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Nine Months 2021 Results - Conference call

Thursday, November 04, 2021, 15:30



MODERATORS: ALESSANDRA PASINI, CHIEF FINANCIAL OFFICER

OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome and thank you for joining the Snam Nine Months 2021 Consolidated 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 Ms. Alessandra Pasini, CFO of Snam. Please go ahead, madam.

ALESSANDRA PASINI: Thank you. Ladies and gentlemen, good afternoon and welcome to Snam 2021 9 months results presentation. Looking at the first highlight, CAPEX reached €866 million, while our regulated investments are going as planned, as mentioned before, we are...have experienced some delays in the deployment of investment in new businesses. For this reason, full year CAPEX will be circa €1.3 billion.

Following the publication of the first consultation document on the WACC form in July, we sent our comments to ARERA by the deadline of the 12th of September, and we expect soon the second consultation document. We continue to see recovering gas demand, which rose by 6% in the first 9 months of the year, thanks to a rebound in industrial production and power generation, and colder than usual weather.

In the context of current energy market volatility, Snam infrastructure is supporting the resilience of the Italian market. The TAP pipeline increases, supply diversification and has contributed to reducing the traditional



premium of the Italian gas market versus Northern Europe, with a significant saving on energy cost for the country. Our storage facilities are 90%, full, well above other European countries.

Sustainability remains core to our strategy. Snam was included in the FTSE MIB ESG Index, the new index dedicated to Italian companies with the most effective sustainability practices at the end of September...and at the end of September, sustainable finance reached 60%. We are also providing [ph] our target on methane emission reduction by 2025.

In fact, in line with our ongoing commitment to cut CO2 emission, and reaching net-zero by 2040, we have upgraded our target on methane emission to minus 55% by 2025 versus the base of 2015, compared to the previous target of minus 45%. This target is more ambitious than the one set by the all oil and gas Methane Partnership 2.0 unit protocol.

This is mainly achievable, thanks to the acceleration of the leak detection and repair program, that implies the monitoring of the emitting components in our facilities, to identify methane leaks and the planning of maintenance work to repair those.

Snam tech [ph] initiatives aimed at digitalizing operations management of Snam asset is also a relevant driver to tackle methane emission. Other actions to reduce emissions are in line, recompression and replacement of valves and pneumatic devices. Thanks to effort already implemented, we have cut methane emission by 20% circa over the last 3 years, and we have a target to reduce them by 43% by 2030 versus 2020, which is a more ambition than the global methane pledge target of minus 30%.

Our financial result in the first 9 months of 2021 are strong. EBITDA benefited from the contribution of higher tariff RAB, thanks to the investment our infrastructure and higher allowed DNA. Financial charges are down by €24 million...24%, despite the average debt. Thanks to the lower cost of



debt, that was again below 1%. Higher capitalized financial charges related to our investment activity and a different phasing of the OLT shareholder loan.

Income from associate is up by €49 million compared to last year, benefiting from a perimeter effect with the inclusion of the entire period of ADNOC and the entry into the consolidation to Industrie De Nora. The full year contribution of TAP and this effect are partially offset by the expected decrease of our Austrian associate, mainly due to the new regulation in place from January of this year, non-recurring items and the compensation that occur in the 9 months of last year, due to the end of the prior regulatory period.

DESFA has performed slightly below last year, due to the lower unitary tariff, therefore lower RAB and lower tariff RAB, and the reversal of the extraordinary strong performance achieved in the prior year. Net profit was up €65 million, thanks to the operational result, the lower financial charges and the contribution from our associates. The strong result achieved to-date mean that we are comfortably on track to deliver our full year net profit guidance of €1,170 billion.

Let's now look more closely to our 9 months result. Net profit for the period was €934 million, up €65 million versus last year. This was driven by our core EBITDA up by €48 million, due to higher regulated revenues thanks to continuous growth in the transport business due to ongoing investment activities and the commodity effect, only partially offset by the reduction of input base incentives. The release of past balance sheet items referring to the storage business.

