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First Quarter 2021 Results - Conference call

Wednesday, May 12, 2021, 13:30



MODERATOR: ALESSANDRA PASINI, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Snam 2021 First Quarter Results Presentation. 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 Ms. Alessandra Pasini, of SNAM. Please go ahead, madam.

ALESSANDRA PASINI: Thank you. Good afternoon, ladies and gentlemen. First of all, let me apologize for the slight delay. We had some issues in uploading the presentation on the system. So good afternoon, and welcome to SNAM's first quarter 2021 results.

During the first quarter of the year, we continued to make good progress in our core business. Investments are above 2020 level, and we are progressing to around €1.4 billion of full year guidance. Our efficiency plan achieved €64 million of cost saving versus 2016 baseline, new regulated services are in line with the good results of 2020. A consultation document on the organization of the metering activity has been published. It introduced quality standard level paying the way for an upgrade of the system. We're working with RINA to formalize the certification on H2 readiness of infrastructures.



Looking at the quarter results, we continue to build and announce our capabilities in hydrogen, enlarging our team and leveraging on our strategic partnership with De Nora. The good contribution from energy efficiency was partially offset by a slower ramp-up in biomethane. Both biomethane and energy efficiency experienced some slowdown mainly due to the effects of this pandemic. Approximately 40% of the Italian Recovery Fund will be dedicated to energy transition. Significant support measures are planned for hydrogen for slightly less than €4 billion, biomethane around €2 billion and energy efficiency circa €20 billion.

On the international front, that first 10-year development plan has been approved by the regulator at the end of March, including new investments to help the country with lignite phase out. Investment for the Greek markets are 65% above for prior plan. TAP started to contribute to Snam's results following the commencement of operation last November. Financial completion was achieved in March, therefore allowing the release of the guarantees provided by shareholders during the construction phase.

On our debt management, financial charges were lower than the same period of last year, thanks to the supportive market environment and our 2020 liability management exercise. We are progressing towards our end planned target of reaching 60% of sustainable finance out of total available funding and as of 30th of March; we are already at 60%. This is part of our broader and continuous engagement with investors and stakeholders around ESG, as confirmed at our recent dedicated road show.

Our financial results in the first quarter continued to show growth. In order to allow for a better assessment of the Group performance consistently with them in our full year results and offering greater comparability of data, the pro forma income statement of the first quarter of 2020 has been prepared, assuming that from first of January 2020 the effectiveness of the changes for the unaccounted for GAAP, as defined by the regulator in its deliberation



of December 2020. This means we're left with approximately €30 million of EBITDA contribution.

EBITDA benefit from the contribution of higher tariff RAB, thanks to the investments on our infrastructure and higher allowed D&A counterbalanced by the phasing out of older input-based incentives, while the contribution of output-based incentives remains stable year-on-year. The decrease in the businesses' EBITDA versus the same quarter of 2020 is mainly linked to continuous investment from the platform and as lower ramp-up in biomethane offset by energy efficiency, as I will explain later.

Financial charges were down by €10 million, thanks to the liability management exercise carried out in December and the continuing treasury optimization measures. Finally, income from associates were up by €17 million compared to last year, benefiting from the inclusion in the perimeter of ADNOC and De Nora and the contribution of TAP. These positive effects are partially offset by the expected decrease of our outsourcing of associates mainly due to the new regulation in place from January and for lower unitary tariff due to lower WACC, higher volumes and the reversal of the recoverable difference from contribution that we have achieved in the past years. Net profit was overall up €24 million, thanks to these operational results, lower financial charges and strong contribution from outsourcing.

Getting into more details, net profit for the period was €313 million. This was driven by the core EBITDA contribution of €6 million due to higher revenues, thanks to the continued investment in transport, only partially offset by a reduction of input-based incentives as mentioned before and storage revenues due to lower capitalization in 2020, which is expected to be recovered starting already from 2021, a flat core business costs year-on-year.

The contribution of new businesses were negative for €2 million. This is due to the continuous investment in our H2 capabilities and sustainable mobility,



the effect of a very strong global solution performance in the first quarter of last year, which accounted for €1 million, the announced contribution of our energy efficiency businesses due to the consolidation of Miecì and Evolve and thanks to the residential sector initiative, and the slower than expected ramp-up of our biomethane business, mainly due to delays in the authorization process. We expect the new businesses to gain momentum in the next quarter with a growing contribution compared to last year.

