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Corporate Participants

- Alessandra Pasini Snam S.p.A. – CFO
- Marco Alverà Snam S.p.A. - CEO

Conference Call Participants

- Anna Maria Scaglia Morgan Stanley, Research Division - Research Analyst
- Bartłomiej 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
- James Brand Deutsche Bank AG, Research Division - Research Analyst
- Javier Fernandez Garrido JP Morgan Chase & Co, Research Division - Head of Utilities and Senior Analyst
- Javier Suarez Hernandez Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst
- Stefano Gamberini Equita SIM S.p.A., Research Division – Analyst

Investor Relations Snam

T +39 02 37037272 F +39 02 37037803

investor.relations@snam.it



PRESENTATION

Operator

Good day, and welcome to the Snam 2018 H1 Results Conference Call, hosted by CEO, Marco Alverà; and CFO, Alessandra Pasini. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Marco Alverà. Please go ahead, sir.

Marco Alverà - Snam S.p.A. - CEO

Thank you, ladies and gentlemen, good afternoon, and welcome to Snam's 2018 interim results presentation. In the first half of the year, we made strong progress in executing our strategy. We continue to deliver solid net income growth, driven by our investment plan, the increased contribution of high-margin regulated services, our efforts on efficiency and a 15% decrease in net interest costs.

We also continue to grow our business through our domestic CapEx plan. And signed an agreement with SGI for the joint realization subject to the relevant approvals of the gas transport infrastructure in Sardinia.

The regulatory environment for our Italian business continues to be constructive. With 2 new consultation documents published. This in a context where underlying gas demand net of extraordinary effects continues to grow, especially in the industrial segment.

Snam has also continued to expand its presence in the energy transition. In the first half of the year we acquired 3 highly technological companies in the renewable gas, sustainable mobility and energy efficiency sectors for an overall investment of about EUR 40 million.

In the first half of the year, we returned more than EUR 900 million to shareholders through the payment of our dividends and the ongoing buyback program.

Taking a closer look at our financial result. Revenues grew by 4%, thanks to the increase in the asset base, the acquisition of Infrastrutture Trasporto Gas in Italy and the output based incentive on the balancing activities.

EBITDA was up 2.8%. Efficiencies continue to offset the merger, the synergies and labor cost inflation, while the overall cost base also includes new activities and someone one-off costs.

Net income was up 3.8%, also thanks to the solid income from associates of EUR 85 million including Italgas and Adriatic LNG.

The strong cash flow generation driven by the positive results and the working capital benefits more than offset investments and the cash returned to shareholders, leading to an overall reduction in net debts.

Looking at our associates in more detail. Our international businesses continue to perform well. In the first half of the year Targa completed its refinancing, increasing the average maturity of its debt from 2 to 6 years. Teréga, formally TIGF, recently received confirmation from Moody's that its rating would be Baa2 with less stringent thresholds, benefiting now from a fully regulated status. And therefore, leaving room for further capital structure optimization.

The contribution of Interconnector UK reflects our increased stake in the company since March this year, and capacity auctions on this capacity are proceeding well.

These companies, which we account for using the equity method together provided EUR 64 million of net income in the first half. As a reference, our pro quota share of their EBITDA would have been EUR 175 million in the first half of the year.



Turning now to the evolution of the regulatory environment. The government has published its nominations for the new board of the regulator, which will be voted by 2/3 of the relevant parliamentary committees. All 5 of the proposed members have high-level competencies and a strong track record.

Meanwhile, the outgoing regulator has published 2 consultation documents, with regards to the 5th regulatory period, which will start in 2020.

The document includes an explicit reference to the growing importance of natural gas in Italy's energy mix. A 2-year extension of incentives for new development CapEx, a positive stance on output-based incentives to encourage performance in area such as quality of service and the greening of the energy system, which will be defined through further specific consultation. It also includes the inclusion of work in progress and the right calculation and the transition towards TOTEX being postponed after the 5th regulatory period, which means after 2023.

The second document which is the cost-benefit methodology is consistent with international best practices, in particular with the ENTSOG methodology to calculate both the costs and the benefits of additional infrastructure.

Meanwhile, with regards to the update on the risk-free rates, the country was premium to gearing and tax rate parameters used in the formula to calculate our WACC.

We are now 10 months into the 12 months observation period. And it seems reasonable at this stage to expect remuneration levels at least in line with today.

