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- Marco Alverà
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- Enrico Bartoli
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- Juri Zanieri
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- Sara Piccinini
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- Stefano Gamberini
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Presentation

OPERATOR

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to today's Snam Full Year Results 2018 Conference Call. (Operator Instructions) I must advise you the conference today is being recorded on Tuesday, the 19th of February 2019. Without any further delay, I would like to hand the conference over to your speaker today, Mr. Marco Alverà, CEO of Snam. Please go ahead, sir.

MARCO ALVERÀ – SNAM S.P.A. - CEO & DIRECTOR

Thank you. Ladies and gentlemen, good afternoon, and welcome to Snam's full year 2018 results. 2018 was a very good year for Snam. We performed above our targets across the business. Our CapEx plan is on track with EUR 0.9 billion invested in the year. Notwithstanding tightening incentives, we've managed to almost double our non-RAB regulated revenues to EUR 15 million.

Our efficiency program has to date delivered EUR 36 million of savings on operating costs, on track to meet our updated target of EUR 60 million by 2022. Cost of debt declined to 1.5% or EUR 32 million saving on interest charges. Thanks to the continuous optimization of our financial structure. As a result of our outperformance, net income was EUR 1.010 billion, plus 7% compared to 2017 and EUR 35 million above the target that we set at the beginning of the year. As well as delivering solid financial results in 2018, we made good progress on all of our strategic pillars. We have completed the reverse flow project with the installation of 5 new turbochargers in Minerbio, Sergnano, and the completion of a new pipeline connecting Cervignano to Mortara.

Meanwhile, we've started the engineering phase to convert our main compressing station at Malborghetto into a dual-fuel gas and electricity plant. This new investment reduces emissions and also offers valuable demand-side flexibility services to the electricity sector. A dual-fuel compressing station can use power to compress gas and cut power demand when necessary by reverting back to gas as its fuel.

Given the exciting possibilities for sector coupling, we are undertaking feasibility studies for the conversion of other compressor stations. Our energy transition strategy unveiled in November is progressing faster-than-expected and we see potential upside. We have closed the deal to invest around EUR 20 million in a biomethane production project and have visibility on a pipeline of projects for at least another EUR 50 million of CapEx already. Meanwhile, our subsidiary, Snam4Mobility, delivered its first 6 refilling stations and targets 15 additional ones this year.



With reference to our international activities, TAP obtained its financing at the year-end for 75% of total project cost. As a result, Snam received EUR 519 million of cash back at the end of the year. Over 2018, we've also consolidated our position as a leading TSO in Europe with the acquisition of DESFA that is strategically located.

We have continued to create value from our financial structure, buying back a further EUR 538 million of bonds and returning overall more than EUR 1.1 billion to shareholders through dividends and buybacks. As you will have seen, we're seeking authorization from our upcoming AGM to cancel 74 million shares and renew a EUR 500 million authorization for further opportunistic buybacks.

The strong performance in 2018 confirms our track record. Tariff RAB has increased by 6% since 2016 despite very low inflation, and its sustainable long-term growth is underpinned by a 20% upgrade to our 5-year CapEx plan to EUR 5.7 billion. The combination of strong RAB growth, significant operational cost cuts, a 90-basis point reduction in overall cost of debt and the share buyback, net income per share has increased by 26% over 2 years. Dividend per share increased by 8% over the same period, therefore, significantly, rebalancing our dividend payout ratio.

In 2018, we launched Snamtec, and we've already invested a EUR 125 million out of the total of EUR 850 million in the plan. We will use new technologies to drive continuous improvements in innovation and in our core business. And furthermore, throughout 2018, we've acquired the skills that we need to reposition Snam as a global leader in renewable gas.

ESG remains one of the key pillars of our strategy. Methane emissions were down 4.5% last year. We're on track on our ambitious target of reducing overall methane emissions by 25% by 2025. Snam Institute and Snam Foundation in 2018 have grown and are now significant levers that we use to deliver improved training to our people and we use them to engage with our communities in a much more effective way. We apply our ESG approach also to our supplier and to our partners. In 2018, we started the social supply chain project and the CDP supply chain program. We struck over 2,000 integrity packs with suppliers and partners. We also continue to work closely with Transparency International.

