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Oggetto : Snam: increased investments in the 2020-2024 plan and net zero emissions target by 2040

Testo del comunicato

Vedi allegato.



Snam: increased investments in the 2020-2024 plan and net zero emissions target by 2040

Net Zero Carbon and new ESG goals

- Carbon neutrality target by 2040 (“Scope 1” and “Scope 2”)
- 50% reduction of CO₂ eq. emissions “Scope 1” and “Scope 2” to 2030 vs 2018
- New projects with subsidiaries and suppliers to reduce “Scope 3” emissions
- More than 600,000 t of CO₂ eq. avoided in 2024 thanks to activities in the energy transition
- Launch of a “scorecard” to measure performance across 13 ESG areas

Growing investments for system decarbonisation and long-term development

- Total investments: approx. € 7.4 bn (approx. + € 1 bn vs € 6.5 bn of the 2019-2023 plan)
- € 6.7 bn of investments in regulated energy infrastructure, focused on hydrogen ready replacements, digitalisation, decarbonisation and Sardinia
- Investments almost doubled to € 720 mn in the businesses of the energy transition. In particular:
 - € 220 mn in biomethane infrastructure to reach a capacity of at least 64 MW
 - € 200 mn in energy efficiency to consolidate the national player position
 - € 150 mn in hydrogen for the start of projects for the conversion of railway lines and the installation of fuel cells in the Snam network
 - € 150 mn in mobility to expand the distribution infrastructure with a focus on LNG, and launch the first hydrogen distributors

International strategy

- Evolution towards portfolio management with a focus on the opportunities deriving from sector coupling, net zero policies and the growing centrality of green gases
- Established presence in India following the entry into China
- Development of a portfolio of services, leveraging on Snam’s distinctive competences in core business, digitalisation, technology and energy transition
- International associates: stable contribution over the plan period, expected average annual cash return on the initial investment of 10% (from acquisition to the end of the plan)
- TAP completed on schedule, commercial operations started last week

Growth of main indicators

- RAB: >2.5% annual average in the period 2020-2024. The need to replace the grid implies a growth at least in line with this trend in the period 2024-2040
- EBITDA of energy transition businesses: € 150 mn by 2024
- Net profit: +2.5% annual average to 2024 (2019 base)



- **Net earnings per share: +3.2% annual average to 2024 (2019 base)**
- **Dividend per share: 5% annual growth confirmed to 2022, with further 2.5% minimum growth in 2023 and 2024**
- **2021 net profit guidance: approximately + 3% compared to the 2020 guidance**

Efficiency, flexibility and sustainable finance

- **Efficiency plan updated: € 70 mn in savings by 2022**
- **Average cost of debt at 1.2% over the plan period (vs 1.4% of the previous plan)**
- **Ambition to increase the weight of sustainable finance from the current 40% to over 60% of funding over the plan period**
- **Debt/RAB ratio including associates below 60% over the plan period**

Technological partnerships supporting the hydrogen strategy

- **Partnership with ITM Power, stake acquired for € 33 mn**
- **Partnership with De Nora, 33% stake acquired**
- **New investment platform on the energy transition launched in 2021**

San Donato Milanese (MI), 25 November 2020 – Snam CEO Marco Alverà today presents the 2020-2024 plan with approx. € 7.4 billion in investments (compared to the € 6.5 billion of the 2019-2023 plan), approved yesterday by the Board of Directors chaired by Nicola Bedin.

“The 2020-2024 plan – comments Alverà – opens a new phase in the history of Snam, which in the climate challenge is ideally positioned to play an important role in the energy transition, with a long-term vision consistent with its purpose and European objectives. Snam will be one of the first energy companies to reach carbon neutrality in 2040 and provide a wide contribution to the decarbonisation of the system through the development of green gases and, in particular, hydrogen.

The repositioning of the company over recent years and the actions envisaged in the new plan, together with the skills of our people and growing digitalisation, put us in the ideal condition to seize the new opportunities arising from the energy transition. We have visibility on our ‘future-proof’ infrastructure, we are amongst the pioneers in hydrogen development and we are growing rapidly in other businesses which are strengthening the whole green gas value chain. We are becoming an international operator, with a focus on the most relevant areas for the development of gas use for “fuel switching” and energy transition. Through this strategy, combined with our financial flexibility and cost-competitive access to markets, we offer attractive returns for our shareholders.



More and more, the notions of economic, environmental and social responsibility are becoming an integral part of Snam's business model, in which ESG factors guide decisions for the benefit of all stakeholders."

