



**Q1 2014 Snam SpA Earnings Conference Call
Transcript
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Corporate Participants

- [Carlo Malacarne](#)
Snam SpA - CEO
- [Antonio Paccioretti](#)
Snam SpA - CFO

Conference Call Participants

- [Javier Suarez](#)
Mediobanca - Analyst
- [Enrico Bartoli](#)
MainFirst AG - Analyst
- [Albert Regis](#)
SG - Analyst
- [Olivier Van Doosselaere](#)
Exane - Analyst
- [Anna Maria Scaglia](#)
Morgan Stanley - Analyst
- [Giuseppe Rebuzzini](#)
Fidentiis Equities - Analyst
- [Roberto Ranieri](#)
Banca IMI - Analyst
- [Stefano Gamberini](#)
Equita SIM - Analyst
- [Zana Perazzini](#)
Barclays Capital - Analyst



Presentation

Operator [1]

Good day, and welcome to the Snam 2014 First Quarter Results conference call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Carlo Malacarne, CEO. Please go ahead, sir.

Carlo Malacarne, Snam SpA - CEO [2]

Good afternoon, ladies and gentlemen, and welcome to the Snam 2014 First Quarter Results presentation. Today's agenda will be structured in two parts.

First, I will start by outlining the main highlight of the first three months and some recent developments. Antonio will then focus on the financial results for the first quarter in more detail. At the end of the presentation, we'll be pleased to answer any questions you may have. Let me begin with the main highlights for the first three months, as well as a general update on the businesses.

In the first quarter of 2014, we reported a good set of operating and financial results consistent with our track record of strong delivery achieved in a tougher economic environment characterized by declining gas demand. Snam's operating performance in the period is underlined by the EUR542 million of EBIT, up 2.1% versus the same period of 2013. The growth in the operating result was driven by an increase in consolidated revenues and our continued focus on maintaining strict control of operating expenses with controllable fixed costs, flat in nominal terms in the period.

From a business segment perspective, the reduction in the EBIT in distribution, EUR6 million, and in the transport business, EUR7 million, respectively, mainly affected by the regulatory view and lower gas volume transported were more than offset by the 17.6% EBIT increase in the storage business, EUR19 million. This underlines the value of our integrated business portfolio which support the resilience of our results.

Leveraging the solid operating profit, the significant increase of 20.7% in net profit, it's also the combined result of lower interest expenses during the period, the higher contribution from our associated, the reduction of the tax rate.



Turning to CapEx, in the first quarter of 2014, we executed EUR229 million investment, up 6% versus the first quarter of 2013. Around 72% of the consolidated CapEx received a remuneration higher than the base return.

The cash flow from operations of EUR497 million fully financed the overall CapEx and enabled us to reach a level of net debt of EUR13.1 billion at the end of March. We continue to be strongly committed to maintaining solid and efficient capital structure. It is further evidenced by the recent bond issue of EUR500 million that allows us to further optimize our financial structure, exploiting all the opportunities that financial markets currently offer to high-quality issues like [them].

During the first quarter of 2014, we also made a further important step in our strategy abroad signing an MOU with Fluxys to combine the international asset in Europe. I will analyze the agreement in debt on the following slide.

In terms of business development in the distribution business, we have recently signed an agreement for the separation of the distribution of natural gas and district heating activities currently carried out by AES Torino allowing Italgas to focus on its own strategic business.

With the completion of the agreement subject to the attainment of the necessary permit, Italgas will return to directly managing gas distribution in Turin, one of the most important city gas distribution networks in the country, which offer the opportunity to extract further value from the asset.

Let me now briefly discuss another important step in our strategy abroad, the MOU with Fluxys on international asset. Snam and Fluxys have agreed to assess and evaluate the setup of a jointly controlled company for the integrated management of the company's international asset, excluding the domestic asset across Europe located on the South-North and East-West European gas corridors.

