risk fund provision amounting to EUR4 million of which EUR1 million related to the distribution business.

Turning to the net profit performance. Nine months 2016 period recorded a reduction of EUR105 million from EUR888 million to EUR783 million. The decrease was mainly driven by the previously commented reduction in the EBIT, partially offset by lower net interest expenses of EUR22 million. The positive impact of the lower average cost of debt, which allowed to achieve an informal EUR39 million was partially mitigated by some non-cash items, mainly related to lower interest during construction following the significant amount of investment enter into operation last year. The increasing contribution of associate for EUR2 million was mainly due to TIGF, partially offset by the negative contribution of TAP related to the construction phase of the project. The tax rate for the period was around 31.3% in line with expectations.

Let me now give you an overview of Snam's debt structure. As regards debt breakdown, the fixed rate portion at the end of the quarter was 58%, a touch below our target to have two-third of our debt at fixed rate. This was a consequence of our decision to freeze most of our bond issuance plan in the course of 2016, pending the finalization of Italgas demerger. As a reminder, we repaid EUR150 million floating rate note in January and EUR700 million bond in July. But the liability management transaction that we conduct in October has addressed this point as we will describe shortly. The maturity profile is well spread over time, avoiding major concentration issues going forward with an average maturity of our medium to long-term debt of around 4.5 years. We continue to maintain strong focus and adequate committed lines provided by large range of banks.

At the end of the period, we maintained almost EUR6 billion of committed banking lines in addition to our capital market exposure and institutional lender support. We remind you, that as mentioned in our first half results in June, we have signed amendment agreements to expand at the same cost of maturity of our EUR3.2 billion syndicated facilities. I also want to underline our continuous focus on treasury management optimization, justified by the important role played by uncommitted credit lines which have allowed Snam to leverage the abandoned market liquidity at favorable interest cost. This combined with the full effect of the optimization measures carried out in the second half of last year allows Snam to achieve an average cost of debt in the first nine-months of 2016 of circa 2.5%.

Turning to the cash flow, fund from operation amounted to EUR1,686 million with a positive contribution of working capital for EUR220 million mainly related to net trades receivable in France within distribution and tax payable accrued in the period. The cash flow from operations fully financed net investment of EUR1,017 million including also the further investment related to our participation to TAP, resulting in a positive free cash flow of



EUR669 million. Following the distribution of dividends for EUR875 million, the cash flow was negative EUR206 million. Considering also EUR34 million of non-cash item, mainly related to fair value adjustment of financial debts, net financial debt at the end of the period amounted to EUR14,019 million with an increase of EUR240 million as compared to year-end 2015.

In October, we carried out liability management exercise aimed at resizing and reshaping the debt structure also in relation to the EUR3.6 billion in the Company that we paid from Italgas demerger. We bought EUR2.75 billion of outstanding bonds using a mix of available credit lines and proceeds from new issuances. As a result, we've increased the average maturity of our medium to long-term debt from 4.4 years to 5.4 years with most of the repayment scheduled effectively before reduced refinancing risk for 2017 given the repurchase of EUR500 million bonds with 2017 maturity. And we accelerated the cost of debt reduction for the coming years. The exercise with result in a non-recurring charge on net profit in Q4 for circa EUR1.5 billion net of the mark-to-market of Snam bonds previously allocated to Italgas for EUR0.1 billion.

Following the EUR8.6 billion bond consent solicitation on 10th of October Snam launched a tender offer on all of the outstanding bonds. On the 25 October, Snam successfully completed the transaction accepting to acquire EUR2.75 billion bonds in nominal amounts. The average residual maturity of bought-back bonds was 3.3 years, with an average yield of 3.8%. The deal implying EUR3.1 billion cash spend was financed with a combination of new issuance for total amount of EUR1.75 billion and banking lines of credit for the balance. As for new issuances, Snam issued EUR1.25 billion 10-year bond with a maturity of October 2026 with 0.875% coupon and EUR500 million four-year with zero coupon maturity October 2020, the latter representing the lowest coupon ever paid by an Italian corporate. The average yield and maturity of the two bond issuance are respectively 0.7% and eight years.

