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First Half 2021 Financial Results - Conference call

Thursday, July 29, 2021, 15:30



MODERATORS: MARCO ALVERÀ, 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 2021 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 of Snam. Please go ahead, sir.

MARCO ALVERÀ: Thank you. Good afternoon, ladies and gentlemen, and welcome to Snam's first half results presentation. We've seen a strong start to the year. CAPEX has significantly grown, reflecting the ramp up of our investment program result, as a dampened operational activity in the first half of last year.

One of the drivers of our investment plan is digitalization. Here we have the objective of becoming the most technologically advanced gas TSO in the world. We reached an important milestone in our digital transformation program, with the inauguration of the Bologna TechHub in July. You will find some detail on this in the back up slides. We're also seeing a recovery in gas demand that rose by 10% in the first 6 months of the year. Thanks to rebound in industrial production power generation, and cooler than usual weather.



On the regulatory front, the first consultation document on the WACC formula has been published by ARERA. Changing the key parameters have been proposed, including the risk free rate, country risk premium and the way to calculate the cost of debts. Depending on how it will be applied, the formula gives rise to a wide range of potential outcomes, including the possibility of a significant cuts. There will not be consultation period and expect an intermediate document by October and the final release by year end.

Hydrogen's momentum continues to increase, and we have dedicated a slide on how policies and scenarios are evolving. We are continuing to build skills and knowledge in this field, leading projects that test hydrogen's use in de-carbonizing rail transport, ceramics, glass making, and steel sectors. In May, we successfully carried out the world's first test of a 30% hydrogen natural gas plants in the forging process used in industrial steel making in Milan.

We have also been awarded grant by the innovation fund to build an electrolyzer plant connected to a waste energy facility invasion. Our subsidiary, De Nora, a global leader in sustainable technologies, continues to show strong growth while increasing its H2 backlog. It is ideally positioned to become a key player in the hydrogen ecosystem.

Thanks to the credibility and track record both of De Nora itself, and its joint venture with the German Group, Thyssen which is involved in the Neom projects in Saudi Arabia, with a target of 2 gigawatts of electrolyzer capacity. We are starting to discuss possible options to crystallize value from our minority investments and support De Nora in the next phase of its growth.

Another key source of value creation comes from the optimization of our financial structure. Average cost of debt is now below 1%. All the funding of the first 6 months of 2021 has been based on sustainable finance instruments, bringing it to around 60% of total of the above funding.



Our financial results in the first half of 2021 were very strong. EBITDA benefited from the contribution of higher tariff RAB. Thanks to our investments in our infrastructure and ILO D&A. Our new businesses grew by €5 million versus the same period of 2020, a significant acceleration compared to first quarter 2021.

Financial charges are down, thanks to our team's excellent liability management capabilities, and our continuing treasury optimization measures. Income from associates is up €29 million, compared to last year benefiting from a premature effect including ADNOC and De Nora and from the full year contribution of TAP. These effects are partially offset by the decrease of Austrian associates, which was affected, and Desfa [ph] for the lower inventory tariffs and reversal of the extraordinarily strong results in the previous years.

Net profit was up €57 million, thanks to strong operational results, lower financial charges and the contribution from associates. The strong results achieved in the first half of this year mean that we can confidently confirm our full year net profit guidance of €1.170 million, confirming the guidance.

The world of green gas in the energy transition is gaining traction globally and in Europe, with the recovery plan and the Fit for 55 EU package. There is finally growing consensus around the world of hydrogen and biomethane to de-carbonize the hard to abate sectors in particular, and to meet overall climate targets.

A significant share of the Italian recovery plan will be dedicated to areas in which Snam has built strong expertise and capability. In Europe, the Fit for 55 package introduces specific target for green hydrogen and the industrial and transport sectors already by 2030. Half of the hydrogen currently used in the industry will need to be green, and 2.6% of the energy used in transport will come from hydrogen.



At the same time, forecast for the growth of the hydrogen market are now increasing. The IEA has published a net zero scenario with 850 gigawatts of electrolyzer capacity by 2030, while the most recent Bloomberg Green scenario envisages 1,900 gigawatts. The direction of travel is clear, and thanks to our leadership in key energy transition technologies, in hydrogen, and our execution capabilities, we are very well positioned to take part in this investment cycle.

