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Diffusione presunta

Oggetto : Snam: increasing results, more
investments in the energy transition in the
2019-2023 plan

Testo del comunicato

Vedi allegato.



Snam: increasing results, more investments in the energy transition in the 2019-2023 plan

Principal targets are confirmed and improved compared to the previous plan, based on 2017

- Net profit: average annual growth of over 4% confirmed
- Net profit per share: average annual growth of approximately 5.5% (over 5% in the previous plan)
- Dividend per share: 5% annual growth policy confirmed up to 2022
- Average annual growth of the RAB for revenues confirmed at around 2.5% despite an expectation of lower inflation compared to the previous plan, with visibility of a subsequent 1% real growth by 2030
- Re-start of the buyback program: launch of a further tranche of € 150 mn, as part of the authorization received by the Shareholder Meeting on April 2nd
- Net profit guidance improved for 2019 (€ 1,080 mn), bringing the increase in net profit per share to +32% since 2016

Efficiency and solidity

- Strengthening of the efficiency plan: over € 65 mn in savings by 2023 (vs. € 60 mn in the previous plan target)
- Cost of debt at 1.4% in the plan period (vs. 1.8% in the previous plan); growing commitment to sustainable finance, of which the funding is more than € 5 bn
- Ratio between adjusted debt and RAB including associates of 53% at end of plan

Core business: increased commitment to energy transition and innovation

- Total investments 2019-2023: € 6.5 bn (approx. +14% compared to the previous plan)
- Over € 1.4 bn of investment in the SnamTec "Tomorrow's Energy Company" project (+65%), of which € 1 bn regulated:
 - € 700 mn on environmental sustainability of the core business, including electrification of compressor stations and storage plants
 - € 350 mn in initiatives for technological innovation and the digitization of assets
 - € 400 mn in new green business lines to accelerate development (doubling the € 200 mn of the previous plan)
- Hydrogen: new business unit launched; new blending test at 10% by year-end
- Reinforced infrastructure replacement program: + € 400 mn
- International associates: expected average annual cash return on initial investment of over 10% (from acquisition to the end of the plan)

ESG and emissions reduction

- ESG factors fully integrated into the company's strategy
- New targets for reducing methane emissions (-40% by 2025) and "Scope 1" and "Scope 2" equivalent CO₂ emissions (-40% by 2030), based on 2016
- Support to ForestaMI, urban reforestation project launched by Milan Municipality



San Donato Milanese (MI), 21 November 2019 - The CEO of Snam Marco Alverà is today presenting at the company's headquarters in San Donato Milanese the 2019-2023 plan, which was approved yesterday by the Board of Directors chaired by Luca Dal Fabbro.

Snam CEO, Marco Alverà, commented: "With the new plan to 2023 we are strengthening Snam's role in the energy transition and continuing along the path of growth and shareholder remuneration, leveraging on the results achieved in recent years, on greater operating efficiency and the reduction of financial charges, on the total integration of the environmental, social and governance factors in the management of the company and on a market scenario in which our infrastructure has an increasingly central role for decarbonisation.

We wanted to allocate more resources to the innovation and acceleration of the new green businesses of the SnamTec project, which account for more than 20% of the total investment up to 2023, to increase Snam's presence in the biomethane sector, confirm its commitment to sustainable mobility and energy efficiency and to be a pioneer in the use of hydrogen as a clean energy carrier of the future. We are convinced that hydrogen produced from renewable sources will give a decisive contribution to achieving the climate objectives and that Europe and Italy will be leaders in the development of the technology. By the end of the year we will have doubled our experimentation in the transmission network, bringing the hydrogen blend to 10%.

At the same time, we are increasing our investment in the core business with the aim of continually improving the quality of our service, making our infrastructures more modern, safe and sustainable, reducing significantly the emissions of our businesses and contributing to the economic and social development of the areas in which we operate".

Scenario and update of the objectives for 2023

The national and international scenario over the plan period and in the long term confirms the centrality of Snam's activities. At a global level, with a significant forecast growth in demand for the next few years, particularly in the Americas and China, natural gas is becoming an increasingly important source of energy that is more abundant and competitive as well as an immediate and economic solution to replace coal in electricity generation and diesel in transport.

