Snam SpA Strategic Plan 2014-2017 Conference Call

Transcript

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Presentation

Carlo Malacarne, Snam SpA - CEO [1]

Okay. Good afternoon, ladies and gentlemen, and welcome to the Snam strategy presentation. Today, I will take you through our strategic plan in the following order. I will begin by discussing our strategic priority, the environment we are operating in, as well as our planned investment and growth plans in Italy and Europe. Antonio will then explain our operational efficiency and capital management plans, after which I will return for a few summary remarks before taking your questions.

Our goal of achieving sustainable and profitable growth will be attained through a focus on four strategic priorities. Discipline first, disciplined execution of selected investment opportunities, exploiting the optionality of our asset portfolio, giving us high-quality growth opportunities in Italy; focus on two main European gas corridors, the East-West and North-South corridors, to integrate and complement our asset portfolio.

Second, continue to focus on operational efficiency and delivering OpEx outperformance. We are targeting flat, real, controllable costs while growing our asset base.

Third, preserve our solid and efficient capital structure, maintaining our leverage target and keeping our cost of debt at competitive levels.

Fourth, drive value for all of our shareholders by growing RAB and paying a sustainable dividend, thereby delivering top ranking total shareholder returns.

Starting with the business environment. I would like to draw your attention to the following main trends in the European gas market. Gas demand in Europe is expected to show moderate annual average growth of around 0.5%. More notably, gas demand trends combined with the decline in the region's gas reserves and production, particularly in the North Sea, will increase Europe's net gas imports from around 65% of the total demand in 2011 to a remarkable 80% in 2013. Furthermore, there is a growing need to balance peaks in gas demand as intermittent renewable energy sources create volatility in gas demand. These peaks are increasingly uncorrelated to the overall trend in gas demand.

Looking at gas supply, there is a mismatch between the gas demand in Europe and supply sources. Overall, Europe will become more dependent on Russia and the Middle East, North Africa where most of gas reserves are concentrated aside from LNG. In 2020, the northern

Europe will make up 65% of all additional European gas imports while southern[LT1] Europe will make up 35%. These strengths imply the need to build out the gas infrastructure to facilitate the matching of the gas imported, gas-to-gas demand, as well as to integrate gas markets to efficiently balance supply and demand.

This will become even more significant with more gas supply contracts being renegotiated and linked to the gas spot market rather than to long-term contracts. The EU energy policy has responded to the gas market trend I have described in several ways, to ensure competitiveness, as well as a security of gas supply. Unbundling aims to guarantee efficient and fair access to essential gas infrastructure. The aim of harmonization and cooperation is to ensure that the member states, national authorities and transmission system operators work together to foster the integration of national markets into a Pan-European energy market.

In order to announce market liquidity and to exit [their] system have been introduced together with the establishment of market-based balancing regimes and development of gas exchanges. In addition, infrastructure development measures to ensure security of gas supply and to facilitate market integration have been introduced. This measure aims to promote the diversification of gas sources by enhancing infrastructure flexibility and by creating reverse flow capacity. With this aim, the European energy policy defines the guidelines for the development of priority energy corridors in the EU that cross the regions indicated on this slide.

Finally, the creation of an internal market requires the possibility for gas to be exchanged between different systems through the increase of interconnection among national networks. This measure could boost investment in new infrastructure, as well as in the development of existing facilities, even in an environment of moderate gas consumption growth.

It is important to highlight that Italian energy policies fully align with the EU policy on all of these points and that Italy is at the heart of the three of the four corridors. This further proof that Italy is at a crossroads for diversifying sources of gas and meeting demand across Europe.

As you are well aware, the large majority of our asset base is in our own market. The outcome of the last regulatory review confirms that we have a long term of [reentered] predictable and supported regulatory (inaudible). The allowed return for the transport regasification and distribution businesses were offset last year, as well as the high remuneration granted to support CapEx through all the businesses.

As a result, for around 85% of our RAB, there is a very good visibility on the regulatory criteria for the next four to six years. As you know, only the storage business will have to review its regulatory framework at the end of 2014.

The strategic location in Italy of the heart of the European Union priority gas corridors allows Snam to align its investment strategy with evolving Italian and European gas market trends and the border regulatory framework. The strength of Snam's geographical and market position combined with its technical expertise underpin the group's ambition to achieve sustainable and profitable growth.

Let's now focus on how Snam can develop its strategy in this evolving environment. Before going into the detail of the Snam four years investment plan, I would like to draw your attention to a relevant pillar of our strategy.

As you know, a result of Snam's strategy over the last few years is the broadening of the business perimeter in 2009 with the acquisition of Stogit and Italgas, we started to enlarge the perimeter of activities, no longer focusing only on the transport activity, but also playing a role across the whole chain of the regulated gas business in Italy, taking advantage of the integrated management of gas infrastructure.

Our international strategy over the last couple of years maintained the focus on the regulated gas business, leveraging our experience and know-how in managing infrastructure and also expanding the playing field not only across Italy, but also in European countries with a regulatory framework very similar to the Italian ones. We have been able to establish a portfolio of domestic and international assets, not only diversifying a regulatory and country risk, but more importantly, creating diversified investment options. This, in other words, means that we have the possibility to invest in different projects and to select the most profitable investment for the Company and those which are most useful for the overall gas system. At the same time, maintaining our continuous focus on finance and discipline and our aim to preserving a stronger balance sheet.

Let's start with our investment priorities. The Snam CapEx plan has to be analyzed in the context of the supported market and regulatory environment we just described, which provide us with the optionality to pursue growth opportunities. In order to support the development of the Italian gas and European gas market, gas networks will have to guarantee a high level of security, flexibility and liquidity. This will be achieved through the realization of a substantial transport and storage capacity, including additional capacity to allow for the physical reverse flow of gas from Italy to other European countries.

In particular, in the transport business, capital expenditure is devoted to meeting capacity requirements and to providing supply source diversification to the shippers. This development should facilitate not only a higher level of security and flexibility of the gas system, but also gas transit to the European market via the reverse flow of gas from Italy to other countries.

Moving on to storage, our substantial investment program has been designed to guarantee greater storage capacity in the gas system both in terms of moderation and peak capacity, optimizing the balance of the overall system and offering modulation services to industrial clients. At the same time, by increasing capacity, we can create favorable conditions for development of higher liquidity in the gas system. This will set the path for facilitating the use of our storage system for gas swap opportunities in the European market in the coming years.

With regards to the distribution, investment will be focused on the development of new distribution networks, mainly in the South of Italy, and on the smart metering project, which will allow Italgas to guarantee a higher level of service quality. More importantly, in the framework of the new regulation, Italgas will start the process of concession portfolio optimization, which we will discuss in further detail later on.

Looking more closely at our organic CapEx opportunities in Italy, the plan for organic CapEx is EUR6 billion over the next four years, which will support an estimated 3.3% annual growth in our consolidated regulatory asset base by 2017 starting from the 2013 estimated base just below EUR24 billion.

Let me underline that most of the reduction versus previous four-year CapEx plan, 6.2, if you remember, is mainly due to the efficiency achieved in investment execution, as well as to phasing of some spending related to certain investments in South of Italy. We plan to manage the pace of time and timing of our investment to maintain our track record of profitable growth, improving capital efficiency and returns.

In 2014, we expect to invest EUR1.3 billion with the remaining EUR4.7 billion to be phased over the remainder of the plan period. Furthermore, we will increase the profitability of our asset base, leveraging the incentive scheme set by the authority. With around 80% of the total investment incentivized with higher remuneration, the share of the overall RAB benefiting from incentivized remuneration will increase to 37% in 2017 from around 31% in 2013.

Over the four-year business plan, 60% of the total CapEx, or EUR3.6 billion, will be spent on the transport business, 25% on distribution and the remaining 15% on the storage business. As you know, we are used to providing a four-year CapEx plan as a solid estimation of our future spending. This is underpinned by the fact that around 75% of the overall spending is already authorized.

Finally, in order to increase the visibility of our CapEx, let me confirm and here, we are spending in the range of EUR1.3 billion to EUR1.5 billion for the period 2018/2020.

This is a more detailed breakdown of CapEx by business in Italy, the yearly spending and incentive scheme. You will note that aside from attractive base remuneration in all three businesses, approximately 57% of CapEx in transport will benefit from a higher remuneration rate.

