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Oggetto : Snam announces increasing results for the first nine months of 2019

Testo del comunicato

Vedi allegato.



Snam announces increasing results for the first nine months of 2019

- **Total revenue:** €1,954 million¹ (+€81 million; +4.3% compared with the first nine months of 2018);
- **EBITDA:** €1,661 million (+€65 million; +4.1% on adjusted EBITDA for the first nine months of 2018), also due to operating cost control;
- **EBIT:** €1,125 million (+€35 million; +3.2% on adjusted EBIT for the first nine months of 2018), thanks primarily to the positive performance of the transportation business segment;
- **Net profit:** €867 million (+€74 million; +9.3% compared with the first nine months of 2018) due to the positive operating performance, the reduction in financial expense and greater net income from equity investments;
- **Technical investments:** €650 million (compared to €564 million in the first nine months of 2018), including €113 million invested in innovation and energy transition (Snamtec);
- **Net financial debt:** €11,871 million (€11,548 million at 31 December 2018);
- **2019 interim dividend** €0.095 per share.

San Donato Milanese, 14 November 2019 – The Snam Board of Directors, which met yesterday under the chairmanship of Luca Dal Fabbro, approved the consolidated results for the first nine months of 2019 (unaudited). The Board also resolved to distribute an interim dividend for 2019 of €0.095 per share, with payment starting from 22 January 2020.

Marco Alverà, Snam's CEO, commented:

“The results of the first nine months confirm Snam’s growth, with an almost 10% increase in net income due to the positive performance of our core business, the development of our associates and the continuous optimization of our financial structure. We continue to create value for our shareholders, with attractive remuneration in line with the strategic plan targets, as shown by the interim dividend we are announcing today.

Our infrastructure holds a central role in the decarbonisation process, guaranteeing system flexibility and supply security, as highlighted by the 16% increase in volumes in the thermoelectric sector in the nine months, on the back also of a favorable price dynamic that supported the replacement of coal generation with gas. The recent agreement for the acquisition of 49.07% of the OLT regasification terminal demonstrates our commitment to investing in Italy.

Our focus on innovation and the energy transition is getting stronger, with around 20% of our investments dedicated to Snamtec. We are working for the energy network of the future that is more modern, sustainable and integrated with the territories and by the end of the year we expect to double our hydrogen trials, bringing the blend to 10%”.

¹ Net of pass-through items.



Summary of results for the first nine months of 2019

Highlights

(millions of €)	First nine months			% change
	2018 (*)	2019	Change	
Regulated revenue	1,864	1,925	61	3.3
<i>- Regulated revenue net pass through items</i>	<i>1,820</i>	<i>1,879</i>	<i>59</i>	<i>3.2</i>
Total revenue	1,917	2,000	83	4.3
<i>- Total revenue net pass through items</i>	<i>1,873</i>	<i>1,954</i>	<i>81</i>	<i>4.3</i>
EBITDA	1,596	1,661	65	4.1
EBIT	1,090	1,125	35	3.2
Net profit (**)	793	867	74	9.3
Technical investments	564	650	86	15.2
Net financial debt	11,738	11,871	133	1.1

(*) The results for the first nine months of 2018 are adjusted.

(**) Entirely held by Snam shareholders.

Total revenue

Total revenue, excluding items that are offset in costs, amounted to €1,954 million, up by €81 million, or 4.3%, on the first nine months of 2018. This increase reflected higher regulated revenue (+€59 million; +3.2%), mainly due to the results of the natural gas transportation segment, which benefited from the increase in the WACC (from 5.4% in 2018 to 5.7% in 2019) and seasonal effects on the volumes injected, along with higher non-regulated revenue (+€22 million; +41.5%), mainly due to the contribution by the companies that entered the consolidation scope.

EBITDA

EBITDA amounted to €1,661 million, up by €65 million, or 4.1%, on adjusted EBITDA for the first nine months of 2018 (€1,596 million). The higher revenue was partly offset by the increase in operating costs (+€16 million, excluding items that are offset in revenue), mainly due to the consolidation and merger of new companies, partly absorbed by actions which were taken as part of the efficiency plan and by a different phasing of operating costs.

