

Nine-month 2018 results and 2019-2022 strategic plan



San Donato Milanese
November 7th, 2018

Agenda



1. 9-month 2018 results
2. Supportive energy outlook
3. Strategic plan 2019-2022
 -  Continuous improvement in our core business
 -  Enhanced exposure to the energy transition
 -  Strong performance of international activities
 -  Value creation from optimization of financial structure
4. Increased earnings growth and superior shareholder returns

Agenda



1. ● 9-month 2018 results

9M results: strong progress on our strategy



What we promised for 2018

Continuous improvement in our core business

- **€0.9bn** capex in 2018
- **>€50m** efficiency target in 2021

Enhanced exposure to the energy transition

Solid performance from international activities

Value creation from optimization of financial structure

- **2.0%** cost of debt in 2017, 1.6% in FY 2018
- **€11.5bn** of net debt@YE2018

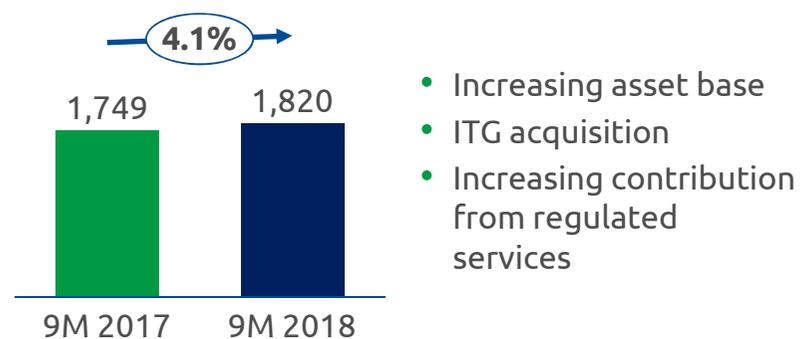
Delivery 9M

- **€564m** capex in Italy, on track to meet guidance
- **>€30m** of efficiencies to year end
- New balancing system ca. **€9m** of revenues in 9M2018 **(+80%)**
- Snam Global Solutions **€9m** of revenues in 9M2018 **(+25%)**
- Snam4Mobility: **45** CNG/LCNG station contracted, **1** in operation, **2** new openings by Mid-November
- Strategic acquisitions of leading technology companies to lead the energy transition
- c. **€100m** contribution from affiliates to net profit in 9M2018
- TAP >80% complete, confirmed green light to restart works
- Acquisition of DESFA (**€119m** equity), completion by YE
- **1.5%** cost of debt in 9M2018 and average expected for FY2018
- **€11.7bn** of net debt at Sep 2018
- FY net debt **€11.7bn** incl. additional **€230m** buyback

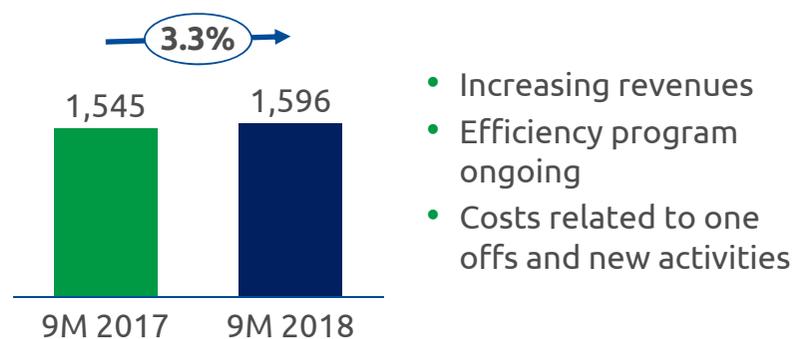
Increasing financial results



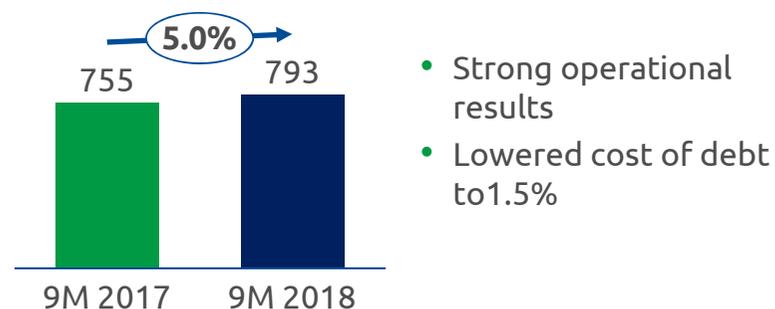
Regulated revenues (Excluding pass through)



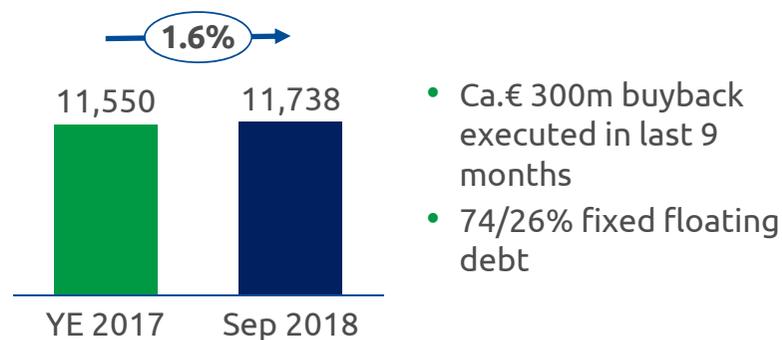
EBITDA



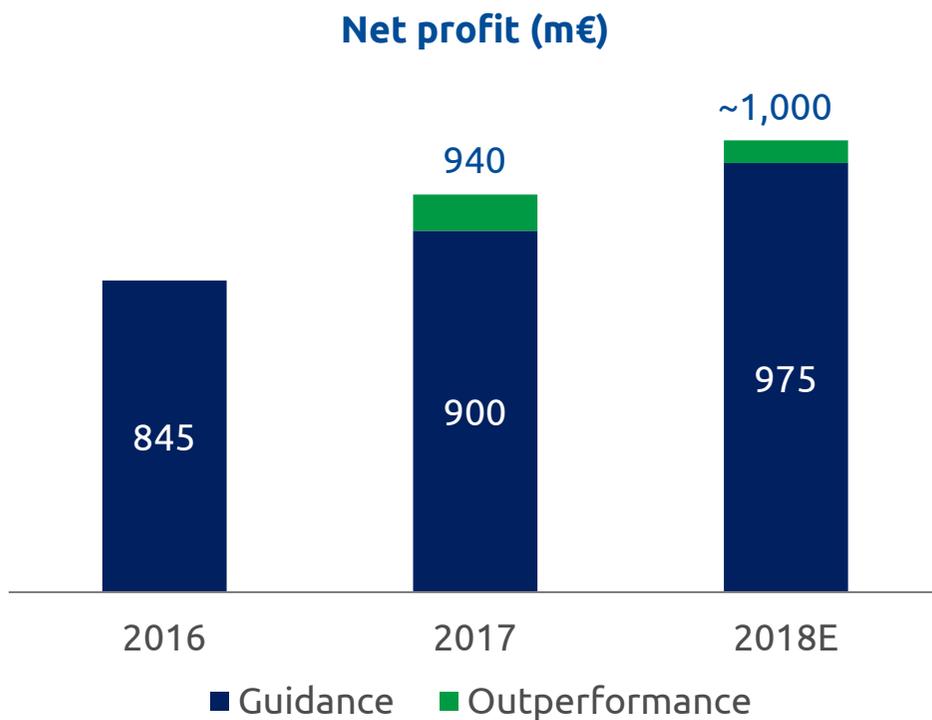
Net income



Net Debt



On track for continuing growth and outperformance



Over-delivery on targets:

