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First Half 2020 Interim Results - Conference call

Thursday, July 30, 2020, 16:00



MODERATORS: MARCO ALVERA, CHIEF EXECUTIVE OFFICER
ALESSANDRA PASINI, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Snam First Half 2020 Interim Results Conference Call. As a reminder, all participants are in listen-only mode. 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, CEO of Snam. Please go ahead, sir.

MARCO ALVERÀ: Good afternoon, ladies and gentlemen. Welcome to Snam's 2020 interim results presentation.

In terms of gas demand, there are a number of trends at play. The COVID-19 impact on a weather-adjusted basis is around 6.5% in the first half. As restrictive measures have been lifted, there are signs of recovery, in particular, in the industrial sector.

Turning to Snam's performance in the first half. After the closure of most of our work sites, our CAPEX program has now ramped back up to pre-COVID levels. We have started the pipeline replacement between Rimini a Sansepolcro and the public permitting process via process on 4 large replacement projects, which are in the center of Italy and in Sicily, have also started. Thanks to the significant efforts put in place by our people and our suppliers to restart work sites, the €100 million full year CAPEX delay that



we had forecasted in April will now be, in large part, recovered before the year-end.

Our storage and LNG facilities provided ample flexibility to the system in a period of weak demand overall. In Panigaglia, where we are revamping the second LNG tank, 31 LNG ships arrived, in line with the strong performance of last year. With regards to the energy transition, we continue to grow our footprint with the acquisition of Iniziative Biometano, Mieci and Evolve. On the international front, TAP is on track to start up in Q4.

Despite COVID, work never stopped. The southern gas corridor is now completely welded, and commission and activities are occurring on the Greek and Albanian sections, including already the introduction of hydrocarbons. We have concluded the regulatory review in Austria in line with our expectations. And in July, we closed the acquisition of a stake in ADNOC gas pipelines.

We continue to optimize our financial structure. We launched the first Italian transition bond for €500 million. The bond was more than 3 times oversubscribed, and 17% was allocated to ESG investors. The AGM approved the cancellation of around 34 million shares and authorized a new share buyback plan.

In the first half, regulated revenues grew by 1.7%, thanks to higher RAB, a lower [ph] D&A and the inclusion of energy costs for €30 million. As you may recall, from this year, energy costs, which previously were addressed in kind, now contribute to revenues and costs with essentially no impact on EBITDA. Our EBITDA includes a COVID impact of around €6 million. This was a result of a lower commodity component in the revenues and higher costs from lower capitalizations mitigated by cost savings that exceeded the COVID-related OPEX.



Our new businesses turned positive at the EBITDA level, notwithstanding continuous investments in the platform, the start-ups and the investments and the slowdown in their activities in the second quarter.

Net financial charges were €18 million lower than last year. The contribution of associates was in line with the strong performance of last year, excluding the one-off positive effect of €6 million that Teréga booked last year.

Net debt was up 8.4%, reflecting the OLT acquisition, the payment of the dividend for the full year and the buyback carried out in January and February. Working capital was negative this semester with tariff-related impact items impacted by a change in the billing system mechanism, which we are working to normalize.

Looking forward, given our solid first half results, a good outlook for our associates, favorable financial markets and ongoing cost containment measures, we're now able to offset the expected COVID impacts. And we can go back to the original guidance of €1.1 billion at the same perimeter, an improvement compared to the low single-digit percentage impact that have had forecasted at the Q1 results for net income.

Moving to full year net debt, we confirm our pre-COVID guidance of €12.4 billion [ph], excluding the tariff working capital on a like-for-like basis, excluding acquisitions and any further buyback. All of our guidance, of course, is based on the assumption that there will be no further national lockdowns.

Looking more closely at the Abu Dhabi deal. We are very pleased to have finalized an agreement with ADNOC, one of the largest energy companies in the world. The agreement is to acquire 49% of their gas pipeline assets in consortium with GIP, Brookfield, GIC, Ontario Teacher's and NH. This transaction was a result of a very competitive process. We were selected



as the only industrial player in the process, thanks to the recognition of our industrial and technical capabilities.

The company has 20-year rights on the infrastructure that connects the upstream activities to Abu Dhabi's consumption points and export and interconnection terminals. We're investing \$250 million with contracts backed by a AA counterpart in a strategic region with potential new opportunities, both in natural gas and in the energy transition.

