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First Quarter 2020 Financial Results - Conference call

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Snam First Quarter 2020 Financial 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. Please go ahead, sir.

MARCO ALVERÀ: Thank you. Good afternoon, ladies and gentlemen and welcome to our first quarter results presentation. First of all, I hope you are all well and safe in these difficult times. I am on this call with Alessandra Pasini, and Camilla Palladino and Francesca Pezzoli, who recently joined us as the new Head of Investor Relations. Some of you have already met with Francesca.

As you know, Italy lifted some restrictions on Monday, and were right now in the process of reopening as many of our construction sites as we can. Our operations never really stopped and thanks to the commitment of our people, we delivered uninterrupted and secure gas flows to our communities throughout the crisis. We did however, progressively have had to stop the field work and almost half of our sites at the beginning and all our sites eventually during the month of April were closed. By last night we had already managed to ramp up around 45% of our sites and were expecting to return to full capacity by June.



All our guidance going forward is based on the assumption of a gradual normalization and of no further national lockdowns. Our engineers and technical staff are working with our suppliers to try to recover as much as possible of the lost time, ensuring that more resources are delivered on sites and faster delivery of materials. Thanks to the actions that we've already identified, the expected delay to the full year CAPEX program has been reduced from the €200 million guidance we gave at the last update to less than a €100 million today. And as I mentioned, we are working to contain that further and also see what projects can be brought forward.

With regards to our full year 2020 results, we are well protected given the nature of our business and the structure of our regulation. Revenues as you know, are shielded from gas demand trends except for the €9 million which is exposed to volume, that's the only impact on the revenue side. So whilst we will be carrying less gas or tariffs or related capacity and not to actual transport of volumes, and so we won't have any material impact on working capital compared to the working capital guidance we had given.

There are some extra costs related to COVID, but we expect these to be offset by the cost containment measures and savings that are a consequence of working from home. This excludes the €20 million one-off contribution to solidarity funds and other social initiatives that we've announced.

The new businesses of course had...have slowed down a little in this period, energy efficiency projects have stopped during the lockdown as well as the project development of some of the biomethane activities had to stop as well. Our associates will see a limited effect and we see virtually no impact on financial charges. Overall, the percentage impact on our full year 2020 earnings will be in the low single-digits compared to the previous guidance. There will be no impact on our overall dividend policy, and regarding the 2019 dividend, the last tranche will be paid out as expected on the 24th of June.



Meanwhile, we are focusing on the lessons learnt from this period and how to apply them to improve going forward. Internally, we are reflecting on the unexpected success of remote working which has already encouraged us to streamline and digitalize a number of our processes. We are taking the opportunity to rethink and reshape the way we work in terms of physical spaces, organization and culture with the ultimate goal of improving productivity. We believe that the crisis shed a spotlight on the importance of ESG and the social role of companies. We have long made this a key focus of Snam, given the importance of community relations for the roughly 1,000 construction sites that we normally have open around the country. In the current difficult context, as mentioned, we donated €20 million and have been able to purchase precious medical equipment from abroad at a critical time for Italy.

On top of this, over 10% of Snam management have volunteered to devote part of their salary to causes relating to the emergency. Italy is also reflecting on how to build back better, and Snam is contributing a great deal to this exceptional once in a generation effort. Infrastructure investments are the key lever to restart Italy's economy. And the types of investments that we do have a multiplier effect of 3 times as we rely on suppliers that are mainly national SMEs. We're making concrete proposals to policymakers on how permitting times can be shortened simply through a streamlined application of current roles. We're also making bolder proposals involving legislative reform and were working in concert with many other energy companies and infrastructure companies.

A key component of the efforts to rebuild the economy in Europe and in Italy will be to encourage an acceleration of sustainable investments. The EU has recently restated its commitment to the Green New Deal and consider it a sort of a martial plan for the recovery. There were €1 trillion already earmarked before COVID for the Green New Deal and this amount could be raised further.



Sustainability is also at a very core of the Italian post-COVID strategy. Cheap gas continues to take share from coal providing cost effective decarbonization of the power sector. Meanwhile, the cost of green hydrogen made from solar is coming down much faster than expected. Recent solar auctions in Abu Dhabi were reported at €12.5 per megawatt hour and the electrolyzer cost are now projected to halve over the next couple of years.

