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Oggetto : Snam: positive results for the year 2019

Testo del comunicato

Vedi allegato.



Snam: positive results for the year 2019

- **Total revenue:** €2,604 million (+€76 million; +3% compared with 2018);
- **Adjusted EBITDA:** €2,169 million (+€74 million; +3.5% compared with 2018), due to higher revenues and operating cost control;
- **Adjusted EBIT:** €1,417 million (+€12 million; +0.9% compared with 2018). The increase mainly reflects the positive performance of the transportation segment and operating efficiencies delivered;
- **Adjusted net profit:** €1,093 million (+€83 million; +8.2% compared with 2018), due to the positive operating performance, the significant reduction in financial expenses thanks to action taken in previous years and further optimisation in 2019 (-€30 million in net financial expense compared with 2018), as well as higher net income from equity investments and other one-off or temporary effects;
- **Technical investments:** €963 million, of which €172 million in investments in innovation and energy transition (SnamTec), in line with expectations;
- **Free cash flow:** €482 million;
- **Net financial debt:** €11,923 million (€11,548 million as at 31 December 2018);
- **Reduction in the average cost of gross debt:** from 1.5% in 2018 to 1.1% in 2019;
- **Increase in operating efficiency:** €51 million in efficiencies gained compared with 2016;
- **Proposed dividend:** €0.2376 per share;
- **COVID-19 emergency:** €20 million has been allocated, partly through the Snam Foundation, to the healthcare system and tertiary sector

San Donato Milanese (MI), 19 March 2020 - The Snam Board of Directors, which met yesterday, chaired by Luca Dal Fabbro, has approved the consolidated financial statements and the draft annual financial statements for 2019 and the 2019 Consolidated Non-Financial Statement (NFS) prepared in accordance with Italian Legislative Decree no. 254/2016. The Board has also voted to propose the distribution of a dividend of €0.2376 per share to the Shareholders' Meeting, of which €0.095 per share was already distributed in January 2020 as an interim dividend.

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

"Snam's progress towards the energy transition accelerated significantly in 2019: we were one of the world's first companies to introduce hydrogen into our transmission grid, and we allocated over 20% of our investments out to 2023 to innovation, as well as to new energy efficiency, sustainable mobility and biomethane businesses, which will also be enhanced by recent acquisitions. We have also launched new standards for purchasing materials that will make Snam's network more 'hydrogen ready', guaranteeing that our infrastructure plays an increasingly central role in the decarbonisation process."



The positive operating performance, reduction in costs, and higher income from equity investments have allowed us to continue to grow our performance and shareholder remuneration. We have a long-term perspective and have committed to increasing the integration of ESG factors into our business, and to work in the interest of all stakeholders. This is demonstrated by our plans to reduce the environmental impact of our activities by more than 40% by 2030, and various initiatives launched to contribute to the economic and social development of areas in which we operate”.

Summary of 2019 results

Highlights

(millions of €)	2018	2019	Change	% change
Regulated revenue	2,485	2,550	65	2.6
- Regulated revenue net of pass through	2,427	2,489	62	2.6
Total revenue	2,586	2,665	79	3.1
- Total revenue net of pass through	2,528	2,604	76	3.0
EBITDA (*)	2,095	2,169	74	3.5
(EBIT) (*)	1,405	1,417	12	0.9
Net profit (**)	1,010	1,093	83	8.2
Net profit per share (a)	(€) 0.286	0.330	0.044	15.4
Adjusted net profit per share (a)	(€) 0.301	0.331	0.030	10.0
Diluted net profit per share	(€) 0.280	0.323	0.043	15.4
Technical investments	882	963	81	9.2
Net financial debt	11,548	11,923	375	3.2
Shareholders' equity held by Snam's shareholders	5,985	6,255	270	4.5

(*) Figures are stated in the adjusted configuration.

(**) Entirely attributable to Snam shareholders.

(a) Calculated considering the average number of shares outstanding during the year.

Total revenue

Total revenue, net of components offset in costs, was €2,604 million, up by €76 million (or 3.0%) on 2018. The increase is due to higher regulated revenue (+€62 million; +2.6%), essentially due to the natural gas transportation business, which benefits from an increase in tariff parameters and past years' investments, as well as to the new output-based services (+€3 million) and higher non-regulated revenue (+€14 million; +13.9%) reflecting the contribution from services and companies that joined the consolidation scope in 2018, partly absorbed by lower revenues from services regulated by contracts concluded as at 31 December 2018.



