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Full Year 2019 Results - Conference call

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OPERATOR: Good afternoon. This is a Chorus Call conference operator. Welcome, and thank you for joining Snam Full Year 2019 Results Conference Call. After the presentation, there will be an opportunity to ask questions. Should anyone need assistance during the conference call, they may signal an operator by pressing "*" and "0" on their telephone.

At this time, I would like to turn the conference over to Mr. Marco Alverà, Chief Executive Officer of Snam. Please go ahead, sir.

MARCO ALVERÀ: Ladies and gentlemen, good afternoon, and welcome to Snam's full year 2019 results. I hope you're well and safe in these difficult times. Alessandra and the IR team are on this call with me, but we're all connected from our homes. We have tested the system multiple times, and you shouldn't notice any difference, but please bear with us if there's a glitch.

Most of the people who work at Snam are now working from home. We're in the fourth week of smart working and have extended it to our operations throughout Italy for nonessential personnel. For the essential services, like ensuring the energy continues to flow in Italy, we have put in place a maximum security protocol for people involved. And we're also in active contact with the major shippers in Russia, Libya, Algeria, to monitor risks to gas supply for Europe. The maximum security protocol I was referring to for the gas dispatching center involves running it in 2-week shifts.

Before the start of the shift, the whole team is tested to ensure they are COVID negative, and then they're placed into isolated accommodation we've built in the courtyard of the dispatching center, where they work and live safely 24/7 for 14 days on 12-hour shifts before being relieved by another shift. The first team enters their shift on Tuesday, and I'd like to take the opportunity to thank our colleagues for their commitment and dedication in dealing with these unique circumstances. Meanwhile, on the field, we have suspended around half of our major 250 construction sites. We remain broadly on track on our main milestones, but we may need to cut that number further down as we progress.

Looking beyond operations, we face this complex market environment with a strong financial position. Our debt has an average tenure of 5.6 years and three-quarters of it is fixed at very attractive rates. We have €1.5 billion of debt rolling over this year. Of this, we have covered around 70% with pre-funding activities in 2019, and we have recently secured a new €740 million loan for between 2 and 3 years at zero cost. Overall, we expect limited impact from COVID-19 on our previous net income guidance of €1.1 billion for 2020, of course, depending on the course and then severity of the crisis.

With our Board of Directors, we have decided to donate €20 million in support of the healthcare system and the NGOs who are fighting very challenging battles right now and for which we are all extremely grateful. We are very proud to have been able yesterday to lock in a contract working very closely with some of our key international partners to be able to source internationally up to 700 ICU lung ventilators and over 1 million N95 DPI masks that we give to hospitals and doctors in Italy and the masks to our workers, our suppliers and our partners.

Turning now to our results for 2019. It was a very strong year for Snam. Regulated revenues grew 2.6%, thanks to our continuing investment in the network and the update of the allowed return. EBITDA grew faster than revenues and was up 3.5%. This is also a result of our ongoing cost savings plan.

Income from associates was up 35.8%, mainly benefiting from some exceptional items, DESFA, which was not included in 2018 results and benefited from strong consumption growth of gas in Greece. Teréga's results also grew driven by the completion of the Gascoigne-Midi project and some one-off accounting effects, and Italgas results included a special gain from the consolidation of Toscana Energia, of which Snam's share is around €11 million for 2019.

Overall, net income was up 8.2%, benefiting also from our relentless efforts on the optimization of our cost of debt. EPS grew 11% with a cancellation of 74 million shares in April 2019 under our share buyback program. This number does not include 34 million shares, which have already been purchased and which we will propose to be canceled at the next AGM. As you will have seen this morning, we're also going to ask the AGM for a new €500 million share buyback plan.

In 2019, we also delivered strong progress on our ESG agenda. Starting with one of the greatest challenges of our industry, which is to reduce methane emissions, we've delivered a 19% reduction, which is nearly half of our ambitious 2025 target starting from a relatively low 2016 base. To achieve this, we have changed some equipment, and we've reengineered several processes, especially those during the maintenance and replacement activities in order to be able to capture, recompress and re-inject into the pipelines the gas that was previously being vented during these operations.