Considering this liability management exercise, but also the recent acquisition -- announcement of an acquisition of a stake in Gas Connect Austria, we expect the net debt at the year end to reach circa EUR11 billion. Excluding impacts on net working capital evolution related to the balancing mechanism, which just started in October and the dynamics related to the payment to and [from gas account volume].

With regard to that structure and fixed floating mix, this is expected to reach two-third of fixed at year-end, in line with our stated objectives. As for 2016 cost of debt, we reiterate our guide line of 2.5% while being confident to achieve a better result at year-end, due to the impact of our recently completed liability management exercise and further optimization measures.



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

Questions and Answers

Operator

(Operator Instructions) Harry Wyburd, Merrill Lynch.

Harry Wyburd - Merrill Lynch - Analyst

Good afternoon, three questions from me please.

So, firstly on the pro forma guidance for this year, which you have put at EUR0.8 billion. Obviously that's to the nearest EUR100 million. So I wonder whether you could give us slightly more narrowed down figure to the nearest EUR10 million. And then secondly on that theme, you have been quite forthcoming so far on in terms of your sort of long-term growth rates. Could you give us a rough idea right now, what kind of earnings growth or net income growth you're expecting going from 2016 to 2017.

That's the first question and the second one on Gas Connect. Please could you give us an idea of valuation on that deal, EBITDA, OPE, just to get a sense of how much that cost units to earnings. And then final ones, sort like technocratic question, your country risk premium will be mark-to-market at the end of 2018 as part of the WACC re-calculation, given what's happened to Italian and bond deals in the last couple of weeks. Could you update us on where the country risk premium would move to if you effectively mark-to-market that calculation today? Thank you.

Marco Alverà - Snam SpA - CEO

Thank you, Harry. On the first point I think what we say is we confirm the previous guidance, which was EUR800 million. So read EUR0.8 billion as EUR800 million straight.

On the growth rates, we will update our longer term growth rates as we present our new plan in spring. You may remember, we highlighted some key areas for the growth coming from reduced cost of debts coming from improved taxation rates coming from some of the income from associates. Well -- you can well imagine that a number of those will already impact



2017, particularly around the liability management where the efforts we took brings us ahead of the curve compared to the plan that we had.

On GCA, I think what we can say is that the returns on this asset are in line with regulated returns as we had previously signaled. And this is really our investment philosophy. And the regulation in Austria is now stable, I would say. So we've de-risked compared to before the summer that investment.

On the country risk premium, the 2018 calculation will be quite mathematical. So there's no scope for change compared to the rule that has been set, which will look at a basket of bonds from corporates and companies comparing it to the to some A rated countries. And you're right in assuming that there would be an uplift taking the picture today. Of course, we will have to wait for the future to tell us where it will be, but certainly that represents an upside to the WACC.

Operator

Javier Suarez, Mediobanca.

Javier Suarez – Mediobanca - Analyst

I have a couple of them. The first one is on the refinancing exercise, we have seen the Company increasing debt maturities and increasing also the weight of fixed borrowing versus variable borrowing. I have a just question myself, where do you see the target maturity level on fixed borrowing versus variable borrowing as stabilizing? I just wanted to have a sense of the opportunity that you see to continue reducing the cost of debt at this stage, and if you do see the opportunity of extending maturities and extending also the variable borrowing within the Company.

The second one is a follow up on Austria Gas Connect. Can you share with us what you are assuming or your assumption when valuing the Company on the regulatory review for the Company, because if I'm not wrong, the Company is going to suffer regulatory review in 2017, something that may have affected your evaluation of the Company. So you can share any thought on that, that would be helpful.

And the final question is if you can update us on the development and construction phase of debt. Many thanks.



