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Full Year 2021 Consolidated Results - Conference call

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OPERATOR: Good afternoon. This is the Chorus Call conference operator. Welcome, and thank you for joining the Snam Full Year 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 Mr. Marco Alverà, CEO of Snam. Please go ahead, sir.

MARCO ALVERÀ: Thank you very much. Ladies and gentlemen, good afternoon, and welcome to Snam's full year 2021 results presentation. The crisis in Ukraine is having a profound impact on energy markets, particularly in the gas market. And we've seen supply security concerns, making what was already a tight situation with very high prices, even worse. And the previous prices were driven more by increasing demand from Asia for LNG, and the situation in Ukraine has made prices even more volatile.

The gas flows are currently uninterrupted, and our team is in constant contact with the Ukrainian dispatching center to monitor the situation. Given Russia's importance in the European gas market, policymakers across Europe are focused on supply security and diversification. And I'm encouraged by the level of cooperation between companies and between



member states and with the commission that I'm seeing in these difficult weeks.

Storage is at the center of the European strategy with member tasked being tasked with mandating that 90% of storage capacity is filled ahead of the next winter. In a deeply backward dated market like we're seeing, it is an economical for shippers to store gas today. And so, we're in discussion with the EU and national policymakers to think about the right instruments that are required to make sure the storages are filled. There is also a renewed focus on supply diversification, maximizing pipeline imports from the south and particularly additional LNG. With spare re-gas capacity that's mainly focused in the Iberian Peninsula and in Northwest Europe, maximizing recourse to LNG means overcoming bottlenecks with new hydrogen ready infrastructure and with new interconnections.

In the long term, accelerating the deployment of biomethane and hydrogen will further reduce reliance on imported gas, while progressively decarbonizing energy consumption. The EU has proposed raising biomethane to 35 billion cubic meter target per year, doubling what was previously the Fit for 55 target, and the new hydrogen target is now for over 70 billion cubic meters of gas equivalent with half of that being imported into Europe through what is called a Mediterranean Green Hydrogen partnership.

Snam does not have direct assets or presence in neither Russia nor the Ukraine, and our regulation, as you know, largely protects us from volume and credit risk. We're studying projects to increase Italian and European supply security at the same time trying to find ways to mitigate the prices. Our assets will play a key role in enabling greater gas and in the future, hydrogen flows from North Africa into Europe. Italy has significant reverse flow potential into Germany and Central Europe through Switzerland and/or Austria. We're also seeking to acquire fast and flexible FSRU capacity for Italy under a regulated framework.



Given the ample re-gas capacity in Iberia, we're studying with our partners, all options to debottleneck this capacity through the MIDCAT project in France that we've been advocating for a number of years. In the absence of real and fast progress on MIDCAT, we're also in the pre-feasibility stage for a new offshore pipeline from Spain to Italy. In the very near term, we're organizing a virtual pipeline with a system of small vessels to transport LNG from Spain to Panigaglia, where only smaller ships can offload LNG.

Looking more closely at the Italian context, Snam has historically been mandated with a responsibility to guarantee the adequacy of the gas system and verifying that it has enough spare import capacity to cope with the interruption for whatever reason of the largest import source. In general, Italy has a relatively strong position, also thanks to the pipeline, which increased supply diversification and our ample storage capacity and storage levels that are more than 10 percentage points higher than the rest of Europe in 2021.

2021 was a bumper year for gas demand, which was up 7% due to a rebound in industrial production and a slightly colder weather. Russian gas from Tarvisio accounted for 38% of supply or around 30 billion cubic meters. In the table, on this page, we summarize the potential spare capacity of all the entry points into Italy, this adds up to around 30 billion cubic meters. However, in a tight market, the main issue is the commodity. And Europe will need joint purchasing and joint storage to cope with this challenge in the most efficient manner.

Additional leeway and flexibility could come from new facilities as I mentioned, that can be brought on stream in 12 to 18 months, such as new floating re-gasifiers or in the longer term, increasing TAP's capacity, the capacity of TAP by up to 10 bcm. When looking at the production side, it is clearly important to maximize domestic production wherever possible and to



facilitate the development of biomethane, which in Italy has the potential to reach 12 billion cubic meters by 2030.

Hydrogen, which can be produced in Southern Europe or North Africa and exported into the rest of Europe will play an increasingly important role. A structural change in flows with additional gas in future hydrogen coming from the South would require accelerating investments that are currently foreseen beyond our 10 year long term plan.

Moving now to our associates, we've built a portfolio of assets in some of the more strategic regions. This enables us to diversify risks and capitalize on opportunities. Our recent acquisition of the stake in the transmit pipeline strengthens our position in the strategically important route from North Africa, while DESFA, TAP and Terega will gain volumes or gain opportunities to invest in additional capacity.

TAG, the transit route of Russian gas in Italy through Austria is protected by a year of contract guarantees. Beyond that, it would be exposed to a structural change in flows of gas. This would reduce the profitability and the value of the asset in the near term. However, it would continue to be a strategic asset, given its potential, not only to run into a reverse flow of gas supplies, but potentially also for hydrogen from Italy to Austria. Either way, TAG remains a key asset for Austrian security of supply.