Let me also add that the new regulatory framework for the transport business allows for a 1% higher remuneration on all the types of CapEx to cover the fact of the so-called time lag. Similarly, almost 80% of storage CapEx will earn an additional 4% remuneration for 8 to 16 years as the regulator has set these as a priority. In the distribution, around 26% of investment will be allocated to metering, which allows for a higher return.

Let's now focus on the projects in the transport business. The projects we are developing in Italy total EUR3.6 billion over the plan period and will strengthen both import and export infrastructure, facilitating the establishment of a future physical gas transit. Again, this is perfectly in line with the requirements of the third European directive in terms of cross-border capacity development.

With regard to exports, the project will involve a new pipeline development in the Po Valley, 450 kilometers, two new compressor stations, 100 megawatts of installed power capacity, as well as the empowerment of an existing station to allow for physical reverse flow in the pipelines. Overall investment dedicated to the creation of a reverse flow capacity is around EUR0.7 billion over the 2014/2017 period.

With regard to imports, the key projects in our plan are the South-North developments. We plan to build a pipeline of over 420 kilometers, which will increase the capacity at the [southern] entry points by around 8 bcm. This new project will be onstream by 2019. Overall investment of around EUR0.4 billion will be allocated to South-North development between 2014/2017.

The just outlined projects are primarily devoted to consolidate the security of supply in each Italian region, considering the expected increase in the diversification of sources of gas and therefore different utilization of the entry points. Furthermore, these projects pave the way for the development of higher export capacity. In detail, our import projects, which are already under construction, will increase the import transport capacity from 335 million cubic meters per day of gas in 2013 to around 380 million cubic meters per day beyond 2017.

Regarding export to Northern Europe, the program is to create the potential to export over 5 million standard cubic meters per day at Passo Gries by 2015 and 18 million standard cubic meter at the Tarvisio entry point. Beyond 2017, we will further expand the export capacity at Passo Gries to Northern Europe to 40 million standard cubic meters per day. These projects are well-supported by the expected development of the Italia and European gas market dynamics with the Snam gas transmission network increasingly playing a gas transit role.

Our forecast of gas consumption in Italy shows an increase of around 1% for the period 2013/2025, largely driven by growth from the power generation sector of around 3% while the industrial and residential and commercial sector are expected to add to reflect or to increase marginally. Combined with the decline in domestic production and growing export flows to Northern Europe, we expect import from the current 63 bcm to around 80 bcm in 2025 and transit volumes to increase.

Looking at the storage business, the projects for EUR0.9 billion included in our investment plan should lead to an 18% increase in modulation capacity, which is expected to reach approximately 13.5 bcm in 2017 from the current 11.4 bcm, excluding strategic storage, which is currently at the level of 4.5 bcm. In addition, there will be a 12% increase in peak capacity, which is expected to reach 316 million cubic meters per day in 2017 compared to the 281 million cubic meters per day in 2013.

These advances will increase the level of security and liquidity in the gas system. We are committed to providing to all the shippers, including industrial customers, new modulation services that give them a growing level or short cycle flexibility. Furthermore, we will support the development of new services, which allow for the integrated management of transport and storage capacity.

I will conclude our discussion on storage investment by reinforcing once again the fit between our strategy and the needs of the Italian gas market. In particular, the expected capacity development is consistent with the requirements of the ministerial decree.

In terms of the CapEx plan for the distribution business, our EUR1.5 billion program is focused mainly on the network expansion and smart metering. We will invest in the development of the distribution network by adding new lines and by increasing the number of new connections of the existing distribution network mainly in the south of Italy, around 1300 kilometers, also providing higher service quality and security across the network.

Regarding smart metering, the investment program will be applied to more than 1 million meters and it also requires the development of the relative [ICT] hardware and software. The total cost of this project in the plan period is in the range of EUR350 million. Investment in the four years plan, together with the optimization of the concession portfolio, will bring the number of consolidated redelivery points to approximately 6.6 million, an increase of 12% compared to the 5.9 million redelivery points in 2013.

We account for parts of Italgas network as associates, which have performed well in 2013 and contributed to Snam's successful financial performance. The associates had a pro rata EBITDA of EUR127 million, with an increase of around 8% compared to 2012 and contributed EUR59 million to our net income, up around 10% versus last year.

Let me now briefly focus your attention on our strategy in the distribution business. Italgas is today the market leader in the Italian distribution market benefiting from a competitive cost structure and a strong cash flow generation, which grants us significant returns of investment. Leveraging its remarkable financial and operational competitive advantages, Italgas aims to unlock further value through the tender process of gas distribution concessions. The tender process will provide the opportunity to optimize the concession portfolio by moving from a fragmented geographic presence to concentrating on more uniform areas of operation leveraging on synergy, cost efficiency and economies of scale.

We believe there is a significant embedded value in Italgas related to opportunities, which could arise through the tender process. This also is confirmed by interest shown by the international investor for the evolution of Italian gas distribution sector. In the current plan, we are not considering significant additional financial commitments related to the consolidation process. Anyway, we are monitoring the tender process evolution in order to exploit all the opportunities, which could arise to unlock further value.

Our international strategy is well-known. Snam aims to play a significant role in the integration of European gas infrastructure focusing on the two main European gas corridors, which are connected to the Italian infrastructure. We have made significant progress towards this goal over the last year. We acquired 45% of TIGF and we entered into a strategic alliance with Fluxys and jointly acquired a 31.5% stake in the Interconnector (UK).

All these transactions leave us very well-situated to drive international growth. Our goal is to optimize returns from our existing asset base by using the investment optionality that it provides us to coordinate CapEx and commercial activities in the context of our cooperation in Fluxys in the North-South corridor with the goal of providing integrated management of the asset to focus on completing our exposure to our two target corridors, the North-South and East-West corridor.

Regarding the East-West corridor, where we already have a footprint with the participation of TIGF, we took a further step towards its integration by entering into a memorandum of understanding with CDP for its stake in TAG. We will discuss this more in detail in a moment.

Let me first give you an update on our two recent acquisitions, Interconnector (UK) and TIGF. We explained the strategic rationale behind both acquisitions in detail at last October Investor Day in

Norwich, so briefly to reiterate. They are key to our goal of positioning Snam at the heart of the North-South and East-West policy corridors. Furthermore, TIGF provides diversification from regulatory and investment risk by exposure to another regulatory regime and CapEx timeline.

[Commenting] on Interconnector (UK), we have spent around EUR131 million to acquire a 15.8% stake. UK contributed about 1% of Snam's EPS in 2013 and as of December, has already realized a cash payback of 19%. If you also consider the dividend distribution received in the last few weeks, the total cash payback is around 22%.

On TIGF, as already briefly mentioned at our last Investor Day, we are now targeting a contribution towards Snam's EPS of around 1% already in 2014, increasing to around 2% in the medium term. In addition, let me highlight that the expected return on our financial investment of EUR597 million is around 11%, which could further increase if you consider the potential efficiency from the integrated management of the transport and storage facilities from a capital structure optimization and from the positive contribution of additional CapEx.

More importantly, 2013 results and our expectation for 2014 from both companies are more favorable versus the target we set at the time of acquiring them, confirming the soundness of the transaction also from a financial point of view.

Let me first give you some highlights about the TAG technical characteristics. TAG is the company managing on an exclusive basis the transportation capacity of national import bringing Russia gas to Italy. TAG has a nominal transport capacity of about 47.5 bcm per year. And the annual revenues, the public information, in 2012 is of EUR286 million.

As far as the potential transaction with CDP, the due diligence activities are currently ongoing. In addition, the memorandum of understanding recently signed with CDP establishes the following main terms -- the starting of the negotiation activity in relation to the structure of the terms and condition of the potential transaction, the acquisition of the entire stake held by CDP and TAG, currently 89%. In case of the completion of the transaction, let me add that the participation in TAG will be consolidated with the equity method assuming a corporate governance of joint control with GCA, the local (inaudible) shareholder.

As I have outlined, Snam is expanding its position beyond Italy into areas of strategic importance for establishing market interconnection. This goal not only requires [common rules] and new investment in infrastructure development, but also the availability of integrated services that can facilitate the exchange of gas between operators. Therefore, the role of the transmission system operators evolving from being a mere asset owner simply managing infrastructure to a market facilitator providing integrated services to shippers and final customers.

In the coming years, we will work to develop new services to boost the liquidity of the gas market across three main workstreams -- capacity services, balancing regime and cooperation with gas exchanges. Let me give you some examples on what we have already launched and on what we will focus our work in the near future.

