



**FINAL TRANSCRIPT**  
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2017 H1 Results  
Call/Presentation  
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## Corporate Participants

- [Marco Alverà](#)  
Snam SpA - CEO
- [Alessandra Pasini](#)  
Snam SpA - CFO

## Conference Call Participants

- [Harry Peter Wyburd](#)  
BofA Merrill Lynch, Research Division - VP and Junior Analyst
- [Javier Suarez Hernandez](#)  
Mediobanca - Research Analyst
- [Anna Maria Scaglia](#)  
Morgan Stanley, Research Division - Research Analyst
- [Olivier Pascal Michel Van Doosselaere](#)  
Exane BNP Paribas, Research Division - Analyst of Utilities
- [Rui Dias](#)  
UBS Investment Bank, Research Division - Associate Director and Equity Research Analyst
- [Stefano Gamberini](#)  
Equita SIM Spa, Research Division – Analyst
- [James Brand](#)  
Deutsche Bank AG, Research Division - Research Analyst
- [Monica Girardi](#)  
Barclays PLC, Research Division - Director and Analyst
- [José Javier Ruiz Fernandez](#)  
Macquarie Research – Analyst
- [Enrico Bartoli](#)  
MainFirst Bank AG, Research Division - Senior Analyst

## Presentation

### OPERATOR

Good day, and welcome to the Snam 2017 First Half Results Conference Call. Today's conference is being recorded.



At this time, I would like to turn the conference over to Mr. Marco Alverà, CEO. Please go ahead, sir.

### **MARCO ALVERÀ - SNAM S.P.A. - CEO**

Good afternoon, ladies and gentlemen, and welcome to Snam's 2017 First Half Results Presentation. Let me start with an overview of the highlights of this semester, I will then hand over to Alessandra for more color on our consolidated results.

The external environment continues to be supportive for gas. In the first 6 months of the year, demand in Italy was up by almost 10%. This is a tenth consecutive quarter of increase. Half of the overall improvement of 2.1 bcm was driven by power generation or gas demand was supported by reduced imports from France owing to the nuclear shutdown. This highlights once again, the importance of gas for the security of the system. In addition, power generation from hydro and wind was lower during the first 6 months of the year. Gas consumption in the industrial sector was mainly driven by the steel, mechanical, paper, glass and ceramic segments, in-line with the continuing recovery of the Italian industrial production. Residential demand was flat on a weather-adjusted basis. Demand in Europe also continued to increase. In the first 5 months of the year, it was up 2.3% in 6 major countries representing about 70% of total consumption. This is mainly thanks to the contribution of the power sector but also due to an increase in Industrial and Residential.

On the policy front, the Italian government started the consultation process for the country's energy strategy, the so-called Sen. This process will last until the end of August of this year. The draft document contains a number of potentially supportive points for Snam, including measures to increase the cost competitiveness of gas also through incremental LNG regasification capacity, scenarios for an accelerated phase out of co-power generation; third the methanization of Sardinia; and finally, measures to support incremental use of natural gas for transport in Italy.

Moving to regulation. A new consultation document was published on the 8th of June. This introduced a transition period of 2 years for transport and regas, which means that fifth regulatory period will now start in 2020. Among the items which would characterize the transition period, lasting from January 2018 to December 2019, or the proposed cancellation of the time lag between spending and remuneration, and the preservation of some incentives on development CapEx. Overall, we consider this transition period broadly neutral compared to the current regulatory framework.



The WACC update including an update of the formula for the risk-free rate, the country risk premium, the tax rate, and a target leverage will occur in January '19, as previously expected, with the observation lasting from October '17 to September '18 in line with previous indications. The consultation document also confirms that the regulator will look at introducing outlook business centers in the new period in preparation for TOTEX.

Now turning to our activities. All our core businesses are progressing well. In the first half of the year, we reached some important milestones including 23 new significant construction sites, 25 primary permits, the commissioning of 53 kilometers of new pipes, and the completion of maintenance work in the customarily (inaudible) field. With regards to our affiliates, TIGF just obtained final approval from the French authorities to construct the Galsi (inaudible) pipeline. This will improve the connection between the south and north of France and contribute to eliminating the price differentials between these 2 areas. Entry into operation is expected by the end of 2018.