- Strong gas demand in Italy
- Capex plan on budget
- Faster progress on efficiency
- Strong contribution from debt cost reduction

Progress on strategy

- Focus on process optimization to target further efficiency

- Internalization of key technologies to lead the energy transition

- Consolidated international position

Strong basis for 2019-2022 strategic plan

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2. Supportive energy outlook

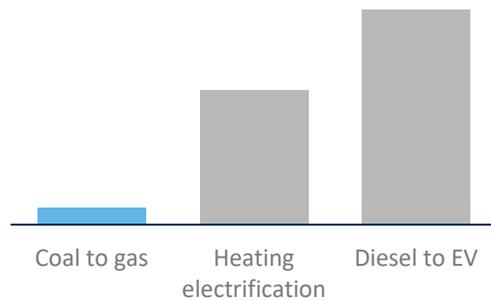
From transition fuel to key pillar of decarbonised world



Growing awareness of the central role of gas

1. Impossible to substitute in some sectors (eg. 45bcm in industrial sector*)
2. Immediately ready solutions to substitute coal/diesel
3. Increased urgency on CO2 reduction supports immediate solutions

Cost of ton CO2 abatement per intervention



Source: Snam elaboration

* Gas for climate @ 2050
 ** Hydrogen Council

New uses of gas emerging



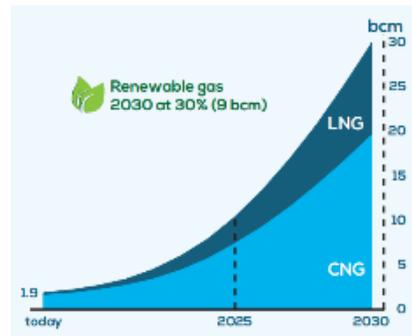
CNG cars (1m in Italy)
 Registrations up 40% 9M 2018



LNG for trucks increased by 100%
 in 2018



EU gas consumption in transport sector



Source: NGVA Europe

Development of green gas



- **98bcm** of biomethane in the EU by 2050*
- Support to upgrade **9000** German biogas plants to biomethane; **1bcm** for transport incentivised in Italy



- Potential for \$280bn of investments to 2030** worldwide
- **10-15m** vehicles, 0.5m trucks **4Mt** for industry
- **6.5m** homes linked to blended H2/CH4 systems

Biomethane connections to Snam's grid



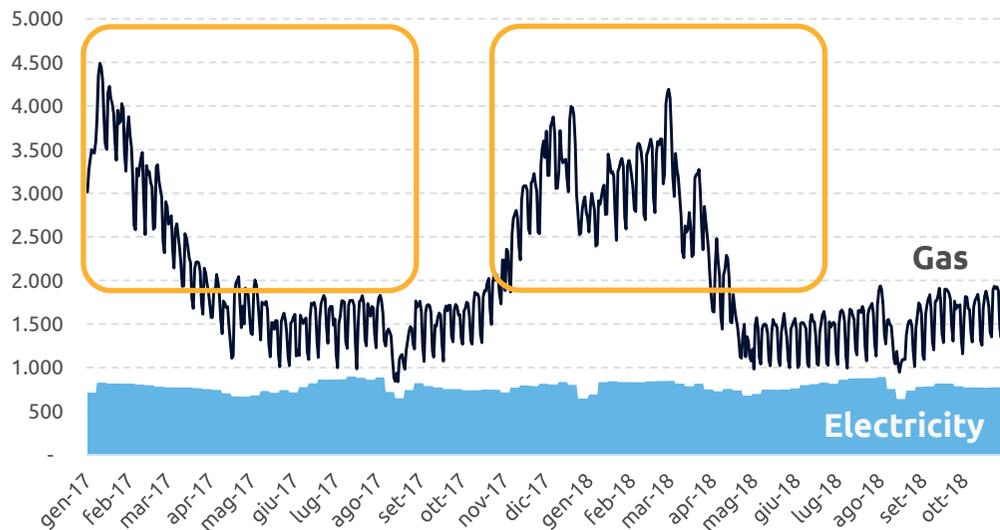
Forever infrastructure

Key advantages of gas decarbonization



Gas infrastructure essential to cover seasonal peaks

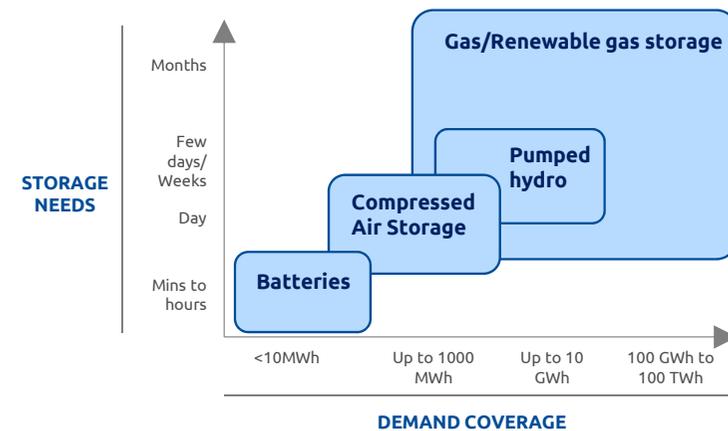
Consumption (Gwh)



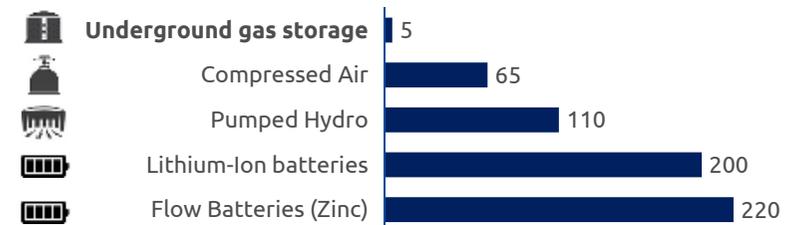
Average gas price: c. 20 €/MWh

Average electricity price: c. 55 €/MWh

The market needs seasonal storage



Cost for optimized use of storage (€/mwh)