Lower net interest expenses of €10 million were due to lower cost of debt attributable to both treasury management optimization, the [indiscernible] bond rollover effect and because we benefit from the liability management exercise of December 2020. The increase year-on-year of the contribution from associates mainly due to a perimeter effect with the contribution of ADNOC improving since July 2020 and De Nora, which was closed at the beginning of this year, and the positive contribution of TAP that in first quarter last year was loss making being still under construction. [Indiscernible] taxes are mainly due to the introduction of ACE, higher income from associates and of course higher earnings before tax.

Turning now to our cash flow. Cash flow from operations for the period amounted to €243 million euro, including €210 million of working capital absorption, of which €140 million related to balancing and settlement activities, around €70 million of which will be recovered in the coming months and other working capital items, of which €90 million of net tax payable, the absorption due to [indiscernible] the commodity revenues component which will again reverse in the coming months and around €60 million of absorption of capital related to the receivable for the Ecobonus on the residential sector.

Net investments in M&A included CAPEX and CAPEX payable for about €200 million and M&A activity related to the acquisition of the De Nora stake that was completed in January, the cash-in [indiscernible] and the cash-in resulting from the entry of CDP equity in the platform of our energy efficiency. Other outflows in the period have clearly been related to the interim dividend



payment, which occurred in January, equal to €323 million. This led to a net debt at the end of the quarter of €13.7 billion. We confirm the full year guidance of circa €14 billion with neutral tariffs related and balancing working capital effects and including the effects clearly of De Nora acquisition.

Moving on to Snam debt structure and the reduction in the cost of debt. In the first quarter of 2021, we further strengthened our financial structure by leveraging on optimal conditions for about €750 million dual-tranche transition bonds issued in February 2021. This transaction together with the recent treasury management exercise contributed to the reduction to below 1% of the cost of debt.

Moreover, with respect to treasury management optimization, we continue to experience good market conditions, allowing us to fully utilize our €2.5 billion of Euro Commercial Paper Program and the large use of uncommitted credit lines, both at deeply negative lows. On sustainable finance, ESG focus has been crucial for our financing choices. As of today, our €2.5 billion Commercial Paper Program is fully utilized under an ESG label format and on debt capital market, we have increased the amount raised through transition bond by €750 million, further highlighting the focus that we have on ESG instruments.

Finally, we're proud to be awarded Environmental Finance in the...in the Board...in the Bond Award 2021 award for innovation. This represents for Snam an important recognition of our focus on sustainable finance strategy and encourage us to work with even greater determination to increase the share of sustainable finance as part of our overall committed funding incentive by 2024. Following the amendments of Snam bylaws in February 2021, all the withdrawn shares amounting to approximately 0.3% of the share capital has been fully allocated through the exercise of options and preemption rights in April 2001 with a significant oversubscription pointing out investor confidence in Snam's strategy.



We thank you for your attention and we are now ready to take 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 your question, please press "*" and "2." Please pick up the receiver while asking questions.

The first question is for Mr. Javier Suarez of Mediobanca. Please go ahead, sir.

JAVIER SUAREZ: Hi, good afternoon and thank you for the presentation. 3 questions. The first one is on the numbers, if you can give us the details on the contribution by the different activities to the equity consolidation line, if you can give us a contribution from the different companies that would be helpful.

Second question is on the hydrogen opportunity, hydrogen-related development. So the question here is if you can give us a latest update on hydro readiness of your...hydrogen readiness of your network and also any ongoing conversation with that regulator...on the recognition on hydrogen-related investment in your regulatory framework. And the third question is on government-related issues and the coming simplification decrees and the recently presented recovery plan, which are the implications from these...through things for a company like Snam? Many thanks.

ALESSANDRA PASINI: So starting the first question on contribution of our associates, we...in the first quarter of 2021, we have seen the contribution for around €5 million is coming from ADNOC, €15 million coming from TAP. It's probably consistent with last year with €1 million to €2 million of [indiscernible], it is €5 million for Desfa, €10 million for Terega and about €15 million for TAP. So these are the numbers on our international. [indiscernible] I'm sure you can



see and for De Nora, we are accounting for around €4 million for the first quarter, which was not present last year.