Our efficiency program is exceeding expectations. 85% of the planned initiatives have now been launched accompanied by a company-wide lean transformation that has already started to redesign 10 core business processes. Just to give an example, we have completed the review of all the company procedures and are now targeting a streamlining that will lead in the reduction of over 70% of these procedures.

Overall, EUR 5.5 million of split savings have already been delivered in the first half, meaning that we are well on track for full year guidance of exceeding EUR 10 million of savings. Alessandra will give you further details on the initiatives launched. With regards to new business activities, we now signed 3 agreements with important strategic partners to develop the CNG business in Italy, including the latest and most significant one with [Enel]. Snam Global Solutions is already meeting potential partners where our distinctive competencies may add value.

Let's move to our incremental investment in the Italian grid announced earlier. We have added a strategic 83 kilometers of pipeline with a 36 inch diameter and a total transmission capacity of 9.6 billion cubic meters to our grid. This fully regulated asset represents the only entry point into the national transmission system that was outside of Snam's perimeter. The pipeline was valued considering Robin centers and synergies as a regulated business and we have also acquired, alongside the pipeline, a minority stake in the Adriatic LNG, which has been based on fully contracted volumes until 2034. These splits in the overall evaluation that was EUR 225 million is about two -- three quarters for the pipeline and one quarter for the minority stake in the



regasification terminal.

Turning now to first-half figures. CapEx was EUR 425 million. This includes EUR 378 million in the transport business, of which 46% is related to the development of the network and is eligible to be incentivized. Revenues were 2% higher than last year as past investments entered into the ramp. EBIT was up 3.6%, benefiting from the significant results on the cost efficiency plan. Net income was up 18% year-on-year to EUR 504 million helped by the very meaningful reduction in the cost of debt and the increase in income from associates.

Finally, end of June net debts was EUR 11.176 billion, including a positive effect from working capital that may be absorbed by year-end. This does not include the EUR 225 million acquisition we just announced. I will now hand over to Alessandra for a closer look at our results.

#### **ALESSANDRA PASINI - SNAM S.P.A. - CFO**

Thank you, Marco. EBIT in first half of '17 was EUR 714 million, up EUR 25 million or 3.6% over the same period of the previous year. This reflects approximately EUR 11 million increase of regulated revenues due to the Robin increase, an increase in transport revenues as a result of the higher transported gas of about EUR 8 million which we expect to retain for the rest of the year.

The first half results of our -- the first result of our efficiency plan launched in March for about EUR 5.5 million that broadly offset the dis-synergies is coming from the demerger and the natural evolution of labor cost. Higher amortization in line with our asset profile evolution, strong reduction of a cost mainly driven by one-off the merger cost and capital losses sustained in 2016.

Let me now spend some more time on our efficiency plan. In the first half, we've launched more than 85% of the saving initiatives identified in March. These initiatives include the renewal of some contracts for the operation and maintenance of the ICT infrastructure as well as the optimization of the ICT infrastructure itself and some ICT application maintenance services. We continue to focus on new technologies to the Snam gas project and final customer meters reading. Review some operational standards to pursue efficiencies while maintaining unchanged or increasing the level of service. We're now installing new video surveillance systems in order to reduce security monitoring costs and starting the replacement of traditional lighting with LED technology both on storage sites and network facilities. We also obtained savings on external costs relating to corporate services, critically reviewing the consultancy cost and optimizing some concept with



reference to corporate services. The good progresses on these initiatives, along line with the identification on new ones allow us to be confident to be well on track for our full year guidance of EUR 10 million for the year.

Turning to the net profit, the first half 2017, the core was EUR 504, up EUR 77 million or 18% versus last year. The increase was driven by the just commended positive performance of our operations, lower net interest expenses of EUR 32 million of which EUR 21 million, thanks to the reduction of cost of debt driven by the liability management executed last year and new issuances executed this year. And EUR 11 million thanks to the lower average debt following the demerger of Italgas. Higher contribution from associates, thanks to the inclusion of GCA acquired in December 2015. The good performance of the [search] business in TIGF and improved performance of tax. Lower taxes, due to the reduction of corporate income tax rate notwithstanding in higher earnings before tax. The tax rate for the period was around 26.6% consistent with our full year guidance.