Net Zero Carbon goal and growing commitment to ESG

Snam is committed to achieving carbon neutrality by 2040, in line with the 1.5° C containment target set by the Paris Agreement, thus further consolidating its ESG (Environmental, Social and Governance) leadership.

Furthermore, Snam raises its reduction target to 50% of Scope 1 and Scope 2 equivalent CO₂ emissions (direct and indirect) by 2030 (vs 2018), compared to the previous target of -40% vs 2016. Almost half of the overall reduction in emissions will derive from the dual fuel compressor stations project, while the remaining share will be achieved thanks to the reduction of methane emissions by 45% by 2025 (vs 2015), in line with UNEP objectives (UN Environment Program), with which a protocol was signed.

Snam's commitment on indirect Scope 3 emissions (emissions outside the direct control of the company, in Snam's case mainly attributable to suppliers and investee companies) is also significant. In this area the company has strengthened collaboration initiatives with subsidiaries and started the development of additional joint projects with suppliers to achieve a progressive and significant reduction.

The enabling of the infrastructure to transport increasing quantities of renewable gas and the new activities in the energy transition will also make it possible to contribute to the general reduction of emissions in the territories in which Snam operates: in 2024, Snam will allow the system to avoid emissions of over 600,000 tons of CO₂ equivalent, also thanks to the production of biomethane, energy efficiency initiatives and sustainable CNG and LNG mobility projects.

ESG factors are increasingly integrated into the strategies and management of the company. In this regard, Snam has developed and published a "scorecard" on 13 areas with 22 material and quantitative objectives to provide stakeholders with a holistic view of the commitment and growing sensitivity in the ESG field, allowing them to monitor the results.

In terms of the environment, for example, an increase in biomethane production from 18 to 141 million cubic meters is expected from 2021 to 2023 as well as an increase from 16 to 43 thousand tons of CO₂ saved by energy efficiency activities.

In the social sphere, an enhanced focus on employees, supply chain, safety and the community is envisaged: for example, through the increase in the percentage of women in executive and middle management positions from 19.3% in 2019 to 25.5% in 2023, and an increase in social enterprises accredited in the vendor list of 20% by 2023.

In the governance area, in 2023 at least 40% of the Board of Directors' activity will be dedicated to ESG issues and on 100% of third party counterparties, reputational due diligences will be carried out.



Snam also intends to reflect in the company by laws its corporate purpose (“Energy to inspire the world”), aimed at creating long-term value for shareholders, taking into account the interests of relevant stakeholders and in line with the new recommendations of the Code of Corporate Governance, also in order to institutionalize the company’s commitment to favour and promote the energy transition process in line with the new initiatives to be undertaken. The Board of Directors has reserved the right to take any resolution on the topic in a future occasion.

The new trends in the energy transition and Snam’s role as enabler

The achievement of the global climate objectives will lead to significant investments in the decarbonisation of the energy sector over the next 30 years. To date, several countries, accounting for over 50% of global emissions, have announced or are elaborating climate neutrality targets. A new “super cycle” of public and private investments of about \$ 100-150 trillion for the innovation of energy systems is therefore expected, which will result in new opportunities for creating value for operators along the entire value chain. In this context, green gases – and particularly hydrogen – have significant growth prospects and can potentially reach over 25% of the global energy mix by 2050.

Europe is leading on this front thanks to the Hydrogen Strategy launched last July by the EU Commission and the national plans launched or soon to be launched in countries such as Germany, France, the United Kingdom, Spain and Portugal. The guidelines of the Italian hydrogen strategy, under consultation from November 24th, envisage investments of up to € 10 billion, 5 GW of installed electrolyser capacity and a target of 2% of the energy mix by 2030, with an expected growth up to 20% in 2050.

Green hydrogen, in particular, is expected to become competitive in a few years in various sectors – starting from rail and heavy transport – thanks to the progressive and already evident reduction in the production costs of renewable energy, combined with the reduction in the cost of electrolysers. The most efficient way to transport green hydrogen is through the gas infrastructure. Indeed, at a European level, retrofit costs would be limited, equal to 10-25%¹ of those for newly built pipelines.

In recent years, Snam has repositioned itself to capture the new megatrends of the energy transition, thanks to infrastructure assets that will be key to achieve decarbonisation targets, its presence in the energy transition business, its international footprint and thanks to a disciplined approach to capital allocation.

Snam’s position in the capex supercycle benefits from infrastructure assets that are 70% hydrogen-ready, and that will enable the energy transition.

¹ Guidehouse “European Hydrogen Backbone” July 2020



The prospect, by 2050, is to transport fully decarbonised gas to make Italy a European hydrogen hub.

