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Informazione Regolamentata n. 0542-85-2021	Data/Ora Ricezione 29 Novembre 2021 12:32:01	Euronext Milan
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Societa' : SNAM

Identificativo : 154686

Informazione  
Regolamentata

Nome utilizzatore : SNAMN05 - Palladino

Tipologia : 2.2

Data/Ora Ricezione : 29 Novembre 2021 12:32:01

Data/Ora Inizio : 29 Novembre 2021 12:32:03

Diffusione presunta

Oggetto : Snam: increased investments in the 2021-2025 plan with growth opportunities to 2030 thanks to acceleration of the transition towards net zero

*Testo del comunicato*

Vedi allegato.



## Snam: increased investments in the 2021-2025 plan with significant growth opportunities to 2030 thanks to acceleration of the transition towards net zero

### Vision to 2030

- 23 billion euros of investment opportunities in the 2021-2030 period in three growth areas (energy networks, energy storage and green energy projects) to be a global leader in green gas infrastructure
- 2022-2030 EBITDA CAGR between 6% and 8%
- Main growth initiatives:

#### *Energy networks*

- 12 billion euros of investment for the existing H2-ready network
- 3 billion euros of investment in the first tranche of an Italian hydrogen backbone to connect Italy to countries with higher demand like Germany
- Entering the share capital of gas pipelines interconnecting Algeria, Tunisia and Italy

#### *Energy storage*

- New plan to leverage on Snam's European leadership in gas storage and evolve towards an international green energy storage platform
- Tests confirmed the possibility to store 100% hydrogen in Snam's sites
- 3 billion euros of investments in the regulated asset base
- 2 billion euros of investments in new energy storage activities and new geographies

#### *Green energy projects*

- New growth phase: from pilot projects to green gas scalable projects
- 3 billion euros of investments identified in Italy and abroad
- De Nora: possible IPO in 2022 and supporting the company's growth through the setting up of an Italian electrolyzers Gigafactory for hydrogen production by leveraging on the IPCEI programme
- Leader in emissions reduction: first EU TSO to set a target to reduce Scope 3 indirect emissions by 2030 (-46% from associate companies, -55% of economic intensity from the supply chain emissions)
- ESG scorecard in 14 areas, updated to 2025. New target: sustainable finance (at >80% of the funding by 2025 vs. current 60%)

### Investments and main targets to 2025

- Total investments in the 2021-2025 period: 8.1 billion euros (+700 million euros vs. the 2020-2024 plan) due to acceleration in storage, and investments in green energy projects
- RAB: >2.5% annual average growth over the 2021-2025 period; >3.5% in the 2025-2030 period
- EBITDA: 4.5% annual average growth in the 2022-2025 period;
- Net Income: 3% annual average growth in the 2022-2025 period;



- **Dividends: growth at 5% to 2022 confirmed, minimum growth of 2.5% in 2022-2024 extended to 2025**

San Donato Milanese (MILAN), November 29<sup>th</sup>, 2021 - Snam CEO Marco Alverà today presents the 2021-2025 plan with a vision to 2030, approved this morning by the Board of Directors' meeting chaired by Nicola Bedin.

*“With our new plan to 2025 and vision to 2030 – Marco Alverà, Snam CEO said – we continue and accelerate Snam’s evolution. Over the last six years, we have started work on the repurposing of our infrastructure, strengthened our international presence and launched new start-ups in the energy transition Snam will progressively focus on three macro-areas: energy transport, storage and new projects in hydrogen and biomethane. Thanks to our technical competences, green gas know-how and capacity to execute and deliver complex projects, we aim to become a multi-commodity infrastructure company. We will play a key role in a decisive decade for the energy transition, aiming to seize new growth opportunities in Italy and internationally, leveraging on the enabling role of energy infrastructure to reach a net zero economy.*

*More specifically, in the medium term, we will build the first route to transport hydrogen from North Africa and Southern Italy to higher demand centres, consolidating Italy’s potential to become a hub for renewable energy produced in North Africa and the Middle East. We will increasingly focus on storage, and grow our investments in green gas. We will reduce our own CO2 footprint, targeting net zero on our own operations by 2040 and setting reduction objectives also for our Scope 3 emissions from associates and suppliers. Towards this path we will continue to deliver attractive shareholder returns while keeping ESG at the centre of our strategy, in line with our purpose and to the benefit of all stakeholders.”*

### **Vision to 2030**

#### **Snam is well positioned for the future energy system**

Over the last years, Snam has repositioned to be a key player in the major transformation underway in the energy sector.