Core business costs rose due to higher fixed cost, driven by some phasing effect, higher operational cost also deriving by a progressing comeback to offices and travel, and higher labor cost due to the National Labor Contract inflation. Cost also rose due to the support to business expansion, also



through internalization of skills and capabilities and the development of our international presence. These are only partially offset by higher capitalized cost and progress on our efficiency program.

Increasing our items is linked to the release of past provisions, partially offset by higher cost for business development and higher capital losses. The contribution of new businesses was marginal, and energy efficiency performed well, thanks to the residential business in particular the kickoff of the Ecobonus and despite the negligible contribution of the public administration sector, that is still facing a slowdown of permitting due to COVID, as well as the perimeter effect related to the consolidation of [indiscernible].

This was offset by delays in biomethane, driven by the expected developments related to the bio methane decree under discussions since the second quarter of this year, and not finalized yet. This, together with the lengthening of the authorization process due to the pandemic situation on the public sector, is slowing down Greenfield development, as well as, our third party EPC activity, but on the positive should bring significant capital rent opportunities for bio methane operators when approved.

In the meantime, we continue to push bio-methane business being devoted to reinforcing our pipeline. The continuous investment in our energy transition platform with a particular focus on hydrogen, and lower contribution from Snam global inclusion over the 9 months that will be more evident in the last quarter due to the contribution that we had last year from a significant contract related to TAP.

The delays in the new business ramp up will impact also 2022, whilst we continue to invest in in-sourcing competences and capabilities supporting our platform in an hydrogen and energy transition.



Interest expenses were €24 million lower mainly due to lower cost of debt attributable to the positive impact of our fixed liability management exercise, treasury management optimization, and natural bond rollover, replaced with cheaper new issuances as well as higher capitalized financial charges related to our investment activities and a different phasing of OLT shareholder loan. Associate's contribution was higher due to the inclusion in the permit of ADNOC and De Nora, and the first full-year contribution of tax, which last year wasn't in operation over...in the first 9 months.

De Nora global leader in sustainable technologies is performing ahead of expectation. These increases are partially offset by already commented the effect in Greece and Austria, and the average tax rate for the period is circa 25%, as a reminder net profit benefit from a positive one-off component adjusted of €255 million that is related to the realignment of the differences between tax and book value of fixed asset. This is possible paying a substantive tax of 3% in a maximum of 3 installments while the amount of the realignment is €1.2 billion for transfer business to be recovered over the coming years.

Turning now to our cash flow. Cash flow from operations for the period amounted to €1.181 million including €230 million of working capital absorption of which €136 million related to balancing and settlement activities that includes around €100 million of settlements related to re-absorption of 2020 items and €38 million of balancing activities partially reabsorbed versus the peak that we reached in the first half due to cold weather, minus €25 million of tariff-related items and minus €69 million of other working capital worth flagging the absorption from the contribution of our Ecobonus business that is absorbing slightly less than €120 million of working capital. And VAT receivables that are linked to our balancing needs partially counterbalance by depositing effect from net tax payable, which are due in November.



The new balancing system implies that from 1st of January, 2020 Snam acquired system gas, gas used for self-consumption, grid losses, and different between intakes and off-take of the distribution network at market prices. This mechanism carries [ph] a buildup of VAT receivable related to our balancing activities and the growth of this VAT receivable is clearly also impacted by volumes that were related to the cold weather that we had in the first part of the year and higher prices that, of course, we are registering in the second part of this year. We foresee for the full-year an increase of the accumulated VAT receivable, but this is a temporary effect that we expect to recover over time.

Net investment and M&A, include CAPEX and CAPEX payable, and the effect commented already in the first half related to the inclusion, the perimeter of De Nora and the transactions on energy efficiency, as well as, the contribution of OLT shareholder cash-in and TAP true-up. Other outflows for the period clearly have been the dividend paid in 2021 equal to €797 million. We expect full-year net debt to be slightly exceeding the €14 billion mark, mainly due to the temporary absorption derived from the VAT receivable above described and the acceleration of our energy efficiency pipeline deployment.

Moving to our debt structure and reduction of the cost of debt. In the first 9 months of 2021, we further strengthen our financial structure. Thanks to transition bonds issued in February and June '21, with local bonds which contribute to the reduction of below 1% of the cost of debt in the current year.