I will now hand over to Alessandra for a closer look at 2018 results and she will also give us an update on our new sustainable finance initiatives.

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

Thank you, Marco. Before I take you through key figures for 2018, let me remind you of the recent developments on the regulatory framework which are [marked on] for this year. Since the presentation of the procedure plan in November, the authority updated the main parameters of the allowed remuneration results in a WACC increase of 30 basis points for transmission and 20 basis points for storage and regasification, which is in line with our



plan. The new WACC parameters will last for the next 3 years. The resolution for the fixed regulatory tariff for transmission business is expected by mid-March.

Output-based incentive schemes to be applied to new investments from '22 onwards will be consulted during 2019 as well as specific incentive schemes to be applied to R&D projects. Finally, by the end of February, Snam will put in consultation the proposal concerning the methodology for the cost benefit analysis to be applied to development projects.

Turning now to our ongoing efficiency plan. It has delivered to date EUR 36 million of savings compared to 2016, EUR 4 million more than our internal target and it is on track with our plan of overall savings above the EUR 60 million by 2022. Our core business costs before pass-through and one-off decreased by EUR 1 million in nominal terms in 2018 compared to 2016. In an accounting for labor cost inflation, demerger synergies and additional costs, for instance, related to network expansion, training and variable regulated costs.

EBIT in 2018 was EUR 1,405,000,000, up EUR 42 million over the same period of the prior year. This number reflects increase in regulated revenues of EUR 85 million, mainly due to the increase in tariff RAB, inclusion for full year of Infrastrutture Trasporto Gas and the ramp up in regulated services that reached EUR 15 million versus EUR 8 million last year. The cost-cutting program, which I just described, delivered a further EUR 17 million of saving in 2018, essentially offsetting demerger of the synergies of EUR 5 million, increasing labor costs due to inflation EUR 5 million and additional investments in our people, mainly training. Controllable fixed costs also include lower capitalization, some noncash accounting items connected to the retirement plans launched in 2017 for EUR 4 million and cost related to the full year impact of Infrastrutture Trasporto Gas for EUR 2 million.

Depreciation and amortization increased by EUR 31 million, reflecting a growing asset base. Other components include positive effect from the release of provision and energy costs.

Net profit in 2018 was EUR 1,010,000,000, up EUR 70 million compared to last year. This was driven by the positive performance of our operations, lower net interest expenses of EUR 32 million. Thanks to the natural bond rollover, liability management executed in 2017 and treasury optimization carried out during the year. This notwithstanding circa EUR 1 billion of pre-funding activities executed in the second part of the year. Slightly higher year-on-year contribution from associates, mainly due to an impairment charge taken in 2017 by Interconnector, which was partially offset by lower contribution from storage in France which has become well-regulated and de-risked for a much lower risk business as well as DESFA transaction costs.

Taxes in 2018 were up EUR 13 million, due to higher pre-tax profit. The tax rate declined to 26.2% on earnings before tax including associates versus 26.9% in 2017. Net profit was EUR 10 million higher than our guidance. Thanks to a better-than-expected contribution from output-based incentive, cost efficiencies and interest charges. Cash flow from operation was EUR 1,826,000,000. Thanks to the solid net profit and positive working



capital of EUR 193 million, which includes EUR 137 million due to overcharging and penalties for exceeding committed capacity, both to reimburse over the coming years. EUR 25 million due to cash in from the equalization fund that will be repaid to shippers in the first quarter of '19 and EUR 17 million due to net tax payable.

The strong cash flow generation to our CapEx, financial investments, the payment on the interim and final dividend and EUR 426 million of buyback, leading to a net debt at year-end of EUR 11.5 billion. As a reminder, financial investments include EUR 187 million cash flow from TAP, EUR 119 million of DESFA acquisition, EUR 40 million for our new businesses acquisitions and the benefit of the TAP to us of EUR 519 million. This result is slightly better compared to our latest guidance because of the higher-than-expected TAP swap and retained working capital benefit that will mainly reverse in 2019. Our net debt guidance for 2019 is therefore confirmed at EUR 11.7 billion.