Marco Alverà - Snam SpA - CEO

I'm not sure I fully understood your first question. But if I have understood well, I'll try to answer it. I think the cost of debt will decrease naturally if variable stays close to where it is, because we have some expensive bonds that are still outstanding and that will expire naturally and this will bring the cost curve down. We haven't done this exercise to restructure the fixed versus variable, which remains consistent with where we wanted to be, also keeping in mind the regulation and the regulatory windows. And so, that would be my answer for the first point.

On Gas Connect, there will be a new regulation that starts from January 2017. The full impact of which is more or less known to the experts. The decrease -- say the [draft decrease] in its final stages, this was a key element of the valuation. I would say that there's been a postponement in the transaction that means that we've derisked this or valuation fully takes into account the new regulation, which sees quite a significant cut to the profitability of the business. But that's fully reflected in our numbers and consistent with what's happening in other countries.

On TAP, I would say that the project is progressing well on all fronts. There is some issues that we're dealing with in Italy. We're collaborating and working as TAP, but also as Snam with all the local authorities as well as the national authorities. So that's what I would say. We confirm startup in 2020.

That's it.

Operator

Cosma Panzacchi, Bernstein.

Cosma Panzacchi - Bernstein - Analyst

I have two. One regards the recent announcement that you made on your investment in the CNG infrastructure, looking at the JV with IVECO and FCA. If I'm not mistaken, you are talking about EUR200 million investments, which was be-linked also to the publishing by the Italian government of the DAFI. So I was wondering, first of all which type of return are you expecting from this investment? And second, when do you the DAFI being finally approved? And of course given that [Mr. Stagger] has recently stated that these will be managed through a separate company, why are you looking to create a separate company for this effort?



The second question regards is that a recent presentation by Mr. Calenda, the Minister of Economic Development in the Italian parliament, in which he highlighted that one of the key points of the energy policy for next year will be creating gas liquidity corridor that will be managed by regulated subject and will control the capacity between the European hubs and the PSV. So I was wondering if Snam would be involved in this, and if yes, if you see any upside from this. Thank you.

Marco Alverà - Snam SpA - CEO

Thank you for your questions. On CNG, well, first we haven't decided to invest EUR200 million. What we've announced is an important alliance and our willingness either on our own or potentially in partnership to invest up to EUR200 million in the infrastructure for CNG. A big part of the infrastructure being what in Italy is known as the (inaudible) which is the physical connection from our own network to the service station where we installed the CNG pump. We would only -- so this part would have a regulated return, because it's RAB enhancing activity, the same as if we are conducting a new factory or new shop or new home. The additional investments that we could decide to make are in the distribution infrastructure. So the compressor and storage of CNG inside the petrol station. We would look at a model where we essentially lease this to the oil companies that own and operate the petrol station. So we would not take any, I would say commercial risk and we would only invest if we can make a return, which on a risk adjusted basis is higher than our regulated return. If it's fully contracted, I consider it comparable to regulation because these would be long-term contracts with leading creditworthy oil companies essentially.

Regarding a separate company, it's an option, no decision has been taken. Certainly a separate company would allow this business to have more opportunity maybe to bring on board new partners. But it's not a decision that we have taken. In fact we are hiring right now some managers to comment and propel this business.

The DAFI, we expect to be approved in the coming weeks. Our decision to support CNG where just as a reminder, Italy as a world-leading expertise, we have close to 1 million natural gas cars already on the streets. We think that by investing in developing more distribution capacity, the car number will grow significantly. And this has all sorts of benefits, not only environmental benefits because a natural gas car has almost zero pollutants on its particulates which is what really creates the diesel pollution, but also it's cheaper. Natural gas car costs almost half than a petrol car today in Italy to run. So you have economic saving, environmental saving and it's clearly a pro-competitive initiative. We don't need DAFI technically to begin, because as you said, this is a market that already exists. Certainly DAFI helps to create a more level playing field between gas and electric. We always say that this



is not, in any way, an effort to challenge the electric car. This is an effort to reduce the use of diesel, which after the Dieselgate is an issue that is now on the table.

