

Annual report  
2019



## Company profile

Snam is one of the world's leading energy infrastructure operators and one of the largest Italian listed companies in terms of market capitalization. The company's sustainable and technologically advanced network guarantees security of supply and promotes development in the areas in which it operates, while also contributing to promote the energy transition. Through its international subsidiaries, it operates in Albania (AGSCo), Austria (TAG, GCA), China (Snam Gas & Energy Services Beijing), France (Terèga), Greece (DESFA) and the United Kingdom (Interconnector UK). Snam is also one of the main shareholders of TAP (Trans Adriatic Pipeline), the final section of the Southern Energy Corridor.

The company has the most extensive transmission network among European peers (over 41,000 km including international activities) and greatest natural gas storage capacity (ca. 20 billion cubic meters, including international activities). It is also one of the main regasification operators in Europe, an activity it carries out through its Panigaglia terminal and its stakes in the Livorno (OLT) (\*) and Rovigo (Adriatic LNG) plants in Italy and in the Revithoussa (DESFA) plant in Greece, with a total pro rata regasification capacity of around 8.5 billion cubic metres per year.

As part of its new €6.5 billion plan to 2023, Snam will invest €1.4 bn in the SnamTec (Tomorrow's Energy Company) project, which aims to reduce the environmental impact of its activities by promoting innovation and contribute to decarbonisation. Through this project, Snam aims to reduce methane emissions by 40% by 2025 and direct and indirect CO<sub>2</sub> equivalent emissions by the same amount by 2030 and to invest in new energy transition businesses. These include sustainable mobility (compressed – CNG and bio-CNG – and liquefied – LNG and bio-LNG – natural gas distributors, Small Scale LNG), infrastructure for biomethane from organic waste and agricultural and agro-industrial waste, and energy efficiency services tailored to apartment buildings, the public administration and industry. Promoting the use of renewable gases, Snam was also the first European company to test the introduction of hydrogen blended with natural gas in its network.

Snam's business model is based on sustainable growth, transparency, the promotion of talent and diversity and the social development of regions through the initiatives of Fondazione Snam.

(\*) The acquisition of a 49.07% share of the OLT regasification terminal was completed on 26 February 2020.

# Annual report 2019

# Snam's reports



## FINANCIAL DISCLOSURE ON CLIMATE CHANGE

It describes the governance, the strategy, the scenarios, the risk and opportunities, the metrics and targets laid out by the company to manage the climate change issue according to the recommendations of the Task Force on Climate Related Financial Disclosure (TCFD).



## THE REMUNERATION REPORT

It describes the company's remuneration policy of Directors and Executives specifying the goals, the involved bodies, the procedures for its adoption and implementation in addition to the remuneration paid.



## THE CORPORATE GOVERNANCE REPORT

It provides detailed information about the company, its governance system and structure, the ownership structure, the internal control and risk management system and related topics.



## THE SUSTAINABILITY REPORT

It describes performances and future goals regarding the environmental, social and governance topics (ESG), strengthening the relationship and collaboration with a wide audience of stakeholders.

## THE REPORTING PROCESS

Snam has long started an integration track of its reporting processes because “integrated reporting means integrated thinking”. This approach has allowed a comprehensive and integrated overview on all the stakeholders and shareholders demands, offering a wide, transparent and responsible corporate disclosure leading to a complete view on the activities, performances and challenges which Snam faces today.

# ANNUAL REPORT



# 2019

The Annual report includes the Directors' Report, which constitutes the Integrated Report of Snam, presented following the indications of the Framework proposed by the IIRC (International Integrated Reporting Council), the Consolidated Financial Statement and the Statutory Financial Statement. The objective of the Directors' Report is to represent, in addition to annual operating results, Snam's model for the creation of value and the sustainability of the business over the medium and long term, thereby indicating and demonstrating the interconnections between strategy, governance, business and financial performance, and the social, environmental and economic environment in which the enterprise operates. The aspects covered by the Report represent the principal factors that have a potential impact on business and financial performance and material sustainability issues. The following schedules facilitate reconciliation of the various keys to reading and interpretation recommended by the IIRC Framework and the content of the Report.

The Directors' Report also contains information referred to in the Consolidated Non-Financial Statement (NFS) which constitutes a specific section thereof, in compliance with the provisions of Legislative Decree no. 254/2016. NFS contents are integrated, where deemed necessary and appropriate, by the information reported in the Report on operations, which can be identified and consulted by following the specific references: Infographics and grey background / character, associated with the paragraph title (if entirely referring to aspects described in the NFS) or to the specific text content.

# Corporate bodies

## BOARD OF DIRECTORS <sup>(\*)</sup>

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### Chairman

Luca Dal Fabbro <sup>(1)(2)</sup>

### Chief Executive Officer

Marco Alverà <sup>(1)</sup>

### Directors

Laura Cavatorta <sup>(3)(4)</sup>

Francesco Gori <sup>(3)(4)</sup>

Yunpeng He <sup>(1)</sup>

Antonio Marano <sup>(1)(3)</sup>

Francesca Pace <sup>(1)(3)</sup>

Rita Rolli <sup>(3)(4)</sup>

Alessandro Tonetti <sup>(1)</sup>

## BOARD OF STATUTORY AUDITORS <sup>(\*)</sup>

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### Chairman

Stefano Gnocchi <sup>(6)</sup>

### Principal statutory auditors

Gianfranco Chinellato <sup>(5)</sup>

Donata Paola Patrini <sup>(5)</sup>

### Alternate statutory auditors

Federica Albizzati <sup>(6)</sup>

Maria Gimigliano <sup>(5)</sup>

## CONTROL, RISK AND RELATED-PARTY TRANSACTIONS COMMITTEE

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Francesco Gori - Chairman

Francesca Pace

Antonio Marano

## APPOINTMENTS COMMITTEE

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Antonio Marano - Chairman

Laura Cavatorta

Alessandro Tonetti

## COMPENSATION COMMITTEE

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Francesca Pace - Chairman

Rita Rolli

Alessandro Tonetti

## ENVIRONMENTAL, SOCIAL & GOVERNANCE COMMITTEE <sup>(\*\*)</sup>

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Laura Cavatorta - Chairman

Rita Rolli

Yunpeng He

## INDEPENDENT AUDITORS <sup>(\*\*\*)</sup>

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PricewaterhouseCoopers S.p.A.

(\*) Appointed by the Shareholders' Meeting on 2 April 2019 and in office until the date of the Shareholders' Meeting called in 2022 to approve the financial statements at 31 December 2021.

(\*\*) Established by the Board of Directors on 19 May 2019 in place of the Sustainability Committee.

(\*\*\*) Appointed by the Shareholders' Meeting on 24 April 2018 for the period 2018-2026.

(1) Candidate directors on the list presented by shareholder CDP Reti S.p.A.

(2) Independent pursuant to the TUF.

(3) Independent pursuant to the TUF and the Code of Corporate Governance.

(4) Directors that were candidates on a list submitted jointly by Institutional Investors.

(5) Candidate standing auditors on the list presented by shareholder CDP Reti S.p.A.

(6) Directors that were candidates on a list submitted jointly by Institutional Investors.

# Structure of the Group at 31 December 2019

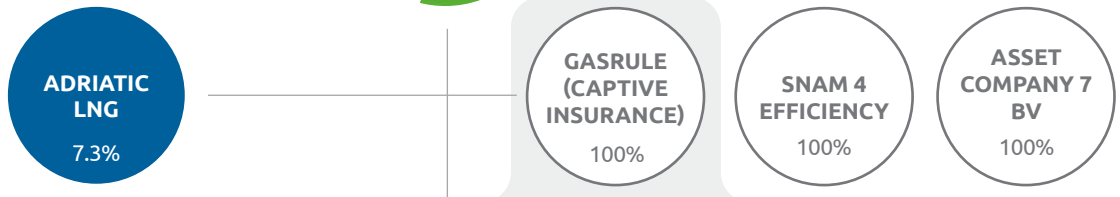
The changes in the consolidation scope of Snam Group at 31 December 2019, compared with 31 December 2018, consisted of the inclusion of the following companies<sup>1</sup>: (i) Enura S.p.A. (formerly Asset Company 5 S.r.l.), 55% owned by Snam S.p.A., for the construction of the transportation infrastructure in Sardinia<sup>2</sup>; (ii) Snam Gas & Energy Services (Beijing) Co. Ltd, wholly owned by Snam International B.V., based China to support the development of the Chinese gas market using Snam's distinctive expertise in this industry.; (iii) Snam 4 Environment S.r.l. (formerly Asset Company 6 S.r.l.), wholly-owned by Snam S.p.A., established following the acquisition, in November 2019, from Ladurner Ambiente and from AB Invest of 82.63% of Renerwaste S.r.l., one of the leading companies in Italy operating in biogas and biomethane infrastructure, with the consequent gaining of control of Renerwaste Lodi S.r.l., Ecoprogetto Milano S.p.A., Ecoprogetto Tortona S.r.l.; (iv) TEA Servizi S.r.l., following the acquisition in November 2019, via the wholly-owned company Asset Company 4 S.r.l., of 100% of the share capital of the company, active in the design, construction and running of thermohydraulic and electric plants for industrial customers, with a special focus on small and medium-sized companies.