Turning now towards nonregulated activities. TAP is around 75% complete and we confirm our expectation for first gas in 2020. Recently, EIB and EBRD have approved loans to the project for more than EUR 2 billion and negotiations with commercial banks are progressing well and we expect TAP to close the financing and therefore, pay the true-up to its shareholders by the end of the year.

Looking now at the role of gas in Europe's long-term energy policies. We're continuing to work on an integrated energy transition strategy, which will provide new revenues and enhance the long-term prospects for gas infrastructure. The value of renewable gas and existing infrastructure to the carbonized Europe is becoming increasingly clear. A recent study conducted by Ecofys and a group of leading TSOs including Snam, concluded that renewable gas production in Europe could amount to over 120 billion cubic meters per year on a conservative basis. And that leveraging this green gas in a deeply decarbonized system would save consumers around EUR 140 billion per year at run rate compared to a no gas system.

These numbers, which are large and significant, yet don't include the significant savings that would come from transport and industry. So they're only focused on power generation and heating.

Snam is committed to playing an increasing role in this transition, particularly by supporting the growth of green gas and sustainable mobility.

Looking more closely at these objectives. Biomethane in Italy has a material potential. We have received a total of over 750 preliminary inquiries to connect biomethane plants to our network. In this context, we decided to acquire 70% of IES Biogas, which is a world leader in the design, building and management of biogas and biomethane plants and has already worked on 200 existing plants in Italy.

One of the most promising users of biomethane is in the transport sector. Also supported by specific decree and incentive scheme in Italy, which applies to about 1 billion cubic meters for 10 years. Gas for light transport is already large and is a growing market. In Italy, with over 1 million CNG cars on the road already. In the first half, Snam received 141 requests to connect new CNG stations to the grid, while vehicle registrations were 60% higher year-on-year, driven by new models available.



In July, we opened our first CNG station and we have contracts for 40 more, of which 20 have been signed yesterday with Enel. We have also signed yesterday a new framework agreement with api, which is a #2 player in Italy.

In this sector we're leveraging an integrated offer thanks to the Cuba gas acquisition. LNG for heavy and maritime transport is also very interesting market, expected to grow to around 3 bcm by 2030.

We're making progress on our feasibility study to build 4 micro liquefaction plants in Italy for an overall investments of between EUR 50 million and EUR 80 million and for total capacity of between 150 million and 200 million cubic meters per year.

These plans will produce LNG, drawing gas from our infrastructure and will be based in regions where there will be more competitive than the alternative imported LNG.

Energy efficiency will also play a growing role in the energy transition, in order to leverage our in-house capabilities and offer new savings to industrial, residential, customers and to the public sector, we acquired 82% of TAP energy solutions, a leading Italian Esco.

So summing up, the strong progress we've made in the first half of the year means that we can revise our guidance upwards for the full year. Our net income guidance, which was EUR 975 million, is now around EUR 1 billion.

Year-end net debt guidance is confirmed at EUR 11.5 billion, which is an improvement compared to the previous guidance because it now includes a EUR 160 million of acquisitions as well as a buyback already executed and is partly offset by strong cash generation supported by working capital.

These considered at the buyback within the approved plan of EUR 500 million is expected to continue in the second part of the year.

The strong progress in our efficiency in cost-cutting program enables us to increase our target savings by 25% to 2021. We will present a strategic update in November to provide progress on our core business also in light of the update of the WACC and additional visibility on our new activities.

Thank you for your attention. I will now hand over to Alessandra, for a closer look at our first half results.

Alessandra Pasini - Snam S.p.A. – CFO

Thank you, Marco. Looking more closely at our cost-cutting plan. In the first 6 months of the year, we continue the reduction in external costs relating to corporate services and consultancies and we launched some additional activities, including the assessment for the data center usage optimization and a benchmark study on strong maintenance cost. Moreover, on the ICT front, we are moving forward in our plan to migrate part of our data center workload to the cloud. And we've started in-sourcing some key capabilities in the digital transformation space.

With regard to operations, the project to integrate O&M dispatching and commercial activities between our transport and storage business has been completed and is providing benefit.

Thanks to the better-than-expected results obtained so far. We're able to target more than EUR 30 million savings by year-end and increased the target for the plan from EUR 40 million to over EUR 50 million by 2021. In addition, we are continuing with our approach of seeking efficiencies and working to identify new possible sources of savings. EBIT in first half was EUR 729 million, up EUR 15 million over the same period of the prior year. This number reflect the increase in regulated revenues for EUR 47 million, mainly due to the increase in tariff RAB, the inclusion of Infrastrutture Trasporto Gas and a greater ramp up in regulated services for EUR 7 million.