Let me now give you the usual update on land debt structure. As regards to capital markets in the first half, Snam issued an aggregate amount of EUR 1.2 billion in order to substantially cover 2017 and 2018 maturities and proactively manage profitable rate increase. With issuance of this 5-year EUR 400 million convertible bond, Snam has issued [20] coupon bonds in the last 9 months. Furthermore, this morning, Snam signed a new EIB financing for EUR 310 million at a very competitive 1.5% fixed cost.

Overall, Snam now holds EUR 1.5 billion of institutional lender financing with an average maturity of 9 years. Our average cost of debt in the first half was already 2.2% versus 2.6% in the first half 2016 and 2.4% for the entire 2016. This was due -- thanks to the levy management exercise executed last year and the funding actions completed the -- in the first half of 2017. We confirm our guidance of 2.2% for the full year which still offers some room for optimization. As regard to that break down, the fixed rate portion is now 77% in line with our guidance provided earlier in the year. The maturity profile was spread avoiding major concentration issues and our liquidity profile remains strong with EUR 3.2 billion of undrawn committed credit line. In mid-July, we executed EUR 750 million of forward starkings walk (inaudible), in order to pre-hedge interest rate rise risk of part of our bond issuance in 2019 and 2020. Lastly, together with Allianz, we've signed the refinancing of GCA acquisition package, mostly with a 12-year product placement -- replacing existing banking facilities.

Cash flow from operations for the period amounted to EUR 1.4 billion. Working capital changes include EUR 306 million due to the seasonality effect and to the time lag between the cashing of tariff-related items not yet paid to the equalization fund, which we expect to



normalize by year-end. EUR 64 million of positive working capital owing to net tax payment and EUR 94 million related to overcharging and penalties for exceeding commuted capacity. The reported cash flow from operations fully finance net investment of EUR 608 billion including the further financial investment related to our participation in TAP of about EUR 106 million. Following the share buyback activity of EUR 202 million and the payment of the dividend increase in net debt for the period was EUR 120 million. Considering the working capital improvement achieved in the first half, our guidance for the full year debt is now EUR 11.4 billion or EUR 11.6 billion including the just-announced investment in (inaudible) on asset. We remind you that this assumes the expected true-up on top financing. Thank you for your attention, we'll now be pleased to take any questions you may have.

## Questions and Answers

### OPERATOR

A. (Operator Instructions) We'll now take our first question from Enrico Bartoli from MainFirst.

### ENRICO BARTOLI - MAINFIRST BANK AG, RESEARCH DIVISION – SENIOR ANALYST

Q. First of all, I have a question regarding the associates contribution in the first half. I understand that probably the real breakdown cannot be given but just some comments from you on, let's say, the evolution of the contribution particularly from TIGF, from Terga and the consolidation of GCA. And if you can give us a guidance for the full year considering the extremely strong contribution from this line in the first half. Then I have a question regarding Greece. The newspaper reported that you are interested in the privatization of Depa. If you can provide us some comments particularly the, let's say, the possible strategic seats of the company Greece with the current profile of them and the level of competition that you expect in this standard. And only regarding Greece, possibly some details on the MOU on -- in the test that you have signed in the past days and what can be the possible expected contribution to your numbers in the future?

### MARCO ALVERÀ - SNAM SPA – CEO

A. Okay. Thank you, Enrico, for your questions. Let's start with Greece. Of course, our policy is not to comment on specific M&A rumors. Let's go through our investment criteria that our first and foremost, our commitment to the current credit metrics and risk profile; the second