The main goals of the potential joint venture between Snam and Fluxys are: to be the first operator to exploit European gas market opportunities along the European gas corridors ahead of any potential competitors; to optimize the value of our domestic assets through integrated management with the interconnected international asset which will enable the creation of efficient and competitive gas transport routes across European gas markets; to maximize gas volume transported through our assets in the North-South and East-West gas corridors, attracting new gas flow and linking new sources of gas with the European markets; to leverage the financial strength and scale of the business in order to exploit further potential international development, becoming more influential to the European institutions and benefitting from a higher degree of



efficiency and investments; to offer new integrated and cross-border services in transport, storage, and regasification.

The geographic position of Snam and Fluxys international asset together with the benefit deriving from the integration will create the condition to match the Third Energy Package requirement of flexibility, security of supply and market interconnection and would create value for both the market and our shareholders.

Before concluding my presentation, let me now provide you with a quick overview of the gas demand in Italy focusing on weather-adjusted data, which better represents the overall trend considering the unusual mild weather conditions experienced during last winter.

In the first three months of 2014, gas consumption totaled 24.3 bcm, down 5.5% versus the same period of last year. The total demand, not adjusted for the weather effect, reached 21.5 bcm with a reduction of 18%. The decrease was mainly due to the 22.4% reduction in gas consumption in thermoelectric sector driven by the reduction of approximately 4% in electricity demand, 3.2 terawatt hour, mainly due to the negative trend in the macroeconomic environment; the remarkable increase in hydroelectric production, 3.2 terawatt hour, due to the higher level of rainfall; the 11% increase in electricity import, 1.32 terawatt hour. These negative elements were only partially offset, 0.2 bcm, by a lower use of coal and oil products in the thermoelectric production.

Gas demand in the industrial sector decreased by more than 1% on like-for-like basis as a consequence of the declining trend in industrial production in Italy throughout the period. Gas consumption in the residential sector decreased by approximately 22%, 3.3 bcm. This result was mainly due to the milder weather condition during the last winter compared to the same period of 2013. Adjusted for the weather effect, the sector registered a consumption almost in line with the same period of last year.

Finally, gas injected into the network for the first three months of 2014 was down by 12.7%. The decrease is driven by the reduction in non-weather-adjusted gas demand and by the trend in storage flows.

That's all from me. I will now hand you over to Antonio, who will discuss our first quarter consolidated results in more detail.



Antonio Paccioretti, Snam SpA - Planning Admin., Finance & Control [3]

Thank you, Carlo, and good afternoon, everyone. I'm now going to review Snam's first quarter 2014 consolidated financial results in more detail.

As you know, 2014 is the first year of the fourth regulatory period for transport regasification and distribution businesses while for storage business, 2014 is the last year of the current regulatory period. First quarter 2014 EBITDA and EBIT, which amounted to EUR732 million and EUR542 million respectively, both registered an increase of 2.1%, a significant result considering the revision of tariff parameters.

Moreover, net profit increased by around 20.7% to EUR292 million benefitting from, firstly, the significant reduction in our average cost of debt reflecting the debt optimization measures carried out in the last 12 months. Secondly, the increase in income from associates, including the contribution of TIGF, and thirdly, the reduction of our tax rate.

Regulated revenues in the first quarter of 2014 amounted to EUR882 million, broadly at the same level as in the first quarter 2013. Net of pass-through components, regulated revenues decreased by EUR8 million reflecting the following elements. Transport revenues were broadly in line with the same period of 2013. The positive contribution from the investment carried out in 2012 equal to EUR21 million was fully offset by the tariff adjustment of EUR15 million and by the effect of the decrease in gas injected into the network of around EUR7 million.

It is worth underlining that according to the new regulatory framework starting from 2014, which substantially reduces the exposure of the company to risk volume, the revenue decrease related to the lower gas injecting to the network is close to the maximum amount set by the regulation.

Distribution revenue decreased by EUR12 million, mainly reflecting the effect of the reduction of the regulated return in the new regulatory period. Storage revenues grew by EUR6 million, mainly due to the contribution of investment carried out in 2012. The increase in pass-through revenues was mainly due to the overall gas transport system balancing service. Other revenues amounted to EUR25 million, an increase of EUR12 million compared to the same period of 2013.