The cost-cutting plan, just commented, delivered a further EUR 6 million in the first half of the year, out of which EUR 5 million are on the controllable fixed costs, allowing us to offset labor cost inflation and the residual impact of demerger dis-synergies.

The increase in controllable fixed cost of EUR 4 million is mainly due to the Infrastrutture Trasporto Gas costs which was not part of the parameter in the first half of last year and is expected to be, essentially, fully absorbed by 2019 and the in-sourcing of some ICT cost together with some security cost.

Depreciation was up EUR 40 million, reflecting the growing RAB, other components mainly include nonregulated revenues related to lower sale of materials for about EUR 3 million, a couple of million euro related to new activities and new business ramp up, EUR 1 million noncash share buyback fees and EUR 5 million for one-off transactional costs and net provisions.

Net profit for the first half 2018 was EUR 523 million, up EUR 19 million compared to last year. This was driven by the positive performance of our operations, lower net interest expenses for EUR 17 million, thanks to the benefit of last year liability management, prefunding activities completed last year, earlier in this year, and treasury optimization carried out during the first 6 months.

Slightly lower contribution from associate, mainly due to the expected contribution of Teréga storage business, which has become regulated, thus completely risking the business and providing long-term visibility. Higher taxes due to higher earnings before tax. Tax rate for the period was around 27% on EBT. Let's now look at our debt structure and provide an update on our cost of debt. Our average cost of debt in the first half was already 1.6%, which is below our previous guidance of 1.8%, thanks to the funding actions completed in the first half of 2018.

Such as the EUR 350 million 2-year bond issues in January at negative yield, the continued strong treasury management optimization effort and the expiry of 3.875%, EUR 850 million bond. As a result, we're upgrading our cost of debt guidance to 1.6% for the full year. Regarding the gross that look down at the end of the first half, the fixed rate portion was 73%, in line with our guidance of 3 quarter fixed versus floating. Our maturity profile is well-spread over time and our liquidity profile remains strong with EUR 3.2 billion of undrawn committed credit lines. In July, we increased the size of outstanding balance of our credit lines for additional EUR 400 million, a very competitive cost, well below conditions prevailing in the market and extended the average life maturity from 1.5 to 3 years.

Regarding our poor banking facilities, we are working to extend by 1 year the maturity of this facility, which were signed at competitive cost last December.

We're now pleased to answer any questions you may have.



QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We can now take our first question. It comes from Harry Wyburd of Bank of America Merrill Lynch.

Harry Peter Wyburd - BofA Merrill Lynch, Research Division - VP and Junior Analyst

Two questions from me, please. So just firstly on new regulator board. Had a quick read over the candidates, they seem to be relatively democratic and apolitical as far as I saw. But do you have any early reviews on the new regulatory board and whether you think that's going to produce any change in policy or behavior? And then, secondly, you've upgraded your guidance slightly, I presume, but could you confirm that you're still assuming a cut in the allowed return in January? And if that turns out actually to be flat or even an increase in the allowed return because of the change in spreads, that would trigger presumably another potential upgrade to your earnings. And if that happens, would that be material enough to free up a little bit of extra balance sheet? And if your answer is yes, then how do you look to use that extra balance sheet?

Marco Alverà - Snam S.p.A. - CEO

Okay. So I think you're right. I think the profiles are high. And there's 1 candidate of the new regulatory board coming from internal -- coming from inside the regulator. So we haven't, of course, engaged as we wait for the parliamentary process to formally appoint them. But I would share your thought, they seem to be apolitical, well prepared and always keep in mind that this regulator's task has been expanded over the year. So it needs to include capabilities for water and waste management. So it's quite a broad regulator. Coming to the guidance, just to be precise, the increase in guidance is related to 2018. As I said, looking at market today and looking at the future WACC, we expect there's a reason to be more optimistic than our previous guidance, which does not impact '18, of course. And we think we can now look at a situation where we are at least in line with today's WACC. The -- what we do with that incremental flexibility or liquidity, I think we just always refer back to our policy, which is a generous distribution of returns to shareholders and managing the financial flexibility that we already have in our balance sheet. So I don't expect much change in that respect.

Operator

We can now move along to our next question. It comes from Javier Suarez of Mediobanca.