On energy efficiency, a Snam proposal to extend the tax deduction for investments in buildings is now being proactively discussed in government. Further focus on energy efficiency will support an already strong pipeline for TAP, our energy efficiency subsidiary. This is a key area of the European Green Deal and we intend to grow this business significantly.

Regarding hydrogen, we are continuing to work on 2 fronts, on the hydrogen readiness of our assets we expected around 70% of the existing pipeline network could accept up to a 100% hydrogen already and this will significantly contain adoption costs going forward. The second front is the development of technologies along the hydrogen value chain. We are participating in a number of Horizon2020 calls through which the EU funds, the new sustainable technologies.

On biomethane, we have signed an agreement last night for the acquisition of a 50% stake in Inziativa Biometano. This will provide a platform for the agricultural waste sector. Complementing the acquisition, we have already made in the urban waste sphere. This takes our portfolio development projects to 40 megawatts, which was our target for the plan period. Of this, a third is already authorized.

Overall, the growth of green gas makes our network future proof and an indispensable pillar of the energy transition. We are very satisfied with the progress of our new green business units which are positioning Snam to capture benefits of an accelerated and more pragmatic energy transition.



Let's now look more closely at the gas market context so far this year. Gas demand has declined by 9% in the period January to April compared to the previous year. This partly reflects a warm winter. The overall weather impact is 1 million cubic meters. It is clearly also a function of lockdown which affected thermoelectric and industrial demand down respectively 32% and 22% year-on-year. And demand for buildings which include home, shops and small businesses. Assuming a gradual restart of activities in May, with an ongoing path towards normalization we are currently expecting gas demand for the full year at around 67 billion cubic meters.

The sharp decline of commodities in the last few weeks has made gas extremely cheap and confirmed that it is more convenient to make power from gas rather than coal. Notwithstanding, the collapse in oil prices, gas is still 3 times cheaper than oil. This will further support the key role of gas in the energy transition also in the mobility sector.

Now, let's look at the progress Snam has made in the first quarter. Starting with our core business, we completed investments for around €220 million. This number doesn't include any COVID related shutdown €60 million. As a strict lockdown was only imposed at the end of March.

Moving to our international activities, TAP is around 94% complete at the end of March as...and is on track to startup in the fourth quarter. We have continued to create value from our financial structure. The confirmation by Fitch of our rating despite the downgrade of the sovereign is further evidence of the solidity of our capital structure. Meanwhile, the 2 and 3 years zero cost loans we closed in early March, mean we now have liquidity covering with financing needs for more than the next 24 months, even though the market remains wide open for good credit.

As you may remember, we bought back €110 million of shares in the first 2 months of the year. We are going towards the upcoming AGM to approve



a new €500 million share buyback program in order to have the flexibility to use it if and when we deem it appropriate.

With regards to the energy transition, we've extended the agreement signed last year with Terna, here the idea is to join the innovating areas where we both have similar needs, like monitoring our networks with drones using satellite, installing additional sensors on the ground and generally investing in the internet of things together. The concept of sector coupling for instance investing to make our compression stations, gas, electricity, hybrids to reduce emission and provide stability to the electricity grid, this is also a key focus of our industrial collaboration.

Our financial results further continued to show strong growth. EBITDA was up 5%, thanks to the increase in regulated revenues, mainly linked to the transport business. And the further effect of €2 million related to our efficiency program.

Financial charges were down 17%, thanks to the 2019 liability management completed in December, the continuing treasury optimization measures and the natural bond rollover. Net profit was up 5%, thanks to the strong operational results and lower financial charges while the overall contribution from associates was lower mainly reflects some one-off items last year. Net of these effects the underlying performance of associates remained solid.

Net debt was up 3%, this is a result of many moving parts on top of organic cash flow generation and the ongoing investment program. In particular, the first quarters of cash outflows for the OLT acquisition are floating [indiscernible] the payments of the first tranche of the dividend the buyback program, only partially compensated by the positive impact of working capital, which is expected to be reabsorbed over the year.

