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Oggetto : Press Release: Snam announces results
for the first half of 2019

Testo del comunicato

Vedi allegato.



Snam announces results for the first half of 2019

San Donato Milanese, 01 August 2019 - The Snam Board of Directors, which met yesterday chaired by Luca Dal Fabbro, approved the Consolidated Half Year Report as at 30 June 2019 (subject to a limited audit).

Highlights

- **Net profit:** Euro 581 million (Euro +58 million; +11.1% on the first half of 2018), against the positive operating performance, the reduction of financial charges and greater net income on equity investments
- **EBIT:** Euro 756 million (Euro +27 million; +3.7% on the first half of 2018), also thanks to the tariff update mechanisms
- **Technical investments:** Euro 408 million (Euro 349 million in the first half of 2018), including investments in innovation and the energy transition (Snamtec) of Euro 89 million
- **Free cash flow:** Euro 794 million
- **Net financial debt:** Euro 11,523 million (Euro 11,548 million at 31 December 2018)
- **2019 net profit guidance:** +6-7% compared to 2018 (versus the previous guidance of +5%)

Significant events

- **EIB loan for sustainable mobility projects:** on 6 June 2019, Snam signed a loan agreement for Euro 25 million with the European Investment Bank (EIB) for the development of projects regarding natural gas and biomethane sustainable mobility for light and heavy vehicles, developed by the subsidiary Snam4Mobility, with maturity December 2031 and fixed rate of circa 0.55%
- **Collaboration agreements for the energy requalification of condominiums:** collaboration agreements have been signed, through the subsidiary Tep Energy Solution, on 10 April and 5 June 2019, respectively with Unicredit and Intesa San Paolo, to promote energy efficiency drives linked to the Ecobonus and Sismabonus mechanism
- **Snam and IP agreement for 26 new natural gas refuelling plants in Italy:** on 26 July 2019, Snam and IP have agreed to construct an initial 26 new natural gas refuelling plants, which will open across IP's distribution network in Italy in 2020
- **EIB loan for transport infrastructure projects:** on 31 July 2019, Snam signed a loan agreement for Euro 105 million with the EIB for the construction of infrastructure projects in the natural gas transmission sector, with a duration of 20 years (maturity 30 June 2039) and a fixed rate of circa 0.64%



Marco Alverà, Snam's CEO, commented on the results:

“In the first half of the year we achieved growing results, in line with the objectives of our plan, laying the foundations for another year of value creation for all our stakeholders.

Our investments in Italy have increased by over 15% compared to the first half of 2018 and we expect to reach 1 billion by the full year, including the contribution of the Snamtec project initiatives.

Gas infrastructure has confirmed its central role in the decarbonisation process, guaranteeing flexibility and security of supply in the context of a 17% increase in volumes in the thermoelectric sector, resulting in a decreasing proportion of coal-fired power generation.

Our network is continually modernising, sustainable and fit for the future, as shown by the start of hydrogen experimentation during the semester. Snam therefore continues to confirm its role as a leader in the energy transition, serving the territories where it operates”.

Summary of the results for the first half of 2019

INCOME STATEMENT

(€ millions)	First half		Change	% change
	2018	2019		
Regulated revenues	1,241	1,281	40	3.2
Non-regulated revenue	30	51	21	70.0
Total revenue	1,271	1,332	61	4.8
- Total revenue - net pass through items	1,242	1,303	61	4.9
Operating costs	(207)	(221)	(14)	6.8
- Operating costs - net pass through items	(178)	(192)	(14)	7.9
EBITDA	1,064	1,111	47	4.4
Amortisation, depreciation and impairment	(335)	(355)	(20)	6.0
EBIT	729	756	27	3.7
Net financial expenses	(98)	(85)	13	(13)
Net revenue on shares	85	118	33	38.8
Profit before taxes	716	789	73	10.2
Income taxes	(193)	(208)	(15)	7.8
Net profit (*)	523	581	58	11.1

(*) Entirely held by Snam shareholders.



Total revenue

Total revenue in the first half of 2019 amounted to Euro 1,332 million, up by Euro 61 million (4.8%) compared with the first half of 2018. Net of components offset in costs, total revenue amounted to Euro 1,303 million, up by Euro 61 million, or 4.9%. The increase is mainly due to higher regulated revenue (Euro +40 million; +3.3%), essentially due to the transportation segment, as well as to the increase of non-regulated revenue (Euro +21 million; +70.0%), mainly following the contribution made by the companies newly included in the consolidation scope.

EBIT

EBIT¹ stood at Euro 756 million in the first half of 2019, up Euro 27 million, or 3.7%, compared with the first half 2018. Higher revenue was partly offset in part by higher period amortisation and depreciation (Euro -20 million; 6.0%), due primarily to the entry into service of new assets and greater operating costs (-14 million; equal to 7.9%). The increase in operating costs is mainly due to the entry and integration of new companies included in the scope of consolidation, partly offset by the effects of the efficiency plan actions implemented.