The second question on H2 readiness, our assessment remains what we said before. We consider approximately 70% or greater already H2 ready. As mentioned in the presentation, we're working with RINA to get the certification around this readiness, which is ongoing and is progressing well to achieve completion. We continue to work on the storage side of things. Again, as we said in the past, the study on the readiness of our storage facilities is ongoing. We hope to be able to give some indication on this by the time we will come out with our strategic plan in November. It is taking a little bit...it does take longer because it's more complex than just the pipeline.

When it comes to recognition of investment by the ARERA and dialogue with ARERA, I think the regulator is very supportive of the role the green gases will have going forward, point number one, and they're clearly very much supportive of what we have been doing. I think it's too early to get into a approach to recognize investments in hydrogen-related projects. And this is not just a comment that applies to ARERA, it does apply to all regulators across Europe. At the same time, there is a consistent support by all regulators across Europe in the need to make sure that infrastructure support is going to come for the...to support the demand for hydrogen that is underpinned by all the hydrogen strategies that have been published and that are now being started to be followed with actions and the recovery plan is surely the most immediate next step that we can see.

The fact that the recovery plan which leads me to your third question includes approximately I think it's slightly more than €3.5 billion dedicated to hydrogen-related projects. It's a very tangible and concrete example and sign of the support that the Italian government is willing to give to the startup of this sector. And so we are very positive, because what is in the recovery is very consistent with our strategy, with our vision. As you know, the



recovery will provide both incentives and grants that will need to be attributed to specific projects going through public tenders.

And we will look at those, but I think a concrete or more detailed indication of the impact of the recovery can have on our CAPEX front is an effort that will come at our planning in November. I think it's too early now to give any specific indication. Clearly, as you know, the recovery implies or requires that the capital are earmarked for projects in a very tight timeframe and spent equally in a very tight timeframe, which is only a positive message i.e. when it will start, we will expect the evolution of project to be on a faster path, if you want. The other element that may come is a possible simplification from our authorization processes but it is something that is not in the number, this is something that hopefully will come together with the recovery. But that's part of an ongoing institutional dialogue that we have, and we have nothing specific to add on this apparently.

JAVIER SUAREZ: Many thanks.

OPERATOR: The next question is from Harry Wyburd of Bank of America. Please go ahead, sir.

HARRY WYBURD: Hi, everyone. Thanks for taking my questions. I've got 3. So the first one is just on the De Nora stake and I know that you've been mentioning for a while now that you're considering options for that stake and perhaps spinning it out into some kind of fund. I guess, just as a general observation, there's a lot of new equity being issued sort of globally at the moment. So I wonder if you had any thoughts on timing of whether you might sort of spin that out into some kind of maybe listed or non-listed entity, whether that's something we can expect to this year? And whether, you're sort of looking at what the market is doing there? And could there be a sort of a short-term window where you could perhaps achieve a nice valuation for it? And does that mean that you might move relatively quickly or you are quite relaxed?



Second one, just a very brief follow up to one of the earlier questions and apologies if I missed it. I got disconnected briefly. But can you tell us if you haven't already, how many specific projects you've actually included in the...for the recovery plan? So I thought that you mentioned that you can't say what's going...what impact it will have on your CAPEX program, that you're able just to tell us which projects you've submitted as part of the...for recovery, stimulus funding? And then the final one, it's become a very generic question. But I wondered if you could just update us on whether you've heard anything more recently, on the regulatory review? I don't know if you've had any discussions with the regulator in the last few weeks, or whether there's been any change in your outlook for that? Many thanks.

ALESSANDRA PASINI: Thank you. So, on De Nora first. First, let me start with that, that we are very pleased with our partnership with De Nora both from an industrial standpoint and potentially, of course, from financial standpoint. We're more focused on the financial consideration around it, which are clearly very important, but let me actually start with the industrial consideration or how strategic that partnership can be for us as we get into this wave of investments and startup of the hydrogen ecosystem together with De Nora, and also ITM exposure, which could really be very helpful for us.

We will be...yes, we indicated this platform but leaving aside the platform, as we said in March, we will be open to evaluate our options on this to announce not only the side of the strategic...the financial value but also the strategic value of De Nora. The market is clearly very supportive of assets in the hydrogen space. We were reading yesterday on the press there's news related [indiscernible] JV. We are in touch with all stakeholders that are going to be relevant parties to possible next steps. So, only very positive messages that we are very relaxed and at the same time we'll continue evaluating our options.