We've identified around 1 billion projects aligned with the recovery funds, in particular, in the use of hydrogen in the hydrogen valleys, rail and transport hard to abate sectors, development of hydrogen supply chains and R&D. These projects will be selected to receive funding through a state tendering processes, and some will require operating support to be viable. We will be working on some of these projects in partnership with other groups, and the details of the centers, and tendering processes are not yet available.

We have also been selected as a direct partner in the first few hydrogen related waves of the IPCEI, which are important projects of common European interest regarding hydrogen technologies and hard to abate sectors. This is a program that aims to support strategic value chains in Europe and allows member states to finance up to 100% of the funding gap of projects in R&D or in the first industrial development.

I will now hand over to Alessandra for a closer look at our first half results.

ALESSANDRA PASINI: Thank you, Marco. Net profit for the period was €635 million up €57 million versus the same period of last year. This was mainly driven by the growth in EBITDA core by more than €50 million, due to higher regulated revenues. Thanks to the continuous growth in the transportation business, related to the ongoing investment and the commodity effect due to the recovery of the gas demand in 2021, and also to the cold weather in April and May. This was only partially offset by the ongoing reduction of input-



based incentives. Regarding the storage business, it benefits from the release of past balance sheet items and the smaller contribution from input-based incentives.

Moving to the cost...lower cost in the core business were due to decrease on the fixed side, related to higher capitalized cost and the program...continues program of our efficiency program partially offset by a higher labor cost. The decrease in other items was linked [audio gap] be counterbalanced in the second part of the year, as well as higher costs for business development and [audio gap].

The contribution of new businesses was positive for €5 million, this was due to the strong contribution of energy efficiency business, due [audio gap] into the Snam consolidated Renovit perimeter. This was partially counterbalanced by the continuous investment in our H2 capabilities, our sustainable mobility business and the overall platform cost with lower than expected ramp up our biomethane business which was explained already in the first quarter is mainly due to the delays in authorization processes, some...delay in some plant realization and rollover effects of COVID impact from last year.

And also finally, for a small part of the sector very strong global solution performance in the first half of 2020. Lower net interest expenses of €17 million were due to the lower cost of debt attributable to the positive impact our fixed liability management exercise, treasury management optimization and natural bond rollover effect, replaced with cheaper new issuances. The increased contribution from associate is due to a perimeter effect with the contribution of Adnoc gas pipeline and De Nora and the positive contribution of TAP that in the first half of last year was loss making. These increases are partially offset by the expected decline of at DESFA and TAP that Marco referred to, the lower performance of DESFA was mainly linked to a lower applicable tariff whilst the decrease of outturn associate was due to the new



regulation in place from January 2021, non-recurring items and the compensation in first half of last year due to the end of the regulatory period.

The increase in taxes is essentially due to higher earnings before taxes. As you might have seen in the first half of this year, net profit benefits from a positive one-off component adjusted of €255 million related to the realignment of the differences between the fiscal and book value of fixed assets. This is possible paying the substitute tax of 3% in a maximum of 3 installments, while the amount of the alignment is €1.2 billion for transportation business to be recovered over the coming years and you will find more details in the backup.

Turning now to our cash flow, cash flow from operation for the period amounted to €566 million including €379 million of working capital absorption of which €354 related to balancing and settlement activities, €105 million of settlement mainly related to the absorption of 2020 items and €249 million of balancing activities affected by cold weather and that will be reabsorbed in the next months, most likely in the third quarter. The positive contribution of tariff related items for €69 million and other working capital items of which we note the growing constant absorption of working capital related to the Ecobonus effect that goes hand-in-hand with the strong performances that our energy efficiency platform is having, the contribution of net tax payable and the absorption mainly due to VAT on receivables that is expected to be reabsorbed in the next couple of years.

On the net investment in M&A side, these includes CAPEX and CAPEX payable, and FX already commented in the first quarter mainly related to the inclusion of the perimeter of De Nora, the transactions on the energy efficiency, all showed cash-in and true-up. Other outflows for the period have clearly been the dividend paid equal to €795 million. This led to a net debt at the end of the first half of slightly more than €14 billion, at €14.148 billion. We confirm our full year 2021 net debt guidance at circa €14 billion with neutral tariff related and balancing working capital effect.