EBIT

EBIT amounted to €1,125 million, up by €35 million, or 3.2%, on adjusted EBIT for the first nine months of 2018. The increase in EBITDA was partly offset by the greater impact of depreciation (-€30 million; 5.9%), essentially due to the entry into service of new assets. Going through the operating segments, the increase in EBIT mainly reflects the positive performance of the transportation segment (+€48 million; +5.7%).



Regasification and gas storage segments' operating performance was substantially in line with the same period of 2018.

Net financial expense

Net financial expense amounted to €126 million, down by €19 million, or 13.1%, on the first nine months of 2018. The decrease resulted from optimisation of the financial structure and positive market conditions.

Net income from equity investments

Net income from equity investments amounted to €170 million, up by €39 million, or 29.8%, on the first nine months of 2018, thanks to the contribution of Teréga (+€16 million; +64.0%), following the release of a provision for tax disputes, and the entry of Senfluga (+€22 million)², the company that on 20 December 2018 acquired control of Desfa, with a 66% share of the share capital.

Net profit

Net profit amounted to €867 million, up by €74 million, or 9.3%, on the adjusted net profit for the first nine months of 2018 (€793 million). The increase in the pre-tax profit (+€93 million; +8.6%) was partly offset by the impact of higher income taxes (-€19 million; 6.7%).

Technical investments

Technical investments for the first nine months of 2019 amounted to €650 million, up by €86 million, or 15.2%, on the first nine months of 2018. They mainly relate to the transportation (€556 million) and storage (€77 million) segments. Investments in Snamtec, Snam's new innovation and energy transition project, amounted to €113 million in the first nine months of 2019.

Net financial debt

Net financial debt amounted to €11,871 million as at 30 September 2019 (€11,548 million as at 31 December 2018). The positive net cash flow from operating activities (€1,153 million) fully covered the financial requirements for net investments in the period (€703 million) and allowed Snam to generate a free cash flow of €450 million. Net financial debt, after equity cash flow essentially resulting from the payment of the 2018 dividend to shareholders (€746 million, consisting of an interim dividend of €298 million

² This result benefited from the higher volumes of gas transported compared with the volumes considered by the Greek regulatory authority and from the application of the tariffs for the previous regulatory period (2016-2018) until August 2019, both effects subject to future adjustment on the basis of the allowed revenues for the full year 2019.



and the final dividend of €448 million), increased by €323 million on 31 December 2018, including the non-monetary items with an impact on debt (+€30 million)³.

Interim dividend

Based on the results for the first nine months of the year and forecasts for all of 2019, Snam's Board of Directors has approved the distribution of an interim dividend for 2019 of €0.095 per share, with payment starting from 22 January 2020, with a coupon date of 20 January 2020 and record date of 21 January 2020.

Outlook

At the end of 2019, demand on the Italian gas market is expected to increase slightly compared to 2018 levels, adjusted for the weather effect, confirming the first nine months trend.

Investments for 2019 are expected to total roughly €1 billion, as focus remains on replacements and maintenance to continue guaranteeing the highest resilience, flexibility and efficiency of existing infrastructures. Furthermore, over a quarter of investments will go towards development initiatives, including the North-West links, local service and cross-border flows, as well as strengthening the network in the South.

Snam will also continue to focus on operating efficiency in 2019, through initiatives that enable to reduce core business costs.

The steps taken to optimise the financial structure in the past three years have led to a significant reduction in the average cost of debt. The company's operations will continue to ensure attractive, sustainable returns for shareholders, while maintaining a well-balanced financial structure.

A conference call will take place at 12:00 pm CET today, 14 November 2019, to present the consolidated results for the first nine months of 2019 to investors and financial analysts. The conference call will be open to listeners, and support material will be made available at www.snam.it in the Investor Relations section when the conference call begins. The presentation will also be webcast in the Investors Relations section.