Turning now to our results, 2021 has been another year of delivery and achievements. We've met all our targets and exceeded net profit guidance by almost €50 million, thanks to a solid operating performance, a stronger than expected contribution from associates and our liability management exercises which reduce the cost of debt.

We have investments in Italy, we've invested almost €1.3 billion, which is a record amount owing to an increase in the maintenance and replacement CAPEX, the investment ramp up in our new businesses and our continuing



focus on digitalization and technology to enhance the reliability and security of our assets and operations. Some of our key projects include, for example, satellite-based early detection of earth movements, AI-based solutions for early detection of pressure, anomalies and potential leaks and the use of drones to acquire field information in unfavorable environments.

Over the course of the year, regulatory visibility has increased. The WACC for the 2022-2024 period was set broadly in line with our own expectations and assumptions. The discussions are progressing with the regulator on fully depreciated assets and possibly also on new additional output-based incentives on dual fuel compression stations.

In the meantime, we've consolidated our position in the energy transition. The EU hydrogen and decarbonized gas package that came out at the end of the year confirmed that hydrogen infrastructure will be regulated, and this plan supports the development of a hydrogen backbone, which is already included in our 10 year development plan. We've confirmed the possibility that we can store safely hydrogen in our existing natural gas storage facilities.

Our associate company, De Nora filed for listing on the Italian Stock Exchange and continues to perform ahead of expectations. Nucera [ph] the joint venture between De Nora and ThyssenKrupp was awarded the world's largest green hydrogen project at NEOM, in Saudi Arabia for 2.2 gigawatts. And we also won a 200-megawatt contract with Shell, and we are now the player with the largest hydrogen electrolyzer backlog on the market. We're also proud that Renovit, our energy efficiency platform achieved a, B Corp certification standards as you know, this is awarded very...to companies that operate according to the highest social environmental responsibility and transparency standards.

Finally, with the agreements we reached with Asja Ambiente, we've acquired a portfolio of assets that have ramped up our growth and pipeline in



biomethane. This positions us well in a market, which will become increasingly important in the context of the supply diversification. As a result of our continuing strong performance and strategic progress, total shareholder return was up 21.4% in 2021, which is, 2 times our peers.

Looking more closely at the numbers, adjusted EBITDA was up 2.4%, benefiting from higher tariff RAB driven by continuing investment in our assets. In the new business segment, which last year benefited from the TAP service contract, the good performance in energy efficiency was offset by a slower than expected biomethane ramp as already explained in the 9 month results.

Financial charges were down by €24 million as cost of debt declined to just below 1%. Income from associates was up €45 million, benefiting from De Nora, plus €21 million, the full contribution of TAP, plus €43 million and ADNOC, the stronger than expected performance of the interconnector, and these effects were partially offset by the impact of regulation in Austria and Greece. These trends drove adjusted net profit up by €54 million or 46%.

Based on the strong results achieved in full year 2021 and the final determination of the WACC and in the context of the current business conditions, we expect full year 2022 to generate a net profit of around €1.1 billion. This guidance assumes a step-up of output based incentives as we discussed in November when we presented our Strategic Plan and of course, assuming a constant perimeter.

Looking further ahead, our growth will be driven by investment opportunities and inflation. In our Business Plan, we guided for a 2022-2025 net income CAGR at around 3% on the back of an assumption of 1.2% average deflator. If we were to use the updated forward curve provided by BBG based on historical correlations with inflation, the average deflator would go up from 1.2% to 2.1%. And just to provide you with the sensitivity, this would move our EPS up from 3% to 5%.



In 2021, we also continued to improve our ESG performance and to set ambitious targets. In particular, we've set a 55% reduction in methane leakage by 2025, higher than the OGMP recommendations of minus 45%. Snam also set a new target on our Scope 3 emissions, the first European PSO to do so. In January, we issued our first sustainable linked bonds based on Scope 1 plus 2 emission reduction targets.

I'm very proud of our work on the new 4 year high school format dedicated to the ecological and digital transition. It is approved by Italian Ministry of Education, and we have more than 27 schools starting to pilot all over Italy in September, hopefully achieving a higher number in the years ahead. As a result of our efforts, Snam is included in all the major sustainability indices and we are rated by Sustainalytics.

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

ALESSANDRA PASINI: Thank you, Marco. Let's now focus on the performance of our associates portfolio. The 18% increase in net income contribution in 2021 versus 2020 was driven by a number of effects. First, full year contribution of TAP which, in 2021 significantly contributed to Italian supply diversification, covering around 10% of gas demand.

First year of De Nora contribution which in 2021, registered a strong performance ahead of our acquisition plan, thanks to growth in all business segments and strict cost control. During 2021, together with Nucera, De Nora has secured 2.5 gigawatt of green H2 projects, including NEOM. The full year contribution of ADNOC gas pipeline, which in 2020 were consolidated from July.

Strong results of interconnect to UK, due to higher export flows supported by gas price spreads and good performance of Terega due to higher revenues for increase in subscription at Spain connection point and cost



control. This was partially offset by the expected decline of the [indiscernible] associate due to the recognition in 2020 of regulatory items and the new regulation in place from January 2021.