Moving to operating expenses, the total cost of EUR175 million registered a decrease of EUR4 million benefitting from the reduction of both regulated activities, net of pass-through components and nonregulated activities.



Controllable fixed costs in the first quarter of 2014 were flat compared to the same period of the previous year. The strength of the performance in the quarter gives us the confidence to confirm a flat level of controllable fixed costs in 2014 in real terms.

Variable and other costs were substantially in line with the same period of 2013 while, as already mentioned, the increase in pass-through cost was mainly due to the overall gas transport system balancing service. Nonregulated costs amounting to EUR3 million decreased by EUR10 million mainly due to lower risk and fund provisions.

Consolidated EBIT amounted to EUR542 million with an increase of EUR11 million, up 2.1%, which was the result of the decrease in regulated revenues of EUR8 million, mainly related to the distribution business; the increase in depreciation and amortization by EUR4 million, mainly due to new assets beginning operations and other positive effects of around EUR23 million, mainly reflecting cost reduction, other than the controllable fixed costs already mentioned and certain positive items in nonregulated activities.

Looking at the business segment contribution, the storage business registered EBIT growth of EUR19 million offsetting the decrease in transport down EUR7 million and the distribution business down EUR6 million.

Now, I would like to conclude the review of the group's income statement by commenting on the net profit performance. First quarter 2014 net profit was EUR292 million, up 20.7% compared to the same period of 2013. In addition to the EBIT increase already explained, the other sources of net profit growth were firstly, the decrease in interest expenses of EUR24 million, mainly due to lower average cost of debt down around 60 basis points to 3.4% that benefitted from the significant debt optimization measures carried out in the last 12 months. Secondly, the increase in net income from associates of EUR7million due mainly to the equity contribution of TIGF, which, as you know, was acquired in July 2013. Thirdly, the decrease in income taxes of EUR8 million, mainly benefitting from the reduction of the tax rate to around 37%.

Now, let me give you the usual update of the progress is achieved on the debt structure side. The first part of the year was characterized by a further disintermediation of the banking system while Snam maintained a strong liquidity profile [figure]. Firstly, new recourse to debt capital market both via publications and via private placement for a total amount of EUR750 million as at the end of March, excluding the issuance of a new five-year bond in April for an amount of EUR500 million.

Secondly, the reduction of banks commitment for a total amount of EUR500 million represented by the cancellation of a portion of certain relatively expensive credit facilities.



As regards to Snam's maturity profile, the issuance of the 10-year bond in January further supports our goal to have an average maturity of our outstanding medium to long-term debt consisting with our business and regulatory profile.

As regards to the cost of debt optimization, Snam performed bilateral facility negotiation of margins for an amount of around EUR400 million and finalized the disintermediation of certain European investment bank financing for EUR300 million. These factors made it possible to achieve an average cost of debt of around 3.4% in the first quarter 2014 representing another step towards the achievement of the guidelines announced during the conference call for our mid-March strategy presentation.

Turning to the cash flow, in the first quarter of 2014, the group generated operating cash flow of EUR497 million fully financing net investments of EUR291 million and resulting in a net debt reduction of EUR206 million.

Looking at the cash components of the working capital, cash generation was EUR36 million due to the increase of tax payable of around EUR200 million relevant to the profit before tax accounted in the quarter partially offset by the reduction on net [freight] payables in transport business of around EUR68 million mainly related to the balancing activity and the reduction of other net payables of around EUR109 million relevant to the transport and distribution businesses.

Let's now move to the balance sheet. Fixed assets increased by EUR117 million versus year-end 2013. This was mainly due to the new investment of EUR229 million, the reduction of CapEx payable of EUR87 million partially offset by depreciation of EUR190 million and subsidies of around EUR18 million. Total net financial debt amounted to EUR13.120 billion, down EUR206 million compared to the year-end 2013.

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



Questions and Answers

Operator [1]

Thank you. (Operator Instructions).

We'll take our first question from Javier Suarez from Mediobanca. Please go ahead.

Javier Suarez, Mediobanca - Analyst [2]

Hi to everyone. This is Javier at Mediobanca. I have three questions.