Below is a breakdown of EBIT by business segment²:

(€ million)	First half		Change	% change
	2018	2019		
Business segments				
Transportation	569	607	38	6.7
Regasification	2	2		
Storage	169	169		
Corporate and other activities	(11)	(22)	(11)	100.0
	729	756	27	3.7

¹ EBIT was analysed by isolating only the elements that determined a change therein. To this end, applying gas segment tariff regulations generates revenue components that are offset in costs, mainly due to interconnection.

² In compliance with IFRS 8 "Operating segments", the operating business segments were defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances. To this end, it is noted that the "Corporate and other activities" segment, not operating under the terms of IFRS 8, includes the new companies acquired in 2018, which head activities relating to the energy transition. The operating business segment of Natural gas transportation includes the values of the companies Snam Rete Gas, Infrastrutture Trasporto and Enura (newco).



With reference to the business operating segments, the increase in EBIT is essentially due to the natural gas transportation segment (Euro +38 million or 6.7%) following the higher regulated revenue (Euro +40 million), which benefits from the increase in the WACC (from 5.4% in 2018 to 5.7% in 2019) and the reduction in operating costs (Euro +21 million or 14.6%, net of components offset in revenue; Euro +13 million net of lower costs for technical services charged back to other group companies). The reduction in operating costs is also due to the dynamics of the provisions for risks and charges and to the recognition by the Authority of certain charges for gas consumption for the year 2018.

EBIT in the storage (Euro 169 million) and regasification (Euro 2 million) segments was unchanged on the first half of 2018.

Net profit

Net profit booked in the first half of 2019 amounted to Euro 581 million, an increase of Euro 58 million or 11.1% compared with the net profit achieved in the first half of 2018 (Euro 523 million). The increase is due, in addition to the aforementioned growth in EBIT (Euro +27 million; +3.7%), to: (i) higher income from equity investments valued using the equity method (Euro +33 million; +38.8%), mainly attributable to the contribution made by the company Teréga, following the release of a provision for tax disputes and the entry of Senfluga, the company that on 20 December acquired control of Desfa, with a 66% share of the share capital; (ii) lower net financial expenses (Euro +13 million; 13.3%), which benefit from optimisation of the financial structure and positive market conditions. These effects were partly offset by greater income taxes (Euro -15 million; 7.8%), due mainly to the rise in pre-tax profit.

The tax rate for the first half of 2019 was 26.3% (27.0% in the first half of 2018).



Key balance sheet, financial and share figures

(€ million)	First half		Change	% change %
	2018	2019		
Investments	349	408	59	16.9
Net invested capital at period end	17,517	17,588	71	0.4
Shareholders' equity at end of period (including minority interests)	6,096	6,065	(31)	(0.5)
Shareholders' equity attributable to Snam at period end	6,096	6,062	(34)	(0.6)
Net financial debt at period end	11,421	11,523	102	0.9
Free cash flow	1,037	794	(243)	(23.4)
Number of shares of share capital (million)	3,469.0	3,394.8	(74.2)	(2.1)
Number of shares outstanding at year end (million)	3,366.4	3,300.8	(65.6)	(1.9)
Average number of shares outstanding during (million)	3,385.3	3,300.8	(84.5)	(2.5)
Period end official share price (€)	3.58	4.39	0.81	22.6
EBIT per share (*) (€)	0.215	0.229	0.014	6.5
Net profit per share held by Snam (€)	0.154	0.176	0.022	14.3

(*) Calculated considering the average number of shares outstanding during the period.

Investments

Technical investments for the first half of 2019 stood at Euro 408 million, a rise of Euro 59 million (16.9%) compared with the first half of 2018, and refer essentially to the transportation (Euro 340 million) and storage (Euro 60 million) segments. Investments relating to Snamtec, the new project launched by Snam focussed on innovation and the energy transition, amount to Euro 89 million in the first half of 2019.

Net financial debt

Net financial debt was Euro 11,523 million as at 30 June 2019³ (Euro 11,548 million as at 31 December 2018). The positive net cash flow from operating activities (Euro 1,221 million) allowed us to fully cover the financial requirements associated with net investments for the period (Euro 427 million) and to generate a free cash flow of Euro 794 million. Net financial debt, after equity cash flow (Euro 743 million) essentially resulting from the payment of the 2018 dividend to shareholders (Euro 746 million) was reduced by Euro 25 million on 31 December 2018, despite the increase generated by non-monetary components related to financial indebtedness (Euro 26 million)⁴.

³ Further information on the net financial debt can be found on page 18 of this press release.

⁴ These components are mainly related to the effects of the coming into force, starting 01 January 2019, of the provisions of IFRS 16 "Leasing" (Euro 24 million). Further information can be found on pages 10 and 11 of this press release.