Lower regulatory tariff for DESFA and higher energy costs, partially mitigated by higher demand versus last year. As a reminder, Austrian regulation envisages recognition of energy cost spread over the next regulatory period. The current high energy costs, therefore, create a working capital absorption. There are ongoing discussions together with VERBUND and the regulator to anticipate the full cash recognition before the next regulatory period in 2025. The quality of our diversified portfolio of associates is confirmed by the strong results in 2021 and will be further strengthened by the entry into consolidation perimeter of our North African and Egyptian assets.

I would like to spend some time on TAP, which is a great example of Snam approach and ability to create value from investments. TAP has been completed and delivered on time and below budget despite COVID as Snam contributed to its success by supporting the company in establishing a relationship with local communities and building the connection between TAP and Snam network, using the most advanced technologies in compliance with strict ESG criteria.

Snam entered into the project at the end of 2015, and over time has contributed to de-risk it, and work to enhance returns leveraging on its technical and EPC expertise and supporting financial optimization. The entering operation has contributed to close the TTF PSV spread, supporting an increase of export of 1.2 bcm in 2021 with volumes that were 5 times those of 2020. Market test is ongoing to expand the capacity and could add further between 1.5 to 10 bcm to the system.

TAP value implies a PE of just 5 times, euro-denominated inflation-linked net income of around €55 million to €60 million for the length of the contract,



i.e., 25 years. And current inflation environment suggests the potential upside in the high single-digit area from 2023 onwards. Typical infrastructure multiples are, as you know around 15 times earnings. TAP net income also, have potential upsides, such as further cost optimization and H2 readiness that may increase its useful life beyond the expiry of the contract.

Net profit for the period was €1,218 million, up €54 million versus last year. This was mainly driven by the growth in EBITDA core of €65 million, thanks to the good performance in transport business due to the effective execution of the Investment Plan and thanks to higher volumes of gas transported.

The release of past balance sheet items referring to storage contributed for €17 million, as already commented in prior quarters. These positive effects were partially offset by the phase-out of input based incentives, while output based incentives were slightly ahead of prior year.

Core business costs rose due to high operation and staff costs due to the gradual return to normal work conditions, higher labor costs due to the national labor contract inflation and higher headcount to support business expansion and other costs, mainly due to business development activities essentially counterbalanced by the release of past provisions.

New businesses were at breakeven, the strong performance of energy efficiency, thanks to residential business, Eco-bonus and the full year contribution of Mieci and Evolve was offset, as discussed in the past, by delays in the biomethane business due to the expected evolution connected to the recently announced biomethane decree that is still under discussion.

This, together with the lengthening of authorization process due to the pandemic has slowed down the Greenfield development, as well as, our ETC activity. On the positive side, the new framework together with the more ambitious targets set at European level will bring significant growth



opportunities for biomethane operators. Snam continues to reinforce its platform and pipeline, also thanks to the agreement which we had at the end of 2021.

Finally, Snam Global Solutions contribution was lower than in 2020 when it benefited from a positive contribution from an healthy EPCM contract related to TAP entry into operation. In 2022, we will continue to invest in competencies and capabilities, supporting our platform in hydrogen and energy transition and we expect the new businesses to contribute positively to group results.

Interest expenses were lower by €24 million, mainly due to lower cost of debt. Due to treasury management optimization activities, supported by positive market environment, and thanks to full utilization of ESG label commercial paper program, as well as, uncommitted credit lines, both at deeply negative levels. Associate contribution, as just commented, was higher by €45 million. Average tax rate for the period was around 25%.

Turning now to our cash flow, cash flow from operations for the period amounted to €1,338 million, including €510 million of working capital absorption, of which €269 million related to balancing and settlement activities, including €183 million of balancing activities to be reabsorbed in the next month and €86 negative million of settlement related to the expected reversal of the fourth quarter of 2020, minus €343 of other working capital that relates to the energy efficiency working capital related to Ecobonus driven of course, by an increase in receivables and VAT receivables linked to balancing activities to be recovered over time. These were partially offset by cash generation of tariff-related items of €100 million.

Let me explain more in detail the VAT cash absorption. As explained in the past, the balancing system in place since January 2020 envisages that Snam acquired system gas used for self-consumption with losses [indiscernible] and differences between intakes and off-takes of the



distribution network at market prices. This is causing a growth in VAT receivable driven from the higher quantity acquired in the first half of last year due to the colder weather and high price registered in the second part of 2021. This is a temporary effect that we expect to recover over time.

Net investment and M&A included CAPEX and CAPEX payables. The effects already commented during 9 months call related to the inclusion of the perimeter of De Nora and the transaction around energy efficiency, all shareholder loan cash in and to [indiscernible] and the recent investment in EMG in Egypt that will bring its contribution starting from 2022. Other outflows of the period have been the dividend paid for €811 million.

Moving to the cost of debt, in 2021, it went down to circa 0.8%, mainly thanks to transition bonds issued in February and June 2021 at 0.4% with a tenor of circa 8 years, treasury management optimization, leverage and full utilization of our commercial paper program of €2.5 billion and large amount of uncommitted credit lines. And the new 3 year ESG term loan linked to ESG KPIs for an overall €600 million at circa 0%.