This trend is particularly evident in Italy, where an increase in consumption of 4.4% is expected in 2019 compared to last year (75.9 billion cubic meters compared to 72.7 billion), thanks above all to a growth forecast of approximately 12% in the thermoelectric sector. The use of gas in



thermoelectric generation is expected to increase even in the coming years to replace around 8 Gigawatts of coal generation capacity.

Thanks to the higher volumes of gas fed into Snam's network in 2019, the cost of transportation per cubic metre fell by 10% compared to 2015 from approximately 2.9 € cents/m³ to approximately 2.7 € cents/m³.

In Europe and Italy there has been a recovery in demand in recent years, associated with a growing need for imports from diversified routes in light of the decline in domestic production and in view of the progressive exit of various countries from coal thermoelectric production. In Europe, the need for imports has increased by 30% since 2014 and is expected to increase further in the medium term.

In the long term, moreover, gas is no longer seen only as a for the transition but as a pillar of a decarbonized world, particularly in the various sectors with limited possibilities for electrification. This role will be strengthened thanks to the rapid development of renewable gases, particularly the biomethane supply chain, which could grow at a rapid rate in Italy, partly as a result of Snam's investments and to the numerous initiatives underway worldwide to produce hydrogen from renewable sources at increasingly competitive costs.

According to a Navigant study, Europe would be able to guarantee annual savings of € 217 billion as from 2050 in a scenario with 270 billion cubic meters of renewable gas, compared to a scenario that does not envisage its use.

In Italy, according to the joint Snam-Terna scenarios published on 30 September, gas consumption in the run up to 2040 is expected to be substantially in line with current levels, with a growing role for renewable gases. In the "Centralized" scenario, which entails a greater use of existing infrastructure, more than 26 billion cubic meters of renewable and low-carbon gases are expected.

With regard to Snam, the continuing improvement in the results of its core business, the long-term view on the regulatory framework, the growing exposure to energy transition with new initiatives, the solid performance of its international businesses, its strong focus on technological innovation and the ongoing optimization of its financial structure will enable the company to achieve sustainable growth of its main indicators, either confirming or improving the targets of the previous plan.



More specifically, in the period 2017-2023 average annual increases are expected in the following numbers:

- an increase of over 4% in net profit, confirming the previous target;
- an increase of 5.5% in net profit per share (exceeding the target of over 5% in the previous plan);
- an increase of more than 3% in EBITDA in the period;
- a rise of 5% in the dividend per share (DPS) until 2022, confirming the policy announced last year;
- a rise of 2.5% in the RAB tariff (in line with the previous plan despite the assumptions of lower inflation), with the prospect of a subsequent 1% real growth by 2030.

The debt/RAB ratio will be largely stable, net of the impact of the release, scheduled over the time horizon of the plan, of the pro-rata amount of the guarantee of TAP's debt during the construction period of the gas pipeline. In particular, by 2023 a ratio between adjusted debt and RAB including associates of 53% is forecast.

The net profit guidance for 2019 is improved at € 1,080 million, bringing the increase in net profit per share to +32% since 2016.

For 2020, Snam expects a net profit up to around € 1,100 million and a debt level at the end of the year of approximately € 12.4 billion, excluding the use of tariff working capital expected to be € 100 million. The RAB for 2020 revenues should be in the region of € 20.6 billion.

€ 6.5 billion for the development of the Italian energy system and new activities in the energy transition

Snam has forecast an increase in investments for the period 2019-2023, bringing them up to € 6.5 billion, approximately 14% more than the € 5.7 billion of the 2018-2022 plan.

The growth compared to the previous plan is attributable both to the new energy transition businesses and to the increase in investments in replacements. In detail, € 5.3 billion of the investments in the plan concern the transportation network, € 0.8 billion refer to storage and regasification and € 0.4 billion to the new businesses linked to the energy transition.