On the specific project, I think the IR team will share a presentation that was given at our parliamentary...in a parliamentary auction, I think a couple of



weeks back or so. You will have some more indication. Clearly, we see a number of projects that could be relevant for us, particularly around the hydrogen space, but overall, we think the recovery plan is very conducive, because all of these measures that have been included, both in the recovery and in the supplement fund, in particular when talking about the energy efficiency will underpin further growth for us as well as for others. It is just very positive for the sector in the energy transition space.

When it comes to regulation and update, on the replacement, the detailed dialogue with regulator on the different principles that will dictate the priority ranking if you wish on the floor, will give them more granular approach to replacement factor and pace is ongoing. We are targeting, as we said before, this to be done during the course of 2021. I don't want to commit to a specific timing, only we're sure that the dialogue is ongoing and we are...and it is very constructive.

When it comes to the WACC, again, we expect shortly the beginning of the process. We are comfortable, on one side, that the regulator is very much aware of the specific nature of the environment in which we are in. And I think we also confronted by the fact that this is a review that applies to, as we all know, to the entire space and not just to us. But nothing more nothing less than what we said in March on this because the real dialogue with them will start therefore in a couple of months' time or so.

HARRY WYBURD: Understand. Many thanks.

OPERATOR: The next question is from Enrico Bartoli of Stifel. Please go ahead, sir,

ENRICO BARTOLI: Hi. Good afternoon. 3 questions also from my side. First of all, on the revenues from the new businesses, actually they more than doubled in the Q1 compared to last year. If you can guide us on evolution that you for the full year and on the contribution that you expect to EBITDA as well. A second question is related to DESFA. You mentioned the approval of this



new 10-year Development Plan. If you can share with us some details in terms of the CAPEX plan that is involved and the expected RAB growth that is implied by the new plan. And the last one is on the buyback. In the press release, you mentioned that the shareholder meeting approved the new program for the next 13 months. If you expect it to activate some repurchases of shares soon? Thank you.

ALESSANDRA PASINI: Okay. So on the new businesses, it's clearly you see year-on-year the effect of the changing in perimeter, I think roughly half of the delta is just the changing perimeter coming from Miei and Evolve. The overall revenue will be fairly significant because of the strong expected contribution on the deep renovation front and starting from the EBITDA, which I think is important, we expect EBITDA coming from new businesses, all of them, being comprised between €15 million and €20 million.

Of course we'll be trying to be closer to the top of that, but that's the range that we feel comfortable and given, which is consistent with what we expected before. The mix is going to be, as I said in the commentary, a strong contribution from the energy efficiency ramp-up. This is very strong contribution on the residential space for deep renovation and some lower than we expected...but more than compensated on overall contribution coming from the public sector. Why? Because the pandemic...post-pandemic situation has slowed down the award of new tenders in the public space of some cases and at the same time, for example, when you have energy management services with schools, schools have been closed, just to make one concrete example, this would have been weaker than it could have been in a normal environment.

The biomethane is going through a ramp-up. So we will recover the slowdown that we are seeing in the first quarter. But at the same time, as I commented, a good part of this slowdown is due to delays in obtaining the authorization for the plant. We will do our best to recover this during the year; if not, you will see the benefit the next year. Year-on-year, you will see



a normalization of the contribution of some global solution, which was very strong in 2020, due to a very important contract that was related to the construction of TAP, which effectively got almost completed by the end of 2020. So hopefully, I helped you going through the businesses that are contributing and then of course, we continue to invest, as we said, both on the mobility side and on hydrogen, which is still in a ramp-up phase before we see the contribution at EBITDA level.

In terms of DESFA, the overall CAPEX plan, we're talking about out of memory about 500...I think it is €540 million overall CAPEX plan, this is 65%, more than the prior 10-year development plan when looking at projects related to Greece. As you know, Greece can become and this is one of the strategic reasons why we liked it so much a very crucial gateway for flows coming from different regions. And that could potentially lead to additional investments which are not included in the numbers I've just given you. Overall RAB of DESFA, I think last data that I had was slightly less than €800 million [ph], give or take.

Share buyback, that's just business as usual, we'll simply renew the authorization. We have no specific plans already on what to do. We're very happy with the way our performance...our stock has performed. But we may utilize it because we always find a very smart way to use our flexibility in a way and enhance the remuneration of our shareholders at the same time. But just to be clear, in our guidance there is the assumption of no buyback, and if we will do some buybacks that would be on top, when talking about net debt guidance.

ENRICO BARTOLI: Thank you.

