



THOMSON REUTERS STREETEVENTS
EDITED TRANSCRIPT
SRG.MI – Q3 2017 Snam SpA Earnings Call
NOVEMBER 07, 2017 / 01:00PM GMT



Corporate Participants

- [Alessandra Pasini](#)
Snam S.p.A. - CFO and Chairman of Snam Rete Gas

Conference Call Participants

- [Bartlomiej Kubicki](#)
Societe Generale Cross Asset Research - Equity Analyst
- [Enrico Bartoli](#)
MainFirst Bank AG, Research Division – MD
- [Harry Peter Wyburd](#)
BofA Merrill Lynch, Research Division - VP and Junior Analyst
- [Javier Suarez Hernandez](#)
Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst
- [Maurice Choy](#)
RBC Capital Markets, LLC, Research Division – 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 S.p.A., Research Division - Analyst

Presentation

OPERATOR

Good day, and welcome to the Snam 2017 9 Months Results Call. Today's conference is being recorded. At this time, I would like to turn the conference today over to Ms. Alessandra Pasini, CFO. Please go ahead.

ALESSANDRA PASINI – SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Thank you. Good afternoon, ladies and gentlemen. Welcome to Snam Third Quarter and 9 months Consolidated Results Presentation.



In the third quarter, we saw a continuing recovery in Italian gas demand, which, over the first 9 months of the year, was up 8.1% to 52.3 bcm, mainly driven by the thermoelectric and industrial sectors. In this broadly supportive context, we delivered strong Q3 results, benefiting, in particular, from our continued focus on reducing operating cost and financial charges, both of which are progressing ahead of guidance. The liability management exercise in 2016 and the additional actions in 2017 reduced interest cost to 2.1%, which compares to 2.4% in full year 2016 and is below our original guidance of 2.2% for 2017. Meanwhile, in August and October, the regulator published 2 resolution establishing the transition period for the transport and regasification businesses for 2018 and 2019. These 2 years of transition period are in continuity with the current framework, guaranteeing good visibility and stability to the operators.

Let's now look at the headline figures for the first 9 months of 2017. CapEx was EUR 683 million. This includes EUR 607 million in the transport business, of which 44% is related to development of the network and is eligible to be incentivized. Revenues were 1.9% higher than last year, thanks to the increase in the asset base and the higher natural gas volumes. EBIT was up 3.3%, also benefiting from the delivery of the cost efficiency plan. Net income was up 18.2% year-on-year to EUR 755 million with interest cost, income from associate and fiscal charges all improving year-on-year. Net debt at the end of September was EUR 11,156,000,000, thanks to the positive affect of some working capital items, mainly due to the effect of tariff-related items, net rate payables and net tax payables accrued in the period.

Let's now look at our EBIT in richer detail. EBIT in 9 months was EUR 1,063,000,000, up EUR 34 million or 3.3% over the same period of the previous year. These reflects a EUR 34 million increase in revenues, driven by approximately EUR 25 million due to RAB increase, EUR 22 million referring to transport (inaudible) business and EUR 3 million to storage business, EUR 11 million for higher transported gas, new balancing services for EUR 5 million. This more than offset the standard tariff review of EUR 5 million. Controllable fixed costs declined by EUR 11 million. This is the overall outcome of 3 main effects: the EUR 6 million of Italgas demerger dis-synergies, which, as already indicated before, are expected to reach around EUR 10 million by year-end more than offset by the results of our efficiency program, which delivered EUR 12 million of savings, of which EUR 10 million in controllable fixed cost, a temporary reduction in gross labor costs that will be reabsorbed in Q4. Depreciation and amortization increased by EUR 24 million, mainly due to capitalization of new assets during 2016. Other effects on EBIT are the absence of the one-off costs sustained in 2016 for the demerger and EUR 7 million on lower capital losses, partially offset by some higher provisions in the period.