The first one is on the general geopolitical situation. I know that that is not something directly affecting us now, but obviously, as a company that wants to be a relevant European gas transmission operator, I'm sure that the company has an opinion on what has to be done to reduce the dependence that Europe has on the Russian supply and what is the proposal that Snam has to maybe decrease the dependence that we have from Eastern Europe and maybe to increase other sources of supply. That would be the first question on the big picture.

Then on the ongoing regulatory discussion for the company, we have seen the first consultation document on gas storage, and the thing that has caught my attention is that for the first time the regulator may open the door to the possible interim revision not only of the 10-year Italian bond yield, but also of the inflation. I just want to have your view of how this could be affecting not only the regulatory review for storage, but also for transmission and distribution.

And the third question is also regarding the first consultation document on gas storage. I just wanted to have your view on the system for premiums on top of the base remuneration that regulator may use. My understanding is that they want to move the whole system into an output based system and therefore given the additional [placement], based on the [utilization] of the facilities. Is this correct or which is your interpretation?

Many thanks.



Carlo Malacarne, Snam SpA - CEO [3]

Thank you. Thank you very much. I start with the first question -- the general overview of the political situation in relation of the energy and the security of supply.

I think that is a positive. Today, the discussions inside the government to guarantee higher security of supply with the diversification of the sources, but at the same time diversification of the [root] of gas. It is the reason why there is today confirmation by the Vice Ministry, the [Vincente] that the top -- the new top connection, the South (inaudible) and the regasification plans are strategic for the diversification of the sources.

You know, Snam, in the strategic view of Snam, there is the same approach to create with the flexibility of infrastructure in Italy, but at the same with the connection of European infrastructure the possibility to open the gas market creating more liquidity but at the same time to strengthen the security of supply.

And, you know, specifically for the Ukraine crisis, I can say that today, frankly speaking, up to now, neither in the European nor in the Italian gas market have suffered from any gas supply interruption from Ukraine, but it is clear that we are monitoring the situation and specifically we are monitoring the filling process of the storage system in Italy.

I can say that is positive for us the discussions and the evolution of the decision by the government in providing more specific decree for the infrastructure, strategic structure. You know, by the end of the year, the commitment by the Ministry of Economic Development is to set a new decree for LNG strategic infrastructure.

So, in line with the existing energy -- with the strategic energy plan today, we are waiting for a specific decree which have to set the strategic infrastructure and consequently to provide a regulatory framework, a regulatory structure to give us the possibility to improve our infrastructure development.

For the second and third questions, the storage the decree -- first of all, let me say that usually in the first consultation document is the authority always proposes a wide range of points of discussion with the operators and positive my comment and in general the final resolution is the result of long proactive discussion. But I can comment only to point is positive, in my view, that the evidence of the attention that the authority has on the matter of inflation and on the correlation between inflation and level of the 10 years of covenant bond [yield].

The same time, I think is positive the discussion to update the storage uses and to update the flexibility of the storage activity aligning the storage activities with the European one. Today, we



need in the storage system to improve the services to become more flexible in improving all the services to facilitate all the operators.

I think, frankly speaking, the authority -- the proposal of the authority is to understand very well the strategic investment, and for us, I think is positive the approach. I think it is the same approach that the authority had in the transmission business is not new for us. I don't think that means to go to the [American] storage.

The storage will remain regulated. The storage is very strategic in Italy, and for the security of supply, the storage is the first element, the first infrastructure involved in the security of supply.

Anyway, the general comment I think is positive to discuss the best use of the storage in Italy is in line with our expectation..

Javier Suarez, Mediobanca - Analyst [4]

Thank you.

Operator [5]

We'll take our next question from Enrico Bartoli from MainFirst. Please go ahead..

Enrico Bartoli, MainFirst AG - Analyst Analyst [6]

Hi. Good afternoon. First of all, a couple of questions on results. On storage, could you please guide us on, let's say, the 14% increase in EBITDA because it seems that it's not fully explained by the EUR6 million increase in regulatory revenues and the EUR1 million increase in the costs?