With the exception of Enura, subject to consolidation within the "Natural gas transportation" sector, the remaining companies listed above were included in the sector "Corporate and other activities"<sup>3</sup>, not subject to separate reporting pursuant to international accounting standard IFRS 8 "Operating segments".

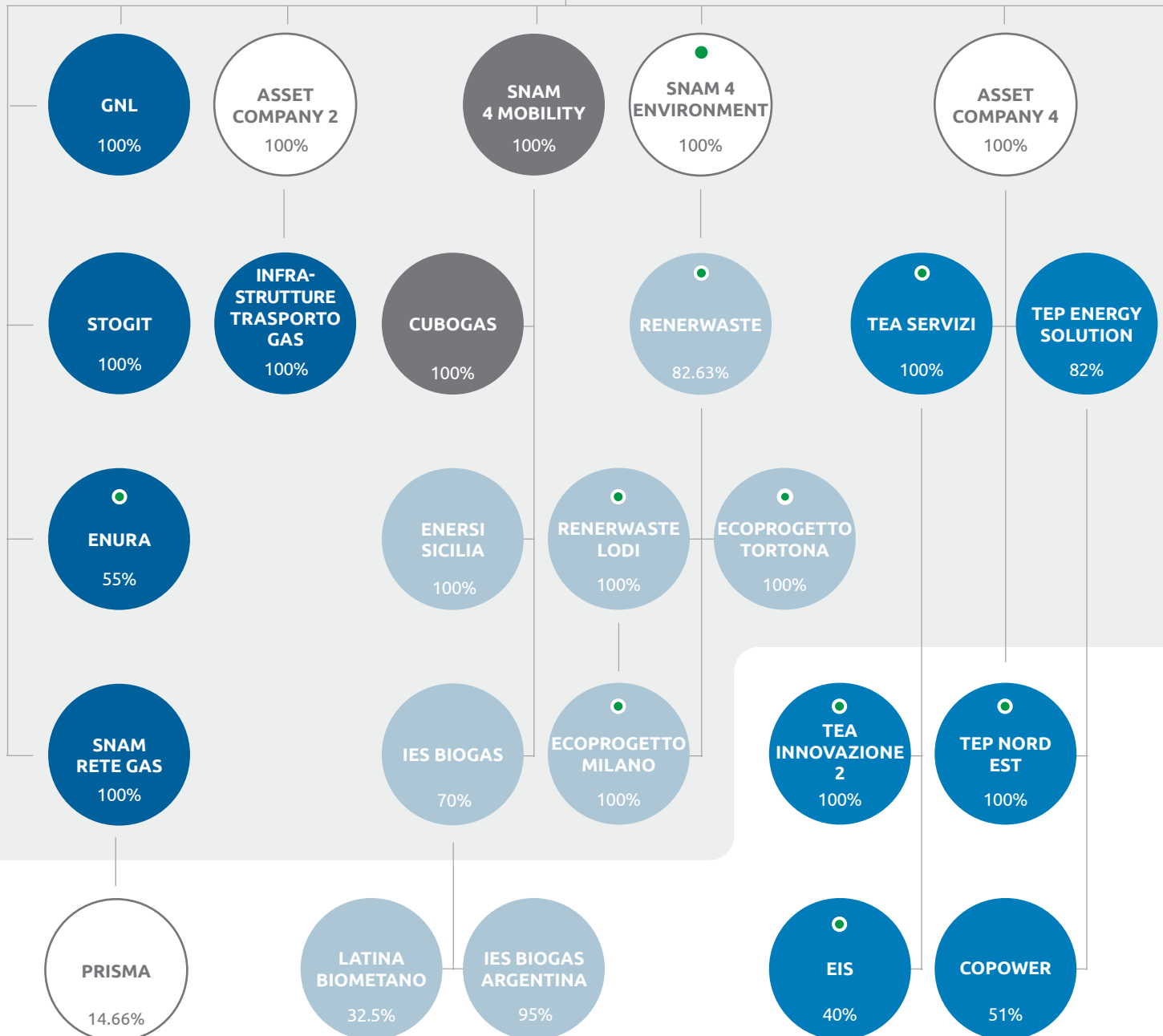
- 1 For more information please see the section "Summary data and information – Main events".
- 2 Asset Company 5 S.r.l., which was set up by its sole shareholder Snam S.p.A. in June 2018, was renamed Enura S.p.A. on 1 April 2019, when Società Gasdotti Italia (SGI) joined its ownership structure with a 45% stake.
- 3 Pursuant to international accounting standard IFRS 8 "Operating segments", "Corporate and other activities" does not represent an operating segment, which is 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.

**NFS** Structure of the Group at 31 December 2019

The structure of the Group at 31 December 2019<sup>4</sup> is shown below:

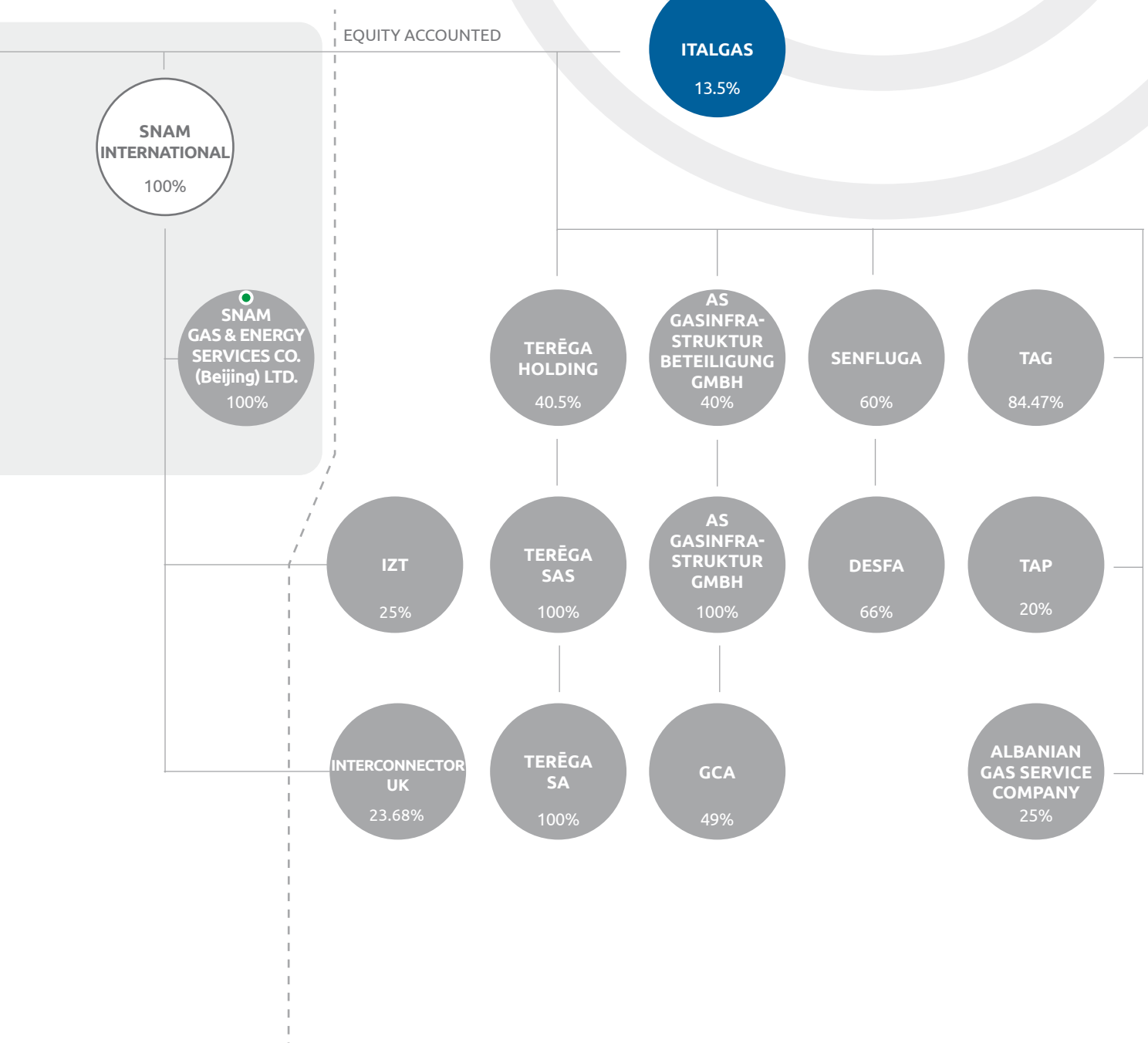


SCOPE OF CONSOLIDATION





- Regulated core business ●
- Energy efficiency ●
- Biomethane ●
- CNG - Sustainable mobility ●
- International holdings ●
- 2019 new entry ●