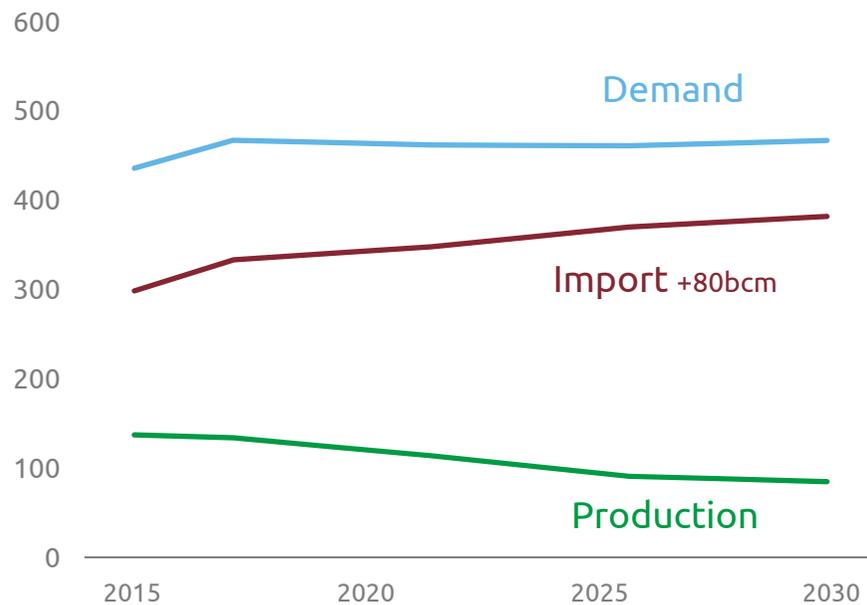


Increased focus on cost, liquidity & security and awareness of the need to maintain gas network

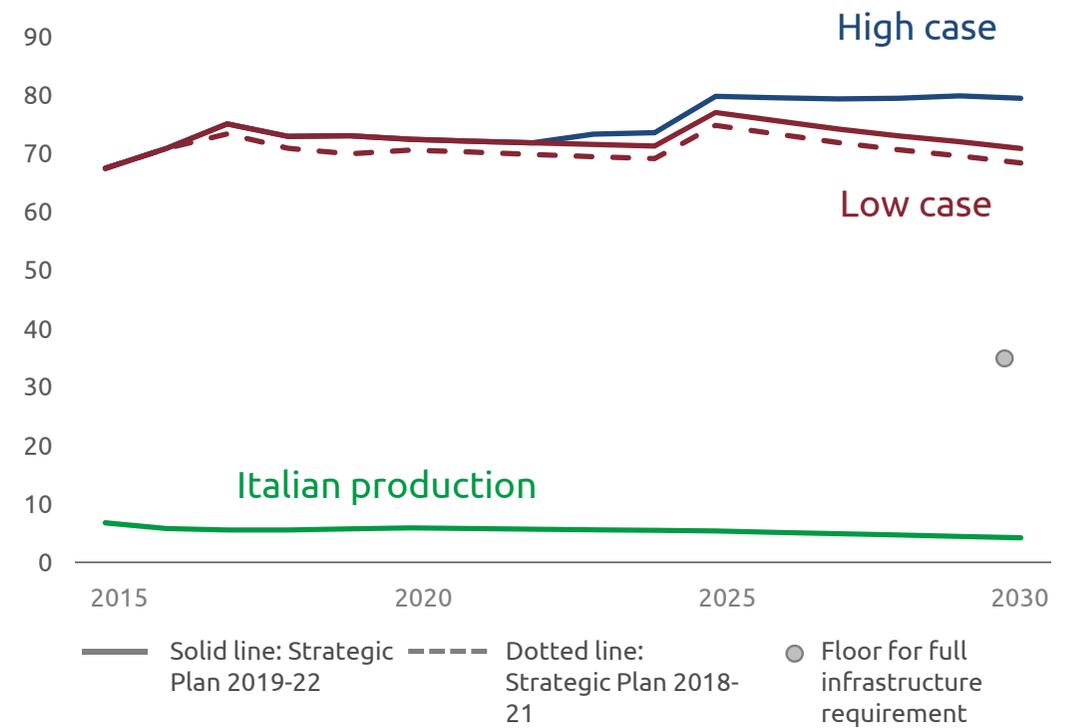
In this supportive environment, EU needs additional imports



EU gas imports increasing
(Bcm)



Robust Italian gas demand
(Bcm)



Key role of Snam assets confirmed under all scenarios

Final consultation for the new regulatory period: key elements



Stability & visibility of the regulatory framework

- Regulatory period of **4 years** (2020-2023);
- RAB methodology confirmed with inclusion of **work in progress**
- WACC update with **βasset** substantially in line with current one
- Revenue **guarantee mechanisms** confirmed on both capacity and commodity

Incentive regulation for the gas network

- **1% for 10 years** on development capex with positive CBA (>1.5) in operation in 2020/2021
- New **Output-based** incentives to be developed on capex in operation in 2022/2023
- Implementation of regulatory solutions for an efficient approach to asset health
- Ground for new system operator incentive-scheme (e.g. balancing)

Efficiency and competitiveness

- Price cap (RPI-x) on reference cost of year 2017 including possible incremental costs
- Energy costs (e.g. fuel gas, losses, CO2) recognition in monetary terms
- New incentives on grants received to fund new investments

Innovation, decarbonization

- **Innovation stimulus** on new projects supporting environment and energy transition (e.g. emission reduction, biomethane, Power to Gas and hydrogen transport)
- Focus on network safety, resilience and innovation investments to maintain asset health

Regulation confirms central role of gas supporting asset health and energy transition

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3. Strategic plan 2019-2022



Continuous improvement in our core business



Enhanced exposure to the energy transition



Strong performance of international activities



Value creation from optimization of financial structure

Our strategy: ESG guiding principles



Environment



Emissions reduction and efficiency: cogeneration plants, heaters, electric compressors, DLE turbines, energy efficiency on real estate

Reduction of CH4 emissions: launched leak detection and repair campaign, technology update, in line gas recompression, ecc.

Energy transition: Snam4Mobility, Biomethane and CNG, SSLNG.

CH4 emission targets:

-15% by 2022

-25% by 2025

Green Financing

Bond Framework published; 3.2 Bn € of banking facilities converted into a Sustainable Loan

Social



Snam4Safety: a new safety model acting both on skills development and strengthening of contractor management

Inclusion: female hires +10%

Snam Institute: 90,000 hours of training

Performance management: extended to 100% of employees

Smart working open to 500 employees

Snam Foundation: corporate volunteering week, 300 employees involved

Governance



Business integrity and anti-corruption

One of 4 companies worldwide part of the Global Forum of **Transparency International**

~1700 ethic and integrity pacts and reputational checks on suppliers in 2018

Effective & integrated governance

ESG factors fully integrated in our governance; BoD oversight of climate risks and opportunities

Independence: 56% of BoD independent. All BoD committees chaired by Independent Directors