The development initiatives refer to the completion of the infrastructure to connect TAP to the national network, the completion of connections in the North-West to serve the local market and cross-border flows, the network in Sardinia and the start of the conversion of six compressor stations and storage plants in gas-electric hybrids. There are also plans to replace 1,000 km of



pipelines over the period of the plan, with additional investments of € 400 million compared to the previous plan: almost half of these works are currently already under construction or have received the VIA authorization. Replacement initiatives are carried out on the basis of technical analyses of the condition of the asset, the hydrogeological context, and the technical characteristics of use, in line with the evolution of flows.

The plan also includes investments of € 140 million in grid connections linked to the energy transition (CNG and biomethane plants), up from € 90 million forecast in the previous plan.

Energy transition and innovation: investments in SnamTec rise to € 1.4 billion

As part of the investment plan, the initiatives of the SnamTec project (Tomorrow's Energy Company) have risen by 65% to over € 1.4 billion (of which € 1 billion is RAB). The goal of this project is to accelerate the innovative capacity of Snam and its assets to seize the opportunities offered by the evolution of the energy system.

The SnamTec project focuses in particular on three areas:

- environmental sustainability of the core business with approximately € 700 million in investments to reduce methane emissions by 40% by 2025 (compared to the previous target of 25%) and "Scope 1" and "Scope 2" CO₂ equivalent total emissions by 40% in the period up to 2030 with the start of the first six hybrid electric-gas plants (€ 250 million in investment), a campaign to measure and eliminate emissions, the technological adaptation of some gas turbines, the massive replacement of network components to reduce methane emissions, the greater use of electricity from renewable sources and the energy efficiency of company buildings;
- initiatives for technological innovation and network digitalization with investments of approximately € 350 million ("smart gas" project for the maintenance of the plants with new technologies, more than 85% of assets remotely inspected by 2023, drones and satellites for asset monitoring, new commercial services and gas demand forecasting via neural networks);
- investments for the energy transition of € 400 million (biomethane infrastructure, sustainable mobility and energy efficiency, and SSLNG initiatives), crucial for the launch of the relative sectors.

New energy transition businesses: investments double to € 400 million

For the period 2019-2023 Snam has planned to double its investment in new business for the energy transition to at least € 400 million, compared to € 200 million in the previous plan.



Biomethane. The most significant increase concerns the sector of biomethane derived from organic, agricultural and agro-industrial waste, which will play a strategic role in the decarbonisation process. Snam aims to support and accelerate the evolution of the Italian market also by investing, through its subsidiaries, in infrastructure and plant construction. Investments are planned for around € 250 million, compared to € 100 million in the previous plan, to build plants with an installed capacity of over 40 Megawatts.

In this regard, Snam, through the new subsidiary Snam 4 Environment, completed the acquisition from Ladurner Ambiente and from AB Invest of a share of approximately 83% of Renerwaste, one of the largest companies active in Italy in biogas and biomethane infrastructure, for a disbursement at the closing, including the repayment of shareholder loans, of approximately € 46 million. The deal, which was financed entirely by own funds, gives Snam the possibility, as from June 2020, of acquiring the approx. remaining 17% of the share capital held by Ecopartner. The activities of Renerwaste (three plants and, dependent on the emergence of certain conditions by 2022, the companies holding authorizations for the construction of two more plants) generate annual revenues of over € 20 million and employ around 50 people.

In parallel to this, a memorandum of understanding has been signed with Infore Environmental Group, an environmental services company listed on the Shanghai Stock Exchange and controlling shareholder of Ladurner Ambiente, for possible joint initiatives for the development of biogas and biomethane infrastructure in China.

Snam has also signed a binding letter of intent aimed at negotiating and defining the agreements to launch a strategic partnership in agriculture biomethane infrastructure through a 50% entry into Iniziativa Biometano, a company that operates in Italy with five biogas plants, for which a conversion to biomethane is planned, and with various plants in the authorization or construction phases.