³ These items mainly consist of the effects of applying IFRS 16 "Leases", which became applicable as from 1 January 2019 (€24 million).



Key operating figures

		First nine months			% change
		2018	2019	Change	
Natural gas injected into the national gas transportation network (a) (b)	(billions of m ³)	55.70	58.43	2.73	4.9
Gas demand (a)	(billions of m ³)	51.81	54.36	2.55	4.9
LNG regasification (a)	(billions of m ³)	0.63	2.03	1.40	
Available storage capacity (a) (c)	(billions of m ³)	12.4	12.5	0.10	0.8
Natural gas moved through the storage system (a)	(billions of m ³)	16.42	15.79	(0.63)	(3.8)
Employees in service at period end (d)	(No)	2,986	3,006	20	0.7

- (a) Gas volumes for the first nine months of 2019 are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 MJ/SCM (10.575 Kwh/SCM) for natural gas transportation and regasification and 39.23 MJ/SCM (10.895 Kwh/SCM) for natural gas storage for thermal year 2019-2020.
- (b) The figures for the first nine months of 2019 are updated to 7 October 2019. The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.
- (c) Working gas capacity for modulation, mining and balancing services, allocated in full as at 30 September 2019.
- (d) Fully consolidated companies.

Natural gas injected into the national transportation network

A total of 58.43 billion cubic metres of natural gas were injected into the national transportation network in the first nine months of 2019, 2.73 billion cubic metres, or 4.9%, more than in the first nine months of 2018, mainly due to the rise in demand for natural gas in Italy (54.36 billion cubic metres; +2.55 billion cubic metres more than in the first nine months of 2018; +4.9%), along with the net balance of storage. The trend in gas demand was mainly due to higher consumption in the thermoelectric sector (+2.77 billion cubic metres; +15.7%) which benefited from the greater use of natural gas in the electricity generation, from the reduction in electricity imports and the smaller production from renewable sources as hydroelectric power generation has decreased, despite the growth in wind and solar power. These factors were partly offset by the decrease in consumption in the residential and tertiary sector (-0.31 billion cubic metres; -1.6%), following warmer temperatures in February and March 2019 than in the same months of 2018.

Adjusted for the weather effect, gas demand was estimated to be 53.52 billion cubic metres, up by 2.32 billion cubic metres, or 4.5%, compared with the first nine months of 2018 (51.20 billion cubic metres), despite the rise of efficiency measures in the residential and tertiary sector.



Liquefied natural gas (LNG) regasification

In the first nine months of 2019, 2.03 billion cubic metres of LNG were regasified at the LNG terminal in Panigaglia (SP) (compared to 0.63 billion cubic metres in the first nine months of 2018), with 49 deliveries from LNG ships, up on the first nine months of 2018 (+34 deliveries), also thanks to the new auction-based capacity allocation mechanisms.

Storage of natural gas

In all, 15.79 billion cubic metres of natural gas passed through the storage system in the first nine months of 2019, a decrease of 0.63 billion cubic metres, or 3.8%, on the 16.42 billion cubic metres in the same period of the previous year. The reduction was mainly attributable to lower withdrawals (-0.56 billion cubic metres; -8.4%), primarily as a result of weather conditions.

Total storage capacity at 30 September 2019, including strategic storage, was 17.0 billion cubic metres (16.9 billion cubic metres at 30 September 2018; +0.1 billion cubic metres). The total capacity includes 12.5 billion cubic metres of fully allocated available storage capacity at 30 September 2019, up by 0.1 billion cubic metres on 30 September 2018 thanks to the gradual increase in working gas associated with the start of operations at the Bordolano plant. The total capacity also includes 4.5 billion cubic metres for strategic storage (the same as for thermal year 2018-2019)⁴.

