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Presentation

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

Ladies and gentlemen, good morning, and welcome to Snam's 9 month results and strategy update and presentation. Thank you to all of those who have joined us here in our headquarters in San Donato Milanese in Milan, and thanks to those of you who are following us remotely. Today, we will update you on our progress over the last 9 months and the solid progress we're making on our strategy. We will also highlight the positive momentum we're seeing in the gas sector in Europe and in Italy and the increased visibility on the regulatory context.

The combination of our outperformance and the better outlook underpins the new strategic plan, which improves on all main targets, enabling us to deliver enhanced earnings and shareholder returns.

Alessandra will now take you through our results for the first 9 months of the year.

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

Thank you, Marco, and good morning, everyone. Over the first 9 months of the year, we have delivered on each of the pillars of the strategic plan. Our CapEx is on track to meet our full year guidance of around EUR 900 million. Our efficiency plan is progressing well since its launch in 2016, and we are set to deliver more than EUR 30 million of overall savings by year-end. On balancing incentives, we've increased our revenues by 80% versus the same period of last year.

Moving to energy transition. The first 9 months of the year, we have acquired 3 industry-leading technologies in the mobility, energy efficiency and biogas-biomethane sector, and progressed the rollout of our Snam4Mobility effort, which is gaining traction. We expect to have 50 contractor CNG, LCNG stations by year-end.

With reference to our international activities, we expect DESFA closing by year-end. And TAP has recently restarted work for the winter season. As a result of our effort and competence on optimization of financial structure, we now expect to have a full year cost of debt to 1.5% compared to original guidance of 1.8%. Assuming the completion of a further EUR 230 million buyback since our first half results call, full year net debt is expected to be EUR 11.7 billion, in line with guidance and including TAP true-up connected to financial close targeted by year-end.

Financial results in the period have been strong. Revenues grew by 4%, thanks to positive gas demand dynamics where consumption in the first 9 months was around 52 bcm, broadly in line with 2017. Normalizing the impact from the French nuclear outage and for rainfalls,



demand was slightly up.

The increase in the asset base, the full contribution from the acquisition of ITG and the output-based incentive on balancing activities. EBITDA was up 3.3% as a result of D&A from our growing asset base; efficiency, which offset demerger dis-synergies; and labor cost inflation. The overall cost base also includes new activities, which are in a ramp-up phase and some one-off costs.

Net income was up 5% also as a result of balance sheet optimization. The strong cash flow generation driven by the positive operational results and the working capital more than offset investments in dividend in the period while we used about EUR 300 million of financial flexibility to buy back stock over the first 9 months of the year.

These results position us to deliver a third year of outperformance, with our net income up 20% since the demerger of Italgas. This, thanks to strong results in our core business, leveraging on as a growth and positive market context, our efficiency plan, solid contribution from our associates and for about 40% of the rolled net income growth since 2016 from a proactive optimization of our financial structure. As well as over delivering on targets, we have consolidated our capabilities, streamlining process and internalizing technologies and expanding our international footprint. This effort will pay off in our future.

Let me now hand it over to Marco for our new strategic plan.

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

Thanks, Ale. The external context is increasingly supportive for Snam. The outlook for gas in Europe continues to improve. The renewed sense of urgency on climate change, air quality and rising concerns on energy cost increases the focus on immediately available and affordable solutions. All over Europe, we're seeing measures to phase out coal. This is by far the quickest and cheapest way to reduce CO2 while we continue to invest in new technologies for the future.

Gas is also emerging as a key lever to the carbonized transport, and we see an opportunity for CNG and LNG in mobility to reach 30 bcm by 2030 to improve air quality.

The most relevant long-term feature of this new energy outlook is that gas is no longer only a transition fuel, but thanks to the development of green and low carbon gas, it's also a key pillar of a long-term deeply decarbonized Europe.

In Italy, the biomethane incentive has led to over 800 preliminary inquiries from producers to connect to our grid.



New power-to-gas projects in Northern Europe are being built. In short, green gas is taking off. The intrinsic value of gas and green gas is a lever for decarbonization comes from an existing transport and storage infrastructure, their significant cost advantage and their scale compared to other vectors. Storage is particularly relevant in Italy and Europe where gas demand for households is 8x higher in the winter than it is in the summer. So this means we need seasonal storage to cater for these peaks.

Gas storage is not only very cheap, but it also offers a unique opportunity of storing renewable energy seasonally. This will happen today via biomethane and tomorrow from renewable, solar and wind power through power to gas.

The work we have done at Snam together with other TSOs in the climate -- gas for climate initiative shows that Europe can save EUR 140 billion a year by decarbonizing heating and power gen through a combination of renewable gas and renewable electricity instead of doing it 100% with electricity.

Among policymakers around Europe, there's a growing view that maintaining the gas networks in a top condition in the long term is a no-regrets option for Europe and it seeks effective and affordable climate policies. We expect, therefore, the upcoming European gas market review to be positive and explicit in this regard.

The increasing positive momentum on the long-term gas narrative comes along a sustained demand recovery in Europe, which has added more than 65 billion cubic meters of demand since 2014. Meanwhile, news flow on European domestic production is not as positive. We expect Groningen to close sometime before 2030, and indigenous production in Northern Europe and in Italy is declining fast, in some cases, faster than expected.

The consequent increase in import requirements is significant, and this will be challenged by very strong Asian demand and growing Asian demand for LNG, particularly in the winter, as we have seen last year in a very tight market. A similar picture is emerging in Italy where demand recovery from 2014 has added 13 bcm, and Italy also has memories of a tight winter.

We have carried out with Snam and Italgas engineers a technical assessment, which confirms the necessity of continuing to invest in 100% of our infrastructure even at demand levels that are less than half those of today. And even at these unrealistically low levels in the long term, gas tariffs would still be significantly lower than electricity transport tariffs.

The regulatory environment is also evolving positively. After the conclusion of the observation period, the WACC mark-to-market could lead to a WACC of up to 5.8%, up from 5.4%. There could be a gradual increase in the leverage, which may bring this down somewhat. The WACC for 2019, 2021 will be confirmed by the authority before the end of the year.

On Monday, we met again with a new regulator appointed in August 2018, and they confirmed



their commitment to stability, visibility and transparency on the regulatory framework. They recently released a final consultation document for the fifth regulatory period that will start in 2020. The document again highlights a central role of gas in the energy system, also given the evolution of green gas, the importance of investing in R&D to decarbonize and an increased focus on asset resilience.

More punctually, the constructive approach in the document translates into maintaining incentives on development CapEx and remuneration of the work in progress for transport, confirming the inclusion of substitution investments in the RAB without specific CBAs, cost benefit analysis. The intention to develop specific output-based incentive schemes to ensure the efficiency of the maintenance initiatives and determination to introduce new incentive schemes to reward measures on market liquidity to encourage innovation and decarbonization and also a confirmation that TOTEX will be postponed to the sixth regulatory period. All these elements you will find in the consultation document.

So in this supportive environment, we have defined and built our new plan. As you can see, our overall strategic direction hasn't changed. We continue to focus on the improvement of the core business by investing in people, in technologies and efficiency to deliver sustainable growth in our RAB and to enhance our industry-leading capabilities.

We are further consolidating our position in the energy transition with a growing contribution that we expect from the new businesses and services, which also increase not only the profits, but also the strategic relevance of our core assets. We are first movers in these significant and attractive markets.