Moving on to the Snam debt structure and reduction in the cost of debt in the second quarter of 2021 will further strengthen our financial structure by leveraging on another transition bond issued in June with a coupon of 0.625%. And we've also finalized a new EIB loan aimed at financing our energy efficiency projects carried out by Renovit. Moreover, we have started the second half with new ESG funding signing this week new term loans linked to ESG KPIs for overall €350 million. There are no refinancing need for remaining parts of the year while bond maturity profile is well spread over time.

With respect to treasury management optimization, we continue to exploit the good market conditions which allow us to fully utilize our commercial paper program, and large use of uncommitted credit lines both at deeply negative yields. On sustainable finance ESG factors represent a crucial element for our financing choices and our financial structure. As such, funding for the first 6 months of 2021 has been entirely based on sustainable financing instruments with an overall sustainable savings component reaching 55% of total committed funding at the end of the first half. Thanks to the recently signed ESG loans, this percentage is further increased to close to 60% at the end of July.

Finally in May 2021 and for the third consecutive year, we reached the ESG target for our sustainable loan KPIs to achieving confirmation of the margin step down.

Thanks for your attention. Mark and I are now ready to answer your questions.

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 while asking questions. Anyone who has a question, may press "*" and "1" at this time.

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

HARRY WYBURD: Hi, good afternoon, everyone. Thanks for taking my questions. I'll keep it at 2 [indiscernible] conference call. Firstly, I guess that there were lots of questions on this. But on the amount referenced a very specific one, I guess now we've seen the initial documents, we probably have a rough idea in our heads of what the worst case scenario might look like. And you alluded to that in your opening comments. I wonder thinking about specifically the dividends. Now that you've seen the initial proposals, do you feel that the current dividend policy is secure under a worst case scenario here? Would you be willing to say that at this stage? Or do you think the range is still too wide at the moment? That's the first one.

And then the second one is on...again, what you touched on earlier about crystallizing value from your portfolio of minority investments. I think you've mentioned that in the autumn of last year initially. And I guess what can we expect in terms of timing here? Or what do you...is there a sort of a timing block here waiting for something to happen? Is there a contingency somewhere that's driving the timing of this? And so just interested to know when we could expect that to be announced and whether you've got any update on exactly what kind of structure we should be thinking about for that? Many thanks.

MARCO ALVERÀ: Thank you Harry. So, as we look at the dividend policy, and you've been following us for some time, we over the last few years have been managing to both increase the dividend in absolute terms and decrease the payouts. So as we look about the worst case, which at this point, we have the same



information that you have, we read the consultation, that's where we are at. We will see how things evolve in September and October. But as we look at our payout, it's in a very comfortable place. So I think we can absolutely confirm our dividend policy with it's, let's say, embedded growth. And we...when we originally planned the Italgas spin-offs, we were around to 90% payout, so we're now at 75%. And so I think we have a very strong headwind there and our policy is confirmed and, let's say, very serene when it comes to our dividend because of our EPS growth that has significantly outperformed our DPS growth. When it comes to crystallizing, just to be very clear, my comments were referring only to De Nora and we plan to give you more information around the plan period.

De Nora has significant upside and growth potential from some of the numbers I shared around the electrolyzer growth projections and this giga factory project that we, let's say, been preliminarily awarded on it, that would be De Nora's job to do that. De Nora's JV itself with Thyssen is also enjoying a very attractive growth. So that's the asset I was commenting on. And hopefully, we'll be in a position to give you more granularity around timing in...when we present the time in November.

HARRY WYBURD: Got it. Many thanks.

MARCO ALVERÀ: Thank you.

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

JAVIER SUAREZ: Hi, good afternoon, and thank you for the presentation. A follow-up question on the ARERA's proposal, so maybe putting the question in a slightly different terms, in the case that the regulatory cut is at the lower end of the range, what would be Snam's managerial decision to maintain financial stability. So including in that definition both dividends and CAPEX. So what we may expect from the management of the company in case that that regulatory cut goes at the lower end of the range.



Then the second question is related also to the consultation document. As you said, there is a wide range of possible outcomes. Can you share with us your technical comments to ARERA to improve the document?

And the third question is on the...you can update us on your latest views on the possible benefit for Snam from the EU funds, still the tendering process are not yet available, but you can give us some initial thoughts on the potential benefit for Snam, that would be great. Many thanks.