We have also undertaken a broad field measurement campaign with 150,000 measurements already taken. And we plan to start a further systematic leak detection campaign in the second half of 2020.

We continue to invest in our people. In 2019, we've delivered more than 114,000 hours of training and smart working roughly doubled to almost 123,000 hours and had become a key feature of our capacity to increase productivity, increase agility and increase employee satisfaction even before, we're now using it more extensively due to COVID. This habit of being able to smart work is indeed helping us right now ramping up to almost 100% smart working without any flaws. In fact, we are also discovering new and very effective ways of working together, even if we are physically separated.

The central role of ESG in our strategy is enshrined also in our governance. We are one of the first, if not the first, listed companies worldwide to introduce a Board Committee focused only on ESG. This is a dedicated ESG Committee. As ESG becomes a key feature of global financial markets, Snam will increasingly benefit from its leadership in this field. On the equity side, we are already leading performers in the key sustainability indices, and over €5 billion of our debt already has significant ESG features embedded

Our strong results of 2019 come off the back of good progress on each of our 4 strategic pillars. Starting with our core business, volumes of gas grew significantly in 2019, mainly because it was cheaper to generate electricity from gas rather than coal for much of the year. This increased demand was also supplied by rapid growth in LNG, which in 2019 became extremely ample, and we received 57 ships in Panigaglia compared to 21 ships in 2018.

On CAPEX, we completed investments for around €1 billion on time and on budget for the 12th year in a row. We continue to see strong demand for connections to the grid from CNG and biomethane plants.

In this new business, in 2019, we have signed new contracts…87 new contracts for connections that are worth around €35 million. We also improved our performance on those activities and services, which the regulators incentivize us to undertake, generating $18 million of revenues compared to $15 million the year before.

Moving to our international activities. TAP is around 93% complete, and we're continuing work onshore and offshore for the time being. More broadly, we continue to support our associates leveraging on our expertise. For example, Teréga successfully completed an 8-year €400 million bond, 10 times oversubscribed, at a coupon of only 0.625%. We have continued to create value from our financial structures, buying back a further €597 million of bonds and €150 million of shares. This brings the total share buyback executed to date to €889 million.

With regards to the energy transition, our strategy is progressing ahead of schedule. We have gained exposure to a number of significant growth areas. Starting with biomethane, in this sector, which our long-term scenario suggests will grow to over 10 bcm in Italy; we have consolidated our role as a key enabler of the market through the acquisition of Renerwaste and the ongoing construction of the Enersì Plant. This puts us in a strong position to reach our 2023 objectives of more than 40 megawatts of biomethane production capacity.

Turning to energy efficiency. This will be a key pillar of European and Italian decarbonization strategies. In Italy alone, there are €200 billion of investments planned by 2030 in this sector. We had already positioned ourselves through the acquisition of TEP, which is a leader in the residential sector. Last year, TEP acquired and is now merging TEA, a specialist in the development of combined heat and power plants, enabling it to consolidate our position in the industrial sector as well.

Turning to mobility. We have signed agreements to build 107 CNG or LCNG stations. 7 CNG and 3 LCNG stations have already been built. And we expect to have about 45 stations in operation at the end of 2020.

Regarding hydrogen, in 2019, we set up a dedicated business unit. We continue to make good progress on ensuring our assets are hydrogen compatible. We ran a second trial in Southern Italy, delivering a 10% hydrogen blend to 2 industrial customers. We have launched a [indiscernible] procurement strategy for pipelines, and we're also running a hydrogen audit on existing pipelines. Early results suggest that out of 300…out of 33,000 kilometers of our network, around 70% is already fully hydrogen compatible, while 30% will require either some operational or some technical interventions.

We have also signed very recently an agreement with Alstom to de-carbonize rail transport with hydrogen. Alstom is a global leader in this space.