Overall, innovation and decarbonization are a strong feature of this plan as we built the energy company of tomorrow. Our affiliates will provide solid and growing contribution, also driven by the TAP pipeline, which is expected to be completed and up and running in 2020. We will create value from the optimization of the financial structure, and we will continue to enhance the value also coming from the financial flexibility that we have on the balance sheet.

Before looking at each of these pillars in more detail, I would like to highlight our leadership on ESG. ESG is becoming not only the right and the necessary thing to do, but we see it growingly as a key lever for long-term business success.

On the environment, we're actively supporting climate change in clean air objectives by reducing the impact of our own activities and helping our clients reduce also their footprint through energy efficiency. For example, we target an increase of 25% methane emissions to 2025, up from our previous target of 10%. And we're leading industry efforts with other TSOs to define better measurements and protocols and processes for this important area.

Of course, the long-term growth potential of our business will depend on our people. Needless to say, safety is a core priority, but we've launched a new program called Snam4Safety where



we want to take our safety efforts one step further.

Meanwhile, we also invest on our competencies and have launched the Snam Institute where we've offered 90,000 hours of training, not only to our own people, but also to those that work with us. On average, we have 1,000 construction sites open. And we've estimated that our CapEx has a multiplier effect on the Italian economy of around 3x.

We are closer and closer to the communities where we operate, and so we've set up a Snam Foundation to bring our skills and our knowledge to benefit the territories where we operate.

From a governance perspective, we have industry-leading practices. Over half our board is made up of independents who chair all the board committees. And I would also add that the board maintains oversight of our climate-related risks and opportunities.

Let's now move to the plan. Starting with CapEx, we will invest EUR 5.7 billion by 2022. This is up from EUR 5.2 billion in the previous plan. The 3 key elements in the plan are, first, an increase in the investment required for maintenance and particularly for replacements. This enhanced effort on substitution and maintenance reflects our constantly updated analysis of what is the most efficient and effective way of delivering asset resilience to our customers. This approach applied to the new plan period require around EUR 500 million of extra CapEx just in substitutions.

Development spending accounts for 1/4 of the overall plan and includes the interconnection of TAP, which is about EUR 290 million. This is the Snam part of the TAP interconnection: interconnection in the northwest to support the local market cross border flows; and the Sardinia backbone, which is still in our plan, which weighs around EUR 300 million. We also have investments -- development investment in the additional layer of the Fiume Treste storage field.

In this plan, we've inserted more than EUR 200 million of additional investments in renewable energy and sustainable mobility. This is for new infrastructure for biomethane and also to provide gas for the transport sector via CNG and LNG. Across the plan, around EUR 800 million of investments relate to our tech project, increasing operational effectiveness, innovation and decarbonization, reflecting our focus on building the energy company of the future.

Let's look at TEC in more detail. So all the investments in TEC are RAB-based investments with the exception of the EUR 200 million that we allocated for the new businesses, which will have contracted revenue nature.

So TEC has 3 key objectives. The first is operational effectiveness. All the initiatives will enable us to carry out our operations faster and better through technology and innovation. The second area of focus is reduction of emissions, both CH4 and CO2. This involves equipment updates



and the use of technology to enhance energy efficiency.

The third objective as mentioned is to lead the energy transitions. Today, through new business investments in biomethane and in CNG and LNG and tomorrow through innovative work, we're beginning to do on power to gas and on the hydrogen value chain.

The TEC project with its focus on consolidating and expanding capabilities also creates additional opportunities for Snam Global Solutions, as we're able to export and make a margin on selling some of our competencies.

I will now hand over to Massimo Derchi, our Chief Industrial Asset Officer, for a more detailed look at our projects.

MASSIMO DERCHI - SNAM S.P.A. - CHIEF INDUSTRIAL ASSETS OFFICER

Thank you, Marco. Good morning to all. Can we skip the slide? Okay. The first example of our innovative project for operational effectiveness is Snam's asset management system. Smart gas, integrate and manage in a single database all asset information from design to operational maintenance, and supports and checks our fieldwork step by step. The key benefit is with minimization of risk of operational mistakes delayed or missed the inspections or maintenance, use a wrong pass, et cetera.

Operational maintenance information like type and duration of maintenance required for each part have automatically and consistently added to the schemes during the design phase. As a result, long-term planning for all preventive maintenance for all our asset is automatically generated. Short-term schedules are then automatically generated as well for all our workers. Single activities are optimized and balanced to avoid workload peaks, reduced transfer time and optimized routes, taking into account worker-specific roles and skills. And the scheduling system manage supplies the agenda as well.

All features of smart gas are available to our on-field workers through their iPads. Each asset can be displayed on cartography in a variety of modes. Online and offline navigational system show public and also private routes to reach each area of a network, while augmented reality displays 3D pipeline paths and the location of any relevant asset. All database data and information can be accessed by the workers, and data from home field asset are received and recorded. Failures and anomalies are recorded and sent to operation and maintenance department. We further check irrelevant maintenance costs are transferred to Snam CRP. We believe that smart gas is indeed at the forefront of the industry management system, and we will have a demo for an analyst during lunchtime on that.

The second example is a new application, which is being made available to dispatching control room to monitor the status of turbochargers. The turbochargers are turbines if you drive the compressor for our network and our storage facilities, which work on all compressing station



and support decision-making relevant to the operations. The aim is to keep turbochargers work most of the time within the optimal condition in order to reduce emission and fuel gas consumed by the turbines, preserve asset and decrease maintenance cost, improve turbine operation knowledge inside of a dispatching unit.

The tool provides a complete single view of all compressing stations, about 50 turbines and their key parameters, including an intuitive alarm system that highlights suboptimal operating condition. However, it is possible to focus on a single turbocharger, displaying details on its technical key parameter and an intuitive visualization of operating condition of the specific compressor and its turbine map. Historical operating conditions and key parameters values over the last 72 hours are always available. From a technical point of view, the new solution is based on a big data infrastructure that manages near 1 million data points per day, collecting data from different enterprise systems.

And finally, during 2019, an artificial intelligence procedure will be implemented to support the decision-making during critical solution.

As well as introducing to some of the more innovative elements of the plan, I wanted to highlight the rationale for our significant asset resilience investment program. Maintaining this Snam network is more CapEx-intensive than it is typical for this business, and this comes down to 3 key factors. The first and more important is the specific geomorphology of Italy. Almost half of our network is in hilly or mountainous regions and require frequent inspection and maintenance. More than 15,000 kilometers pipelines on a network of about 32,500 kilometers are periodically controlled by geologists in order to check ground movements along the line. In critical landslide areas, ground movement and stresses on the pipelines are automatically measured and monitored in realtime. We are about 600 areas live at. If significant pipeline stresses are detected, the soil around pipes that excavated the pipeline is made free to stretch. In some cases, operating pressures are then decreased. At the point in time such measures may become so significant and also frequent to affect our regular operation. We intervene much before such threshold is reached, also considered that permitting, design and the construction time typically may last up to 4 or 5 years, and we replace the pipeline in part or in full.

The second factor is leading to its growing density of population around part of our network, which was originally built in scarcely populated areas. Replacement may, therefore, be at the point in time required.

The last remark about the fact that much of our network was built to between the 50s and the 70s. And all the pipeline typically require additional maintenance cost and/or operational constraints. Here, again, the public interest may, therefore, be best served by replacement. I will now hand you back to Marco for the rest of the business. Thank you.