Talking of energy policy, moving to your second question around Calenda. Certainly, Snam - and I mentioned this earlier when I talked about the balancing services, will play a growing role in supporting and promoting the liquidity and the proper functioning of the PSV as a hub. This will enable us to turn it from a destination market to a transit market, will enable Italy to have more competition and to bring prices of gas down, more in line with northern hubs. Our benchmark in our example is what has happened in the TTF for example, which is a smaller market than Italy, but with a hub that is significantly more liquid than all the other hubs.

So there are several initiatives, the one you mentioned could be one of them. But there are several initiatives where Snam takes a bigger role to promote the balancing and liquidity on the PSV. We don't expect material returns from this activity, but we do expect some returns, some of which have already been published in the decree regarding the balancing, which is say the beginning of this activity.

Operator

Pablo Cuadrado, HSBC

Pablo Cuadrado - HSBC - Analyst

Some of my questions has been already answered, but I will have another two quick questions. The first one is that is related to Q4 performance on whether you can confirm if we should expect any negative one-offs on non-recurrent items linked to the liability management process under debt repurchase or even the demerger process, we should expect [any nearly item] coming during Q4.

And the second question is on the net debt outlook, I think it was mentioned in the presentation that the guidance for year end is expected to about EUR11 billion, excluding the demerger. I was wondering whether you can confirm that that EUR11 billion includes the payment for Gas Connect Austria. And also if that EUR11 billion assumes any significant movement on the working capital versus what we have seen in nine-month. Thank you.

Marco Alverà – Snam SpA - CEO



So, I will start and then I will hand over Alessandra, she has more details. Regarding the Q4, certainly the numbers include both Gas Connect and liability management in terms of the guidance given. And you should expect probably around EUR5 million of extra non-recurring costs of Italgas that we said where around EUR15 million of which EUR10 million already in the first nine-months. I don't know. Alessandra, if want to add something around working capital.

Alessandra Pasini – Snam SpA - CFO

Yes, also on the liability management exercise was the other question. Yes, we will have a hit in the Q4 for net EUR0.15 billion. This is net of the mark-to-market of the debt that was assigned to Italgas, or allocated to Italgas. So that number the EUR0.15 billion is the net expected hit that we will see in Q4.

On the debt, as I said, the EUR11 billion includes the cost of the GCA acquisition. And only factors the expected course of business, but do not include possible swings in networking capital related to the new balancing system which has just started in October. So that number does not factor any possible movement or adjustment that may come out of the new balancing system just starting now.

Operator

Enrico Bartoli, MainFirst.

Enrico Bartoli - MainFirst - Analyst

A few questions on my side. First of all, back on the cost of debt you provided this guidance of [EUR2.5 billion]. I'm wondering for 2017, is it fair to assume more or less the same number or you think that you are having additional opportunities to reduce your cost of debt?

Second question is related, if you can update us on where you are in terms of the screening of the market in terms of external opportunities, if you are just in the screening phase or if there are any discussion on some specific targets that you are having.

And finally, a very general question just to have your opinion about possible impact on the European gas market on the political changes in the US. And if you think that there could be some possible opportunities or (inaudible) for the strategy of Snam at European level?



Marco Alverà – Snam SpA - CEO

Yes, there will be an improvement of around 20 basis points and we can give more accurate data in the full-year results going forward for what the curve will look like in the plan. But I think this exercise should weigh for about 20 basis points improvement on the cost of debt.

Regarding the external growth, we don't comment on specific situations. It's fair to say that we have an open-minded approach, but maintaining our very strict and selective investment criteria. Regarding the impact on the European gas market, certainly Europe is more and more convinced of the opportunity and probably requirement to create an energy union and to create a single gas market and a number of our initiatives, including the reverse flow, the mid-cap project between Spain and France, some of the TAP certainly, all go into that direction. So the more time we spend with the policy makers at the national level and at the European level, the more we are convinced that our strategy of working to create more liquidity and more inter connectivity in Europe is the right one.