In addition, Snam is developing positions upstream and downstream of its infrastructure, both in hydrogen and in biomethane. Finally, energy efficiency will be an important lever to reduce consumption and environmental footprint.

A net zero future places renewables at the core of many of Snam's activities, becoming increasingly strategic. The company intends to leverage its distinctive competences for adjacent sectors such as water. Neither of these opportunities are factored in the plan.

Investments of € 7.4 billion for the development of the system and the energy transition

Snam's new capex plan envisages an increase in investments of almost € 1 billion compared to the € 6.5 billion of the 2019-2023 plan, bringing them to approximately € 7.4 billion in the 2020-2024 period.

Compared to the previous plan, the growth is attributable both to the core business of regulated infrastructures (€ 6.7 billion in investments) and to the new activities of the energy transition (over € 0.7 billion in investments, almost doubled compared to the previous plan). 50% of the investments in the plan is dedicated to a "hydrogen-ready" infrastructure (replacement and development of new assets with hydrogen-ready standards). Most of the investments envisaged in the plan are aimed at decarbonisation to achieve the carbon neutrality goal by 2040 and seize the opportunities offered by the energy transition. Approximately 40% of the plan investments are aligned to the European taxonomy criteria under finalisation.

The investments in the infrastructure mainly concern replacements for the modernization of the grid, also in a "hydrogen ready" perspective, for almost 1,200 km. The start of the conversion of eight compression stations into gas/electric hybrid is also planned, as is the construction of the virtual pipeline in Sardinia and the first sections of the network. The investment plan also provides for new connections linked to the energy transition (245 CNG/LNG plants and 50 biomethane plants), in sharp increase compared to previous years, and another 100 connections to the grid.

With regard to investments for the adaptation of the infrastructure in a "hydrogen ready" perspective, today more than 70% of the pipes are ready to transport hydrogen and standards have been defined for the purchase of exclusively "hydrogen ready" components. The company is also studying the use of membranes capable of separating mixed gas and hydrogen from each other and serving dedicated users. As for the compression plants, after the experimentation of the first hybrid turbine with hydrogen at a volume of 10%, which will be installed in 2021 at the Istrana plant, tests are underway to verify the maximum quantity of hydrogen that can be introduced into the turbines and compressors. Regarding storage, studies have been launched to evaluate its compatibility with hydrogen (technically possible with blends up to 2%).



The plan envisages approximately € 500 million of investments in digitalization – from remote control of activities to the adoption of IOT, cloud and edge computing – to allow Snam to become the most technologically advanced gas transmission company in the world and to guarantee ever greater safety and sustainability of operating activities. In particular, the integration of IoT systems and machine learning will allow 100 times more daily data to be transmitted, analyzed and historicized almost in real time. In 2021, the first district of the future (TechHub) in Bologna will be launched, equipped with the most advanced technologies. Activities will include, among others, real-time monitoring of consumption, the use of drones and satellites for network inspection, geo-referenced and real-time identification of any leaks and predictive maintenance.

The new businesses of the energy transition: investments almost doubled to € 720 million

In recent years, Snam has created a wide and diversified platform of activities (energy efficiency, biomethane production and infrastructure, sustainable mobility, hydrogen along the entire value chain) to be a “system integrator” able to offer green solutions and contribute to development of renewable gases. For the period 2020-2024, Snam’s investments in energy transition activities will amount to approximately € 720 million, almost doubled compared to the previous plan, with an annual contribution to EBITDA of € 150 million from 2024.

- ***Snam4Environment (biomethane).*** Snam4Environment specializes in infrastructure for biomethane production (from organic waste, agricultural and agro-industrial waste, and zootechnical effluents) and in the promotion of green activities aimed at achieving decarbonisation objectives. The company is well positioned to benefit from the new trends of the circular economy. Snam4Environment aims to encourage market development thanks to a low-risk business model, leveraging on the skills of the Renerwaste and Iniziative Biometano platforms, which manage plants that produce biomethane from urban and agricultural waste in Italy., and the expertise in design, development and construction of plants of IES Biogas, active at Italian and international levels. In the plan period, also through specific research and development initiatives, the company will evaluate opportunities in adjacent sectors (recycling plastics, glass, paper and quality compost). Investments of approximately € 220 million are planned to 2024 to build plants with an installed capacity of 64 MW, 22 more than the previous plan.
- ***Snam4Efficiency (energy efficiency).*** Snam4Efficiency has become, in just two years, one of the main Italian operators in energy efficiency services for residential, industry and public administration. The company intends to continue its growth path organically and through acquisitions. Snam4Efficiency has a solid commercial pipeline (approximately € 700 million in weighted projects in the residential and industrial sectors) and is ready to seize the additional opportunities deriving from national and European stimulus programs for the sector. Investments of € 200 million are planned to 2024, with long-term cash flow visibility.