And on distribution, I saw that from the Table Number 10 that costs went down by around 40%. Could you elaborate on the sources of the cost reduction and if this kind of trend of reduction in costs in distribution will be seen also over the next quarters?

Then, I have a question regarding AES the agreement regarding Torino. I guess that the distribution assets would be consolidated. If you have some visibility on when and the possible contribution from those assets. And finally a guidance, please, on the tax rate for the full year. Thank you.



Antonio Paccioretti, Snam SpA - Planning Admin., Finance & Contro [7]

So, four question. The first one is in relation to the OpEx and the OpEx for the first quarter which can be the projection for the whole year. First of all, let me remind that the -- in general, the quarterly figures of our OpEx, operating expenses, by business segment are the result of different cost dynamics for the period and we believe they are not representative of the trend for the full year.

So, let me say that in general terms that the important element for us is to confirm that in relation to our full year. For the year 2014, we confirm our estimation for controllables fixed cost which we expect to remain flat in real terms.

And as far as the total number of costs -- the total amount of cost net of pass-through, we -- according to the evolution to the first quarter, we can also confirm that the guidelines we gave a few months ago for the amount of costs remain in the range of EUR600 million.

As far as the results of the storage activities of the first quarter, let me say that in this quarter, we accounted the ordinary growth in terms of activities coming from the -- resulting from the investment made in 2012, which for the quarter has been sustained -- has been boosted by an amount of EUR12 million of other revenues -- not regulated revenues, which was mainly due to certain agreement between the (inaudible) storage (inaudible) in connection to activities related to the Decree 130. So, we have an amount of around EUR12 million accounted in this quarter, which will not be repeated for the [rest] part of the year.

The tax rate -- the tax rate for the quarter is around 37%. We prefer to maintain the guidelines of the tax rate on a full-year basis in the range of 38%, 39%. The number also will depend on the contribution on our gross and net profit coming from the income from associates and nonconsolidated associates.

As far as Torino -- as far as Torino, we expect it to have AES Torino [1]% involving the distribution in our consolidated account starting from July of this year. The impact -- the impacts of RAB is around EUR360 million, which will be the RAB coming from these concession increasing our consolidated RAB. We also have to consider the amount of additional debt that we will have following this transaction, which is today estimated at around EUR100 million. So, the increase of our group equity RAB is expected to be in the range of EUR260 million.

In terms of profit and loss, we expect to have a contribution on following the consolidation of AES Torino -- the new AES Torino of around EUR40 million at EBIT level and, as far as the bottom



line, we need to consider that consolidating AES Torino the distribution of Turin in our consolidated parameter, there will be an additional tax -- the Robin tax that today is not paid by AES, and therefore, all in all, we expect a contribution in terms of earning per share, which is negligible for this year.

Operator [8]

We are now moving to [Albert Regis] from [SG]. Please go ahead.

Albert Regis, SG - Analyst [9]

Good afternoon. I have two questions. One is if you could give us guidance on full-year EBIT and net debt. And the second is more strategic. Looking at the map of your international assets and given that in Spain LNG terminals have got load factors of around 30% and the U.S. at the same time is saying they want to export gas to Europe, which I presume should go through Spain, and therefore via TIGF to get to Continental Europe. Are you in any shape or form in discussion with [Anagas] on any project? Thank you.

Antonio Paccioretti, Snam SpA - Planning Admin., Finance & Control [10]

I will start from the numbers, first of all as far as the EBITDA is concerned, [Alberto], the [gathering] we gave of around EUR2 billion on a full-year basis confirmed the evidence of the first quarter is confirming the expectation we have to recover, to recover. I mean, for this year we expect -- revenues are flat, and so we have to recover the cost arising from the larger parameter and the higher depreciation for the new assets entering into operation with efficiencies, and we expect to have some important results. So EUR2 billion on EBITDA is confirmed.

As far as the guidelines of our net debt at the end of the year, also in this case the results for this quarter are confirming the expectation we had for in giving the guidelines two months ago, so we are in a position to confirm [that] with the current consolidation parameters. So excluding many transactions and excluding the AES Torino transaction, the best guidelines we have in terms of debt at the end of the year is EUR13.7 billion.