In June, with the agreement for the acquisition of Miecì and Evolve, we have further strengthened our footprint in the energy efficiency sector. We entered this business through the acquisition of TAP in 2018. We have grown it organically and through bolt-on acquisitions, such as TEA, a specialist in combined heat and power plants. We're now adding to the portfolio of Miecì, which is focused on hospitals and public administration; and Evolve, which offers energy efficiency solutions for buildings.

With this step, we widened our range of services and clients, including the public administration, where there is significant potential. Energy efficiency is a key pillar of the energy transition and of the post-COVID recovery plan. In Italy, the government is very focused on this area and has just raised the tax deduction scheme to 110%, and this can be recovered over a 5-year period. Overall, this remains still a very fragmented market with potential growth opportunities.

Let's now turn to hydrogen, which continues to gain traction. On the policy front, the EU has finally launched its H2 strategy, targeting over 40 gigawatts of capacity by 2030 and a sector coupling policy. The EU strategy emphasizes a key role of gas networks to integrate renewables and the importance of coordination between the gas and electricity infrastructure.

The EU strategy targets up to €470 billion of investments in hydrogen, upstream, midstream and downstream over the next 10 years. Many



countries are now building their own plans with specific and ambitious targets. We have seen plans from Germany, Portugal, a consultation from Spain and the Netherlands, and other countries are following suit.

We're continuing to strengthen our leadership in this area. Together with 10 other TSOs, we've presented a vision for our European hydrogen backbone, a 23,000-kilometer network, which would connect to 9 European member states. This work would be 75% retrofit and 25% new build and would be able to guarantee flexibility and supply security at very low costs.

In terms of asset readiness, we have recently tested a 10% hydrogen blend on a Baker Hughes turbine for the first time. This can compress and move hydrogen fuel blends through our transmission network of pipelines and also allow us to use the same fuel to power ourselves. This turbine will be installed at our compressor station of Istrana in the north of Italy in 2021.

We are also working to develop partnerships and pilot projects and looking for opportunities to invest in leading technologies along the hydrogen value chain. In the first half of 2020, we have also delivered sound progress across each of our ambitious ESG agenda items. We continue to reduce emissions on the environmental side.

On the social side, during COVID crisis, we've played a strong role in the social response effort nationally. On governance, ESG KPIs are now enshrined in our remuneration plans. We confirm our strong commitment to ESG, which is at the center of everything we do.

Thank you for your attention so far. I will now hand over to Alessandra.

ALESSANDRA PASINI: Thank you, Marco, and good afternoon, ladies and gentlemen. Adjusted EBITDA in the first half was €1.107 billion, down €4 million compared to the same period of the prior year. As Marco mentioned, from this year, the recognition of energy costs, which were addressed in kind until



2019, is included in the regulated revenues and cost lines, but remains essentially neutral at EBITDA level. The 4 in this slide, we have represented regulated revenues and other core items net of energy costs.

The decrease of regulated revenues is due to a decrease of the commodity components year-on-year of €15 million due to the volumes also related to COVID and as compared to a very strong year on volumes in 2019, higher tariff RAB and a low [ph] D&A of €17 million, compensated by a gradual reduction of input-based incentives. The increase in core fixed costs of €3 million was mainly due to lower capitalization for €4 million related to the lockdown, partially offset by lower costs, mainly due to savings and COVID. On top of this, last year, we benefited from the release of a preretirement fund for €2 million.

In the first half, we have also benefit from lower accruals for €6 million, and the new businesses contributed positive for more than €1 million for the first time despite the slowdown suffered due to lockdown and continuous investment on the platform. We expect them to gain momentum in the second part of the year.

Adjusted net profit in the first half 2020 was €578 million, essentially flat compared to last year. This was driven by the operating performance just commented, lower net interest expenses of €18 million, thanks to the full effect of the liability management executed in December, the natural bond rollover and treasury management optimization and the OLT financial income.

The slight decrease year-on-year of the contribution from associates, owing largely to the one-off effect of €6 million, related to a tax release that happened in 2019 in Teréga. TAG had instead a better performance, which compensated Interconnector decrease, UK decrease and Italgas decline due to a new regulation. The lower taxes are due to a decrease in earnings before tax and the reintroduction of ACE.



Cash from operation was €749 million, including €150 million of working capital absorption that includes €113 million of tariff-related items, also because now we receive some billing information from Acquirente Unico, which has temporarily lengthened the billing time line, and €32 million of balancing activities. Cash flow from operations fully cover CAPEX and CAPEX payable and partially financial investment outflows, mainly OLT, and some other cash items occurred in the first half. Other outflows for the period have been the dividend payment for €770 million and the share buyback for €111 million carried out between January and February. This led to a net debt at the end of the semester of €12.9 billion.