Analysis of the Reclassified Statement of Financial Position

Fixed capital

Fixed capital (€19,237 million) increased by €381 million on 31 December 2018, essentially due to: (i) the increase in property, plant and equipment (€247 million), partly because of the recognition of leased assets as right-of-use assets in accordance with the new IFRS 16 applicable as of 1 January 2019 (€20 million)⁵ and the effects of adjusting the present value of expenditure for site dismantling and reclamation following a reduction in the expected discount rates; (ii) the increase in equity investments (+€73 million) as a result of the profits for the first nine months of 2019, which were partly absorbed by the collection of 2018 dividends.

⁴ By circular letter of 8 January 2019, the Ministry of Economic Development confirmed that the strategic gas storage volume for thermal storage year 2019-2020 (1 April 2019-31 March 2020) would remain at 4.62 billion standard cubic metres, 4.5 billion standard cubic metres of which was allocated to Stogit.

⁵ As required by IFRS 16, as it recognised leased assets as right-of-use assets, Snam has also recognised the related financial liabilities representing its obligation to make payments in accordance with the leases in place.



Net financial debt

(millions of €)	31.12.2018	30.09.2019	Change
Bonds	8,446	9,515	1,069
- of which short-term (a)	913	1,020	107
Bank loans (b)	4,749	3,983	(766)
- of which short-term (a)	2,495	802	(1,693)
Euro Commercial Paper - ECP	225	2,000	1,775
Lease liabilities (c)		20	20
GROSS FINANCIAL DEBT	13,420	15,518	2,098
Cash and cash equivalents	(1,872)	(3,647)	(1,775)
NET FINANCIAL DEBT	11,548	11,871	323

(a) Includes the short-term portion of long-term financial debt.

(b) Including €1,683 million in funds from the European Investment Bank (EIB).

(c) Including long-term lease liabilities (€14 million) and the short-term portion of long-term lease liabilities (€6 million).

The €323 million increase in net financial debt is due to: (i) the increase in bonds (+€1,069 million), following the new bond issues with a total nominal value of €1,850 million, partly offset by the repayment of bonds at maturity for a total nominal value of €744 million; (ii) the new net issues of Euro Commercial Paper (€1,775 million), i.e. short-term unsecured instruments issued on the monetary market and placed with institutional investors; partly offset by (iii) the reduction in bank loans (-€766 million), mainly because of lower net availments of uncommitted lines of credit (-€1,001 million); and (iv) the increase in cash and cash equivalents (-€1,775 million) essentially relating to short-term cash investments maturing within three months.



Net working capital

(millions of €)	31.12.2018	30.09.2019	Change
Trade receivables	1,247	977	(270)
Inventories	109	107	(2)
Tax assets	26	29	3
Other assets	105	114	9
Provisions for risks and charges	(665)	(807)	(142)
Trade payables	(491)	(334)	157
Tax liabilities	(23)	(174)	(151)
Accruals and deferrals from regulated activities	(362)	(136)	226
Deferred tax liabilities	(134)	(96)	38
Derivative liabilities/(assets)	(29)	(75)	(46)
Other liabilities	(1,042)	(590)	452
	(1,259)	(985)	274

Net working capital (-€985 million at 30 September 2019) shows a €274 million improvement on 31 December 2018. This increase was mainly due to: (i) the reduction in other liabilities following the payment of the 2018 interim dividend on 23 January 2019, equal to €0.0905 per share (+€298 million); (ii) the payment of prior year tariff items in the transportation segment relating to 2015-2017 (+€180 million), combined with lower net liabilities for additional tariff components invoiced to users and owed to CSEA (the Italian energy and environmental fund) (+€42 million); and (iii) lower net payables for the balancing and gas settlement service (+€44 million). These factors were partly offset by the increase in the provisions for risks and charges (-€142 million), mainly due to the adjustment of the present value of expenditure for site dismantling and restoration costs following a reduction in the expected discount rates, in addition to greater tax liabilities (-€151 million) on the recognition of the tax charge for the period, net of advances paid.

Main events

Financing

New bond issue

As part of the EMTN (Euro Medium Term Notes) programme that the Board of Directors approved on 2 October 2018, on 12 September 2019, Snam S.p.A. successfully issued a two tranche note with respective maturities of around 5 and 15 years, coupon of 0% and 1% and amount of €500 and €600 million, to pre-fund the 2020 due dates.