The new EIB loan aim at financing energy efficiency project planned for Renovit and new ESG-term loans linked to ESG KPIs for an overall €600 million of which €250 million have been secured few days ago. There are no refinancing need for the remaining part 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 Euro commercial paper program and a large use of uncommitted credit lines both are deeply negative yields. The EMTN program recently renewed incorporate sustainability KPIs for the issuance of sustainability linked bonds and could be used to finance project aligned with the Taxonomy Delegated Acts that are issued by the European Commission.

Thanks for the attention, and I'm now ready to take and 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 touchstone telephone. To remove yourself from the question queue, please press "*" and "2." Please pick up the receiver when 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 afternoon, everyone. And thanks for taking my questions. I've got 3. So just firstly, I know you gave a lot of detail on this already, but I wondered if just in very simple terms on the net debt. I believe the target when you last had your strategy update in November last year was about €13.5 billion, if I remember correctly and you're now guiding to a touch above €14 billion. So I wondered if I remember those figures correctly. You could just help us with a very simple bridge of what led to the additional €0.5 billion very simple high-level terms and what...to what extent that might be brought back again next year?



Second one is, just on the regulatory review and very quick one there. What are your expectations on timing for the next regulatory document? And has there been any update in your thinking or outlook since the initial proposals, since we last had a conference call.

And then finally just on De Nora, I know this is a recurring question. But is there any update there on your plan to potentially customize some value from that asset? Thank you.

ALESSANDRA PASINI: Thank you very much. So on the first question, I think when we came up with our Strategy Plan, De Nora wasn't part of the numbers. So if you add back De Nora to the €13.5 billion that you recall, you get to the €14 billion that was the number we indicated back in March post-De Nora. And what we are saying today is that we see probably our year end net debt to be slightly above the number. We said 14.1 due to working capital related items that are connected to what I commented before a stronger contribution on the positive side from Ecobonus, that means more working capital related to that, and the build-up of this VAT receivable due to our balancing activities and activities that we need to carry out buying gas for managing our network. So that's how you get to the €14.1 that I commented just before.

On the regulatory review and on the WACC. We expect the second consultation paper to really come out soon, maybe as soon as next week or the week after, and we will, of course, provide our further comments and observations depending on what will be there in due course, and then the process is due to finalize in December with the final decision taken by the regulator at some point during the month of December.

When it comes to De Nora. I think, as I said, we are extremely pleased with the way the company is performing...it is performing really strongly and ahead of our plan. As we stated during our first half call, they are building momentum as the rest of the world is building momentum on everything that is related to energy transition and hydrogen in particular. And we continue



to discuss with the company and its shareholder option to crystallize value from our investment, but don't have many more comments to offer. It's not that we will be there to support their growth, which we expect to come significantly in the coming years.

HARRY WYBURD: Okay. Thank you very much.

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

JAVIER SUAREZ: Hi, all. Many thanks for the presentation. 3 questions from me as well. The first one is on your comment on certain delay on the development of new businesses. I think that you have been guiding for a CAPEX of €1.3 billion, you can again share with us the business for that delay on the development of new businesses and new opportunities. What we should expect from the next year for example, on that. So any light on the reason behind would be helpful.

Then the second...the second thing is on the contribution of business equity consolidated activities, if you can help us to understand which are the main contributors or deviations versus last year contribution in your equity consolidation...consolidated...equity consolidated line, and any guidance for that line by the year-end that would be helpful as well?

And the third question is on the...it has appeared on the press that potential interest of Snam of continue investing on putting equities in the Middle East in Aramco asset and another. So you can help us to understand how do you see the balance sheet of Snam and the capacity that and the balance sheet of the Snam has to embark on other equity investment. So any order or dimension would be helpful as well? Many thanks.

ALESSANDRA PASINI: Thank you, Javier. So yes, so on the new businesses, it's a combination of a couple of things effectively. One, the pandemic has implied a lengthening of the authorization processes in general. And this applies



also to the authorization that you need to have whether it is connections for the CNG stations, whether it is bio-methane plant, or whether it is everything that has to deal on the energy efficiency front with the public sector. People are starting to get back really to the office now and things are really starting to recommence now, but that has an effect effectively on those types of activities. That's on the negative side.