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



Thank you, Massimo. The investment -- the sum of the investment opportunities that we've outlined will drive the RAB growth of 2.5% a year on average between '17 and '22. This will have obviously a positive impact on the revenues.

Looking ahead, even beyond 2022, as Massimo outlined clearly, the CapEx requirement and the long-term CapEx requirements of our network will ensure long-term RAB growth broadly in line with the plan, meaning that we have a clear visibility on over a decade of growth and value creation.

On top of our RAB-based remuneration, as mentioned, the fifth regulatory period will see a growing role for output-based incentives. We expect to do better even in a tightening regulatory requirement on the already existing balancing incentive that we provide. We will shortly be launching new services to optimize the flexible utilization of storage capacity. And from 2020, we expect the introduction of a new set of output-based incentives on asset integrity, market functioning, quality of service and sustainability and innovation. These will be determined specifically through a consultation in 2019, which will start shortly.

And as far as Snam Global Solutions, we will, as mentioned, leverage the competencies that we're developing to create value within and outside Europe, and we're already gaining through Snam Global Solutions exposure to some very attractive gas markets. And we also expect to continue to create value through Snam Global Solutions from and for our international affiliates.

So output-based revenues, of course, require more limited additional costs. So the margins are quite significant. Whereas for Snam Global Solutions, we continue to expect contract margin of around 15%. This is excluding overheads in line with businesses of this nature. So overall, we expect cumulated revenues over the plan period from a combination of the output business centers and Snam Global Solutions to be around EUR 250 million, up from our previous target of EUR 150 million.

Another source of value creation is our ongoing efficiency program. We have more than 100 initiatives within this program. Alessandra is leading the effort, and it has delivered above expectations both in speed and in scope.

Now we target overall savings of above EUR 60 million by 2022, up from our original EUR 25 million. That means that our core business costs before pass-throughs and one-offs will be lower in 2022 than they were in 2016. Even accounting for labor cost inflation, demerger synergies and additional costs, for instance, the one related to the network expansion were managing a grower asset -- a larger asset base, and the money we're spending on training, which we're undertaking to invest, as mentioned in our business.

We continue to leverage new technologies whether they're satellites, drones, new sensors, as



Massimo mentioned, and of course, artificial intelligence to continue to reduce these costs. And we're also looking again at our processes and procedures to streamline them and to adapt our rules to new systems as opposed to trying to adapt systems to existing rules. So there's a lot of very heavy lifting on processes and procedures that's ongoing.

The second pillar of our strategy, as mentioned, is to position Snam for the energy transition in areas -- only in areas where we possess a clear and distinctive positioning, and I would say, now, competencies. So we plan to be a first mover and a market leader in green gas and in gas for transport infrastructure.

Overall, we plan to invest at least EUR 200 million at an average return of around 10% unlevered. This excludes around EUR 90 million of RAB investments that have to do with new interconnections deriving from the green businesses, and these not only our business but also third-party biomethane or CNG, LNG plants -- LNG compressor stations.

So on the whole energy transition, I would say that we have 3 integrated initiatives. These are first, to support the penetration of gas for mobility by building and operating compression, infrastructure and fueling stations. Here, we received, let's call it a quasi-regulated return in the form of long-term contracts from the petrol distributors who want to rent and have us build and manage the station.

Second, mindful of the increasing demand for LNG, especially from trucking and coming quickly also from shipping, we've decided to build some very small micro liquefaction terminals directly connected to our networks. We've determined that this is very competitive compared to today. We're importing from France, from Holland, from Spain, LNG on trucks and trains. So the ability to liquefy gas and make it available for the local market in our assessment is very attractive and profitable.

And third, our most recent business, which is the one of biomethane infrastructure, here, we've earmarked at least EUR 100 million of investments in new capacity. In addition to these 3 integrated business, we will continue to grow our Esco, which is called TAP, offering energy efficiency services to the residential and the industrial sector.

Let's look a little bit more closely at our strategy in biomethane, which is the one we hadn't talked about before in detail. So the Italian incentive covers around 1.1 bcm of gas, and this is mainly done for transport and this lasts for 10 years. Overall, as we've mentioned previously, we estimate an overall market size of around 8 billion cubic meters.

So here we're talking about the first 1.1 billion. And here, we target a 5% market share. So Snam targets a 5% market share of 1.1 billion out of a potential market of 8 billion cubic meters. We are looking to invest in the infrastructure itself. We want to do that either alone or in partnership with local investors, and we've received already a preliminary greenlight from the EU on these types of investments.



This investment is attractive because for Snam, it could generate profits, the investments in 5 ways: First, in the case of wastes, organic fraction of the municipal solid waste, what we call FORSU in Italy, you get paid to take it. So there's a revenue coming from the FORSU. Second, there's a revenue coming from selling the gas on the PSV. Third, there's an incentive of around EUR 60 per megawatt hour when we sell this gas on the PSB.

Fourth, there is an incentive if the project is also an investor in CNG, so you get a next incentive if you can somewhat combine the biomethane and the CNG investment. And fifth, in case that project or other projects are developed with the IES technology, which is the company that we've acquired, we get an extra margin from internalizing the profit that IES is making.

I must say that we're surprised on the positive side not only for the types of returns that we can make on these investments, but also for the number of concrete investment opportunities that our team is looking at. And not only is this a very attractive and secure investment in itself, but it also supports and underpins the central role of the network in the renewable energy space for the very long term.

Turning now to our international businesses. This afternoon, their detailed strategies will be the focus of one of the sessions. All the material will be available on our website. But let's go over some of the highlights.

Regarding Teréga, the news here is that France has decided to regulate storage. So France has decided to follow somewhat the Italian model. This opens the door for additional financial optimization of the capital structure of this business. And here, we continue to work with the joint teams to try to extract as much value as we can from this investment.

In Austria, we are continuing to optimize, again, the financial structure and the operations of this business. We have quite predictable and visible regulation on this front.

In the U.K., there will be an additional contribution from the new stake we've acquired in Interconnector, which is being rediscovered as a key strategic asset for the U.K. as it copes with severe shortage of storage in that market.

TAP continues to progress. It's now over 80% complete. Works have restarted in Italy after the summer break. We confirm startup in 2020 and first gas. Financing is also on track. We expect financing to be completed in the coming weeks. And TAP will contribute around EUR 50 million of net income by the end of plan.

In Greece, DESFA is expected to close by year-end.

So overall, we expect more than EUR 160 million of contribution from our international business by the end of the plan. And this corresponds to approximately EUR 500 million of pro-rata pro forma EBITDA, which is obviously not a directly relevant measure but just to give



an indication EUR 500 million of EBITDA from just the international businesses by the end of the plan.

So I will now hand back to Ale for a closer look at how we can create value from our financial structure, which is the fourth pillar of our strategy.

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

Looking forward, our focus remain on derisking our business plan, managing the impact of a potential increase in interest rate and market volatility.

Over the past 2 years, we have focused on taking advantage of the benign market environment to accelerate reduction of our cost of debt, also via 3 liability management exercises. Derisking the impact of the expected weight increase creating 40% of bonds expiring up to 2021; and increasing the fixed- to floating-rate debt. We've also carried out EUR 1 billion of prefunding to be well-placed in the context of rising volatility that we have seen recently.

We work to extend the tenor and size as part of the prefunding of our banking facilities, locking in the good terms that characterize the market up until the summer break. All of the above actions have significantly reduced our exposure to worsening macro environment and reduced cost of debt to 1.5% ahead of the most recently provided guidance of 1.6%.