part is that the investment needs to generate, of course, accretive returns; the third part is that we look at investments which somehow enhance the value for existing infrastructure; and finally, allow us to leverage our industrial capabilities and unlock additional growth. So these are the metrics we use when looking at investments. In relation to Greece, if I apply these metrics depending on what the regulation would be and the returns would be, which we don't know yet. The other items could be well applied to Greece. So I would limit myself to that comment as I have done in the past. The process is underway. There's a deadline on the 7th of August for expressions of interest and I expect some competition for this asset given the strategic positioning of Greece in the map of European infrastructure. Regarding the MOU, I would just highlight that you will see, hopefully, more and more MOUs as Snam Global Solutions starts its commercial efforts to interact with customers and propose services. Some of these MOUs may lead to small contributions which are meaningful because they allow us to deploy our capabilities. They are attractive margins because they don't require any capital employed. But I wouldn't look at any of these in particular in isolation and expect a contribution to come from the single ones. So this is just a heads up to expect going forward. A number of these MOUs to be announced that aren't the typical kind of announcement that we would make at Snam which you are more used to kind of investment opportunities and investment agreements. So I think it's normal as we become more commercial to have some of these MOUs come out. In terms of the associates, I don't think we will give specific breakdown. I think the overall expectation should be around EUR 140 million, EUR 145 million for the year based on where we stand today.

## **OPERATOR**

A. We will now take our next question from Rui Dias from UBS.

## **RUI DIAS - UBS INVESTMENT BANK, RESEARCH DIVISION - ASSOCIATE DIRECTOR AND EQUITY RESEARCH ANALYST**

Q. I have 2 quick questions. The first one is, well, based on this result it looks like you are well on track to meet your EUR 900 million of net income target for the full year. And so my question is, if you beat your initial expectations meaningfully, could we perhaps see some upside on your current deals and policy? This is my first question. My second and last question is based on current market conditions, where could we expect the average cost of debt just standing 2018, where do you think or what do you think it could be a reasonable level?

## **MARCO ALVERÀ - SNAM SPA – CEO**



A. So I think it's too early to talk about dividends. I think we talk about dividends when we look at the plan not when we look at the backward looking half-year results. Alessandra, do you want to comment on the 2018 expectance?

**ALESSANDRA PASINI - SNAM S.P.A. - CFO**

A. On the cost of debt, I think we -- we're looking at EUR 2 billion as a target but it's an ambitious target so I'm not saying that this is going to be what we are currently -- what we have in our numbers. But we -- it also [sanction] on how much you can further reduce from the EUR 2.2 billion we have achieved in the first half, frankly, so it's...

**MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. 2.1.

**ALESSANDRA PASINI - SNAM S.P.A. - CFO**

A. Let's say 2.1.

**MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. 2.1.

**OPERATOR**

A. We will now take our next question from Harry Wyburd from Merrill Lynch.

**HARRY PETER WYBURD - BOFA MERRILL LYNCH, RESEARCH DIVISION - VP AND JUNIOR ANALYST**

Q. A couple for me, please. Firstly, just -- I apologize if this is covered right at the beginning because I've dialed in slightly late, but on the ICT deal could you give us just some goalposts on potential earnings contribution so maybe EPS accretion or EBITDA from that asset. And also could you tell us where your net debt to ramp will fit once that deal has



been fully completed and then from that level how much extra balance sheet hedge room do you have from here on in for any further acquisitions? And then, the second one is just more kind of longer-term and strategic. We're seeing across Europe big increases in the amount of gas flowing around to European transition distribution systems, and obviously, that doesn't have any -- has got a small direct impacts on your earnings this year, but strategically, both organically within Italy and in wider Europe, particularly when you're looking acquisitions or organic projects outside of Italy. Has this increased the number of opportunities in the regions where the gas infrastructure is less developed and where the increases in gas volumes that we're seeing because of cheaper gas leading to opportunities to basically build more infrastructure. So have you seen more opportunities coming from that?