On the positive side and this applies to bio-methane. There is this bio-methane decree that has been discussed and that we expect to be approved, which effectively will introduce grant that will give strong boost to biomethane development. So tactically for some of the Greenfield initiatives that we had in our pipeline. We are also waiting to see that decree to come out to make sure that we maximize the value creation opportunity out of our biomethane pipeline, which remains very relevant.

So effectively, you had one negative in a way, but also one positive particularly on the biomethane and this is causing a delay in the ramp up of our new businesses particularly around that. And so, effectively versus what we thought is almost saying that probably we have 1 year of delay, give or take, because of these elements, but at the same time we do have expect more opportunities and value creation to come out of that. So that's on the first. When it comes to...and so as I said, also next year, we will expect some delay versus what we expected. So everything is kind of rolling forward a bit in a way, that's the way you should think about it.

When it comes to our associates, as I said versus last year, we do have the expected revision or impact of the regulatory revision, both in our Austrian associates and in DESFA, which effectively contributed less than last year at the same time, DESFA volumes are going...it keeps going strong, and so in a way, the performance of DESFA also towards the second part. I mean, the last quarter of the year will remain strong. And then you have the full contribution coming from De Nora, ADNOC and TAP. And remember the TAP, just came into operation at the end of last year in November. But for



the rest of the year it actually absorbed or had a negative contribution to our net income, because it was still in construction. So you need also to account for that, we're looking at the delta 1 year versus the other.

ADNOC was part of the consolidation perimeter only starting from July and, of course, we didn't have De Nora. So looking at the last quarter, we expect the strong contribution from De Nora to continue. And we expect DESFA to continue to perform in a relatively strong manner. Overall, I think we indicated effectively some sort of flattish type of performance for our associates. I think we will do better than that...slightly better than that. But keep in mind when looking at the fourth quarter that there were a number of one-offs last year, you had one-offs in Italgas for the recognition of certain items. You had one-offs from, of course, from Italgas, you had one-offs also on TAP. So once you normalize that, and effectively the way to think about is a coherent performance on [indiscernible] but strong performance on DESFA and De Nora.

When it comes to M&A as you know, we never comment on M&A. I mean, our name get often mentioned here and there. Our investment criteria remains the same. And I'm sure you are familiar with a way to look at our financial flexibility, whether you look at RAB or whether you look at fixed assets and you look at what our threshold that rating agencies placed on us, fairly straightforward to get to what that means, but effectively we remain committed to our capital allocation policies in everything we do.

JAVIER SUAREZ: Interesting. Many Thanks.

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

JOSE RUIZ: Yes, good afternoon. Just 2 questions. The first one is related to the new targets of CO2 emissions by '25. I was wondering what is CAPEX required, and if there is no straight answer it is basically are you advancing a new



CAPEX plan that will be announced in the Capital Market Day by changing this target.

The second question, if you please clarify what do you mean by the...in the tax effect the €250 million the book...the alignment of the book value of assets. Is this going to affect depreciation or it only affects tax depreciation? Thank you.

ALESSANDRA PASINI: Thank you very much for your questions. So on the revised objectives, I think, it's negligible in terms of investment amount, because we are talking about small devices and so it's not really a CAPEX heavy plan. It is the CAPEX light plan but with a great contribution to reducing our methane emission.

When it comes to the question on tax, it is just a tax deferred liability so it doesn't have any impact on depreciation. And then sorry, what was your question that you asked? I think I lost a piece of it.

JOSE RUIZ: No, it was part of the second question. I think I got the answer. Thank you very much.

ALESSANDRA PASINI: Okay. Alright. Thanks.

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

ENRICO BARTOLI: Hi, good afternoon. Many thanks for taking my question. I have 2 left. One is related to the guidance which you confirm the €1.70 billion net profit for the full year. Actually...if I calculate well, actually the...after the 9 months results, the net profit implied by the fourth quarter would be lower than last year, even stripping out the one offs in the fourth quarter 2020. Can you elaborate on this, on the drivers in the fourth quarter and if there are some, let's say, negative factors that you expect to have an impact on fourth quarter that would determine this kind of comparison? And second quarter is on the



situation gas market in Europe. If you can share us some thought on how you see this situation evolving over the next quarters, particularly if you think that the proposals by the EU in order to moderate the impact on gas prices to have an impact, and in particular on the business some governments are proposing a share management of the storage asset in Europe. So if you can comment on this proposal and this could have some impact on your business. Thank you.