With a reference to new capacity services, last April, we launched the offer of day-ahead bundled transmission capacity services, which allow for the transportation of gas between hubs via a single capacity booking process, facilitating threading and arbitrage activities.

We are also working on the progressive introduction in 2014 and 2015 of the other harmonized products envisaged by the European network [code]. We are also starting the possibility to introduce short-cycle storage services in addition to the basic modulation service to address the increasing flexibility needs of users. Finally, we are working on an incentive-based oversubscription and buyback scheme to offer additional capacity on a firm basis in line with EU regulation.

Concerning the balancing regime, we have extended the balancing market to new flexibility sources, namely import of LNG, in addition to storage and a new day-ahead balancing session has been introduced. The future [in codes] envisage incentive scheme for the TSO in providing services aims to support a better market functioning and to provide timely and accurate information to shippers regarding the daily commercial portfolio consumption. We will work to introduce incentive schemes in these areas.

Finally, we have worked intensively towards the evolution of the Italian gas system cooperating with the GME, Gestore Mercati Energetici, on the 2013 launch of the future and spot gas markets. As you already know, Snam is also a shareholder in the new European platform, which was created to offer transmission capacity in line with the future European [rules] and which allow the commercial connection of the TSO to the main North European gas hub.

Concerning the key role that such services and activities have played in the creation of the internal gas market, we are working with the relevant institution to create the right condition to exploit value for these services not only for the gas system, but also for Snam. I will now hand over to Antonio to discuss operational and financial details.

Antonio Paccioretti, Snam SpA - CFO [2]

Thank you, Carlo. Alongside our investment priorities, delivering operational efficiencies is a key focus for Snam. Given our EUR6 billion investment program over the plan, we are targeting a 3.3 annual growth rate of our regulated asset base and in the meantime, we want to improve our international strategy. We have set ambitious targets for our plan period aiming to keep the controllable fixed costs flat in real terms, mitigating the incremental costs deriving from the growing asset base.

To give you more evidence on how we would like to manage our cost base, we set some KPIs for our different businesses. In particular, for transport, we plan to achieve an average annual reduction of 1% in real terms of the controllable fixed costs on kilometers of net ratio. In the distribution business, the KPI controllable fixed costs per number of redeveloped points is expected to remain flat, while, in the storage business, the KPI controllable fixed costs per cubic meter of working capital/working gas is expected to reduce annually in real terms by 2%.

Now let's move on our financial strategy that is based on two main pillars -- first, to maintain our -- a solid balance sheet in the medium and long term; second, to support our investment plan and make return to shareholders sustainable in the long run, preserving at the same time our current limited risk profile and our capability to tap the financial market as a frequent borrower at reasonable costs.

Secondly, we manage our financial structure in order to keep the cost of capital below the allowed returns set by the regulator with limited exposure to interest rate volatility and maturity correlated with business profile.

Starting from the soundness of our balance sheet, we expect our four years investment plan to be fully financed by our operating cash flow. This should allow us to maintain a strong balance sheet and preserve our solid investment-grade profile. As for the latter, we reiterate our commitment to keep our ratios aligned with the credit metrics implied in our current rating.

With regard to rating metrics, we would like to recall that an adequate understanding of the value of our associates is important to properly assess the asset base ratios calculated for the purposes and the sustainability of our gearing. In this regard, as suggested earlier, the estimated equity value attributable to associates mainly on an equity RAB base is currently in the range of EUR1.4 billion. On this basis, we estimate our net debt to asset to 55% over the plan horizon.

Regarding cash flow-based metrics, it is worth highlighting not only the absolute level, but also the quality of our cash flow generation. For Snam, the soundness, visibility and resilience of our cash flow is driven by four main factors -- the capability to execute investments, exploiting the return and the incentives provided by the regulator; the flexibility of our CapEx plan; the efficiency in working capital management; and the fairness and stability of the regulatory framework.

As regard CapEx execution, it is important to underline that capital allocation choices are under management control, enable the Company to achieve financial discipline and to push for the best value creation opportunity leveraging on a wide and well-diversified portfolio of real options offered by our businesses. The flexibility of our CapEx plan is explained by the fact that, out of EUR6 billion of our four-year investment plan, only 25% is related to maintenance activities, while 75% being new development CapEx, around 75% is already authorized.

As for working capital management, given the global economic outlook, it is getting more and more important in all sectors. In our case, the implications are less severe given the availability of most of our counterparties with sound credit worthiness certifications, the existence of regulatory framework able to limit issues related to the payment of credits due and not paid, and our strict attention to control the weight on our balance sheet of non-cash flow generative assets.

With regard to the tariff framework, the key positives of the last reviews is the continuity of the regulator in taking the Italian ten-year government bond yield as a reference for the risk-free rate. This factor, coupled with Snam's capability to get one rating notch more than the Italian Republic, offers our investors a sort of natural hedge against countries and good protection of our financial outperformance.

As for the latter, during the first part of our refinancing process, BTP represented an inevitable reference point for both banking facilities and bond issuance. Only a few months later, our debut, the market recognized our real credit worthiness, allowing us to achieve the linkage from BTP as testified by the fact that today our bond trades well inside the BTP [curve], around 70 basis points for a 10 years term.

Now let me spend some few words on our strong liquidity profile that is another factor carefully monitored by the rating agencies in assessing our corporate rating. Our liquidity buffer is represented by around EUR4 billion of undrawn committed credit facilities, excluding the outstanding debt of around EUR1 billion of uncommitted facilities used for treasury management. It largely covers our 12-month financing needs as per rating agencies' requirements. Going forward, we reaffirm our commitment to strong liquidity endowment in the medium term. Firstly to cover debt repayment schedule; secondly, to support a convenient approach in that capital market; and finally, to provide affordable financial flexibility.

Now let's move on the next slide to give you more generality on our debt structure and the cost of debt guidelines. In addition to the improved solidity of our balance sheet, we have also made our debt structure more and more consistent with Snam's business and regulatory profile. Starting from the fixed floating breakdown of our debt, we confirm our plan to have around two-thirds of our debt at regime at fixed rate financing, substantially in line with today.

We believe this debt structure is consistent with the RAB-based profile of our business, the length of the regulatory periods and our will to keep the volatility of our profit and loss under control. Furthermore, it offers another way to balance between our will to lock today's cost of debt conditions in the medium term and our goal to exploit potential opportunities offered by the credit market and the regulatory framework in terms of extra financial efficiency and sustainable value creation.

In terms of maturity, it is worth highlighting that we don't need to carry out any measured refinancing exercise until 2015 while new actions are expected to be completed in the short term to pre-fund our four-year investment plan. Our bond debt maturities are well-distributed over time avoiding measured concentration issues going forward. The average tenure of our medium to long-term debt is around five years, substantially in line with our peers.

The last factors, coupled with the fixed floating breakdown of our debt already commented, is consistent with the mechanics of our [entire] framework, in particular the length of the regulatory periods and the frequency of the region or the allowed cost of debt, thus protecting our financial outperformance.

As for the breakdown by source of our outstanding debt, I would like to stress how an appropriate mix, coupled with the [diversification] benefits, allowed Snam to achieve another great balance between competitive cost and long-term notes, namely the institutional lenders and debt capital market and flexibility of the banking system.

Let's see more detail what it means. Institutional lenders today representing around EUR1.3 billion are expected to play a key role also in the future representing around 10% of our outstanding debt over the four years plan with a competitive cost source of funding versus both banks and debt capital markets, ranking maturity of up to 20 years, longer than what is available in other markets for the same amount.

Debt capital market, amounting to EUR8.7 billion at the end of 2013 and EUR9.4 billion today, is expected to represent around 70% of total outstanding debt over the plan, providing us with a lower cost and longer maturities compared to the banking facility, typically limited to three to five years as a combined effect of abundant liquidity in the capital market, investors' hunt for yield; and tougher regulation [there were no] constraints for banks.

This is even more true for the private placement segment where we continue to see the opportunity to execute deals at levels below our bond [cure]. In this regard, let me remind you that from September 2013 to date, we executed four private placements for a total amount of EUR600 million. In spite of this, it is fair to say that this intermediation of the banking system is limited by some unique characteristics of banking facilities, thus supporting our choice to rely on the letter for around 20% of our outstanding debt. In particular, we refer to the capability of revolving credit lines to meet corporate cash flow swings and the rating agency requirements in terms of available committed funding.