Looking more closely at our cost-saving plan. In the first 9 months of the year, we have launched more than 85% of the circa 87 -- 8 initiatives that were identified in March. With regards to the operations, as part of our efficiency plan, we launched a project to integrate O&M, dispatching and commercial activities between our transport and storage business. We revised all the maintenance process with the objective of increasing standardization asset management, increase efficiency in external cost and improve the internal resource



optimization. We have also created a single control room for dispatching activities, which share criteria for both the businesses. With regard to corporate, the EUR 8 million in savings is mainly driven by reduction in external costs relating to corporate services and consultancy costs as well as the renewal of some contracts for the operation and maintenance as well as ICT infrastructure. These initiatives register good progress in the first 9 months of the year, and we have already reached EUR 12 million of saving well ahead of the guidance set in March at EUR 10 million for the full year.

Net profit for the 9 months were -- was EUR 755 million, up over 18% versus last year. This increase was driven by: the positive performance of our operation just commented before; lower net interest expenses of EUR 42 million, of which EUR 29 million thanks to the reduction of the cost of debt driven by the liability management executed last year and the new issuances executed so far this year; and EUR 13 million, thanks to the lower average debt following the demerger of Italgas, higher contribution from associates, partially due to temporary elements that will be reabsorbed by year-end and partially due to a strong year-to-date 2017 performance. More in details: GCA was not included, as the acquisition was completed in December of 2016, with the good performance of Italgas, better performance of TIGF and TAG to be partially reabsorbed by year-end and lower cost for TAP due to the delay of some activities; lower taxes due to the reduction in the corporate income tax rates, notwithstanding earnings before tax. Tax rate for the period was around 26.3%. Thanks to the good results achieved so far, we confirm our net income guidance for the full year between EUR 900 million and EUR 950 million.

Let's now move to the update on our debt, net debt structure and cost of debt optimization. In the first 9 months of the year, Snam issued EUR 1.5 billion debt, of which EUR 1,150,000,000 were plain vanilla bonds and the remainder was the convertible bond issued in the spring. These issuances have an average maturity of 6.4 years and an average cash cost of 0.76%. This does not include the EUR 650 million issued in October as part of the recent bond buyback, which will be described later. Furthermore, in July, Snam signed a new 20 years EIB financing for EUR 310 million at a very competitive 1.5% fixed cost. Our average cost of debt for the 9 months 2016 (sic) [2017] has been 2.1%, already achieving the guidance that we indicated in our first call -- first half call results. As a result to that breakdown, the fixed rate portion is 78%, in line with our guidance of fixed -quarter fixed floating for the year. The maturity profile is well spread over time, avoiding major concentration issues going forward, and our liquidity profile remained strong when EUR 3.2 billion of undrawn committed credit line. In October, S&P upgraded Snam to BBB+ following the upgrade of the Italian sovereign. Looking more closely at the liability management exercise completed after the close of the quarter. On 10th of October, Snam launched a tender offer on 8 of its outstanding bonds, maturing from January 2019 to January 2024. On the 25th of October, Snam successfully completed the transaction, acquiring EUR 607 million worth of bond in nominal amount. The average residual maturity of bonds was circa 4.4 years with an average coupon of circa 2.4 year and an average yield of circa 2%, the deal implying circa EUR 616 million of cash spent, also



including the accrued interest was financed via the issuance of a new 10-year bond for EUR 650 million with a maturity in October 2027 and with a 1.375% coupon. As a result, we have further improved the average tenor on mid to long-term debt from 5.5 years as of the end of September to 5.9 years after the close of this exercise. This was Snam third successful liability management exercise since 2015, and it highlights our proactive approach in leveraging the market environment to reduce our cost of funding. The effects of this exercise will further impact our cost of debt in 2018.