The track record in implementing and managing projects in natural gas transport and storage, new skills in green gases and energy transition new trends, an increased international footprint in promising areas also for integrated greenfield projects, the large number of partnerships with different investors across different geographies, coupled with a strategy focused on ESG, will be key to develop the energy system of the future, competitive, safe and with zero net emissions.

Snam will be able to take advantage of new and relevant development opportunities throughout the next decisive decade, in which a strong acceleration of the energy transition is required to achieve net zero targets with rising investments; more specifically, in energy transport and storage infrastructure, as well as in projects along the entire green gases value chain. For this reason, in addition to the plan to 2025, which includes investments already in the money today, Snam has developed a longer-term vision to 2030.

### **New energy transition trends**

Achieving global climate targets will require significant investment in decarbonising the energy sector over the next 30 years. Thus, a new "supercycle" of public and private investment of around 100-150 trillion dollars by 2050 is expected (*source: Bloomberg New Energy Finance, New Energy Outlook 2021*) equal to approx. 5 trillion dollars per year, for energy system innovation across the value chain.

The main trends that will drive the race to net zero are:

- Renewables penetration, mainly from solar and wind, to decarbonise power generation and, at the same time, bring it to around 50% of the energy mix from current 20%
- growth in hydrogen, between 100 and 200 times today's size to reach a 15% to 35% range in the energy mix
- technology development in carbon capture and storage.

With reference to total investments needed, a significant share will be in infrastructure to transport and store green gas.

Green hydrogen has great development prospects in this decade, thanks to a faster than expected decline in costs to reach a competitive threshold of 2 dollar/kg (or 50 dollars/MWh) achievable by 2026 in resources-rich areas and thanks to growing international policy support. To date, according to the Hydrogen Council, 500 green hydrogen projects have been announced globally, equivalent to over 90GW of electrolysis capacity and 150 billion dollars in investment. Long-distance hydrogen transport by connecting production and consumption areas through repurposed existing infrastructures such as Snam's, will be key as the centralised development model is most efficient (delivering hydrogen at 2-4 dollars/kg by 2030 compared to 4-10 dollars/kg for the decentralised model based on local hydrogen production, according to Snam's estimates for Italy).

Gas storage will be key to ensuring energy security and limiting price volatility in view of the increasing penetration of intermittent renewable energy. Underground storage facilities such as those operated by Snam, among Europe's leaders in natural gas storage which runs 20 bcm through its system, are the most cost-effective technological solution. Forward looking, decarbonised hydrogen will be the best way to store energy on a seasonal basis, in salt caverns and depleted reservoirs. The cost for developing 10TWh of hydrogen in depleted underground storage, in the range of about 1 billion euros, is approximately 1,000 times cheaper than batteries.

### **Up to 23 billion euros of weighted opportunities in networks, energy storage and green energy projects over the 2021-2030 period**

Against this backdrop, Snam will progressively focus on three areas in the next decade:

- **Energy networks:** evolution towards a multi-commodity infrastructure able to transport not only natural gas in the transition phase, but also biomethane and hydrogen as well as

carbon dioxide, wherever necessary. A dedicated hydrogen network will be progressively developed by repurposing existing pipelines;

- **Storage:** evolution towards a multi-commodity energy storage company (natural gas, biomethane, hydrogen, carbon dioxide), also considering sector coupling solutions, for instance through batteries;
- **Green energy projects:** move from pilot to scalable projects towards the development of integrated green gas projects (biomethane and hydrogen), along the entire value chain to foster market development and contribute to decarbonisation. We will continue the evolution of our existing platforms and pursue bigger hydrogen, biomethane and CCS projects in Italy and abroad.