Adjusted EBITDA

Adjusted EBITDA totalled €2,169 million, up €74 million or 3.5% on the corresponding 2018 figure (€2,095 million); this related to the increase in revenues and operating cost control, which has resulted in more than €50 million of savings compared to the 2016 starting-point figure. The 2023 target remains equal to at least €65 million.

Operating costs of €435 million, net of components with a counter-entry in revenues and special items¹, are broadly in line with 2018 (-€2 million, net of components with a counter-entry in revenues; 0.5%). The effects of the efficiency plan actions implemented, equal to approximately €15 million, were absorbed by costs recorded throughout FY 2019 by companies that entered the consolidation scope in 2018 and by costs related to the prosecution of activities for the energy transition.

Adjusted EBIT

FY 2019 adjusted EBIT totalled €1,417 million, up €12 million (0.9%) compared with the same value of 2018. The increase in EBITDA was partially offset by higher amortisation/depreciation (-€40 million; +5.9%), essentially due to the commissioning of new infrastructure and new companies entering the consolidation area, as well as the higher impairment of works related to projects of past years.

Net financial expense

Net financial expense (€165 million), net of special items², saw a €30 million reduction, equal to 15.4%, compared with FY 2018. The reduction is mainly due to lower expenses relating to net financial debt (-€35 million; -17.6%), specifically due to the lower average cost of gross debt, down from 1.5% in 2018 to 1.1% in 2019, thanks to the continuous optimisation of the Group's financial structure and risk management implemented by Snam, as well as positive market conditions.

Net income from equity investments

Net income from equity investments totalled €216 million, an increase of €57 million, up 35.8%, compared with FY 2018. The increase is mainly due to the full-year contribution from the company Senfluga (+€33 million) - which acquired control of DESFA on 20

¹ Special items refer to the release to profit and loss of the provision for doubtful debt in reference to previous receivables relating to the balancing (€35 million). More details are given in the "Other information" paragraph of this release, to which we would refer you. For the nature and reconciliation of the individual adjustments, read the paragraph: "Non-GAAP measures" of this press release.

² The special items are expenses connected with the liability management operation implemented in December 2019 (€38 million). For the nature and reconciliation of the individual adjustments, read the paragraph: "Non-GAAP measures" of this press release.



December 2018, with a 66% stake in the share capital, which in turn benefited from an extremely favourable growth in gas volumes, and the contribution made by the French company Teréga (+€16 million), following the release of a provision for tax disputes and non-recurring effects.

Adjusted net profit

The net adjusted profit for FY 2019, which excludes special items (€3 million, net of the related tax effect), was €1,093 million, up €83 million (or 8.2%) compared to the adjusted net profit of FY 2018.

The greater pre-tax profit (+€99 million; +7.2%) was partly offset by greater income taxes (-€16 million; 4.5%), due mainly to the rise in pre-tax profit.

Adjusted net earnings per share were €0.331, up 10.0% on 2018.

Technical investments

Technical investments for 2019, totalling €963 million (€882 million in 2018), related mainly to the natural gas transportation (€813 million) and storage (€112 million) business segments. Investments relating to SnamTec, the new project launched by Snam and focused on innovation and the energy transition, came to €172 million in 2019, in line with forecasts.

Net financial debt

Net financial debt was €11,923 million as at 31 December 2019 (€11,548 million as at 31 December 2018).

Positive net cash flow from operations (€1,486 million) enabled Snam to fully cover the financial requirements associated with net investments (€1,004 million) and to generate free cash flow of €482 million. Net financial debt, after equity cash flow deriving essentially from the payment to the shareholders of the 2018 dividend (€746 million, of which €298 million by way of interim dividend and €448 million as balance) and the purchase of own shares (€39 million), saw a rise of €375 million on 31 December 2018, including non-monetary components related to financial debt (€75 million), mainly relating to changes in the consolidation scope and financial payables recorded in the application of IFRS 16 "Leasing".

Additionally, during 2019, Snam continued to focus increasingly on sustainable finance instruments, becoming the first in Europe to launch a Climate Action Bond for €500 million to finance a series of initiatives aimed both at reducing emissions and supporting its strategy in the energy transition. More specifically, in view of this issue, 2019 saw €235 million of investments completed, equal to approximately 48% of the nominal value of the bond. In relation to the €3.2 billion sustainable loan, the KPIs in place were fully achieved and, therefore, the 2.5 bps discount on the margin was achieved.