The flexibility of the banks' lending with regard to potential prepayment, repricing in terms of negotiation, therefore offering potential upside for proactive borrowers. The letter of consideration is amplified by the favorable position today experienced by Snam. That is not under refinancing pressure, neither in terms of size, not in terms of timing, has built a liquid and well-established bond cure with growing possibilities to put into competition the debt capital market and the banking system. This put ourselves in condition to pursue an opportunistic approach and achieve better product diversification.

Having dealt with the solidity of our balance sheet and the key aspects of our debt structure, I believe it is worth giving you some guidelines on our cost of debt. Based on the current market condition, it is expected to be a further reduction averaging around 3.3% in 2014 thanks to some actions already implemented in the first part of this year. Of course, we continue to monitor the market, thus being confident to put in place further organizational measures in the next months. Let me give the phone to Carlo again to conclude with some final remarks.

Carlo Malacarne, Snam SpA - CEO [3]

Thank you. We are firmly committed to confirm the Snam equity story with a sound shareholder return as a combination of sustainable and profitable growth and attractive dividend. As highlighted before, we have a large CapEx plan to be executed under strict financial discipline. The growth coming from the significant investment program is expected to translate into a 3.3% increase in the consolidated RAB of the group over the plan period. The cash flow generated by our operating activities during the plan period is expected to fund our asset growth, enabling us to maintain leverage with the debt around 55% of fixed assets. The constant leverage means that our equity RAB is expected to grow in line with the RAB.

In addition, let me underline that a sound and clear regulatory framework with a valuable incentive scheme allows us to increase the proportion of RAB with higher remuneration up to 37% by 2017. On top of that, we remain committed to exploiting operating and financial efficiency in order to further strengthen our overperformance. Our value creation is also supported by the increasing contribution of non-consolidated associates. The sound growth path leads to significant opportunities to reinforce our profitability and to create additional value for our shareholders.

At Snam, our goal is to provide top ranking total shareholder returns underpinned by profitable growth and backed by strong financial discipline. I have outlined our portfolio of growth opportunities in this presentation, which we will exploit in a selective and disciplined manner to create value through profitable growth. We aim to pay a sustainable and attractive dividend and intend to distribute an annual dividend per share of EUR0.25 for the fiscal years 2014 and 2015. This dividend policy allow us to maintain strong credit rating metrics and helps us to preserve a solid investment-grade profile. Our strong balance sheet forms the basis of our sustainable growth and attractive dividend in a word of our total shareholder return. That's all for me. We are ready to answer any questions you may have.

Questions and Answers

Unidentified Company Representative [1]

Good afternoon, everybody. We will start taking the questions from the floor. Then we will move to the conference call and people in the conference call can already start to book their question.

Stefano Gamberini, Equita SIM [2]

Good afternoon. Stefano Gamberini, Equita SIM. Three questions, if I may. First of all, in the gas distribution, you said that you want to increase your delivery points by 12% without an increasing financial effort. How you can reach it?

Second, regarding the dividend policy, considering that 85% of your assets are regulated for four years, or even six years, why you set just this floor, I hope, of dividend at EUR0.25 for two years. So what are the risks that you are seeing on the middle-cycle review?

Third, regarding the acquisition of TAG, you said in the last call that you want to go ahead with the deal. Is this correct? The type of deal is what you are looking for for the acquisition, or could you buy through also finance a normal acquisition target? When you set your debt to RAB at 55% in the period, is this acquisition included or not? Thanks.

Carlo Malacarne, Snam SpA - CEO [3]

Thank you, Stefano. The first question, our strategy in the distribution business is to monitor the opportunity to increase the number of delivery points with the consolidation of existing concession, exploiting the advantage of resolve some fragmented concession and to consolidate some areas, for example, for touring, yes, actually of touring where we can increase a lot the numbers of a delivery point. I think it is big numbers from 5.9 million to 6.6 million without let me say funding the operation.

The second point is that we have a strong investment in south of Italy. It is in the plan of Italgas for new connection in Calabria, for example, the investment for the new connection or the investments started three years ago and we are becoming operation starting from end of 2014. It is the reason why without funding, we can any way reach the objective to increase the delivery points.

Only to complete the comment, for us, it is very important anyway the distribution business, the visibility of cash flow and the visibility we can have, i.e. we can have by the end of the year when the concession, the tender process will start, because today it is not so clear, but we think that when we have a clear visibility of the tender production, the location, the geographic position, we can decide anyway how to approach Italgas, the gas distribution evolution. I can say that there is a strong interest by investors to enter in the distribution business. It is not today discussion around table, but we are ready to evaluate all the possibility to create value without let me say increase a lot our financial exposures.

For the second question, it is true that we have the visibility from four years to six years, transmission and distribution, but usually you know our policy, we are very prevalent. In 2016, there is the review. The review concerns only the free risk, it's not let me say the general review, but the volatility of the market gives us, let me say, gives us in our approach very conservative, if you want, but we prefer when we have some strong commitment with the shareholder to maintain the commitment. That is the reason why we finalized a visibility over the next two years of our dividend, which is, let me say, a strong dividend anyway in the top range of the European utilities.

For the third question, it is a parameter to speak about TAG because we signed yesterday the starting process and so we don't have the completely visibility, but, anyway, I said in other meetings that, among the potential funding options, we are considering a dedicated capital increase [to GDP].

Alberto Ponti, Societe Generale - Analyst [4]

Good afternoon. Alberto Ponti from Societe Generale. I have three questions. The one is on the interim dividend that I understand you have suspended to move to a one dividend only parameter. So if you could give us a bit more color as to why this has been the case?

The second question is back on distribution of gas. So if I get it right, the EUR127 million pro rata EBITDA will be from now on consolidated into Snam, but then we also consolidated financial charges and what happens to your bottom line and the net debt and the RAB when you consolidate the subsidiaries?

The third thing is about France. I think it was at the end of last week a news on the regulatory front, the fact of making compulsory to all players to book storage capacity. I am sure this was welcomed by you, but I want to have a comment from you, how does this change the risk profile of your storage business, if it does at all. Thank you

Carlo Malacarne, Snam SpA - CEO [5]

Antonio, I think between the first two questions

Antonio Paccioretti, Snam SpA - CFO [6]

Alberto, for the first question, first of all, let me say that the decision is not driven by primarily liquidity of the Company, first of all. At the end, the dividend that we would pay on our business would be staying the same and the reason is the following.

In Italy, you know -- probably know that, in Italy, how can I say, there are still fiscal inefficiencies related to the intragroup dividend payment. In our case, the intragroup dividend payments are necessary for the payment of the interim.

What we have decided is simply to minimize, to create the condition for minimize such a fiscal burden and to increase for the benefit of the Company of our shareholders. That's all. Anyway, if you need or someone needs more color, more details on this point, I think that myself and my colleagues are available for a separate section and dedicated section on that.

On the other point, the EUR127 million of -- coming from the distribution, not consolidated activities, I would say that we are not planned to consolidate such a contribution. This is the contribution of three or four companies, significant companies, owned 49% by Italgas. Part of the increase in the regulatory point that we have shown in the other slide is, in addition to the elements as shown before, is due to an optimization of the concession portfolio owned by Italgas itself, and its subsidiaries, but the result would not be to consolidate all the results. We are talking about not so significant marginally redistribution of -- and more -- better optimization of our portfolio. So we will maintain a position on non-consolidated distribution also in the future.

Carlo Malacarne, Snam SpA - CEO [7]

The question, first of all, you remember when we started to do the acquisition of TIGF, we had bear in mind the situation of the (inaudible) in Europe, which is -- which was critical in general and the evaluation we considered -- I have a feeling of 70% maximum in storage. Today, in 2013, the annual 2013/2014, we reached at a feeling of 85%, and it's clear that, with the last decision by the government in France, we have -- it is a clear reduction in our risk considering any way that we have the best competition in starter system in South of France.

The only problem in France is that there is no strong connection for the PEG from South to North of France, but the tariff in the storage system in South of France is lower than and in North of France and with the decision to increase -- improve the security of supply, of the (inaudible) storage, I think that we can reach a higher ceiling than today and reduce the risk profile in our Company.

Monica Girardi, Barclays - Analyst [8]

Hello, good afternoon. Monica Girardi, Barclays. I have three questions, if I may. One is, down to the CapEx profile, in particular, linked with the North-South corridor, I understand that just part of this CapEx is going to be effectively into the business plan that you are presenting today, while it will be a little bit backloaded after 2017. You are forecasting 8 bcm additional capacity. I was wondering if the geographical location of these additional capacity at the entry point is making a difference to your long-term projection of CapEx upwards or downward risk, I would say.