Turning now to the dynamics driving our cash flow. Cash flow from operations for the period amounted to EUR 1.6 billion, benefiting from EUR 429 million positive impact from working capital movements. Of this, EUR 152 million relates to taxes to be paid in Q4; EUR 140 million is tariff-related items and includes EUR 86 million for the overcharging and penalties for exceeding committed capacity, which will be reimburse over the coming years, and EUR 48 million due to the change in time lag between the cashing of tariff-related items not yet paid to the equalization fund; EUR 43 million related to the cash-in of some receivable generated in the last month of 2016 after the introduction of the new balancing regime and which will, therefore, reverse as a negative impact toward last year. The reported cash flow from operations fully fine on net investment of EUR 827 million, including further financial investments related to our participation in TAP of about EUR 187 million. Following the share buyback activity of EUR 210 million and the payment of the dividend, the increase in net debt was EUR 110 million. This does not include the EUR 217 million cash-out for the acquisition of the Edison assets, which closed on October 15.

With regards to net debt, our original guidance was EUR 11.5 billion, excluding M&A activity and including the true-up of TAP, which was expected to offset the equity investment during the year. Today, we are including EUR 217 million of M&A executed in -- on the Edison asset and expecting the true-up to be in the first half of next year, which, all the things being equaled, would've taken year net debt close to EUR 12 billion. Thanks to the better operating cash flow and the residual benefit of working capital expected at year-end, we are guiding for year-end close of EUR 11.6 billion of net debt.

Finally, an update on regulation. In August and in October, the regulator published 2 new resolution regarding the transitory period 2018, 2019 for the transport and regasification business. For both the business, the regulator introduced some changes. All the investments including work in progress carried out in t-1 will be included in the RAB for the tariff determination of year t, substituting 1% additional return used to cover the regulatory time lag. Please note that the 1% additional return to cover the time lag is still applied to the investments carried out in the period 2014, 2016. The current asset beta parameter was confirmed for 2018 and 2019. Investment-based incentive of 1% for transport and 1.5% for regasification for 12 years will be applied to new development CapEx entering into operation in 2018 and 2019. If these development CapEx for the transport business are starting after the end of this year, they will need to be backed by supportive cost/benefit analysis. Operating cost, the unit commodity charge, CV, for the years 2018 and 2019 will be calculated considering a reference volume



equal to 67.2 bcm. The regulator also confirmed that beyond the transitory period the objective was to move to out -- is to move to outward-based regulation.

This concludes our presentation. We'll now be pleased to take any question you may have.

QUESTIONS AND ANSWERS

OPERATOR

(Operator Instructions) Our first telephone question today comes from Enrico Bartoli from MainFirst.

ENRICO BARTOLI - MAINFIRST BANK AG, RESEARCH DIVISION – MD

I have 3 of them. First of all, on strategy and for the development in the future. Actually, you and DESFA started a consultation process regarding possible increase in the transport capacity between Greece and Italy. Could you provide some details on, say, the project that could be involved in this -- in the same, and particularly, what the impact could be in theory on the CapEx plan or the company on the network in Italy? Then I have a question regarding your cost of debt. Thanks for providing many details about the bond issues and whatever. But could you provide us a guidance on the cost of debt with respect for 2018 as a result of the liability management that you have just completed? And third one on results. If you can provide us a breakdown on the EUR 133 million contribution from associates. And also you mentioned some impact that is going to be offset in the fourth quarter, if you can provide -- elaborate a bit more on this item.

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Thank you. So for the first question, what you referred to is the feasibility study. So it's not yet something that we have a concrete material effect. I mean, of course, we are monitoring any opportunity as nationality and so on, and that's why we'll do the same for his on part on opportunity to support increase requirements for import capacity. But at this stage, we are simply talking about feasibility study. Now clearly, as we said in the past and we, as always, reiterated,, our presence in TAP and the lines, importance of a new entry point into Italy from the south0end corridor, and we only can confirm this underlying strong message. So we will be ready to support additional capacity as any opportunity may arise in the future. Moving to the -- to our associate, the \$133 million. What I mean by some effect that will be reabsorbed is because there have been a different phasing in some of our associates, particularly I'm talking about the French and TAG, around cost and revenues, which will be -- simply because of a different phasing of activities, which will be normalized by year-end, which is why I'm saying that you shouldn't necessarily take these results and assume that the fourth quarter will be proportionate because some of this



effect, and I'm talking about a few millions, so not something which is material, will be reabsorbed. To help you, I think as we said in the first quarter call, roughly speaking, we expect our associate to be in the -- around EUR 150 million by year-end. And I think this number helps you understanding why we're saying that some of the effect that we've seen in the second and third quarter are actually to be judged temporary. Sorry. Can you just repeat the second question that I miss? You were looking for the indication of cost of debt for next year?