Javier Suarez Hernandez - Mediobanca - Banca di credito finanziario S.p.A., Research Division - Research Analyst

Three questions from my side, and are related to the Slide #9 and on the guidance. So new guidance for net income is around EUR 1 billion in 2018, if you can unravel the reason for the increase in the guidance, what is behind the reasons why the uprate has been -- has happened? Now is that just a function of reduction in financial expenses or there is something more to be considered there? Then also on the guidance, can you give us the number of net debt by the year-end, excluding the acquisition of DESFA, other acquisition on -- related to energy transition and the share buyback already implemented. And if you can quantify the positive effect coming from working capital in 2018? I guess, trying to make my mind on the underlying number that



compares with the EUR 11.5 billion that you gave in the previous guidance. And the third question is on TAP. Obviously, there is a new opening station in Italy and there has been some conflicting comments on TAP, I just wanted to have your latest view on the possibility that TAP may suffer any delay beyond the expected timing for the project?

Marco Alverà - Snam S.p.A. - CEO

Thank you, Javier. I'll take the last question and leave Alessandra to give you the breakdowns of the guidance. As I said, I think we can, at this stage, confirm the 2021 first gas for TAP. I think the decision also by EBRD to support with a positive vote including 1 from the government of Italy, is a positive development for TAP. And I think we have, of course, to continue to work and TAP has to continue to work locally as the government has repeatedly said to find solution to the problems, which are more local problems than central problems. So I think it's a positive development also on that front and we have to continue to increase the dialogue with the communities and reaffirm them that the pipeline doesn't pose any health risks or any environmental risks. So I think this is where we will spend the following months including the summer months. Ale, over to you.

Alessandra Pasini - Snam S.p.A. - CFO

Javier, on the guidance. Net income, the increase is due to a number of factors. #1, the increase in revenues related to some good performance on volumes, so that we have experience as well as on the storage capacity. Some progression, which is faster than expected on cost saving, that are coming forward in 2018 versus 2019 as well as a lower cost of debt. So effectively, yes, approximately EUR 10 million of lower cost of debt, slightly more than EUR 10 million of revenues and rest effect is some improvement on cost savings as well as some better mix and manage of labor cost related to how we are taking care of preretirement exits as well as new hires with different mix in terms of age and mix, really. But when it comes to the net debt, I think our guidance of EUR 11.5 billion includes approximately EUR 100 million of structure in working capital improvement by year-end, which we expect to retain. Acquisitions are in the DESFA as we have effectively almost completed financing the cash out is going to be around EUR 120 million for our stake. And as public, what we paid for all the energy transition transaction we've done which is likely less than EUR 40 million. On the buyback, the number that is included in the guidance is what has been executed up until last Friday, which is EUR 67 million. So in fact, these are the components that bring you to the overall improvement in the guidance.

Javier Fernandez Garrido - JP Morgan Chase & Co, Research Division - Head of Utilities and Senior Analyst

And that true-up of TAP is included into that guidance, right?

Alessandra Pasini - Snam S.p.A. - CFO

Yes, absolutely. But that was also the case back in the prior guidance. So there is no change there. Absolutely, yes, it's included by year-end.

Javier Fernandez Garrido - JP Morgan Chase & Co, Research Division - Head of Utilities and Senior Analyst

And you're not expecting any delay in the true-up of TAP, related to all the difficulties or political discussion, et cetera, et cetera. So you're still thinking maintaining as a guidance that the true-up of TAP is going to be completed during the second half of 2018, right?



Alessandra Pasini - Snam S.p.A. - CFO

Yes, correct. We are currently negotiating with commercial banks, the term sheet on the financing. We're looking to finalize commitment very shortly. And work on finalization of the commentation in the fall.

Operator

We can now move along to our next question. It comes from Enrico Bartoli of MainFirst.

Enrico Bartoli - MainFirst Bank AG, Research Division – MD I've 3 of them too. And the first one is related to the project for the methanization of Sardinia. If you can update us on any discussion that you're having with the government, there were some articles from the press that there is some interaction between the local authorities and the government about this project. So what is your feeling about the possible risk there could be some delays there? And second question is related back to TAP.

If you can give us a hint of, let's say, the portion of your investments in the EUR 4.6 billion in transport in your current business plan, which are related to the fact that the 10 bcm from TAP will flow to Italy over the next years? And the last one is on the cost of debt. If you can please repeat or give some more details on the reason of the reduction in your guidance for the cost of debt for this year? And if you can give us a hint of the evolution on the cost of debt for next year and 2020 that you would expect to consider in the current forward curves in the -- into free market?