Operating highlights

	First half		Change	% change %
	2018	2019		
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation	37.93	39.81	1.88	5.0
Gas transportation network (kilometres in use)	32,609	32,640	31	0.1
Installed power in the compression stations (MW)	922	961	39	4.2
Liquefied Natural Gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	0.356	1.390	1.034	
Natural gas storage (a)				
Concessions	10	10		
- of which operational (c)	<i>9</i>	<i>9</i>		
Total available storage capacity (billions of cubic metres) (d)	16.9	17.0	0.1	0.6
Natural gas moved through the storage system (billions of	12.71	11.76	(0.95)	(7.5)
Employees in service at end of period (number) (f)	2,884	3,014	130	4.5
<i>by business segment:</i>				
- Transportation	1,914	1,894	(20)	(1.0)
- Regasification	63	64	1	1.6
- Storage	60	63	3	5.0
- Corporate and other activities (g)	847	993	146	17.2
Employees and contract workers accident indices				
Number	3	3		
Frequency index (h)	0.48	0.54	0.06	12.5
Severity index (i)	0.01	0.04	0.03	

- (a) With regard to the first half of 2019, gas volumes are expressed in standard cubic metres (Scm) with an average higher heating value (HHV) of 38.1 MJ/Scm (10.575 kWh/Scm) for transportation and regasification activities and 39.23 MJ/Scm (10.895 kWh/Scm) natural gas storage for the 2019-2020 thermal year.
- (b) The figure for the first half of 2019 is current as at 04 July 2019. The corresponding figure for 2018 has been updated definitively and is consistent with that published by the Ministry of Economic Development.
- (c) Working gas capacity for modulation services.
- (d) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 June 2019 is that declared to the Electricity, Gas and Water Authority at the start of the 2018-2019 thermal year, almost entirely conferred as at 30 June 2019 (98.8%).
- (e) The value for the first half 2018 has been definitively updated.
- (f) Fully consolidated companies.
- (g) The figures for the first half 2019 include the resources obtained from the acquisitions of IES Biogas (46 resources) and the business unit Cubogas (64 resources).
- (h) Frequency index: number of accidents at work resulting in absence of at least one day, per million hours worked.
- (i) Severity index: number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.



Natural gas injected into the national gas transportation network

The volumes of gas injected to the network in the first half 2019 totalled 39.81 billion cubic metres, an increase on the first half of 2018 (+1.88 billions of cubic metres or 5.0%) mainly due to the rise in the demand for natural gas in Italy (40.51 billions of cubic metres; +1.72 billion cubic metres on the first half 2018; +4.4%), together with the net balance of storage (+0.19 billions of cubic metres). The trend in the demand for gas is mainly due to the greater consumption recorded in the thermoelectric sector (+1.84 billions of cubic metres; +16.9%), which benefits from the reduction in import flows of electricity, lower production from renewable sources, attributable to the reduction in hydroelectric power, despite the growth of wind and photovoltaic, and the greater use of natural gas in electricity generation. These effects were partly offset by consumption in the residential and tertiary sector (-0.20 billion cubic metres; -1.2%) following a warmer climate in February and March 2019 as compared with the same period of 2018, the latter which was instead characterised by exceptionally cold weather (the “Burian”). Adjusted for the weather effect, gas demand was estimated at 39.67 billions of cubic metres, up by 1.49 billion cubic metres (3.9%) compared with the first half 2018 (38.18 billion cubic metres), also following the greater use of energy efficiency enhancing measures by the residential and tertiary sector.

Liquefied Natural Gas (LNG) regasification

During the first half 2019, at the LNG terminal of Panigaglia (SP), 1.390 billion cubic metres of LNG were regasified (0.356 billion cubic metres during the first half 2018) and there were also 33 discharges from methane tanker loads, an increase on the first half 2018 (9 discharges), also thanks to the new auction-based capacity allocation mechanisms.

Natural gas storage

During the first half of 2019, 11.76 billion cubic metres of natural gas was moved through the storage system, a reduction of 0.95 billion cubic metres (7.5%) compared with the first half of 2018 (12.71 billion cubic metres). The reduction was mainly attributable to lower withdrawals from storage (-0.56 billion cubic metres; -8.4%), primarily due to weather conditions, together with lower injections (-0.39 billion cubic metres; -6.5%).

Total storage capacity at 30 June 2019, including strategic storage, was 17.0 billion cubic metres (16.9 billion cubic metres at 30 June 2018; +0.1 billion cubic metres). Total capacity includes 12.5 billion cubic metres relative to available storage capacity, almost entirely transferred as at 30 June 2019 (98.8%⁵ of the available capacity for the thermal year 2019-2020), up 0.1 billion cubic metres on 30 June 2018, thanks to the gradual

⁵ As at the date of this Press Release, the available capacity transferred stood at 99.4%.



increase in working gas associated with the commissioning of the Bordolano plant. Total capacity also includes 4.5 billion cubic metres relative to strategic storage (unchanged on thermal year 2018-2019)⁶.

In the first half 2019, accident indicators relating to employees and contract workers, were broadly stable in respect of the first half of 2018, both in terms of frequency and severity (+0.06 with reference to the frequency index; +0.03 with reference to the severity indicator), despite the extension of the group scope and, with reference to the frequency indicator, the reduction in hours worked by contractor companies. During the first half 2019, in total 3 accidents occurred, 1 of which involved employees and 2 involved contractor workers (same dynamics recorded in the first half 2018), demonstrating further evidence of the constant commitment of Snam to developing and promoting the protection of health and safety in the workplace, not only within the company but also in regard to suppliers.