Diversity: 44% of the Board are women

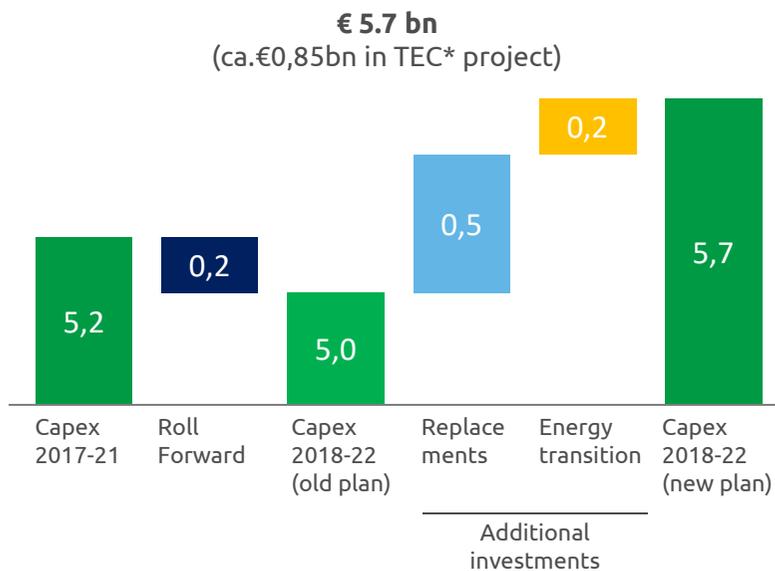
From rules to purpose: from 650 procedures to 90 rules. 4 shared values for business conduct



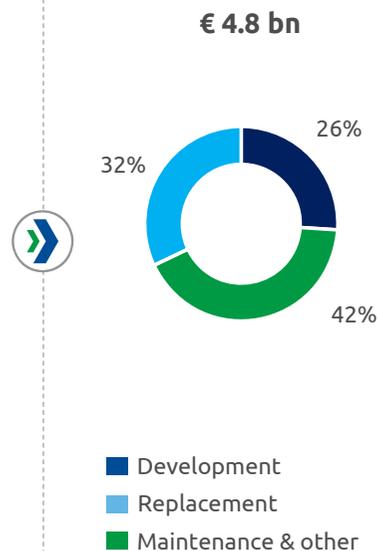
Investment plan 2018-2022



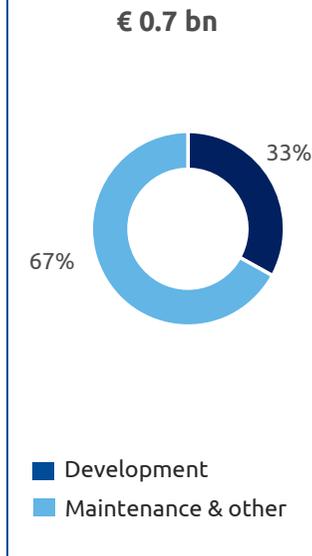
New investment plan



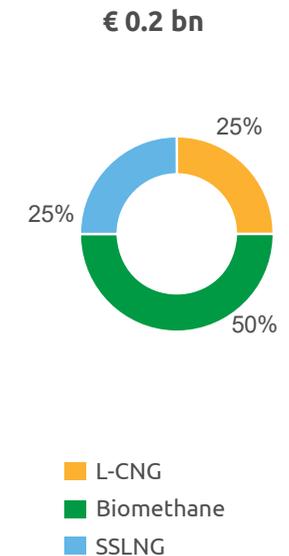
Transport



Storage, LNG



Energy Transition



Building tomorrow's energy network

* TEC – «Tomorrow's Energy Company»

€850m investments on TEC: tomorrow's energy company



Increase effectiveness

"Smart gas" project
Neural network forecasting project (DAFNE)
Testing drones and satellites for asset monitoring
Real-time measurement of geologically induced phenomena

Reduce emissions

Real-time remote leak detection
AI aided turbocharger management
Equipment substitutions
In-field measurement to update emission factors

Energy transition

Energy transition businesses (Biomethane, mobility, energy eff.)
Study of the impact on grid of hydrogen and H2NG mixtures
Study of sustainable solution of the power to gas

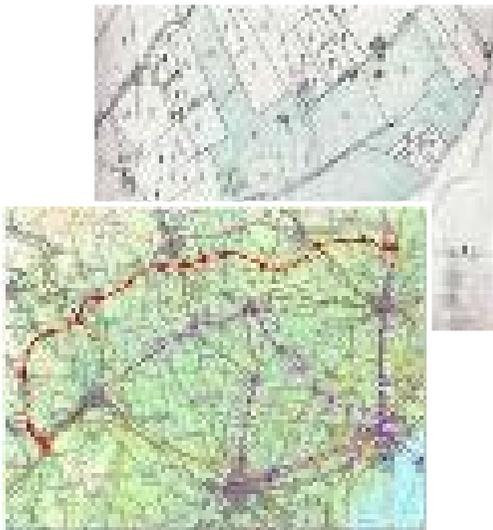
- Pioneering in new technology
- Consolidating distinctive competences
- Leveraging capabilities through Snam Global Solutions
- Supporting an affordable energy transition

An integrated asset management system



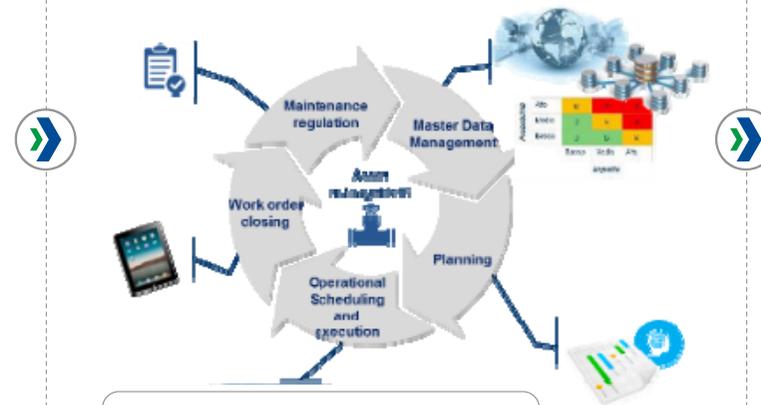
Real-time data stream

- “Smart” asset design phase:
- Integrated with Geographical Information Systems
- Asset data collection systems



Automatic work-force management

- Automatic definition of work-order planning
- Automatic scheduling and assignment of work orders on field activities



- >1.000 users connected
- >400.000 work orders managed yearly
- >800.000 working hours automatically scheduled yearly

Advanced mobile support

Field workers rely on:

- Integrated navigator,
- Augmented reality
- Remote operational and collaboration tools



Turbochargers Optimization Dashboard



The tool provides an overview of all compressing stations and their key parameters, and highlights sub-optimal operating conditions

Benefits

- **Reduction of fuel consumption** and relative CO/NO_x emissions
- **> 10%** expected increase in mean time between failures (MTBF)
- **Reduction of start/stop cycles** and operations outside optimal conditions
- **Reduction of un-planned maintenance costs** and downtime periods

Real life scenario



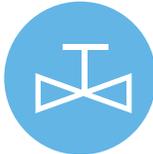
Machine Learning Enablement

Visual analytics engine

Big Data platform

Capex to support asset health



			<u>Snam</u>	<u>EU avg*</u>
Geomorphology		<ul style="list-style-type: none"> Pipes in hilly/mountainous landscapes have additional maintenance requirements 	46% of the network	Not significant
Densely inhabited areas		<ul style="list-style-type: none"> Higher costs for inspection, maintenance and replacement 	8% of the network	3% of the network
Line block valves		<ul style="list-style-type: none"> Higher number of valves due to different legal requirements leads to higher costs for maintenance and replacement 	773 valves/ 1000 km	221 valves/ 1000 km