We confirm full year net debt guidance of €12.4 billion on a like-for-like basis and excluding working capital movements. We continue to expect negative working capital for approximately €0.1 billion as per our original guidance as we are working to normalize the billing delays [indiscernible] above. Being on a like-for-like basis, the net debt guidance does not include the recent ADNOC acquisition and Miecì and Evolve for a total amount of approximately €300 million. And it doesn't include any further possible buyback.

Let me now give you an update on the Snam debt structure. In the first quarter, as discussed, we secured €740 million of new term loans. And in June, we issued our first transition bond for €500 million at a cost of 0.75% and a tenor of 10 years. This brings our total sustainable financing instrument to approximately €6 billion or about 40% of total committed facilities and bonds. And with regards to that breakdown, at the end of the first half, the fixed rate portion is in line with our 3 quarter fixed floating debt 2020 guidance, which we confirm. The maturity profile is well spread over time, and our liquidity profile remains strong with €3.2 billion of undrawn credit line.



Maturity of medium and long-term debt is circa 5.5 years, in line with our targets, and as a result of liability management efforts executed in the first half of 2019 and longer tenor funding.

With reference to share buyback program, in February, we have concluded a repurchase tranche for €150 million executed under the original shareholder meeting authorization for...sorry, and we have obtained in June the approval for a new share buyback program for a maximum amount of €500 million of...worth of share. And we have also cancelled in June at the AGM the cancellation of circa 34 million shares.

We are now ready to take any questions you may have.

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 telephone, to remove yourself from the question queue, please press "*" and "2." Please pickup the receiver while asking questions. We ask participants to ask only 2 questions before turning to the queue. Management will take 2 participant questions before answering. Anyone who has a question, may press "*" and "1" at this time. We will pause for a moment as the callers joins the queue.

The first question is from Harry Wyburd of Bank of America. Please go ahead.

HARRY WYBURD: Hi, good afternoon. Thanks for taking my question. [Technical difficulty]. So first one, clearly, there are some things that have gone a little bit better in the first half of the year, I think, than you expected, notably finance costs. And obviously, a lot of the COVID-induced factors will not recur next year. So I wonder if you could just confirm that. Does it look...if we're thinking about next year, does it look like we're sort of going into next year with a



slightly higher kind of base than you'd expected, and that perhaps the outlook for 2021 has slightly improved? And is there any way of trying to quantify that or quantify what's gone better than your expectation on a full year basis? And then just a second one on M&A. So you've done...how are you thinking about any further M&As? Is this going to lead to a pause now? Or do you still feel you have balance sheet headroom to do further M&A deals? Thank you.

MARCO ALVERÀ: Okay. Thanks, Harry. So on the revenue side, you know that it's not the full impact of the lower volumes that's reflected in the Q1. So you could almost extrapolate the €6 million that Ale said is the first half impact almost linearly. So you could...you think about a €10 million...perhaps €10 million, €11 million, €12 million overall impact for 2020. You mentioned the better financing costs than we had at the Q1 kind of guidance adjustment, I would call it. And as I mentioned, some...and Ale mentioned some of our associates are proving resilient. So I wouldn't necessarily extrapolate to start into 2021 with a higher base, but we'll talk about 2021 in November when we look at the plan.

Regarding M&A, as always, we don't comment on specific timing or opportunities. ADNOC, we are very happy with. It's a relatively small investment in a very secure contractual framework. It's a very strategic partnership that we're in, both with the financial investors and with ADNOC. And it's a key region that, as you may have seen, has announced the latest 2 records when it comes to solar costs. Yesterday, they announced a new auction at €11.5 per megawatt hour, which is indeed a lot lower than many analysts had anticipated. So it's not only a key hydrocarbon part of the world, but it's also accelerating very fast, the whole region, on new energies and the energy transition. So hopefully, this is a starting point for additional opportunities and projects in the area.



Regarding the headroom, we've mentioned previously we see 57.5% as our reasonable kind of upper limit. Although, technically speaking, we could go as high as 60%, but I'd like today to confirm the 57.5%.

HARRY WYBURD: Okay. Many thanks.

MARCO ALVERÀ: Thank you.

OPERATOR: The next question is from Javier Suarez of Mediobanca. Please go ahead.