We expect hydrogen to play a significant role to de-carbonize, particularly the so-called hard to abate sectors. Overall, we expect new non-regulated businesses to generate positive EBITDA this year, although this key milestone could be delayed due to COVID-19.

I will now hand you over to Alessandra, who will review our international associates and give you more color on financial results for 2019.

ALESSANDRA PASINI: Thank you, Marco, and good afternoon, everyone. Looking at our international associates in more detail, the increase in net income contributions in 2019 versus 2018 was driven by the full year contribution of DESFA, including the portfolio since December of 2019. Its exceptional performance in 2019 is mainly linked to higher-than-expected volumes of gas we released as commented in the past, thanks to the higher gas demand for power generation due to the accelerated lignite phase out. We have considered the cost of those extra revenues will be reversed to the system through recalculation of tariffs from 2020 onwards. And it also includes the application of new tariffs applied only from September 2019.

Second component was the positive options of 2019 capacity in Interconnector, U.K.; in the context of a much less liquid LNG market than it is today and good results of Teréga. Thanks to the increase in asset base, the greater net income due to the complete amortization of portion of the PPA and a one-off effect connected to the release of a tax provision accrued in 2017, partially offset by the payment of the consent fee to bondholders for the leveraging as an exercise and executed in…at the end of last year.

With the objective of optimizing the capital structure in February, the holding company of Teréga successfully completed an 8-year €400 million bond issuance, characterized by an extremely high demand and a very low coupon at 0.625%. In 2020, we expect a slight decrease of the contribution of international associates mainly linked to the new regulatory period for Teréga that showed the decree of [indiscernible] and the normalization of the performance of [indiscernible] in U.K. Contribution from our sale of Felix in 2020 is expected to be in line with 2019, while the new regulatory period will start in 2021.

On the regulatory side, 2019 has been an important year with the closing and satisfactory terms of the tariff produced in Greece and France. On top of that, the ongoing review in Alstom, which is due to close in the next few weeks, we will be in a position to have 3 to 4 years of regulatory stability and visibility ahead of us.

On the operational side, Greece has achieved significant milestones with the completion of Revithoussa upgrade, which has arrived in time to accommodate the large inflow of new LNG in the market with 55 cargoes.

Turning now to our ongoing efficiency plan. We delivered €51 million savings by the end of 2019 compared to the 2016 cost base when we started our efficiency plan, and we are on track for our target of overall savings of around €65 million by 2023. Efficiency initiatives offset the cost increase due to the higher operational complexity of the transportation business with more kilometers managed versus 2016 and the increase of storage capacity made available with the [indiscernible] operation of Bordolano as well as finally, but for Italgas spin-offs. Core business costs are, therefore, lower today than in 2016. This compensates increase in other non-core business, including the introduction of the new businesses in energy transitions and its new initiatives. In 2020, we expect to reach around €60 million of savings compared to 2016, thanks to the continued trend in the reduction of external expenses, the in-sourcing of some operational activities and further savings from contract renegotiations.

Adjusted EBIT in 2019 was up €12 million over the same period of the prior year. This reflects higher regulated revenues, mainly due to the increase in allowed remuneration, tariff RAB and the ramp-up in regulated services, which achieved a further €3 million versus 2018…2019. Since the launch of this product at the end of 2016, we have reached a contribution of €18 million [indiscernible].

The effect of cost-cutting recommended higher D&A due to the capitalization of new assets in the perimeter for around €40 million and write-offs related to work-in-progress in the transport business due to the cancellation of feasibility studies and engineering costs related to some past projects. Other negative components include deferred accruals, the release of some provisions, some transaction costs and energy costs related to Panigaglia, which we expect to offset going forward, positives such as higher sales of materials and lower CO_2 costs. Adjusted net profit in 2019 was €1.093, up €83 million compared to last year, driven by the quality performance of our operations, lower net interest expenses of €30 million, thanks to a number of actions carried out last year, including the liability management exercises and the effect of bond rollover.