Dividend

Our healthy results and solid business fundamentals allow us to propose a dividend of €0.2376 per share to the Shareholders' Meeting, of which €0.095 per share was paid in January 2020 as an interim dividend (€313 million) and the balance of €0.1426 per share will be paid from 24 June 2020 with warrant date 22 June 2020 (record date 23 June 2020). The dividend proposed, up 5% on 2018, in line with the dividends policy announced in the Business Plan, confirms Snam's commitment to an attractive and sustainable remuneration of its shareholders over time.

The Board of Directors, in a following meeting, will call the Shareholders' Meeting.

* * *

The 2019 Annual Financial Report, which contains the 2019 Consolidated Non-Financial Statement, draw up in the form of a specific section of the Report on operations, in compliance with the provisions of Art. 5, paragraph 1 (a) of Italian Legislative Decree no. 254/2016, has been made available to the Board of Statutory Auditors and the Independent Auditors and will be made available to the public at the registered offices, on the Company's website www.snam.it, together with the reports by the Board of Statutory Auditors and the Independent Auditors, in compliance with the terms set by Italian Legislative Decree no. 58/98 (the Consolidated Finance Act or "TUF").

A conference call will take place at 14:00 CET today, 19 March 2020, to present the consolidated results for 2019 to investors and financial analysts. An audio webcast of the presentation will be available on the Company's website (www.snam.it). In conjunction with the conference call, the presentation support material will also be made available in the "Investor Relations/Presentations" section of the website.



Key operating figures

		2018	2019	Change	% change
Natural gas injected into the national gas transportation network (a) (b)	(billions of m ³)	72.82	75.37	2.55	3.5
Gas demand (a)	(billions of m ³)	72.67	74.34	1.67	2.3
LNG regasification (a)	(billions of m ³)	0.91	2.40	1.49	
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)	21.07	19.33	(1.74)	(8.3)
Employees in service at year end (d)	(No)	3,016	3,025	9	0.3

(a) With regard to 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 data for 2019 were updated at 27 January 2020. 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

In 2019, a total of 75.37 billion cubic metres of gas were injected into the network, an increase of 2.55 billion cubic metres (+3.5%) compared with 2018. The increase is mainly a result of higher consumption in the thermoelectric power generation sector (+2.45 billion cubic metres; +10.1%) following greater use of natural gas in the generation of electricity, a reduction in electricity imports and lower production from renewable sources, especially hydroelectric power, despite the growth in wind and solar power. Adjusted for the weather effect, gas demand came to 74.61 billion cubic metres, up 1.76 billion cubic metres (+2.4%) compared with the equivalent in 2018 (72.85 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 2019, 2.40 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.91 billion cubic metres in 2018; +1.49 billion cubic metres). In 2019, 57 methane tanker loads were unloaded (+36 on 2018). The significant increase in business volumes as compared with last year is mainly due to the more competitive cost of LNG as compared with natural gas, as well as new mechanisms for the allocation of regasification capacity through specific auction procedures.

Natural gas storage

Available storage capacity as at 31 December 2019, of 12.5 billion cubic metres (+0.1 billion cubic metres on 2018, made available by the progressive commissioning of the new



Bordolano field) is the largest capacity offered Europe-wide and has been entirely conferred for thermal year 2019-2020. 19.33 billion cubic metres of gas moved through the storage system in FY 2019, a reduction of 1.74 billion cubic metres, or 8.3%, compared with FY 2018. The reduction was mainly attributable to lower withdrawals from storage (-1.26 billion cubic metres; -12.1%), primarily due to weather conditions.

Analysis of the Reclassified Statement of Financial Position

Fixed capital

Fixed capital (€19,311 million) increased by €455 million on 31 December 2018, essentially due to: (i) the increase in Property, plant and equipment (+€286 million), also following the booking of assets representing the right of use of leased assets, in application of the new standard IFRS 16 “Leasing”, in force starting 01 January 2019 (+€21 million), the change in the consolidation scope (+€108 million) in view of the acquisitions of 83.63% of the Renerwaste Group (€98 million) and 100% of TEA Servizi (€10 million), as well as the effects of the adjustment of the current value of outlays in view of the costs for decommissioning and restoring sites (+€42 million); (ii) greater equity investments (+€78 million) in view of the profits booked in FY 2019, partly absorbed by dividends collected in respect of FY 2018.