#### **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. Okay, thank you, Harry. So on the (inaudible) gas, I'd just say the ITG deal. The -- what I said earlier is that about three quarters of the contribution -- the consideration of EUR 225 million should be attributed to the pipeline and a quarter to the minority stake in the regas terminal. The pipeline is expected to generate an EBITDA of around EUR 18 million in 2018 when we factor in the synergies that we have with this asset. The minority stake has been valued based on, let's say, the DCF of all the remaining contracts that expire in -- until 2034. The deal, as I mentioned is accretive, both compared to our earnings and also compared to one of the metrics that we use is comparing it to the opportunity of buying back our own stock. So both in terms of IRR and in terms of EBITDA multiples we consider it accretive compared to buy backs at this stage. In terms of net debt, what(inaudible) I would think, Ale earlier gave the guidance for the full year including this investment. On the strategic front, on European front, I don't think we're seeing any shift in the big infrastructure projects that are necessary for Europe and that Europe is working on and that we've laid out previously. What I think is interesting to note is after 10 consecutive quarters of growth in Italy, the immediate consequence is that in today's energy policy which is not a lot, it's not a decree, it's just a directional plan. There are really a number of items that could cast back into center ground of the energy policy. And I think this is very healthy for Snam. It can lead to an acceleration of some investments, particularly in Sardinia, around a new regasification capacity that the government is now saying is necessary. And I think throughout Europe, certainly, storages will be used more. There is going to be significant price swings with LNG becoming seasonal and the push to decarbonize and reduce the amount of power generated by coal, I think is really beginning to have its impact. What I see is the most promising and interesting trend for the longer term is really a resurgence of gas not as a transition fuel but as the long-term steady solution, particularly in transport where not only for ships and trucks, there are no



alternatives but also for cars, what we're doing here in Italy on CNG is being observed closely around Europe, particularly when linked to Biomethane. And there's a new word that's really gaining traction in Brussels, which is renewable gas, which is a word we hardly heard before and is now gaining traction as a way of turning waste into fuel for vehicles, which in its full entirety has 0 CO2 footprint and the same performance as diesel and petrol and depending on taxes a lot less cost per mile or per kilometer. So I think this is one of the more interesting trends. We're working with other TSOs across Europe on these items and I think really the role of gas is supported by the growth in demand that we're seeing but also by some of the technologies and the push really against diesel and against coal that's gaining more ground.

## **OPERATOR**

A. We will now take our next question from José Ruiz from Macquarie.

## **JOSÉ JAVIER RUIZ FERNANDEZ - MACQUARIE RESEARCH – ANALYST**

Q. Three very quick questions. The first one is, if you could share with us the wrap of interest to trasporto gas. Secondly, if you feel so confident about the cost synergies, would you increase the target for 2017 the EUR 10 million? And lastly, considering yesterday's news on the sanctions on Nord Stream 2 and the expansion of Nord Stream and the fact that you in April announced this MOU with Eustream, Naftogaz and Ukrtransgaz. Do you think that or do you have a suspicion that the Nord Stream will fail and the alternative which is basically reinforced the Ukraine's gas transmission network will win?

## **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. Okay. I think on the Italian investment, I think we gave already all the details regarding that specific transaction. On the targets, I think you're right. We are signaling and Alessandra went into some detail. We are very confident in the cost efficiency. We don't think this is a right time of the year to increase targets but I think you can assume that we will significantly exceed the EUR 10 million that we've laid out. In terms of sections, I think like every other company in Europe we're monitoring what's going on in the States very closely because it has a direct impact on the energy market in Europe. Regarding Ukraine, that memorandum has a value of itself regardless of what happens to Nord Stream or Turk Stream or other pipelines. There will be some volumes transiting Ukraine and I think it's in everyone's interest, in Europe's interest, certainly in the Ukrainian interest and also in



Gazprom as a supplier interest that the transit across the Ukraine is as reliable and efficient as possible. So this is a perfect example of where, if we progress from the MOU into something more concrete, Snam Global Solutions could play an interesting role together with other partners to really streamline and kind of put into better shape this strategic input transit route for Europe. Thanks, José Ruiz.

## **OPERATOR**

A. We will now take our next question from Monica Girardi from Barclays.

### **MONICA GIRARDI - BARCLAYS PLC, RESEARCH DIVISION - DIRECTOR AND ANALYST**

Q. I have just one question left. Marco, you were talking about the regulation in Greece. I'm sorry if I missed any comment regarding that but I was wondering if you can just share with me the step that you expect in order to have these regulation finalized and what is your understanding in terms of structure?

### **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. No, I think given the government is among the sellers and the regulation has a review period in September, I think it will be part of the discussion of course. They will need to firm up the regulation before any binding commitment is taken by any of the interested parties. So all I said is that it's -- not only we don't want to comment in particular on specific situations but to talk about an interest today is premature given we don't yet know exactly what the regulatory conditions will be. Is that clear?