More than 9000km of pipelines fully amortized by 2022 . Unique characteristics determine higher investments

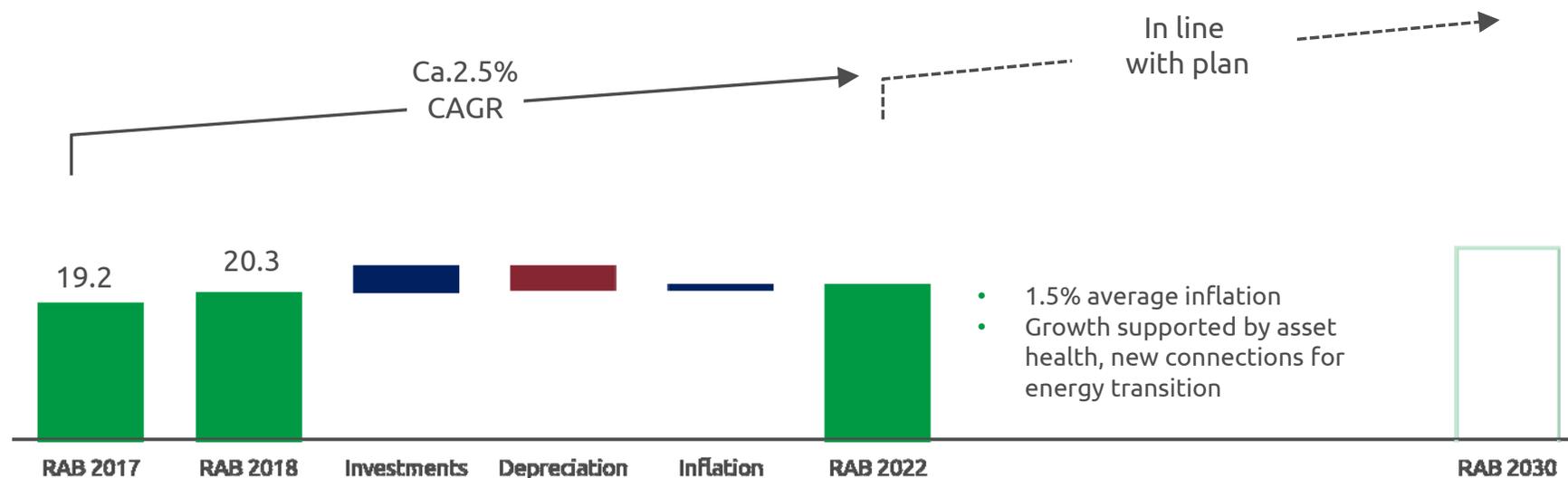
* Source :The Gas Transmission Benchmarking Initiative (GTBI), a consortium established in 2002 comprising a number of leading gas transmission companies in Europe

High-quality RAB delivering superior long-term growth



RAB evolution*

(€ bn)



Superior RAB growth in the next decade

* Tariff RAB evolution

Output-based incentives and Snam Global Solutions



Balancing activities Existing

- Demand forecast
- TSO market actions
- Residual balancing
- Default service

Short-term storage products Under definition

- Constraint Management
- Short term storage products

Further Potential

- Asset health
- Market functioning
- Environment
- Quality of service



- Leverage know-how to create value
- Create further value from affiliates
- Develop partnerships with gas value chain operators

Balancing activities incentives introduced in oct-2016

- Market liquidity improved
- New IT system improved demand forecasting (>30% improvement in the average error)
- At least €10m expected in 2018

c. € 250m of cumulated revenues 2018-2022

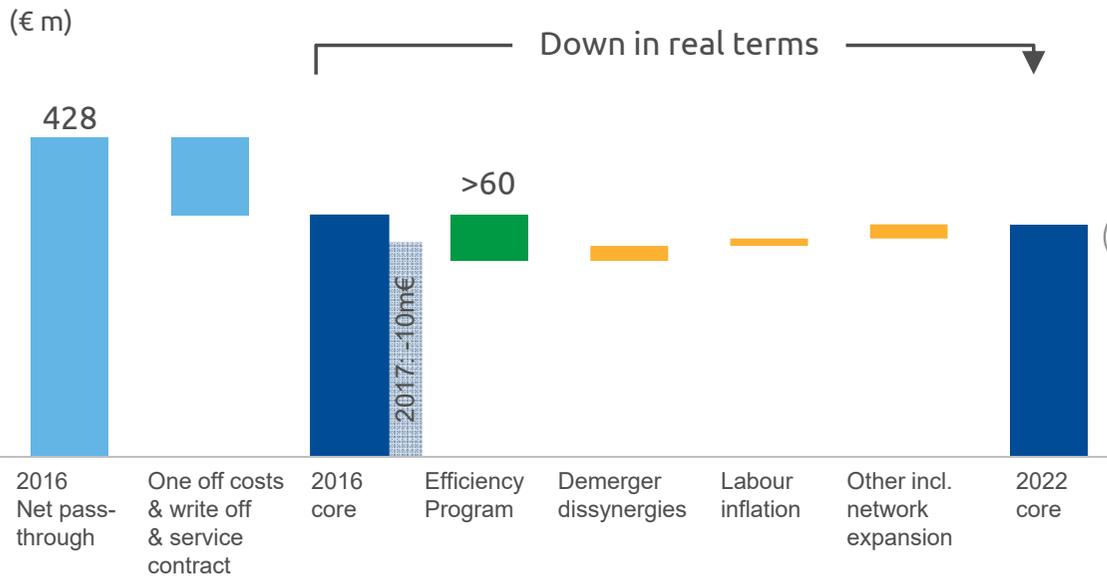
Snam Global Solutions

- €15m of revenues expected in 2018
- Contract portfolio enhancing value from affiliates
- Prospects in promising new gas markets