Net financial debt

(millions of €)	31.12.2018	31.12.2019	Change
Bonds	8,446	9,048	602
- of which short-term (*)	913	1,439	526
Bank loans	4,749	3,704	(1,045)
- of which short-term (*)	2,495	685	(1,810)
Euro Commercial Paper - ECP (**)	225	2,001	1,776
Financial payables for leased assets (***)		21	21
GROSS FINANCIAL DEBT	13,420	14,774	1,354
Cash and cash equivalents	(1,872)	(2,851)	(979)
NET FINANCIAL DEBT	11,548	11,923	375

(*) Includes the current portion of non-current financial liabilities.

(**) Entirely short-term.

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

The €375 million increase in net financial debt is due to: (i) the increase in debenture loans (+€602 million) due to new bond issues for a total nominal amount of €2,050 million, partly offset by redemptions of debenture loans that had reached natural maturity, for a total nominal amount of €827 million and the buy-back on the market of fixed-rate bonds for a total nominal amount of €597 million; (ii) the new net issues of Euro Commercial Papers (+€1,776 million), short-term unsecured securities released to the money market and placed with institutional investors. These factors were partly absorbed: (i) by the



reduction in bank loans (-€1,045 million), mainly following lesser net uses of uncommitted credit facilities (-€1,301 million), partly offset by new loans stipulated with the European Investment Bank (EIB) for a total nominal amount of €265 million; (ii) by the greater liquid funds and equivalents (-€979 million), essentially referring to short-term liquid commitments maturing within three months.

Net working capital

(millions of €)	31.12.2018	31.12.2019	Change
Trade receivables	1,247	1,217	(30)
Inventories	109	112	3
Tax assets	26	35	9
Other assets	105	185	80
Provisions for risks and charges	(665)	(713)	(48)
Trade payables	(491)	(487)	4
Accruals and deferrals from regulated activities	(363)	(145)	218
Deferred tax liabilities	(134)	(106)	28
Derivative liabilities/(assets)	(29)	(63)	(34)
Tax liabilities	(23)	(35)	(12)
Other liabilities	(1,041)	(1,094)	(53)
	(1,259)	(1,094)	165

The Net Capital for the Fiscal Year (-1,094 million euro) increased by 165 million euro in respect to 31 December 2018. This increase was mainly due to: (i) the liquidation of previous tariff batches of the transportation sector relative to the years 2015-2017 (+€180 million)³; (ii) the recognition of the receivable due from CSEA in view of lesser amounts invoiced in 2019 as compared with the restriction established by the Regulatory Authority (+€96 million). These factors were partly offset by: (i) the lesser net assets for additional tariff components invoiced to transportation service users (-€55 million) mainly in view of the reduction in the additional CVOs tariff⁴; (ii) the increase in provisions for risks and charges (-€48 million) mainly due to the adjustment of the current value of costs for the decommissioning and restoration of sites following a reduction in the discounting rates expected; (iii) the greater hedging liabilities (-€34 million).

³ In accordance with ARERA resolution 114/2019/R/gas, net assets/liabilities relative to under-invoicing, over-invoicing and penalties will no longer be returned through future tariff adjustments; instead, they will be liquidated to the CSEA applicable to the "Transportation expense account".

⁴ The variable 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.



Outlook

Natural gas is gaining global prominence as an increasingly abundant and competitive energy source, as well as an immediate, inexpensive solution to decarbonisation. This central role will be reinforced thanks to both the rapid development of renewable gases, specifically within the biomethane chain, which will be able to grow solidly in Italy also due to Snam's investments and the numerous initiatives in progress worldwide to produce hydrogen from renewable sources at increasingly competitive costs.

In both Europe and Italy, a recovery in demand has been recorded in recent years, coupled with a growing need for imports from diversified routes, in light of the decline in domestic production and the progressive exit of various countries from coal-based thermoelectric production. In Europe, the need for imports has grown by 30% since 2014 and is expected to increase further in the medium-term. In Italy, on the other hand, according to the joint Snam-Terna scenarios published on 30 September 2019, gas consumption at 2040 is expected to be substantially in line with current levels, with renewable gases playing a growing role.