On the ESG side, in 2021, Snam related circa €4 billion of new sustainable finance instruments, reaching a total amount of approximately €11 billion equal to circa 60% of total committed funding, 3 years ahead of the sustainable finance target that we did announce in November 2020. As part of its published sustainable finance framework in early January 22, Snam issued an inaugural €1.5 billion dual tranche sustainability linked bond. We also remind that we have increased in our last plan our sustainable finance funding target to more than 80% by 2025. We enjoy a solid balance sheet and strong trading worthiness that could further be announced by the potential IPO of De Nora as that expectations are well ahead our acquisition cost.

Our strong balance sheet is a key asset at a time where we may have the opportunity to address the current environment with additional investment in



rod-like infrastructure with faster cash conversions such as the FSRUs commented by Marco earlier as well as pursuing the acceleration of energy transition.

I will now hand you back to Marco for his closing remarks.

MARCO ALVERÀ: Thank you, Ale. Today's excellent results show how far Snam has come over the past 6 years. We've made Snam a leaner and faster energy company, removing organizational layers, hiring 1,400 new employees to gain skills and new capabilities. We have also built one of the strongest, youngest and most diverse leadership teams in our industry with an average age below 50 and 5 women in key roles.

Over the same period, we've invested over €6 billion in our core infrastructure, expanded our geographical footprint, grown earnings by 50% and returned over €5 billion of cash to shareholders through dividends and buybacks. We have also managed to secure Snam's role in the long-term Net Zero world as a key strategic asset for the energy transition, ensuring the hydrogen readiness of our assets and launching new ventures in hydrogen, biomethane, sustainable mobility and energy efficiency.

As a result of our efforts, today, Snam can leverage on industry-leading capabilities and skills and its first mover experience on groundbreaking projects, a diversified asset portfolio with a presence along the most strategic corridors for security of supply and for the energy transition, a proven track record of delivering projects on time and on budget and a strong balance sheet and disciplined approach to support additional investment needs. This puts us at the nexus of Europe's energy strategy as it seeks to manage the energy trilemma and ensure access to ample, competitive and greener energy. The company will continue to deliver superior growth and shareholder return.



Thank you very much for your attention. We're now happy to take any 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 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 good afternoon everyone, consciously we got a few conference calls this afternoon. So I'll just keep it to 2 quick ones. So firstly, thanks for the detail on Slide 4 about all of the injection points for Italy. I wanted to ask what are the quick wins in terms of raising import capacity or clearly, the floating re-gasification units that you mentioned presumably are the fastest ones to bring in and build? But what could you feasibly do in the next 2 to 3 years? And could you give us any kind of way of quantifying what CAPEX opportunity there might be? So is this the FSRUs only in the next 2, 3 years or could you add capacity to TAP or the North African pipeline. So I'm just trying to get a sense for where we could see CAPEX change between now and 2025?

And then the second one, just...can I just clarify your comment on inflation and EPS, you mentioned that you deflated you kind of markets marks now 2.1% versus 1.2% in your business plan, you said EPS from 3% to 5%. Is that using the CAGR's going from 3% to 5% or is that referring to a 3% to 5% higher in a specific year so just be useful to clarify that? Thank you.



MARCO ALVERÀ: Okay. We won't put together a CAPEX outlook, because there is too many moving parts, and we would make your life probably harder rather than easier. I think the 2 to 3 years is a reasonable time frame to assume a lot of the things I talked about are accelerated and TAP has a 4 to 5 year time horizon for its expansion. That's because of upstream availability and work that has to be done. It's about creating a demand to underwrite the upstream CAPEX, but should there be gas available, the technical part of the job because it's just adding compressor capacity to an existing pipeline that can be done below a year if the push comes to shove and the gas is available.

The pipe capacity from Algeria is there. There is a number of projects that ENI is pursuing to make gas available. There is some LNG swaps that can be organized with Spain and there is a lot of near term activities that are going there. We have to debottleneck if a lot more gas comes in from the South, as I mentioned, and that will be additional CAPEX on our Italian backbone. The FSRUs, whether it's 1 or 2 things are being decided in these days, the market rates are high. The market is very tight right now for these types of vessels. They tend to follow the prices as well of the commodity. And there could be additional needs to fill up the storage with some type of regulatory instrument, as I mentioned, in a backward-dated market storage, which is the most low-hanging fruit near term, quick win, as you said, the challenge there it's just the structure of the forward curve is going to incentivize anyone to fill up the storage.

When it comes to the inflation, yes, indeed, the number I gave is a CAGR number. And so, you are right in your calculations with CAGR would go up from 3% to 5% in the current forward curve environment. Of course, there would be probably an effect on the cost of debt and...but we're nicely hedged, I would say, more geared towards the growth of net income, also given the excellent liability management that Alessandra and her team have done over the last years.

HARRY WYBURD: Got it, many thanks.



MARCO ALVERÀ: Thank you.

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

JOSE RUIZ: Yes, good afternoon and thanks for taking my question. Just 2 very quick ones. #1, on the working capital, the €500 million, is there any possibility of reversal during 2022.

And second question, on the MIDCAT project, I mean we have seen both the Spanish and the French government just blaming each other about the blockage. Can you give us kind of a probability of success of the current discussions to go ahead with MIDCAT? Thank you very much.