ENRICO BARTOLI - MAINFIRST BANK AG, RESEARCH DIVISION – MD

Yes, yes. (inaudible)

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

I think what I mean -- this is not the venue for guidance on next year. What I can say is that thanks for the -- to the liability management exercise that we've just carried out, we think we start next year with around, call it, EUR 10 million of lower cost of debt because of deduction. And then obviously, we'll see where the market is when we will come out with a new guidance to provide a proper cost of debt guidance for 2018.

OPERATOR

We'll now take our next question from Harry Wyburd of Merrill Lynch.

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

Two questions from me please. First one is very high level, Obviously seen a very big tightening in Italian bond deals in the last few weeks, which has given a nice boost to your share price, but I wondered, from a pure fundamental earnings perspective, how do you see declining bond yields in Italy. Obviously, that reduces your financing cost. Your bond refinancing is cheaper and also alters the formula from a regulatory perspective, given the allowed WACC review coming up. So if you could just give us whether you think that a tightening Italian bond yield is a net positive or negative (inaudible) of your earnings outlook. And then secondly, there's been, obviously, a big increase in focus on clean mobility in the last 6 months, and you've got your compressed natural gas rollout ongoing. I wondered if you could give us an update on that and also try and give us an idea of how much of that is aimed towards the commercial transport market, which is a market which has been identified as quite difficult to penetrate for electric vehicles.

Alessandra Pasini - Snam S.p.A. - CFO and Chairman of Snam Rete Gas

Thank you. Yes, of course, we have indirectly benefited from the upgrade of the Italian Republic rating, which obviously have pushed us up. However, we have always been trading well inside the sovereign yield. So in a way, the benefit on us has been slightly



neutered in this respect. Of course, this is a positive news in general vis-à-vis our cost of debt. As far as the implication on the WACC review, it's a functions of where this will be going forward, not just looking at the spreads, which is what has been impacted by the recent upgrade, but also more in general, where rates will be going forward. And so it's -- of course, the observation period have started. We'll need to see what the average ends by the end of third Q next year. And as I think is well known, when we are in a range above 150 bps, more or less, of spread between the B2B and the [bond] that has -- carries a positive implication for our WACC review. Otherwise, we remain constant in -- with where we are today. As it relates to the CNG, we are progressing with the contact and the agreements with a number of oil companies, and we are progressing our feasibility study in terms of identifying exactly where to connect these patients. Our focus so far is more on the private vehicle side of things. But of course, we are also monitoring and exploring ways to support the development of gas in transport, in general, and that also includes the way to support gas utilization -- high utilization of gas for commercial vehicles. This is now in which we are clearly spending a lot of time. But the CNG initial initiative was, for sure, focused mainly to the private sectors. We are also looking in the context, as I said before, of CNG to CLNG, which may also be more relevant for the commercial vehicle side.

OPERATOR

Our next question today comes from Rui Dias of UBS.

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

I have 3 big ones. The first one is in terms of outlook for Q4 or for the full year, if you wish. Just if you could give us some guidance on whether you see net income for the year-end, perhaps relative to the current guidance that you have? Secondly, do you think that the positive evolution that you have been recorded this year could result in an upgrade in the current dividend policy? Or would you prefer to look at this extra returns into a net debt reduction? And last question, just if you could give us an update on the interconnection project between France and Spain please.