Main events

Sustainable mobility

EIB loans for sustainable mobility projects

In support of the sustainable mobility initiatives, on 6 June 2019, Snam agreed its first loan with the European Investment Bank (EIB) in support of the investments promoted by the subscribers Snam4Mobility for a nominal value of Euro 25 million. The investments concerned by the loan contract regard the development of 101 CNG (compressed natural gas) on national territory and 9 L-CNG (liquefied and compressed gas) refuelling stations, for a total of around Euro 50 million. The loan, which as per EIB standard practice will be up to a maximum of 50% of the cost of the investments, has an amortising structure falling due in December 2031 and a fixed rate of 0.55%. The loan complements the contribution disbursed by the European Union under the CEF (Connecting Europe Facility) programme for Euro 1.3 million, which last December approved the project to build the 9 Snam4Mobility L-CNG stations.

Snam and IP: agreement for 26 new natural gas refuelling plants in Italy

On 26 July 2019, Snam and IP have agreed to construct an initial 26 new natural gas refueling plants, which will open across IP's distribution network in Italy in 2020.

⁶ By circular letter of 08 January 2019, the Ministry of Economic Development confirmed also for storage thermal year 2019-2020 (01 April 2019-31 March 2020), the strategic gas storage volume of 4.62 billions of standard cubic metres, of which 4.5 billions of cubic metres are the competence of Stogit (unchanged on thermal year 2018-2019).



The new openings comprise the first phase of the 2018 framework agreement between IP and Snam to build up to 200 new methane stations in Italy. The initiative is part of the companies' commitment to promoting sustainable mobility. Snam and IP have jointly identified the fuelling stations with IP branded fuel, at which they will install methane supply for cars (CNG, compressed natural gas), two of which will also supply LNG (liquefied natural gas) for heavy vehicles.

Energy efficiency

Agreements for the energy requalification of condominiums

On 10 April 2019, through the subsidiary TEP Energy Solution, operating in the energy efficiency segment, Snam and Unicredit signed an agreement to facilitate the energy requalification of residential buildings on Italian territory, making them more sustainable and secure. The understanding allows the bank to provide the condominiums with credit facilities on projects proposed by TEP in energy efficiency and anti-seismic improvements, such as, for example, the development of "thermal cladding", the replacement of fixtures and the requalification of thermal plants.

The collaboration agreement followed, under this scope, signed on 5 June 2019 by the same TEP with Intesa Sanpaolo, to promote energy requalification interventions on buildings for accommodation and tertiary use.

Said agreements envisage the proposal of a complete service, which ranges from financial and technical consultancy to the disbursement of the contribution through to project development, at dedicated conditions and in a reduced period of time.

In particular, the condominiums can benefit from bank loans to cover the portion not included in the Ecobonus or Sismabonus and, more generally, between 75% and 85% of the cost of the works.

TEP Energy Solution will instead propose the product CasaMia, to date offered to more than 500 condominiums throughout Italy, which aims to ensure the energy requalification of buildings, financing the works through savings on consumption and the transfer of the tax credit linked to the Ecobonus and Sismabonus mechanism.

Outlook

At the 2019 year-end, demand in the Italian gas market is expected to be broadly stable on 2018 values, adjusted for temperature.

In 2019, Snam investments are expected to be around Euro 1.0 billion, with a confirmed focus on replacements and maintenance, in order to continue to guarantee maximum resilience, flexibility and efficiency of existing infrastructure. Additionally, over one quarter of the investments will focus on development initiatives, including the north-west connections, local service and cross-border flows and the strengthening of the network in the south.



In 2019, Snam will continue to focus on operating efficiency, through initiatives that will enable it to keep the level of controllable costs more or less stable in real terms, on a constant basis.

As regards the financial structure, the optimisation carried out in the last three years has led to a significant reduction in the average cost of debt. The Company's management will continue to guarantee an appealing, sustainable remuneration of its shareholders, whilst maintaining a balanced financial structure.

This press release, which is prepared voluntarily in line with best market practice, illustrates the consolidated results for the first half 2019 (subjected to a limited audit). The results for the half-year, together with the key business trends, represent a summary of the Interim Financial Report prepared in accordance with Article 154-ter of the Consolidated Finance Act (TUF). The report was approved by Snam's Board of Directors on 31 July 2019 and will be published in compliance with the statutory terms.

Information on operating results and cash flows is provided with reference to the first half of 2019 and the first half of 2018. Information on financial position is provided with reference to 30 June 2019 and 31 December 2018. The form of the financial statements corresponds to that of the statements presented in the Interim directors' report of the Consolidated Interim Financial Report and the Annual directors' report.