Across these three areas, Snam has identified, on weighted basis, regulated or contractualised investment opportunities of up to 23 billion euros by 2030. Of these:

- **Energy networks: up to 15 billion euros**, of which 12 billion euros in natural gas and biomethane transport (70% of which in replacements with H2 ready standards over 3,000 km of pipelines as well as maintenance, the remaining part for the conversion of six dual-fuel compression stations, support to new demand such as the Sardinia project and new connections, as well as initiatives on emission reductions and digitalisation) and 3 billion euros in hydrogen transport by repurposing 2,700 km of network from Mazara del Vallo to Passo Gries and Tarvisio for the transport of hydrogen from Italy to higher demand areas in Northern Europe, thus enhancing the test and assessment work carried out in past years on the infrastructure network. This is the first step to enable exports to Northern Europe, Germany more specifically. This conversion will be carried out both through the repurposing of existing infrastructures and newbuild. Snam has recently announced an agreement with Eni to buy a 49.9% stake owned by the latter in two companies (TTPC and TMPC), that manage the gas pipelines linking Algeria to Italy via Tunisia and the Mediterranean basin. This transaction, subject to the approval of competent authorities, is strategic for supply security and to promote the creation of a hydrogen backbone connecting North Africa with Italy.
- **Storage: up to 5 billion euros**, of which 3 billion euros in natural gas and biomethane storage (consolidation of existing activities, development of H2-ready investments, conversion of six dual-fuel compression stations) and 2 billion euros in new energy storage (including hydrogen, CO2 and natural gas and biomethane). Among these projects, an agreement just signed to buy a minority stake in dCarbonX, a company operating in geo-energy to develop hydrogen and carbon dioxide storage solutions in Ireland and the UK. This partnership envisages for Snam the path towards further increasing its stake and will aim first at developing three offshore hydrogen storage initiatives dCarbonX is bringing forward teaming up with ESB, the main Irish integrated utility.

Moreover, Snam signed a MoU with Téréga to cooperate in joint initiatives for carbon capture and storage (CCS) in France. To this respect, the two companies have already identified a project (Pycasso) aimed at decarbonising factories in Southern France and

Northern Spain through carbon capture and storage as well as the repurposing of depleted storage sites;

- **New green energy projects: up to 3 billion euros**, leveraging on existing platforms to develop sizeable hydrogen initiatives also by means of grants and funding opportunities such as PNRR and IPCEI, and biomethane (development of existing portfolio of biomethane plants for a total potential capacity of 150MW).

These investment opportunities are expected to generate regulated returns (energy networks and gas storage) or low double/high-single digit returns with a contractualised model (energy storage and green energy projects). **Snam estimates an EBITDA CAGR between 6% and 8% from 2022 to 2030.**

### **2021-2025 Plan**

#### **Investments of 8.1 billion euros for hydrogen-ready infrastructure and green energy projects**

Snam foresees investments of 8.1 billion euros 700 million euros more than 7.4 billion euros of the 2020-2024 plan. The plan includes the maintenance, upgrade and development of its infrastructure, net zero investments and the acceleration of the energy transition. Investments aligned to the European taxonomy account for 47% of the total (an increase compared to 40% in the previous plan).

Regulated activities are substantially in line with the previous plan even though with a different mix.

**Investments in the energy networks in Italy amount to 5.6 billion euros** (5.8 billion euros in the previous plan). Replacements to upgrade the network with "hydrogen ready" pipelines continue, with 1,300 km coming on line. Investments are also planned to achieve the net zero target, including the dual-fuel conversion of the first three compression stations. Other investments include the start of the construction of the virtual pipeline in Sardinia, the first portions of the network as well as ordinary maintenance activity. The investment plan also includes new connections linked to the energy transition.

**Investments in energy storage amount to 1.2 billion euros;** a significant increase versus 900 million euros in previous plan thanks to the conversion of three dual fuel compression stations (coherently with emissions reduction targets), the construction and upgrading of gas storage wells, the replacement and upgrading of certain components, and maintenance activities. These investments will support the growing need for flexibility which will increase with the further development of renewables. Furthermore, these investments will enable the prospect to store hydrogen.

With regards to investments to adapt the infrastructure to a "hydrogen ready" perspective, to date **almost all of Snam's pipelines are capable of transporting up to 100% hydrogen based on ASMEB31.12 regulation.** Approximately 70% of these pipes can transport pure hydrogen with no or limited reductions on the maximum operating pressure, whereas around 30% needs more significant reductions. These limitations could be overcome by means of future evolution in the technical standards.