- **Snam4Mobility (sustainable mobility).** Snam4Mobility provides integrated services for sustainable “smart green” natural gas (CNG and LNG) and biomethane mobility, building distribution infrastructure and supplying components for distributors (compressors, dispensers) of which, through Cubogas, it is among market leaders. At the end of the plan, the company expects the construction of 142 new refuelling stations and the expansion of the offer for heavy vehicles also thanks to the activation of a new small-scale liquefaction plant and the adaptation of the Panigaglia LNG terminal for truck-loading services for transport. In addition, over the course of the plan, Snam4Mobility plans to launch the first five hydrogen refuelling stations. Approximately € 150 million of investments are planned to 2024.
- **Hydrogen.** Over the last year, Snam has launched a Business Unit focused on hydrogen, with the aim of being at the forefront in a sector with great prospects. Over the plan period Snam will start the conversion of the first railway lines from diesel to hydrogen, leveraging on partnership agreements FS Italiane and Alstom, and will install fuel cells for Snam’s own energy consumption. The company intends to focus on new technologies (as per the ITM and De Nora partnerships) and start new pilot projects. Snam, together with other partners, has also won three grants under the Fuel Cells and Hydrogen Joint Undertaking, which allow access to funds and pilot projects at European level and create new end-use partnerships.
In the hydrogen sector, investments of at least € 150 million are planned to 2024.

The investment in De Nora and the new platform in the energy transition

Snam signed an agreement with Blackstone last week for the purchase of a strategic stake of approximately 33% of De Nora, a global innovator in sustainable energy and water treatment technologies. Thanks to the technological leadership in electrodes, the distinctive skills in electrochemistry and the consolidated supply chain, De Nora can benefit from the strong growth expectations of the sector and contribute to decarbonisation, at the same time making the production of hydrogen increasingly competitive in economic terms through the electrolysis of water. In synergy with the electrodes business, De Nora holds a 34% stake in ThyssenKrupp Uhde Chlorine Engineers (TKUCE), one of the world leaders in the development, assembly and installation of alkaline electrolyzers. The acquisition of De Nora allows Snam to enhance its technological positioning to be increasingly competitive in new projects for the development of hydrogen. Alkaline electrolyzers are complementary to membrane electrolyzers in which ITM Power, a company with which Snam has recently signed a partnership, specializes.

De Nora represents a potential seed asset for a new investment platform in the energy transition that will be launched in 2021 with the aim of responding to the growing interest in the energy transition and decarbonisation. The platform will focus on a limited number of mature companies at the forefront of energy innovation and linked to the megatrends of the energy transition and decarbonisation. Snam will be the anchor investor of the platform,



increasing its exposure to companies and projects relevant to decarbonisation, with a limited and disciplined financial exposure. The company is committed to maintaining its current risk profile and the metrics implicit in its rating and remains focused on its core business.

Costs and contribution of the investment in De Nora and the energy transition platform are not included in the plan numbers.

Internationalization strategy and associates

In the course of 2020, Snam further strengthened its position as leader in energy infrastructures at an international level, thanks to the acquisition of the stake in ADNOC Gas Pipelines, the consolidation of its presence in China and the entry in India and Israel.

These initiatives allow the company to evolve towards a portfolio strategy, coherent with Snam's broader vision. The strategy is based on four pillars:

- Increase efficiency and flexibility for the associates that operate in mature markets;
- Seize the opportunities relating to the energy transition;
- Benefit from gas demand growth in key geographies, also driven by fuel switching to gas from more carbon intensive fuels;
- Develop services in areas that offer interesting growth potential.

The average annual cash return on the initial investment from the acquisition to 2024 is expected to be around 10% for operational assets.

As for TAP, of which Snam owns 20%, commercial operations began last week. The project was completed on schedule also thanks to the integrated approach of Snam, which, in addition to being a shareholder of TAP, completed the 55 km interconnection to the national grid in just 21 months and contributed with its skills and know-how to the entire project, promoting dialogue with the territories and all the stakeholders.

Update of the objectives to 2024

In the 2020-2024 period, the positioning along the entire value chain of the energy transition, the continuous improvement of the results of the core business and new activities, the greater internationalization and the strong supervision of the optimization of the financial structure will allow Snam to obtain sustainable growth in the main indicators.