I'll now hand over to Alessandra, for a closer look at the results and as always we will then be happy to take any questions. Thank you.



ALESSANDRA PASINI: Thank you, Marco. EBIT in the first quarter of 2020 was up €380 million or 3.8% versus last year, this reflects an increase in regulated revenues due to an additional €12 million of tariff RAB and allowed D&A as more increase in storage revenues mainly due to the calculation of allowed revenues on a guaranteed factor of 100% from prior 97% and the recognition of energy costs which were addressed in kind until 2019, and are now recognizing the revenues and cost line and which benefit from some seasonal effect which we expect to essentially revert in the next quarter. The reduction in controllable fixed costs of €3 million, mainly thanks to the ongoing efficiency program. The program which has a target of €65 million by 2023 has obtained for the €2 million on top of the €51 million reported at the end of 2019.

Depreciation and amortization increased by €11 million reflecting a growing asset base. The other components include a number of items, such as, €3 million as part of the COVID-19 donation as Marco has commented before. Energy costs which partially compensate the COVID impact in regulated revenues commented earlier. The initial positive contribution from the biomethane business which has...including IES biogas which have increased construction site and the consolidation of urban [ph] waste which was not part of the perimeter last year. And lower provision as of course 2019. All in all, in the quarter, we have a positive and negative season and temporary effect including energy cost, COVID donations, lower material sales and provision which broadly offset each other.

Net profit in the quarter was €298 million up €15 million over the same period of prior year. This number reflects lower financial charges due for more than half to the benefit from bond rollover, liability management, exercise and treasury optimization. The remainder is...the initial contribution from OLT shareholder loan and other small effect. The lower performance of our associates is mainly driven by the absence of the positive one-off effect



accounted by Teréga in the first quarter of '19, connected to the release of a tax provision accrued in 2017.

The normalization of the performance of Interconnector UK after 2019, which was characterized by an extraordinary volume levels. Ethyl gas lower contribution by €2 million due to a change in regulation on recognized costs and thus far which met 2019 very strong performance due to higher than expected volumes, also thanks to the continues push by the government on phase out of lignite.

Income taxes are lower versus the same period of '19 mainly because of the higher earnings before tax. And lower tax rate, which reflects the postponement of dividend payments and therefore has a temporary reduction. We confirm full year tax rate in the range of 27...26% to 27%, similar to last year.

Moving on to our cash flow, the cash flow from operation was €682 million, thanks to the solid net profits and positive working capital for €264 million. Tax movement include €114 million of tariff related items, due to additional tariff components expected to be reabsorbed within the year, €46 million of balancing activities expected to be reabsorbed almost entirely within the year, and €106 million due to the net tax payable accrued in the period that will be paid in June. Overall, the positive impact of our net working capital, therefore, expected to be reabsorbed within the year.

The very strong cash flow generation covered net investment of €220 million. Please note, that in the fourth [ph] we only had some €15 million of CAPEX delay related to COVID. And the net financial investment related to OLT for €322 million, as well as the dividend payments of €313 million and the tranche of the share buyback for €11...€111 million commented earlier by Marco, leading to a net debt for the quarter of €12.3 billion.



With regard to full-year guidance, which was €12.4 billion, excluding change in tariff-related items expected negative by €0.1 billion, we still expect to close broadly in line with that considering the effect of liability management carried out at the end of last year, the acquisition of Inziative Biometano and the expected COVID impact and excluding the potential restart of a buyback program.

Moving now to our debt structure with reference to the gross debt breakdown, at March 2020, the fixed rate portion is approximately 70%, in line with 2019 numbers, and maintaining a limited exposure to the interest rate volatility. Our maturity profile is well spread over time, also thanks to the last liability management exercise completed in December and characterized by approximately €600 million of buyback of bond with an average coupon of 1.3% and an average residual maturity of circa 4 years.

Let me remind that this management exercise was the last of 5 transaction executed over the last few years. Despite the recent market worsening, following the COVID-19 crisis, 2020 financial charges are affected to keep on downward path started during the last year. More than two-thirds of the maturities were refunded in 2019 and the recent €740 million of term loan secured in the March more than cover refinancing needs of the remaining part of 2020.