Renewal of the EMTN programme

On 2 October 2019, the Board of Directors approved the annual renewal of the EMTN programme launched in 2012, to be executed by 2 October 2020, for a maximum total of €11 billion, up from €10 billion, one of the purposes of which is to ensure adequate flexibility during market upswings.



As at the date of this release, roughly €9.1 billion in bonds had been issued as part of the EMTN programme⁶.

Core business development

Snam and Iren: agreement on the share of the OLT terminal - Livorno regasifier

On 20 September 2019, Snam and Iren Group signed an agreement for Snam to acquire 49.07% of OLT (Offshore LNG Toscana). The net consideration at closing, in line with the previous deal between Uniper and First State Investments, considering the change in the schedule, will amount to approximately €345 million (including the interest established by the agreement at the valuation date and excluding any upwards adjustments). Snam will pay the consideration using own funds.

The closing is subject to the competent authorities' prior approval (Antitrust authorization and 'Golden Power' authorization).

Sustainable mobility

Memorandum of understanding (MoU) with OMV and TAG

On 24 September 2019, Snam, its investee TAG and OMV signed a memorandum of understanding to promote LNG-based sustainable mobility in Austria.

The purpose of the agreement is to explore potential opportunities for LNG in the Austrian transportation sector, ranging from the possible construction of a small-scale LNG plant to developing procurement and the LNG market in Austria.

Energy efficiency

TEA Servizi

On 11 November 2019, Snam, through the wholly-owned company Asset Company 4 S.r.l., completed the acquisition of 100% of the share capital of TEA Servizi S.r.l. (TEA), Energy Service Company (ESCo) active in the design, construction and operation of thermo-hydraulic and electrical systems for industrial customers, with a particular focus on small and medium enterprises. Revenues from the acquired perimeter amount to approximately €3 million for 2018. The initiative allows Snam to integrate its range of services for industrial customers, adding plant design, operation and maintenance skills to the current proposal developed through TEP Energy Solution.

Update on regulations and rates for the fifth regulatory period 2020-2025

Liquefied natural gas (LNG) regasification

⁶ The convertible bond with a nominal value of €400 million is not part of the EMTN Programme.



By means of consultation document 391/2019/R/gas, published on 27 September 2019, as part of the consultation process initiated by means of Resolution 141/2017/R/gas of 16 March 2017, the regulator provided guidance for the drafting of measures regulating the LNG regasification service rates for the fifth regulatory period (beginning in 2020). The resolution approving the new regulatory criteria is expected to be passed in the fourth quarter of 2019.

Storage of natural gas

By means of Resolution 419/2019/R/gas of 23 October 2019, which was adopted upon the conclusion of Procedure 68/2018/R/gas, initiated on 8 February 2018, the energy, networks and environment regulator established the natural gas storage service quality and rate regulations for the fifth regulatory period (2020-2025).

The main elements of these regulations include: (i) the regulatory period is set to last six years, from 1 January 2020 to 31 December 2025, with an update of the X-factor level midway through the period in order to consider any higher (or lower) recoveries of productivity in 2020-2021; and (ii) confirmation that the β asset parameter for 2020-2025 will remain 0.506, with a WACC that will therefore continue to be set at 6.7% in terms of real pre-tax rates for 2020-2021.

Other information

Covenants

As at 30 September 2019, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions.

Some of these contracts include, *inter alia*, covenants typical of international market practice, some of which are subject to specific threshold values, such as for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations to pledging collateral or other encumbrances on all or part of their respective assets, shares or goods; (ii) *pari passu* and change of control clauses; (iii) limitations on certain extraordinary transactions that the company and its subsidiaries may carry out; and (iv) limits to the indebtedness of subsidiaries.