And what has happened to the LNG market this summer that we expect will be replicated almost for every summer where you have a number of cheap cargos really coming to Europe, meaning that the opportunity and the requirement to create more inter connectivity between European markets is now more and more strategic priority, which is positive for us. Not as much for our business as usual, which is, as you know, independent of these changes but creates additional investment opportunities in assets that not necessarily require a big premium that we can participate in open seasons or Greenfield projects. Thank you.

Operator

Monica Girardi, Barclays.

Monica Girardi - Barclays - Analyst

I just have the three super quick question. The first one is if you can provide us the (inaudible).

Marco Alverà - Snam SpA - CEO



Monica, sorry for interrupting you. The voice is very low, we can't hear you.

Monica Girardi - Barclays - Analyst

Can you hear me now?

Marco Alverà – Snam SpA – CEO

Yes.

Monica Girardi - Barclays - Analyst

So three quick questions. The first one is on the equity accounted associates. If you can just give us the breakdown amongst all of the different investments there in nine months.

The second one again looking at the nine months CapEx, can you provide us the amount of CapEx that you allocated to TAP.

And lastly, I don't know if you are able to give these number to us, but I was wondering if you can just tell us how much of the share buyback has been completed as of today given that you launched last week. Thank you.

Marco Alverà - Snam SpA - CEO

I am afraid on all questions, we don't typically give all this level of detail. On the buyback, the easy answer is, you will see a press release tomorrow telling you exactly where we are. Don't expect too significant starts. We have mandated third-party to execute this as I said, for a period of up to four months. Regarding the equity associates. I think you will find all the details -- I don't know, Alessandra, if you want to give some color there.

Alessandra Pasini - Snam SpA - CFO

I think just worthwhile saying that the trend is in line with what have seen in the first nine-months of 2015, with as I just said before, just a small change of EUR2 million.



Operator

Olivier Van Doosselaere, Exane.

Olivier Van Doosselaere - Exane - Analyst

I have got actually two. First one obviously you already commented on possible M&A. I was just wondering if strategically you think there may be certain specific axis where you think you still need to work on strengthening yourself, if you really want to have that position in Europe that you're looking for. And I'm thinking out a bit that as you said, you are very well positioned in Austria, you're well positioned also in the connection between France and Spain through TIGF. I was wondering if there is more access that you're looking at.

And in that context, I had read in the press, it sounds like you had gone to [Russia to meet with gas problem]. I was wondering what kind of corporation you could see coming out of talks like that.

And my second question was, you have already hinted at potential decrease in remuneration on the Austrian subsidiary, because of the regulatory review that is ongoing. I was wondering to what extent we have details there if you actually know, already now by how much (inaudible) will be reset, and I think there's something similar happening also at TIGF in France. I was wondering if you have visibility on the future leverage returns. Thank you

Marco Alverà - Snam SpA - CEO

So I would like to stress again that we do not need to do anything. So we look at growth in a very positive mindset. There's no place where we need to be in order to execute our strategy. Our strategy is a 100% neutral and independent of -- let's say of the incremental growth. I would be surprised if there is a big TSO, let's say physically and directly connected to Russia as we are -- that hasn't gone to make Gazprom, so I consider it part of our day-to-day activity to meet with the big suppliers of gas to Europe. So I wouldn't have anything extraordinary to report on that in order to create any expectations.

Regarding regulation. The details as I said, are in a draft bill that were shared with the operator, so is not public information in Austria. In France, there has been a decrease -- there will be a decrease on the transport, WACC. The storage which for is an interesting part of the performance of TIGF was expected to move from a merchant to regulated storage. This is likely not going to happen from 1 of January. So we will have a downside on the



transport that was fully envisaged in our business plan and probably some upside on the storage side, at least for 2017. I would say that there's probably a slight downside on the transport and a slight upside to the storage compared to what we had envisaged earlier.