RINA is running the network assessments and collaboration with institutions and universities are underway to set new technical standards for transporting hydrogen in the pipelines.

In storage, the results of the first tests run with universities and research centres on the possibility of **storing hydrogen in blend with natural gas up to significant percentages also up to 100% without identifying changes or alterations**, are particularly encouraging. More specifically a test is being carried out with a reactor to blend gas and 50% hydrogen (which will be increased to 100% in 2022) to the same pressure and temperature conditions of a storage reservoir. The next step envisages a first pilot project in a Snam site to check test results over the long term.

In recent years Snam has created a broad and diversified platform of activities (energy efficiency, biomethane production and infrastructure, sustainable mobility, hydrogen along the entire value chain) to offer integrated solutions along the entire green gases value chain.

For the 2021-2025 period, **Snam's investments in energy transition activities will amount to approximately 1.3 billion euros** (net of about 200 million euros in possible grants, of which 100 million euros in hydrogen and 100 million euros in biomethane), an increase compared with 700 million euros in the previous plan. New businesses are expected to contribute to Group's annual EBITDA for 150 million euros in 2025, through projects that, once completed, will generate around 180 million euros in EBITDA.

**Biomethane.** In recent years, Snam has created a leading platform in the circular economy and infrastructure for the production of biomethane (from organic waste, agricultural and agricultural-industrial waste and livestock effluents) to contribute to the achievement of decarbonisation targets. During the plan period, we will build plants with an installed capacity of about 120MW, almost twice as much as the capacity targeted in the previous plan, also by leveraging on opportunities provided by Italy's Resilience and Recovery Plan (PNRR). These investments are expected to fully contribute to the company's results after 2025. With regards to the previous plan, a slower ramp up is envisaged as a consequence of a number of factors: among these a delay in the permitting attributable to the pandemic as well as expectations on the new biomethane Decree filed to the EU Commission.

In biomethane and natural gas mobility for light and heavy vehicles over the plan horizon, we will finalise L/CNG and bioL/CNG stations as well as infrastructure projects to fuel the distribution network with LNG.

Investments of 850 million euros by 2025 are planned (net of 100 million euros for possible grants), 100 million euros of which in sustainable mobility infrastructure.

**Energy efficiency.** In just three years, Snam has become one of the leading Italian operators in energy efficiency services for residential, industrial and public administration sectors. Its subsidiary Renovit (60% owned by Snam), active in the sector, intends to continue its growth path organically and through acquisitions. During the course of this year, CDP Equity entered in the share capital of the company with a 30% stake to contribute to the development in the public administration as well as to the next step of the company. The company has a solid commercial pipeline and is ready to seize further



opportunities arising from national programmes to stimulate the sector. Investments of 200 million euros are planned to 2025, with visibility on cash flows in the long term.

**Hydrogen.** Over the past two years, Snam has set up a Business Unit dedicated to hydrogen, with the aim of being at the forefront of a sector with great prospects. The areas in which the plan's investments will be concentrated are mobility, in collaboration with Snam4Mobility (trains, refuelling stations for light and heavy vehicles, airports) and the industrial sectors (thermal, feedstock, fuel cells) and R&D and venture capital initiatives. The plan includes projects for which Snam submitted request for financing within existing grants (IPCEI, Innovation Fund, Horizon 2020).

In the Hydrogen Business Unit about 250 million euros of investments are planned by 2025 (net of 100 million euros of possible grants) to 2025 mostly to kick-off in 2024.

### **Investment in De Nora**

Over the last year, consistent with its positioning along the entire value chain of net zero technologies, Snam has invested in De Nora, a global leader in sustainable technologies with significant growth potential both in green hydrogen production components and water treatment. De Nora continues to post growing and better-than-expected results and is ideally positioned to become a key player in the hydrogen sector thanks to its expertise and leveraging on its partnership in TKUCE, a joint venture with ThyssenKrupp in which De Nora holds a 34% stake with the right to appoint the Chief Technology Officer.

De Nora is expected to end 2021 with over 600 million euros in revenues, a 20% growth versus 2020 and is developing a promising pipeline on hydrogen initiatives. The collaboration with De Nora allows Snam to further increase its ability to develop new projects at an international level. Moreover, Snam will support De Nora in setting up an Italian electrolyzers Gigafactory to produce green hydrogen a project for which an application has been submitted within the IPCEI programme. Both De Nora and its partnership with TKUCE have today an installed capacity to produce electrolyzers of 1GW each.