OPERATOR: The next question is from Chris Laybutt of Morgan Stanley. Please go ahead, sir.



CHRIS LAYBUTT: Good afternoon. Thank you very much. I just had 2 questions. The first being just the impact of the aid to economic growth on your effective tax rate, I just wonder whether you can give us some details on where you think that might impact things in the current year, and then years ahead. And Alessandra, you also mentioned the impact of unaccounted for gas, which can sometimes be a bit tricky in regulated gas networks. I'm just wondering whether you could give us a little bit more detail. And to be honest, I missed your comment, so I'm just hoping you might be able to repeat them for us. Thank you.

ALESSANDRA PASINI: Okay. So the first question was around how you link tax rates with growth? Sorry, I'm not sure I got it, please.

CHRIS LAYBUTT: Just in terms of in the press release this morning, it looked like your effective tax rate might be lower this year because you've got a benefit coming through from the aid to the economic growth package and just where that that might end up

ALESSANDRA PASINI: Okay. That was something that was not...we are talking about the ACE hold with specific tax measure that was not present in the first quarter 2020, has then been introduced in the later quarter and instead has been providing benefits in the first quarter of 2021. I think in April, that's been an additional measure. So there may be further benefit to what was planned, but it will be probably consistent with what we had last year. These are temporary measures, so we know we will get it for 2021, we'll need to see where they will continue. So take it as a temporary effect, not a structural effect. And the other element that, of course, is impacting our tax rate is the higher contribution from our sources which, of course, get different tax treatment versus the traditional corporate tax applied to our existing businesses. So hopefully, that addresses your question, correct?

CHRIS LAYBUTT: Yes. Yes. Thank you. And unaccounted for gas, was that a...?



ALESSANDRA PASINI: Yes, I am getting through the unaccounted for gas.

CHRIS LAYBUTT: Thank you.

ALESSANDRA PASINI: Well, I just wanted to make sure that I did answer your first question. So let's say, more generally is energy costs to the point that has been addressed by the regulator. So since January 2020, energy costs are recorded both in the revenues and in the cost line. However, in the first quarter 2020, they had temporary positive seasonal effects, mainly related to the volumes connected to the unaccounted for gas. In December, there was a resolution...by the regulator, where it introduced a mechanism to serialize this unaccounted for gas effect, before leaving an incentive related to the difference between the unaccounted for gas recognized for a given year and the actual unaccounted for gas. But in fact, we're talking about peanuts. I mean, the big gap is the stabilization of...or having this energy cost accounted for both revenues and costs. So we are just neutralizing things that we already had on a full year basis at December but we didn't have in January 2020. And so, when comparing the first quarter...to the entire first quarter, you would have an...a not like-for-like read across vis-à-vis what we do from now onward. Thanks to the new regulation that has been introduced by ARERA in December 2020.

CHRIS LAYBUTT: Okay. And all of this impacts your P&L or is it working capital, I assume it is P&L?

ALESSANDRA PASINI: No, it's effect...let's say it is effectively neutral with maybe a couple of million more or less, which depends on the actual price related to the unaccounted for gas in a forecast...that the forecast versus the actual that you actually account for.

CHRIS LAYBUTT: Okay, got it. Thank you very much.



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

ANTONELLA BIANCHESSI: Yes. Hello. Good afternoon. Alessandra. Just a quick question, can you just provide the split of your CAPEX letting us know how much of them are going into the RAB, and how much is non-regulated? And also, can you just give us a little bit of a guidance on ADNOC, so not only you know, the contribution for this year to the earnings, but also the debt, and you know, the cost of the debt of this...the amount of the debt and the cost of debt and you know, if there is any risk of a change in the financial structure of this company? And, finally, if you can give us a little bit of guidance on the tax rate for the full year.

ALESSANDRA PASINI: So let's start with the CAPEX split. The CAPEX that has been...as we said, it's €231 million for the quarter Antonella. Of this, more than €220 million are RAB. So the CAPEX related to the new businesses are marginal, in a way.

On ADNOC, on a yearly basis, we expect as we said when we announced the acquisition to have a contribution around €15 million, give or take, more or less. We have also completed the refinancing completely of the bridge, and it is the package that is amortizing over, I think, the 10 year horizon. But there are no...maybe I misunderstood your question, but aside from the acquisition that was made is all self-funded business, there is not going to be any further debt in person related to ADNOC. But maybe I misunderstood your question Antonella on ADNOC. Sorry, on ADNOC, Antonella, did I respond to your question?