Snam has forecast an increase in investments for the period 2019-2023, taking them to €6.5 billion, approximately 14% more than in the 2018-2022 plan, both thanks to the greater contribution from new businesses in the energy transition and the increase in investments in replacements (the replacement of 1,000 km of network is envisaged during the plan time frame), in order to continue to guarantee maximum resilience, flexibility and efficiency of existing infrastructure.

SnamTec (Tomorrow's Energy Company) project investments are expected to reach €1.4 billion and are aimed at boosting Snam's capacity to innovate and fully capitalise on opportunities offered up by the evolution of the energy system.

With the new plan through to 2023, Snam intends to strengthen its role in the use of hydrogen, increasing its presence in the biomethane segment, which is set to play a key role in the decarbonisation process and confirming the commitment made to sustainable mobility and energy efficiency. It also aims to pioneer the use of hydrogen as a clean energy carrier of the future; to this end, it has established a business unit focused on the assessment of possible pilot projects and the contribution towards the chain's development.

Environmental, social and governance (ESG) factors are increasingly integrated into the company's strategies and management. In environmental terms, methane emissions will be reduced by 40% by 2025 (vs 2016) with respect to the 25% target set by the previous plan. A 40% reduction is envisaged in CO₂ emissions by 2030, thanks to the start of implementation of the first six gas-electric hybrid plants, which will also help ensure the flexibility of the electricity system, and to energy efficiency in buildings. By 2030, a 40% reduction is also forecast in CO₂ from electricity consumption, thanks to a greater use of photovoltaic. Through the subsidiary, TEP Energy Solution, and the Snam Foundation, the urban reforestation project of the Municipality of Milan, ForestaMI, will be supported. Snam has also recently launched the "Snam Plastic Less" programme, starting in 2020,



aimed at eliminating, all disposable plastic in drinks vending machines throughout the company's offices, and by 2023, all use of plastic in industrial packaging.

From a social standpoint, the company will continue implementing its internal and external training initiatives, policies for gender balance and inclusion, and the activities of Fondazione Snam for the development of territories.

Snam intends to strengthen the efficiency plan launched in the second half of 2016 with more than €65 million expected in savings by 2023, versus 2016, compared with the €60 million target of the previous plan. At the end of 2019, €51 million had already been booked – achieving the target previously set for 2021.

The optimisation of the financial structure implemented in the last three years has led to a reduction in the average cost of debt, from 2.4% in 2016 to 1.1% in 2019. The action taken also successfully reduces the volatility of the cost of debt, which is expected to remain stable at an average of 1.4% throughout the plan time frame.

Additionally, with the aim of aligning the financing strategy with its sustainability targets and extending the investor base, February saw Snam issue its first Climate Action Bond, which sets the rules for the issue of debenture loans aimed at financing investments in environmental sustainability. In April 2019, Snam obtained a reduction in the margin of its €3.2 billion sustainable loan.

As regards the impact on costs, including potential and forecast cash flows, of COVID-19, identified by China on 31 December 2019 in the city of Wuhan, capital of the province of Hubei, to date the company is unable to reliably determine any repercussions on the 2020 results or any implications for subsequent years. Based on the current and latest information available, also due to the nature of the business carried out by Snam, the company expects limited impact linked to the above circumstances.

Snam immediately implemented all the necessary measures to ensure the continuity of normal business operations and the energy security of the country.

At present, Snam is unable to fully assess and quantify any effects on development initiatives and suppliers or customers resulting from the pandemic and the uncertain macroeconomic context.

This also applies to assets held by the Snam Group outside Italy, specifically in France, Austria, Greece, Albania and the United Kingdom.

In relation to the COVID-19 emergency in Italy, Snam, also through Fondazione Snam, has allocated €20 million to initiatives in support of the healthcare system and tertiary sector. Snam will operate in close liaison with the authorities to support hospitals, healthcare facilities and other institutions for the purchase of the equipment and items needed, for healthcare and to support tertiary sector context protecting the young and the elderly. In this regard, Snam has signed contracts for the purchase of 500 lung ventilators and 600,000 N95 masks, which will be donated to the areas of Italy most affected by the COVID-19 emergency.

Marco Alverà, Snam's CEO and Vice President of Fondazione Snam, said: *"Today, more than ever, our commitment to providing the country with an essential service goes hand*



in hand with our social commitment. Snam's corporate bodies and employees are working closely with health professionals, non-profit organisations, and all institutions and Italian communities affected by the ongoing COVID-19 crisis."