ALESSANDRA PASINI: Thanks Enrico. So on the guidance, I think that there are number of components that you have to keep in mind to avoid as we just normalize and apply and do the annualization, let me put it this way, and based on the 9 months. First, you have particularly positive contribution on the financial charges which should be normalized. As I commented there where particular heavier contribution on the capitalized interest charges related to our investment activities. There were phasing effect as it relates to the OLT shareholder loan. So once you normalize that, you will have slightly less positive contribution on the financial charge vis-à-vis last year despite the fact that we continue to expect lower cost of that versus last year.

And on associates, you have 2 components. You clearly have not the benefit of the one offs of last year, and you also have the fact that associates typically contribute less in the fourth vis-à-vis usual the rest of the year, and some other items that clearly, like the one I commented on release of provision and the storage item that contributes to our regulated revenues that are not going to be repeated in the rest of the year. So if you sum up all of this, that's why we are comfortably on track for that, but there is nothing negative or specific. It is just that it is a combination of phasing elements, as well as, very specific one off that we had in the past that are not going to be characterized in the fourth quarter this year.

When it comes to gas and the current situation, I mean, a lot will depend on how cold the winter will be. In Italy, we start from the situation of having our storage asset relatively full which is very good and important. We are well



above rest of Europe, and so, if the winter will be cold, you may expect further spikes on the price which clearly is not going to be a positive overall for industries for example and the recovery from an economic standpoint, but is not going to be something that impact our business. If anything, what the current situation is proving is how important is diversification of supply and that was one of the reasons why we were able to close the gap between the PSV and the TTS this year getting to actually export gas in certain months in important volumes which is something that only happened occasionally in the past.

And so that combined with our approach to storage is clearly something that is somewhat protecting Italy. Now, the proposal that has been put forward is...that we have been, of course, in discussion with the other TSOs and other institutions...I mean to the extent you were to have strategic reserves dedicated to manage particular peak that would help mitigate price spikes like the ones that we are experiencing.

And so, people sometimes forget how strategic storage is, and is in times like this that people realize that having storage used for strategic reasons, rather than hedging or portfolio contact management reasons makes the difference in the energy system. So should that happen, it is clearly something where we would provide our support and be cooperating with other TSOs and players, but it is not going to be something that will have an impact on our business if anything is just proving how strategic our assets can be.

ENRICO BARTOLI: Thank you very much.

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

STEFANO GAMBERINI: Good afternoon everybody. 3 question also from my side. The first regarding the hydrogen. Could you give us an idea when you have some



update whether your storage facility could also be used for hydrogen or not? And the second still related, you wrote in the press release that you launched this HyAccelerator project that we invest in hydrogen setups. Just to give us an idea, what is the amount of money that you should invest in this we can say associate related to the hydrogen because most of them now are invested in gas companies excluding €400 million for De Nora. And so, just to understand if this project could be something relevant or not?

The second regarding the costs, regarding the regulated activities, I noticed that the fixed costs were flattish in the 9 months but increased by €11 million in the third quarter. Is this a trend that we could see also in the forthcoming quarters due to the more in the reinforcement for your structure that you're working on or it is just a one-off?

And the third one regarding the taxonomy. According to the past the majority of EU countries are in favor of treating gas as [indiscernible] for green transition. So what could be the final solution in your view, regarding European Commission the decision on gas in particular considering that in the last presentation, you show the investment just at 40% eligible for taxonomy. And so, if we could expect some significant improvement of this ratio? Many thanks.