MARCO ALVERÀ: Sorry, I was on mute. If...thanks Javier, so as we think about dividend policy as I mentioned, as a fixed with its embedded growth, and then we have that flexibility you mentioned on the CAPEX. We don't have an issue around, let's say, cash flow flexibility, what we...and certainly we wouldn't be cash constrained for the CAPEX. However, as we think about CAPEX profile, too many levers and here I'm also answering your second question. We have 3 things to take into account. First of all, the absolute WACC outcome that would be a factor of how attractive certain regulated investments are.

The second is around the discussion about replacements, how accretive or non-accretive replacement CAPEX could be, as you know, we have an ongoing dialogue that started in 2019 with the regulator. Hopefully, we'll have news after the summer and buy the plan even if it won't be yet definitive news, but some news.

And the third is really around your second question, which is how these tenders will be structured? What type of incentives will be offered? We are surprised to see that some hydrogen applications are already in the money, even without a big incentives, or even without incentives. CO2 prices are on the rise which makes the kind of the funding GAAP smaller. But really this is a process that has to start. So this is true for all the kind of Fit for 55, the whole of Europe. And Italy still have to build specifics around the tenders, the incentives, the schemes. I think on biomethane we will see



quicker action, perhaps on hydrogen, just because it's building on what has essentially been already successful first biomethane [indiscernible]. All these tenders have to go through European approval process and indeed most of them.

So we will update you, as we see these tenders on how much of that can translate into our own CAPEX, and will be present in the new CAPEX plan linked to all of this in November.

When it comes to the EU funds for the IPSA, because when we look at the current electrolyzer market, the factories that are in the market today are subscale and not very efficient. And we know most of them were in dialogue with many of them. As you think about a Giga factory, it's almost again already in the money. So the funding will depend on the funding gap, and that's what we're working on. I hope I've answered all 3 of your questions.

JAVIER SUAREZ: Many thanks,

OPERATOR: The next question is from James Brand with Deutsche Bank. Please go ahead.

JAMES BRAND: Hi, good afternoon. Thanks for the presentation. I had 2 questions. The first is on the WACC review again, but you've commented a bit in terms of the range that you could have in the near-term on the WACC and a lot of people seem to be focusing on what the near term cut to the allowed return is, which obviously depends very much on the measurement period for the cost of equity parameters and how quickly the changes to the cost of debt is phased-in. But over time, the new framework will result in quite different allowed returns to the last one. Do you have any comments that you could share to us in terms of how you feel about the more structural changes in approach that the regulator is suggesting, particularly on the cost of debt? Are you happy with those changes, or do you feel like that's a step in the wrong direction in terms of how the regulator is going about things?



And then the second question is totally, apologies unrelated to the presentation. But I was wondering there seems to be a lot of debate at the moment around hydrogen and storage and what storage facilities are feasible for hydrogen and whether or not operator's gas storage might have to develop new sort of cabin storage in order to meet the demand that's out there. Could you share some thoughts with those in terms of what you're thinking at the moment on storage and whether you think the existing storage facilities would be suitable hydrogen, or whether you might have to develop new ones? Thanks.

MARCO ALVERÀ: So when it comes to a structure, I think there's too many moving parts in this consultation. So I would...I don't have a view on the structural intention behind the proposed changes. Some aspects are even not bad about some of the proposed elements for change. And so the only certainty I have is that now we're in incredibly low spread and kind of risk free environment, which may not last that long. So I agree with you that there's a different approach to kind of near, medium-term and longer-term. Directionally, we don't see the returns going up in any way, and it's just especially how much they go down even structurally in the longer-term.

Regarding the storage, Stogit is a world leader in gas storage and Stogit deserves to become a global leader in terms of capabilities, I'm talking about, not about reach in the hydrogen storage as well and I would say in energy storage, more generally. The interplay between electrons and molecules will disappear with a lot of power to gas storage related opportunities, we want Stogit to maintain this kind of technological leadership that we have and that's allowing us to even consult and offer our services to other bigger companies and other geographies. So we are building capabilities, we are looking at technologies.

CCS is going to be a big part of decarbonization efforts and Stogit has let's say the skills that are needed to store our CO2 underground, it's not that



different from storing CH₄, which is methane underground. There's also some cutting-edge ideas like storing CH₄, and then stripping it from CO₂ to produce new hydrogen. And then, when the hydrogen comes back to be stored added back the CO₂ to recreate synthetic methane. There is also ideas to build a rock caverns that are still cheaper than building above ground steel [ph] facilities. So there's a lot of new technologies coming up. I think storage will be the new frontier of the energy transition. I think Snam has built a lot of new capabilities that can be added to the existing legacy kind of below the ground engineering and reservoir management capabilities to really become a leader in this field, so thanks for the question.