As explained, the higher contribution from associates and higher taxes due to higher pre-tax profit. Tax rate was 25.5% on earning before tax, including associates and 26…versus 26.2% in prior year.

Turning now to our cash flow. Cash flow from operations amounted to €1.5 billion with 20…€21 million of negative impact from working capital movements, mostly related to the payment in favor of [indiscernible] tariff for overcharges and penalty cash-in the prior year and €38 million of other tariff-related items, of which 86 negative due to overcharging and penalties and 55 positive due to additional tariff components.

Operating cash flow cover net investments, net financial investments related to energy transition, dividend payments, reaching a net debt at year-end of €11.9 billion, also including circa €40 million of share buyback and the cost of the liability management exercise carried out in December.

Turning to the non-debt structure and the reduction in the cost of debt. Our average cost of debt in 2019 was down from 1.5% to 1.1% with €165 million of total net financial charges. This…thanks to the bond rollover effect with replacement of higher coupon expiring in 2019 with new funding such as the €500 million climate action bond and €250 million product placement issued in the first half of 2019 at significantly lower rate, continued strong treasury optimization efforts including €2 billion of commercial paper program fully utilized at December '19 at a negative cost, and September '19 prefunding for 2020 maturities with €1.1 billion composed by Snam's longest ever zero coupon in its first 15 years of issuance.

Snam is well positioned to cope with the current volatile market conditions, leveraging our new financing secured over the last couple of weeks with relationship banks for more than €700 million, €3.2 billion of undrawn pool credit lines, whose maturity has been extended by 1 year in July and they now expire in 2023 and 2024.

Significant cash on hand for approximately €3 billion and a maturity profile which is well spread over time, also thanks to the regional liability management transaction completed in December. This exercise is the last of 5 for a total amount of €5.5 billion of bond targets which allows reducing our funding cost and exposure to potential low increase. We have the 4 low refinancing needs in 2020, and we also benefit from a relative…relevant weight of fixed debt…fixed rate debt in our medium and long term package.

As highlighted by Marco, sustainable finance is a key part to our funding strategy, and we will increase its share over time. This is consistent with our ESG strategy and help to diversify our investor base which is showing a strong inference [ph] for these interests.

In February 2019, Snam issued its first climate action bond and being the first in Europe, and today has already allocated over half of that €500 million funding. In addition, we have reached the target set on our €3.2 billion sustainable loan, therefore achieving a step down in the margin of 2.5 basis points.

Finally, in 2019, Snam has signed €265 million over 3 year financing with European Investment Bank, with a fixed rate of circa 1% and a maturity of over 10 years. Thanks to all of the above, we target the reduction of circa €10 million in net financial charges in 2020, coherently with guidance we gave in November.

Thanks for your attention. We will now be pleased to answer your questions. May you ask…may I ask you to speak clearly and slowly, and we will now take all of your questions? Thank you.

Q&A

OPERATOR: Excuse me; this is the Chorus Call conference operator. We will now begin the question and answer session. Anyone who wishes to ask a question may press "*" and "1" on their touchtone telephone, to remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when asking questions.

The first question comes from Mr. Javier Suarez of Mediobanca. Please go ahead, sir.

JAVIER SUAREZ: Hi, good afternoon to everyone, and many thanks. I hope that you and your families are all well. 3 questions on my side; the first one is on...as you mentioned the...obviously the difficult ongoing situation and the effect that this may have on companies starting with CAPEX deceleration. So the thing that I would like to understand is, if you can give us some more color and some more light on the possible impact on your CAPEX coming from that deceleration. Obviously, this is all related to the length in the crisis, but it seems that the length is going to be longer than initially expected. So I just wanted to know how this could affect your Business Plan and your capacity to deploy CAPEX and all the things that has been included in your November Business Plan.