### **MONICA GIRARDI - BARCLAYS PLC, RESEARCH DIVISION - DIRECTOR AND ANALYST**

Q. Yes, yes, yes. I was wondering if you have just any kind idea of how the structure would look like.

### **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. I think there is an existing regulation which is available and well known to anyone who wants to take a look at what the current situation is. There is a key point in September we expect some changes in regulation which are going to inevitably be part of any discussion between the government and any of the buyers.



## OPERATOR

A. We will now take our next question from Javier Suarez from Mediobanca.

## JAVIER SUAREZ HERNANDEZ - MEDIOBANCA - RESEARCH ANALYST

Q. Two, three questions left. The first one is, coming back to the deal that you announced yesterday on interest to (inaudible). If on the -- you mentioned an EBITDA contribution from the pipeline of EUR 18 million. The question is, if the 7.3% stake on the regasification plan going to be consolidated through (inaudible). And if so, is there any meaningful contribution that we should expect from the equity consolidation line? And also related to the deal, is there any debt in the asset that you're buying? I'm trying to see the enterprise value to EBITDA multiple that you are paying for the asset. So you could give us some details on that, that would be appreciated. Then the second question is related to the deal and more strategically, obviously, you are taking and is taking to a regasification plan. This does mean that you have a strategically interest on regasification plans and that is something that you are taking a serious look into? Or is there something that comes with the deal and that you are interest, your main interest goes to the pipeline and not on the regasification plan. I was interested on your strategical view on that. And the third question is that if you can update us on top on the possible delay in the completion for this infrastructure.

## MARCO ALVERÀ - SNAM S.P.A. - CEO

A. Thanks, Javier. So let's start with top. On top, you know the project is rather complex project technically involving 3 countries and over 900 kilometers of pipe. I think we are progressing very well. There's about 35% of the onshore part that has already been laid and progressing well in Algeria -- in Albania and Greece. Snam is playing a bigger role in the project not only thanks to the contract that was signed earlier this year with Snam Global Solutions and also recently with the appointment of Luca Schieppati who was the Managing Director of Snam Rete Gas and is now the MD of the project. Certainly, the opposition in Puglia is strong and remains strong. We are doing what we can to step up the dialogue that I think can be stepped up with not the local institutions but with really the local people to explain that this is not one of those projects that requires a lot of nimby opposition because it's below the ground, there's no missions, there's no impact, there's no health concern and so a lot of the reasons for the opposition to the project are misplaced and I think it's our duty and Luca's duty now as MD of TAP to try and reset that relationship locally and really explain that there's nothing to worry about for very few kilometers. We



have 40,000 kilometers of pipes and we've never had these types of issues. So we remain confident that the project will be completed in 2020 around TAP. Coming to ITG. Maybe I deal with the strategic part and then I let Alessandra deal with the accounting treatment. The investment in the regas, I don't think we would've considered had it not been linked with the pipeline. So you are right in assuming that it came as part of the deal. Having said that, we are already exposed to regas, we are exposed to Panigaglia which is the smallest regasification terminal we have in Europe, and I think getting an exposure into Rovigo which is one of the more significant and properly functioning, based on a load factor and its strategic positioning, I think, is an attractive asset for us. We have valued this very strictly in line with our approach, which is never to take any commercial exposure. So, so long as it's contracted and we've only valued the MPV of the contracts, I think we're treating this like a semi-regulated bit of the infrastructure, even if it's not regulated. So yes, we are in the LNG chain. We are probably subscale, we are interested in LNG, but we are not interested to the point of taking any commercial risk in the infrastructure. Allie, do you want to go through the accounting of this?