JAMES BRAND: Thank you for the answers.

OPERATOR: The next question is from Enrico Bartoli with Stifel. Please go ahead.

ENRICO BARTOLI: Hi. Good afternoon and thanks for taking my question. The first question is related to Slide 4, when you highlight the push to decarbonization from the Fit for 55 package. This is mainly based on pushing decarbonization on transport, so you highlight the opportunities for biogas and infrastructures related to green gases. It would be reasonable to assume that in your next business plan, there would be an acceleration in the CAPEX related to these businesses and if you can elaborate on the opportunity that Snam could have related to the green gasses?

A second question is regarding...on the guidance that you reiterated, considering the growth and a profit level first-half. It seems that the guidance looks a bit conservative. Could you elaborate a bit on the drivers in the second-half? If you see some reason for a deceleration of the growth that we saw in the first-half.

And last one, just on detail on results, you mentioned this release of balance sheet items, which had an impact on P&. If you can highlight, the impact on revenues and EBITDA that you had in the first-half? Thank you.



MARCO ALVERÀ: Okay, I'll take the first two and then Ale can integrate on the guidance if I miss something, and then answer the third question. So on the Fit for 55 in general I would say on the energy...on the new businesses, in the current plan, we have...we don't have a lot of CAPEX related to these businesses, we have some, as you know, there is significant upside potential, and as I mentioned, depending on the final WACC outcome, and depending on the substitution, how we settle on the substitution and sensitization let's say, we have options to move more CAPEX from the legacy activities to the new activities that would be preserving the current risk profile, trying to get either governments incentives or optics [ph] to support that. The EPS being extended to new sectors is already a big facilitator of the energy transition projects.

On the CAPEX for biomethane, that's most likely to increase, but I would rather talk about the CAPEX altogether when we look at a new plan. Certainly, the role for green gases that was absent from the general discussion is now very firmly in the...in all documents and in all the discussions that are taking place.

When it comes to the guidance, so the...when you compare the H1 let's say, our performance was the confirmation of the guidance. First, we are now let's say more confident in the guidance, even more confident, given the results. B In the first-half, we had positive effects that are not replicable, as we said, like the €17 million release of the past balance sheet items. There's some phasing on costs that have been postponed to the second half. There is a usual increase in the DNA for example in second part of the year that's worth around €15 million when assets enter into operation, and the excellent...really excellent performance on liability management and financial charges that was achieved in the first half is...it's going to be difficult, impossible to replicate.



In the second-half, because of higher average debt that we have, positive let's say treasury management operations that are not necessarily replicable, and potential long-term funding that could be raised in the second part of the year. And when we look at the associates, you also have to take into account that some associates are not linear over the year, they have lower OPEX in the first-half, again that question of phasing or higher revenues in the first-half, like for instance IUK. So I have given you maybe too much information, but all this is the kind of level of granularity that we're looking at and this is not the time to be increasing the guidance. And on...

ALESSANDRA PASINI: When it comes to the past balance sheet items, we've...I was referring to what Marco referred to, so there were old provisions that are related to this storage business that can...are now not necessary any longer and therefore they've been released, so it's a very boring action that we took because there is no reason to keep those provisions that were more than 10 years old.

ENRICO BARTOLI: Thank you.

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

STEFANO GAMBERINI: Good afternoon everybody. 2 questions on my side. The first regarding the introduction of TOTEX [ph], the regulator kick off this process from the next regulatory period. So in 2024, there could be some risks in my view for gas networks relating to the topics of the capitalization rates that will be set by the regulator with differentiated approaches among the different sectors. So could you just elaborate a little bit what are the risks, and also the opportunities that you expect from these changes in the approach from the regulator on TOTEX from '24?

The second is regarding the crystallization of value for De Nora. If I remember well, in November, you said that you could create a fund which



could invest in energy transitions. What is the situation right now? And what could happen in order to crystallize the value of these assets?

And the last one, if I may, regarding your long term targets. What I mean is, you are signing a lot of agreements in order to develop hydrogen economy, hydrogen word in Italy with many companies. So in long run, if we can share with us what is your view in terms of...for example, EBITDA for Snam coming from regulated business and gas transport. And on the other side, new businesses, mainly related to hydrogen, I guess? Many thanks.