The second question is down to the 2014 forecast. It seems that the CapEx is not going to peak this year. Probably the CapEx spending in the period is more profiled between the last couple of years of the business plan. Can you just give us guidance on the net debt for this year? Last one is on the risk-free rate assumption that you have in the plan from 2016 onwards when we are talking about the base line (inaudible) for the activities that are subject to review. Thank you.

Carlo Malacarne, Snam SpA - CEO [9]

I answer the first question. The projects inside our CapEx plan are the same we had in the previous CapEx plan. The delay, to be very clear, the delay is for the onshore connection in the (inaudible) channel, which is the value, the cost of investment is EUR150 million, which is an increase of the domestic productions. There is, as you know, now our approach is to start with the spending when we have the transmission quarter.

I am confident that we say that today all the attention is to have the possibility to increase the domestic production considering the evolution. So the delay is EUR150 million in this type of investment. The Adriatic Sea was not in any way -- the project was not in the previous plan. It is beyond 2017. The investment in the last part of the Adriatic Sea, because we are investing today in the first part of the Adriatic Sea is under construction, the [Campo Quiero Sumura], which is the first step.

The second step, the deadline is 2018/2019. There is an easy vector, the 8 bcm, which can come from the top, the new connection, or one new LNG.

The commitment of the new supplier is not before 2019. The reason why we will provide the investment when we are sure to have the capacity commitment, and I can say that, in this moment, the shareholders of [TAPA] are starting with booking capacity process, commercial booking capacity process to understand the interest before to set the final investment decision. I am confident that by the end of 2014 will be the final investment decision. For the CapEx, is -- I can't give the number because it is very clear our investment is 75% is authorized, but I can say it is under construction. We have EUR1.3 billion in 2014; EUR1.5 billion in 2016; EUR1.6 billion in 2000 -- sorry -- EUR1.3 billion in 2014; EUR1.5 billion in 2015; EUR1.6 billion in 2016; and EUR1.6 billion in 2017. Last question?

Antonio Paccioretti, Snam SpA - CFO [10]

The other two questions, the first one is in relation to our debt at the end of this year. I would say that, first of all, the guidelines is given assuming the current parameters, so without any M&A transaction, and the guidelines at the end of the year is EUR13.8 billion. For giving same guidelines, we assume that the net working capital will absorb EUR100 million, EUR150 million, which correspond to the 50% of the improvement of the last year with -- compared to the guideline, which we do not consider sustainable. So EUR13.8 billion. The (inaudible) piece, the free risk, the free risk underlying the plan, for sure, we have -- due to the different time lag, some different, but the average is around 4%.

Javier Suarez, Mediobanca - Analyst [11]

Javier Suarez at Mediobanca. I have also two or three questions. The first one is what have you considered as inflator 2% when the inflation in Italy is significantly lower? And if you see that as a potential piece for your forecast? The second thing is, coming back to the previous question, when looking to the cash flow statement of the Company, can you give us your sense of the risk that the Company may face in the year 2016 as a consequence of the interim review? For example, taking into consideration the current (inaudible) Italian (inaudible) of 3.3%, which would be the effect on your cash flow generation and then on your capacity to pay the dividend at the current level?

And the third question is maybe obviously related, which is your expectation for the evolution of the debt beyond 2014. I think that the CFO has mentioned 3.3% for 2014. Can you give perhaps more visibility beyond in 2015, 2016, maybe 2017? And the very last question is on the CapEx. I have seen a backloading on the CapEx. There has been over the last few years some delay on the CapEx and at the same time, I have seen the Company bouncing back on the CapEx beyond 2017.

So have seen significantly more CapEx from 2017/2020. Can you put that into the overall context of things that are going on in Europe and how relevant could be the capital of the Company beyond 2017, and if there is a potential of some positive surprise there? Thank you.

Antonio Paccioretti, Snam SpA - CFO [12]

I will start from the first one so I understand some comments about inflation. We assume then inflation could be in the future (inaudible). First of all, we assumed something around 2% in our plan starting from the evidence that this was the target inflation used by the regulator in etermining the tariff last year, the regulatory period and the return last year. It is clear that today there could be a forecast of different inflation. What we can say is the following. It is -- we think of debt assuming a lower inflation, in our case, would mean from a financial point of view our accounts are very visible. In terms of cash flow, something around -- for each 1% -- something around EUR10 million, EUR15 million of lower cash flow, annual cash flow for sure, so an impact in terms of cash flow ratios, which I don't consider significant in terms of sustainability.

There should be -- there could be a higher impact in terms of -- for the growth of the RAB and for the equity, the equity of our growth and the sustainability of the ratios in terms of debt to RAB. On that point, I will say that again the visibility of the calculation are so high that you can make your own sensitivity on that point. I would -- let me add two elements. The first one is debt -- today, our debt to RAB ratio is at 53% and the threshold fixed by the rating agencies for this kind of ratio is 60%. So let me say we have significant room for our flexibility.

The second point is that if you assume a different inflation scenario, it is correct also to assume that this would contribute to keep our cost of debt lower than the current one, lower than the one we have in our expectation considering 2% of inflation and before -- all in all, the impact would be significantly mitigated by that point, by the reduction of our cost of capital.

For the other point, which is what is the -- if I understood -- what is the possible result you estimate in terms -- in relation to the next reset of the work in 2016? I would say that the point is the following. First of all, I would say that, from a value point of view, the regulatory framework is designed -- is capable to capture the medium term in the medium term, the differences and therefore, I don't see a sustainable difference of value because you know perfectly which is the mathematics in our business and before the regulatory framework is designed in order to maintain -- preserve the value in case of a different financial situation in the medium term.

In the short term, things could be different. What we can say for mitigating such a risk, we can -- we have to maintain an alignment among -- between the duration of our liabilities and the frequency of -- so the duration of our assets, so the frequency of the recalculation of our assets.

Today, I have tried to describe the point before. We have a duration of our fixed rate of around five years, but we have to take into account that we have 20% of floating rates. So the mix of the two give us a duration, an average duration of our liabilities of our debt, which is really aligned with the one of the regulatory framework.

You also asked for a longer forecast, a longer expectation of our cost of debt, and if I don't make a mistake also of the amount of our debt. Let me say our use is to maintain the guideline at the end of the current year. So please take into account that it is important in terms of cost of debt, the current market condition in terms of spread and in terms of interest rates are really lower than the one we have in our pocket in our portfolio. So it is reasonable to think that (inaudible) variables going forward, our cost of debt could be controlled.

Carlo Malacarne, Snam SpA - CEO [13]

For the -- the fourth question if I have understood clearly, I gave you before -- they are right now EUR1.5 billion, EUR1.6 billion, EUR1.6 billion, because we set our spending in very strict method, considering the possibility of let me say the commitment in terms of capacity booking. It is the reason why the new capacity -- because the investment is no (inaudible). It is completely in line with our expectation throughout 2015, the 8 bcm and 40 bcm 2016.

For the Adriatic Sea, it is clear that there is no interest to start before -- we have the capability, the financial capability to start before. But we are very prudent, first of all, because we have to demonstrate the efficiency in the investment spending.

We don't have a risk in, let me say, cutting this type of investment because I remind you that not only the investment the Adriatic Sea, not only the reverse flow, but the Adriatic Sea are set in decree by the European commitment as a strategic asset and is in the Decree 93 2011 of the government. So is it -- let me say there is no formal approval, but by law all the investment we are doing today is very clearly defined in Italian decree and European decree.

Enrico Bartoli, MainFirst - Analyst [14]

Hi, Enrico Bartoli from MainFirst. A few questions left. First of all on TIGF, if you give us a hint of the amount of investments that you presented in the four-year plan for this asset. You provided, let's say, a guidance of a special contribution of around 2% at the EPS level from these assets at the end of the period. If this takes into account the new regulation in France or it was just, let's say, something based on the old assumptions.

Then a question on TAG. It is very early, but just to -- if you think that there could be some cost synergies with TAG, considering that it is at the border with Italy. And if it is possible, in addition to revenues and net profit, if you can give us an idea of the level of EBITDA and net debt that is included in that asset? Thank you.