Other elements that give us confidence are the following: We are using the current forward curve and credit spread environment, which effectively means a scenario where BTP boomed spread remains at current levels for the entire plan. A below average European -- a below European average leverage, natural hedge embedded in our business model. On this point, in a rising interest rate environment as nonperformance is protected by the periodic WACC update, which impact assets more than liabilities, the negative and positive correlation between financial variables, interest rate and credit spread on one side and interest rate and inflation, respectively. The significant discount we have been trading at versus the BTP.

To manage this risk, as you will hear in our workshop in the afternoon, we carried out an asset liability model which via statistical analysis aligned and optimized our cost of debt evolution with regulatory windows, reducing the risk of the mismatch between actual regulatory assumption and therefore, our cash flow at risk.

Finally, we have upsides from further treasury management optimization, which will also be pursued with recourse to commercial paper market, an opportunistic approach in maturity profile management, further diversification in investors, thanks to our green financing as well as new EIB funding. Normalization of country-risk premium. As an example, should the spread



between the BTP and the bond go back to the pre-summer levels for the entire plan horizon, this would provide an additional 0.4% CAGR to our base EPS CAGR.

And despite current levels, if we were to assume the rollover of the outstanding high-coupon bond at currently Snam yield levels with years in line with expiring ones, this would imply an average saving in excess of 100 basis points.

Snam's credit quality is confirmed by the 6x oversubscription of our September bond and by credit spread trading well below those of the sovereign. Despite Moody's recent downgrade, we remain committed to our previous credit metrics. And as such, we will continue to consider 50.5% as a self-imposed guidance or 60% net debt to RAB as an -- on an adjusted basis as our ceiling.

We expect average gearing due to the plan to remain broadly stable. This leaves some room for potential additional investments, not including in our current plan, to which we will apply the strict discipline which has guided our investment decision to date.

We will only invest at or above the risk-adjusted returns available on regulated organic CapEx, and we are committed to our current rating metrics and risk profile. Furthermore, we assess opportunities based on whether the announced value of our existing assets allows Snam to play an industrial role and support additional growth and strategic optionality. That means, we look carefully at investment opportunities which have strategic coherence with assets we're already on and provide entry points into new growing gas markets with a view of generating further growth potential also via greenfield. Our financial capability also plays a role in our shareholder return approach. In fact, we have invested almost EUR 700 million in buying back our stock.

Let me hand back over to Marco.

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

Thank you.

The strategy we've outlined so far delivers an enhanced earnings profile and superior shareholder returns over the plan period.

Tariff RAB will grow by an average of 2.5% a year up from 2% over the previous plan, driven by investments in the core business. RAB growth will, of course, support revenues which will also benefit from the WACC update in 2019 and the contribution from output-based incentives and the new businesses going forward. This, coupled with the increased focus on cost containment, will drive EBITDA growth of 3.5% a year.



Further efficiency on financial costs will accelerate this growth at the net income level to about 4% a year. This CAGR assumes rising debt costs towards the end of the plan implied by the current rather flat forward curves and a constant regulatory framework. We expect EPS to grow more than net income to over 5% CAGR, thanks to the buyback already carried out or expected to the end of 2018 and to the planned share cancellation.

The increasingly positive context with potential opportunities both for our core business and the energy transition space could lead to earnings upside as we deploy our financial capability and flexibility. We also maintain the additional buyback optionality.

The accelerated growth profile and its long-term sustainability enable us today to set our dividend policy to 5% growth per year from EUR 21.55 in 2017, while maintaining our payout within the 70%, 80% range over the plan period.

So all key metrics in our plan have been improved. This slide sums up all the new targets versus the previous plan and our guidance for 2019. The key elements of the guidance for '19 are CapEx around EUR 1 billion, net income in line with planned CAGR and net debt broadly in line with the one expected for the close of 2018.

So summing up, Snam today is in a sweet spot. Climate change and clean air are now high on the political agenda across Europe. People are demanding solutions that will impact now and not in decades' time. That puts gas and gas infrastructure in a good position.

On the basis of this improved outlook, our track record of outperformance and all the work done over the last few years to internalize new competencies and to streamline the processes, we're today presenting a plan which has improved on all our key metrics.

We are also in a unique position in our industry of having a clear line of sight on value creation to 2030 and beyond, driven by investment requirements of our RAB and the growing opportunity in green gas and mobility.

Looking beyond 2030, we expect to be transporting growing quantities of green gas in our pipeline as biomethane takes off. And also to be hosting solar and wind power through power to gas conversion.

Overall, the gas grid will become an energy grid, and investments made today will enable an affordable energy transition in Europe. In this context, Snam is in an ideal position. We are large enough to have an impact and need the evolution in our market, but we're small enough for the activities that we undertake to have a meaningful and positive impact on our company, shaping our business as we continue to grow.



Thank you very much for your attention. Ale and I will be pleased to answer any questions.

QUESTIONS AND ANSWERS

UNIDENTIFIED COMPANY REPRESENTATIVE

We will take questions both from the room and the conference call. (Operator Instructions)
Please, Enrico?

Enrico Bartoli - MainFirst Bank AG, Research Division - MD

Enrico Bartoli from MainFirst. Three questions from my side. First of all, on the -- especially on the hedges that you have in new investments. You mentioned that during the -- while we present you can provide a bit more color on this? And also, the contribution of the debt cost reduction from the plan. Secondly, on the CapEx, you mentioned the need of -- a significant need of -- sorry for that.

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

No problem.

Enrico Bartoli - MainFirst Bank AG, Research Division - MD

Maintenance and substitution CapEx due to the peculiarity of your network. If you can give us a hint of the sustainable level of this CapEx that you expect also beyond the period of the business plan? And finally, a question on the cost of debt, you highlighted in the slide, I assume that you are assuming that will go to around 2% at the end of the plan. If you can give us some sensitivity on the risk that you see considering the volatility interest rates on this assumption?

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

Okay, thank you. So on the EUR 200 million investments in new businesses, so by new



businesses, as I mentioned, we mean biomethane, CNG, compressor stations and small liquefactors connected to the network. On average, we say 10%, so some would be below 10%, some would be above 10%. In looking at these investments, the strict financial criteria that Ale mentioned, apply. So we will only invest if returns on a risk-adjusted basis are higher than our regulated returns. And you can work out off that number the EBITDA quite easily on this type of business. So -- but I don't want to commit to 10% for each and every investment. This is the average number which is similar to our international businesses. These businesses on the case of the biomethane, are incentivized businesses. So they don't have a revenue risk. In the case of CNG, they're backed by long-term rent contracts with creditworthy counterparts. And in the case of the LNG, we're building infrastructure where we have a significant cost advantage compared to the competition. Regarding the maintenance and substitution, so Massimo I think went into quite some detail as to why these investments are necessary. I must say, the regulator and the government see eye to eye on the need to enhance as much as possible the asset integrity. I would say of all infrastructure, including ours. The run rate you could say just to rule of thumb would be between EUR 700 million and EUR 800 million over the next, call it, 10, 15 years, which is what drives a long-term outlook. Now in one -- in the slides we showed, we say that 9,000 kilometers of the network will exceed 50 years of duration in the plan period. Now if you take a rule of thumb between EUR 1 million and EUR 3 million per kilometer, that would generate huge CapEx. We're not advocating for all the 50-year-old pipelines to be replaced as Massimo mentioned. And as I mentioned when talking about the output-based incentives, we will work with the regulator to substitute where necessary or to enhance life where it's more convenient. So we always look at even if substitutions don't require per se a cost benefit analysis, we always look at doing what is the most cost effective and safe solution for the customers. Regarding cost of debt, we essentially lock in today's forward curves. So if you look at today's forward curves, they're basically flat. So we have an improvement in our numbers compared to the previous plan coming from the WACC. But we have deterioration coming from a forward curve, which is very different from the one that we were using in the previous plan. I don't think we have any risks given that we're using what could be in the long-term considered quite a pessimistic view, but we haven't taken our own view. We've just taken what the market view is. Ale, I don't know if you want to add something?