# General index



# General index

11	<b>DIRECTORS' REPORT - INTEGRATED REPORT</b>
212	<b>CONSOLIDATED FINANCIAL STATEMENTS 2019</b>

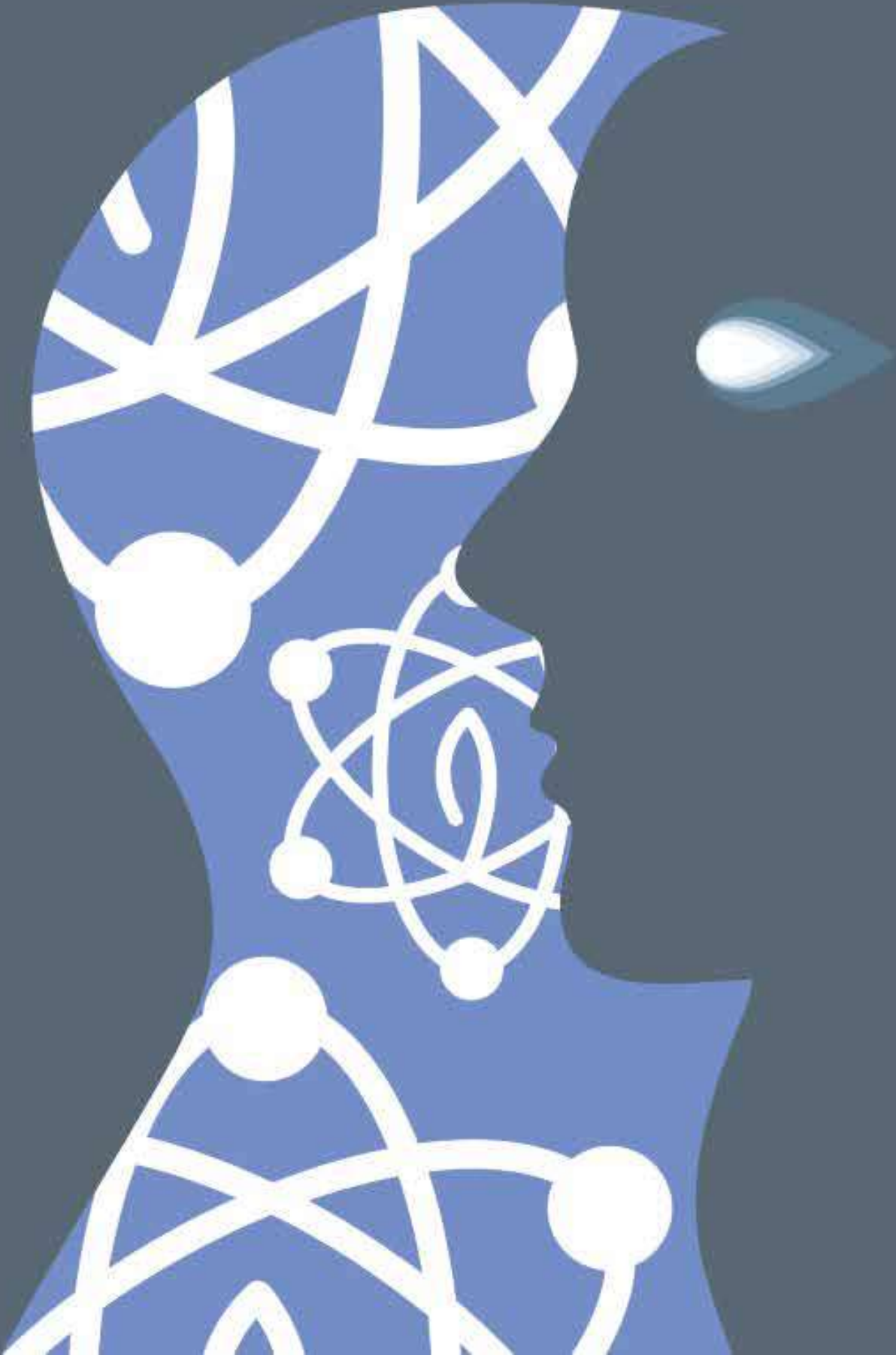
## Disclaimer

*The Annual Report contains forward-looking statements, specifically in the "Outlook" section, relating to changes in demand for natural gas, investment plans, future management performance and the execution of projects. 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 forecast as a result of several factors: trends in natural gas demand, supply and price, actual operating performance, general macroeconomic conditions, geopolitical factors such as international conflicts, 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.*

Snam, the Snam Group or the Group (group) means Snam S.p.A. and the companies within its scope of consolidation.

For the Glossary, please refer to the website [www.snam.it/it/utilita/glossario/](http://www.snam.it/it/utilita/glossario/).

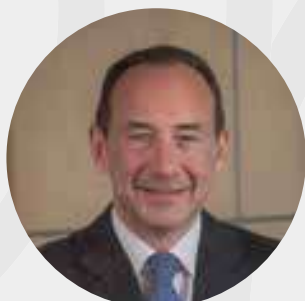
# Directors' Report



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# Letter to the shareholders and stakeholders



**Luca dal Fabbro**  
Chairman



**Marco Alverà**  
Chief Executive Officer

Dear shareholders and stakeholders,

2019 was a particularly positive year for Snam in terms of the results achieved, as well as a year packed with events.

The demand for gas continued to grow, closing 2019 at 74 billion cubic metres, also thanks to the greater competitiveness of gas in the generation of electricity, also in terms of CO<sub>2</sub> emissions as well.

In a regulatory context that confirmed the main reference parameters for the next period, with the goal of improving competitiveness and the security of gas procurement, we invested over €960 million in 2019 in infrastructure in Italy, complying with the budget forecasts for the twelfth consecutive year. We invested abroad in the realisation of the TAP project in which Snam is a shareholder with 20%, where the progress of the works stands at 90% and is expected to be completed by the end of 2020.

The interventions and initiatives aimed at transforming our infrastructure network focused on methane into an “energy” infrastructure for transporting renewable gas and in combination with the electricity grids continued during the year.

The Business Unit Energy Transition, dedicated to new green activities (biomethane, sustainable mobility and energy efficiency), was established with the goal of building our future by focusing on new businesses supporting energy transition. As part of this, in November Snam completed the acquisition of a stake of around 83% in Renerwaste, one of the leading companies in Italy operating in biogas and biomethane infrastructure, which took place through the new wholly-owned company Snam 4 Environment.

Snam also signed a binding letter of intent aimed at negotiating and defining agreements to launch a strategic partnership in infrastructure for biomethane from

agriculture through the entry, with a 50% stake, into Iniziativa Biometano, a company operating in Italy with five biogas plants, for which there is a plan for conversion to biomethane, and with various plants in the process of authorisation or construction. Thanks to these initiatives, Snam can increase its expertise in the management and running of plants both in the agricultural biomethane chain and the FORSU chain (organic fraction of municipal solid waste), perfectly complementary to the expertise in the design, development and construction of IES Biogas, the Snam subsidiary and leader in the creation of biogas and biomethane plants in Italy and abroad.

Investments in 2019 in the biomethane sector are integrated with those planned in natural gas sustainable mobility in Italy, rail transport as well as road and maritime transport. 103 CNG/L-CNG, biomethane and bio-LNG filling stations (50 stations at 31 December 2018) were contracted at 31 December 2019 through the subsidiary Snam 4 Mobility, the leader in solutions for natural gas transport refuelling stations. Agreements were signed with Tamoil, in March 2019, and with IP, in July, for the creation, respectively of 5 stations and 26 new natural gas refuelling facilities in Italy.

We continued to invest in the energy efficiency sector by gaining control of TEA Servizi, an ESCO (Energy Service Company) active in the design of thermohydraulic and electric plants and in the offering of energy saving solutions for public and private entities.