Our average cost of debt in 2018 was 1.5% versus 2% in 2017. Thanks to the bond rollover of the 3.875% EUR 850 million Eurobond, which expires in March, with new funding of circa EUR 1 billion 5-year tenure and an average coupon of 1%. The strong treasury management effort including the recent EUR 1 billion commercial paper program utilized for EUR 225 million at year-end adds negative cost.

Regarding the growth that was down at December 2018, the fixed rate portion was 78% in line with our 2018 3 quarter fixed versus floating ratio guidance. Maturity profile is well spread over time. Also thanks to the circa EUR 4 billion liability management exercises executing since 2016. On sustainable finance as discussed in early November announcing live the conversion of a EUR 3.2 billion banking facilities into sustainable loan, with margin increase/decrease linked with a set of climate change and social KPIs accessed by an independent facilitated consultant and underwritten by 19 international banks. This is the third largest sustainable loan in the world and the first executed by a gas utility company. In early November, we also published our climate action bond framework. The document set in rule for the issuance of climate action bond and presented it to fixed income investors in February as a part of a non-deal roadshow in Europe.

Finally, in January '19, Snam has signed EUR 135 million financing with EIB, with a fixed rate of 1.4% and 20 years maturity. Thanks for this action, capital will be (inaudible) completed in December. The pre-hedging activity limits the amount of activity in debt capital market for funding. We're able to maintain also for 2019, our guidance of 1.5% for our cost of debt which will be going forward.

Thank you. And I'll transfer over to Marco.

Marco Alverà - Snam S.p.A. - CEO & Director

Thanks, Alessandra. The strong progress we're making on our strategy allows us now to upgrade our guidance for 2019 to 5% net income growth, up from our previous guidance of



4%, starting off a higher base. About half of the improvement comes from the new regulated revenues and the other half comes from additional operational and financial efficiencies that we've identified. This translates into an EPS guidance of EUR 0.321, excluding treasury shares.

To sum up, Snam today is in a stronger position than ever before. We are continuing to invest in our best-in-class operational capabilities in our core business. At the same time, we're pursuing attractive investment opportunities in the energy transition, underpinning strong growth and superior returns to shareholders. Thank you for your attention this afternoon. Alessandra and I will now be pleased to answer your questions.

QUESTIONS AND ANSWERS

OPERATOR

(Operator Instructions) The first question comes from the line of Enrico Bartoli from MainFirst.

Enrico Bartoli - MainFirst Bank AG, Research Division - MD

I have 3 of them. First of all, the first one is related to the discussions that have been going on at European level in the recent months, regarding the East Med project. Could you update, let's say, your expectations that actually this can go through? And then can you elaborate on -- obviously, on a qualitative base on the opportunities that you're seeing that is economical, could have fund the project, both in Italy and in Greece? And second question is related to the buyback program. If I'm right, you still have around EUR 200 million to reach the EUR 0.5 billion target from the past program. Could you confirm that actually this will go on in 2019? If I understood well, you are going to cancel around 70 million shares, if this is your opinion on the policy that the company will continue to implement in terms of having some value created for the shareholders. And the last one is related to the CapEx. You're giving this guidance about EUR 1 billion in terms of CapEx for this year. Can you give us a split on the regulated ones and the part that is going to be deployed for your new activities?

MARCO ALVERÀ - SNAM S.P.A. - CEO & DIRECTOR

I will answer the first 2 and then maybe, Ale, you can take the CapEx question. On the East Med, this project has been on the cards for several years now. Certainly, there has been a lot of new gas discovered in the Eastern Mediterranean region. Certainly, when I say that that's strategically located, it's because of its proximity to that area which inevitably will be