#### **ALESSANDRA PASINI - SNAM S.P.A. - CFO**

A. Yes. This is going to be most likely treated the -- as Ed cost rather than at equity being as more minority stake.

#### **OPERATOR**

A. We will now take our next question from James Brand from Deutsche Bank.

#### **JAMES BRAND - DEUTSCHE BANK AG, RESEARCH DIVISION - RESEARCH ANALYST**

Q. Just two questions. Firstly, just a clarification on ITG. Are you saying that it doesn't come attached with any debt? I'm sort of a bit unclear on that. It's suggested from the comment on that debt at the end of the year that it had about a EUR 200 million impact which will imply its equity investment as a culminating debt but -- so be great to -- it's got a clarification on that. And second question is just on the volume growth that you're seeing on the gas side this year. I believe that some of that, particularly on the generation side is due to the slightly exceptional power market conditions with pretty weak Hydro conditions and renewable production overall. But there is obviously some kind of structural growth



coming through. I was wondering whether you could share with us your view on the [constructual] growth potential for gas demand in Italy over the next five years or so.

**MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. Thank you, James. I will deal with the volumes question. I think we highlighted at the beginning that indeed on the generation side we've seen some unexpected reduction in nuclear production in France that has led to fewer imports into Italy and we have seen indeed a reduction in Hydro and other renewables. The growth that we've seen is limited on the industrial sector but I think after many quarters of decline it's healthy for the gas industry and healthy for the broader industrial sector to see a change in trend and this is now I think the second or third quarter that we see on the industrial segment some increase. I think the more structural increases in Europe will come only with significant phasing out of coal and so that may lead to increases in demand. I don't think we are expecting the markets in Italy or in Europe to start growing very rapidly but I think what's really meaningful is the change in direction and the change in trend. Are there on ETG...

**ALESSANDRA PASINI - SNAM S.P.A. - CFO**

A. Yes, on ETG, I mean, the asset today has a shoulder loan but from our own standpoint it will be all funded through our own debt which is why in the guidance we gave you have that EUR 200 million delta between EUR 11.4 billion and EUR 11.6 billion.

**MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. When we say EUR 225 million, that's really the enterprise value of this investment.

**OPERATOR**

A. We will now take our next question from Olivier Van Doosselaere from Exane.

**OLIVIER PASCAL MICHEL VAN DOOSSELAERE - EXANE BNP PARIBAS, RESEARCH DIVISION - ANALYST OF UTILITIES**

Q. I would have three. Firstly, talking again on international M&A, and I understand that maybe this would be too specific for you to comment on but we have seen one of the



bigger asset that could potentially be up for sale or in which stakes might be up for sale. If the LNG asset of EDS (inaudible). I was wondering if the comments that you've made before on LNG from a strategic point of view would mean that our asset could come, yes or no. In the kind of asset that you would consider. Second one was on the guidance for 2017, as in the guidance was EUR 0.9 billion, which I guess can really be anything between EUR 851 million and EUR 949 million, I was wondering now that we are halfway through the year, if you could be a bit more specific on where you think we might end up by year-end. And then the last one is actually on debt maturity. So you mentioned that you now have around 9 year's debt maturity. There seems to have been an effort to extended duration of that debt, I guess, that it's reasonable now with current levels of the interest rates. I wonder if you consider this the optimal level of maturity of your debt today or if you would actually seek to further extend that duration in the current context?

#### **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. Okay. Thanks for the questions. Again, as you indicated, I wouldn't comment specifically on the incurred but I would always look back at our investment criteria so that you can get a quite a clear picture of whether we would be theoretically interested in something, always contingent on valuation and competitiveness and et cetera. Regarding the outlook and the guidance for net income. I think you're right, 0.9% does give a lot of variance. I think we can probably say with confidence we're above 900 to rule out the bottom end of your range. We could probably also say we are towards the upper half of the scale that you've indicated before. I wouldn't go any further now. Ale, do you want to comment on the...

#### **ALESSANDRA PASINI - SNAM S.P.A. - CFO**

A. Yes, on the duration for the 9 years you mentioned that was only a comment related to our institutional lending financing. Our overall medium long-term maturity is 5.5%. And we think that, that number of between 5% and 6% is a good maturity as a target because it fits well with the reset we do have and before we have the flexibility was still coping with good visibility and taken though also benefit from relatively lower cost of debt versus going too long. So we will keep the focus and the objective of trying to stay within this band, trying always to optimize the cost.