Thanks to these two initiatives, Snam will be able to increase its skills in plant management and operation, both in the agricultural biomethane supply chain and in that of FORSU, which perfectly complement the expertise in the design, development and construction of IES Biogas, a subsidiary of Snam acquired last year and a leading company in the construction of biogas and biomethane plants in Italy and abroad.

Sustainable mobility. The investment in the biomethane sector complements those envisaged in sustainable mobility to support the increase in the Italian network of distributors of compressed natural gas (CNG and bio-CNG) and liquefied natural gas (LNG and bio-LNG), the first in Europe with more than 1,350 distributors (about 150 stations connected to the network since 2018). The



plan confirms planned investments of € 50 million in the construction of around 150 methane and biomethane refuelling stations for cars and buses, created in collaboration with Cubogas, which is controlled by Snam4Mobility. To date Snam4Mobility has already delivered eight stations and has contracted a further 69. Additional investments of € 50 million are also planned for the construction of two small liquefaction plants (SSLNG), one in the North and one in Southern Italy, and for the upgrading of the Panigaglia terminal in order to allow the loading of tankers and foster the use of LNG for heavy transport, industry and residential buildings for a total capacity of 250 thousand tons per year. There is also the possibility of adapting the Panigaglia plant to allow the loading of naval units to develop the use of LNG in maritime transport. A similar activity is being developed by OLT, the regasification terminal off the Tuscan coast between Livorno and Pisa, of which Snam will acquire a 49.07% stake following the completion of the required authorizations and the subsequent closing of the agreement announced last 20th September (expected in the first quarter of 2020).

Energy efficiency. Still in the area of energy transition, investments of around € 50 million are expected in energy efficiency, a sector that requires impetus to meet the growing potential of the market and in which Snam is already among the leading Italian operators through the subsidiary TEP Energy Solution, an Energy Service Company (ESCO) specializing in energy efficiency solutions for condominiums, companies and public administrations. TEP expects to achieve revenues of € 20 million in 2019, with a forecast of further growth over the period of the plan. The company has a contract portfolio of over € 60 million and is continuing to develop new initiatives. Recently, the company TEA Servizi, an ESCo active in the design and construction of plants on behalf of industrial customers, with a particular focus on small and medium enterprises, was also acquired.

Hydrogen. Snam believes in the potential of hydrogen as a clean energy carrier and trusts that enabling its insertion in the gas network can contribute to the development of hydrogen production from renewable sources, reducing costs. For this reason, last April the company was the first in Europe to successfully experiment in the Region of Campania the injection of a blend of 5% of hydrogen (by volume) with natural gas in a section of the transmission network, serving two industrial users. This experiment will be repeated by the end of the year, doubling the amount of hydrogen fed into the network to 10%. These initiatives are aimed at making the company's assets ever more ready to accept increasing amounts of hydrogen.

Snam has created a new business unit dedicated to hydrogen, with the task of evaluating possible pilot projects and contributing to the development of the supply chain. At the same time, studies will continue on the adaptation of compression and storage infrastructure, on the role of hydrogen in the future energy system, also with a view on sector coupling, and on possible



experiments in power-to-gas. According to a study commissioned by Snam, hydrogen could cover almost a quarter (23%) of the Italian energy demand by 2050 in a scenario of profound decarbonisation.

Increasing commitment to ESG and emissions reduction

Environmental, Social and Governance (ESG) factors are increasingly integrated into company strategies and management. In this regard, in recent months, Snam was the first Italian listed company to set up a committee of the Board of Directors specifically dedicated to ESG issues.

With regard to environmental factors, the new plan envisages a significant reduction in the impact of Snam's activities. In particular, methane emissions will be reduced by 40% by 2025 (based on 2016) compared to the target of 25% of the previous plan. This objective will be achieved through the application to the grid of a methane Leak Detection and Repair campaign, the maximum replacement of grid and plants' components, and the adoption of the best available technologies.

On the subject of CO₂, a 40% reduction in direct emissions is planned by 2030, thanks to the start of the conversion of the first six plants to gas-electric hybrids, which will also contribute to the flexibility of the electricity system, and the energy efficiency actions on buildings. A 40% reduction of CO₂ emissions from electric consumption is also planned by 2030, through the greater use of photovoltaic energy.