Snam has invested around 450 million euros for a 35.6% stake in De Nora (the value of its stake in the JV with TKUCE included) with the aim to support the company in its future growth phase, which could include an IPO in 2022, based on market conditions.

### **International associates and capital allocation policy**

Snam has further strengthened its position as a leader in energy infrastructure on an international level over the last six years, with a diversified portfolio of assets and a consolidated track record of partnerships in different countries with industrial and financial players.

With regards to current international equity interests (TTPC/TMPC not included), the annual average cash return on initial investment from acquisition date to 2025 is expected to be approximately 10% on operational assets. About two-thirds of the invested capital will be paid back by 2025.

The company's investment strategy will be consistent with its current criteria (maintenance of rating metrics and risk-adjusted returns at least in line with those of regulated activities in Italy)





and with its ESG positioning, enabling contractualised or regulated industrial opportunities (with no exposure to commodity risk).

### **Plan targets to 2025**

In the 2021-2025 period, Snam is expected to achieve sustainable growth in key indicators. This growth is expected to further accelerate to 2030 through the contribution of new investments.

2022 net income guidance is substantially in line with the one in 2021 adjusted for WACC impact. The plan envisages an impact on 2022 net income from WACC revision of approx. 85 million euros and at EBITDA level of 120 million euros.

Net financial debt expected by end 2022 at approximately 14.8 billion euros, taking into account planned investments of 1.5 billion euros in the year, of working capital absorption of 0.3 billion euros, of cash out for acquisition of the stakes in TMPC and TTPC for 0.4 billion euros, and 0.6 billion euros of positive contribution deriving from the optimisation of the capital structure of an associate and the conversion of the convertible bond which expires next year. Tariff RAB will reach 21.4 billion euros in 2022.

### **With regards to the plan period we target a CAGR of:**

- **Over 2.5% in the RAB 2021-2025 (accelerating to over 3.5% between 2025 and 2030 with further upside opportunities from the development of a hydrogen network);**
- **3% on net income 2022-2025;**
- **4.5% on EBITDA 2022-2025;**
- **The dividend policy confirms 5% DPS growth until 2022, with further 2.5% minimum growth extended by another year to 2025.**

Snam expects that in 2022 an overall dividend of 0.2620 euros per share will be distributed on full-year 2021 results (of which 40% as an interim dividend with payment in January 2022 as resolved by the Board of Directors last November 3<sup>rd</sup> and the remaining 60% as a balance with payment in June, to be submitted to the Shareholders' Meeting that will approve the 2021 financial statements).

### **Debt structure optimization and focus on sustainable finance**

The activities to optimise the financial structure implemented over the last six years have led to a reduction in the average cost of the gross debt from 2.4% in 2016 to current average below 1% and expected to be an average of 1.1% over the plan time horizon, thanks to actions implemented to take full advantage of current favourable market conditions and the benign environment for interest rates and credit spreads. Further possible savings could result from treasury optimisation, as well as additional diversifying sources and increasing sustainable finance instruments.

Over the plan period, Snam will:

- Maintain credit metrics, both cash flow ratios such as FFO/Net Debt and leverage ratios such as Net debt/Fixed Asset including book value of associates coherent with its credit ratings (Baa2 for Moody's, BBB+ for S&P and BBB+ for Fitch);

- Maintain a three-quarter of its debt at fixed rates and a one quarter at variable rates in line with the previous plan;
- Have a 3.2 billion euros of syndicated credit lines, fully undrawn as of September 30<sup>th</sup>, 2021 and expiring between 2025 and 2026 following a one-year extension obtained in November 2021.