Second question is related...is a related question. The government has said that it's going to announce in April a decree on growth and reconstruction. So I just wanted to hear your proposal on that. I guess, that Italy is lacking significant infrastructure, there is plenty of CAPEX deployed on the infrastructural side. So I just question, you can give us a constructive proposal on how infrastructure players like Snam can help with the economical recovery.

And then the final, the third and final question is on the AGM and the dividend payment, obviously, the AGM is scheduled, if I am not wrong for 18th of April, and the dividend should be paid the 24th, if I'm not wrong? So I just wanted to give some light on the possible delay on that Annual General Meeting and the effect that this may have, if any, on the dividend payment. Many thanks.

MARCO ALVERÀ: Thank you. Thanks Javier. On the COVID impact, as I said, we have now reduced about half of our 250 sites throughout Italy. The biggest project which is TAP is ongoing. The impacts on the bottom line from the guidance, as I said, will be limited, of course, it's early days to understand the full length and scope, and also to understand if we need to have further closures and further reduction. Most of the impact would be associated from a bottom line perspective to TAP and it would be felt in 2021. As you know, we have around €50 million on TAP in 2021. We are now confirming start-up at the end of the year. The works are progressing without any glitch, both onshore and offshore for the time being.

We will enter in the second part of the year a delicate phase of commissioning, which is the time when many suppliers have to come together and work and that may...if there are still restrictions or difficulties in working together that may pose some additional challenges that we…at this point still expect to deal with. And so for now, we would like to confirm the start of the TAP in 2020, but I would say, as a single project that would have the greatest impact on 2021 regarding the plan.

On the CAPEX itself, I think we can now assume something like €200 million of deferral.

On your second question which is a very interesting one around the opportunity for Italy to really start an aggressive CAPEX and infrastructure build. We…as you have heard us several times; say we're very supportive of this. We think there are many projects that can be accelerated. We think the permitting on many of these infrastructure projects still takes too long. And so, it could well be an opportunity for the government to streamline some of the approval processes to get some of the projects that have already been decided to...that they are necessary, just get them going. Of course, we also have our issue around the depleted assets that were in discussion with the regulator on how to bring some of that forward as well and we expect feedback on this front in the second half of the year.

On the AGM, we are following events like you are. We are looking to see what the government asks companies to do. There is some logistical issues with the AGM, and then there's a political question around some of the AGMs. We would like to do everything we can to confirm at this point the June dividend payment. Thank you.

OPERATOR: We will take 2 participants' questions before management answers. So we have a question from Enrico Bartoli of MainFirst. Please go ahead, sir.

ENRICO BARTOLI: Yes, hi. Good afternoon. And first, thanks for taking my question. The first question is related still to the COVID-19 emergency and particularly on the OPEX. If it's possible to have an idea of what you expect the impact could be of the extraordinary measures that you are taking in your organization? And related to the OPEX also and to the 2019 results, I realized that there was a significant drop in the operating cost in the fourth quarter of last year. I wonder how much this can be considered a one-off. If you can give us an indication of the, let's say, a clean OPEX base that we can consider for 2020?

The second one is related to the dividend policy. From your comments, it seems that the financial situation of the company is very strong; you also expect a limited impact from the emergency on your revenues. So I wanted to hear some comments on the sustainability of the dividend policy of the next years considering the current situation?

And the third one is related to the buyback program, if you expect to continue to go on with it over the next few months. Thank you.

MARCO ALVERÀ: Okay. So on the OPEX…go ahead.

OPERATOR: I apologize, sir. The next couple of questions comes from Olivier Van Doosselaere of Exane. Please go ahead.

OLIVIER VAN DOOSSELAERE: Yes, good morning. And again thank you very much for taking the time these days [ph] to answer our questions. I just had one more question compared to what has already been asked. It's coming back to a bit on hydrogen. So I think you said that around 70% or 75% of your network you would consider it to be hydrogen ready as of now. For the remainder of it, you talk about some operational or technical adjustments. Does that imply that you actually believe that your whole potential CAPEX opportunity on hydrogen for you over time would be relatively limited or could you maybe help us to quantify a little bit what that macro [ph] represents? Thank you.