Marco Alverà - Snam S.p.A. - CEO

Okay, I will take the first 2 and let Ale to the second -- to the third. The -- on Sardinia, we have, I think, as I mentioned, we signed this agreement so there's now only 1 project that we've converged towards which is a positive development. We have an agreement with the regulator to conduct the engineering and the preliminary study. So we're already spending some money on this. The project does require additional improvement -- approvals, it requires the single authorization and the environmental impact assessment which has to be given by the government and needs to pass a cost benefit analysis which we've already conducted. And the benefits to Sardinia of this pipeline is very significant, it's around EUR 250 million per year based on our calculations and this is due to the switch mainly for heating. The people in Sardinia are now using GPL which, as you know, is a lot more expensive than methane. So there's a, I think, significant enough savings to justify a very positive approach from the local territory. But as all these projects require still the 2 main approvals, which are the (inaudible). On TAP, there are around slightly less than EUR 200 million of infrastructure in the south. A part of which would be necessary anyway because of the growing demands in the south. So I think that's the number that we have in Sardinia, which we've already began working on. And that's progressing well, I think there is good reaction from the territory even if it's not far from TAP, because it's we start at 55 kilometers north of TAP, the first interactions locally are positive with people volunteering access to their private property for laying of the pipe. Ale, on the cost of debt.

Alessandra Pasini - Snam S.p.A. - CFO

As we -- as I said, when we look at 2018, the revision of the guidance from 1.8 to 1.6 is related to the funding down already in the fast part of the year. we expired a very expensive bond, which already was though factored in our expectation. And a very proactive treasury management activity taking advantage of the bond and liquidity at negative terms. The -- when we look at the future, it's -- clearly we have seen rates going down, but spread going up. So we will clearly have a longer-term view on what are the appropriate rates for our plan when we come back in November. But overall I think it's important to



remind that we have a rollover approximately EUR 2 billion of bond expiring in 2000 -- between 2019 and 2021, which we expect to deliver given where the market is today, something more than 100 basis points on average in terms of looking at new issues versus existing ones. We will continue to do optimization of our treasury management as long as it is possible, i.e, as long as the banking system will continue to provide liquidity at this level, but also keeping a close look at our fixed portion of debt as at some point rates will go up, although the last 6 months haven't necessarily shown that.

Operator

We can now move along to our next question. It comes from James Brand of Deutsche Bank.

James Brand - Deutsche Bank AG, Research Division - Research Analyst

Two questions, please. The first is just on the output-based incentives that could be coming in from the next regulatory period. Are you beginning to get any feel for what they may look like and how material they may be? And obviously, it comes to the fact that turnout for electricity transmission had some output incentives outlined earlier this year that were quite material. And I was wondering whether you were hopeful that maybe a similar kind of package might ultimately be outlined for yourselves? And the second question is on some of the energy transition investments that you outlined in Slide 8. Obviously, the amount that you're spending in that area at the moment is not that material in a group context, but I was wondering whether you could just give us an idea as to whether or not we should expect ongoing outlays of the kind of magnitude that we've seen this year of around EUR 40 million a year or maybe even more material, what we should expect going forward from investments in this area? And if there's any kind of, maybe you'll give this at your strategy plan, but any update in terms of what these kind of activities we should expect them to contribute in terms of profit?

Marco Alverà - Snam S.p.A. - CEO

Okay, thank you. So on the output-based, I -- the areas that we're quite pleased to see in this consultation are around safety. So looking at how we keep the management of the infrastructure always safe as possible also to improve the resilience of the network. And then the market to facilitate new interconnections, development of new markets, supply diversification, the types of things like price alignments, some of the things that we've been discussing before. And in general new services, I think to increase always the liquidity and attractiveness of the PSB and improve the market functioning. I think there's some new areas linked to the environment. And these have to do with CO2 reduction and importantly, methane emission reductions. And I think the final area is around service quality. So I think there's a lot to work on. I really look forward to start engaging with the new board of the regulator, I think below the board, at the technical level, they fully see the benefit of incentivizing us, and I think we've been jointly happy with the progress made so far in shifting from a market that was not being balanced using market instruments and it was being balanced physically through [studget] to now a more functioning market. So I think the progress made in the last 18 months is good. I think there's a lot of areas that we see that we can turn into additional revenue and profits, at the same time making us more and more part of the solution for the long-term decarbonization. Something like methane emissions is something that we are doing anyway. And so the ability to do that in the context of incentive is even more attractive. Then looking at investments. These investments -- that I -- just to give you some more visibility, I think the cumulative EBITDA for these investments in 2017 has been EUR 8 million.