MARCO ALVERÀ: Okay. I'll take MIDCAT and then hand it over to Ale for the working capital question. I've been trying my best and to be honest, I kind of gave up a couple of years ago after 4 years of trying to insist. This to me, is such a no-brainer that the project should be built. The regulatory calculation for the cost benefit analysis was done in a questionable way to say the least. And if you just looked at the marginal flows of a much more probably oversupplied Central European market that we had 2 years ago and last year, due to COVID, the cost benefit analysis wasn't in favor enough to justify it. Let me put it that way. All these onshore big CAPEX projects require not only political will, but also a lot of administrative paperwork and support. So again, in the context of accelerating and being bold and ambitious, an offshore alternative could actually be probably even cheaper and certainly faster, because the...once the political will is there, then there is less administrative work to be done.

So I think what has really come to light is the unused potential of Iberian re-gas. And if you think about this also in the context of Net Zero, there is a growing trend to think about hydrogen moving around as LNG, as you use a sub-tier process to blend CO2 and H2 and create synthetic methane. So



this type of infrastructure that we're thinking about whether it's transporting LNG for the next 5 years, and then moving to transport, synthetic LNG or even hydrogen produced in Spain or even hydrogen produced in Morocco. There's a lot of merits and really debottlenecking this. You probably saw in the news earlier today that Germany and Norway announced...signed an agreement to study a hydrogen pipeline from Norway to Germany.

Well, the benefit is that the amount of solar energy that's available in Spain, in Iberia and Southern Italy, in North Africa, as you heard me say several times, the cost competitiveness of solar in Southern Europe and North Africa, over Northern wind is quite striking. The recent auctions for solar have gone at around \$10 per megawatt hour, which is astonishing below. Ale, over to you for the working capital?

ALESSANDRA PASINI: Thank you, Marco. On the working capital of the €510 million that I commented, when it comes to balancing and settlement activities, we expect the reversal of most of it, but at the same time, as balancing activities is not something that we can anticipate is a function of how the market and the ship has behaved, new additional receivables may actually be generated through the years. But yes, we essentially expect a good part of this to be reabsorbed, when it comes to the energy efficiency working capital, instead that will continue to grow as it's correlated to the growth of our energy efficiency business around the Ecobonus. And lastly, when it comes to the VAT, there will be some recovery. But again, this is related to the purchase that we are doing in of gas to make the system work. And so, we will also generate further receivable debt will then be recovered beyond 2022.

JOSE RUIZ: Thank you.

OPERATOR: The Next question is from Sara Piccinini with Mediobanca. Please go ahead madam.



SARA PICCININI: Hi good afternoon everybody and thanks for taking my questions. The first question is about the proposal that the Italian government actually also the Spanish and Portuguese government that they want to present to the European Union to put a price cap to gas. What is your thinking about this proposal? And do you think...how do you think this could be implemented, and if it's legal to impose a price cap to gas supply. This is the first question?

The second is about...there has been several articles saying that there is a discussion around the increase in the re-gasification capacity for Italy. So what are your thoughts about that and how much this capacity could be realistically increased in the next 2 years?

And the final question is on the new businesses. Last time, you said that you were seeing some deceleration in the implementation of these businesses. Do you see any improvement, any acceleration also in light of the recent plan presented by the European Union? Thanks so much.

MARCO ALVERÀ: Okay, thank you, Sara. So on the price caps, I think its early days the doubles and the details. The thoughts are intriguing. Clearly, the TTF premia over the JKM is there because the...there's no liquidity or little liquidity on the financial markets and whoever is trying to hedge their gas purchases, they run into a big bid-ask spread and very few people with potential risk of disruption from the East are willing to sell those hedges. And so, that's driving up the TTF price to levels, which then unfortunately mean that the physical deliveries are impacted by...it's not speculation, but it's a financial kind of overdrive. And so, this kind of decoupling of financial TTF with physical TTF end of JKM and TTF needs to be addressed somehow. We're all involved, there's various proposals, as you mentioned, from various governments. It's not an easy issue, but I think there's some merits in some of the proposals that I've seen, and I can assure you that some of the best mines in terms of traders and market designers and structures are working in a very collaborative way.



When it comes to your second question, rep-gas capacity, as I mentioned, I think, one or two floaters maybe longer-term one onshore as well. There is a couple of projects that have the permitting. I would again stress that these re-gas terminals can be used today to import fossil LNG and tomorrow the same exact terminal could be used for importing renewable LNG. I would add that we have in our existing portfolio, the Livorno OLT terminal that can add 1 bcm of capacity just quite quickly.

And for Panigaglia to make sure the tightening market doesn't, deprive us of the small ships that we need, we're studying this ability to have a shuttle ship going backwards and forwards from Spain to the [indiscernible].

On your third question on the new businesses, I really see a big opportunity for both hydrogen and biomethane, at the European level and at the Italian level to reach some of the targets that have been set out. This is, as I mentioned and as Ale mentioned, good news for De Nora and all our efforts in kind of getting ready for hydrogen, I think we're going to be seeing an acceleration. When it comes to the very small business for us of CNG, the current high gas prices aren't favorable.