Carlo Malacarne, Snam SpA - CEO [11]

Alberto, the second question. It's clear that we have general discussion, but for TIGF, we have two goals. The first is to create a strong connection from (inaudible) South France to the Northeast, to have the possibility to link directly the Italian network to the Switzerland directly through France. The second step is to debottleneck the Spain regasification.

In the present business plan, we have some investment to start with the connection of South and North of France, and our intention is to update the future business plan considering an increase in improvement of the interconnection in Spain. It's clear that general discussion with Anagas are in place, but I can confirm that there is a strong interest by Anagas for this type of project.

Albert Regis, SG - Analyst [12]

Okay. Thank you very much.

Operator [13]

And now, we are moving to Olivier Van Doosselaere from Exane. Please go ahead.

Olivier Van Doosselaere, Exane - Analyst [14]

Yes, good afternoon. Thank you very much for taking my questions. I have two questions remaining. Firstly, you're speaking about your ambition with Fluxys to look at potential other opportunities internationally in Europe. I wonder if you could be a little bit more specific on what kind of assets you might be looking at. Is it mainly interconnections or could you maybe together to look at a domestic grid or part of a grid? And also how you plan actually to finance that if you would make such acquisitions given that you don't have that much scope for M&A with your current balance sheet.

And then a second question would be on the strategy plan. As you said here, the Italian government would be looking to publish a new decree by the end of the year to promote the investment in LNG infrastructure. I think the addition of the [top] pipeline in South of Italy already accounts, I think, for the growth CapEx that you have in your gas transport network in the South of Italy and that's a new backbone in Italy. I was wondering could there be any upside on your CapEx plan in the medium term if new LNG assets were to be added in Italy? That's all on my side. Thank you.



Carlo Malacarne, Snam SpA - CEO [15]

Thank you. I start with the first question. Frankly speaking, we don't have ambition for acquisition in Europe today. Our ambitions is to set an integration of a European network with the Italian one at the same time to explore all the advantages for the new services for the new interconnection, more liquidity and in future could be more investment in increasing the capacity, but today, we are not on the table new acquisition apart from TAG.

You know very well which is the discussion starting from the acquisition of the Austrian pipeline, TAG, to create the interconnection from East to West of the European corridor. So, frankly speaking, it is not on the table some new investment in acquisition in Europe apart from the strategy I highlight before.

For the regasification, we are waiting and we are discussing with the government the role of the new regasification. You know, in our plan, in your business plan, in our CapEx plan, we consider today an increase of [8] bcm from South of Italy and 8 bcm in our strategy is the possibility of the top connection and/or in LNG and new LNG.

It's clear that we are an infrastructure operator, it is in our strategy, in our commitment to invest in the regulated infrastructure, but the same time is clear that we are -- the possibility of investment is strictly linked to the strategic asset defined by the government, set by the government. The same time a regulatory framework which gives us the possibility of value creation for the investment we can do -- we could do.

So, that is the reason why if the question is we are interested in LNG investment, I can say yes, but it is very clear set by the strategy -- energy national strategy that the LNG -- new LNG -- is a strategic infrastructure and the regulatory regime will provide all the return of investment for the value creation for Snam.

Olivier Van Doosselaere, Exane - Analyst [16]

Thank you.

Operator [17]

And now, we are taking a question from Anna Maria Scaglia from Morgan Stanley. Please go ahead.



Anna Maria Scaglia, Morgan Stanley - Analyst [18]

Hi. Good afternoon. Just two quick questions. The first one is regarding [target]. There was an interview over the weekend with the CEO saying that by September by we can have some more news. Can you just discuss that?

And second, on the cost of debt, can you confirm that your expectation is for a 3.3% cost of debt for the year? Thank you.

Carlo Malacarne, Snam SpA - CEO [19]

Thanks, Anna Maria. Our target is to reach an agreement by September to complete the acquisition by the end of the year.

Antonio Paccioretti, Snam SpA - Planning Admin., Finance & Control [20]

3.3% is confirmed.