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

On the cost of debt side, you're right, that the -- towards the end of the plan, it would go above 2% as a result of 2 things: The forward curve, which is expected to grow in near term and then



flatten a bit; and we take the current spread as it was were to remain the same, so 300 basis points from the life of the plan. So in all honesty, we probably may have more of an upside rather than downside because at some point, hopefully, things will normalize. And as I said, if it was to normalize, it would mean 0.4%, 0.5% better CAGR on our EPS equally. If we were to assume for the next 2 years a spread that actually worsen, that would balance this improvement in EPS term. So our plan we think is very solid in this respect.

José Javier Ruiz Fernandez - Macquarie Research – Analyst

It's Javier Hernandez of Mediobanca. Three questions from my side too. The first one is on Slide 21, you're mentioning a total of EUR 250 million of cumulated revenues. If you can give us the number of EBITDA that is on your business plan corresponding to those businesses, I guess the output-based incentive has marginality close to 100%. But I was wondering if you can give us the breakdown because the Snam Global Solutions should be a kind of contracted activity. And I think you mentioned something like 15% margin. So you can give us the EBITDA number that is in your plan corresponding to this output-based incentive and Snam Global Solutions activity. Then the second question is on the Slide #25, on the international activities. You mentioned something like a pro-rata EBITDA of EUR 500 million by the end of the plan. You can give us the pro-rata EBITDA at the beginning of the plan and also the pro-rata debt corresponding to those activities. And the third question is on the financial structure of the company. If I'm not wrong, the company should have the net debt to total RAB at a level close to 50%, 52% through the business plan. So if given the fact that you're still in a significantly higher, can you help us to understand why the company has decided to maintain that level significantly below and why the company has now decided to move up the gearing assumption to 57%, 58%, 60%? The rationale behind that would be appreciated.

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

So I will answer, and then Ale maybe you can fill in on the last one. So on the EUR 250 million, it's I think premature to be too specific because as I mentioned, the regulator in 2019 would be setting and working with us and defining those output-based incentives. To give you some guidance, however, I think what we can say is that if you take in a yearly average, you get to about EUR 50 million of revenue between the 2 businesses. And you could almost split that half and half. And I wouldn't say that it's 100% marginality on output-based, because we -- like in the case of balancing, they're very attractive margins but we've had to build a system and AI and weather and demand forecasting based on weather. So they're challenging. They're challenging. And if you ask our team who is



somewhere here in the room, it's a real effort to meet, the regulator doesn't give us free money. So they're really tough in setting hurdles that so far we've been able to exceed to their great satisfaction, by the way, because if you ask shippers in Italy, I think they would confirm that the balancing has really been a win, win, win. The market is more transparent, more liquid and our customers are happier and of course, we make what is a fair margin. So I think I've given you as much as I'm willing to say on the split between those 2 businesses. On the international, I think you find in our 6 month results the...

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

(inaudible)

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

Yes. No, we said in the half year results, we talked about the pro forma EBITDA for the first 6 months of '18, which is EUR 175 million. Did we give guidance on the debt?

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

No, we gave guidance as operating level. But if you do the math, it's -- you get slightly above EUR 1 billion. You can do the math.

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

For the debt. Regarding the 52%, I think what we're saying and that's why we showed that extra EPS outperformance, we're saying -- and by the way, I think our gearing is slightly higher than 52%. But I will let Ale comment. But we have a plan, as we've had, which substantially sells finances itself. There's some increasing of leverage, but not much. And we preserved some of this financial flexibility and we are using that either for new projects that we see, acceleration of something like biomethane, which could be the case, and as I mentioned, we've preserved the buyback optionality which is there. So I wouldn't see other ways today to absorb that flexibility. I don't know if you want to add something?

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

You are right on an adjusted basis, that's the level that we have and that's more or less the level that we will have at the end of the plan. As always, we have next year, as we said, is not going to be a particularly heavy CapEx plan. But if you divide the number of CapEx by the years, you will not get that CapEx will go up. So it will go up and then slightly come down.



So you need to think about our policy more in a holistic way and not year by year, which is what we need to do given the nature of vision, the long-term vision of matching with what the regulator will apply. You will then need to adjust for rating adjustment metrics, so there is some adjustment that will need to be added on top of the roughly 52%, but the more important message is that the evolution of the gearing follows the CapEx evolution.

Stefano Bezzato - Crédit Suisse AG, Research Division - Lead Analyst on Southern European Utilities

Stefano Bezzato, Crédit Suisse. Two questions. One more general, one for more detail. The general one, you mentioned in your closing remarks that you have the right scale to take advantage of this central role that you expect gas to play in the decarbonized world. You're also open, from what we understand, to new M&A opportunities. So my question is what do you think M&A cannot that you currently don't have? Is it geographical diversification, is it anything else? And the second more specific question on the allowed return that you are assuming for your 2019 numbers, if you can give us an indication.

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

Okay. Thanks, Stefano. So on the first one, when I talk about scale, I mean that -- and this is part of the reason I think why the EU is somewhat supportive and then almost enthusiastic of the TSOs in general playing a role in biomethane, because it's an activity that requires -- can be accelerated if you have the appropriate scale. But it's not an activity, even though the technology has always been there, that historically neither the electricity players nor the oil companies were very keen to accelerate. So I think that's why we're in a attractive position because we can actually make it happen. And the 800 requests that we've seen and the workshops we've conducted and our ability to offer turnkey end-to-end solutions for people investing in the biomethane, in the CNG, getting and maximizing all of the incentives I think is quite unique. I don't -- I didn't mention M&A anywhere in my talk. I don't think we need anything from an M&A perspective, either in terms of skills or diversification or size or scope. As Ale mentioned, I think we continue to look at opportunities with running them through our very strict industrial and investment criteria. And I think to date, everything we've done has perfectly matched that. On the geographical diversification, we don't diversify per se. Certainly, there are markets but we don't need M&A. China is an example of a market that's growing extremely rapidly. We haven't mentioned China in the slides. There's nothing to report on from a formal point of view, but there is a numbers of agreements that we've entered into and we're gaining traction to get exposure to a market like that. Now whether this is through a Snam Global Solutions, whether this is through IES Biogas that does biomethane investments or Cubogas that does CNG investments, I think anything which matches our investment criteria is positive. What we like about the small acquisitions that we've done, so I wouldn't call that M&A I would



call that competence enhancing and kind of in-sourcing, I think they've all worked very well because they now position us to have a conversation that is not simply, "I'll lend you the money and we can go and build a CNG station." It's, "I will build you a CNG station." And before our dialogue with utilities and municipalities on biomethane, was "I can build a plant for you or with you." "All right. What are you bringing?" Suddenly, we're now bringing IES competencies and we know what we're talking about. So I think those types of tuck-in deals have proven effective and I wouldn't exclude more of a teaser, I would call this M&A. Your specific question was on the WACC. Do you want to answer that, Ale?