Efficiency Plan

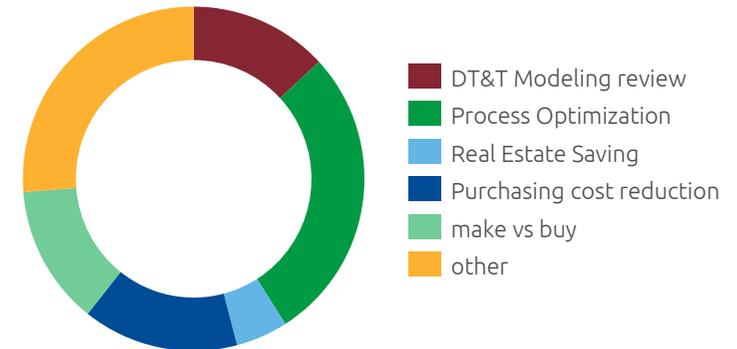


Core Business costs

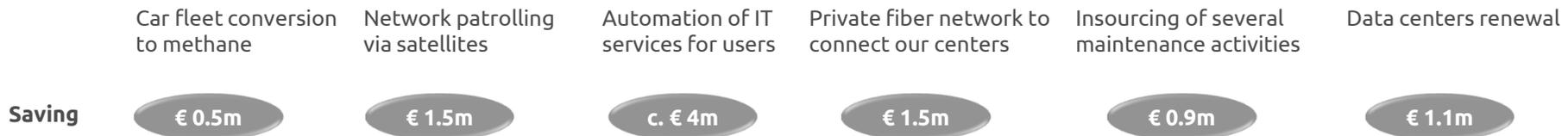


More than €60m of expected saving to 2022

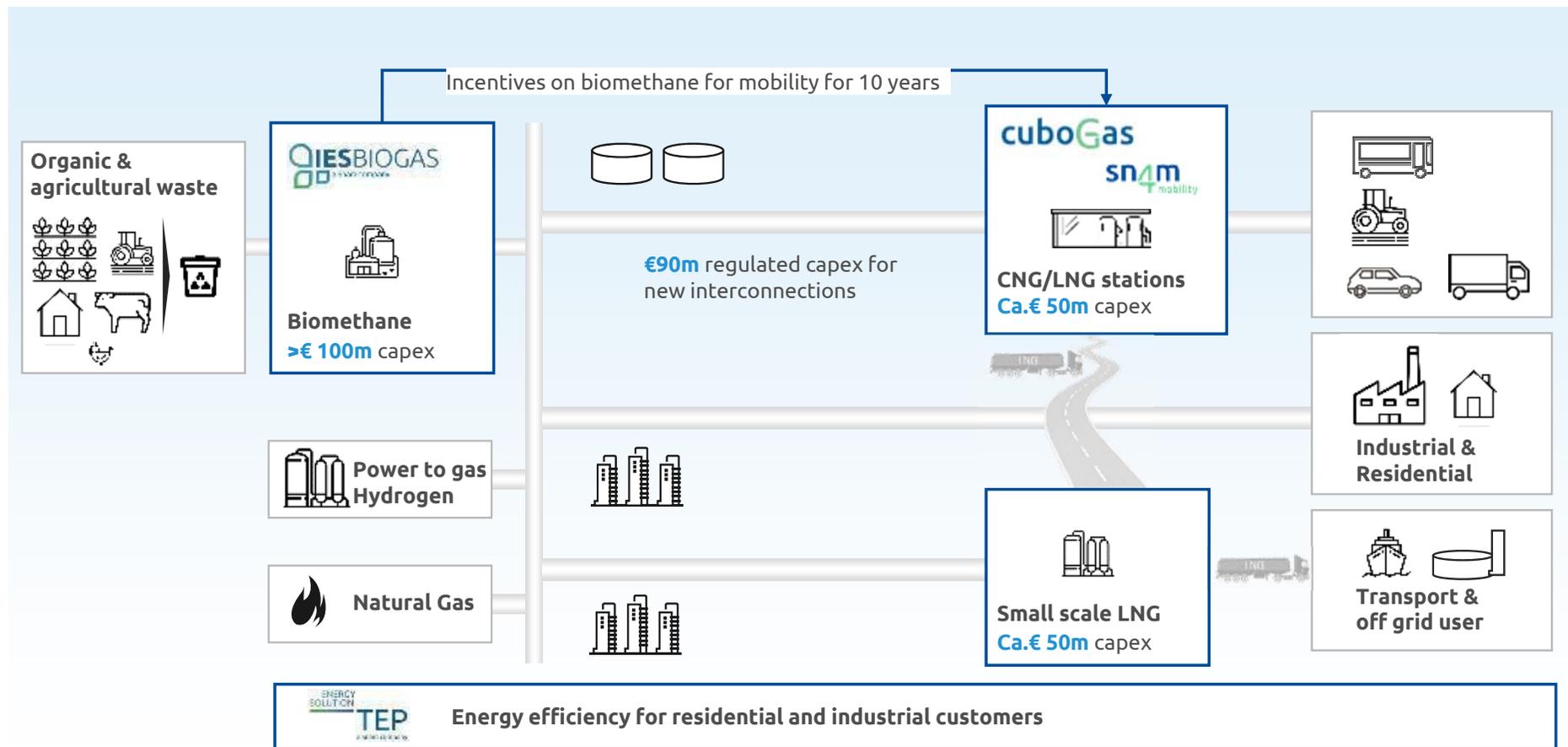
Up from previous target of € 50m by 2021
 € 19m already achieved by 2017 and >€ 30m expected by YE;



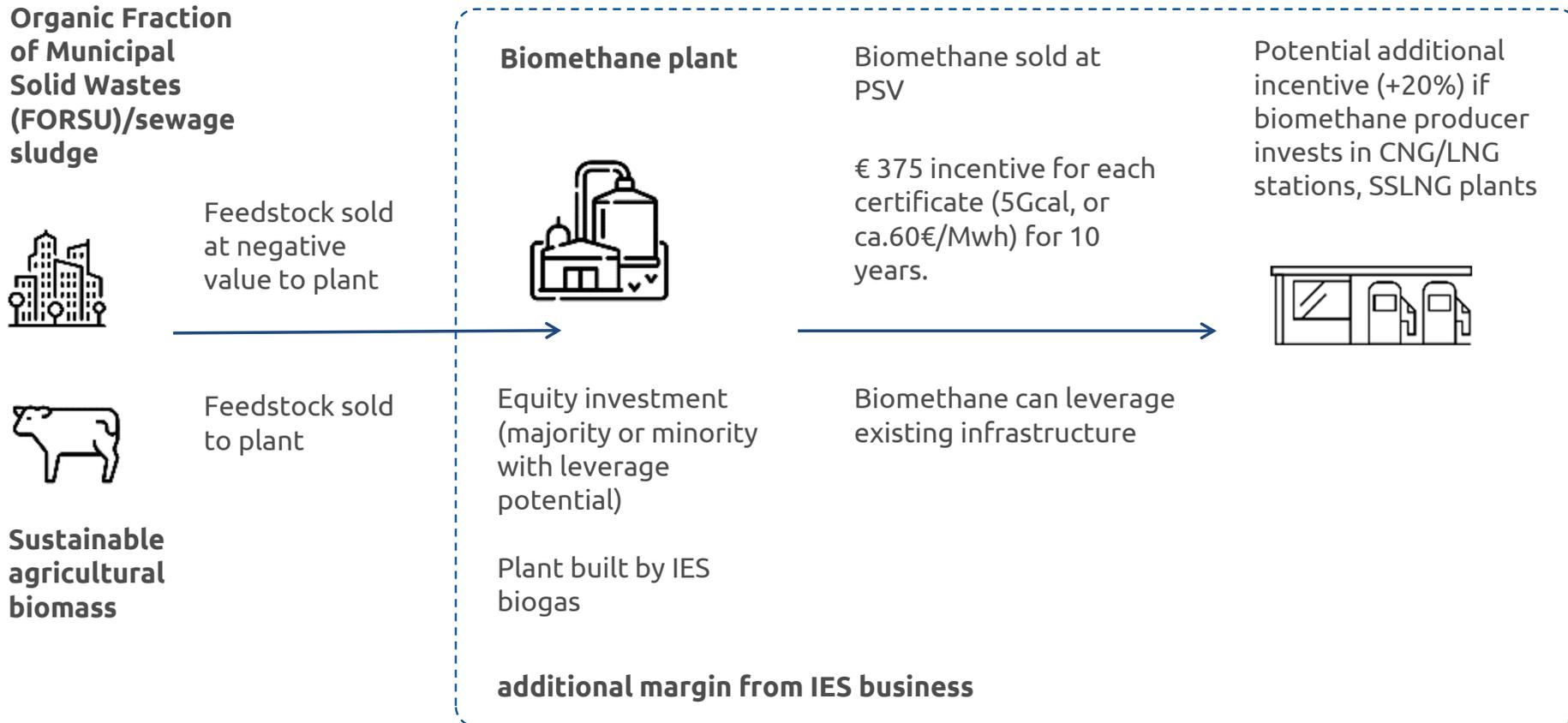
Examples of efficiency projects



Investing in the energy transition



Biomethane: Snam business model



First mover in appealing new European market

Solid performance in our international business



Solid capex plan to sustain France single market and mid-term growth opportunities in new businesses