Operator [21]

We are now moving to Giuseppe Rebuzzini from Fidentiis Equities. Please go ahead.

Giuseppe Rebuzzini, Fidentiis Equities - Analyst [22]

Thank you and good afternoon, gentlemen. There is only one question left. That is a follow-up question on the first quarter storage revenues. Could you please add a little bit of color to what you already said about those revenues arising from contractual agreements between Eni and Stogit relative to the Decree 130 of 2010. And, in particular, you said this kind of one-off for the current year, but I would like understand if those sorts of revenues may be replicated, for example, in the first quarter of next year and in the future. Thank you.



Carlo Malacarne, Snam SpA - CEO [23]

Seppe, the reason is that the commitment and the operator of the Decree 130 is Eni is no Snam Rete Gas -- Snam -- Stogit. Stogit is only the infrastructure building and operator. The reason why in the mechanism inside the decree, there is some compensation by Eni linked to the use of the storage in terms of filling and emptying the storage. It's a mechanism (inaudible) mechanism, it's no, let me say --.

The reason why is outside the regulators -- the regulation framework -- only because today we have a guarantee for the regulatory framework. It's only to adopt the 130 Decree to the regulatory standard we have today in the storage system, is [not] depend of the utilization of the part of storage used by the industrial sector, so is no standard number each year. It depends of the use of the capacity by the industrial sector, so is no standard number, but it depends of the type and will expire in 2015. Then, in 2015, will expire the Decree 130, and the cover of this type of -- let me say -- figures will expire in 2022.

Giuseppe Rebuzzini, Fidentis Equities - Analyst [24]

Okay. Thank you.

Operator [25]

(Operator Instructions) We have a question from Monica Girardi from Barclays. Please go ahead.

Zana Perazzini, Barclays Capital - Analyst [26]

Hello, good afternoon, [Zana Perazzini]. I just have a couple of follow-up questions, actually. One is just a confirmation of the contribution from TIGF to the equity income from participation that you accounted for in the first quarter as I missed the number.

And the second question is actually down to distribution -- gas distribution in Italy. I was wondering if you just can update us on the situation of expiry concessions if anything has moved ahead since when we met for the strategic outlook. Or if the situation is still a little bit on hold waiting for a clarification between how to set the regulated asset base for concession and the replacement value. Thank you.



Antonio Paccioretti, Snam SpA - Planning Admin., Finance & Control [27]

Starting from the first question, in terms of net income contribution for our affiliates, in the first quarter, we accounted EUR22 million, out of which EUR15 million are related to the Italian activities and the EUR7 million from the interconnector and TIGF. The contribution of the interconnector for the first quarter was EUR2 million; TIGF, EUR5 million.

Carlo Malacarne: For the distribution business, all frankly speaking, and there is no today news in terms of starting of the bid for tenders. There is a lot of municipality which are defining the criteria for the bid for tender, but we expect the starting of the [first] before the end -- not before the end of the year beginning of 2015. Apart from specific municipalities, a very limited margin.

Zana Perazzini, Barclays Capital - Analyst [28]

Thanks.

Operator [29]

We are moving to Roberto Ranieri from Banca IMI. Please go ahead.

Roberto Ranieri, Banca IMI - Analyst [30]

Yes, good afternoon gentleman. A quick question on the CapEx with the extra return in first quarter 2014. You reported about a 72% CapEx with an extra return. My question is I'm wondering if this is in line with your indication of the plan or if there is any upside on the blended return versus the guidance that you gave us on -- at the strategy plan. Thank you very much..

Antonio Paccioretti, Snam SpA - Planning Admin., Finance & Control [31]

No, there is no any update. The target we have for this year is to have 75% of investment receiving a remuneration higher than this one, and the 75% is still our target for the full year.



Roberto Ranieri, Banca IMI - Analyst [32]

Okay. Thank you very much. That's very useful.

Operator [33]

And now we're moving to Stefano Gamberini from Equita SIM. Please go ahead..

Stefano Gamberini, Equita SIM - Analyst [34]

Good afternoon, everybody. Just a few questions. Regarding the [strategic] LNG, are you interested to buy or to build this strategic LNG or just [be constructed] to connect them?