The discount at which you could buy CNG is...has disappeared compared to the oil prices. But as the summer approaches, unless there is a bigger problem East than normally, prices should come down as we see in a backward dated [ph] market, helping facilitate our mobility business. On energy efficiency, I think that's another key pillar of the European strategy. And so I see a lot of our clients asking Renovate for new jobs, and I think there's going to be significant growth in that business as well. Thank you.

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

ENRICO BARTOLI: Hi, good afternoon. And thanks for taking my question. I will be very quick as possible. First of all, on the scenario on Italy, on the possibility to replace a portion of the imports from Russia, can you give us a flavor of, let's say,



the reasonable amount that could be activated let's say, in a short-term, 1, 2 years. In terms of additional imports from the starter [ph] pipelines, you mentioned already some potential from the LNG terminals and let's say, a flavor on the degree of utilization of the pipelines from South and the LNG terminal in '21.

Second question is related to TAG that...you mentioned that, of course, it would be maybe the most effective in your assets from some reduction of flows from Russia. If you can elaborate a bit on, let's say, the impact on revenues that could derive from lower gas imports from that route, and actually, the regulatory changes that could be implemented in order to support the profitability on the asset.

And the third one, very, let's say, very general in your Business Plan presented in November, you have a significant acceleration in your CAPEX related to H2 and green gases. Now to comment on let's say the new scenario how you can let's say change the timing of this CAPEX compared to what you have in the Business Plan assumptions. Thank you.

MARCO ALVERÀ: Okay, I will take the scenario and CAPEX question, and Ale, you take the TAG...the TAG revenues. On...so the Ministry Cingolani provided yesterday a comprehensive breakdown of all the measures to replace potentially the 30 bcm. In a nutshell, you can think about it in a very simplistic way 10 could come from the South, from Algeria, 10 could come from TAG [ph], 15 could come from extra LNG, 2 or 3 could from increased domestic production. So I think in the medium longer-term, the Italian market is anyway easier to solve, the issue is that we don't need to think about this as a 30 bcm problem, we need to think about it as a 150 bcm problem, because it unthinkable to stop the flows of gas within Europe. And so if you don't have gas in Eastern Europe or in Central and Northern Europe the prices would just get to a point that even if you have the gas, it need to flow out. The only way to stop it from flowing out would be to close the border but that would leave certain countries like Austria for example completely in the dark



if we were to do that. So that's why solidarity is really important and that's why I think a lot more LNG coming from the US could potentially be a solution both to lower the cost and to increase the security. Now right now we have Russia or we have European gas prices at \$106 or euros per megawatt hour and we have US and that at something around 15...or \$15 per megawatt hours. So a big plan to build more the production capacity in the US given we have the spare re-gas in Spain and in Northern Europe, that could really help mitigate any shortfalls.

The CAPEX, as I mentioned, I don't want to provide any CAPEX guidance, because there are so many moving parts. So we will update you as soon as the different bits of kind of regulation that supports either FSRUs or what that means for us or storage, we will provide details. I suspect...well, we are seeing already inflation. So there will be an increase in CAPEX even at the constant perimeter of activities just because of the inflationary impact we talked about before. And in terms of new CAPEX, I mentioned the acceleration of the debottlenecking, which is quite a significant investment that we would need to bring into the next 2 to 3 years to make some of these flows available from the South to the North. Ale, on TAG...

ALESSANDRA PASINI: Yes. On TAG, I think that the way to look at that asset is, as Marco said before, it will remain strategic even absent flows from Russia because ultimately, Austria, that's how they get their demand fulfilled. Austria's 8 bcm of demand and Italy could reverse flow serve 6 out of this 8 bcm.

So the dialogue is already ongoing around how Italy and Austria could address a possible situation where flows would be interrupted. Although as Marco said, currently, all volumes and pressures continues regularly. From a contractual standpoint, we do have long-term contracts in place with Gazprom and good chunk of it is at most expires in 2022. And for the rest, the capacity remains booked on a short-term basis.



So I think that the dialogue is already ongoing together with Verbund, with the regulator, both in terms of addressing what is a normal "issue", which is changing the way energy costs are recognized and reimbursed, given the spikes that we are seeing in this winter. And more importantly, at the institutional level, how to address the current possible risk in a way which, as Marco said, will also leverage solidarity because we will need to make sure that all the connections are fully utilized, not just for our own purposes but also to serve a country that otherwise would be in the cold.

ENRICO BARTOLI: Thank you.

OPERATOR: Next question is from Antonella Bianchessi with Citi. Please go ahead, madam.

ANTONELLA BIANCHESSI: Yes, hello, good afternoon. Very quickly, the first one is on demand. Do you see any signal of demand destruction given the pricing? We have a number of companies shutting down for at least a period of time to...in order to face high bills, what about retail, any signal would be extremely helpful. The second thing is on this kind of emergency CAPEX. Usually, when we are in this situation, we learn in the past base end up in being a stranded asset, if the policy change or the demand really follow the time that the European Union is hoping for.