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Thank you. So for the net income, I think I provided you with the presentation our guidance already, which is in line with what we said in July. So we confirm that our net income for year-end will be between EUR 900 million and EUR 950 million. The -- as far as the dividend policy, I think -- we think, as we said before, our current dividend policy is well set. And -- but then any consideration around dividend policy will be part of the new plan and our consideration on capital allocation, but we confirm that we think that our dividend policy is already attractive and remunerative, particularly consider the underlying EPS growth that the business is delivering. As far as the interconnection between Spain and France, the



discussion between the relevant authorities are progressing. So we remain convinced that this is a key project. The EU remains convinced that this is a key project. And as you know, it was included among the project of common interest. We think this will remain the case. So we remain very convinced that this will happen, but we don't have further concrete update to be shared with you at this point in time.

OPERATOR

Our next question today comes from Javier Suarez of Mediobanca.

JAVIER SUAREZ HERNANDEZ - MEDIOBANCA - BANCA DI CREDITO FINANZIARIO S.P.A., RESEARCH DIVISION - RESEARCH ANALYST

I have 3 of them. The first one is on the guidance. You have reiterated guidance for the net income and also have guide for the net debt. Can you update us on the guidance in terms of CapEx and then consolidated wrap by the year-end? Latest guidance would be appreciated. Then on cost cutting. I think that the company has surprised the market with over-delivery on cost cutting. I think EUR 12 million is above your previous full year target. Also, there are EUR 3 million of temporary FX related to it, personnel expenses. So stripping out them, the underlying cost cutting is EUR 10 million. And then you have EUR 15 million by the year-end. So can you explain us the brief and the managerial actions that you are going to implement during last quarter of the year to fill that gap of EUR 5 million? And lastly, on that debt guidance. I think that you mentioned EUR 11.6 billion by the year-end. Can you explain us which is the working capital FX by the year-end incorporated in that guidance?

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Okay. So let's start with the efficiency. I think we are progressing ahead of guidance with initiatives that we have identified. And that's why we are now at EUR 12 million after the EUR 5.5 million that we reported in the first half . We are confident that this projected will increase and continue. So we're confident that we will do better than EUR 12 million by -- between now and year-end as this is a linear in some actions and on/off in others type of effect. I think if you are asking a number. I think -- we think we can add maybe EUR 2 million or EUR 3 million to this EUR 12 billion, roughly speaking. But this is part of a bigger plan. So as we indicated, this was not a 1 year type of effort. This is a multiyear type of effort. So we continue to work on actions to find more and accelerate the delivery on those that have already been identified. When it comes to the RAB guidance. I think we can guide towards a EUR 19.8 billion of RAB at year-end, roughly speaking, including the investments, which we confirmed in the EUR 1 billion that we guided the market to before. So we are well on track on the CapEx as well as we said before. On the net debt, we -- of course, we have some temporary effect. For example, the next tax payable, which we'll complete and wound in the 4Q. We have some working capital that -- elements that



contribute to the improved guidance in debt that we are giving you, mostly related to tariff and overcharging and penalties, which will remain with us until we have to reimburse them in either 2 or 4 years, as it is required by the norm. And so these are the reasons, if you want. I mean, there are some traditional commercial working capital effect that we have been -- that we continue to be confident that will be achieved between now and year-end, that we're guiding circa EUR 100 million improvement. There are some items, as I just commented, in the overcharging and penalties. We continue to be positive on the fact that we'll retain the temporary -- the working capital related to time lag between when we are paid and when we cash-in to the equalization fund. This equals approximately EUR 100 million that we expect to retain for this year and, at some point, will reverse. So these are the main events and items, if you wish, underlying our working capital movements.

OPERATOR

Our next question comes from Bartek Kubicki of Société Générale.

BARTLOMIEJ KUBICKI - SOCIETE GENERALE CROSS ASSET RESEARCH - EQUITY ANALYST

Two very small and technical questions. First, regarding the financial cost. I understand in the fourth quarter, you will book a EUR 55 million extra financial costs related to the bond repurchase. This is correct, right? And I understand also the guidance assumes this. And second of all, regarding the M&As. During the last call, you mentioned the pipeline shoot at around EUR 80 million of EBITDA from next year on, including dis-synergies. Could you confirm it? And also regarding the associated -- the LNG investments, the 7.3% stake. Could you give us a little bit of flavor, how much into the top line it could contribute from next year on?