#### **OPERATOR**

A. We will now take our next question from Stefano Gamberini from Equita SIM.



## **STEFANO GAMBERINI - EQUITA SIM SPA, RESEARCH DIVISION – ANALYST**

Q. 3 questions, if I may. The first is about the buyback. If I'm not wrong, you still have around EUR 200 million room to go ahead with acquisitions so will you go ahead during 2017? Or you already reached your target for 2017 in terms of buyback? The second regarding the national energy strategy and what you stressed that CNG could grow a lot in your cap, in your business spend. You have just EUR 150 million showing the estimates related to the CNG and clearly nothing gaining from national energy strategy. Could you give us just a flavor of what could be the level of CapEx that could be added related to these projects in the strategy or if you see more room on CNG? And the last question regarding the extradition papers from the regulator. You said that this is neutral compared to situation. If you can comment a little bit more regarding the risk that the regulator could introduce also not to recognize anymore the work in progress as Rob (inaudible) postpone the return one and assets and downstream.

## **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. Okay, thank you. Thanks, Stefano. So on the buyback of the EUR 500 million, we've indicated that about 2/3 of that was the specific, let's say, authorization for -- internal authorization until the end of 2017. So we have bought back as of now, around EUR 312 million and we have to go up to EUR 350 million in '17. I wouldn't take that as a target because our buyback is necessarily a function of where the market is and where the stock is. So I think that's kind of a soft indication of what our internal authorization was for. So it's not the EUR 500 million, it's the EUR 350 million. On CNG, I was referring to CNG more as a positive long-term trend for the gas industry. I don't see us increasing our CapEx in our planned period but certainly it's very healthy and positive for our sector if we become not only part of the transition towards a fully decarbonized world but also a big and meaningful part of the solution in a fully decarbonized world. And I think this really has a significant impact on how gas is perceived, and therefore, the role that gas can play in the energy mix and therefore, the infrastructure that supports the development of gas in the energy mix. So it's something that's more relevant for the longer-term, more relevant for gas advocacy and gas demand in the medium and long-term but is also there with EUR 150 million which is not huge for us but it's still a meaningful amount that we're working towards. On regulation, I don't think it would be appropriate to be more specific on the mix given that the work in progress -- given that the consultation is still underway, I think you should at this point take our view that what we see having looked at it carefully is a consultation and an approach which is, let's say, in-line with the current regulation and also in-line with our



assumptions which I would say are on the conservative side or on assumptions that we've indicated in the full year presentation.

## **OPERATOR**

A. (operator Instructions) We will now take our next question from Anna Maria Scaglia from Morgan Stanley.

## **ANNA MARIA SCAGLIA - MORGAN STANLEY, RESEARCH DIVISION - RESEARCH ANALYST**

Q. I noticed you're not going to comment on the specific of this transition period of regulation but I was wondering what's your thought of regarding Totex because the reading the documents from the regulator, it seems to be unlikely to introduce Totex in 2020. And I was wondering whether there is a chance that you guys tried to accelerate the process. Are you happy with this (inaudible) another 4 years or what's your views there?

## **MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. I think the plan is to use this transition period which is a transition that we welcome of course, because it gives us stability, and I think it also gives us the opportunity to sit down with the regulator. We've already met with them and agreed to set up a working group as has been done in other markets to really take into account these positive evolutions that are taking place in the gas industry, and indeed to work on Totex in consultation mode and at a working group level. I think it would be too soon to accelerate it to the point that it's effective in 2020. I think it's a deep transition which is positive for consumers and I think also for us, but requires quite a lot of work as we implement that. This requires regulatory work on the framework and also requires internal work that is well underway on changing the control model and just the way we do our job to be not only ready but to be ahead of the curve in terms of being able to deal with the Totex environment. I hope that's helpful, Anna Maria.

## **OPERATOR**

A. (operator Instructions) There are no further questions over the telephone, sir.



**MARCO ALVERÀ - SNAM S.P.A. - CEO**

A. Thank you very much. Thank you, everyone, for your time this afternoon. Our IR team, as always is available for any further question. Thank you.

**OPERATOR**

A. Ladies and gentlemen, that will conclude today's conference call. Thank you for your participation, you may now disconnect.