Operator

Maurice Choy, Royal Bank of Canada.

Maurice Choy - Royal Bank of Canada - Analyst

Three quick one from me. The first one is on debt refinancing costs. I might have mistaken on this one, but you said it's EUR0.15 billion for Italgas refinancing if I'm not correct. And I guess that is different from the cost of refinancing through the bond buybacks that you just completed which is around EUR300 million. Is that correct or am I mistaking something here?

The second question is whether or not you could share with me, how can you justify -- or how do you justify buying GCA which I guess look through your own 20%. And you also close to 90% of TAG. Is there any synergies of holding two different stakes in two different companies or is there an opportunity here for you to actually merge these two companies together? Otherwise, how do we justify of having two different stakes other than the fact that they're held in the same country.

The third point and this is a little bit more farfetched, back in I guess multiple years ago, you had obviously a partnership with Fluxys and you still do today, and there was initiative to try to combine the international stakes together. I wonder if that discussion was ever reignited again in recent months or is it still off the table? Thank you.

Marco Alverà - Snam SpA - CEO

I would answer the second two and then let Alessandra give you more details on the debt restructuring costs that are a combination of money we spent to do the buyback and economic impact of that and money we gained through the Italgas process, but Alessandra will give you the details.

On Gas Connect, this is what was for sale, we looked at it and it was interesting, and there is certainly more synergy there than in other situations, I would always remind ourselves when



we talk about these things internally this is not a business with great synergies. So we don't expect significant synergies. There are some technological synergies. We see Austria for instance, has a cutting-edge approach to electric compressor capacity which can be used in other markets where we are including Italy. So there's some technology transfer. There's some synergy. Down the line, there is some scope for further consolidation, nothing specific. We haven't agreed or discussed anything at this stage. But this is the logic behind the deal is the one we talked about.

Regarding Fluxys, I would say that we have a good relationship with Fluxys. We are partners together in TAP, we spent quite a lot of time discussing TAP as well as other European issues including CNG and many LNG and other points of common interest I would say. There are not that many TSOs. We collaborate with each other with a purpose of creating this European Energy Union and some North-South corridors. So that's the update that I would give at this stage. Thank you. Alessandra on the debt.

Alessandra Pasini - Snam SpA - CFO

As it relates to the first question, if I well-understood, I think there are two different phenomenon that we want to describe. On one side, we bought back EUR2.75 billion bonds and we spent EUR3.1 billion. And we used EUR1.75 billion from new issuances to bonds, plus EUR1.35 billion of credit line. The charge if you wish or the cost of this and between the nominal amount of the cash we spent, which net of tax was also offset by mark-to-market movement of EUR0.1 billion, that was coming from bonds that were assigned to Italgas, but just as the mark-to-market were reported in this context. This doesn't -- (inaudible) the fact that we were having EUR3.6 billion inter-company debt coming -- being repaid as a result of the merger. But it's the different phenomenon (inaudible) at the same time.

Operator

Stefano Gamberini, Equita SIM

Stefano Gamberini - Equita SIM - Analyst

Speed, quick question if I may. First of all, could you give us an idea of what was the premium you paid for Gas Connect on the RAB (inaudible) figure -- if you can disclose this figure or not. (inaudible) understand more or less this, the magnitude of this premium.



The second, the guidance regarding the RAB that you expect to the year end as well as the EBITDA that you expect at year-end. And if you can, an idea of the tax rate mainly on 2017 after the reduction off the corporate taxation in Italy, what do you expect about it?

Third question regarding the buyback or your philosophy to invest -- some are strong now, the stock is trading more or less in line with the RAB. And why you're not increasing the buyback or accelerate on this point, are you considering that this is probably the best investment in this moment?