JAVIER SUAREZ: Hi, good afternoon. Thank you again for taking my questions. One is on the hydrogen opportunity. The question is, when the company is going to update us in November on the Business Plan, does the company intend to extend the length of the Business Plan in terms of number of years to reflect that hydrogen opportunity? I'm asking this because I have the impression, hearing from other companies during their quarterly reporting, that companies do look at the hydrogen opportunity as kind of a medium-term thing when I have the impression that maybe companies like your company will have to accelerate on CAPEX to be an enabler of that opportunity. Do you think that, that is a fair statement? That's the first question.

Now, the second question is on your conversations with the Italian energy regulator. If you can update us on any potential development of the possibility of giving some remuneration for the fully depreciated assets with regulation kind of mirroring the one that Spain has. And the third question is on the simplification decree. It seems that the government intends to accelerate the gasification of Sardinia. If you can help us to understand how that could be affecting your Business Plan. Thank you.

MARCO ALVERÀ: Very good. Thank you very much, Javier, for your question. On the first point, I think if you look back at last year's plan, we were already giving long-term outlooks for the growth in the RAB, which remains a significant part of what's driving the rest of the plan. I saw other people to go out to 2030.



We're still drafting the plan. What we may do, like we did before, is give some flashes on the outer years, but the plan will remain in the same time horizon with the granularity that you are used to seeing. But we will try to provide as much guidance as we have. Please keep in mind that as Europe has just begun to really address its hydrogen policy, it will still be too early in November to be able to give the full detail of how the network and the networks across Europe will develop. But certainly, there is a very significant opportunity out there, as I mentioned earlier.

On your second question, we really like, as you know, the Spanish regulation when it comes to fully amortized assets. We have had a number of encouraging exchanges with our own regulator. And we are in discussions, and we hope, by year-end, to have some news to be able to share with you.

Regarding your third question, the simplification decree, it's very positive that Sardinia is in there. I wouldn't read it necessarily as a sign, that Sardinia is the top of the list, but it's very good to have Sardinia there. Overall, the effort the government is trying to push ahead with is to streamline the authorization process. Right now, we have projects that can take above 5 years to get the VIA [ph] the final VIA, which I mentioned, we have initiated already for some of our own replacements. The idea is rather than going in series and having one ministry after the other give the okay, which leads to significant lead times, we would like, and the government is following us and other companies' advice on this to try to move it into a situation where you start with the permitting process in parallel, so that you don't have any lead times or you minimize the lead times. So it's, I think it's a good sign. Let's...it's gone through one chamber. Let's see how the final law comes out. But certainly, it's a step in the right direction, as I've mentioned before. Thanks, Javier.

JAVIER SUAREZ: Thank you.

OPERATOR: The next question is from José Ruiz of Barclays. Please go ahead.



JOSÉ RUIZ: Yes, good afternoon. Just 2 questions. The first one is regarding the EU hydrogen strategy. I mean, my key takeaway is basically that the document is talking about the availability of the energy infrastructure for hydrogen kind of calling a semi-public service. I was wondering, in your conversations with this...or your agreement with these 10 TSOs in Europe, how are you going to anticipate demand? I mean, what is the time when you have to start investing? Because, I mean, clearly, the idea is that you have to anticipate, you have to make available infrastructure before demand is there. And the second question is related to big debates among macro economies regarding inflation and deflation. If you can share a little bit of your views. I mean, going forward, what is your expectations of a big inflator [ph] in Italy to go up or down?

MARCO ALVERÀ: Okay. Thank you, José Ruiz. So on the European hydrogen strategy, what they've done to address the issue that you raised, which is the usual chicken-and-egg issue with energy infrastructure, they have built a hydrogen alliance, where they have the...trying to put together the supply and the demand around the same table. What we think is that there will be an early stage, which is going to be mainly about clusters developing. And the issue will be how to supply those clusters with hydrogen. These will be, let's say, subsidized clusters, where logistics will not be optimized, and there can be some movement of hydrogen on trucks and some dedicated small pipelines around those clusters and some electrolyzer capacity around those clusters.

Then there's going to be an intermediate phase, where the...from clusters, you move to hubs and regions. There, we can see an early stage of development of dedicated pipes as well as freeing up some of the current pipes used for methane to create dedicated capacity. And blending can play a role in this intermediate phase. The role of blending will be a function of the membranes and of some of the experiments that we are carrying on that we're leading the way on, such as the one with Baker Hughes I mentioned



and the one we did earlier in the year and last year with the 5% and 10% blending down in Southern Italy.