Antonio Paccioretti, Snam SpA - CFO [15]

Starting from TIGF, as you know, TIGF investment are not included in the EUR6 billion we have shown is not consolidated. The investment plan of TIGF, which we described this November in our presentation, are approved by the authorities, and we did not change such a number for this plan.

In terms of EPS, the accretion of 1% and then 2% in medium-term is confirmed. Let me say that the positive news coming from France are supporting us in the credibility of such a result. Today, we are not in a position to change this guideline.

As far as the last point, let me say that as you probably know, it is market practice to sign confidentiality agreement. And so we are not in position to disclose any information which is not public about TAG, and what you are requesting is not public.

Carlo Malacarne, Snam SpA - CEO [16]

Can I only do some comment about is the same TIGF on TAG. I think you have to consider that it is very strategic for us to understand and to define with the Company the strategic evolution inside the country. That is the reason why for us it was very important the approval by the French regulators for the plan of investment.

We are ready with TIGF to increase the possibility of investment which are, I can say, very strategic in France because there is the connection from South and North of France. There is the possibility of connection of Spain, but the approach is very pragmatic. We define what will be the strategic line, and we start with the Company when there is all the formal approval. This is the reason why the CapEx plan today is approved.

But I can say that the interest to speed the investment in France by the authority or by the government is very strong today, but we have to work inside the country with the political decision of the country, and so we are very prudent in the proposal.

The same situation will be for TAG. There is no different situation. We will be in Austria and our approach is apart from, let me say, the acquisition process, but is to understand very well the evolution in Austria strategy aspect for [any of the] sector. Because the value added is not only the acquisition but it is the evolution of the Company in terms of synergy, but in terms of capability of create value inside the country.

Giuseppe Rebuzzini, Fidentiis Equities - Analyst [17]

Good afternoon. Giuseppe with Fidentiis Equities. Two quick questions on the numbers. Last year you gave a long-term target of EBITDA margin at 8%, and last year you said that the pro forma EBITDA from associates would grow by 70% in 2016. Can you update us on the similar target for 2017?

If I may, I try a question on TAG again. I think it is public almost. We know that TAG is not a regulated business and it chose its revenues from a ship or pay agreement with Eni, basically. If you can remind us how long that ship or pay contract lasts and what thoughts you are beginning to make about the future of the pipe after this ship or pay expires? This is clearly a big pipeline and there is clear risk that it is going to be underutilized going forward. Thanks.

Antonio Paccioretti, Snam SpA - CFO [18]

Starting from the numbers, the 80% EBITDA margin we anticipated last year is confirmed also for this plan. In relation to the EBITDA from a non-consolidated pro forma, EBITDA from non-consolidated associates, if I remember well last year, we talk about a 70% growth, which assumed also the contribution, the coming contribution of TIGF, which at that time we consider almost bought. We won the auction, so we inserted the contribution of TIGF inside such a growth rate.

Today, I think that it is more appropriate to give you some numbers about the current parameter or portfolio of the non-consolidated associates. Today, at the end of 2013, the pro forma interest we have in the EBITDA of the non-consolidated associates is around EUR250 million, which 127, 128 is the distribution.

We imagine -- we expect to have such a contribution, such a pro forma to be increased annually by around 4% for reaching an amount of EUR285 million at the end of the plan when this contribution for distribution normalizes.

Carlo Malacarne, Snam SpA - CEO [19]

For TAG, TAG is regulated by -- is the same we have in Italy, the same situation. There is the access is through long-term contract, but the pipe is a regulated pipe. And the owner of the pipe today is waiting -- (inaudible) is waiting to form a certification, his ITO, ICO, by the European community, so it is regulated by anyway. There is the take or pay contract. Frankly speaking, I don't know today which is the expired date, but it is the same situation we have in Italy or in France, let's say.

Jose Ruiz, Macquarie - Analyst [20]

Yes, good afternoon. Jose Ruiz from Macquarie. Just 2 questions. The first one is regarding your cost-cutting -- well your cost control plan. You were raising a little bit expectations on potential cost-cuttings in distribution. But actually from slide number 24, it looks like is the less effort that you are going to make. You are going to cut more in other activities, if you can explain that.

The second question, coming back to TAG, in the last offside you said that you would take a stake in TAG if it was necessary, according to your developments of connecting Italy and pipeline with the Austrian one. Considering that the extension or the reverse flow of Tarvisio is finished by the end of last year, what has changed your mind? Because it looks like Tarvisio is almost finished, but you are going into TAG. What has changed your mind, basically, compared to the offside?

Carlo Malacarne, Snam SpA - CEO [21]

The reverse flow of Tarvisio was in our program before the decision of acquisition with TAG. We started 3 years ago on the investment to create the condition of reverse flow because anyway, the reverse flow is today a commitment set in the European directive. So we have to provide anyway the condition of reverse flow.

We can decide the interoperability or the total amount of the reverse flow, but we started 3 years ago. So it is completely today the investment. I said in the slide the capacity of reverse flow, but we don't tell investment. We have done the investment 3 years ago.

Jose Ruiz, Macquarie - Analyst [22]

No, my point was more why are you buying now after you have finished? I would have thought you would buy during the finishing of the [connection].

Carlo Malacarne, Snam SpA - CEO [23]

Is the time of -- I can say that for buying the pipe, we need the seller. There was not a seller before because Eni is -- (inaudible) situation with Eni, you remember, right? There was not a possibility for Eni to sell to (inaudible), because the only reason is a decision by the European Community. Today is not a condition.

For the cost-cutting, I give you a clear vision. We are not only confident, but we have the commitment to maintain flat-out costs because we have in place two agreements. In general, in the group, we have a [LIBOR] cost is roughly an increase of 2.4%, due to new LIBOR contracts. And in the operating cost, 1.2%.

This is the reason why last year we started to understand how we can recover. And by the end of the year in end of November, we signed an agreement with the trade union for a staff mobility of 300 people in 2014 and 2015. So with this type of, I can say procedure, we can recover the LIBOR costs.

In the operating costs, maintenance costs, I spoke about the distribution because we signed last month in February an agreement with the trading union to reorganize all the concession of Rome. The concession of Rome is a big concession in terms of people, in terms of maintenance asset. And reorganized means to bring all the synergy and the methodology we have done in the other concession site in Italgas.

With this type of procedure, for example, is a mobile force, so it was not present in Rome before. We can recover the increase of operating costs. It is the reason why there is in place the two agreements with the trade union, so we don't have risk to start the discussion today.

Antonio Paccioretti, Snam SpA - CFO [24]

Just for the number for the mobility plan, the relative cost has been already booked at the end of 2013. So we have only the benefit of that for the future.

Unidentified Company Representative [25]

I think we can move to the conference call. If there are questions from the conference call.

Operator [26]

Alberto Gandolfi, UBS.

Alberto Gandolfi, UBS - Analyst [27]

Yes, hi. Good afternoon. It is Alberto Gandolfi, UBS. A few questions on my side, please. The first one is, forgive me to go back again to 2016, but I was just wondering if you can validate my logic here. On a mark-to-market basis if we were to use an inflation of about 0.5% where we are today, and the bondings again where we are today which is like 60 basis points below what you are currently assuming; am I right that the actual net income impact would exceed 10% and, therefore, the 2016 payout ratio would get very close to 100%, even accounting for refinancing benefits?

What I am trying to understand, is the sustainability of the dividend contingent to a change in the current market conditions?

Second question is about TAG. Slide 22 shows a net profit of EUR77 million and in equity of about EUR200 million, which is a return on equity of about 40%. So it doesn't seem really sustainable for regulated assets. So can you please elaborate what you think is going to happen whenever each bid is actually fully regulated on perhaps -- I guess it is 2016 by maybe a RAB scheme.

Third question is much more concept. The idea is have you thought about what could be the implications of weaker domestic demand on longer-term CapEx? So in terms of capacity being underutilized, what if all the tax breaks on installation of housing were really to kick in and residential demand comes under pressure, industrial production not really doing great; do you think this could have repercussions on your back-end loaded CapEx?

And very final one -- thanks for your patience -- once again if I am not mistaken, TIGF, if I take 45% of the enterprise value paid, that was EUR1.1 billion, and deducting the debt that is EUR700 million equity. So if you have a net income contribution of 2% of EPS, in contrast that is a return on equity of about 3%.

So is this correct or am I missing something? Because otherwise, it is really hard to create value I think even with organic CapEx (inaudible). So wouldn't it be better maybe to deploy capital differently? Thank you.