Failure to comply with these covenants and the occurrence of other events, such as cross-default events, could place Snam in default and trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam's rating is lower than BBB (Standard & Poor's/Fitch) or lower than Baa2 (Moody's), with at least two of the three rating agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's results, financial position and cash flow, resulting in additional costs and/or liquidity issues.

As at 30 September 2019, the financial debt subject to these restrictive clauses amounted to approximately €3.2 billion.

Bonds issued by Snam as at 30 September 2019, with a nominal value of €9.5 billion, mainly referred to securities issued under the Euro Medium Term Notes programme.



The covenants established for the programme's securities are typical of international market practice and consist of, *inter alia*, negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its material subsidiaries are subject to limitations to pledging or maintaining encumbrances on all or part of their assets or proceeds to guarantee present or future debt, unless this is explicitly permitted.

TEP Energy Solution dispute

On 14 December 2018, TEP Energy Solution S.r.l. received a notice of tax assessment limited to the 1 January 2013-31 December 2013 tax period. The notice of tax assessment was the result of a tax audit of the company that began on 27 September 2018 to verify its compliance with tax law requirements applicable to income tax, VAT and other duties. The proceeding started as a result of a more extensive investigation which had been initiated by the Milan Public Prosecutor's Office into a system of tax fraud based on issuing and using invoices for objectively and subjectively non-existent transactions in connection with energy certificate trading. Based on the findings of the tax audit, on 21 January 2019, TEP Energy Solution received a notice of tax assessment for the 1 January 2014-31 December 2014 tax period and TEP REAL ESTATE received one for the 2013 and 2014 tax years. The findings mainly refer to the alleged non-deductibility of VAT.

Following notification of the notices of tax assessment, the company lodged defence briefs with the tax authorities and requested a hearing with the same tax office in order to clarify and explain the facts set out in the notices of tax assessment for a correct reconstruction of events. During the hearing with the tax authorities, the possibility of settling the notices of tax assessment arose, which would entail assessments with the taxpayer's acceptance and partial dismissal of the notices.

Next, on 30 July 2019, the tax authorities and TEP signed separate deeds of acceptance to settle the aforementioned notices of tax assessment, and the company paid the agreed amounts, while enforcing the contractual guarantees given to it by the sellers when Snam had acquired control of the company (took place in May 2018). At the same time as the hearing with the tax authorities, meetings were held with the Public Prosecutor, who on October 3, 2019 filed a motion for dismissal, for which a decision by the Judge for the Preliminary Investigations (GIP) is still pending.

Cassa Depositi e Prestiti – Re-qualification of shareholding interest in Snam S.p.A.

By resolution of 1 August 2019, the Board of Directors of CDP S.p.A., which, through its subsidiary CDP Reti S.p.A., holds a 31.04% interest in Snam S.p.A., re-qualified its shareholding interest, which already qualifies as de facto control pursuant to international accounting standard IFRS 10 - Consolidated financial statements from 2014, as de facto control pursuant to art. 2359, paragraph 1, no. 2) of the Italian civil code and art. 93 of the Consolidated Finance Act (TUF).



Methodological note

The financial, performance and cash flow data have been 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 endorsed by the European Commission with 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 in the preparation of the results for the first nine months of 2019 are the same as those adopted to prepare the 2018 Annual Report, to which reference should be made for a description of the criteria, except for the effects of applying IFRS 16 “Leases”, which became applicable on 1 January 2019. The impacts of applying IFRS 16 on the consolidated results are described in note 7 “Recently issued IFRS” of the 2018 Annual Report.

The changes in the consolidation scope of Snam Group at 30 September 2019, compared with 31 December 2018, consisted of the inclusion of the following companies: (i) Enura S.p.A. (formerly Asset Company 5 S.r.l.), 55% owned by Snam S.p.A. and assigned construction of the transportation infrastructure in Sardinia⁷; (ii) Snam Gas & Energy Services (Beijing) Co. Ltd, wholly owned by Snam International B.V., based China and established in April 2019 to support the development of the Chinese gas market using Snam’s distinctive expertise in this industry.