Significant events

- **Core business development agreements:** upon conclusion of the agreements stipulated on 20 September 2019, Snam then, on 26 February 2020, completed purchase, from the Iren Group, of a 49.07% stake in the share capital of OLT (Offshore LNG Toscana) in exchange for a price, inclusive of the residual share of a shareholder loan from Iren S.p.A. in the favour of OLT, totalling approximately €332 million. Following this transaction, Snam has taken control over the regasification plant, jointly with First State Investments;
- **International business development:** established in Q1 2019, Snam Gas & Energy Services in Beijing, a full subsidiary of Snam International B.V., oversees the Chinese market and operates in the supply of technical services for gas transportation and storage;
- **Energy transition:** as announced in the Strategic Plan unveiled in November 2019, Snam remains committed to the energy transition. More specifically, in November 2019 the following acquisitions were completed: (i) 82.63% of Renerwaste S.r.l., one of the most important companies operating in Italy in biogas and biomethane infrastructure, for a consideration at closing, inclusive of the repayment of shareholder loans, of approximately €46 million; (ii) 100% of the capital of TEA Servizi S.r.l. (TEA), Energy Service Company (ESCO) operative in the design, development and operation of thermohydraulic and electric plants for industrial customers, with a particular focus on small and medium enterprises;
- **Bond buyback:** December 2019 marked the completion of the buyback on the market of its own bonds with a total nominal value of €597 million, with an average coupon of approximately 1.3% and a remaining maturity of approximately 3.8 years;
- **Share buyback:** in 2019, as part of the share buyback programme, a total of 8,412,920 Snam shares were bought back, accounting for 0.25% of the capital, for a cost of €39 million. The buyback programme was completed on 27 February 2020. In the period 1 January-27 February 2020, 23,070,187 shares were purchased for a total cost of approximately €111 million;
- **Cooperative compliance:** December 2019 saw Snam admitted to the cooperative compliance system established under the scope of national tax legislation.



Other information

Snam Rete Gas S.p.A. - Resolution 608/2015/R/gas - Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor

Upon completion of the proceedings initiated with Resolution 145/2013/R/gas to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor, relating to the period 1 December 2011 - 23 October 2012, in relation to three cases which had previously been investigated, with Resolution 608/2015/R/gas, the ARERA closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately €130 million (including VAT).

The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged resolution 608/2015/R/gas before the Regional Administrative Court of Milan, which with its ruling 942/2017, published on 21 April 2017, partially admitted the appeal submitted by Snam Rete Gas as it ruled in favour of payment of all or part of the expenses from uncollected receivables in relation to certain of the items in the investigation. The decision made by the Regional Administrative Court was then recently confirmed by the Council of State in its ruling no. 1630/2020, published on 05 March 2020. As a result of these rulings, the Company has obtained recognition of an amount of approximately €40 million (including VAT). An allocation had been made to the provision for impairment losses on receivables in relation to the costs in question.

Methodological note

This press release, which is prepared voluntarily in line with best market practice, illustrates the audited consolidated results for 2019.

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 measurement and recognition criteria adopted are the same as those used to prepare the 2018 Annual Financial Report, which should be referred to, except for the following international accounting standards effective as of 01 January 2019. The impacts deriving from the application of such provisions on the consolidated results of the Snam Group essentially related to the effects of the first application of IFRS 16 "Leasing".



During the first application of IFRS 16, the Snam Group chose to apply the standard retroactively, booking the cumulative effect of the application as at 01 January 2019, without recalculating the comparative information. The effects of this application were an increase in financial liabilities and a rise in assets for Property, plant and equipment in the amount of €20 million. The impact on the Group's shareholders' equity, net of the related tax effect, is consequently null. Changes in the Snam Group's consolidation scope at 31 December 2019 with respect to those in place at 31 December 2018 related to the consolidation of the following Companies:

Name	Sector	Direct shareholder	% ownership	Start date
Ecoprogetto Milano S.p.A.	Corporate and other activities	Renerwaste Lodi S.r.l.	55%	November 2019
		Renerwaste S.r.l.	45%	
Ecoprogetto Tortona S.r.l.	Corporate and other activities	Renerwaste S.r.l.	100%	November 2019
Enura S.p.A. (formerly Asset Company 5 S.r.l.)	Natural gas transportation	Snam S.p.A.	55%	March 2019
Renerwaste S.r.l.	Corporate and other activities	Snam 4 Environment S.r.l.	82.63%	November 2019
Renerwaste Lodi S.r.l.	Corporate and other activities	Renerwaste S.r.l.	100%	November 2019
Snam 4 Environment S.r.l.	Corporate and other activities	Snam S.p.A.	100%	November 2019
Snam Gas & Services (Beijing) Co., Ltd.	Corporate and other activities	Snam International B.V.	100%	April 2019
TEA Servizi S.r.l.	Corporate and other activities	Asset Company 4 S.r.l.	100%	November 2019

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

Non-GAAP measures

In order to allow for a better assessment of the performance of economic-financial operations, this Report includes the reclassified financial statements and some alternative performance indicators (Non-GAAP measures), mainly represented by the results in the adjusted configuration. More specifically, the operating profit and the adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the scheme of the Income Statement. Income entries classified as special items for FY 2019 refer to: (i) the financial expense deriving from the buyback on the market of bonds, as part of the liability management operation (€29 million, net of the related tax effect); (ii) the effects of the release to profit and loss of the provision for doubtful debt (€26 million, net of the related



tax effect) in view of the ruling by the Council of State on 05 March 2020, in connection with the receivables not collected in relation to balancing.

The table below shows the EBIT and net reported figures relating to the corresponding adjusted amounts.

(millions of €)	2018			2019		
	Reported	SPECIAL ITEM	Adjusted	Reported	SPECIAL ITEM	Adjusted
Regulated revenue	2,485		2,485	2,550		2,550
Non-regulated revenue	101		101	115		115
Total revenue	2,586		2,586	2,665		2,665
- Total revenue net of pass-through items	2,528		2,528	2,604		2,604
Operating costs	(512)	21	(491)	(461)	(35)	(496)
- Operating costs net of pass-through items	(454)	21	(433)	(400)	(35)	(435)
EBITDA	2,074	21	2,095	2,204	(35)	2,169
Amortisation, depreciation and impairment losses	(690)		(690)	(752)		(752)
EBIT	1,384	21	1,405	1,452	(35)	1,417
Net financial expense	(242)	47	(195)	(203)	38	(165)
Net income from equity investments	159		159	216		216
Pre-tax profit	1,301	68	1,369	1,465	3	1,468
Income tax	(341)	(18)	(359)	(375)		(375)
Net profit	960	50	1,010	1,090	3	1,093
- Attributable to Snam shareholders	960		1,010	1,090		1,093
- Minority interests						

Details of special items

(millions of €)	2018	2019	Change	% change %
Special item of operating profit	21	(35)	(56)	
Charges for facilitated movements and Isopension	21		(21)	(100.0)
Release of provision for doubtful debt for balancing receivables		(35)	(35)	
Special item Net financial charges	47	38	(9)	(19.1)
- liability management finance charges	47	38	(9)	(19.1)
Special item Income taxes	(18)		18	(100.0)
- Taxation on special items operating profit	(6)	9	15	
- Taxation on special item net financial charges	(12)	(9)	3	(25.0)
Total special item of net profit	50	3	(47)	(94.0)



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, especially 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 €)	2018		2019		2019 vs 2018 Adjusted	
	Reported	Adjusted	Reported	Adjusted	Change	% change
Regulated revenue	2,485	2,485	2,550	2,550	65	2.6
- Transportation (b)	1,907	1,907	1,969	1,969	62	3.3
- Storage (b)	503	503	503	503		
- Regasification	17	17	17	17		
- Pass-through revenue (c)	58	58	61	61	3	5.2
Non-regulated revenue	101	101	115	115	14	13.9
Total revenue	2,586	2,586	2,665	2,665	79	3.1
Total revenue - net of pass-through items	2,528	2,528	2,604	2,604	76	3.0
Costs of regulated activities	(418)	(397)	(317)	(352)	45	(11.3)
Controllable fixed costs	(274)	(274)	(251)	(251)	23	(8.4)
Variable costs	(6)	(6)	(6)	(6)		
Other costs (a)	(80)	(59)	1	(34)	25	(42.4)
Pass through costs (c)	(58)	(58)	(61)	(61)	(3)	5.2
Costs of non-regulated activities	(94)	(94)	(144)	(144)	(50)	53.2
Total operating costs (a)	(512)	(491)	(461)	(496)	(5)	1.0
Operating costs - net of pass-through items (a)	(454)	(433)	(400)	(435)	(2)	0.5
EBITDA (a)	2,074	2,095	2,204	2,169	74	3.5
Amortisation, depreciation and impairment losses	(690)	(690)	(752)	(752)	(62)	9.0
EBIT (a)	1,384	1,405	1,452	1,417	12	0.9
Net financial expenses (a)	(242)	(195)	(203)	(165)	30	(15.4)
Net income from equity investments	159	159	216	216	57	35.8
Pre-tax profit (a)	1,301	1,369	1,465	1,468	99	7.2
Income tax (a)	(341)	(359)	(375)	(375)	(16)	4.5
Net profit (a) (d)	960	1,010	1,090	1,093	83	8.2