For Snam, 2019 was “the year of hydrogen”: with the creation of the Hydrogen Business Unit, dedicated to the development of the hydrogen business and the launch, in April, of the first trial in Europe of a mixture of 5% hydrogen and natural gas introduced into the Snam transportation network at Contursi Terme (Salerno), doubling the mixture to 10% in December. Internationally,



Snam is part of the Hydrogen Council, a global initiative launched in 2017 at the World Economic Forum in Davos to create a coalition of leading companies in the respective sectors committed to accelerating investments in hydrogen, and Hydrogen Europe, which brings together over 100 businesses, about seventy research institutes and 13 national associations at a global level.

Snam identifies hydrogen as a clean energy source which can have a crucial role in guaranteeing that European and global decarbonisation targets are reached by 2050 and the development of which can contribute to confirming the central role of the Snam network in the long-term.

Lastly, international efforts continued in markets where gas demand continues to have double-digit growth rates. In 2019 Snam Gas & Energy Services Beijing was established to develop our presence in the Chinese market: during the year, Snam signed a strategic cooperation agreement with CNPC - Petrochina, the nation's leading energy group, and started to provide services, mainly to support the development of storage capacity.

This is the Snam of the future, a leader in energy transition, with a technological high-profile and increasingly more connected with the area. Through the SnamTec Project (Tomorrow's energy company), we will invest more than €1.4 billion during the 2019-2023 plan to reduce the environmental impact of our activities through innovation and the contribution to decarbonisation.

To evolve in a rapidly changing world and continue to be a leader, we seek to operate in an increasingly agile and efficient manner, to optimise transversal processes whilst enhancing specific skills. It is from this perspective that we have focused on a flexible organisational model which, thanks to a shorter decision-making process, guarantees faster decision-making, to support the core business and promote the growth of the new businesses.

We simplified the organisation processes as part of the efficiency plan launched in the second half of 2016, for example with the integration of transportation and storage maintenance activities. This plan made it possible to improve quality and the time to market and to cut costs by around €15 million (around €51 million at a cumulative level for the period 2016-2019). Overall, the goal of the efficiency plan was increased further to more than €65 million at 2023 compared with the €60 million target of the previous plan.

In a context of rising gas consumption and a general stability of the regulatory environment, with the extension of the fourth regulatory period up to 2019 for the transport, regasification and storage business, we have achieved very positive results that surpass our expectations. The adjusted operating profit stood

at €1,417 million, an increase of €12 million (+0.9%) compared with the 2018 adjusted operating profit (+€33 million, or 2.4% compared with the 2018 reported operating profit), also thanks to the savings achieved through the Efficiency Plan which made it partly possible to absorb the increase in operating costs, coming mainly from the change in the scope of consolidation. The net adjusted profit stood at €1,093 million, an increase of €83 million (+8.2%) compared with the adjusted net profit for 2018 (+€104 million, or 11% compared with the 2018 reported net profit). The net cash flow from operations (€1,486 million) allowed us to fully cover the financial requirements associated with net investments for the period, including equity investments and investments in new companies that joined the scope of the group, generating a free cash flow of €482 million. Net financial debt, after the payment to shareholders of the 2018 dividend (€746 million, between the balance and interim) and the cash flow deriving from the purchase of treasury shares (€39 million), stood at €11,923 million (€11,548 at 31 December 2018).

With the objective of aligning its financing strategy with its sustainability targets and expanding its investor base, in February Snam successfully concluded the issuing of the first Climate Action Bond in Europe, for a sum of €500 million, the proceeds of which will be used to finance our green investments in biomethane and in energy efficiency, as well as investments aimed at improving the environmental impact of Snam's activities.

In December 2019 we successfully concluded the buy back on the market of bonds for a total nominal value of approximately €597 million, supporting the virtuous cycle of optimising the debt structure in terms of reducing the cost of capital, in line with our objectives.

In addition to this, with the goal of further optimisation and to support the overall remuneration for shareholders, in 2019 we bought back a total of 8,412,920 treasury shares, or 0.25% of the share capital, as part of the share buy back programme.

Our commitment to ESG issues, integrated for several years in the strategic decision-making process, also continues. In this regard, since the new Board of Directors took office in April, we established, as the first in Italy and among the first in Europe, a committee specifically dedicated to ESG issues. As part of this Snam adopted a corporate policy on diversity and inclusion in 2019, promoted by the ESG board committee, aimed at disseminating a culture of equal opportunities among employees and contractors and, at the Shareholders' Meeting of 23 October, approved an amendment to the by-laws aimed at making the effects of the Golfo-Mosca Law on gender equality in corporate bodies permanent. Snam's efforts were recognised: since January 2020 we have been part of the 325 companies globally included in

the Bloomberg 2020 Gender-Equality Index (GEI).

In June 2019 Snam was the best Italian company for corporate governance and the integration of ESG (environmental, social and governance) issues into corporate strategies, according to the annual Integrated Governance Index. Snam's commitment will continue in 2020 with strengthening a corporate model that is sustainable for all ESG factors, starting with those that have an impact on the climate and the environment, and defining a virtuous cycle in the direction of climate neutrality by 2050.

As a testament to our constant commitment to maintaining an adequate internal risk control and management system in line with international best practices, in May 2019, Snam was also mentioned in the document produced by the Japanese Chairman of B20 presented at the Tokyo Summit as a "Tangible Example" of companies that set themselves apart through their practical commitment in combating corruption and in October 2019 it became part of the Leadership Committee permanently representing the Business at the OECD (BIAC) in the Anti-corruption Committee.

In addition, in December 2019 Snam was admitted to the cooperative compliance regime established under the scope of national tax legislation.

As confirmation of our sustainable development model, we have renewed our allegiance to the Global Compact principles and the SDGs defined by the UN. The performances achieved in terms of ESG have allowed our Company to be included in the most prestigious sustainability indices. Snam was included for the eleventh consecutive year in the Dow Jones Sustainability World Index, as well as being confirmed in the top places in both the FTSE4Good and the CDP Climate Change.

Our commitment to strengthening culture and awareness of health and safety, vital for the outcome and success of our activities, and demonstrated by the low accident indices recorded both for employees and contractors (0.59 frequency index and 0.05 severity index) is also ongoing.

As far as the social dimension is concerned, we are continuing with the Snam Foundation initiatives for the social development of the areas. In October, over 700 Snam people dedicated a working day to voluntary initiatives in over 90 non-profit organisations throughout the country. In 2016-2019 the Snam Institute training hub provided more than 389 training hours to company employees. This represents a further tool for creating and

cultivating closer ties with the area and better meeting the needs of the communities that house our infrastructures.

Looking to the future, the new strategic plan, announced last November, traces a route that will allow Snam to continue to grow and create significant value for shareholders, grasping and anticipating market developments and contributing to the reduction of CO<sub>2</sub> emissions, improving air quality and keeping down energy costs. Specifically, we are focusing on promoting the development, not only in Italy, of biomethane and other activities for energy transition. With new investments in the network, the focus on new technologies, the development of new businesses and sustainable finance initiatives, the Snam of 2023 will always be more innovative, efficient and a protagonist of energy transition in Italy and in Europe.

On the basis of the results achieved and the Company's prospects, the Board of Directors intends to propose to the Shareholders' Meeting the distribution of a dividend of €0.2376 per share, of which €0.095 per share has already been distributed as an interim payment in January 2020, confirming Snam's commitment to ensuring an attractive and sustainable remuneration over time for shareholders.

In the first months of 2020 in Italy, as in other countries of the world, a serious health crisis started due to the pandemic spread of coronavirus. Since the news of the first contagions in our country, Snam has set up an inter-functional team to manage the difficult moment and put in place, with the extraordinary contribution of all its people, the necessary actions to guarantee the continuity of the service and to ensure the country's energy security. Employees continued their work through the tool of smart working from home, with physical safeguards limited to the minimum necessary to guarantee operations. All thanks to the support from the necessary technological and IT resources. In addition to being close to our people, we also wanted to be close to our country by allocating, also through our Snam Foundation, a contribution of €20 million to carry out initiatives for the Italian health system and the third sector which, working in a way incessant and extraordinary, they found themselves facing a situation of extreme emergency.

18 March 2020

for the Board of Directors

**The Chairman**

**The CEO**



# Highlights

## Financial



### Total revenue

**€2,604 million**

+€76 million; +3.0%

### Free cash flow

**+€482 million**

### Adjusted results

**Adjusted EBIT: €1,417 million**

+€12 million; +0.9%

### Adjusted net profit

**€1,093 million**

+€83 million; +8.2%

### Reported net profit

**€1,090 million**

+€130 million; +13.5%

### Purchased in 2019

**8,412,920 Snam shares**

for a total cost of € 39 million

### The strategy was supported with technical investments

of **€963 million**

### Proposed dividend

**€0.2376 per share**

## Operatives



### Gas injected in the national network

**75.37 billion cubic metres (+3.5%)**

### Gas demand

**74.34 billion cubic metres (+2.3%)**

### Assigned storage capacity

**12.5 billion cubic metres +0.1 billion**

100% of the available capacity

## Sustainability



### Avoided

**182 thousand tonnes** of CO<sub>2eq</sub>

### Supplied

more than **114,000 hours** of training in 2019

### Published in 2019 the

Policy on **diversity and inclusion**

# Snam profile



## NFS Summary

Snam is the leading operator in Italy and Europe in the creation and integrated management of natural gas infrastructure.