Overall, by 2030 Snam aims to reduce "Scope 1" (direct) and "Scope 2" (indirect) CO₂ equivalent emissions by 40% (based on 2016) to combat climate change in line with global goals. The CO₂ equivalent reflects the impact on global warming of a certain amount of greenhouse gases compared to the same amount of carbon dioxide.

Snam, through its subsidiary TEP Energy Solution, and Fondazione Snam, will support ForestaMI, the urban reforestation project advanced by the Municipality of Milan, which involves the planting of 3 million new trees in the metropolitan area by 2030.

In addition, Snam has recently launched the "Snam Plastic Less" program aimed at eliminating disposable plastics from beverage distributors in all company offices by 2020 and the use of plastic in industrial packaging by 2023.

As regards the social dimension, the initiatives of the Snam Foundation for the social development of the territories continue. In October, more than 700 Snam people dedicated a working day to volunteer initiatives in over 90 non-profit organizations throughout Italy. The



Snam Institute training centre provided over 275 thousand hours of training to company employees in the period 2016-2018.

ESG factors are integrated into Snam's corporate governance. The Shareholder Meeting approved the permanent inclusion in the statute of the provisions that guarantee a minimum representation of one third of the less represented gender in corporate bodies. A new policy to promote diversity and inclusion within the company was also recently adopted. On the subject of combating corruption, Snam is one of the four companies (the only Italian one) that have entered into a global partnership with Transparency International and since the beginning of 2019 has already carried out around 4,500 reputational checks on suppliers and third parties.

Thanks partly to its commitment to ESG issues, Snam was recently recognized by Forbes and Statista as one of the 150 best companies in the world to work for, ranking second among Italian companies.

Strengthening of the efficiency plan

Snam plans to strengthen the efficiency plan launched in the second half of 2016, with over € 65 million in savings expected in 2023 compared to 2016 (€ 60 million in the previous plan). At the end of 2019 the savings will amount to approx. € 50 million, the target previously set for 2021.

The company has simplified its processes and organization, for example with the integration of transport and storage maintenance activities. This plan made it possible to reduce costs and improve quality and time to market. Furthermore, a series of initiatives have been launched aimed at the structural reduction of some external costs, at changing make-or-buy decisions and the renegotiation of supply contracts.

Internationalization strategy and associates

Snam has further strengthened its leading position in energy infrastructure in Europe with the recent acquisition of DESFA in Greece, finalised at the end of 2018.

The contribution to the net profit of the international associates (TAG and GCA in Austria, Teréga in France, Interconnector UK, DESFA and TAP) will amount to approximately € 160 million in 2022, consolidating Snam's European leadership. Long term TAG contracts and the evolution of commercial strategies on a short-term basis may lead to headwinds in 2023, although flows are expected to remain strong. For international associates, the average annual cash return on the initial investment from the acquisition to 2023 is expected to exceed 10% for the operational assets.



With regard to TAP, of which Snam is a 20% shareholder, the state of progress of the work is around 90%. Expected completion of the work by the end of 2020 is confirmed.

Debt structure optimization and sustainable finance

The optimization of Snam's financial structure carried out over the last three years led to a reduction in the average cost of debt from 2.4% in 2016 to around 1.1% in the first nine months of 2019.

The actions implemented also make it possible to reduce the volatility of the cost of debt, which is expected to remain stable at 1.4% on average over the plan's time horizon, particularly thanks to:

- a financial structure characterized by 3/4 of fixed-rate debt and an average life of medium-long term debt in excess of 5 years;
- four liability management exercises (for over € 4.5 billion) carried out in the 2015-2018 period;
- ongoing pre-funding efforts, including among other things the dual-tranche issuance in September of € 1.1 billion with maturity of approximately 5 years and 15 years (the longest tenor ever issued by Snam so far), coupon equal to 0% (the third zero-coupon issued by Snam) and 1%, amounting to € 500 and 600 million respectively, substantially completing the 2020 funding needs;
- € 3.2 billion syndicated credit lines, fully undrawn as at 30 September 2019 and maturing between 2023 and 2024, thanks to the recent extension of the same maturities.