The 10 TSOs have joined forces. There is ample scope for CAPEX in the plan that we proposed. I think it goes from around €27 billion to €64 billion. Keep in mind that we think, as I mentioned, that 75% of the steel is hydrogen ready. So it's not so much a question of the steel in the pipes itself. It's more a question of the stations, the compressors; the forks that we need to build to separate eventually. And really, the key question for all of this remains a storage, where we still don't know if we can go into the existing reservoirs with blending and at what percentage we can go there.

So I think Europe is approaching it the right way. If we think about how the gas industry started, we didn't have the luxury of this kind of concerted alliance and this kind of effort to design a system that makes sense for all stakeholders. And we also have a very significant state money of different sorts at play between the European Green Deal and the recovery funds and the just transitioned mechanisms. So there's also a lot of capital available out there to smoothen out to the bumps that inevitably happen when you really start an industry from scratch.

The good news is that everyone is in full execution mode. All the players we talked to are thinking about building hydrogen business units inside their organizations. There's a strong team across Europe that is emerging. We're involved in many of the panels and debates and meetings with the...our government, other governments and the European Union. So I think we're moving in the right direction, and I think Europe is really going to lead the way on this.

When it comes to your second question, the outlook that we read about in the papers and in the forward curves is more deflationary than inflationary. So we don't expect an increase in our deflater going forward, but, again, we'll



continue to monitor what the macro economists think and what the forward curves are, and we'll update you on this in November.

JOSÉ RUIZ: Thank you.

MARCO ALVERÀ: Thank you.

OPERATOR: Next question is from Enrico Bartoli of MainFirst. Please go ahead.

ENRICO BARTOLI: Hi, good afternoon. Thanks for taking my question. The first one is regarding ADNOC. You mentioned that this agreement, this JV could provide the opportunity for additional business development in the area. If you can elaborate a bit on this, if you think that there is the opportunity to be involved in the management of other pipe...gas pipeline networks or you are thinking also about other businesses.

Second one is just a clarification on what you said about the potential in terms of CAPEX in the development of this hydrogen European lead. You mentioned this €27 billion, €64 billion. I guess that mainly this is for a European level. What do you think that could be the potential for Snam within this project? And the last one is regarding the new buyback program, if you have already some visibility on if and when it would be activated in case in the second half of the year. Thank you.

MARCO ALVERÀ: Thanks, Enrico. So I don't want to create expectations in the Middle East, but, certainly, it's an area where they are very attracted to what we are doing in CNG and in small-scale LNG. They have a lot of their own gas resources, and they see an opportunity to use gas, which they can sell at a much lower margin. And this is true for many countries in that region, then they can sell a diesel or oil at globally to use that gas domestically, both in cars, CNG and in trucks.



And there's also, of course, an opportunity in hydrogen today in the region. Like in most countries in the world, the electricity and solar projects are completely disconnected from the molecules. And as they have led the world with these recent record-breaking, big-capacity auctions, it's 2 gigawatts for this one, and I think it was a similar size for the previous one, the opportunity to turn some of this electricity especially, they will have a lot of excess renewable in the very warm, very sunny days, turn some of that into hydrogen for domestic use to, again, free up the export potential, I think, is a common thread.

So you know we have the Snam Global Solutions, which is targeting NOCs to sell our own capabilities and technologies and services. The opportunities are a little bit about around Snam Global Solutions, and partnering with ADNOC gives us a footprint in the whole region as well as trying to develop some of our energy transition start-ups, giving them a window onto that part of the world.

Regarding the third question...sorry, your second question was around the hydrogen CAPEX and the 10-year...and the 10 TSO plan. As I mentioned, the flagship...the high-level CAPEX opportunity is between €27 billion, €64 billion. That's what's been identified in our work with Navigant. This is overall. We have a share of that, which is below our share of, let's say, natural gas transported in Europe. So if we have a 20-something percent share of the European gas market, our share of that CAPEX is below our share of gas because our network is quite ready actually. And some of the replacements that we have to do, we have to do anyway regardless of hydrogen or not. But we'll try to give you as much clarity as we can in November.

Regarding buybacks, as you know, we don't give guidance on our buyback initiatives. So you'll have to follow us to see what we end up doing. Thanks, Enrico.



ENRICO BARTOLI: Thank you.