With around 3,000 employees and over 32,600 km of network, in Italy Snam oversees the natural gas transportation, dispatching and storage activities, as well as the regasification of liquefied natural gas (LNG). Alongside its core business, the company is also investing to an increasing extent in new businesses related to energy transition, from sustainable mobility to energy efficiency and the development of renewable gases such as biomethane and hydrogen.

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of various companies. The company also offers engineering and technical-operational services for gas operators in national and international markets.

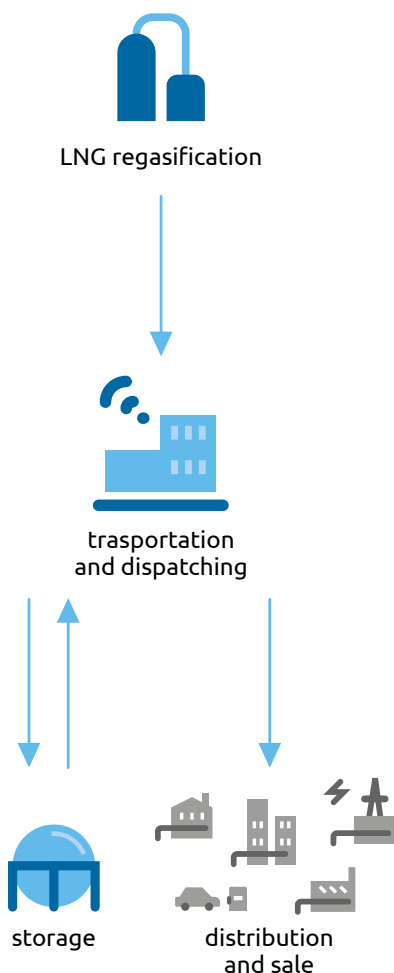
Snam actively promotes the use of natural gas as a flexible energy source with a low environmental impact in classical industrial and residential sectors as well as in the transport sector. According to the company's vision, natural gas, which in recent years has recorded a recovery in demand thanks to various countries gradually phasing out coal-produced thermoelectricity, will be a pillar on energy systems in the long-term, also thanks to the potential development of biomethane and hydrogen, especially in sectors in which the electrification process is difficult to achieve.

Snam's, capital intensive, business, mainly focuses on regulated activities. Regulation makes provision for tariff systems that cover the costs incurred by the operator and for a fair return on invested capital. Snam is therefore able to maintain a limited risk profile and provide its shareholders with attractive and sustainable returns, at the same time ensuring the provision of services to all operators in a non-discriminatory manner and with the highest standards of quality and safety.

In line with its own sustainable development model, and alongside carrying out its own core business, in recent years Snam has launched numerous projects aimed at promoting a more sustainable energy system, developing initiatives and interventions under the scope of energy efficiency, for compressed natural gas (CNG), liquefied natural gas (LNG) and biomethane and in 2019 creating a new business unit dedicated to hydrogen, with the objective of evaluating potential pilot projects and contributing to the development of the supply chain. In 2019, for the first time in Europe, Snam trialled the introduction into the transmission network of a mixture of natural gas and hydrogen, first 5% and then 10% in volume.

The company has been listed on the Italian stock exchange since 2001. Snam stock is traded, not only on the Italian FTSE Mib, but also on the main international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and numerous sustainability indices, including the most prestigious, such as the Dow Jones Sustainability World Index and the FTSE4Good, as well as being at the top of the MSCI ESG ratings (MSCI World ESG and MSCI ACWI ESG), Sustainalytics, ECPI, Ethibel, Vigeo and Snam is included in the 2020 Bloomberg Gender-Equality Index (GEI).

### Snam: integrated network to drive the energy sector evolution



In addition, Snam has been confirmed among the globally-recognised companies for their commitment to combating climate change. In 2019 the company was confirmed on the "Climate Change A- List" of the CDP (formerly the Carbon Disclosure Project), demonstrating the effectiveness of the ongoing efforts to reduce emissions and climate risks.

To reinforce the commitment to initiatives aimed at combating climate change, an important innovation was the issuing, in February 2019, of the first **Climate Action Bond** in Europe (and the second globally), a financial instrument used to allocate funds to projects for reducing CO<sub>2</sub> emissions, the development of renewables, energy efficiency and the development of green projects based on environmental criteria. In addition, in April 2019 the Company reduced the margin of its **sustainable loan** from €3.2 billion, after reaching the targets related to social and environmental sustainability parameters.

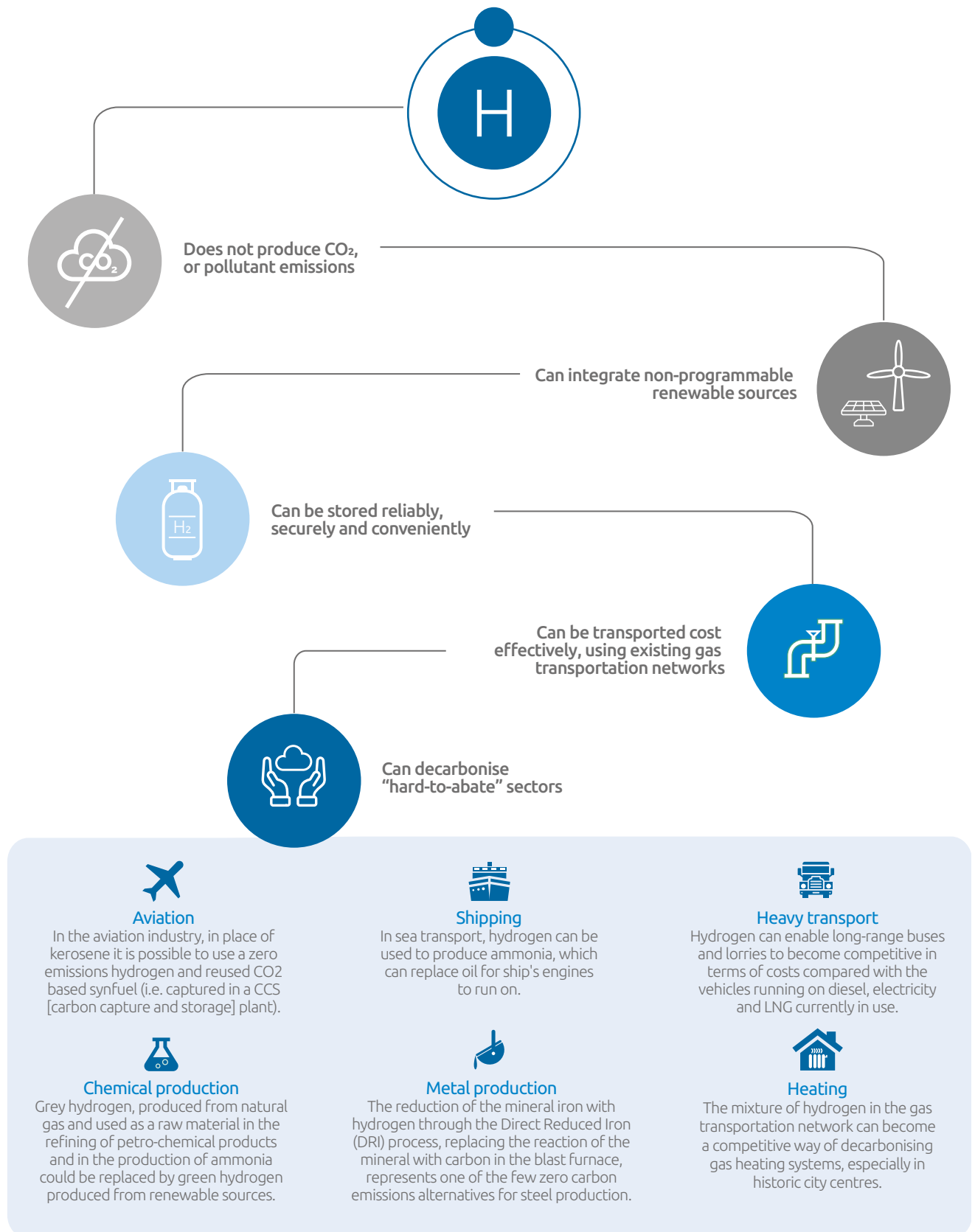
In the current context of energy transition and Snam's increasing central role in achieving national and European commitments, at the end of November 2019 the company launched the new **Strategic Plan for the period 2019-2023**, tracing the route which in the years to come will make it possible to generate sustainable growth and value for its stakeholders, as well as taking on the challenges associated with climate change.