So do you see any chance for instance, LNG fully contracted or/and to reduce...to pass through to the consumer the entire risk of stranded assets. And also the fact that there is a massive change potential, a massive change in the flow of gas do...does come as assets that will be less used compared to before. And finally, looking at the shareholders meeting, the extraordinary shareholders meeting for the renewal of the Board, Marco, I just wanted to know your availability for another term, if you can comment on this. Thanks a lot.



MARCO ALVERÀ: Thanks, Antonella. So let me start with the demand question. At the European level because that's really the market we're having to deal with. You've already seen starting in the U.K, now we'll talk about Europe, we also include the U.K. and of course, Switzerland and the Ukraine, just to be precise on the numbers we talked about.

At the European level, we've already seen quite some significant demand destruction. A lot of the ammonia production, mainly in the U.K and Northern Europe has come offline because it's uneconomical. We've also seen some ceramic manufacturers run out of raw materials, apart from the high energy, it's also the clay that was coming from the Ukraine that's generating a tightening of supply chains. And there's a number of companies that have interruptible as you know, contracts so that in the case of emergency, they have already received compensation for giving up their production, which is all to say, I think to your point, there is some flexibility on the demand side that would allow us to have that solidarity mechanism that I was referring to, which should, of course, put households at the highest merit order for security of supply.

The other demand option that DIA has suggested is decreasing temperatures for heating. And at the European level, every degree of reduction in home heating would generate, I think, 10 billion cubic meters of less demand with 2 degrees, which is sustainable, let's say, not comfortable, but maybe not comfortably sustainable, of course, it'd be 20, which is not an insignificant number. So that's on demand.

When it comes to the emergency CAPEX, the...look, we are protected by a regulation that's very clear. And the regulation is volume free with a very limited part of our revenues being volume linked. And we are clear that we don't have the ability nor appetite to invest in anything that has different schemes. And so we're seeking let's say, complete protection and I think the existing regulatory environment offers that. As we work with Europe to think about the hydrogen backbone and the flows, as I mentioned, maybe I could



have been more explicit with the numbers, but we see big volumes and Europe sees probably even bigger volumes than we were seeing of hydrogen flowing from South to North. And so as you remember from previous discussions, we've stress-tested our infrastructure. So I just want to be very clear on the record here, we do not see any risk of stranded assets in our pipeline system, in our assets, in any of the flow conditions that we're running and operating in this difficult time.

I think TAG that we went deeper into is the case in itself just because it's entirely reliant on Russian flows. But then again, Russia...I mean, Austria is entirely reliant on TAG for whatever molecules, it will decide to source.

In terms of me, of course, we're here to discuss the results and the outlook for the market. The new Board will be...the names will be deposited by shareholders on the 2nd of April and voted on the 27th. I would say that, as you know, I'm incredibly focused on all the work that needs to be done. And this work needs to be done in a very short time frame. In the energy space, we have this nexus of security, prices and energy. So all I can say at this point is, I'll continue to do my best to hopefully contribute positively to this incredible effort that we have at hand. Thanks, Antonella.

ANTONELLA BIANCHESSI: Many thanks.

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

STEFANO GAMBERINI: Good afternoon, everybody. 2 quick clarification from my side. The first, regarding the RAB deflator estimate. What is the correlation between CPI and RAB deflator that you have in your estimates considering that, if I'm not wrong, in the last quarters, the RAB deflator was lower than Italian CPI. And a second question regarding the fact that the regulator in December published the consultation paper on out of base incentives incentive's for keeping a fully depreciated pipeline in operation, how you judge it? The



recognized input output basis or incentives are in line with the around €50 million of out of base that you expect in your plan? Many thanks.

MARCO ALVERÀ: Ale, take both, please.

ALESSANDRA PASINI: Thank you. When it comes to the correlation, we've looked at historical series of the past 40 years. That's how we derived the transformation of what inflation prediction and forecast are into...translating into the deflator. When it comes to fully depreciated assets, we have responded at the end of January to the consultation period document. That document as Marco hinted during his presentation, does cover not only fully depreciated asset, possible out of base incentives, but also potential incentives to deal with dual fuel compressor station, which, by the way, in a scenario where demand maybe that could also offer further flexibility to the system as we could run electric versus burning gas into our own system.

The regulator will...is now reviewing all the feedback received and may actually either come out with a further consultation document or with the final delivery and these very weeks are weeks where this is one other topic of conversation that we are having with the regulator.

STEFANO GAMBERINI: Okay. Many thanks.

ALESSANDRA PASINI: But no changes on what we said before in terms of our expectation and the way we are expecting this to be treated.

STEFANO GAMBERINI: Okay. So the €50 million out as incentives are still there. That's the point.

ALESSANDRA PASINI: Yes. That's the ambition that we have, indicating that we confirm.

STEFANO GAMBERINI: Thanks again.



OPERATOR: The next question is from Roberto Ranieri with Intesa Sanpaolo. Please go ahead, sir.

ROBERTO RANIERI: Yes. Good afternoon, everyone. Thanks for taking my questions. I have 2. The first one is on biomethane. I'm wondering if you want to increase the capacity in biomethane production in a short time, I think that something could be changed in authorization. Is there anything the government is applying in terms of...studying in terms of a more quicker authorization process? This is my first question.