OPERATOR: Ms. Bianchessi, your line is open, madam.

ANTONELLA BIANCHESSI: Sorry, can you hear me now?

ALESSANDRA PASINI: Yes.



ANTONELLA BIANCHESSI: Sorry. Now what we're wondering, you know, how...you know, which is the structure of the debt of ADNOC, because I remember it was pretty high and if you can quantify the number and give us an idea on the cost of this financing?

ALESSANDRA PASINI: The debt was around €8.236 billion [ph] and it's all been refinanced in the capital markets and with a weighted average life of 10 years with a very long dated duration.

ANTONELLA BIANCHESSI: Okay.

ALESSANDRA PASINI: When it comes to the tax rate for the year, I think we are in the 25% range on a '21 full year basis.

ANTONELLA BIANCHESSI: Okay, thank you.

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

STEFANO GAMBERINI: Good afternoon, everybody. Few questions from my side, if I may. First of all, regarding out of the base incentives. Could you remind us, what is the level do you expect in 2021, and the target at the end of the plan? And the question here is, when you expect that the regulator reach the final decision about the fully deposited assets, and the possibility to give you output base incentives on these topics. Could this arrive in same time when the regulator will set the load WACC? That's really my first question.

The second, still regarding the load of WACC, considering a reduction of...we will see how 50, 60, 80 bps in the WACC. Do you see some risk regarding your dividend policy to 2024 due to the increase in debt on RAB level or otherwise you don't see any risk on that.



The third, if you can comment about the EU decision about taxonomy to exclude the gas transport and distribution from taxonomy. What changes do you expect? And in this case, you disclosed even in the last presentation of your business plan that CAPEX were eligible for taxonomy in the region of 40%, if I am not wrong, with these changes something could impact or not?

And sorry for that very last question regarding a brief comment of what happened in Germany, where the regulator decided that the gas transport distribution could not subsidize, the hydrogen that these 2 regulations should be kept separate. So, in this case, do you see some risk of similar decision also in Italy and what are the risks for Snam in this case?

ALESSANDRA PASINI: Thank you. No, that's not. Out of base incentive, we have an expectation to land approximately where we did land last year, last year we gained €18 million. So roughly, give or take, that's the same number, we assume for this year.

On fully depreciated assets, as I mentioned before, we're working towards...hopefully having news for next year...sorry, this year plan later in November. The work is ongoing. There is not specific deadline that has been committed.

On the WACC, clearly, the WACC will be a process that will go through the summer to the fall. And so, that's more or less the timeline that we have in mind. If you do the mark to market today you get between 5.1, 5.2 on transportation and that I mean...rule of thumb, every 0.1 delta means around €20 million of revenues. So if you want just to make the easy math, the spread clearly has been compressed, both by the liquidity and by the positive environment related to the current government's being inform. At the same time, there is the recognition of how much excess liquidity has been inundated in the markets and therefore inflating, you know, in terms of improving the overall credit spreads and conditions. So these are elements



that will clearly be assessed as part of reviewing the formula given the course of the summer. In terms of risk to our dividend policy, absolutely not, our payout, by the end of the plan is very solidly within the 70 to 80 bandwidth, even assuming for the downward revision of the WACC.

When it comes to taxonomy, let me explain that it hasn't been decided to exclude, it has been decided to leave it out for the time being, which is actually a positive message in a way that since we do expect no changes to the taxonomy and therefore we will not expect the message to be different for what we told you before of 40% of our CAPEX, by the way on a conservative assumption basis, and how we find them to be compliant with taxonomy. I think everything which has been coming out from the commission and from the different governments underlines the strategic role that gas infrastructure will need to have in order to comply with the transition and the role...the growing role of the green gases will have, again it is something that...it is getting stronger by the month, not weaker.

This leads me to the comments we made in Germany. Again, we see that as an upside, because what that is saying is basically that, if today, there is a need of hydrogen from one point to the other, and I am talking about replacing grey hydrogen with green hydrogen and making...rather than bringing it via truck, creating infrastructure system that can actually provide supply to the demand...that's something...that's a new business opportunity that PSOs like us can actually pursue, which today was not part of investable projects for us.