MARCO ALVERÀ: Okay. So I will start with Erico's question then answer Oliver's. On the COVID, I think you have €20 million that we talked about which is what we will give, let's say, as a nonprofit. And we...the tax treatment of that is going to be also a function of some of the rules that are being passed right now. But that's a €20 million one-off. We probably have a few million of extra costs linked to supply of the masks and extra gear, but I would say its negligible OPEX. I think the smart working is actually generating savings that...so I would assume that the saving we have on the logistics of moving around and some people...some travel expenses will kind of offset the extra security costs that we are facing.

On the OPEX base and the cost cutting, I think you should refer to the slide that Alessandra showed earlier with our achievements to-date and in our plan you have clear guideline for our expectations.

On the dividend, our dividend policy is sound. And at this point, we don't expect any change whatsoever to our dividend keeping in mind that over the last 4 years we have been very significantly lowering the payout by having an EPS significantly outperform the growth of the dividend per share.

Buyback, we will ask AGM for another €500 million approval. We still have some left over from the previous year €500 million, of which, we've only spent €150 million. And we will keep the market posted as we always do on buybacks as they occur.

Oliver, on your hydrogen question, I'm...as you probably know, I'm confident that hydrogen will play a bigger role than we are assuming today. That's really because of the effectiveness and ease with which you can store and transport renewable energy through hydrogen compared to any other existing means. And we don't know exactly what shape the market will take. Some people assume that you will go and produce hydrogen where the sun shines more or the wind blows stronger and then build new or convert existing infrastructure to bring that hydrogen over long distances. Other people have a more distributed model where you have clusters of electrolyzers that are kind of around existing infrastructure. Other people think there will be dedicated new pipelines for hydrogen.

So I think what we're saying is we are in good shape, a big part of our RAB is kind of hydrogen ready. There still remains a significant amount of CAPEX to be done to make it fully hydrogen compliant. And remember, always we have all the replacements that we need to carry out as we amortize a lot of our assets are fully amortized. And so, as those replacements are hydrogen-enabled, they become easier to do more compelling, and I think more urgent as well. I hope that answers your questions.

ALESSANDRA PASINI: Maybe, Marco, if I may, on the OPEX for last year, in addition to what I said before, there was a combination of a couple of things which impact labor costs which were a positive in 2019, which we don't expect in 2020. One is related to the final calculation of those employees that enjoy Article 4 for early retirements which ultimately released a provision that hasn't been used. And the second has been...is related to a lower pace of turnaround between people going on early retirement and new entry, which effectively reduced labor costs, but postponing it to the future years.

OPERATOR: The next group of questions comes first from Mike Decker [ph] of Bernstein and then James Brand of Deutsche Bank. Please go ahead.

ANALYST: Yes. Thank you very much for taking my questions. Coming back to the guidance for 2020. Is there...thank you for giving a number, actually I think that's very helpful and it should come...should hopefully calm the market. Can I just ask a little bit around the flex [ph], so what...how much could it be a little bit higher or a little bit lower in terms of sensitivity? So what is the flex around that numbers? Thank you.

OPERATOR: Mr. Brand, your line is open for your group of questions, sir.

JAMES BRAND: Hi. Yes, I had 2 questions. But first of all, I just want to wish you and your employees and your family's good health at this obviously very difficult time. The first question is on some of the things that have been in the press around holidays on utility bills in parts of Italy and not anticipating that that's going to impact on you, but maybe you could just comment to the extent that there's intervention, and I would be also saying this evening on my call. But maybe you could just comment to the extent that there's information available and how that would work and how you anticipate that working?

And then the second question is just on the kind of risk of deflation. Hopefully, it won't happen, but breakevens have dropped pretty dramatically and implying deflation in Italy over the next few years.