The targets set in the new plan, all more challenging than those in the previous plan, focus on the continued creation of value for regulated activities and take on a leading role in energy transition through the use of natural gas and biomethane and the increasing exposure to new businesses such as sustainability mobility, energy efficiency and, in the long-term, hydrogen as the clean energy source of the future. Snam's commitment to decarbonisation is confirmed by the continuous increase in the investments it makes in innovation and the acceleration of new green businesses under the scope of the SnamTec project: more than 20% (€1.4 billion) of the €6.5 billion of investments is allocated to this project, €400 million of which is dedicated to new businesses for energy transition, double the figure of €200 million in the previous plan and directed at expanding corporate know-how with regard to technologies related to decarbonisation.

The business of transporting and storing natural gas allows the development of multiple projects linked to the promotion of compressed natural gas (CNG) for motor transport and liquefied natural gas (LNG) used in heavy land and maritime transport. In this context, in future years, Snam will be committed to upgrading the existing infrastructure in order to expand the network of refilling stations.

The Company considers itself as a point of reference for the integration of the Italian energy mix of biomethane and hydrogen, sources of clean, versatile energy, which promote the existing transportation and storage structures and allow an increase in production and consequently the flexibility of national energy procurement.

## Main advantages of the green hydrogen and application in the "hard-to-abate" sectors



# An important past, a brilliant future: Snam's history and upcoming goals

## 2019 - The commitment to energy transition

In 2019 Snam was the first European company to introduce a mix of hydrogen (first 5% and then 10% in volume) and natural gas into its transmission network with a direct supply to two industrial consumers. The Company strongly believes in the potential of this energy source - especially green hydrogen obtained through the electrolysis of water from renewable sources such as solar and wind-power, without CO<sub>2</sub> emissions - in the global context of the fight to combat climate change. The introduction test, carried out successfully in a section of the network at Contursi Terme (Salerno), confirmed the suitability of Snam's assets to receive increasing quantities of hydrogen.

A new business unit dedicated to hydrogen was also established in 2019, with the task of evaluating potential pilot projects, contributing to the development of the hydrogen supply chain and carrying out scenario analyses, including an initial study assessing the potential of hydrogen in Italy until 2050, achieved with the analytical support of a leading consulting firm.

The initiatives into hydrogen are set against the framework of Snam's commitment to energy transition, the linchpin of the **2019-2023 Strategic Plan**, presented at the end of November 2019.

Snam intends, specifically, to support the acceleration of the Italian market for biomethane from organic waste, and agricultural and agro-industrial waste, with an investment of €250 million dedicated to the creation of infrastructure and plants, in order to increase the installed capacity to 40MW. Snam can increase its expertise in the management and running of plants, both in the agricultural biomethane supply chain and in the FORSU one (organic fraction of municipal solid waste) through strategic agreements and partnerships. With this in mind, in 2019 Snam increased its acquisitions portfolio thanks to the subsidiary Snam 4 Environment, identifying **Renerwaste**, one of the leading companies active in Italy in biogas and biomethane infrastructure, which currently operates at three plants and has permission to build two additional ones. In 2019, Snam also signed a binding letter of intent aimed at launching a strategic partnership in infrastructure for biomethane from agriculture through the entry, with a 50% stake, into

**Iniziativa Biometano**, a company operating in Italy with five biogas plants, for which there is a plan for conversion to biomethane, and with various plants in the process of authorisation or construction. These projects are perfectly complementary to the expertise in design, development and construction of IES Biogas, the leading subsidiary in the construction of biogas and biomethane plants, nationally and internationally.

Lastly, looking abroad as well, Snam has signed a memorandum of understanding with **Infore Environmental Group**, an environmental services company listed on the Shanghai Stock Exchange, for potential joint initiatives for the development of **biogas and biomethane infrastructure in China**.

Investments in the biomethane segment create synergies with those planned for the **sustainable mobility** segment supporting the increase in the Italian network of compressed natural gas (CNG and bio-CNG) and liquefied natural gas (LNG and bio-LNG) distributors. Specifically, €50 million has been designated for the creation of around 150 natural gas and bio-methane refilling stations for cars and buses, in conjunction with Cubogas, a subsidiary of Snam4Mobility, further strengthening the Italian CNG distribution network which is already the most developed in Europe with around 1,400 facilities. A further €50 million is also planned for constructing two small liquefaction plants (SSLNG), one in the north and one in the south of Italy, and for the adaptation of the Panigaglia terminal, located in the Gulf of La Spezia, aimed at loading tankers and promoting the use of LNG for heavy transport, industry and residential, with a capacity of 250 thousand tonnes per year. In addition, a memorandum of understanding was signed in September 2019 for LNG sustainable mobility in Austria between Snam, the investee TAG and OMV.

With specific reference to **energy efficiency**, in addition to the subsidiary TEP Energy Solution, specialised in energy efficiency solutions for condominiums, businesses and public administrations, Snam bought the company TEA servizi, an Energy Service Company (ESCO) qualified in the design and construction of industrial plants, with a special focus on SMEs.

# 2018



## The new brand identity

In March 2018 Snam relaunched its brand identity, renewing the logo and values that will accompany the group in its future challenges, from the construction of infrastructure to guarantee stable and secure energy supplies, to the development of gas as a renewable source.

**“Energy to inspire the world”** is the message around which Snam's strategic repositioning revolves, in an increasing global market featuring changes and innovations that are transforming energy and environmental scenarios.

Growth in the core business of regulated activities continued in 2018, which also saw the acquisition in December, through a European consortium, of **DESFA**, the national operator in the natural gas infrastructure sector in Greece. With reference to energy transition, in recent years Snam has completed investments for the on development of new businesses aimed at promoting decarbonisation and the better use of energy, specifically in the **biomethane** segment (IES Biogas and Enersi Sicilia), **sustainable mobility** (Cubogas) and **energy efficiency** (TEP Energy Solution).

Snam has concluded important agreements for the development of sustainable mobility, including through the possible development in partnership of several micro-liquefaction plants, as well as agreements in China for the provision of services and for the evaluation of potential collaborations, in biomethane, in research and development for renewable gas, in sustainable mobility as well as in storage. Specifically, at 31 December 2018, a total of 50 CNG/L-CNG, biomethane and bio-LNG refilling stations were contracted, 34 of them with Eni.

With the goal of developing Snam's consolidated experience globally, as part of the activities launched by the **Snam Global Solution** business unit, a joint venture was established with the Albanian infrastructure operator Albgaz, aimed at providing services associated with the management and maintenance (O&M) of the pipelines in Albania.

The non-recourse loan for TAP, the largest project finance operation for a European greenfield infrastructure project was concluded in 2018. Nominated as “Project Finance deal of the year” for the Oil & Gas industry by Project Finance International (PFI), this project refers to a total amount financed of €3.9 billion, in which Snam played a supporting and coordinating role together with other sponsors of the project and which involved financial institutions such as the EIB (which individually provided €700 million to fund the project), the EBRD and various export credit agencies such as SACE, BPI France and Euler Hermes, as well as 17 international commercial banks.

With reference to collaboration opportunities in China, the following were signed: (i) on August 28, 2018 with State Grid International Development (SGID), 100% controlled by State Grid Corporation of China, a Memorandum of Understanding (MOU) to evaluate a series of possible collaboration opportunities in China and internationally, in particular in relation to the use of new technologies to reduce CO<sub>2</sub> emissions; (ii) on October 25, 2018, an MOU with Beijing Gas, the largest distributor and supplier of natural gas in China, with a network of 22 thousand km and over 6 million customers in the Beijing area. The agreement envisages evaluating possible collaborations in China, in particular in biomethane and in the storage of natural gas.



# 2017 75 YEARS OF SNAM



In 2017, Snam celebrated **75 years in business**, bearing witness to how the ability to place one's commitment and skills at the service of the community, while keeping a constant dialogue with territories have been and will be its key success drivers. With the acquisition from Edison of 100% of the share capital of **Infrastrutture Trasporto Gas and a 7.3% share in Adriatic LNG**, Snam has notably strengthened its infrastructures in Italy further and managed to build further synergies in the integrated management of the entire gas system, connecting to the national transport network a strategic entry point for the Italian natural gas market.

Concerning the commitment to sustainable development, in December 2017 Snam entered into the first **executive contract for the development of methane supply stations in Italy** starting the activities of Snam 4 Mobility S.p.A. (wholly-owned by Snam).