The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The recognition and measurement criteria adopted for the preparation of the Interim Financial Report as at 30 June 2019 are the same as those used for the preparation of the 2018 Annual Financial Report, which should be referred to for a description of those criteria, except for the international accounting standards that came into force on 1 January 2019, as described in note No. 7 "Recently issued IFRS" of the 2018 Annual Financial Report. The impacts deriving from the application of such provisions on the consolidated results of the Snam Group essentially regard the effects of the application of IFRS 16 "Leasing". The new standard, which replaces IAS 17, defines leasing as a contract that attributes an entity the right to use an asset for a given period of time in exchange for a price, and eliminates, for the purpose of preparing the lessee's financial statements, the distinction drawn between financial leasing and operative leasing. With reference to the lease contracts in place in the Group as at 01 January 2019, Snam is



essentially the lessee. These contracts mainly refer to property leases and long-term vehicle hire. As envisaged by the transitional provisions of IFRS 16⁷, Snam has chosen to apply the standard retroactively, booking the cumulative effect of the application as at the initial date of application, without redetermining the comparative information. The impacts of the first time adoption of IFRS 16 on the opening financial statements of the Snam Group at 01 January 2019 resulted, therefore, in an increase of Euro 20 million in financial liabilities, representing the obligation to make the payments envisaged by the contracts in place, and an increase of Euro 20 million in assets for Property, plant and equipment, representing the related right of use. The impact on the Group's shareholders' equity at 01 January 2019, net of the related tax effect, is consequently null.

Changes in the Snam Group's consolidation scope as at 30 June 2019 with respect to that in place as at 31 December 2018 regarded the consolidation of the Companies: (i) Enura S.p.A. (former Asset Company 5), held 55% by Snam S.p.A. for the development of the transport infrastructure in Sardinia⁸; (ii) Snam Gas & Energy Services (Beijing) Co. Ltd., with registered office in China, established in April 2019 and held 100% by Snam International B.V., to support the development of the gas market in China, through Snam's distinctive expertise in the sector.

The changes to the consolidation area of the Snam Group as at 30 June 2019 with respect to that in place as at 30 June 2018 regarded, in addition to the above, the joining of the following companies:

Name	Sector	Type of investment	% ownership	Start date
Cubogas S.r.l.	Corporate and other activities	Indirect subsidiary of Snam through Snam 4 Mobility.	100%	July 2018
Enersi Sicilia S.r.l.	Corporate and other activities	Indirect subsidiary of Snam through Snam 4 Mobility.	100%	November 2018
IES Biogas S.r.l.	Corporate and other activities	Indirect subsidiary of Snam through Snam 4 Mobility.	70%	July 2018

⁷ For more details on the choices made by Snam in respect of the application of the transitional provisions envisaged by IFRS 16, reference is made to Note 7 "Recently issued IFRS" of the 2018 Annual Financial Report.

⁸ It is specified that the company Asset Company 5 S.r.l., established by the sole shareholder Snam S.p.A. in June 2018, was renamed Enura S.p.A. starting 01 April 2019, when the shareholder Società Gasdotti Italia (SGI) joined the ownership structure, with 45% of the company's share capital.



Given their size, amounts are expressed in millions of Euro.

Pursuant to Article 154-bis, paragraph 2 of the TUF, the Manager charged with preparing the Company's financial reports, Franco Pruzzi, 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, specifically relating to: changes in demand for natural gas, investment plans and future management performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. The actual results may therefore differ from those announced with regard to various factors, including: foreseeable trends in natural gas demand, supply and price, general macroeconomic conditions, the effect of new energy and environmental legislation, the successful development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.

A conference call will take place at 14:00 today, 01 August 2019, to present the consolidated results for the first half of 2019 to investors and financial analysts. It will be possible to attend this conference call and the supporting materials will be made available at www.snam.it in the Investor Relations section when the event begins. In the same section, it will also be possible to view the presentation through video webcasting.



Summary tables of income statement items

Total revenue

(€ million)	First half		Change	% change
	2018	2019		
Regulated revenues	1,241	1,281	40	3.2
<i>Business sectors</i>				
Transportation	1,019	1,061	42	4.1
Regasification	11	15	4	36.4
Storage	295	297	2	0.7
<i>Consolidation adjustments</i>	<i>(84)</i>	<i>(92)</i>	<i>(8)</i>	<i>9.5</i>
Non-regulated revenue	30	51	21	70.0
	1,271	1,332	61	4.8

Operating costs

(€ million)	First half		Change	% change
	2018	2019		
Business sectors				
Transportation	211	192	(19)	(9.0)
Regasification	7	15	8	
Storage	77	79	2	2.6
Corporate and other activities	108	146	38	35.2
<i>Consolidation adjustments</i>	<i>(196)</i>	<i>(211)</i>	<i>(15)</i>	<i>7.7</i>
	207	221	14	6.8



Operating costs - Regulated and non-regulated assets

(€ million)	First half		Change	% change
	2018	2019		
Costs of regulated activities	175	161	(14)	(8.0)
Controllable fixed costs	129	124	(5)	(3.9)
Variable costs	3	8	5	
Other costs	14		(14)	(100.0)
Cost items offset in revenue (*)	29	29		
Costs of non-regulated assets	32	60	28	87.5
	207	221	14	6.8

(*) The main cost items offset in revenue relate to interconnection.