Moreover, with the aim of aligning its financing strategy with its sustainability targets and broadening its investor base, Snam:

- has the ambition to increase the weight of sustainable finance from current 60% (around 11 billion euros), achieved three years ahead of target, to over 80% of the funding available over the plan period, through the issuance of new sustainable bonds;
- is committed to ensuring that all future issuances are ESG-linked;
- has so far issued four Transition Bonds and a Climate Action Bond for overall 2.85 billion euros, helping to set the rules for bond issuance aimed at financing investments in the area of environmental sustainability;
- has published the new Sustainable Finance Framework assessed by a second party opinion provider, ISS ESG under which the company may issue both instruments to finance specific projects (Taxonomy-aligned Use of Proceeds issued by the EU Commission) and general corporate purpose instruments, linked to sustainability indicators (KPIs) for the issuance of so-called Sustainability-Linked bonds;
- maintained in May 2021 the reduction in the margin of its 3.2 billion euros sustainable loan, already achieved in the two previous years following the achievement of objectives linked to social and environmental sustainability parameters;
- in 2020 has renewed its Euro Commercial Paper programme, for 2.5 billion euros, linking it to environmental and social sustainability goals in line with the sustainable loan and obtaining an ESG rating for the instrument equal to EE assigned by the ESG rating company Standard Ethics. The programme has been today used up to 2.5 billion of euros through ESG commercial paper. On November 29<sup>th</sup>, Standard Ethics confirmed the EE rating for this programme with a possible upgrade to EE+ in the following twelve months further to a similar action on Snam corporate rating (currently EE- with positive outlook).

### **Setting a target also on Scope 3 emissions and growing commitment to ESG**

After committing, as one of the first in its sector, to achieving the objective of zero net Scope 1 and 2 (direct and indirect energy) CO<sub>2</sub> equivalent emissions by 2040, Snam has set targets for 2030 on indirect Scope 3 emissions (emissions outside the direct control of the company, for Snam mainly attributable to suppliers and associates). Following a series of collaborative projects and initiatives developed in recent years, Snam is committed to reducing emissions of its associate companies (and other small categories such as emissions on generation and transmission of fuels and energy, business trips as well as commuting from staff) by 46% and the emissions (by economic intensity) of its suppliers by 55% versus 2019 levels. **Snam is the first EU TSO to set Scope 3 emission reduction targets covering its suppliers.** Snam's emissions reduction objectives are in line with the target of limiting global warming to within 1.5° C.



Snam has also raised its target for reducing methane emissions from 45% to 55% by 2025 (on a 2015 basis), which is more ambitious than the UNEP (UN Environment Programme) targets (-45%).

ESG factors are increasingly integrated into company strategies and management. In this regard, Snam has updated its "scorecard" to 2050 on 14 areas with quantitative objectives to provide stakeholders with a holistic view of the commitment and growing sensitivity towards ESG, enabling them to monitor the results. Sustainable Finance is the new area added to the scorecard for which the company gets committed to increase the weight in total funding to 65% in 2022 and over 80% in 2025. Further efforts are foreseen in all areas by 2025.

With regards to the environment, for example, an increase is planned from 24,000 to 73,000 tons of CO<sub>2</sub> saved from energy efficiency activities. In social terms, there is an enhanced focus on employees, supply chain, safety and community: for example, through increasing the percentage of women in executive and middle management positions from 25% in 2022 to 27% in 2025, and an increase in accredited social enterprises on the vendor list (from 40% of procurement cost in 2022 to 50% in 2025). As regards governance, it is confirmed that in 2025 at least 40% of the work of the Board of Directors will be dedicated to ESG issues and reputational due diligence will be performed on 100% of third parties. ESG factors represent 20% of the variable component of the management remuneration both in the short and the long-term.

**Presentation, conference call and webcast**

*At 15:00 CET (14:00 GMT) the plan through to 2024 will be presented to financial analysts and institutional investors. It will be possible to follow the event via conference call and the supporting material will be made available on [www.snam.it](http://www.snam.it) in the Investor Relations section, concurrently with the start of the conference call. In the same section it will also be possible to follow the presentation via video webcasting.*

*Pursuant to Article 154-bis, paragraph 2 of the TUF, the Manager responsible for preparing the Company's financial reports, Luca Oglialoro, declares that the accounting information included in this press release corresponds to the documents, accounting ledgers and other records.*

**Disclaimer**

*This press release contains forward-looking statements, particularly with regard to changes in demand for natural gas, capital expenditure plans and future operating performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. Actual results could therefore differ from those announced due to various factors, including: foreseeable trends in natural gas demand, supply and prices, general macroeconomic conditions, the impact of energy and environmental legislation, success in the development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.*

Fine Comunicato n.0542-85

Numero di Pagine: 12