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Okay. So yes, I confirm that the EUR 55 million is included in the numbers I gave before and is also included in the net debt guidance that we just commented before. As far as the contribution from the areas on pipeline, I think what we said in July is that this company as today and EBITDA roughly in the EUR 14 million. We are targeting a number of synergies that we think we will achieve by incorporating it into our perimeter. The transaction has just closed. So I think we wanted to give you a rough indication of what sort of contribution we expect once we've been able to achieve the synergies from these assets. Now will it will be a regimen in 2018 or slightly in 2018 and 2019? We'll try to -- as you've seen on other actions to be fast in achieving these synergies, but it doesn't change the overall message that we gave. As far as the ALNG stake, as I said in July, this participation will be reported and registered in our account at cost and not at equity. This means that we will only be seeing, in terms of flows, the dividends, which will be received, which will come up as income, if you wish, on our top line. We're talking about -- as we said, we value these



assets purely attributing value to the existing contracts in place. I think -- I don't want at this stage to give you a number, because I don't think we are given these type of numbers so in advance on next year on our participates, but it's going to be a few millions of contribution, which, of course, there will be time and opportunity to comment in the new year once you will -- we will record the next results.

OPERATOR

(Operator Instructions) Our next question today come from Stefano Gamberini of Equita.

STEFANO GAMBERINI - EQUITA SIM S.P.A., RESEARCH DIVISION – ANALYST

Just a few question. What is the size of the early retirement plan under discussion with the unions that you reported in the press release? The second, if you can elaborate a little bit more regarding this new project of interconnection between Italy and Greece. What I mean is, is that an alternative to the TAP project? Or is an integration in the case of doubling of TAP project? And second, could this center in your RAB? Or how this could be financed? And the last question regarding the level of the tax rate. What is the average tax rate that you expect on 2017? And if this is something spinnable also for '18 onwards?

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Okay. So going to your questions in order. The earlier retirement is simply we have action and also discussing with the unions the possible early retirement, thanks to Article 4 which is part of -- one of -- it's very Italian-specific. But we're talking about. (technical difficulty) Sorry, can you hear me?

STEFANO GAMBERINI - EQUITA SIM S.P.A., RESEARCH DIVISION - ANALYST

Yes, yes.

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Okay. So we are talking about (foreign language) to said in Italian so that we clearly understand what we're talking about. So it's people close to retirement age, which thanks to a new incentive scheme that has been introduced by the government can anticipate their retirement. So this is what we are talking about, nothing more and nothing less. It's part of the usual management actions that the management undertakes to manage his employees and also to the overall mix of our employees. Going back to the question of the Italy and Greece, we're talking about standard open season type of exercise. So it's nothing more and nothing less what is always envisioned. This will not -- is not alternative. It's just simply to the extent that there is, in addition to what is already envisioned, additional requirement of capacity. There may be additional opportunity for investments. It doesn't get into RAB. Obviously, we will get into RAB are the investments that will be carried out in Italy, to the extent that new capacity requires additional investments. So it's nothing more than this. I



think I commented what we expect the rate -- the tax rate to be, and I think we expected 2017 rate to be in the 2016, 2017 percent. Again, I don't want to get into guidance for next year, but we should be a fairly stable type of rate going forward.

STEFANO GAMBERINI - EQUITA SIM S.P.A., RESEARCH DIVISION – ANALYST

Just a final clarification for me, regarding a previous question. Regarding the level of debt, you said, EUR 11.6 billion at year-end versus theoretical EUR 12 billion, thanks to the impact of the working capital. What is the assortment do you expect in 2018 of this positive impact the year-end for -- of the working capital?