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

As it was said, just looking at the observation period, what you would get is up to maximum 5.8%. We may not get there, as Marco said, as the leverage may gradually be increased versus currency situation. I think it's a matter of few weeks to find out what the exact numbers it would be, but we are -- the former -- and the application of the former gives a very specific band within which you can guess where the WACC may come out.

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

If I can add just a qualitative comment. I think it would be difficult for us not to ask for 5.8%, because that's what the former says. I think it would be may be a little too aggressive to have 5.8% in our numbers. So we do expect maybe some debt to equity adjustments.

STEFANO GAMBERINI- EQUITA SIM SPA, RESEARCH DIVISION - ANALYST

Stefano Gamberini, Equita SIM. Three quick questions, if I may. First of all, regarding the RAB at the end of the period. If I'm not wrong, the tariff RAB will be EUR 21.7 billion, could you give us an idea of the work in progress that you expect in this RAB? The second, regarding the growth of EBITDA around EUR 400 million. If I'm not wrong, from output-based incentives and global solution, the contribution should be in the region of EUR 30 million, EUR 35 million. Then we have a further EUR 20 million from new investments. So am I wrong that EUR 350 million should arrive from just investments? Or I'm losing something in the breakdown of the EBITDA at the end of the period compared to the current one? The last question regarding the dividend policy, now you improved substantially your dividend policy with a 5% CAGR to 2025, while the growth of EPS is more in line -- more or less in line with the previous one. So why you changed your approach? Where are the main risks that you see on this dividend policy, if the pay out, I don't know, goes down, goes above, sorry, 80%,



you can change the dividend policy? Or are there some other elements that could impact these targets?

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

I will may be answer the last one and Ale, can -- you can take the first 2. On the 5%, so let's go back to 2016 when we started, we had -- before the demerger, we had a very high payout and we had a much lower dividend. And so the decision we took last year when we did the first plan post demerger was to be quite conservative on the dividend. We intentionally wanted to have an outperformance of net income over dividend to bring the payout back to a level that we considered sustainable not only in the medium but in the very, very long term. Now we've been surprised on the upside as to how we've performed in 2017 and in 2018. So we expect a net income starting base, which is much higher than what was envisaged in the previous plan. So the income growth we've giving start from a much higher base, which really helps on the payout front. So we are very comfortable with that 5% growth. As I mentioned in my remarks, in 2022, we're assuming, let's say, regulatory stability, where -- which is in line with the conversations we've now had a few times with the regulator, which is that of sticking to the existing framework and working within that as opposed to changing anything. In terms of market changes, as Ale said, I think we're nicely hedged, and I don't see that as impacting that growth profile.

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

So on the work in progress in the last year of the plan, you have around EUR 800 million of work in progress just for the transportation business. When it comes to the growth, I think probably it's more meaningful to look at net income level because then you capture also something which has materially changed versus last year, which is the debt, the liability scenario, which is taken away from the power plant as I was saying earlier.

So you have clearly the benefit of a possibly higher WACC versus what we had in last year. You clearly have the benefit of more CapEx, although some of the investments are towards the end of the plan. So not the full benefit of this fills through net income by the end of this plan. So you have less growth than what otherwise the CapEx that you have seen would generate. And then you have the growth that comes in from new businesses.

So in a way, if you were to look at the 2.4% of growth, you have a CAGR from the WACC the growing RAB, effectively. And then you have a non-fully reflected contribution from approximately 0.5% for CapEx that have been spent and done in the plan horizon but not yet filtered through your EBIT and of course, the negative that I was mentioning earlier obviously a 0.5% scenario if you want is to taken away from past year growth.

Unidentified Company Representative

Operator, may we take 1 question from the conference call?



Operator

Our question comes from Harry Wyburd from Bank of America Merrill Lynch.

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

It's Harry Wyburd from Bank of America Merrill Lynch. Some of my questions have actually been answered but just 2, I guess, clarifications. So firstly, on the WACC in 2022, was I correct to understand that the regulator has indicated that it's planning to stick to the existing formula in 2022? I think the current formula was only due to have a shelf life of 6 years ending at the end of 2021. So should we expect that this is a formula that works, and the regulator is happy with it and that, that would continue from 2022 and beyond? And then second one, just coming back on the green gas. Obviously, this is a renewable technology. But I wondered if you could give us some stats on how renewable it is. If I understand correctly, you're avoiding emissions from -- or methane emissions from the waste you collect. You've obviously got no cost to extract gas from underground in the traditional way. But you'll still burning it at the end of the cycle. There have been lots of studies done on electric vehicles in terms of the full cycle emissions compared to conventional vehicles. Has there been an equivalent study on biogas? How much less emissions are there from renewable gas compared to normal gas?

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

Henry, so the -- just to be very clear, I have not had a specific discussion nor would it be appropriate to have one now around 2022. What I said is that the regulator has indicated in very general terms that they want to preserve the visibility, predictability and transparency of the regulatory regime. And that we don't see a reason why there should be a change in 2022. And that's the working assumption that we have. Coming to biomethane, so biomethane is certified as being 100% renewable. And it has a huge advantage compared to any other renewable that because it's in gas form, it can be stocked at very low cost, and it can be transported at very low cost and it can be delivered wherever we want it to be delivered. So you're right in saying that there is a CO2 gain from avoiding emissions that would've happened as that waste went to its landfill or other sources. And that CO2 is indeed readmitted again but is a net 0, and this is something that's shared with all the NGLs, et cetera. You -- so when you look at a biomethane fueled car, it is by definition the cleanest you can get both from a CO2 and from an emissions point of view. Because if you look at well to wheel cycle, until a theoretical day when 100% of the electricity is



green, you will have CO2 in the green mix, so in the electricity mix. So of course, when you do a comparison, which instead of well to wheel is tank to wheel and you don't have biomethane, then you're comparing traditional gas to electricity without taking into account the electricity -- the CO2 in the electric system then that's not probably the most accurate competition -- comparison. But as mentioned, when looking at biomethane and even normal methane, we're looking at challenging diesel as opposed to challenging electric vehicles that will have a trajectory of their own and will have great success in the industry, no doubt. Even if you take the most optimistic estimates of electric vehicles, you get to 15%, 20%, 25%, 30% some say 40% penetration by 2040. That still leaves 60%, 70%, 80% petrol or diesel which there's no reason why we need to wait to address.

ANTONELLA BIANCHESSI - CITIGROUP INC, RESEARCH DIVISION - DIRECTOR AND HEAD OF EUROPEAN UTILITIES EQUITY RESEARCH

It's Antonella Bianchessi from Citi. Three question. The first one is very big picture. But the regulatory model is based on a growth dynamic of revenues above inflation, while the underlying business of gas is potentially shrinking. Do you think this is sustainable in the very long-term? How these 2 driver will converge at some point? And how Snam can manage this conversion considering also the balance sheet of the company. The second question is on the share buyback. There is a note saying that you vote EUR 440 million. We should assume that this is completed and also if you can discuss if you're going to cancel the shares and when? And the last question is, is the impact of the 2020 regulatory review embedded in your planning terms of revenues or EBITDA?