Potential optimization of capital structure following storage regulation



Strong capex plan delivery in TAG

Debt optimization completed in both companies

Good regulatory visibility until end of 2020



New business model successfully tested

Sales of €60m already achieved for 2019



>80% progress

Financing on track (€1.5bn EIB loan closed, €0.5bn EBDR, commitments received from commercial bank pool)

Open season signed with shippers (c. € 1bn)



Strategic position along the southern gas corridor

Future benefits from development of gas market in Greece and best practices sharing

Closing expected by year end

Target of >€ 160m income from international associates* in 2022

* Includes IUK, TAP, Terega, TAG, GCA & Desfa. Does not include Italgas & ALNG

Financial structure: locking in a benign environment...



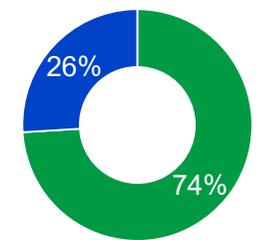
- Average **tenor of M/L term debt: >5 years**
- **Maturities well-spread** over time
- **€ 3.2bn undrawn committed lines**
- **>3/4 fixed rate debt** vs floating
- **Proactive management of maturities**
 - 2016 and 2017 Liability Management exercises to smooth refinancing risk and potential yield increase
 - Extension of more than € 3.5bn banking facilities and signing of new banking lines for ca. € 0.4bn
 - Debt Capital Market prefunding in early September
- **Pre-hedging strategy** to limit P&L volatility: interest rates of 40% of 2019-2021 issuances already locked
- Wide access to **large and diversified sources** of funding

Bond maturity Profile (€ bn) as of 30 Sept. 2018



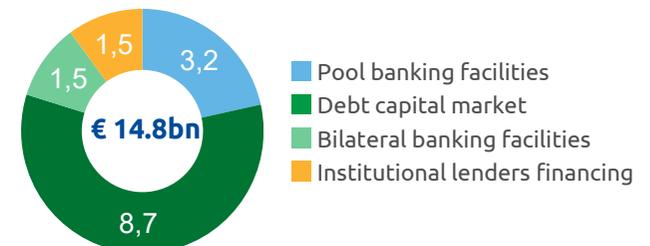
M/L term maturity: ~ 5 years

**Fixed – Floating
Gross debt 9M 2018**



■ Fixed ■ Floating

Total committed credit facilities and bonds



2018-2022 Fixed rate debt: ~ ¾

...protecting our financial performance in the long term



- **Protection of our financial outperformance** in excess of 150bps, leveraging on:
 - **Actions already executed** to lock in favorable market conditions
 - **Natural hedging** provided by the current tariff framework
 - Investors' **awareness of Snam's credit profile** in spite of **sovereign cap**
- **Lower** than sector-average **gearing** with **Net Debt /RAB well below 60%** which remains our threshold reference
- **Potential upside** from:
 - **Treasury management optimization** in both banking and DCM segments
 - Further **diversification of investors' base (sustainable finance)**
 - **Normalization of Country Risk Premium** boosting high-coupon **bond roll-over benefits**



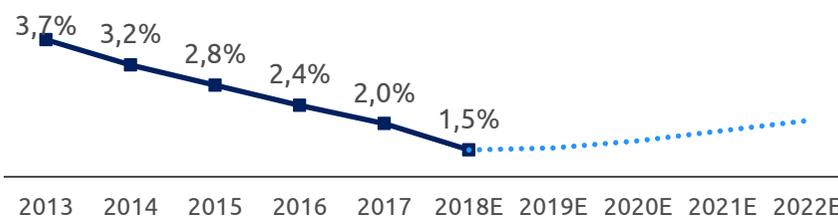
	MOODY'S	STANDARD & POOR'S	FitchRatings
(Assigned Rating outlook)	(Baa2 stable)	(BBB+ negative)	(BBB+ stable)
Rating from Grid /SACP ¹	A2	a-	n.a.

Adj. FFO²/Net Debt



FFO²/Net Debt consistent with an A- rating space

Cost of debt



Avg 2018-22 cost of debt @ 1.8% reflecting forward curve including btp-bund spread

1. Rating from the Grid for Moody's , Stand alone credit profile for S&P
2. Before change in working capital. 2017 Adjusted Net Income.

Use of financial flexibility



Capital allocation approach

Criteria

- Committed to current credit rating metrics and risk profile
- Accretive returns (risk adjusted returns at least in line with Italian regulated assets)

a) Industrial opportunities

- Enhance existing infrastructure
- Leverage industrial capabilities
- Unlock additional growth/optionality

b) Enhanced returns to shareholders

- Dividend policy
- Buyback

Already invested or earmarked

Industrial opportunities

- Additional capex of **€ 0.8bn** on Italian infrastructure vs prior plan
- ITG acquisition **€ 217 m**
- GCA; IUK acquisition **€ 155 m**
- Energy transition* at least **€ 240 m**
- Desfa **€ 119 m**

Enhanced returns to shareholders

- Share buy back activated and **€ 680 m** executed to date**
- New dividend policy