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

I think there are some elements, and in particular the time lag on the cash-in to the equalization funds. That may revert in 2018 or later, whenever it will be decided. So that's EUR 100 million that, at some point, may revert sign. The other costs -- the other items which relates to overcharges and penalties, as you know, we will need to pay them back in 2 or 4 years, as always is the case. So this is a fairly standard practice. So again, nothing in 2018 for those, but we will have other overcharging and penalties from prior years that may reverse. So the larger item that I think is worth keeping an eye on is this EUR 100 million related to the equalization fund. All the rest are (inaudible), which, frankly, are part of the ongoing working capital movements that we have and that adjust from 1 year to the other, also depending on the way ship has behave and the volume of gas that we transport.

OPERATOR

Our next question today comes from Maurice Choy of RBC.

MAURICE CHOY - RBC CAPITAL MARKETS, LLC, RESEARCH DIVISION – ANALYST

Just one question from me, and this goes back to one of your previous responses about the dividend policy. I guess your response there was you look at dividend policy as being correct at this point in time. Yet, of course, your net income is -- based on previous guidance, you got net income of 4% CAGR. The market, obviously, believes that you can do better than that. So holding on to a DPS CAGR of 2.5%, somewhat seem rather disjointed. So maybe if I could ask, does your response of holding on to a dividend policy stand, even though your EPS is clearly growing stronger than that? And the second follow-up to that is more about, with the share price being so strong of late, how do you view your share buyback program today?

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Thank you. So going back to the dividend policy, I didn't want -- maybe I've given the wrong message. I think that we have stated the policy for a period of year, which we deem



to be -- when we stated the appropriate and at the level that, combined with the EPS underlining growth that we expected, we deem to be appropriate. And that's where we are today. So I think we are very pleased with the way the business is performing. I think this is not the time or the venue to come in the dividend policy. We think that, overall, our dividend policy, combined with our underlying EPS growth, is offered good remuneration to shareholders. But again, this is a third quarter results call and comments on capital allocation, including, of course, what is the right dividend policy are not the third quarter type of results. So I'm sure we will have time to comment future dividend policy, not the current dividend policy in the next year. On the buyback, I think -- as we said before, the buyback for us was a way to offer scope for additional remuneration to shareholders as long as we felt that in terms of return, it was delivering a good return in terms of where we would have been buying back our stock. Of course, buying back our stock is a fantastic investment for us always. But from a purely financial standpoint, at these levels, probably, it's something that wouldn't create a huge value vis-à-vis, for example, investing in our own asset base. And we still have plenty of opportunities to do so, which is why you've seen that our buyback activity has not been carrying out over the past few weeks, and our average price of shares bought back remains 3.67%. One thing that is worth mentioning as part of the net debt guidance that I gave earlier is that we are not planning to carry out additional buyback between now and year-end. You will remember that at the March results presentation, we guided to approximately EUR 350 million worth of buyback. Since the commencement of the plan, we are slightly short than that as of now. But we're not planning to carry out more buyback between now and year-end.

OPERATOR

(Operator Instructions) We'll take our next question from Olivier Van Doosselaere of Exane.

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

I would just have one remaining. Just coming back to your net profit guidance for the full year 2017. So you come back to the EUR 900 million to EUR 950 million. But given that you are ahead of expectations on your cost of debt and also on your cost savings, would it be fair to say that you are most likely to end up at the very high end of that range?

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

We would have said that we are likely to get to EUR 950 million. No, I think we remain convinced of what we are telling you. We think -- we want to deliver on what we say. And I think of course, we try to do -- we'll try to do our best to get to a higher end of it, but I think the message that you should take from today is that we remain convinced that our appropriate guidance is between EUR 900 million and EUR 950 million, as we said in July.



OPERATOR

As there are no further questions in the queue, I'd now like to hand the call back to Alessandra Pasini for any additional or closing remarks. Thank you.

ALESSANDRA PASINI - SNAM S.P.A. - CFO AND CHAIRMAN OF SNAM RETE GAS

Thank you. We just want to thank you all for the time and your attention and all your question, and see you at the next results call.

OPERATOR

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

Disclaimer

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.