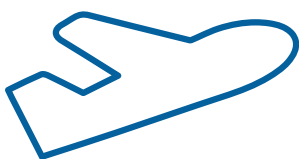
# 2016



In 2016 Snam completed the separation of its distribution business, acquired a new organisation and continued its path toward development

As of 7 November 2016, a corporate transaction was successfully completed that resulted in the separation of Snam from the national gas distribution business in Italy, with the principal purpose for the Snam Group being to strengthen and enhance its leadership in Europe in its core business: natural gas transportation, storage and regasification. Also in connection with the aforementioned transaction, in October Snam defined a new organisational structure, designed to be an instrument that enables focused management and control of the strategic guidelines of the plan and more efficient and effective operational management, including through the simplification of decision-making processes. Pursuant to the strategy of strengthening and enhancing leadership on the European gas market, on 16 December 2016 Snam, in a joint venture with Allianz, completed the acquisition from OMV of 49% of Gas Connect Austria GmbH (GCA), with an indirect equity investment of 19.6% in the company share capital for Snam.

# 2012/ 2015



Snam separates from Eni and expands its scope of activity to cover Europe

On 1 January 2012, the Company changed its name from Snam Rete Gas to Snam and transferred the gas transportation business to a new company, which inherited the respected Snam Rete Gas name. The ownership unbundling from Eni was completed on 15 October 2012 through the sale of approximately 30% of Snam's capital to CDP Reti S.r.l., and Snam began its path toward growth in Europe. Having acquired 31.5% of Interconnector UK in 2012 as part of a joint venture with Fluxys, Snam (45%; 40.5% starting from February 2015 following the entry of Crédit Agricole Assurances (CAA) in the corporate structure of TIGF Holding), alongside the Singapore sovereign wealth fund GIC (35%) and EDF (20%), successfully completed the acquisition of TIGF (renamed Terêga), from Total in July 2013. Terêga is active in gas transportation and storage in south-west France, with a gas transportation network over 5,000 km and two storage fields. On 19 December 2014, the Company acquired from CDP Gas S.r.l. 84.47% (equivalent to 89.22% of the economic rights) of Trans Austria Gasleitung GmbH



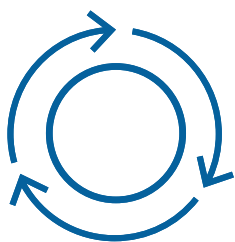
(TAG), the company that owns the Austrian section of the gas pipeline linking Russia and Italy. The objective of those transactions was to enhance Snam's industrial capacity in the integrated management of natural gas transportation and storage infrastructure. Snam's international development continued with the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the pipeline that will run from the Turkey-Greece border to Italy along the Southern corridor, enabling gas produced in Azerbaijan to reach European markets. Our investment in the project will consolidate the primary position of Snam and Italian infrastructure in improving competition between energy sources and securing gas supplies for Europe.

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2009/  
2011

### The integration of all regulated gas activities

In 2009 the Company acquired 100% of Stogit, Italy's largest natural gas storage field operator, and 100% of Italgas, the country's biggest gas distributor. This added the other two regulated gas activities in Italy to Snam's offering: storage and distribution. The June 2009 transaction turned Snam into the biggest integrated regulated gas activities operator in mainland Europe by regulatory asset base (RAB).

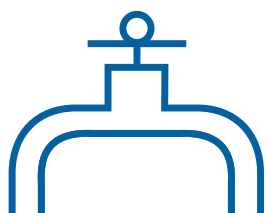


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1941/  
2008

### Methanisation in Italy and expansion of the gas infrastructure, up to listing on Borsa Italiana

Snam (Società Nazionale Metanodotti) has provided integrated natural gas procurement, transportation and sale services in Italy since 1941. It gradually put together an intricate system of methane pipelines, covering the whole of Italy, and built important pipelines that today allow the country to import from different areas: from Russia, the Netherlands, Algeria, the North Sea, and Libya. In 1971, Snam designed and built Italy's first liquefied natural gas (LNG) regasification plant at Panigaglia, in the Gulf of La Spezia. Snam Rete Gas was incorporated on 15 November 2000 to house all Snam's Italian transportation, dispatching and regasification activities. The unbundling of these activities was decided pursuant to the Letta Decree (164/2000), which transposed the European Directive on the liberalisation of the European gas market. On 6 December 2001, after the Electricity and Gas Authority (today the Energy Grid and Environment Regulation Authority - ARERA) issued a resolution establishing the criteria for defining transportation tariffs, Snam Rete Gas was listed on the stock exchange.





2012

**1 Interconnector (23.54% through Snam International BV)**

235 km undersea pipeline between Bacton (UK) and Zeebrugge (Belgium)  
1 terminal and 1 compression station at Bacton, and 1 terminal and 1 compression station at Zeebrugge



2013

**2 Terèga (40.5%)**

5,080 km of network  
6 compression stations  
About 16% of French total gas volume  
5.8 bn m<sup>3</sup> of storage capacity (2.8 bn m<sup>3</sup> working gas): around 25% of national capacity



2014

**3 TAG (84.47%)**

3 parallel pipelines of about 380 km each  
5 compression stations





2015

**4 TAP (20%)**

Assets under development: final section of the South gas Corridor from Azerbaijan to Europe

878 km long (773 km on-shore and 105 km off-shore) through Greece, Albania, Adriatic sea and Italy

2 compression stations (Initial capacity of 10 bn m<sup>3</sup>/year, which can be increased to 20 bn m<sup>3</sup>/year)

Expected to come into service in 4Q 2020



2016

**5 GCA (49% via AS Gasinfrastructure)**

564 km of transportation network

322 km of distribution network

5 compression stations



2018

**6 DESFA (66% via Senfluga)**

1,466 km of transportation network:

- 2 entry point (Bulgaria and Turkey)

- 1 LNG entry point (Agia Triada)

1 LNG terminal (with 6 bn m<sup>3</sup>/year regasification capacity)

1 compression station



**INFRASTRUCTURE IN ITALY**

**NATURAL GAS TRANSPORTATION**

	ENTRY POINT	8
	REVERSE FLOW	
	COMPRESSION STATION	13
	PIPELINES UNDER OPERATIONS	

**NATURAL GAS STORAGE**

	OPERATING CONCESSIONS	9
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**LNG REGASIFICATION**

	REGASIFICATION PLANT	1
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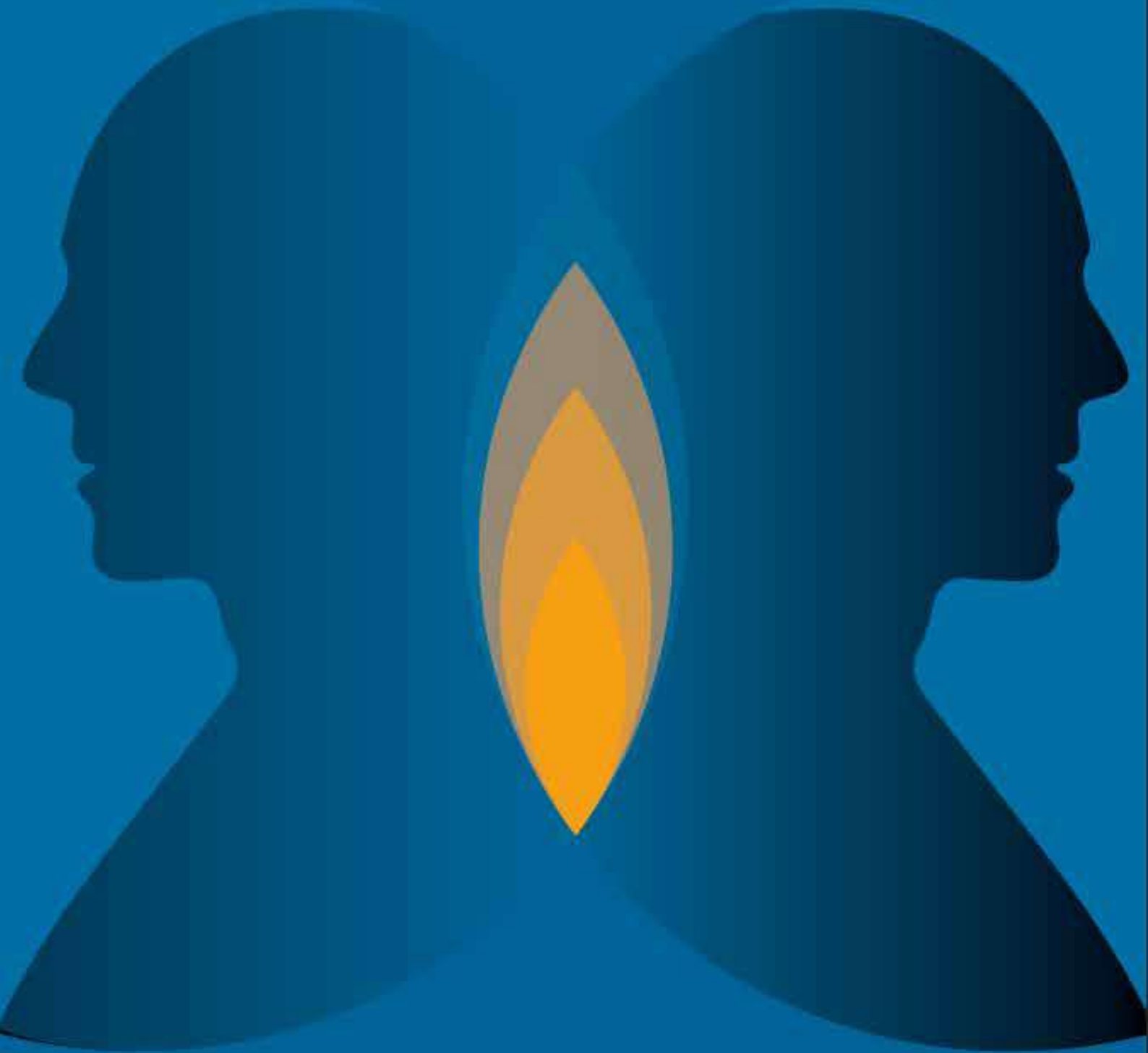
**INVESTMENTS OVERSEAS**