In particular, an average annual increase is expected (based on 2019):

- of the net profit of 2.5%;
- of the net profit per share of 3.2%;
- of the EBITDA of 3.3%;
- of the dividend per share (DPS) of 5% until 2022, with a further 2.5% minimum growth in 2023-2024.



The value of regulated assets (RAB) will grow by over 2.5% in the period 2020-2024. The need for grid replacement implies growth at least in line with this trend between 2024 and 2040.

The guidance on net profit for 2021 is up about 3% compared to the 2020 guidance.

For 2021, Snam expects a level of debt at the end of the year of approximately € 13.5 billion, taking into account the investments in 2020 and investments planned for the year of € 1.4 billion.

The RAB will reach € 21 billion in 2021.

These objectives lay the foundations for a further acceleration of growth in the long term thanks to the growing need for replacements for the modernization of the network and the further development of energy transition platforms.

Strengthening of the efficiency plan

Snam expects to strengthen the efficiency plan launched in the second half of 2016, with over € 70 million in savings expected by 2022. From launch in 2016, the efficiency program resulted in an approximately 20% reduction in costs relating to the core perimeter, allowing the start of activities in the energy transition without penalizing the performance of the group.

Optimization of the debt structure and focus on sustainable finance

The optimization of the financial structure carried out in the last five years has led to a reduction in the average cost of gross debt from 2.4% in 2016 to approximately 1.2% average over the plan horizon, compared to 1.4% in the previous plan thanks to the actions taken to lock in favourable market conditions and the improved interest rate and credit spread scenario. It does not take into account any contribution from the treasury optimization exercises that have characterized the last few years, as well as further diversification of financing sources and growing share of sustainable financing instruments.

In the plan period, Snam expects:

- to maintain a net debt to RAB ratio below the 60% expected for a company with a rating of Baa1 for Moody's, a notch higher than Snam's current rating (Baa2), as an effect of the cap represented by the sovereign rating of the Italian Republic, in turn subject to downgrade by Moody's in 2018. This level is also lower than the rating guidelines implicit in the official ratings, in particular Fitch (which provides for a threshold equal to 65% for maintaining the BBB + rating);
- an adjusted Funds From Operation on net debt ratio (FFO/Net Debt) above 14% on average over the plan's horizon and therefore above what is expected by S&P (12%) for a Stand Alone Credit Profile (SACP) of a-, a notch above the current Snam rating (BBB+);
- the maintenance of a mix between fixed and variable debt of 3/4, consistent with the previous plan;



- € 3.2 billion of syndicated credit lines unused as of 30 September 2020 and expiring between 2023 and 2024, for which an extension request is in progress.

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

- has the ambition to increase the weight of sustainable finance from the current 40% to over 60% of the funding available over the course of the plan thanks to the issue of new sustainable bonds and ESG-labelled Commercial Papers;
- issued in June its first Transition bond for 500 million euros, which sets the rules for the issuance of bonds aimed at financing investments in the field of environmental sustainability, in line with the key role recognized to renewable gases in achieving the long-term decarbonisation objectives and with the role that the existing infrastructure can play in facilitating this transition, thus extending the scope of its Climate Action Bond Framework published in November 2018;
- has maintained, in May 2020, the reduction of the margin of its sustainable loan of € 3.2 billion, already obtained in April of the previous year following the achievement of the objectives linked to social and environmental sustainability parameters;
- has renewed its Euro Commercial Paper program, increased from € 2 to 2.5 billion, linking it to environmental and social sustainability objectives in line with the sustainable loan and obtaining for the program an ESG rating equal to EE assigned by the ESG rating company, Standard Ethics.

Dividend policy

Snam confirms its commitment to guarantee to shareholders an attractive and sustainable remuneration and the payment of an interim dividend. The growth of the dividend per share of 5% until 2022 is confirmed, with a further minimum growth of 2.5% in the period 2023-2024.

Snam expects that for the 2020 financial year, a total dividend of € 0.2495 per share will be distributed in 2021 (of which 40% as an interim payment in January 2021 as resolved by the Board of Directors on November 4th, while the remaining 60% in balance with payment in June, to be submitted to the Shareholders' Meeting which will approve the 2020 financial statements).

Value creation opportunities not foreseen in the plan at Italian and international levels

In addition to the provisions of the plan, Snam will continue to monitor any additional investment opportunities that may arise, leveraging the flexibility of its financial structure, and always subject to its investment criteria and consistent with its ESG objectives and strategy.



Presentation, conference call and webcast

At 2pm CET (1pm GMT) the plan to 2024 will be presented to financial analysts and institutional investors. It will be possible to follow the event on 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, Luca Oglialoro, 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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