My second question is on hydrogen. Are you going to...I am referring to the projected pipeline from Germany to Norway, are you going to participate...in participation in this potential asset in terms of technological or technical contributions or even as a shareholder? And is it a short-term potential opportunity in terms of new assets for hydrogen for a nitrogen pipeline?

And my third question is if the hydrogen...is the current technology ready for a 100% hydrogen transportation, in that case is it possible to use this the kind of...is this kind of a pipeline transporting the hydrogen from remote areas like Sahara, like solar plants in North Africa and so transporting this hydrogen to the South Europe to the Algerian assets or Spanish assets. Thank you very much.

MARCO ALVERÀ: Okay. Thanks, Roberto. So on the biomethane, the problem is not in the permitting. We have 2,000 biomethane plants...biogas plants, sorry, that are now generating electricity that can be converted. So there's no nimbyism [ph] really. I agree with you, the incentive could be more generous. Let's see if we can get something more with these very high PSV prices, the moving piece of that revenue is attractive already.

So this is just a question of getting the plant side of build, if they're not built or connected. But in the list, ranking of infrastructure that people dislike for nimbyism, biomethane is quite low compared to other types of renewable



energy and to other types of infrastructure. So I'm optimistic on the short, medium and long-term prospects for biomethane.

When it comes to hydrogen, we're not involved in the German Norway project. We...you gave us an idea. We may not come to the door and see if they want our services. We are, after all, the biggest offshore pipeline owner. And historically, we were also a developer of these pipes. There are, as you mentioned, very significant opportunities from North Africa and from the Middle East. And what I can say is that we have been over the last many months active on several fronts, even contemplating new and quite bold pipeline projects for the Mediterranean. When it comes to Algeria, as we announced, the acquisition from any of the stake in the existing pipelines, we were quite explicit that they will be transporting hydrogen and our backbone will be transporting hydrogen before 2030, and the ability to move that from Tunisia, at least all the way up into Northern Italy and beyond into Central Europe is something that we are fully committed because the technology, as you asked, is totally there. The quality of the steel we would use to build a brand-new hydrogen pipe is exactly the same that we've used years ago to build natural gas pipes. And so this interoperability is going to be a key feature of this build out also to Antonella's previous point to avoid any stranded assets? Thank you.

ROBERTO RANIERI: Thank you very much.

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

BARTEK KUBICKI: Thank you and good afternoon. Just 2 very quick questions. First thing, we just not really tackled the storage, and I would like to ask you whether you see opportunities and the necessity to build more storage sites in Italy in the short-term. And what are your options, expansions of current sites you are having right now or maybe new sites?



And technically also related to this, I would like to ask you who is actually paying for the cushion gas, which is being pumped into storage sites, it's going to RAB or this is your...it would be your expense in terms you wanted to build 2 storage sites. And secondly, I've seen articles highlighting the idea that as we may move to hydrogen quicker than we thought, we would crowd out natural gas. And consequently, do you think there are any risks to sort of hydrogen investment plans such as the backbone infrastructure to actually be scrapped and instead a bigger push to use existing natural gas infrastructure to move hydrogen around rather than building new hydrogen infrastructure, as natural gas made that year is cleared from our system. Thank you.

MARCO ALVERÀ: Thanks, Bartek. So when it comes to storage, I think there's several opportunities. The first is to make sure that we fill up the one we have. The second are some assets that are very quickly developed both because they have maybe existing wells, existing infrastructure. And we can think about additional storage capacity, both in Italy and in Europe, where we would be happy investors as we announced our plan even before the worsening of the price and security crisis. So I'm a firm believer that Europe needs joint procurement and joint storage facilities like we have for petroleum, strategic petroleum reserves. Europe should have strategic gas reserves. We will spend in excess of €400 billion extra for energy in Europe between power and gas this winter.

With only €2 billion of storage capacity payments, we could have 30 bcm of storage that would make us almost LNG independent in the peak winter period. So there's a lot that we can do to accelerate the building of this infrastructure, both on existing sites, new sites, repurposing of sites and even putting more pressure in existing fields, we call it overpressure and also in developing layers of existing fields that may have not been developed over time. In terms of the cushion gas that goes into the RAB, so it's considered CAPEX like any other part of the investments that are made.



When it comes to the risk that hydrogen and gas compete for pipelines, I think we will see in many parts of Europe and certainly in Italy, parts of the country will have CO2 pipelines taking away CO2 from CCS to either put it on a ship and ship it somewhere where it can be stored or ideally storing it if there's a geology opportunity to store it near or in the country. We will then have a full hydrogen pipeline, and we will have a pipeline running biomethane and/or fossil methane and/or as I mentioned, synthetic methane.

And the beauty of our networks is that they've been designed with some redundancy in place. And so as you mentioned, it's not all about new pipelines. It's about repurposing, it's about mixing and really optimizing. This is a secret sauce. This is our value added in having the maps of the existing assets, we can also, in time, think about using oil assets to repurpose those as well. And what really matters here is more often the right of way, this is even more precious than the steel that we have underground.

BARTEK KUBICKI: Okay. Thank you.

MARCO ALVERÀ: Thank you.

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

MARCO ALVERÀ: Well, thank you all for your attention and for your time. Bye-bye.