Amortisation, depreciation and impairment losses

(€ millions)	First half		Change	% change
	2018	2019		
Total amortisation and depreciation	335	355	20	6.0
Business sectors				
Transportation	279	295	16	5.7
Regasification	2	2		
Storage	50	50		
Corporate and other activities	4	8	4	100.0
Impairment losses (Recovery of value)				
	335	355	20	6.0

EBIT

(€ million)	First half		Change	% change
	2018	2019		
Business sectors				
Transportation	569	607	38	6.7
Regasification	2	2		
Storage	169	169		
Corporate and other activities	(11)	(22)	(11)	100.0
	729	756	27	3.7



Net financial expenses

(€ million)	First half		Change	% change
	2018	2019		
Financial expense related to net financial debt	102	81	(21)	(20.6)
- Interest and other expense on short- and long-term financial debt	103	85	(18)	(17.5)
- Bank interest income	(1)	(4)	(3)	
Other net financial expense (income)	2	8	6	
- Accretion discount	5	4	(1)	(20.0)
- Other net financial expense (income)	(3)	4	7	(233)
Losses on derivatives – ineffective portion		1	1	
Financial expense capitalised	(6)	(5)	1	(16.7)
	98	85	(13)	(13.3)

Net income from equity investments

(€ million)	First half		Change	% change
	2018	2019		
Effect of valuation using the equity method	83	116	33	39.8
Dividends	2	2		
	85	118	33	38.8

Income taxes

(€ million)	First half		Change	% change
	2018	2019		
Current taxes	207	223	16	7.7
(Prepaid) deferred taxes				
Deferred taxes	(8)	(30)	(22)	
Deferred tax assets (prepaid taxes)	(6)	15	21	
	(14)	(15)	(1)	7.1
Tax rate (%)	27.0	26.3	(0.7)	(2.6)
	193	208	15	7.8



Reclassified balance sheet

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Financial Report and the Interim Report based on how the business operates, usually split into the three basic functions of investment, operations and financing.

Management believes that this format presents useful additional information for investors as it allows identification of the sources of financing (equity and third-party funds) and the application of such funds for fixed and working capital.

Management uses the reclassified balance sheet to calculate the key profitability ratios (ROI and ROE).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)	31.12.2018	30.06.2019	Change
Fixed capital	18,856	19,062	206
Property, plant and equipment	16,153	16,300	147
- of which rights of use of leased assets		21	21
Compulsory inventories	363	363	
Intangible fixed assets	907	912	5
Equity investments	1,750	1,783	33
Long-term financial receivables	11	1	(10)
Net payables for investments	(328)	(297)	31
Net working capital	(1,259)	(1,414)	(155)
Provisions for employee benefits	(64)	(60)	4
NET INVESTED CAPITAL	17,533	17,588	55
Shareholders' equity	5,985	6,065	80
- Held by Snam's shareholders	5,985	6,062	77
- Minority interests		3	3
Net financial debt	11,548	11,523	(25)
- of which financial payables for leased assets		21	21
COVERAGE	17,533	17,588	55

Fixed capital (Euro 19,062 million) rose by Euro 206 million on 31 December 2018, mainly due to the increase in property, plant and equipment (Euro 147 million), including following the recording of assets representing the right-of-use of leased assets, in application of the new standard IFRS 16, in force from 01 January 2019 (Euro 21



million)⁹, and the equity investments (Euro +33 million) against the profits booked in the first half 2019, partly absorbed by the dividends collected applicable to FY 2018. The increase in equity investments was also impacted by the February 2019 conversion into equity of the residual portion (Euro 10 million) of the shareholders' loan to TAP. The increase in the equity investment in TAP is therefore matched by the related reduction in long-term financial receivables.

The change in property, plant and equipment and in intangible fixed assets can be broken down as follows:

(€ million)	Property, plant and equipment	Intangible fixed assets	Total
Balance at 31 December 2018	16,153	907	17,060
Investments	371	37	408
Amortisation, depreciation and impairment	(323)	(32)	(355)
Transfers, write-offs and divestments	(3)		(3)
Other changes	102		102
Balance at 30 June 2019	16,300	912	17,212

Other changes (Euro 102 million) relate to: (i) the effects deriving from the adjustment of the current value of outlays for the decommissioning and restoration of sites (Euro +85 million) following a reduction in the expected discounting rate; (ii) the recording of assets representing the rights of use of leased goods in accordance with accounting standard IFRS 16 (Euro +24 million); and (iii) contributions on works for interference with third parties (Euro -10 million).

⁹ As established by the standard IFRS 16, against the recording of assets representing the rights of use of leased assets, Snam has noted the related financial liabilities representing the obligation to make the payments established in lease contracts in force.



Equity investments

The item equity investments (1,783 million) includes: (i) the valuation of equity investments using the net equity method and referred to Trans Austria Gasleitung GmbH - TAG (Euro 519 million), Teréga Holding S.A.S. (Euro 488 million), Trans Adriatic Pipeline AG – TAP (Euro 252 million), Italgas S.p.A. (Euro 177 million), AS Gasinfrastruktur Beteiligung GmbH (Euro 120 million), Senfluga Energy Infrastructure Holdings (Euro 130 million) and Interconnector UK (Euro 59 million); (ii) measurement of the minority interest in the company Terminale GNL Adriatico S.r.l. (Adriatic LNG) (Euro 38 million).