Furthermore, the relevant cash on hand and undrawn €3.2 billion of RCF credit line allowed to cover more than 24 months of maturities...maturing facilities and expected net debt increase. For the remaining part of the year, we will remain ready to capture possible opportunities in the markets, which remain open for the [indiscernible] like ours. And we will continue to seek treasury optimization, although we expect for the remaining part of the year less favorable conditions given macro environment.

Snam long-term issue of the full rating BBB plus with a stable outlook. This assessment describe difficult macro environment caused by COVID-19



emergency reflects relative inflation from the macroeconomic shock. The solidity of the company, stable cash flow generation and a clear visible, regulatory environment, as well as, a transformation to energy transitions through its CAPEX plan and a wider implication for our concept.

With reference to share buyback program, in February, we have concluded the repurchase tranche...repurchase of €111 million executed under the Shareholder Meeting Authorization and as mentioned before, we will be seeking the renewal of such authorization and the next AGM valid for a maximum period of 11 and 18 months.

We'll now be happy to take any questions you may have.

Q&A

OPERATOR: Excuse me. This is a Chorus Call conference operator. We will now begin the question and answer session.

MARCO ALVERÀ: Operator, could I ask you to take 2 questions at a time, please?

OPERATOR: Okay. Thank you. Anyone, who wishes to ask a question may press "*" and "1" on their touchtone telephone. To remove yourself from the question queue, please press the "*" and "2." Please pickup the receiver when asking questions. We ask participants to ask only 2 questions before returning to the queue. Management will take 2 participants questions before answering. Anyone who has a question may press "*" and "1."

The first group of questions is from Javier Suarez with Mediobanca. Please go ahead.

JAVIER SUAREZ: Hi, good afternoon. Thank you for taking the time for us today. Three questions. The first one is on the political side maybe, there has been recent statement by the Minister of Economical Development in favor or giving his



view...in favor of the [indiscernible] with Terna. And I just wanted to ask the management on their view, the potential benefits for the system of data integration if any? That would be first question.

The second question is also, I guess, on the political and economic side, it's on the...as part of this on the reconstruction phase. You have been mentioning the possibility of accelerating CAPEX. So can you help us to understand to which extent Snam could accelerate on CAPEX and the contribution...the additional contribution that could keep on the reconstruction phase and which areas apart from the obvious maybe the company could accelerate on that CAPEX?

And the third question is more on the M&A activity, yes; I just want to have your view on...in light of the economical deceleration and economical slowdown. The company is looking at their economic...M&A activities and their potential fire power to do M&A through different lenses. And specifically in the U.S. market if the scenario of low commodity prices as given, it's now maybe an opportunity take a closer into that market. Many thanks.

OPERATOR: The second set of question is from Stefano Gamberini with Equita SIM. Please go ahead.

STEFANO GAMBERINI: Good afternoon everybody. 3 questions also from my side. First of all, regarding the Business Plan target 2023 €6.5 billion, excluding the 2019 and 2020, that should be in the region of €2 billion, it means that €4.5 billion should arrive in the next 3 years. So you confirm this guidance. So could we expect in 2021, a huge acceleration of CAPEX, up to €1.5 billion, I don't know, considering to reach this target?

The second question regarding the investments in the energy transition business, you have this target of €400 million by 2023. You said that the situation is going quite well, new acquisitions in this area. So is this target



very conservative. And could you elaborate a little bit more about what could be sort of an acceleration in this area?

The third question regarding the buyback, you have a €500 million of additional approval of buyback after the shareholder meeting, so when will you decide to use this buyback. What are the main elements that could push you to go ahead with a new buyback on the market? Thanks.