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

Non-GAAP measures

In its management disclosures, Snam presents, in addition to the financial measures required by the IFRS, certain measures deriving from the latter that are not required by the IFRS or by other standard setters (non-GAAP measures).

Snam's management believes that these measures facilitate the analysis of the performance of the Group and its operating segments, ensuring better comparability of results over time and enabling financial analysts to evaluate Snam’s results based on their forward-looking models.

Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS.

In accordance with Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and supplements (Consob Communication 0092543 of 3

⁷ Asset Company 5 S.r.l., which was set up by its sole shareholder Snam S.p.A. in June 2018, was renamed Enura S.p.A. on 1 April 2019, when Società Gasdotti Italia (SGI) joined its ownership structure with a 45% stake.



December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide information on the composition of the main alternative performance indicators used in this document, which are not directly based on reclassifications or algebraic sums of conventional indicators⁸ in accordance with the IFRS.

Adjusted EBIT and net profit

The adjusted EBIT and net profit are calculated by adjusting the reported EBIT and net profit, respectively before and after taxes, to exclude special items, as per the reclassified income statement.

There were no special items in the first nine months of 2019.

Income statement items classified as special items in the first nine months of 2018 referred to costs classified as “personnel expense” in accordance with the early pension programme pursuant to Article 4, paragraphs 1-7 of Law No 92/2012, known as the “Fornero Law” (€15 million, including the leaving incentives paid to employees who participated in the plan; €11 million excluding the tax effect).

Special items

Income statement items are classified as special items, if they are material and when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion.

Net financial debt

Snam’s net financial debt is presented in accordance with the Consob instructions for the net financial position (Consob Communication DEM/6064293 of 2006).

Net working capital

Net working capital is calculated by summing the assets and liabilities recognised in the statement of financial position and used in company operations. It therefore excludes amounts relating to investing and financing activities.

This press release on the unaudited consolidated results for the first nine months of 2019 has been prepared on a voluntary basis according to the instructions in Article 82-

⁸ According to the CESR/05-178b recommendation of October 2005, all the data included in the audited financial statements prepared in accordance with IFRS or in the income statement, the statement of financial position and the statement of cash flows are conventional indicators.



ter “Additional periodic financial information” of Consob Issuers' Regulation 11971 of 14 March 1999 and subsequent amendments and supplements, as a continuation of the quarterly reports provided by Snam in the past and in accordance with the minimum content and deadlines of the Group's financial calendar.

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 includes forward-looking statements, particularly in relation to: future trends in natural gas demand, investment 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.



RECLASSIFIED INCOME STATEMENT

(millions of €)	First nine months			2019 vs 2018 Adjusted	
	2018		2019	Change	% change
	Reported	Adjusted (a)			
Regulated revenue	1,864	1,864	1,925	61	3.3
- Transportation (b)	1,429	1,429	1,489	60	4.2
- Storage (b)	377	377	376	(1)	(0.3)
- Regasification	14	14	14		
- Pass-through revenue (c)	44	44	46	2	4.5
Non-regulated revenue	53	53	75	22	41.5
Total revenue	1,917	1,917	2,000	83	4.3
Total revenue – net of pass-through items	1,873	1,873	1,954	81	4.3
Costs of regulated activities	(283)	(268)	(252)	16	(6.0)
Controllable fixed costs	(186)	(186)	(180)	6	(3.2)
Variable costs	(8)	(8)	(11)	(3)	37.5
Other costs	(45)	(30)	(15)	15	(50.0)
Pass-through costs (c)	(44)	(44)	(46)	(2)	4.5
Costs of non-regulated activities	(53)	(53)	(87)	(34)	64.2
Total operating costs	(336)	(321)	(339)	(18)	5.6
Operating costs – net of pass-through items	(292)	(277)	(293)	(16)	5.8
EBITDA	1,581	1,596	1,661	65	4.1
Amortisation, depreciation and impairment losses	(506)	(506)	(536)	(30)	5.9
EBIT	1,075	1,090	1,125	35	3.2
Net financial expense	(145)	(145)	(126)	19	(13.1)
Net income from equity investments	131	131	170	39	29.8
Pre-tax profit	1,061	1,076	1,169	93	8.6
Income tax	(279)	(283)	(302)	(19)	6.7
Net profit (d)	782	793	867	74	9.3