MARCO ALVERÀ: So on TOTEX, I think TOTEX can end up being an opportunity, I have been saying this for years now. But more importantly we have saying it, we have been preparing for TOTEX for years. We hired, let's say, TOTEX experts and put them beginning 4 years ago in our regulated accounting and timing control functions. We are introducing digital technologies to better to be able to forecast our spending needs and success of TOTEX really relies on the ability to make plans that are then executed on and to have a constructive dialog with the regulator around those plans. And so, I feel Snam is ready, and I feel there is even opportunity there, and if you look at the U.K. situation, we have worked a lot to really understand what went well and what didn't go as well to make sure we prepared. So we feel good about that.

When it comes to De Nora and the energy transition vehicle, these are separate things. At the time, we had tied...as an idea that if we...if we had gone to market in say before year end with an investment vehicle, we could have flipped De Nora at the same value into that vehicle and use it almost as a asset and that's what our...that was our thinking at the time. We haven't gone to market obviously. We have seen a number of other investors. Some of them have been approaching us go-to-market with a very significant energy transition dedicated vehicles much bigger than the one that we have in mind. And at the same time as I mentioned earlier we have seen De Nora's value increase importantly as De Nora with our support has been



building their hydrogen plan and their hydrogen strategy, which wasn't really there when we took that stake in the company.

So I think De Nora will follow its own, let's call it crystallization path. We haven't completely ruled out the investment vehicle opportunity, but we are not in the market at this moment. There are number of dedicated hydrogen investment opportunities for multiple players to get together and maybe join forces on some investments. I think, that's a positive, I think, overall the industry will need to collaborate a lot more. The oil and gas industry is a lot more collaborative than the utility industry, and projects like TAP where we have the 20% stake or like IUK where we have very small minority. I think are going to become the norm and the energy [technical difficulty] utilities typically have 100% of their own assets, whereas oil and gas companies have many, many projects where they have minority stakes and other people are operative.

When it comes to the hydrogen agreement, I see it as 2 phase. First, we have the say market development phase where our main purpose of hydrogen is to make sure that our transports and as I mentioned earlier even storage RAB become relevant and gets even more relevant in the energy transition. So our hydrogen activity is done to promote hydrogen as well as defend the long term growth of our RAB and our assets [technical difficulty].

Then we have, I would call them almost tactical opportunities like De Nora, Snam will not become a big manufacturer of electrolyzers itself, but if we can help company where we have a big stake become a bigger producers of electrolyzers I think that's a win-win solution. Then we have businesses like energy efficiency where we see a market opportunity today, but again we may decide to crystallize on this more. When I look at long term, we will remain [indiscernible] in infrastructure company with a similar risk profile being able to branch ours into new types of infrastructure where skills and more importantly execution capabilities become relevant. That's what Snam is about. Snam is about, and this goes also back to the TOTEX point.



Snam has delivered...I can't count maybe it is 13 or 14 years and overall its investment plan on time and on budgets. And the key feature of the energy transition is going to be a big companies who can commit and undertake big projects and deliver them on time and on budget. That's what we are good at. That's where we bring superior value added and that's what we will continue to do also when it comes to hydrogen. A lot of the deals that you read and experimentations. These are small either MOUs or helping our current customers get familiar with this, where our objective is that they create clusters, big pools of demand where we can then realize or refurbish existing infrastructure.

STEFANO GAMBERINI: Thank you.

MARCO ALVERÀ: Thanks.

OPERATOR: The next question is from Emanuele Oggioni with Kepler Cheuvreux. Please go ahead.

EMANUELE OGGIONI: Thank you for the presentation and also for taking my question as well. I have...the first one is on the ongoing process. Could you update on the ongoing progress of the testing to increase it to up to 30% of the blend...the natural gas hydrogen blend. And if some projects could be financed by the next generation [indiscernible] and so it will not be remunerated under the RAB scheme.

The second one in the fully depreciated assets, we know there is not a specific deadline for the consultation for...with the Italian regulator. But, we can expect some news about this possible remuneration of these fully depreciated assets by the end of the year.

And the third question is pending on the ongoing regulatory review, are you planning to postpone the business plan release from November to Q1,



2022? So, after the Italian regulator's final decision, will it come out in December? Thank you.