MARCO ALVERÀ: Okay. Thank you, Javier and Stefano for your questions. I will take them in the order they've been asked. On the political statements made regarding turnover. What I can say is that this topic, as you well know and some of you have reported comes up quite frequently over the years, its periodical topic that comes up. What we're doing is working hard and we've been doing this with current, the previous CEO, and I'm sure we will continue with the new CEO who I know well and with whom we have been speaking regularly over the years. We work very hard to try to extract the maximum value from an industrial point of view of collaboration. We've done this quite effectively on the scenarios for at least the 15 years that I've been working in the energy sector or now almost 20, Terna [ph] and Snam had always have different approaches to how the Italian energy system should evolve. And last year for the first time we were able to work on a joint scenario, which the regulator had asked us to do, but it was quite a remarkable achievement, and I think that's something precious that we've delivered to a great benefit and clarity for investors, as well as, for the regulator and for the politicians.

The second area of work as I mentioned earlier, is around the network related technologies, so we both spend money on helicopters and if we could use drones instead, or even satellite images, and in general on the internet of things and cybersecurity, there's a lot of work that we can put in place and we are putting in place and we have agreements in place. And the more strategic synergy that we are extracting is around the conversion of our gas fired compressor stations to electricity. Fired up...fired electricity, electric motors. This will essentially physically interconnect our network with that of



Terna allow us to provide a lot of backup if needed, provide strength to the electricity grid and reduce emissions. So it's like basically a hybrid car, we can run on gas, when Terna needs power, we can absorb power when Terna has excess power, and we cannot take any power nor gas, when needed because we have a lot of flexibility in the pressure, which we [indiscernible]. So I think we're doing quite well. And if you look around the world, with the exception of the U.K. none of the big countries have this...have decided to integrate these number. So I think what's important is really to make sure we continue to work and extract what value is there.

On the reconstruction, we will present the new plan in November, so I'm not ready yet to disclose any amount. Here I'm partially answering Stefano's question as well. Our plans tend to have some back loading. So like the previous plan. So the CAPEX for 2021 was slightly less what you talk about, but we are working with government to try to streamline some of the approvals we have 10 year plan, which is close to €14 billion and this is presented every year on a rolling basis as you know. So our effort right now is to say, if we have projects that take 5, 6, 7 years to get approved for no political reasons, we're not talking about any complex project, we're just talking about the bureaucracy, without changing any law, if we simply get the permits fast tracked in parallel. So rather than waiting for one ministry to give approval than the other ministry then the third ministry. If the 3 ministries which are the economic development ministry, the environmental ministry, and the cultural ministry. If they all started the permitting process at the same time for something that we know we will have to do. We've already saved probably 2.5, 3 years. This could allow us to bring forward into 2021 and 2022, some of the projects that we have in the later years of the 10-year Plan. So that's the work we're doing with government as I mentioned, we're also proposing some bolder legislative measures for instance to streamline the procurement process and streamline the actual permitting process itself, but that will require more time. So I'm optimistic there will be upside, and we will be updating you as we firm that up into our plan.



Then I think you asked about M&A, the firepower, of the U.S. market. So in general, you know, we're not big fans of corporate M&A, in fact, we don't like corporate M&A. What we like are projects, projects where we buy assets. And I think the low commodity price will probably make assets available, we will look at those like we always do, where we attach as you know, a lot of value to the credit worthiness of the counterparts. So what we like about top is that it's backed by long-term contracts with BP and SOCAR. So these are the types of projects that we like.

In the U.S. market, a lot of the off takers have seen a deterioration of creditworthiness over the last couple of months, and so on the one hand, there may be more opportunities, but on the other, the risk adjusted returns may not meet our very strict investment criteria.

Stefano, you also asked about the new businesses, again we're in the process of updating our plan. But I do expect there will be upside to that on energy efficiency I mentioned we have seen great buildup of the pipeline of [indiscernible] and we have the government really looking forward to accelerating and extending the incentives, from a fiscal point of view, not only because it helps the environment, but also because it helps the construction sector, which is at a total deadlock right now and really it needs to get working capital and cash flow going back into the system.

Then we have biomethane which is a function of the extension and duration of the incentives and we are optimistic there. And then on hydrogen it is really a function of what Europe and Italy decide to do from Green Deal perspective, but as I mentioned, costs compared to a previous outlooks have...and continue to fall quite rapidly.

On the buyback, we never gave precise targets as to when we enter the market. What we do is get the AGM to give us a new mandate and a new



approval and we have been doing this now at the last 3 AGMs and so we will do this, this time around 12 [ph]. Thank you.