And the RAB, as far as, I understand it would be de-rated, if we have a deflation environment. And just whether you've had any conversations with the regulator around that because it seems like an area that maybe if things got worse the regulator might be prepared to possibly kind of step in and maybe commit that's in the exceptional circumstances like this...the RAB wouldn't actually be deflated. So maybe some thoughts on that would also be of interest. Thank you very much.

MARCO ALVERÀ: Okay. So on the 2020 guidance, as I said, I think we gave a guidance of €1.1 billion for the net income. We see the impact is limited…by limited we mean, I would say, very low single-digit at this point. And as I mentioned, it's early days to understand how deep and how protracted some of the shutdowns will be. And then what I said earlier applies to 2021 and to TAP. And any month of delay is just the 12th of the €50 million because it's quite linear.

On the holidays, on utility bills, there's been 2 separate rumors, one, around some of the suppliers asking to have basically working capital funding to cover for their own customers that don't pay them, and I think that would not impact us, but that's kind of...could be a working capital issue for some of the suppliers. And then there's been discussion to take a reduction of some of the system costs, but these wouldn't apply to us based on our conversations.

On the deflation risk, the WACC, of course, is real. We haven't had any discussion with the regulator on this. As you remember, the formula that they use to calculate the inflation is a formula that has a time lag in it. So there's, I think, time to work all that out. But I think overall we remain nicely hedged even in a deflationary environment for the time being.

ALESSANDRA PASINI: And if I may, just to add on this last point, we are currently defining with the current inflation tariff for 2021. So by the time that environment...I mean, the first time we may have the scenario where we have significant lower inflation which as Marco just said…the benefit of a real WACC will be in 2020. So on the revenue side, we're pretty safe.

OPERATOR: The next question is from Stefano Gamberini of Equita. Please go ahead, sir.

STEFANO GAMBERINI: Good afternoon, everybody. 3 questions, if I may. First of all, the Slide 11, where you recorded this negative impact from working capital, €220 million, when you expect [indiscernible] a positive recovery of this €220 million in forthcoming years?

The second, regarding your talks with the authority. The authority decided an analysis on all fully deposited assets of Snam; probably this was already supplied to them by you at the end of 2019. Could you give us some color what is happening on this topic? And still with talks with the authority regarding the output-based incentives that are included in your Business Plan, when do you expect some novelties on that?

Finally, if I'm not wrong, in the past, during '19, you announced that you were interested in the Rover pipeline in [indiscernible] any novelties about that? Very Thanks.

OPERATOR: At this time, there are no other questions registered.

MARCO ALVERÀ: Okay, great. So I will take maybe the last 3, and Ale, I will leave you the one on the working capital.

On the fully depreciated assets, you are correct. As I mentioned at the end of last year, we submitted a proposal to the regulator outlining the approach, the methodology that we use to rank the priority of the interventions that we would like to do to begin accelerating on the replacement front. We are in these days in active dialog with the regulator. This dialog will result in a consultation document that, as I mentioned earlier, we expect to be published in the second half of the year.

Also, regarding the output-based incentives, we are in constant dialog with the regulator to identify opportunities that are win-win for the market, for consumers, for the regulator, and of course, for us.

On Rover, as you know, we don't comment on specific situations and opportunities. Clearly, we are looking at the markets. Right now, looking at the low energy costs of gas and oil and looking at what's happening in the market.

Regarding our own situation, as you know, our top line is protected from a lower demand case, and that cap is €9 million is a maximum loss that we could have in the situation which we have lower demand in Italy.

Ale, over to you for the working capital.

ALESSANDRA PASINI: Thank you. Yes, I think we...as usual these relate to tariff-related items, and therefore we expect the extra fees [ph] that come are into 2019 to revert over the next couple of years. So this one under the effect will be neutralized over the next couple of years.

OPERATOR: For any further questions, please press "*" and "1" on your telephone. Mr. Alverà, there are no questions registered at this time, sir.

MARCO ALVERÀ: Okay. Thank you, everyone, for your time today in listening to us. And as always, our IR team is available to take on any further questions and good luck to everyone. Thank you. Bye.