Marco Alverà – Snam SpA - CEO

Regarding Gas Connect, I think what we've disclosed is what we can disclose given also some confidentiality agreements we have with the seller as well as with our partner. We will, as we approach the closing and as we meet again disclose as much as we can disclose on this transaction. Regarding the buyback philosophy, I think we thought of the buyback when the premium to RAB was greater. The buyback remains a tool that we want to have in our kits in order to absorb some of the liquidity that we have with our target leverage being higher than our current or expected year-end leverage. We're not in a rush to accelerate that and we don't see the buyback as a speculative instrument to make capital gains. We see the RAB as a way to let's say strength our balance sheet from that point of view. On the EBITDA question -- on the RAB question, I will ask Alessandra to give you more detail.

Alessandra Pasini – Snam SpA - CFO

In terms of RAB, we expect RAB to be in the EUR19.5 billion at year-end, excluding associates. In terms of associate, obviously you will have the increase of the stake in Italgas versus last year. So last year affiliates were EUR1.5 billion or EUR1.56 billion, so we're going to be close to the EUR2 billion mark with Italgas.

Stefano Gamberini – Equita SIM. - Analyst

Just quick follow-up, how do you calculate this EUR1.56 billion RAB for the associates?

Alessandra Pasini – Snam SpA - CFO

Sorry, say it again.



Stefano Gamberini - Equita SIM. - Analyst

I didn't catch you, the figure regarding the associates, the EUR1.56 billion value for assets, it's -- how do you get it?

Alessandra Pasini – Snam SpA - CFO

In general terms, I think we can say it's the cost of the acquisition of those assets, generally speaking.

Marco Alverà - Snam SpA - CEO

So it's basically the book value and the number we discuss frequently with the rating agencies and the number that we use to assess our debts to RAB targets. So you will see the full details of that breakdown in our accounts.

Operator

Anna Maria Scaglia, Morgan Stanley.

Anna Maria Scaglia – Morgan Stanley - Analyst

Good afternoon, this is Anna Maria Scaglia from Morgan Stanley. One question if I may, it's regarding Gas Connect Austria. I was wondering why you ended up having this 46 JV, because when I compare the light investment you have done to the size of your market cap today, that's quite tiny. And therefore the incremental value creation in terms of market cap value creation, it's not -- almost it's not that material. So I'm trying to understand what's the logic to acquire such a relatively small stake in the company. And if you can explain that, and what you would then be willing to do in the future. Are you looking for bigger acquisitions eventually or we should expect some small-size acquisitions going on?.

Marco Alverà - Snam SpA - CEO



I would say that we like the assets a lot. We think there are synergies. We don't consider EUR130 million a small figure for us. We are as I said, prudent in our approach. And whereas it's a very strategic fit within our current perimeter, we've negotiated an agreement where we have equal governance rights to Allianz and I would just say this is part of our prudent investment approach. I wouldn't use this as an indicator of what we will do in the future nor as an indication that we are preserving firepower to do anything big. I think that was the opportunity, we optimized for that specific opportunity that makes sense in this context.

I think we have time for, maybe one more question

Operator

James Brand, Deutsche Bank.

James Brand – Italgas - CFO

I just had one question. You mentioned earlier in response to one of the other questions about the right target leverage for Snam in the medium term. I was just wondering maybe you could remind us what your target leverage is or what you think is a reasonable level of net debt to RAB?

Marco Alverà - Snam SpA - CEO

That's a quick question. So we are now just north of 51%. I would say we're close to 52% at year-end, if you back calculate numbers that Alessandra has given you. And our sealing, let's say our hard sealing is around 60%. Our internal target is around 57%. So to go from that kind of 51.9%, 52% to 57% is the flexibility that we're discussing that can be deployed for additional greenfield projects for inorganic growth as well as further buyback.

Thank you. Given that was a quick question. I think we maybe have room for one more if there is one more

Operator

There are no questions in the phone queue at this time.



Marco Alverà - Snam SpA - CEO

Good, thank you very much. Bye-bye.

Operator

This will conclude today's conference call. Thank you all for your participation. You may now disconnect.

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