OPERATOR: The next questions are from Harry Wyburd with Bank of America. Please go ahead.

HARRY WYBURD: Hi, good afternoon everyone. So first one is just on the regulatory review, I guess, probably still around the year or right before we get into some preliminary views on that. But do you think the crisis might influence how the regulator behaves you know to the timeline of the review, and you also mentioned the GDP [indiscernible] effect. So I wonder whether there may be a sort of new music might be more towards a more lenient review, and so far as I could encourage more investment and more GDP multiplied.

And then the second, just a small clarification on the low single-digit percentage impacts on 2020 earnings. And could you just remind us a bit [indiscernible] that are going to create that low single-digit impact, so does that include the 20 million social contribution, and also do you expect small impact on 2021 as well or is this simply just a one-off? Thank you.

OPERATOR: And the second set of questions is from Enrico Bartoli with Mainfirst. Please go ahead.

ENRICO BARTOLI: Hi good afternoon. Thanks for taking my questions. 2 of them, the first one is related in general about the value chain in the gas business in Italy. Some commercial companies are experiencing some delay in payments or some disconnection actually being prohibited by the regulator. Do you expect that this could have any impact on Snam, if this could become an issue for the gas system in Italy over the next months and if there are any discussions with the regulator in case of deal with this program?

And second one, I would like to go back about the possible simplification of the authorization processes. I guess that you already had some contacts



with the government. If you can give us some flavor on let's say the attitude on the political side on this matter if actually the government is actually open to change the [indiscernible] system which, you know has been in place in Italy for many, many years. And really the last one is on dividends. Actually in other European countries, there have been some political pressure also in utilities to reduce the dividend payments. If you think that there are any discussions in Italy about this matter? Thank you.

MARCO ALVERÀ: Sorry did you not hear that? Was I on mute? Okay. Sorry about that. So I said, I would try to answer all 5 questions, and then always jump in if I have missed something especially on the low single-digit guidance. So Harry, on the regulatory review, I don't expect there was any need to be more lenient, where the mark-to-market of the current forward curve is 0.3% uplift in the WACC and our working assumptions at the current forms are preserved, where the regulator can step in to accelerate CAPEX is to sit down and fast track the approval process for some of the replacements and other investments that we have in the outer years of the plan. The relationship continues to be very collaborative both with government and with the regulator.

On the low single-digit, so this guidance excludes the €20 million which we consider one off. We have the €9 million hit on the revenues that I talked about which is the volume component of our revenues. We have some weakening of the new business revenues that's not big, but on energy efficiency biomethane CNG, the activities have had a more significant contraction than on the commercial business. Operating costs as I said there will be positives and negatives which should offset each other. On the associates there will be some impact but not much and funding costs no real impact.

Now the CAPEX, the CAPEX will have some impact on 2020. This is not so much the CAPEX, but the delay of some projects will mean that they will not be commissioned in 2020. And so, we cannot generate any revenues from



those, and then the greater parts of the impact of the CAPEX delay will be felt in 2021...if in 2021 we won't be able to accelerate and recover which we are certainly working very hard to do already now.

On moving to Enrico's question, the value chain, I don't expect any disruption on the working capital arising from lack of payment. There has been no discussion in this regard. There has been some discussion on the distribution side which has been...had marginal impact, but we haven't seen any discussion of any of this transferring to the transmission side.

On the simplification, the contacts are...have been over the years almost steady with different parts of government. I think there is a consensus that infrastructure investing with a Keynesian approach is the most effective lever. And so, there is 3 parts to the discussion. The first is, what to do? And there are areas where everyone is in agreement. By everyone, I mean, all the players and all the political parties and all the bureaucracies which is for instance more energy efficiency. That scenario where everyone agrees on the coal phase out and the switching of coal to gas. Everyone agrees on the need for certain substitutions everyone agrees. So there is some quick wins and what we are saying is on those items where everyone agrees, we need to get the permits delivered in 1 year, 2 years, not 5 or 6 years. And we can do that in 2 different ways. The first is to appoint some supervisors within the government that can simply make sure that the time that is allowed to the various officers in government is reduced as much as possible within the current framework. And we think you could already in some cases go from 5 or 6 years to 1 year like we have done for certain urgent projects and like the reconstruction of the railway or the highway bridge in Genoa demonstrates that we can be very fast when we have to.