a part of the world where new gas will continue to be discovered and new gas will flow into Europe. The exact timing of any of these projects because there are several options, I think, will be driven by the ongoing exploration activity that is happening in the area. There are several options for the Egyptian, the Israeli, the Cyprus gas to come to Europe. And I think various options are being studied. Hopefully, by integrating the Italian and the Greek market, Snam will be able to play a role in that part of the world. When some of these opportunities arise and we are looking at several options, but I will say that none of them is in the pre-FID or even pre-analysis phase. So I think it will be a while before we see any of these becoming real investment opportunities. And I think the timing, as I mentioned, will be a function of the exploration activity. On the buyback, you are absolutely right. We have still around EUR 200 million to go. We will cancel about 74 million shares. The reason we're asking for further approval even if we haven't [exhausted] the previous one is because every time we go through an AGM, I think it's good to keep order and have more buffer. None of our targets include any additional buyback for '19 and beyond. So on the buyback, we will continue not to give specific targets and maintain an opportunistic approach. On the CapEx, Ale, I would leave you the details. I would say, it's mostly regulated with the exception maybe of EUR 30 million to EUR 40 million, but please go ahead.

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

You said it. It's around EUR 40 million what we are targeting for 2019 on nonregulated for the new businesses. But as said by Marco during the presentation, we'll see room for upside having identified already approximately EUR 15 million of target in the biomethane play.

Operator

(Operator Instructions) The next question comes from the line of Emanuele Oggioni from Banca Akros.

EMANUELE OGGIONI - BANCA AKROS S.P.A., RESEARCH DIVISION - ANALYST

I have 2. The first one is related to DESFA. If the recent update is regard the new WACC then you allowed return for DESFA? And the second one is related to the Sardinia methanization. If you could provide some update as in regards to the CapEx time line and also the impact in term of RAB for you?



MARCO ALVERÀ - SNAM S.P.A. - CEO & DIRECTOR

Okay. Thank you, Emanuele. The WACC discussion with the regulator in Greece is ongoing. I expect it to be completed by the end of April. So I think it's early to give any precise guidance. But I don't expect any bad news coming from that front. On Sardinia, I think the gap between the current cost of GPL and natural gas is so significant that the methanization in one way or the other will happen. I think the authorizations are ongoing. So I think the discussion is more on the timing and on the exact type of methanization, exactly what infrastructures will be needed. But I think the approval -- approvals on that project are progressing.

Operator

The next question will come from the line of Stefano Gamberini from Equita.

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

Few questions. Let me -- first of all, regarding the CapEx in the energy transition here you said EUR 1 billion for the next 2 years, but you said that you have new opportunities in biomethane. So could you just spend a few words if we can expect some update on this direction? And what could be the potential growth on biomethane in term of new investment that you can expect for the coming year? The second regarding the CapEx trend, you spend the figure of USD 1 billion CapEx this year. Could we expect a strong acceleration in 2020 considering your target of USD 5.7 billion by 2022? And the last question regarding, you said you will use the buyback in an opportunistic way. If I'm not wrong, you should have EUR 1 billion to EUR 2 billion of financial flexibility on top of your target in the business plan. What are your main targets to use these financial flexibility considering also your ability to finance at very low-cost your debt?

MARCO ALVERÀ - SNAM S.P.A. - CEO & DIRECTOR

Okay. Thank you, Stefano. So we now have a EUR 100 million of CapEx in the 5 years for biomethane and additional CapEx after the plan. The -- what Alessandra said is we have -- we see a richer pipeline and because we are targeting in the plan around a 5% market share, I think, there is upside room on there. I think it's early days to put a number, but we will be able to do that in the course of the plan. The EUR 5.7 billion, of course, there is EUR 1 billion in year 1 and as a progression and ramping up later on that. Regarding the financial flexibility, I would confirm the strict investment criteria that we've set out in the strategic plan. And so I think those continue to apply. Just a reminder, we want to maintain the current credit rating metrics and the risk profile. Any investment we do will need to be



accretive on a risk-adjusted returns basis compared to what we would get on an Italian regulated return and any investment would need to enhance the value of our existing infrastructure. And this is all laid out in our plan. So I'd say that that metric continues to apply.

OPERATOR

(Operator Instructions) The question comes from the line of Sara Piccinini from Mediobanca.