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

Thanks very much, Antonella. So on the first point, as I showed in that slide, whatever demand outlook you take, we need 100% of the revenue to run a market, call it, at 30 or 35 bcm. So before you get to 35, it's 20, 50 or whatever that number out in time is, even assuming radical decarbonization. So I see a binary situation. Either which is the most likely Europe continues to press ahead with very serious decarbonization and it will need to put billions of euros to do so in infrastructure, in CapEx and utility bills will go up. Someone will have to pay for this because renewables are still going to be intermittent. So in that scenario, the infrastructure gains competitiveness because we don't need any extra CapEx and we can become green without spending real money on the infrastructure. In fact, we can become greener with spending no many on infrastructure, whereas electricity becomes way more expensive. Starting from a situation today with very limited renewables, very limited -- with significant renewables but limited to the 2050 outlook where electricity on a wholesale level is already 3x more expensive than gas. And if you look at electricity at the retail level when you add on all the incentives for renewables, it becomes even more expensive. So if we go down a deep decarbonization, I think the competitiveness of gas is



enhanced, not diminished. So I see no scenario in that instance where we have a diminishing revenue at Snam. If Europe, or let's say there's a breakthrough in CCS or if we convince India and China -- because when we talk about CO2, we're talking about India and China, we're not really talking about Europe because the coal is what's really creating the mess from a climate change perspective. Let's say we found a global solution to CO2 that allows Europe to preserve current policies which are already world leadership. This is a scenario I don't believe in but some advocates are arguing for this. Then we're simply where we are and so again, I see no scenario where we shrink our revenues. As Ale said, our balance sheet is there to sustain almost any type of shock. And we've run scenarios, I would say, with Massimo. We've run an industrial sensitivity on the level of demand needed to justify this in future CapEx and that level is very low. We've taken those numbers with the commercial team and tried to look at how expensive gas transmission would be in that absurdly low scenario. And it still is hugely competitive. And then we've run a balance sheet stress case, trying to throw everything at it. But the resilience is quite there and being under levered, going back to the previous point, or slightly under levered is certainly placing that direction. In terms of share buyback, the number you have, 440, Ale, correct me if I'm wrong that's the commitment to year end. So some has been done and some hasn't yet been done. And we will cancel all the shares. We need to keep some for management. Performance schemes, as you know, have moved from being cash-based to being equity-based to better align the incentives of our teams. In the 2020 review, we I think are being quite prudent, in the sense that we are not putting in our numbers any change to the beta. But I think they are very strong arguments looking at the factual evidence that the beta should increase in this framework. And if you simply put the current forewords -- or let's say it differently. The observation period for the current WACC was based on a October to October or September to September window, and the spread really only went up from July. Had the observation period been shorter or had the observation been 2019, the WACC would have gone up to 7% or something like that. So I think this is a kind of starting point, as we think about 2020. Not implying that we get anywhere near that, but just to say the kind of moral situation we are in.

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

Yes, on the last question that you had. I think vis-à-vis last plan, the differences are, on one side, the treatment of work in progress for the transportation business, which is more visible. That adds to our net income, as well as the extension that we expect on the 10 year incentive, which is now up to 2021. So these are the 2 main side from the WACC elements.

ANTONELLA BIANCHESSI - CITIGROUP INC, RESEARCH DIVISION - DIRECTOR AND HEAD OF EUROPEAN UTILITIES EQUITY RESEARCH

So you see an upside in revenue...?



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

Not in the numbers.

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

No, it's not going to be meaningful. The more meaningful vis-à-vis the old plan is the work in progress treatment.

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

Anna Maria Scaglia from Morgan Stanley. Two very quick questions just to clarify. The first one to follow up on Antonella is in 2020. Are you making an assumption in terms of cost clawback, therefore, you're allowed costs going down because we discussed the RAB and the remuneration there, and if you can quantify those? in the second question is about allowed return both in 2020 and -- in '19, sorry, and 2022. Are you assuming -- I know I understand you don't want to give the number, but are you assuming the allowed return to be up in 2019? And eventually by how much? And do you assume in 2022 the allowed return to be flat relative to 2021?

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

Okay. I'll take the last one and Ale will give you the second one. So yes, it will go up. I said from 5.4 it could get up to 5.8. That's what our demand would be. That's what the formula says. That's leaving intact the debt-to-equity. There could be some debt-to-equity deterioration. So we factor some of that into our numbers. And we don't expect any change from 20 -- say, in 2022. Now that's somewhat conservative because we have the forward curve but we don't take into the WACC any adjustment deriving from a higher forward curve. So going back to what I said before, let's assume the spreads remain where they are today, we would have a much higher WACC in 2022 but we have not put that into our maths. Ale, for the cost -- I assume we do have the cost clawback that's something that the regulator will, I think -- something that we do and that we've done that is good to do is that we've progressed on our cost-cutting program regardless of what the full year is. We've stayed away from tactics in cutting costs. And I think it always pays off to be cutting costs whenever you can without worrying too much because ultimately, you're transferring the savings to consumers, which is healthy and good and the regulator likes that. So indeed, we will have some



consequence of having cut more costs in '18 than we would have done if we were simply cynically looking at what was in our regulatory interest.

ALESSANDRA PASINI - SNAM S.P.A. – CFO

But confirm that the clawback is embedded in our numbers of the delta efficiencies versus recognized cost.

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

(inaudible)

ALESSANDRA PASINI - SNAM S.P.A. – CFO

But it's going to be as for the latest consultation document on a 4 year period horizon.

UNIDENTIFIED ANALYST

This is in Aldo [Monatti] from [ETKS GR]. And my question is on the SG guiding principles and specifically to the social pillar. You mentioned that you launched the Snam foundation and one of the key goals of the foundation is engaging with local communities. And my question is if you have already a specific plan for this foundation to engage with the local communities in the southern of Italy affected by the TAP project which is going to be launched in 2 years? And if yes, if you could give us some color on this?

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

Okay. Thank you, Aldo. Indeed, the foundation is something that we spend a lot of energy and time on. Thank you for giving me the opportunity to spend a little time on this. We have decided that we have some quite unique skills in this country because of our 1,000 construction sites. In Italy, it's quite complex to get infrastructure built. The cross of local legislation, regional legislation, national legislation, the Codice Appalti, so the procurement rules mean that even for a municipality, it's very challenging to get stuff done when it comes to building it. We have a team of 3,000 people. And most of what we do is managing that process, the engineering, the design, the permitting, the procurement, the construction and then the operations. So we have noticed that very many situations, and a lot of them are in southern Italy but only in southern Italy, the municipalities have a lot more money -- or have money to spend, whether it's EU funds



or national funds, for projects but they're unable to execute them. So we have said rather than the foundation like other companies have foundations that simply give money, we will give our knowledge and our know-how, which is a lot more effective. So we can go to a municipality and say, the government has given you X million euros to restructure several schools. We can step in, in partnership with you and make sure the schools are actually built. And this is something that the municipalities like more than the money, because the money, often, they have already. And so indeed, we're doing a lot of this in southern Italy. We have a project ongoing in Sicily. Undoubtedly, we will have something in Puglia as well. But the foundation is not about giving money. It's about getting stuff done, and we can do this in partnership with other foundations. There's a number of banking foundations that again are cash rich but execution is not necessarily always there. So we've decided to focus on the youth poverty, on education and on the infrastructure.

UNIDENTIFIED COMPANY REPRESENTATIVE

Okay. May we have another question from the conference call?