- (a) Adjusted 2018 data exclude early pension costs (€15 million; €11 million excluding the tax effect). For additional details, refer to the paragraph on “Non-GAAP measures” in this press release.
- (b) In the consolidated financial statements, the considerations for the modulation service, an integral part of transportation revenue, are eliminated under the transportation companies, along with the costs of the service purchased from the storage company, in order to reflect the substance of the transaction. The comparative 2018 figures have been restated accordingly.
- (c) Revenue that, in accordance with the natural gas rate regulations, are offset in costs, are mainly due to interconnection.
- (d) Entirely held by Snam shareholders.



Statement of comprehensive income

(millions of €)	First nine months	
	2018	2019
Net profit (*)	782	867
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)	(3)	(67)
Share of "other comprehensive income" of investments accounted for using the equity method (**)		(40)
Tax effect	1	16
Total other components of comprehensive income, net of tax effect	(2)	(91)
Total comprehensive income (*)	780	776

(*) Entirely held by Snam shareholders.

(**) The figure for the first nine months of 2019 mainly refers to the change in the fair value of hedging derivatives for equity investments in associates.



Reclassified statement of financial position

(millions of €)	31.12.2018	30.09.2019	Change
Fixed capital	18,856	19,237	381
Property, plant and equipment	16,153	16,400	247
- of which rights of use of leased assets		20	20
Compulsory inventories	363	363	
Intangible assets	907	919	12
Equity investments	1,750	1,823	73
Long-term financial receivables	11	1	(10)
Net payables for investments	(328)	(269)	59
Net working capital	(1,259)	(985)	274
Provisions for employee benefits	(64)	(54)	10
NET INVESTED CAPITAL	17,533	18,198	665
Shareholders' equity	5,985	6,327	342
- Held by Snam shareholders	5,985	6,324	339
- Minority interests		3	3
Net financial debt	11,548	11,871	323
- of which financial payables for leased assets		20	20
COVERAGE	17,533	18,198	665

Shareholders' equity

(millions of €)	
Shareholders' equity at 31 December 2018	5,985
- Comprehensive income for the first nine months of 2019	776
- Share-based incentive plan	5
- Other changes	9
- Final 2018 dividend	(448)
Shareholders' equity at 30 September 2019	6,327
- Held by Snam shareholders	6,324
- Minority interests	3



RECLASSIFIED STATEMENT OF CASH FLOWS

(millions of €)	First nine months	
	2018	2019
Net profit	782	867
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	390	363
- Net capital losses (capital gains) on asset sales and write-offs	9	3
- Interest and income taxes	404	408
Change in working capital due to operating activities	127	(297)
Dividends, interest and income taxes collected (paid)	(148)	(191)
Net cash flow from operating activities	1,564	1,153
Technical investments	(556)	(640)
Technical divestments	3	1
Companies entering the scope of consolidation and business units	(30)	
Equity investments	(10)	(5)
Change in long-term financial receivables	(117)	
Other changes relating to investing activities	(22)	(59)
Free cash flow	832	450
Change in short-term financial receivables	350	
Change in short and long- term financial debt	1,108	2,072
Repayment of financial payables for leased assets		(4)
Equity cash flow	(1,023)	(743)
Net cash flow for the period	1,267	1,775

CHANGE IN NET FINANCIAL DEBT

(millions of €)	First nine months	
	2018	2019
Free cash flow	832	450
Effects of first-time application of IFRS 9	10	
Financial payables and receivables from companies entering the scope of consolidation	(5)	
Exchange rate differences on financial debt	(2)	(6)
Change in financial payables for leased assets		(24)
Equity cash flow	(1,023)	(743)
Change in net financial debt	(188)	(323)

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