Net financial debt

(€ million)	31.12.2018	30.06.2019	Change
Financial and bond debt	13,420	14,020	600
Short-term financial debt (*)	3,633	4,200	567
Long-term financial payables	9,787	9,799	12
Financial payables for leased assets (**)		21	21
Financial receivables and cash and cash equivalents	(1,872)	(2,497)	(625)
Cash and cash equivalents	(1,872)	(2,497)	(625)
	11,548	11,523	(25)

(*) Includes the short-term portion of long-term financial payables.

(**) Of which Euro 15 million long-term and Euro 6 million short-term portions of long-term financial payables.

The positive net cash flow from operating activities (Euro 1,221 million) allowed Snam to fully cover the financial requirements associated with net investments for the period (Euro 427 million) and to generate a free cash flow of Euro 794 million. Net financial debt, after equity cash flow (Euro 743 million) deriving essentially from the payment to the shareholders of the 2018 dividend (Euro 746 million, of which Euro 298 million by way of deposit and Euro 448 million as balance) records a reduction of Euro 25 million on 31 December 2018, despite the increase generated by non-monetary components related to financial indebtedness (Euro 26 million), mainly referring to financial payables recorded in application of IFRS 16 “Leasing”.



Financial and bond debt at 30 June 2019, amounting to Euro 14,020 million (Euro 13,420 million at 31 December 2018), comprised the following:

(€ million)	Total at 31.12.2018	Total at 30.06.2019	Change
Bonds	8,446	8,435	(11)
- of which short-term (*)	913	1,028	115
Bank loans	4,749	4,133	(616)
- of which short-term (*)	2,495	3,172	677
Euro Commercial Paper - ECP (**)	225	1,431	1,206
Financial payables for leased assets		21	21
	13,420	14,020	600

(*) Includes the short-term portion of long-term financial payables.

(**) Entirely short-term.

Financial and bond debt is denominated in euros¹⁰ and refer mainly to bond loans (Euro 8,435 million, or 60.2%) and bank loans (Euro 4,133 million, or 29.5%, including Euro 1,589 million provided by the European Investment Bank- EIB) and Euro Commercial Papers (Euro 1,431 million, 10.2%)¹¹.

Bonds (Euro 8,435 million) decreased by Euro 11 million compared with 31 December 2018, specifically: (i) the reimbursement of a fixed-rate bond maturing on 18 January 2019 of a nominal value of Euro 519 million; (ii) the reimbursement of a fixed-rate bond maturing on 24 April 2019 worth a nominal Euro 225 million; and (iii) the trend of interest accruals (Euro -19 million). These changes were offset by the issue of: (i) the Climate Action Bond, worth a nominal Euro 500 million, at fixed rate and maturing on 28 August 2025; (ii) a Private Placement worth a nominal Euro 250 million, at fixed rate and maturing on 07 January 2030.

Bank loans (Euro 4,133 million) decreased by Euro 616 million mainly following the reimbursement of a Term Loan for a nominal value of Euro 500 million, and a lesser net use of uncommitted lines of credit (Euro -258 million). This effect was partially offset by the agreement signed with the EIB of: (i) a loan on 28 January 2019 for projects promoted by Snam Rete Gas and Stogit, worth a nominal Euro 135 million, at fixed rate and to be repaid through an amortisation plan ending in 2038; (ii) a loan, on 6 June

¹⁰ Except for a fixed rate bond loan for ¥10 billion (Japanese yen), fully converted into euros through a cross-currency swap (CCS) financial derivative.

¹¹ At the date of Press Release, the Euro Commercial Paper programme had been used for the entire amount of Euro 2 billion.



2019, in support of investments promoted by the subsidiary Snam4Mobility, for the development of CNG and I-CNG refuelling stations for a nominal Euro 25 million, at fixed rate, to be repaid through an amortisation plan ending in 2031.

The Euro Commercial Papers (Euro 1,431 million) regard unsecured short-term securities issued on the money market and placed with institutional investors; they rise by Euro 1,206 million.

Cash and cash equivalents (Euro 2,497 million) refer mainly to a short-term use of liquid funds, maturing within three months, with the counterparty being a bank of high credit standing (Euro 750 million), an on-call bank deposit (Euro 1,700 million) and cash held at the company Gasrule Insurance DAC (Euro 22 million) and Snam International B.V. (Euro 16 million).

At 30 June 2019, Snam had unused committed long-term lines of credit worth Euro 3.2 billion.



Net working capital

(€ million)	31.12.2018	30.06.2019	Change
Trade receivables	1,247	947	(300)
- of which balancing	223	128	(95)
Inventories	109	97	(12)
Other assets	105	61	(44)
Tax receivables	26	29	3
Provisions for risks and charges	(665)	(761)	(96)
Trade payables	(491)	(338)	153
- of which balancing	(230)	(125)	105
Accruals and deferrals from regulated assets	(362)	(121)	241
Liabilities for deferred taxes	(134)	(107)	27
Tax liabilities	(23)	(75)	(52)
Derivative liabilities/(assets)	(29)	(62)	(33)
Other liabilities	(1,042)	(1,084)	(42)
	(1,259)	(1,414)	(155)