MARCO ALVERÀ: Okay. So, on the...on the hydrogen blend, as I said earlier, we've now moved from testing the pipe, even though we will continue to increase the percentage at which we test the pipe. We are not moving to test directly having shown that the pipe is no issue, test directly the blending in customer premises for the steel storage like we've done...committed to do for the glass industry. There are finances available in Europe, there is going to be finances available by...from the regulator, that 30% was for the CO...just to be very clear, it's about testing customers capacity to use the blend. As demand grows following all the studies that we are seeing faster than expected, I suspect blending remains an incredibly precious tool [ph] the national governments and then you then to create a flexible and immediate demand at very low cost than in the pipes, but the transition would be faster. And then, I think I have said this before, also the outlook is one in which we will have parts of the network running on biomethane and parts of the network running on 100% hydrogen. So, blending is not a means to transport, hydrogen is blending is a means to create like we have done for the biofuels selective on biodiesel in all of our cars in Europe and in the UK, the blending of hydrogen gases really is a way to boost demand... chicken-and-egg dilemma but not a way to move hydrogen blend.

What we are doing though and related to the previous question around storage, we will be completing by year end the testing of 100% hydrogen storage and that potentially could open up very attractive new market for our existing gas reserves in the depleted fields. Depleted gas fields could potentially...we're testing this to turn into full pure hydrogen storage sites.

On the fully amortized assets that's what I mean when I say that we have a lever of increasing or decreasing CAPEX related to some of the replacement that we need to do around for the amortized assets. I expect some news after the summer. As you mentioned, there is no strict timetable which is



why we have been now going for a full year on this discussions and hopefully we will by the year end have some more news. I would be tempted on to 6 November unless there is some bigger uncertainty than the one I see today just because that's our normal planning and then we can provide always an update in the first quarter, if there are some material changes. But, I agree with you that compared to the previous plan, it will be a plan that's based on some factors where we want to have a full strategy. More than the WACC, well, I think we will not have certainty if the types of incentives are looking very good for the new energy business. But, still you have made an effort, we will give you an update, present plan, then we can always have a special event, if something better that happens in the first quarter. Thank you.

EMANUELE OGGIONI: Thank you.

OPERATOR: The next question is from Chris Laybutt with Morgan Stanley. Please go ahead.

CHRIS LAYBUTT: Good afternoon, and thank you very much. I just had a follow-up from our previous question on electrolyzes, you spoke about the processes moving forward. I am just wondering whether you could elaborate on timing? How long do you think it will take for tangible projects announcement and how soon do you think we could expect to see construction of that sort of more significant electrolyze capacity at scale in the next sort, in the years to come I guess I guess I would say?

MARCO ALVERÀ: Yes, great question. So, the IA [ph] has this 850 gigawatt numbers, if you add all the current manufacturing capability, you would maybe get by 2030 to kind of maybe 10-15, 20 also including the...some of the announced projects. So, there clearly has to be a big wrap up. When it comes Italy, we have seen instances in which the government can move very fast, there is not many opportunities to create quick employment. So, the government is quite receptive and Europe is very receptive on the electrolyzer giga factories like they are and other sectors like the battery giga factory, but the



electrolyzer giga factory is an area where Italy has a unique advantage because we have a lot of electrolyzers, historical legacy capability here, it's not just in others, a lot of research experts, a lot of the materials experts or kind of a very attractive supply chain as well. So, we...the recovery funds created in Italy need to spend by 2023 and we see the government really racing to pass some simplification procedure so just we have investments. So, we could realistically be looking at something, where we start sending money in 2022 which would be kind of unprecedented in terms of growing from kind of concept to execution, but technically it's possible, it's not a lot of CAPEX, I mean in fact it can cost between €100 and €150 million, so you are not talking about big CAPEX and of course, we said De Nora would be the one leading this charge, they may tactically be a shareholder if the returns are attractive for a period of time, but that's been what we are looking at.

CHRIS LAYBUTT: Thank you very much. So, do you think we could hear something about this in November or is that too soon?

MARCO ALVERÀ: No, we were hoping to have news in November, we were working with consultants on some preliminary plans, we began looking for some sites, there is lot of work going on beyond the scenes,. so hopefully in November we will have news on this.

CHRIS LAYBUTT: Perfect. Thank you very much.

MARCO ALVERÀ: Thank you.

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

MARCO ALVERÀ: Thank you all very much and have a great remaining of the afternoon. Bye-bye.