So you're right in saying, it's not material. I don't see us buying many more technology companies. I think these 3 are good platforms that enable us to be more effective in proposing ourselves as enablers of the development of biomethane, which I think is a long-term enhancer of the value of our infrastructure. As well as an enabler of development of CNG, which is again another enhancer of the value of our infrastructure. These are really part of a broader gas advocacy efforts. But they're very profitable. Not only because we acquired them at good terms, but also because the investments we're making in CNG, for example, which are backed by long-term contracts give us an IRR which is greatly in excess of regulated WACC. So what we try to do with these vehicles is to enter new segments, which can grow in materiality, I think we will be talking more about this in November. An area which we're not excluding but we're still evaluating is a possibility of investing in biomethane plants and cells. The downside here is that these are small investments, but again, the upside is that the returns on, let's say, contracted or tolling basis, so we wouldn't look taking any commodity exposure. But the returns that you can get especially if you access it with an integrated technology solution, like we have now with IES, I think, could be very attractive. In terms of the energy efficiency, TAP is one of the leaders in the Italian Esco market. I think the Italian market is very different from the U.K. and other markets. In that, these Escos are incredibly fragmented. So TAP could itself be somewhat of an aggregator, but I wouldn't expect too much in this space. Yes, and Cuba can also give us an opportunity to grow internationally with Snam Global Solutions. So there are markets where both biomethane and CNG are considered very attractive and where we're already working with Snam Global Solutions. So that's really the logic behind these. In terms of size, I think it's early, we don't have a plan for, as I said, for the biomethane part, but in terms of materiality I think for few years this is a type of exposure that we're seeking.

James Brand - Deutsche Bank AG, Research Division - Research Analyst

Can I just ask a really quick follow-up. Just the small-scale LNG, would that be something that would go into your RAB or would that be long-term commercial contract, if you want to help with that?

Marco Alverà - Snam S.p.A. - CEO

For now, it's not part of the RAB. I wouldn't be -- I mean, we would probably like to ask the regulator for some form of output-based incentives or some form of support for the sustainable mobility. We're asking for equal treatment and I think the people on pushing for electric vehicles are asking for significant subsidies and support for that. I think if the government decides to support sustainable mobility we would argue for technological neutrality. And so there could be some incremental incentives for this. But the way we're modeling it right now is to locate these micro liquefaction plants in parts of Italy which are hard to access via barge or via truck or via train. Consider that now the market is very small, but it's being supplied from Barcelona or Marseille, which you can imagine the logistics chain there leaves quite a lot of value even if -- even included in the cost of liquefaction for this. So that's the logic there.

Operator

We can now move along to our next question. It comes from Bartłomiej Kubicki of Societe Generale.

Bartłomiej Kubicki - Societe Generale Cross Asset Research - Equity Analyst

Just to 3 questions from my side. First, on employment. I noted that in gas transportation business, employment declined by roughly 3% on the q-on-q -- quarter-on-quarter basis. So I wonder if this is



sustainable and this is one of the reasons why you have increased your OpEx savings guidance? The second question will be on asset sheets, whether we can expect similar performance in the second half of this year? And the third question, technical, would be on regulated -- regarded to WACC for 2019. We know the country spend will probably increase, we know that we can expect the leverage could change, we can expect the tax rate could change. But what is your view on expected inflation used in the WACC formula? And whether you have any guidance on that?

Marco Alverà - Snam S.p.A. - CEO

Okay. On the employment, now I think there's been some adjustment recently. But I think going forward we will need to -- I think we're always targeting to be more efficient on our core business. But I think we're quite efficient already and as the core business itself grows and the new businesses come in, we actually need more people rather than less and I think we also have an opportunity here and parts of our cost savings are actually linked to this. We have an opportunity to do some very selective insourcing. Over the years, I think the whole oil and gas industry went through a big cycle of outsourcing. And if you look at some of the outsourcing especially on the IT side, you're actually paying service companies to execute work on a recurring basis, which means you have less control on of the quality of what they do and you end up paying more as they make a margin on these contracts. I think the same applies to some of the engineering that we pay. So I wouldn't focus on headcount numbers as a source of saving, I -- we're focused more on technologies and trying to do what we do now in a more efficient way and relocating some of those resources that we have to the new and to the growth businesses. On the associates, if I'm not mistaking, I think the second half could be slightly better than the first but without too much change. On the WACC, I don't know, Ale, if you want to comment on the inflation expectation?