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

STEFANO GAMBERINI: Good afternoon. Three questions, if I may. The first regarding your CAPEX plan for the coming years. If I'm not wrong, during an interview on a press, you said that you can add €1 billion CAPEX in your current Business Plan if some changes in the authorization process should arrive from the government. I don't know if in the simplification decree these changes arrive. Just to understand if we can expect an acceleration in the next years due to this situation.

The second...2 questions, if I may, on the hydrogen. The first, if I'm not wrong, the role of renewables are very important for the development of green hydrogen. So you are already in talk with Terna in order to have a joint development of renewables in order to be an enabler of hydrogen growth in Italy or not. And do you think that this could be a sort of a way to follow in order to accelerate the process?

And the second, regarding the different features for the utilization of hydrogen, if I'm not wrong, transportation and power gen should be the most important. What are, in your view, the real trigger that could accelerate the hydrogen in the next years from the transportation, from the power gen, from industry, from heating? I don't know. What do you expect about that?

MARCO ALVERÀ: Thank you. So Stefano, I think you're referring to a comment I made as we were debating the Stati Generali, which is when the government called a lot of the big companies to provide ideas. And in that context, we were giving an example of the...in the context of saying, if instead of 5 years it could take only a few months like it should take to get authorizations on very simple projects, this could lead to a €1 billion acceleration. So it was very simply



taking our 10-year plan and bringing forward some of the projects that we have in the outer part of the 10-year plan into the 5-year plan.

So let's say it was kind of an academic exercise. I, unfortunately, do not expect that we will be able to get permitting done so fast. I do expect that there will be some improvements, as I mentioned earlier, in the decreto semplificazioni [ph] as it becomes law, but I don't expect that order of magnitude, unfortunately, to follow through from the same, let's say, perimeter. We will provide details of the plan in November. Directionally, I expect and hope the plan will provide for some new activities. And so I don't expect any decrease compared to the previous plan. And hopefully, we will be able to have some elements of the...not regulatory, of the legal framework that provides for some acceleration.

Regarding hydrogen, we are indeed spending quite a lot of time with Terna, as we've done last year and the year before, trying to come up with joint scenarios. This is very precious work that we're doing for the energy system in the country. Joint scenarios are really the only way to have a plan at the national level and to go forward with that plan. We are not, at this point, talking about anything on the renewable side.

On the third question that you had, as to the trigger of utilization, we consider hydrogen in the long run to be extremely effective in all the hard-to-abate sectors. These are heavy transport, as you mentioned. This is true for trains, buses, trucks, airplanes, ships, eventually in heating that you've mentioned, in heavy industry, mainly steel and other industries, and then also in power gen.

The trigger is going to be a policy push. We see the market as being ready for hydrogen trucks. We see some excitement with some public stocks focusing on hydrogen trucks, and all the big truck manufacturers are putting hydrogen at the center of their energy transition strategy. I think before heating and power gen, it will be industry. We see the German hydrogen



plan being explicit about steel and some of the words coming out of the German energy minister being quite strong around steel. Also regarding Italian steel, we've heard languages coming out of the Vice President of Europe, Frans Timmermans, talking specifically about hydrogen and steel. So I think there can be some acceleration due to policy initiatives around heavy transport and industry.

Heating will take a little while longer because of the complexity of bringing hydrogen into people's homes. But that's where hydrogen is most needed because of the seasonality factor that no other renewable technology can account for, except biomethane, which may not have enough volumes for the whole of heating. Cars will come after trucks because of the complexity of building out the network. And it will take more time, but they will eventually also come for long-range cars. And power gen is, again, a question of how to transform the hydrogen back into electricity. Will it be hybrid turbines like the ones we've been testing with Baker Hughes at the Nuovo Pignone in Florence. Will it be fuel cells? It's probably going to be a combination of the 2. Again, the key question there is storage. And as we look at storage, the cost advantage of hydrogen storage versus battery storage is quite significant for mobile use and also for stationary use. So thanks for your questions.

OPERATOR: The next question is from Olivier Van Doosselaere of Exane. Please go ahead.

