



**GE Oil&Gas Annual Meeting 2017**  
**Marco Alverà – Snam CEO**  
**Fuelling the future with natural gas**

Distinguished guests of the GE Oil&Gas Annual Meeting,  
good morning to you all.

I am honoured to be here today, and would like to thank Lorenzo for the invitation to speak.

The focus of this meeting is disruption, and I would like to share with you 4 key ways in which gas may disrupt the energy market over the next decade.

- 1) disruptive growth in global LNG
- 2) Opportunity to significantly lower liquefaction costs
- 3) Emergence of over 30 new LNG markets
- 4) New technologies for additional growth in supply and demand for gas

First, the LNG drive.

The LNG market is set to massively expand, thanks mainly to the Australian megaprojects finally coming online and the development of LNG export infrastructure in the USA and East Africa.

It will also become the main source of world gas trading in the coming decades.

Within the LNG sector, the proportion of non-contracted capacity is also set to rise, as business models take advantage of the greater liquidity in the market by moving away from long-term contracts.

Add these two trends together and you get abundant LNG, which will be looking for a home. And this will put downwards pressure on global gas prices, particularly in the summer and where cheap gas storage is available.

The Second trend is expected cost deflation after unprecedented inflation in the last decade.

Much of the supply expansion that we have just seen has been achieved at very high capital costs.

That's especially true for the Australian projects, which have suffered cost inflation up to 1,000%. But also other non Australian projects are up 500% compared to only 10 years ago. Hard to think of another sector of our industry or indeed any industry that has suffered such inflation.

Going forwards, there will be lessons learnt from this experience.

It stands to reason that there is scope to bring costs down significantly.

Version only for consultation, not binding

Piazza Santa Barbara, 7  
20097 San Donato Milanese (MI)  
Tel. centralino + 39 02.3703.1  
www.snam.it

Snam S.p.A.  
Sede Legale: S. Donato Milanese (MI), P.zza S.Barbara 7  
Capitale sociale Euro 2.735.670.475,56  
Codice Fiscale e numero di iscrizione al Registro Imprese di Milano n.  
13271390158 - R.E.A. Milano n. 1633443  
Partita IVA 13271390158



This is the greatest challenge for the LNG supply chain and we know of several initiatives underway.

Lowering liquefaction costs will further increase the size of the market for liquefaction infrastructure, and the availability of cheaper LNG on the market.

The third trend is the new markets vs the traditional ones

Going back to ample LNG supply. Where will this head?

New regasification capacity will be focused in Asia, in particular China and India.

But we are also seeing the emergence of over 30 new LNG markets in Asia, South America and Africa, which will be able to access the market through Floating Storage and Regasification Units, which have smaller capacities and are quicker and cheaper to build.

Europe too could be a promising destination for LNG.

That's because, under almost any demand scenario, imports into the continent are set to increase.

The reason is that domestic production is falling rapidly, with traditional suppliers in the North reaching maturity.

Where will these imports come from?

Currently, the European infrastructure system is designed for long-term flows from key suppliers from the North, East and South, regulated by long-term take or pay contracts negotiated to serve specific national markets.

Indeed, to some extent we are not looking at a European system at all, rather at the accumulation of national import infrastructure built over the decades.

Turning this accumulation into a genuinely European network is crucial in order to cope with new flow directions, in particular from the South East and LNG.

And interconnecting Europe will reduce overall gas prices because it will provide the possibility of gas to gas competition, with cheap homeless LNG competing with pipeline gas.

Faced with this scenario, big gas producers should seek to compete directly for market share against coal, which has benefited from a significant cost advantage in Europe and has therefore maintained its share in the mix despite its undesirable environmental impacts.

The fourth key trend in the gas market is new technology, which is impacting both supply and demand.

In terms of supply, one of the interesting moving parts in the puzzle is biomethane, or gas which is produced from landfill and agricultural waste.

This is interesting in terms of sustainability because it is renewable, does not add emissions to the atmosphere and supports agricultural business models. It is also cost



effective because biomethane is chemically indistinguishable from methane and can be injected into existing gas infrastructure. In theory, there is very large scope for growth in this field; biomethane could account for as much as 10-15% of Italian demand at some point. We are at the very beginning of this process but Snam is pleased to report that we have received over 100 requests for new connections to our network from new biomethane production sites in the last two months.

New technologies also support the use of gas for transport, a segment which until now has been dominated by oil and more precisely by diesel.

Using gas, rather than oil products, in the automotive sector has very significant environmental benefits, both in terms of CO<sub>2</sub> emissions and in terms of the particulate which chokes up our cities. It is also a relatively low-cost fuel. Here too, there is ample room for growth.

Italy is a world leader in CNG for cars, with almost 1 million vehicles already on the road and 1000 filling stations, and could almost triple the number of vehicles on the road by 2025. To help support this objective, Snam has recently signed agreements with FCA with Api, which will see us invest around 200m€ to improve the supply network for CNG.

Another great environmental and cost opportunity comes from small-scale LNG, which can be used to power trucks and ships, reducing noxious emissions. Investment in the sector has already started thanks to EU policy support, and is set to increase strongly with many new projects being considered in the Mediterranean region alone.

At Snam we are evaluating how to best participate in these trends.

We have a solid experience in project management and stakeholder relationship, with almost 1,000 work sites live at any time in Europe.

We invest around 1bn€ of capex a year, on time and on budget, which over the last 8 years have always been on time and on budget which is what we consider our core strength.

We have an unrivalled position in Europe, with a presence in key markets and an interest in projects which will help support market interconnection.

We are working with institutions and regulators to improve the liquidity of the European market which in essence is what the European Energy Union is all about.

We provide services to other operators to help them realize the full potential of the gas market and are partnering with key strategic players in the industry.

We are 100% committed to fully leverage our assets, competences and people to promote sustainable development in its truest form, also bringing an important contribution to the decarbonisation and green agenda.

We look forward to working with many of you.

Thank you very much for your attention.