- (a) The values exclude special items. 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, is offset in costs, is mainly due to interconnection.
- (d) Entirely attributable to Snam shareholders.



Statement of comprehensive income

(millions of €)	2018	2019
Net profit (*)	960	1,090
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)	(26)	(44)
Share of "other components of comprehensive income" of equity-accounted investments (**)	(1)	(17)
Tax effect	6	10
	(21)	(51)
<i>Components that cannot be reclassified to the income statement:</i>		
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees	(1)	
Share of the "other components of the total profit" of the shares evaluated according to the net worth method of the remeasurements of benefit plans defined for employees	1	(1)
Change in fair value of minority investments measured at fair value through other comprehensive income - FVTOCI	1	4
	1	3
Total other components of comprehensive income, net of tax effect	(20)	(48)
Total comprehensive income (*)	940	1,042

(*) Entirely attributable to Snam shareholders.

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



Reclassified statement of financial position

(millions of €)	31.12.2018	31.12.2019	Change
Fixed capital	18,856	19,311	455
Property, plant and equipment	16,153	16,439	286
- <i>right-of-use assets</i>		21	21
Compulsory inventories	363	363	
Intangible assets	907	990	83
Equity investments	1,750	1,828	78
Non-current financial assets	11	3	(8)
Net payables for investments	(328)	(312)	16
Net working capital	(1,259)	(1,094)	165
Provisions for employee benefits	(64)	(46)	18
Assets held for sale		10	10
NET INVESTED CAPITAL	17,533	18,181	648
Shareholders' equity	5,985	6,258	273
- Attributable to Snam shareholders	5,985	6,255	270
- Minority interests		3	3
Net financial debt	11,548	11,923	375
- <i>of which financial payables for the use of leased assets</i>		21	21
COVERAGE	17,533	18,181	648

Shareholders' equity

(millions of €)	
Shareholders' equity as at 31 December 2018	5,985
- FY 2019 comprehensive profit	+ 1,042
- Stock option incentive plan	+ 7
- Other changes	+ 24
- Final 2018 dividend	- (448)
- 2019 interim dividend	- (313)
- Purchase of treasury shares	- (39)
Shareholders' equity as at 31 December 2019	6,258
- Attributable to Snam shareholders	6,255
- Minority interests	3



RECLASSIFIED STATEMENT OF CASH FLOWS

(millions of €)	2018	2019
Net profit	960	1,090
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	543	527
- Net capital losses (capital gains) on asset sales and eliminations	12	8
- Dividends, interest and income taxes	557	552
Change in working capital due to operating activities	185	(264)
Dividends, interest and income taxes collected (paid)	(431)	(427)
Net cash flow from operating activities	1,826	1,486
Technical investments	(849)	(954)
Technical disinvestments	2	
Companies (entering) leaving the scope of consolidation and business units	(32)	(34)
Equity investments	(144)	12
Change in long-term financial receivables	371	(5)
Other changes relating to investing activities	(13)	(23)
Free cash flow	1,161	482
Change in current financial assets	350	
Payment of lease liabilities		(6)
Change in current and non-current financial liabilities	799	1,285
Equity cash flow	(1,157)	(782)
Net cash flow for the period	1,153	979

CHANGE IN NET FINANCIAL DEBT

(millions of €)	2018	2019
Free cash flow	1,161	482
Effect of first-time adoption of IFRS 9	10	
Financial payables and receivables from companies entering the area of consolidation	(6)	(47)
Equity cash flow	(1,157)	(782)
Change in lease liabilities		(25)
Other changes	(6)	(3)
Change in net financial debt	2	(375)

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