OLIVIER VAN DOOSSELAERE: Yes, good afternoon, and thank you for taking our questions. First one will be on hydrogen again. Coming back a little bit just to what you've said before, but when we look towards 2030 and those 40 gigawatts of electrolyze that will be built. What do you think will be the biggest source of consumption from the hydrogen coming out of that? Will it be part of you know, dedicated industries and sectors that would be fuelled fully on that hydrogen or do you think it will mainly be the blending of the hydrogen in the existing gas network as sort of a source to enable the up-scaling of



production in this first phase? And then linked to that, who do you expect would be operating the electrolyzers and actually commercializing the hydrogen? What kind of place [ph] will that be in industrial, so will it be utilities or are you thinking about others? And then second one just on ADNOC, I was hoping if you could maybe give us an indication, sorry if you've done it already and I have missed it, but if you could give us an indication on what you expected the P&L contribution to be from that stage, that would be great. Thank you.

MARCO ALVERÀ: So on hydrogen, the demand will be in transport, as I mentioned. This will be relatively easy because on heavy transport, you don't need as many fuelling points. And if you look carefully at the statements...public statements of some of the CEOs of trucking companies, they're talking about 30% or 40% of trucks produced in 2030 in Europe to be hydrogen trucks. So there is going to be a big demand coming out of trucking.

On the industrial side, there will be clusters you can see in the north of Europe and we're working on some ideas in the south of Europe to have some aggregation. The aggregation is necessary to keep the logistics costs at the minimum and to get the markets going. And then I mentioned, over a longer period of time you will go from clusters to regional hubs, but that will take a longer period of time. Already in 2025, there will be the need to have significant infrastructure if we are to meet the 2030 targets, both of the hydrogen agenda. And let's always remember that we still don't have national plans that are consistent with the 55% CO2 reduction for 2030. So that in itself will require a lot of hydrogen penetration in European countries.

When it comes to, who will operate the electrolyzers? I think there will be many different types of electrolyzers. There will be large electrolyzers next to large solar and wind farms. And there will be medium-sized electrolyzers around the transmission networks, and there will also be opportunity to develop smaller scale electrolyzers. Of course, the smaller you go, the more efficiency you lose. And also, the further down the electricity grid you go,



the more system costs you have on that electricity that you want to transform into hydrogen. But there is such a big market out there that there will be multiple types of electrolyzers, same way there will be multiple types of fuel cells, there will be big fuel cells and very small fuel cells. The beauty of the fuel cell, by the way, is that you can already start running some of these kits with natural gas. And so, today, you can already replace a normal heat pump with a fuel cell, with spectacular energy savings running around methane and that fuel cell is ready to then run on natural gas. So we see opportunity from our energy efficiency business eventually to start selling customers...selling fuel cells to customers that run on gas and then can switch to hydrogen.

Regarding ADNOC, there will be cash yield, which is quite...it's attractive to what we have in our international portfolio, which is...I'm not sure I should say the details [indiscernible] but it's, let's say, north of €15 million on the dividend side. And the net income contribution should be around the number I mentioned. So expect a higher cash contribution than net income contribution because of the transaction structure and the leverage that we have on this deal.

OLIVIER VAN DOOSSELAERE: Thank you very much.

MARCO ALVERÀ: Thanks Olivier.

OPERATOR: The next question is from Antonella Bianchessi of Citi. Please go ahead.

ANTONELLA BIANCHESSI: Yes. Thank you for taking my question. I have just a big picture question on the future hydrogen strategy and so on and so forth. So Europe is talking about energy efficiency, electrification and even the most bullish estimates on hydrogen consumption in 2050 points to a number, which is 1/3rd of today gas consumption. So my question is, I totally understand that the opportunity of hydrogen is a diversification at something, but I'm still worried about the legacy assets of the gas assets, because



demand or hydrogen or gas, whatever it's going to be, is massively declining while your RAB is growing. How do you think this could be sustainable? How can you, you know, who's going to pay for it?

And the other question is, do you have already an idea of how much...which is the percentage of your network that could be repurposed for hydrogen, not only technically but also in terms of proper utilization of this network, because obviously, the network is completely different in terms of design compared to a potential future European hydrogen network? And my last question is, do you expect that the hydrogen network in Europe to be a regulated asset, and who's going to pay for it in...during the time in which the hydrogen market is developing or you are willing to take some commercial risk on this development?

MARCO ALVERÀ: Thank you. Thank you, Antonella, for your good questions. So when it comes to looking at stranded assets and what happens to the network in 2050. We need to look at Italy carefully. And we've provided, as you remember, in the past, a stress test saying we need a 100% of our network even with volumes as low as 35 bcm of gas. Now...and we need a 100% of the network. So this means zero stranded parts of the network in 2050. Actually, that scenario was done even in 2040 at 35, which is significantly below what we have with Terna as our joint scenario which assumes more or less a stable gas demand out to 2040. As we look at replacing gas with hydrogen, you need more volumes of hydrogen to have the same calorific power as natural gas.