* Includes Snam4Mobility

** € 103m executed in 2016, € 210m in 2017, €368m at 4 Nov. 2018

Agenda



- 4 ● Increased earnings growth and superior shareholder returns

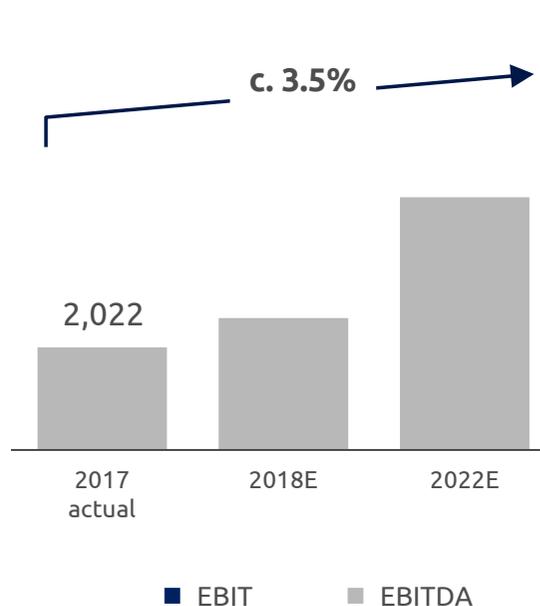
2022 targets increased



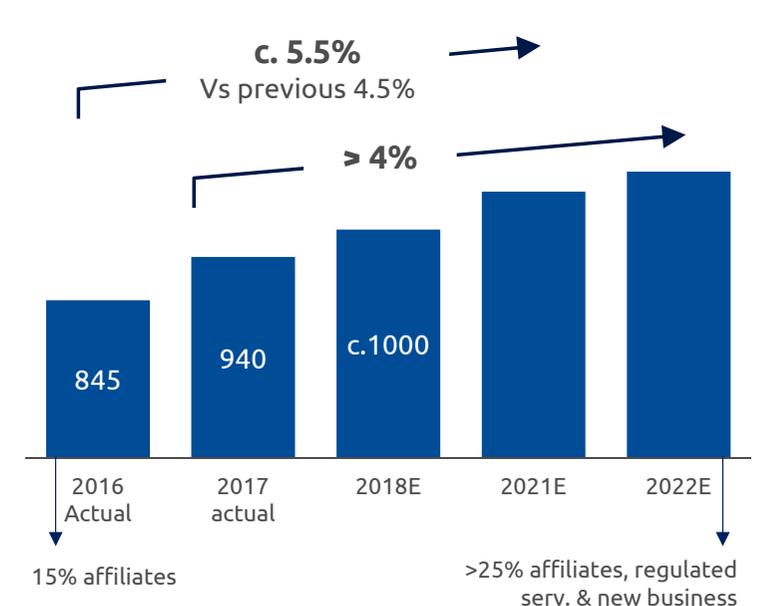
Tariff RAB
(€bn)



EBITDA
(€bn)



Net income
(€m)



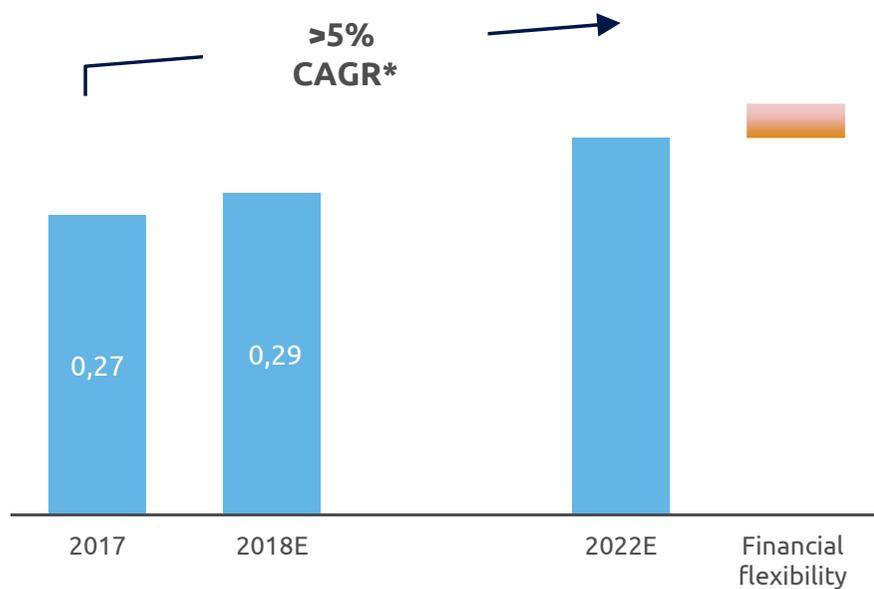
Sustainable organic growth in the asset base and attractive returns

Note: 2022 target assuming regulatory continuity

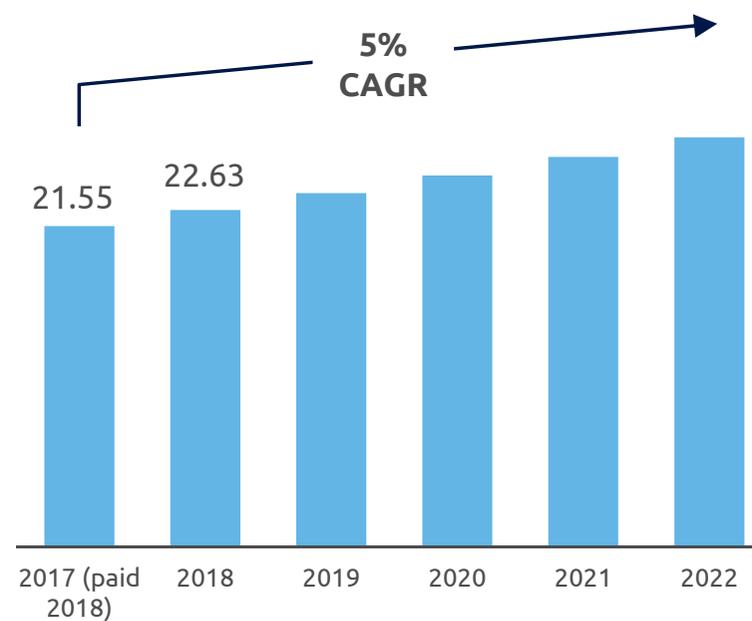
Financial flexibility potentially increasing EPS growth



EPS growth



Dividend per share**



Stable payout range over the plan period

* Includes c. €440m buyback in 2018, 32m already cancelled in April

** dividend for the period, paid in the following year

2019 guidance and targets



	Guidance 2019	2019-2022 plan	Prior plan
Investments	€ ~ 1.0 bn	€ 5.7 bn 2018-2022	↑ €5.2bn Investments
Tariff RAB	€ ~ 20.4 bn	~ 2.5% CAGR 2017-2022	↑ c. 2% cagr
Net income	~ 4% growth	> 4% CAGR 2017-2022	↑ 2.4% cagr ²
DPS	€ cent 23.76	5% DPS growth 2017-2022	↑ 2.5% cagr to 2019
Net debt	€ ~ 11.7 bn ¹	Debt/RAB broadly stable over the plan period	▬

1. Assuming neutral working capital
 2. Old plan roll forward 2017-2022

Closing remarks



2019-2022 plan

Track record of outperformance
Significantly improved gas outlook
Stable and visible regulation

Increased plan targets
Balance sheet optionality

Improved dividend policy

2030

Continuing coal to gas switch
Maintenance and substitution capex
Growing exposure to energy transition

Industry-leading RAB growth
New high-margin revenues
Leverage international footprint

Long-term visibility on growth and value creation

Beyond 2030

Biomethane
Hydrogen
Power to gas

Increased role for TSOs in deep decarbonisation
Sustainable mobility for trucks and ships

From gas network to energy network

Ideally positioned to deliver long-term industry-leading returns

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This presentation contains forward-looking statements regarding future events and the future results of Snam that are based on current expectations, estimates, forecasts, and projections about the industries in which Snam operates and the beliefs and assumptions of the management of Snam.

In particular, among other statements, certain statements with regard to management objectives, trends in results of operations, margins, costs, return on equity, risk management are forward-looking in nature.

Words such as 'expects', 'anticipates', 'targets', 'goals', 'projects', 'intends', 'plans', 'believes', 'seeks', 'estimates', variations of such words, and similar expressions are intended to identify such forward-looking statements.

These forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict because they relate to events and depend on circumstances that will occur in the future.

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