OPERATOR

Our question comes from Rui Dias from UBS.

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

I have 2 questions. The first one is regarding returns. I think that by now, it is clear that the regulator is likely to use the current formula to calculate the new WACC, for 2019 to 2021 at least. And as you assume in your plan, the likelihood of an increase is indeed high. But I was wondering is there any chance that during the review in 2020, the regulator might fully offset or partially offset this increase with cuts elsewhere? I guess that as you mentioned, you could have some cuts in OpEx, but could you also have a reduction of some incentives or any other item in the regulation? Essentially, what I'm trying to understand is what is the downside risk to your current, I would say, positive view on regulation or -- if when you speak with the regulators, do you feel that the regulator is rather comfortable with the potential increase in gas bills? So this will be my first question about returns.

The second question is more high level regarding your long-term outlook for the gas sector. And the question is if we have a technological breakthrough on storage or batteries, could this compromise your view regarding the importance of gas in Europe? to expect that at



some point the dividend, not just the DPS, but the total dividend will grow and shareholders will benefit from the cancellation of shares?

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

Right, so on the returns, I think the impact on utility on household bills is negligible. I think it's below EUR 0.75 per year on what assumption? On every 100 -- every 10 basis points is EUR 0.75 I think.

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

Yes. Right

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

That's the calculation. So every 10 basis points is EUR 0.75 per family. So it's -- that's not the issue at all. And as I said, I think our argument is the observation was so short that the proper WACC should be much higher than 5.8. Now we don't expect to get anything higher than 5.8. But the only lever -- I don't think they will touch output-based incentives because I think it's a win-win situation. They have nothing to do with WACC. The lever they would have is the beta. But as I said on the beta, I think we have many more reasons why the beta should go up as opposed to going down. And it's -- these are very technical discussions that you have with the regulator. It's a noncommercial, nonpolitical discussion. And the regulator is actually really independent if you look at who they are in some detail. It's not a government entity in any way. And the beta discussion is a discussion based on 20, 30 pages of benchmarks and analysis. It's not something where you can just say, okay, the beta is coming down. There would be many, many arguments in our camp to say that the beta should go up. So I don't think that's something to worry about. And I don't think the OpEx cut, again, is any way linked to the WACC. Looking at the very long-term future, I think eventually, more than on the batteries, I think that we will find a better way to capture the sun's energy. Even the best and latest technologies are still capturing a fraction of the potential of sun. So I expect a breakthrough there. And as I talk to research labs in Stanford and other universities, I think that's what people expect in the next 20, 30 years is a real breakthrough on increasing the efficiency of solar. On the battery front, of course, there will have to be improvements. I must say there have been none. The costs indeed have come down but if you look at the amount of energy a battery can store and the size of batteries, I don't see -- I see costs continuing to fall. But here, we're not talking about costs. Here, we're talking about the fact that if you want to store energy seasonally, no battery or combination of batteries can do that because you would move from using a battery every 4 hours if you look at



the chart we showed. We say gas storage is EUR 5 per megawatt hour. Battery storage is EUR 200 per megawatt hour. But that EUR 200 is run on a 4-hour cycle. That means you use it 6 times a day. That means you use it 2,000 times a year. If you were to use that battery for seasonal storage, you could use it only once a year. You would have to put summer energy in the battery and then keep it in the basement for just 1 shot of use in the winter. So that would make the costs go up by, call it, 100 times, 200 -- I don't know what the maths is, but it's illogical to use that or any other type of current storage for seasonal. And as the market becomes more global, as China becomes a big buyer of LNG, prices will become very, very seasonal. Just look back at the last 3 years, winter and summer prices vary a lot. And so that storage advantage I think is there to stay. And when we will have finally that solar breakthrough, that's the time when we go into North Africa and build huge solar farms in North Africa and then use the existing gas pipelines to import that renewable energy in the form of power to gas because that is by far the best, most effective, cheapest way not only to help North Africa but also to import into Europe that renewable energy.

UNIDENTIFIED COMPANY REPRESENTATIVE

Javier, please?

JOSÉ JAVIER RUIZ FERNANDEZ - MACQUARIE RESEARCH - ANALYST

A follow-up question on TAP. I guess the question is although the government has been very clear on their support to TAP and the liabilities that for the state, I think, they mentioned the introduction of the project, could mean. There still is debate at a local level. So the question is much more along the lines of do you think that, that noise and that political discussion in the region of Puglia that is still going on maybe affect the timing of the true-up for TAP? And if you are seeing -- if you see any scenario in which the conditions for the financing through -- with DESFA of the project has been worsening because of that debate that is going on and has not finalized? And a second question on TAP that is related to that is that I think that in your speech you mentioned that the contribution by the end of the project could be 50 -- EUR 50 million. Could you give us that number at the beginning that I guess is 2021?

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

Okay, so you should expect a ramp up. So 2020 is when it starts, 2021 is the ramp-up year, 2050 -- 2020 is when we say EUR 50 million. The -- on the financing, I don't see any risk. If



anything, the outlook has become better, not worse. And the local opposition indeed is still there. And I think what TAP has to do, this is not Snam, is continue to dialogue as much as they can. But we confirm 2020 as the start time.

UNIDENTIFIED ANALYST

And the contribution?

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

50 million, around EUR 50 million.

UNIDENTIFIED ANALYST

That's from 2021?

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

No, that's from 2020.

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

Oh, 2020, no, 2020 is negative. I mean it's negative '18, '19, '20. '20 it starts, '21 it ramps up. 2022 is around EUR 50 million.

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

And I think the 2021 is just a few million less than 50. So it's a very small ramp up so don't think it's like 20 million in 2021 and 50 in 2022.

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

Of course, it depends what month of 2020 you start the ramp-up phases but, say, steady-state becomes 2022.

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

And on the financing, and I think it's a completely separate discussion. It's a complex financing structure. That's why it's taking long. We have received commitments by commercial banks. We are working on the documentation. So we -- it's just the complexity of the paperwork and the number of actors that make it longer than a usual corporate or a single-handed project financing type of project. So that's what is taking long, it's not related to the recent debate that we've been watching.

UNIDENTIFIED COMPANY REPRESENTATIVE

I think it's the last question.



UNIDENTIFIED ANALYST

Just a quick follow up. Can you update us on the situation and your assumption on the contribution from DESFA? If there are discussion with the government there about the regulation, what you assume in terms of CapEx. You mentioned in the past that you have request from several shippers in order to speed up the CapEx in the Greek grid, so can you give us some details on this?

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

Ale, please take this.

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

I think there are no news since the -- I mean, vis-à-vis what we told you in the past simply because this closing hasn't occurred. We haven't yet made our own plan as a new shareholder of DESFA. So I think the guideline up there, 10 year strategic plan, still is a good one, which I think is around -- was around 300 or 400 million type of CapEx in the near term. So we are working on finalizing all the documentation and the authorization of the CPs for getting to closing by year-end, which is what we have on target. And then once we will be in the company, we will, of course, provide our own plan to the financial community. But for the time being, it's a very restrictive privatization process and we need to follow the rules.

UNIDENTIFIED COMPANY REPRESENTATIVE

Okay. I think there are no more questions. So Marco?

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

Okay. Well, thank you all for joining us. To those of you who are staying here, please I hope you enjoy the afternoon sessions and thank you for your participation and your questions. Bye.

OPERATOR

That concludes today's conference call. Thank you for your participation. You may now disconnect.