SARA PICCININI - MEDIOBANCA - BANCA DI CREDITO FINANZIARIO S.P.A., RESEARCH DIVISION - RESEARCH ANALYST

I have a question on the next regulatory review for the fifth period. If you can provide an indication on the timing of the consultation document and the final decision from the regulatory. If I'm not wrong, you were mentioning a consultation document by mid-March and also your expectation from the possible changes. So the beta should remain unchanged there as your expectation and it is included in your assumption of the business plan. And if you can give any indication on any other possible changes in your view?

MARCO ALVERÀ - SNAM S.P.A. - CEO & DIRECTOR

Thank you, Sara. So I -- we expect the final delivery to be available around the middle of March. And regarding the beta, I think, the best expectation is to assume it's flat. I think if we look at the numbers, as we said before, there could be room, theoretical room for an upside, just doing some benchmarking as we've done. But I think the best guidance at this point is to keep it flat.

Operator

The next question comes from the line of Juri Zanieri from Kempen.

Juri Zanieri - Kempen & Co. N.V., Research Division - Analyst

Only one question on my side. Referring to the memorandum of understanding that you've signed at the late last year with a state grid, Beijing Gas. I was just wondering if you can provide some color so we can expect some outcomes coming this year?



Marco Alverà - Snam S.p.A. - CEO & Director

Thank you, Juri, for this question. I think China, as you all know, is a very attractive growth market for natural gas. The penetration of gas is going to increase significantly. The MOUs that we're signing are the beginning of relationships aimed at bringing and exporting into China some of our distinctive knowledge and know-how. And I think this applies to areas such as storage, such as CNG, such as small-scale LNG, and in particular, the know-how we've acquired with the company, yes, in biomethane. So there is a number of discussions that are ongoing. I -- we have no rush to do things faster than would naturally be the case. So I think this is part of this relationship we have with state grid also because of their shareholding in Snam, and using this relationship to see if we can develop profitable opportunities in the Chinese market, which itself is very attractive. These could go from very commercial opportunities such as licensing some of our technology for biomethane to something a little more strategic around the sustainable mobility and other areas that we're investing in.

Juri Zanieri - Kempen & Co. N.V., Research Division - Analyst

If I can just follow-up on that. Where do you actually see the most interesting opportunity coming from like developing an infrastructure or a small-scale LNG? Just some extra color would be much appreciated.

Marco Alverà - Snam S.p.A. - CEO & Director

Look I think the market is going to go from around from 200 billion cubic meters, today, I think it's around 270 billion cubic meters. So this is a market that was smaller in the Italian market when I started working in the gas sector, not so long ago. Today, it's a market of 270 billion cubic meters and I think it's projected to exceed 600 billion cubic meters. So there is a lot of opportunities in all aspects of the gas -- natural gas valuechain. There are particular opportunities in storage, whereas, Snam has a global leading capabilities and where the Chinese market is very short in storage. I think their storage covers around 3% of the -- of demand, just to give you an example, [in which] we have about 20% of demand. So I think there's a lot of need for infrastructure investments in storage, in natural gas mobility that has the huge advantage of not only costing less than conventional fuels but also getting rid of particulate which as you know is a big issue in China. And I think they also have a lot of waste that they are eager to convert into sustainable energy. And so biomethane is potentially very attractive as well as small-scale LNG as an alternative to pipeline also for uses in country. So the opportunity is very big. I don't want to be misleading. I think we take one step at a time. It's important to get these big, big players to understand our skills, our capabilities. And hopefully, over time, some of these will turn into



opportunities. As a note I would say that we are already receiving some, I call them, nominal revenues in the sense that we're already being paid by some of these Chinese companies for some services that we're offering and some training that we're offering to them. So the trend is constructive and positive.

JURI ZANIERI - KEMPEN & CO. N.V., RESEARCH DIVISION - ANALYST

Okay. If one last follow-up, I may. If I'm not mistaken, you should -- in the agreement, you should have -- you mentioned that there might be some collaboration and the optimization of the network also in Australia and Portugal. Do -- can you provide any color on that as well?

MARCO ALVERÀ - SNAM S.P.A. - CEO & DIRECTOR

No. So here, it's about investments that one of the counterparts that you mentioned already has. And so the idea is to share best practices and see if there are any synergies and opportunities. This is linked to our Snam Global Solutions business. That is the one that's currently generating some small revenues in China.