Within the plan, Snam aims:

- to maintain a net debt to RAB ratio well below 60% required for a company with a Baa1 Moody's rating, being a notch higher than Snam's official rating (Baa2), as an effect of the cap represented by the sovereign rating of the Republic of Italy, which was in its turn downgraded by Moody's in 2018. This level represents a self-imposed threshold for Snam that is more stringent than the rating guidelines implicit in the official ratings;
- an adjusted Funds From Operation ratio to net debt (FFO/Net Debt) higher than 14% on average over the plan horizon and thus consistent with a Stand Alone Credit Profile of single A as defined by S&P;
- the maintenance of a mix between fixed and variable debt of 3/4, in line with the previous plan;
- a reduction in financial charges expected in 2019 by approximately € 110 million compared to 2016 levels and by € 30 million compared to 2018 levels, partly thanks to treasury optimization actions implemented in recent years. During the period of the plan, a stable cost of debt is forecast, on average equal to 1.4% (compared to 1.8% in the previous plan), which does not take



into account any contribution from the treasury optimization exercises which have characterized the last few years while it includes the actions taken to crystallize as much as possible the current favourable market conditions and the improvement in rates and credit spread scenario compared to the previous plan.

In addition, with the aim of aligning the financing strategy with its sustainability targets and widening its investor base, Snam:

- will increase the initiatives of sustainable finance, which today are worth over € 5 billion, over the plan horizon;
- issued its first Climate Action bond in February, based on the framework published in November, which sets the rules for issuing bonds aimed at financing investments in environmental sustainability (for more information: www.snam.com/en/climateactionbond);
- obtained in April 2019 a reduction in the margin of its “sustainable loan” from € 3.2 billion following the achievement of the KPIs linked to parameters of social and environmental sustainability.

Attractive and sustainable dividend policy

Snam confirms its commitment to guarantee shareholders an attractive and sustainable remuneration and the payment of an interim dividend. The dividend growth is expected to be 5% per year up to 2022, confirming the previous target. Snam expects that for the year 2019 a total dividend of € 0.2376 per share may be distributed in 2020 (of which 40% as an advanced payment in January 2020 as resolved by the Board of Directors on November 13, 2019, while the remaining 60% will be settled in June 2020, to be submitted for subsequent approval to the Shareholder Meeting that will approve the 2019 financial statements).

Resumption of the buyback program

As part of the authorization received from the Shareholder Meeting on 2 April, Snam intends to resume the buyback program of treasury shares with the launch of a further tranche of € 150 million.

Value creation opportunities in Italy and abroad not included in the new plan

In addition to the provisions of the plan, Snam will continue to monitor the additional investment opportunities that may arise, relying on the flexibility of its financial structure, whilst adhering to its investment criteria.



Presentation, conference call and webcast

At 11:30 am CET (10:30 am GMT) the plan to 2023 will be presented to financial analysts and institutional investors. It will be possible to follow the event in a conference call and the supporting material will be made available on www.snam.it in the Investor Relations section, in conjunction with the start of the conference call itself. In the same section it will also be possible to follow the presentation via video webcasting.

The manager in charge of preparing the corporate accounting documents, Franco Pruzzi, declares pursuant to paragraph 2 of art. 154 bis of the TUF that the accounting information contained in this press release corresponds to the document results, books and accounting records.

Disclaimer

This press release contains forward-looking statements, in particular relating to: evolution of natural gas demand, investment plans and future management performance. The forward-looking statements are by their very nature a component of risk and uncertainty because they depend on the occurrence of future events and developments. Actual results may therefore differ from those announced in relation to various factors, including: the foreseeable evolution of demand, supply and prices of natural gas, general macroeconomic conditions, the impact of regulations in the energy field and in environmental matters, the success in the development and application of new technologies, changes in stakeholder expectations and other changes in business conditions.

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