Second, regarding the agreement with Fluxys, will you merge all these international European assets in one single company in the long run or medium run or is this just an agreement, a strategic agreement to grow together but it will remain separated with the -- they are owned by the two companies?

And last one, you said investments to connect South to North of France and then probably also other investments to the bottlenecks of Spain. Could you give us a magnitude of what could be the total amount of CapEx needed to do all these projects? Thanks.

Carlo Malacarne, Snam SpA - CEO [35]

Stefano for the first question for LNG, my answer was that our business is to build infrastructure, and if there is no let me say other operators which decide to build the LNG infrastructure, we are ready to consider the possibility of LNG plant construction -- not only the connection, but I repeat, the investment decision. Today, there is no discussion about this aspect, but the investment decision is strictly linked to the strategic, the definition of the strategic infrastructure and the regulatory framework very close to our expectation for the total return for the investment.

The second -- I think there is two question after because for Fluxys, today, there is a lot of minority participation in the different connection in Europe. The intention is to put together in holding -- setting up an holding company for the minority participation, but I think is a general approach today is very preliminary discussion. There is not a final decision but this is the objective. There is another question for the investment



Stefano Gamberini, Equita SIM - Analyst [36]

The magnitude of CapEx.

Carlo Malacarne, Snam SpA - CEO [37]

Okay. In South -- the connection from South of Italy to the North of Italy -- sorry -- for North of France is the total -- the investment are, I give you some detail. 60 kilometers of pipe and one compressor station for roughly an investment of EUR150 million. This is -- the investment decision will be taken for the new plan, let me say.

Stefano Gamberini, Equita SIM - Analyst [38]

And for the bottlenecking of Spain?

Carlo Malacarne, Snam SpA - CEO [39]

There is today discussion, but we don't have, you know -- I remind you that the CapEx plan is approved by the regulator and they regulate in France and the regulator will set the extra return for the CapEx plan. The reason why the total (inaudible), you know, is 3% (inaudible), and we before to define the new CapEx plan which is a new CapEx plan for the four years 2015-2019. We have time to evaluate the new investment for the bottleneck of Spain.

We are very -- the same approach we have in Italy. We set a new CapEx plan when we are sure of the extra return approved by the regulators. So, we are very prudent in this respect..

Stefano Gamberini, Equita SIM - Analyst [40]

Many thanks.



Operator [41]

We have a follow-up question from Olivier Van Doosselaere from Exane. Please go ahead.

Olivier Van Doosselaere, Exane - Analyst [42]

Yes, thank you. I forgot to ask about one question. But I was just wondering in general, when we are talking about the Italian gas hub and we are not talking about the fact that Spain would also be looking to develop a gas hub by improving the utilization of its LNG plants through a better interconnection with France. Do you see any [risk] that you would actually creating extra competition for yourselves by developing those interconnection with Spain through TIGF and, therefore, potentially creating more overcapacity in Italy, if it would afterwards be more difficult to export the excess gas to the rest of Europe because Spain will have taken a part of that? Thank you.

Carlo Malacarne, Snam SpA - CEO [43]

You know, the concept for us -- the concept of hub is no strictly linked to the capacity of exportation but is the interconnection with the European network and with the European infrastructure as LNG.

The reason why I don't think that could be competition in this respect. For the security of supply of Italy, I think that the LNG and new LNG is a strategic asset. At the same time, the capability, the possibility to exchange gas with different -- with the other European country as Spain, France and Germany will be the same time strategic for the Italian supply not only for the security of supply, but for the gas liquidity, the same time for the possibility to maintain the gas price aligned with the European one.

Olivier Van Doosselaere, Exane - Analyst [44]

Okay. Thank you.



Operator [45]

(Operator Instructions)

Unidentified Company Representative [46]

Okay. So there are no more questions. Thank you very much, everybody, for participating in the call, and if you need any follow-up, please contact the IR department. Good afternoon, everybody.

Carlo Malacarne, Snam SpA - CEO [47]

Thank you. Bye.

Operator [48]

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



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