The second area is more long-term which is legislative changes, these will require more political debate and discussion, but certainly we are making our proposal. So, we have a 58 page document and a 20 page document



and a 2 page executive summary, and we are working as I mentioned with other companies on this as well.

On the dividend side, we have had no pressure to reduce nor to preserve, but if I were to guess, if any pressure were to arise, it would be preserve, because our dividend goes to GP [ph], which is playing as, you know, a big central role in deploying capital to inject liquidity and support the companies and people and the country. And so I said earlier we confirm not only our broader dividend policy, but also we confirm our payouts for June, keeping in mind that we've able to significantly reduce the percentage payout for Snam from over 95% to below 75% over the last four years.

OPERATOR: The next question is from Jose Ruiz with Barclays. Please go ahead.

JOSE RUIZ: Yes, good afternoon. Just the questions on M&A, first of all, regarding the Abu Dhabi transmission gas transport company, ADNOC, I would like to know how far are you involved with this according to this headlines we [indiscernible] in a consortium. And the second is, where we have again commenced from Austria we find that OMV has transferred shares...some of their shares in Gas Connect Austria. I would like to know if you would be interested in increasing your stake. Thank you very much.

OPERATOR: And the next question is a follow-up from Stefano Gamberini from Equita SIM. Please go ahead.

STEFANO GAMBERINI: Many thanks. 2 quick things, the first, if you can elaborate a little bit about these Business Plan of 14 billion US in next 10 years what does it refer to, what I mean is, is it mainly still on substitution of existing fully depreciated assets or could we expect some novelties regarding growing business, so efficiencies and so on, just to understand what are the main targets of such an important Business Plan? The second regarding the EastMed project, if I am not wrong, recently, they are going ahead with all the works, could you elaborate a little bit about this project, what could be



the potential additional investments in the networks both Greece and eventually also in Italy that are managed by you. And if you can even in the future, think of a possible acquisition of a stake in this project? Thanks.

MARCO ALVERÀ: Okay. Thank you. So Jose, on M&A as you know, we don't comment specific situations. But, I will repeat what I said earlier, the projects that we like are those where we can put there a prudent stake say €200 million to €300 million, similar to that in a way, where you take a stake and you have very creditworthy partners, more around specific assets than around companies.

So especially as we have done on TAP, we see projects where we maybe leading or one of the leading industrial partners and we can not only make our risk-adjusted equity return and higher than on a risk-adjusted basis what we can achieve in Italy. But we can also add to that revenues from services, consulting activities, new business development opportunities, the...this is something that, that we will always look at.

On Gas Connect Austria, I think the Austrian market is very strategic market for Italy, it's a strategic corridor that connects us to the Ukraine, and then to Russia. Most of the imports go through that and through TAG [ph] and GCA we now have a leading presence in that key markets. The transfer from [indiscernible] is not something that would impact us.

Stefano, the 10-year plan is a public document last year, whilst this year it's similar to last years, and this is for the regulated activities. It's done every year on a rolling basis, there is nothing substantially different in this year from the previous years and it's a combination of the maintenance CAPEX that we have to do and some of the substitution CAPEX that you know about.

On the EastMed project, we are not involved in the equity of the project right now, we are in active discussions and has been for the last couple of years with most of the players, of course having bought DESFA we will become



an important stakeholder in the Greek and of course already have you know on the Italian market. And there is many options for these ready gas to flow either to Europe through Greece or to Egypt and then be liquefied at the existing Egyptian gas facilities. So, the ball is not in our court as to when and how it's being developed, but certainly it's a exactly the type of projects that we like if the conditions are right.

OPERATOR: There are no more questions registered at this time.

MARCO ALVERÀ: Okay. Thank you very much everyone, and if there are any questions comes up, you know where to find the team, Francesca and everyone else. Thank you. Have a nice day.

ALESSANDRA PASINI: Bye-bye.