Net working capital (Euro -1,414 million) reduced by Euro 155 million in respect to 31 December 2018. The reduction is mainly due to the following: (i) lower credits in the natural gas transportation segment for additional tariff components invoiced to users (-175 million) against the failure to invoice the CVOs price¹², application of which is suspended for the months running from April to September; (ii) the greater liability towards CSEA for additional tariff components relative to the transportation service (Euro -120 million) reabsorbed during the year and greater amounts invoiced during the first half 2019 with respect to the restriction specified by the Regulatory authority (Euro -22 million); (iii) the increase in the provisions for risks and charges (Euro -96 million) mainly due to the adjustment of the current value of decommissioning and site restoration costs following a reduction in the forecast discounting rates; and (iv) the increase in tax liabilities (Euro -52 million), mainly as a result of the trend of tax deposits paid in respect of the tax burden period.

¹² The variable unitary price CVOS expressed in euro/Scm is an increase of the variable price aimed at covering the costs deriving from the application of the revenue guarantee factor for the storage service, pursuant to Art. 10 bis of Resolution no. 29/2011 and expenses incurred by the Energy Service Provider for the disbursement of measures pursuant to Articles 9 and 10 of Italian Legislative Decree no. 130/10.



These factors were partly offset by the reduction of the amount payable to Snam shareholders against the payment made on 23 January 2019 of the 2018 interim dividend of Euro 0.0905 per share (Euro +298 million) and the lesser net liabilities for gas settlement of the transportation segment (Euro +23 million), introduced by the Regulatory authority with resolutions 670/2017/R/gas and 782/2017/R/gas against the gradual redistribution to the system of the items collected¹³.

Statement of comprehensive income

(€ million)	First half	
	2018	2019
Net profit (*)	523	581
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedging derivatives (effective share)	(10)	(52)
Share of "other comprehensive income" of investments accounted for using the equity method (**)		(22)
Tax effect	2	12
	(8)	(62)
Total other components of comprehensive income, net of tax effect	(8)	(62)
Total comprehensive income	515	519
- Held by Snam's shareholders	515	519
- Minority interests		
	515	519

(*) Entirely held by Snam shareholders.

(**) The figure relating to the first half 2019 mainly refers to the change in the fair value of derivative financial instruments hedging equity investments in associates.

¹³ By this resolution, the Authority approved the provisions on gas settlement for the determination of physical and economic items of adjustment for the previous period (years 2013-2017). The regulation also envisages that any imbalance in items receivable and payable from and to users, shall be regulated by the CSEA in order to guarantee the neutrality of Snam Rete Gas as major transport company.



Shareholders' equity

(€ million)	
Shareholders' equity at 31 December 2018 (*)	5,985
<i>Increases owing to:</i>	
- Comprehensive income for first half 2019	519
- Other changes	9
	528
<i>Decreases owing to:</i>	
- 2018 dividend balance	(448)
	(448)
Shareholders' equity at 30 June 2019	6,065
- Held by Snam's shareholders	6,062
- Minority interests	3

(*) Entirely held by Snam shareholders.

As at 30 June 2019, Snam held 94,000,000 treasury shares (168,197,663 as at 31 December 2018), equal to 2.77% of its share capital, with a total book value of Euro 349 million. The market value of the treasury shares at 30 June 2019 was around Euro 413 million¹⁴.

¹⁴ Calculated by multiplying the number of treasury shares by the period-end official price of Euro 4.3884 per share.



Reclassified statement of cash flows and change in net financial debt

The reclassified statement of cash flows set out below summarises the legally required format. The reclassified statement of cash flows shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repaying financial receivables/payables) and equity (payment of dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	First half	
	2018	2019
Net profit	523	581
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	254	237
- Net capital losses (capital gains) on asset sales and write-offs	5	3
- Dividends, interest and income taxes	277	279
Change in working capital due to operating activities	443	285
Dividends, interest and income taxes collected (paid) (a)	23	(164)
Net cash flow from operating activities	1,525	1,221
Investments	(340)	(402)
Technical disinvestments	2	
Companies (entering) leaving the area of consolidation	(13)	
Equity investments	13	6
Change in long-term financial receivables	(106)	
Other changes relating to investment activities	(44)	(31)
Free cash flow	1,037	794
Change in short-term financial receivables	350	
Repayment of financial payables for leased assets		(3)
Change in short- and long-term financial payables	151	577
Equity cash flow (b)	(914)	(743)
Net cash flow for the period	624	625



CHANGE IN NET FINANCIAL DEBT

(€ million)	First half	
	2018	2019
Free cash flow	1,037	794
Effect of first-time adoption of IFRS 9	10	
Financial payables and receivables from companies entering the area of consolidation	(1)	
Exchange rate differences on financial debt	(3)	(2)
Change in financial payables for leased assets		(24)
Equity cash flow (b)	(914)	(743)
Change in net financial debt	129	25

(a) Cash flow relative to the first half of 2018 considers different timing for the payment of the 2017 balance and first deposit for 2018 on income tax (IRES and IRAP) liquidated on 02 July 2018 for a total amount of approximately Euro 142 million.

(b) Includes cash flow and payment to shareholders of the dividend.

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