ALESSANDRA PASINI: Thank you, Stefano. So on H2, we will provide an update at our Strategy Plan on our vision and investments on hydrogen, including how storage will play into that. On the innovation hub announcement, we are talking about really supporting...even I wouldn't even call them startups but universities in developing innovation ideas, we're talking about really small amounts of numbers like few millions here and there. This is really more to have the right antennas on future the evolution of technologies in the application and production of hydrogen that will be relevant when thinking about our infrastructure and the role we can play for people that are served by our infrastructure. So nothing of scale, but the really small amount, but still clearly that's part of the investment in terms of having PhDs and



knowledgeable people that can help understand and interact with this innovation hub in an effective manner.

That leads me to the question on cost. So on...what do you have in the 9 months is something that is phasing. But a good part is actually related to continue to invest on our energy transition. And clearly our hydrogen capabilities across different segments is not just production, but it is also transportation and storage. All of this are effectively. We are in sourcing capabilities and creating our...making sure that our platform can cope with future growth. And clearly, as we have on the other side experiencing delay on some of the implementation our new businesses, the fact that you see costs growing but not yet offset by revenues, because those have been pushed. And that's what the fact that you're seeing in particularly starting from this 9 months numbers. But this is a trend that we will continue to invest in this also next year. So it's something that is part of making sure that we can fully grasp the opportunities as we continue to build the pipeline. And before all revenues will start to flow through.

When it comes to taxonomy, we are...we've always been confident that ultimately the commission would have recognized the strategic role that natural gas has, and is essential roles to get to the transition. This seems to be confirmed. So well, yes, we had last year in our plan taxonomy align investments for around 40% of it. I think we will get more...we will disclose more at the plan, but we are now above that number. But what is important, I think is more the...despite the momentum, which is incredibly positive that hydrogen is getting the...even stronger recognition that gas remains an essential part of the transition to achieve net-zero, which is something that more and more countries and companies are committing to.

STEFANO GAMBERINI: Thanks a lot, Alessandra.

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



JAMES BRAND: Hi, Alessandra. And hello to everyone else on the call, I have 3 questions. The first is on the net debt you're very clear in terms of the full year net debt guidance, but you mentioned a few things on the call around working capital moves, the VAT receivable, on the working capital side, some of which sounded like they would reverse and some sounded like maybe they wouldn't. So maybe you could just tell us embedded in that net debt number at year-end. If it's possible to give an estimate for how much working capital or VAT receivables that's going to...that we should assume with us in future years? That's first question.

Secondly, I just want to clarify on the regulatory review, I'd heard that the regulatory document might be coming out Friday afternoon. And you kind of said maybe in the next couple of weeks. Should I take that, but it's probably not going to come out this week or we just don't know?

And then the third question is, slightly more complicated one it's around incentives for storage, because I remember [indiscernible] that you had some output-based incentives for the storage business that generally we don't talk about very much, because I don't think they were delivering you any profits. But I was just wondering if you can maybe remind us what incentives you have for the storage business. And given how extreme market conditions have been this year. I was just wondering whether they actually might start to be profitable. Thank you very much.

ALESSANDRA PASINI: Thank you. On the net debt, I think you can imply on...given that we have indicated the €100 million more contribution in a way negative in terms of capital...working capital absorption, what that delta is going to be. But structurally both...I mean the Ecobonus is a credit that you get reimbursed over a period of 5 years, when it comes to the tax...the VAT payables that's instead an ongoing activity. So it's very hard to be too precise on, because it's in a rolling activity right. So every amount then gets rolled, and then you move to the next one. So we keep building on the balancing activities on



one side. And so, I think this peak is more due to the combination of the 2 things I said colder weather so we have to buy more gas and higher prices. So again, the way this will evolve will depend on this. And keep in mind that we had this already last year, but clearly last year was a very different year both in terms of energy prices and in terms of volumes before we were not due by the regulator to buy gas. So that's something that changes or is slightly new element of our working capital that we didn't have before.

So on the on the WACC, we expected to be, I said soon, it means really soon, we expected maybe more next week, but what is by the next week, frankly doesn't...I means it's up to the regulator to publish, we'll just stand ready. And to capture and work on the comment for that, and...but what is important is effectively we expect it to be finalized by year end.