Antonio Paccioretti, Snam SpA - CFO [28]

Starting for the first one, just for recalling you that the dividend policy is the commitment in terms of the deposit is limited -- is for 2014 and 2015. Anyway, it is clear that today according to our -- we believe that the sustainability in terms of payout is confirmed. The sustainability for the dividend, for the dividend, for the following dividend.

Carlo Malacarne, Snam SpA - CEO [29]

Second question was the same, linked to the first question. Can you repeat the second question; the net profit?

Alberto Gandolfi, UBS - Analyst [30]

No, it was a TAG. TAG is a EUR77 million .

Carlo Malacarne, Snam SpA - CEO [31]

Okay.

Alberto Gandolfi, UBS - Analyst [32]

Is this the one you are talking about, or the first one I was simply talking about on a mark-to-market basis, it seems to me that marking-to-market inflation and bond yield, the 2016 impact on net income would be superior of 10%, would be in excess of 10%.

Antonio Paccioretti, Snam SpA - CFO [33]

We will see the actual result in 2016. Today, again the commitment is clear for 2 years. And today we can confirm the dividend, the dividend, the sustainability of our model also for the future.

Carlo Malacarne, Snam SpA - CEO [34]

We have to consider anyway that in 2015, there is an update discussion with the regulator to update the free risk. I think if the economical and financial conditions, we have the capability, we have the floor to discuss with the authority or the condition, frankly speaking.

I don't think that today we are in this condition of jeopardize our situation beyond 2015 that we have in our CapEx plan. In our CapEx plan today, the payout only to say is not our policy to pay out, but we have reached 80%. So I don't see a risk in this respect.

Antonio Paccioretti, Snam SpA - CFO [35]

Okay, we have to consider our total investment which is EUR600 million, which actually was -- from a technical point of view was injected through shareholder loans for and through equity. The return is confirmed.

What we have as a target, and taking into account the result is confirmed once again, is a blended return for all the investment that in our case I repeat is EUR600 million, a return of 11% -- at least 11% -- 11% with a cash return. You know how our partners are investors which are -- have a great appetite on cash flow return with at least every year must be 5%. And according to if we applied this target to the structure of our profit and loss, the result is in the range of a 2% earnings per share growth in the medium term.

Please take into account that the financing of the acquisition was made by debt and, therefore, you have to -- in order to calculate your own, as we mentioned, on the earnings per share accretion, you have to consider the contribution of TIGF and the cost of debt, which in our case is something between 2% and 3%.

Carlo Malacarne, Snam SpA - CEO [36]

The last question. You know, today in our forecast, we consider gas demand with the cargo 0.5% to 0.7% by 2025. But what I can say that our investment today in our CapEx plan and two years beyond the CapEx plan to complete the investment are not completely linked to the gas demand.

In the gas demand, my comment is that today the reactions of all the European countries to set the security of supply and the price competition, in my opinion, could change a little. The fuel meets the fuel distribution from 2020/2030.

It's clear that if the gas demand -- the reduction of the gas demand is linked 100% to the reduction of the consumption, industrial production, will be a disaster anyway for the country, not specifically for Snam. But if the gas demand is a reduction in the power generation due to increase of the renewable, I think that would be some rethinking in the policy, energy policy.

You know the increase of the renewable, there is the situation today -- in 2012, there was the peak in the renewable use, let me say. And if you check the gas demand and the peak demand in 2012, the peak demand increased more than 2011 and 2010. The reason is that with the increase of the renewable and the reduction of the power generation, the investment we need to compensate the peak demand anyway are extremely important.

So there is no -- strictly connection is clear. There is the connections against demand, but there is no -- there's strictly connection with the daily gas transported and the annually gas demand. With the increase of the renewable, we have anyway to increase the peak capacity by gas for the -- in the cycle difference intermittent production of the renewable during some peak hour in a day.

Only to say that today our investment is not completely linked to the gas demand. But anyway, we have to consider the development in the future of our network, strictly evaluating the fuel mix, not only, let me say, the final consumption, because if the final consumption will decrease quickly, I think there is no reason for the power generation, for the gas, is the renewable the same anyway.

Alberto Gandolfi, UBS - Analyst [37]

In that case -- sorry, there was still a question pending on TAG, if you don't --.

Unidentified Company Representative [38]

Could you please repeat your question, please?

Alberto Gandolfi, UBS - Analyst [39]

Yes, sorry. On TAG, the idea was I see a EUR77 million net profit and an equity of EUR200 million, so like almost a 40% ROE. So can you please say how that is achievable and even maybe source of risk for a further review? And just on TIGF to understand correctly, you talk about 11% ROE. So what you're saying is that you hope to go from EUR20 million about to EUR70 million net income. Thank you.

Antonio Paccioretti, Snam SpA - CFO [40]

No, just coming out of -- TAG is very simple. Those are numbers book value, so I think that is not possible for anyone to reach a return of 30%. So those are historical value, so the return will depend on the, if any, the acquisition, the price of the acquisition.

For TIGF, we have to distinguish two elements. The first one is the contribution to our profit, which is the earnings per share accretion that we have already sometimes said and confirm again, which is the 2% in the medium term.

The other point is the return on the investment we have done. We have done an investment of EUR600 million, and the target return is at least 11% on the entire life of the project. So it is the IRR of our equity investment.

Alberto Gandolfi, UBS - Analyst [41]

Okay, all clear. Thank you so much.

Operator [42]

Anna Maria Scaglia, Morgan Stanley.

Anna Maria Scaglia, Morgan Stanley - Analyst [43]

Hi, good afternoon, everyone. Two quick questions if I may. First on if you can provide us the RAB, the proportion of RAB of the assets accounted under the assisted -- I mean the Italian asset?

The second question is going back to TAG. I know that GDP today doesn't fully consolidate the asset, and you are basically saying that you are going to equity account the asset. So what happens to your ratios is that optically, the net debt to EBITDA ratios will see a net debt going up, but EBITDA won't see the positive impact of the asset.

So I am wondering what is your thinking there. Do you think that once the acquisition will be concluded, you will try to renegotiate with the other partners and try to fully consolidate the asset? Also, is there a timeline that you can provide us when we could expect more news going forward? Thank you.

Antonio Paccioretti, Snam SpA - CFO [44]

The RAB of the not consolidated distribution companies, we are talking about a value of the interest, the pro forma interest for Italgas for us, which is more than EUR570 million. So this is the pro rata RAB we own, let me say, through the participation in such companies.

As for the other question, for the consolidation or not of TAG, the governance according to the information we have, without breaching -- hoping or not breaching information -- is jointly control that do not permit us -- do not permit the consolidation of the Company.

Let me say that there is an impact on the ratios of this kind of deal and, therefore, the (inaudible) from the rating agencies, we had lessons on that when we bought TIGF. We understood and we discussed together with them how to consider the contribution and the presence of this kind of asset in our portfolio.

Let me say that we are now familiar with that methodology. And as we did for TIGF, we are confident to have found the best solution for having this deal together, with the best sustainability in terms of financial sustainability. So the impact as calculated by the rating agencies would be minimized.

Carlo Malacarne, Snam SpA - CEO [45]

The timing -- you asked for the timing of the TAG. I think we are starting today -- we consider 2014 by the end of the year the possibility to conclude, positive or negative, the acquisition.

Unidentified Company Representative [46]

So if there are no more questions from the conference, so we conclude from the floor here and then we close.

Alberto Ponti, Societe Generale - Analyst [47]

This is Alberto Ponti again for Societe Generale. Just to be sort of the devil's advocate, but a benign one. Everyone is worried today about gas demand falling, and that will be driven by lower consumption by power stations. One thing that strikes me, though, is that Italy is the only country with Spain and Europe that has already reached its renewable penetration targets for 2020. It is around 32% at the moment.

So why one should expect demand of gas to fall, effectively, if everything stays the same, if we are seeing the bottom rather than potential further downfall?

The second question is about inflation and the deflator for the RAB, because there are, I feel, but I may be wrong, there is a bit of confusion here. We keep talking about inflation, and that is one thing is RPI affects your revenues. But more importantly, there is the deflator for the RAB. And if I look at the past 40 years for the deflator of the RAB, the deflator has already been zero once in 42 years and that was in 2009, after in 2008 we had a very severe situation in Europe, not just in Italy, for inflation.

So is that possible then that the linkage between deflator of the RAB and inflation will remain and, in fact, the 2% could probably be the right number to use? Thank you.