Alessandra Pasini - Snam S.p.A. - CFO

We -- yes, on the inflation expectation, we expect no change. Because ultimately, the current forecast that are relevant for the update all signal in the same approximately 1.5% to -- was used back at the time. So we don't expect any change from that perspective.

Operator

We can now move along to our next question. It comes from Anna Maria Scaglia of Morgan Stanley.

Anna Maria Scaglia - Morgan Stanley, Research Division - Research Analyst

It's Anna Maria. Just 2 very quick questions. The first one is on this acquisition that you mentioned before TAP, Cuba, et cetera. Did you say that it contribute -- they're expected to contribute to EUR 8 million of EBITDA from next year? Or they're already contributing EUR 8 million of EBITDA, if you could clarify? And also what is the revenue contribution expected? And the second question on DESFA, can you confirm that you expect the equity consolidate the stake you're acquiring? What could be the impact there as well?

Marco Alverà - Snam S.p.A. - CEO

So the figures for the acquisitions were related to 2017 full year for them. So it's not the impact on us because the closing has been very recent of some of these. So EUR 8 million of 2017 EBITDA for all 3 of them, yes, Cuba gas and TAP. And if I'm not mistaken around EUR 75 million of revenue for the same period. So you will see, going forward, the costs increasing are linked to the costs associated with those revenues. In terms of



DESFA, I think we are now not expecting to consolidate it. The equity contribution impact for us would be a positive -- around a positive EUR 10 million.

Operator

(Operator Instructions) We can now move along to our next question. It comes from Stefano Gamberini of Equita.

Stefano Gamberini - Equita SIM S.p.A., Research Division - Analyst

Just a quick question regarding the Slide #5, whether in this cost-benefit dynamics that you included in the consultation paper issued by the regulator. Just if you can elaborate a little bit more about this consultation paper, if this could allow your company to accelerate investments considering that the benefits are mainly related to social welfare and security, which means that probably you can have a positive valuation from this kind of analysis or on the other side you see more risks that new projects could be stopped due to this new plot from the regulator?

Marco Alverà - Snam S.p.A. - CEO

I -- thank you, Stefano. I see this as a very positive development because methodology is a, let's say, best practice-based methodology, which is proved and tested also with ENTSOG. And I think previously, we would be almost self-restraining ourselves based on, perhaps, more stringent approach. 4% discount rate is a good discount rate. 25-year horizon is as expected. I think the ability to add the more social benefits and importantly, the ability to add security of supply concerns, especially when Europe is asking all countries to undergo stress tests with the N-1 methodology, which means removing the biggest source which in our case is Russia. This I think gives us a lot of room to potentially have new developments, but I don't think our plan as such will change. I expect that we will continue to be below the threshold that this new cost-benefit analysis could allow. So I think it's -- there's nothing magic here, there's nothing new, I think it's quite rigorous but also generous in its applicability and could potentially give room to more upside and certainly none of our CapEx programs would be negatively impacted by this.

Stefano Gamberini - Equita SIM S.p.A., Research Division - Analyst

Okay. A quick follow, if I may. Concerning to Europe, bringing forward in the presentation of the new business plan. Could we expect some novelties may related to you, renewable gas or something that should be included in your new business plan in November?

Marco Alverà - Snam S.p.A. - CEO

That's exactly what we're working on. I think the question we're asking ourselves is if, how and how much we would like to invest in biomethane? Here we have a regulatory issue. So we would need to find a partner (inaudible) totally unbundled to sell, to put commodity into the market. That's a hurdle to overcome. And then we need to decide really over the next few weeks what appetite we have for partnering with people managing local waste with long-term contracts. I think that's what we would like to share with you in November.

Operator



We have no further questions at this time. So I will now hand the call back to the speakers for any additional or concluding remarks. Thank you.

Marco Alverà - Snam S.p.A. - CEO

Thank you. I think we covered a lot of ground as always our IR team is available for any follow-on questions. And look forward to talking over the next few months, and meeting again in November. Thank you.

Operator

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



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