Operator

And we have another request from the line of Enrico Bartoli from MainFirst

Enrico Bartoli - MainFirst Bank AG, Research Division – MD

Sorry a quick follow up. I have a question regarding the evolution of working capital, you highlighted in Slide 12, there's almost EUR 200 million improvement. If you can repeat the details of the drivers of this? And if your EUR 11.7 billion guidance, you have any assumption in terms of further evolution of working capital in '19? And lastly, just a confirmation, I guess that the guidance does not include any cash out or buyback. If you can just confirm that?

Marco Alverà - Snam S.p.A. - CEO & Director

Okay. So I confirm, it does not include any additional buyback. Ale, to you for the working capital.



Alessandra Pasini – Snam S.p.A. - CFO

Yes. The EUR 200 million that you mentioned are made of EUR 137 million related to overcharging and penalties; EUR 25 million due to cash in from equalization fund. Both of these items will revert over the coming years. And EUR 17 million due to net tax payable. So these are the key phenomenon that we saw. And as I said before, this will -- this balance out when it comes to [national] working capital was supposed to be paid at the end of 2018 and will revert in the first months of 2019. That's an aggressively smaller amount and these other amounts will in part be turned -- revert in 2019 and in parts in the following year.

Enrico Bartoli - MainFirst Bank AG, Research Division - MD

Okay. Sorry just to be clear, it's just on the EUR 25 million, which is going to have an impact on '19 for the rest you're assuming impact of 0.

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

I think that the overall benefit that you will have in 2019 is among different items. And this is including not only what we had in 2018 versus at the beginning, I mean, the cash flow. But also we're trying to give you an explanation of the -- how the guidance was improved. The guidance was improved for approximately EUR 80 million or so, which will revert effectively in 2019.

Operator

(Operator Instructions) The next question comes from the line of Arthur Sitbon from Morgan Stanley.

Arthur Sitbon - Morgan Stanley, Research Division - Research Associate

I would just have a quick question on costs. Basically I was wondering if you could provide more details on the underlying reasons of the increasing cost savings you're seeing? And also if you could give guidance for OpEx excluding pass-through in 2019?

Marco Alverà - Snam S.p.A. - CEO & Director

Ale, do you want to take this question?



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

Yes. I think in -- as we discussed in the plan, we are expanding the scope of our OpEx efficiencies simply trying to be leaner and being much more effective and making a -- make or buy choices in -- on a larger perimeter. So the reason why -- this is effectively the reason why we went from the original EUR 50 million to the EUR 60 million we announced in November. And we're now having that as the guidance. So the improved results that we have achieved today is just in anticipation for the fiscal effect that we're -- that we thought originally would have taken a little bit longer. So we are trying to be as fast as we can to achieve those targets. So there is no change vis-à-vis what we said before. In the slide, we described some of the actions which are completed. And related, you can see on a number of different things is automation is insourcing, is reorganizing our restructuring and operational activities in a way that makes us more efficient. Some of the costs that we strive in this life, of course, are part of recognized costs. So we also are including in the overall effect that we described on Slide 9, the growing perimeter and growing asset base that, of course, brings costs up. But that's something that is neutral because it's also part of our revenue. So it's in a way something that doesn't -- is not part of our efficiency plan, of course. Sorry, what was the other question?

Arthur Sitbon - Morgan Stanley, Research Division - Research Associate

It was on issue of your guidance for OpEx, excluding pass-through for 2019?

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

I'll revert and I'll come back to you in a second. Overall, you can assume on 2018 numbers that is in the EUR 60 million to EUR 70 million the number that you can net.

Operator

I would now like to hand the conference back to Mr. Alverà for closing remarks. Please go ahead, sir.

Marco ALVERÀ - SNAM S.P.A. - CEO & DIRECTOR

Okay. If there is no more questions on the line, thank you very much for your time this afternoon. And as always, we're available for any follow-on questions through our Investor Relations department. Thank you. Have a nice day. Bye.

OPERATOR



Ladies and gentlemen, that does conclude the conference for today. Thank you for participating. You may now disconnect.

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