Carlo Malacarne, Snam SpA - CEO [48]

For the first question, I think I agree with you, generally speaking. The only problem of the renewable is that today the investment to provide the complete, let me say, use of the renewable is not in place today. So I imagine that the discussion today in place to review the incentive of the renewable is due to the fact that they return of the investment of the renewable have to be completely linked to the distribution system to use the renewable.

So this is my comment. And there will be, I think, strong discussion not only in Italy but in Europe, the same in France, of this point of view. I don't think that it is possible to maintain the incentive of the renewable without considering the return on investment with not only the renewable brand, but the connection of the network. Because today the critic is the security of supply in the power generation. This is the point.

And we have the experience of gas. I imagine that considering the security, the difficult to maintain the security of supply and the power generation, all the point in discussion today, capacity payment or other, will become in place. Because all the power company, the decision would be to close completely the power plant.

So we have to consider this type of situation. It is under discussion today, and I am not so sure that the growing capability, the growing decision of the renewable will remain in place in the next 5, 10 years. I have some doubt about this type of evolution. Anyway, it is true, in terms of our relation of the gas demand.

The problem is that my impression is that to maintain the base load of the power generation, the most efficient plan of the power generation plan. There is no other possibility in Italy, I think. I don't know if you think about this, but is a problem (inaudible).

Antonio Paccioretti, Snam SpA - CFO [49]

I was -- I agree, but I was just thinking that renewables have probably reached a top, because we are already fulfilling the 2020 target. Spain is the only one that has got 43% renewables penetration, and Italy is at 32%. And the existing power stations, gas stations, if you look at the average load factor in the industry is 20%, 23% across a fleet, which means many power stations are not producing. And even if they close, it would not change gas demand.

Carlo Malacarne, Snam SpA - CEO [50]

I completely agree. If you -- last week was the renewable expansion was in Europe, the big expansion in Germany and Italy. And last week was published a document in Germany, committed by the government to understand not, let me say, the evolution of the renewable; to understand if it makes sense to promote the increase of the renewable.

And it is committed by the government. And the document, I have the document, is completed; there is no sense. And the approach is to stop the investment of the renewable in Germany at this point, where it is completely different, was differing approach. So my opinion -- I agree, we are in the top, but the problem today -- we have the problem to guarantee the security of supply. In South of Italy, there is a strong problem of the security of supplying the power generation, for example.

So it is quite difficult to say we cannot use or we have not used the power plant, because the only possibility the power plant to compensate the network today or the investment we have done in the network to connect the renewable production to the system.

My view is of that anyway, the solution will be to quickly not restart or (inaudible) gigawatt in place, but to use for the security of supply the power generation you need with some selected power generation, considering the evolution of the renewable.

Antonio Paccioretti, Snam SpA - CFO [51]

On the other point, Alberto, I have to say you are right. You were right when you say that the reason some time a bit of confusion in talking about inflation. For us, we have CPI and deflator, and for us the most important index is the deflator for the investment, which is the one that is taken into account for calculating the RAB.

You are right when you remember that the deflator has been set at zero once in the history. I remember when the situation was really very severe. We are talking about 3, 4 years ago. And you are right when you say that probably these three should be taken into account in making the scenario and the possible estimation for everyone.

Alberto Ponti, Societe Generale - Analyst [52]

Just a quick follow-up on your guidance on the net debt, the EUR13.8 billion at the end of the year. Just to understand a little bit better, the interim payment, considering that you will not pay this EUR340 million in November -- my estimate was lower, so just to check if this EUR13.8 billion of net debt at the end of 2014, considering EUR1.3 billion of CapEx and no interim dividend, is correct.

Antonio Paccioretti, Snam SpA - CFO [53]

The guideline of 13.8% considered not to pay the interim.

Roberto Ranieri, Banca IMI - Analyst [54]

Good afternoon. Roberto Ranieri from Banca IMI. Two quick questions, please; first one is a strategic issue. Basically I am just wondering -- my question is, in particular, when and what does Snam still need in order to be considered as a European -- a transmission operator all over Europe? So which kind of CapEx basically -- I am referring basically on the CapEx connecting TIGF South of France to Italy, for instance. So basically when and if those CapEx are included also in -- [suppose not] are included in the CapEx plan.

My second question is a very specific question on the gas distribution across savings. If I am not wrong, are you basically -- you will maintain the cost flat in nominal terms. My question is on gas distribution, if you have an upside on that, or which is the portion of your cost savings that you can have on gas distribution out of the total cost savings that you can have in terms from the gas distribution? Thank you very much.

Carlo Malacarne, Snam SpA - CEO [55]

For this question, our expansion strategy -- not expansion is not so -- our strategy at the European level is to have the possibility to control, let me say, in terms of capacity booking, in terms of provide some liquidity in exchange of gas the two corridor, North-South and East-West.

Today you have focus in North-South corridor, because it is the only situation where we have the physical connection from North Africa, new (inaudible) or LNG to UK. The approach it looks today is to set together the program of investment, but what is important is not only the program of investment but is to be agree to finalize some specific services and a rule in booking the pipe capacity.

That means that the approach in each country with the regulator, which is the government, have to be aligned. So the importance of the strategic alliance it looks is that today the approach for the German regulators, for the government regulators, is the same we have in Italy; to create the reverse flow capability, limiting the impact of the tariff. Because the problem is the tariff.

Because a lot of shippers are interested today in booking capacity from Italy to the center of Europe, to France, for example. The problem is to have a system of the tariff which can balance the difference of the gas price to the different up. So if Italy will remain a consumption country, the price of gas will, independent of, let me say, the alignment of the European (inaudible), the cost in Italy will be higher considering the logistic cost anyway.

Only to have the possibility of a bidirectional exchange, we can limit the operating -- the logistic cost. So the approach that (inaudible) today is to have the possibility to formalize the reverse flow contract. We provided together a bid, let me say. We started one year ago to go to provide a commitment, a bid from the reverse flow that it was some tuning in the tariff, but we will restart in 2014 with the bid for the reverse flow capacity.

It is clear that there is -- today is premature to speak about evolution, but it is clear that the common interests with Snam and Fluxys in pursuing the closer integration is very strong.

So I can say that we are working, first of all, to reach the condition, to have the best transmission contract signed in Italy for Germany or France where we can exploit the advantage of the storage system we have in Italy, which is the tariff is lower than the master storage in Europe.

Having the possibility to start in Italy with the transmission contract and the storage contract means to manage the modulation capacity, the daily modulation capacity, without risk at the lower tariff, considering transmission and storage at European level.

So we have quite -- we solved the problem of North-South corridor. And I repeat anyway the common interest is to pursuing closer integration of the network. Today it is premature to, let me say, to understand evolution, but there is strong common interest to put together the network.

In the other corridor, we have the same problem, but we are focused, for example, in France. For the first step is the possibility to link the 2 PEG, the North, the West and South. Why? You know the program in France is to reach only 1 PEG. One PEG is the same of the [P/S] in Italy. Today, there are 3 PEGs in France, but we are really strong commitment with TIGF to have the possibility in short time to link the 2 PEG Northwest.

Why? Because with the Northwest PEG, automatically we are connected with the Swiss pipe linked to [detect]. So that is the possibility today. The difficulties of that -- we have some clients we need, and we are ready to sign transmission contractor from Italy to Swiss to France. But on the border of France, we need the investment, expansion capacity in France.

So the merchant and the gas competition is free, but we need the investment to bring the capacity. So the connection of the PEG give us the possibility to implement the reverse flow not only from Swiss to Germany, but from Swiss to France.

This is the -- the two focus we are working today in the next two years to reach some, not only agreement, but to reach some possibility to manage this type of access conditions.

Antonio Paccioretti, Snam SpA - CFO [56]

For the operating efficiency in the distribution, the other is easier. I would say that in the distribution, we can say that the benefit for extra efficiencies can be considered maintained by the operators.

You know, the structure of the regulation there is to recognize OpEx in the revenues according to parameters, not according to the extra cost of the operators. And it is clear that your extra efficiencies can be considered 100% for the period.

Unidentified Company Representative [57]

Thank you very much, everybody, to participate to the presentation of the Snam Strategic Plan. And now just to advise you that we will have a press conference on the Snam website.

Thank you very much, everybody, and if you need any follow-up, please contact IR department.

Carlo Malacarne, Snam SpA - CEO [58]

Thank you. Bye.

[LT1]Corrected "northern" for consistency

Definitions

PRELIMINARY TRANSCRIPT:
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