When it comes to the storage, you are right, we haven't been spending a lot of time on those services and we expect similar to what we expect on transmission to develop more, I mean, what I said, in responding back to the question of Enrico about the gas market, it's an important point. The market will need more flexibility and to keep revolving the energy mix, and this means that there will be in this respect opportunity to maybe develop services around it. So, this is more of an intention, so I don't want you guys to put numbers into your model, yet but the...we see the opportunity for more of this type of initiatives and services to be introduced. Now, coming into the numbers, yes, we did have some contributions, we are talking about few millions but in the 9 months we had, I think we out of memory, around €5 million or so contribution for short-term services effectively allowing more to book capacity not just for fewer seasonal needs, but with an increased frequency affectively enhancing the liquidity for those guys who actually need to store.

JAMES BRAND: Right, thank you very much. And good luck for the second consultation.

ALESSANDRA PASINI: Thank you.



OPERATOR: The next question is from Bartek Kubicki with Societe Generale. Please go ahead.

BARTEK KUBICKI: Hello, and good afternoon. A couple of issues I would like to discuss is, firstly, if you can share with you...with us your views on future Russian gas flows following a potential or not, approval of Nordstream to whether do you think most of the imports will go via Nordstream or do you think there is Slovak, Polish [ph] pipelines would be used utilized and whether this will have an impact on your transmission capabilities, potentials from Austria, in the future and also what do you think is that sort of long-term outlook as well for those pipelines and for those flows.

Secondly, on the supply chain whether you are seeing any disruptions with suppliers and what is the cost inflation you are seeing and what are you think all the increased cost will be fully approved by the regulator and will impact your WACC? And lastly, I remember that we were having talks for a long-time already about potential additional remunerations on [indiscernible] equaling zero, or additional [Technical Difficulty] incentives. When do you think we can have some visibility on those, I mean, I think you talked about this last year already but this should be approved, this year, I don't think it's yet. So, if you can share with us your view on this one as well, please. Thank you.

ALESSANDRA PASINI: Thank you very much, Bartek. So, I mean, Russian gas flow, we leave politics outside of the room, I think what is really important is the diversification of import routes which Italy has which I think is very important. Ultimately whether gas will choose one route versus the other, still gas will flow to Austria and then in Italy, so it doesn't matter for us. I think the values will be more a function of the energy mix and the speed of the energy mix changes rather than anything else. It must be said that, I mean the gas market as any commodity market, is a rational market, so people try to



monetize their molecule outside of commitments that are connected to existing contracts where it's more convenient.

And so, one of the reason for the recent spike is not necessarily been shortage of gas, but actually increased demand coming out from Asia, due to combination of strong economy recovery on one side, but at the same time, the accelerator switch which that a number of countries there are doing from coal into gas, and so as we have growing demand there, that is where people are trying to focus on and that is one of the reason why prices have gone up rather than the shortage on the supply. But, again from my standpoint, it's not very relevant.

When it becomes to the supply chain, I think the only notable element is increase in price, we don't have or we are not experiencing any issues in terms of supply chain, differently from other sectors and industries. Clearly, where we see inflation coming is on fuel, which has significantly increased, but that we are confident that that there is no risk in that respect when it comes to our investments.

Now, as on the OPEX side, the next review is going to be with the reference during 2022. And so from a timing standpoint, it's not a bad timing because fully we will have the benefit of the numbers that reflects, higher inflationary environment. And then when it comes to CAPEX, clearly all of this is very timely again because as we all know TOPEX will start to be introduced from 2024, TOPEX works on standard cost and having this spike in this part of the journey to our TOPEX is something that probably actually normalized some of the lower prices that we have seen in the prior period.

When it comes to replacement access and incentives, you are very true, we've been talking about it. Therefore, quite some time we have no news, what I can say is that that we expect the consultation document to be published by the regulator between now and year end, and that will be the commencement of the process that once finalized will determine the



structure and the amount and timing of out to-date in incentives replace to replacement of our fully depreciated assets. So we will keep you posted as things progress, but that's an latest that I can share.

BARTEK KUBICKI: Right, fantastic. Thank you.

OPERATOR; There are no more questions registered at this time. Ms. Pasini, the floor is back to you for any closing remarks.

ALESSANDRA PASINI: I just want to thank you very much or your questions and attention and wish you a good afternoon.