So as we look at the long term strategy for Italy, which has been shared in a draft format and is in the process of being sent to Brussels or updated, it's in the process of being discussed which is not based on any import of hydrogen. We see volumes of, call it, around 10 million tonnes, which we think is significantly underestimated because of the lack of imports. And then we see volumes of biomethane of similar size, around 10 billion cubic



meters. That already gets us in 2050, very close to that 35 bcm. So as we project forward, our network use, we need it all.

But more importantly, if you look at the German hydrogen strategy, they will need, and they have stated that they will need very significant hydrogen imports. And if you look at the progress that we are making in Italy and that Germany's making in Germany in building out renewables, we will need to outsource a lot of the renewable development where we can execute this. So we see a significant opportunity for Italy to become a hub, not the only hub, but a hub, for imports and it will not all be based on imports. So we see opportunity to significantly increase the outlook for hydrogen compared to what is in, let's say, last year's long term strategy draft.

So under any circumstance, even the most aggressive electrification and reduction of molecules, we still need all the network, because I'm coming now to your...the second part of your question. It is 10 times cheaper to move molecules...renewable molecules around than it is to move renewable electrons around, and it is 20 times cheaper to store renewable molecules and it is to store a renewable electron.

So as you look at the merit order of our infrastructure compared to any other competing infrastructure in the short, medium and long term, the advantages are quite clear. So again, we're happy to share more about this in November and keep you updated as the European strategy evolves. I don't know if it will be regulated or contracted. What I do know is that nowhere in the world any midstream infrastructure has ever been built without a contracted off-take capacity. So as we have shown with TAP and ADNOC, sometimes we even prefer to have long term contracts compared to regulation because it provides for the same certainty of off-take without regulatory review periods in between. Thanks, Antonella.

OPERATOR: The next question is from Meike Becker of Bernstein. Please go ahead.



MEIKE BECKER: Hi. Thank you very much for taking my question. And one more continuing on the hydrogen theme, if you don't mind. And so, on your comment of exports and imports, on a European level, how do you see this developing? Do you see the hydrogen being produced mainly in Europe and then transported around Europe from the production hubs or do you see scope for imports of hydrogen into Europe, for example, from the lower cost production hubs in the Middle East?

MARCO ALVERÀ: Thank you. This is a great question. So a solar panel in Abu Dhabi, we say, costs €11 per megawatt hour. A solar panel in Central Europe can cost today 3 to 4 times that, of course, costs are coming down everywhere, but it will be much more efficient to import hydrogen. The cost of liquefying hydrogen or creating ammonia from hydrogen and then transforming that ammonia back into hydrogen is very expensive. So wherever there is a pipeline potential, and this is same as was the case with natural gas many years ago. Wherever there is a pipeline potential, there will be significant imports of hydrogen. There will be also imports of blue hydrogen, for sure. Some environmentalists consider blue hydrogen a detriment to green hydrogen. We think there should be at least a period of time when there is technological neutrality, so that the hydrogen downstream and midstream infrastructure can be developed, and we can then, in 2030, 2040 and 2050 begin to phase out blue if we have enough green.

So there will be significant imports of hydrogen into Europe simply because of what I said before, and if you look at the numbers, of the ambition that we have in terms of gigawatts we need to build in Europe to get to 55% reduction. And the progress that we are making, not because of regulation, not because of laws, but because of local opposition to some renewable projects inside Europe. The plan is indeed to import big volumes. And because of Italy's proximity to North Africa, because of the advantages of installing solar infrastructure in North Africa, because of the preparedness of North Africa, even if from the outside it could look like an unstable part of the world, we have had, as Snam and other companies many decades of



successful technical, industrial and commercial relationships with some of these countries that have been exporting energy to Italy for many decades. So thanks for that question. I think it's going to be a combination of domestically produced hydrogen, locally produced hydrogen regionally, as well as, internationally produced hydrogen for Europe.

MEIKE BECKER: Thank you.

OPERATOR: Mr. Alverà, there are no more questions registered at this time.

MARCO ALVERÀ: Okay. I'd like to thank everyone for the attention and the questions, a lot of questions on hydrogen. We look forward to continuing to talk over the coming weeks and months and to seeing you all at our update in November. Thank you very much. Have a good afternoon.