I think what...the message that has been passed by the...by the way, the proposal isn't yet something that has been approved by the parliament. As you know, there are elections, so we'll need to see where we land, but I mean, today, the reason why it was made this way was to make sure that there was a fast ramp up of infrastructure, because they expect a fast ramp up, also on the back of the recovery from demand of hydrogen. So again, it's more a positive than a negative for us.



As we said, 2021 will be an year where the European Union will lend towards more cohesive views on how to support hydrogen...the hydrogen ecosystem, and then the regulators will get in action in terms of how to approach this. But this is more related in my mind to new investments rather than what we've been talking now and so far, which is simply, maintain our existing networks, to be able to transport green gases.

I think I've answered all of your questions, Stefano.

STEFANO GAMBERINI: Absolutely Many thanks.

ALESSANDRA PASINI: Thank you.

OPERATOR: The next question is for Jose Ruiz of Barclays. Please go ahead, sir.

JOSE RUIZ: Good afternoon, and thanks for answering my questions. I just have 2. First of all, just to confirm, I understood previous answer. You're basically saying that the first consultation paper on the WACC methodology will come very soon. Is that correct?

And secondly, last year, about the timing of incentives for hydrogen, you were basically saying that the debate about the schemes...incentive schemes, for electrolyzers would take place this year. And regulation about the transport of hydrogen will take in a period of between 2 and 3 years. So we are in 2021 and funds will start flowing by the end of this year. Have you...are you aware that there is any debate about this incentive schemes for electrolyzers? Thank you very much.

ALESSANDRA PASINI: So on the WACC consultation, we expected before the summer, so it couldn't be end of June, July, I mean more or less around that timeframe.



On incentive schemes, maybe we were not completely clear or you didn't guide in the right way. I mean, we expect, first, Europe to take a more consistent view on what to incentivize, and what I mean by this is because incentives will need to be compliant with the state aid regulation. So and that's always going to be the case. I mean, that applied to every incentive. And so, there will be a new view around what to incentivize and how, and that will determine how much you actually supply demand versus...sorry, you're maturing incentivize demand versus supply. And so, you are just getting to what you're saying. How much of this incentive goes toward the renewable electrolyzers part of the...let's call it, upstream versus the off-taker of that hydrogen. This is something that is not yet defined, and we expect to be clear second part of this year, beginning of next year. I mean, this is all been discussed and approached at also different phase.

The recovery is going to provide support on the CAPEX level, but at the same time, you should read what is happening in Germany. Germany is talking about introducing contract for difference, which is basically an OPEX scheme, which will give to off-takers incentives that will cover the delta between just make one example, the cost of grey hydrogen today and the cost of green hydrogen today, net of course of the benefit from a CO2 emission. So there will be a number of variables that will come to a cohesive package. And from the time being, we're only seeing bits and pieces here and there. But surely, during the course of this year, you will get a much more coherent vision. Also, we'll need to see whether, as we read in hear, there will be an approach to carbon tax and certification of green molecule, certification of origin. So it's going to be a fairly complex measure, because people expect a very significant contribution and support coming into the space. And therefore again this is just going to be positive evolution, but probably it is too early now to give specific numbers to either the production side or the off-take side.

JOSE RUIZ:

Sorry, if I can follow-up on that. More specifically, do you see the Italian government following the same path as Germany? So basically, putting the



incentives before the funds from the recovery fund starts to flow, which I think is the correct thing to do? Thank you.

ALESSANDRA PASINI: I'm not sure that other countries are doing something different. I think Germany is equally looking at the recovery fund to kick start the hydrogen ecosystem, as much as, Italy is doing. I think they are also going to look at funds under the IPSA [ph] umbrella. And that's an European program, it is something that is going to be available also for Italian, French or other companies. The IPSA umbrella will attract additional funds, different from the recovery and will promote projects where players from different countries are all participating not all are participating. And so, I think with maybe a couple of months delay, we are exactly following the same path that Germany is following. And there is no definitive vision in any country, I would say, of how much you incentivize, if not specific projects that are included in the national recovery plans, which ultimately will be awarded through tenders to possible promoters. And as we're talking about public funding, these standards will be open to everybody and will therefore ensure compliance with broader state aid regulation.

JOSE RUIZ: Thank you very much. That was very interesting.

OPERATOR: As a reminder if you wish to register for a question, please press "*" and "1" on your touchtone telephone. Ms. Pasini, at this time, there are no questions registered madam.

ALESSANDRA PASINI: Thank you to everybody for your attention and have a good afternoon.