	INTERNATIONAL PIPELINES	
	COMPRESSION STATION	
	STORAGE FIELDS	
	REGASIFICATION PLANT	

**OTHER OPERATORS**

	INTERNATIONAL PIPELINES	
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# Business model and sustainable development



# The global energy context: Snam's key role in decarbonisation



## Intergovernmental Panel on Climate Change (IPCC):

average global  
temperatures  
to date of around 1°C  
compared with  
pre-industrial levels

The strong correlation between human activity and global warming is increasingly visible and tangible especially through the recent increase in temperature, extreme weather conditions and the weakening or destruction of entire ecosystems.

This connection was also confirmed by the latest report of the Intergovernmental Panel on Climate Change (IPCC), which revealed an increase of average global temperatures to date of around 1°C compared with pre-industrial levels (projected to be +1.5°C between 2030 and 2052) and the data and estimates of the World Meteorological Organization (WMO), from which it emerges that in 2018 global atmospheric concentrations of the major greenhouse gases reached record levels (407.8±0.1 parts per million of CO<sub>2</sub>, corresponding to a rise of 147% compared with pre-industrial levels).

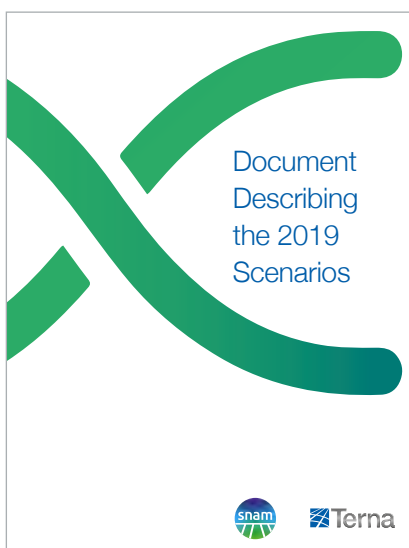
In response to this situation, legislative arrangements were made during UN conference on climate change, known as COP25, which was held in Madrid from 2 to 15 December 2019, in order to achieve the three main climate targets defined during the climate conference in Paris (COP21): to reduce emissions by 45% by 2030, to achieve climate neutrality by 2050 and to stabilise the increase in global warming to 1.5° C.

Later on, in the **European Green Deal** of December 2019, the European Commission defined a collection of measures aimed at achieving climate neutrality by 2050. Specifically, this communication requires gas system infrastructures to: i) embrace renewable gases; ii) support, jointly with the electricity industry, the energy system (sector coupling); iii) support sustainable mobility services.

In this context, Snam has developed future energy scenarios in which it has outlined its business strategy in line with the European and national decarbonisation objectives and with an ever increasing commitment to energy transition.

In conjunction with Terna, Snam has developed the **“Document Describing the 2019 Scenarios”**, a preliminary study for the preparation of transmission and transportation network development plans in the electricity and gas sectors nationally. This study develops **joint Snam-Terna energy scenarios** showing how technological development together with collaboration and synergies between the electricity and gas industries could be the key for reaching the emission reduction targets. The scenarios put forward, in a context of economic growth, highlight how the European decarbonisation objectives will lead to the increasing use of green gases, such as hydrogen, biomethane and synthetic methane, partly replacing natural gas, not only in thermoelectric power plants, but also in end uses: civil, industrial and transport.

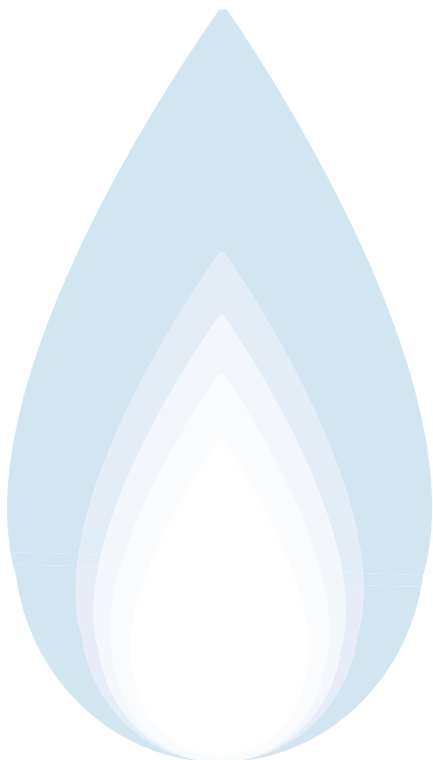
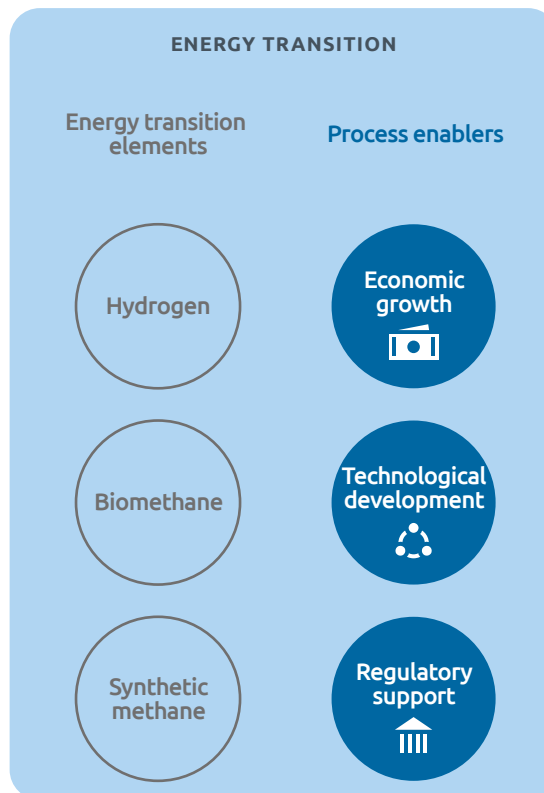
Among the various energy sources of the future, Snam is looking at the new frontier of hydrogen developing, with the analytical support of a leading consultancy firm, the **“Hydrogen potential”** scenario that evaluates the



According to this study, hydrogen will be increasingly competitive in terms of costs compared with alternative energy sources, especially in sectors such as, for example, transport, heating and high-temperature industrial processes

potential of hydrogen as a vector for energy transition in Italy highlighting a key role for achieving the decarbonisation targets. The scenario estimates that by 2050 hydrogen could satisfy 23% of total energy demand in Italy. According to this study, hydrogen will be increasingly competitive in terms of costs compared with alternative energy sources, especially in sectors such as, for example, transport, heating and high-temperature industrial processes.

In this historical period of change in global energy equilibrium, Snam recognises its leading role in achieving national and European undertakings and, in accordance with the targets set in its own **Strategic Plan** for the coming years, is supporting the country's journey for mitigating the effects of climate change.





# The 2019-2023 Strategic Plan

In a progressive scenario of decarbonisation for the country in which natural gas will play an increasingly more central role, Snam is reinforcing its position as a partner for Italian energy transition, striving for efficiency, innovation and the total integration of environmental, social and governance factors in the management of its activities.

At the end of November 2019, Snam published its 2019-2023 strategic plan which, through the definition of economic-financial and sustainability targets, is pursuing a model of sustainable growth, focusing on the creation of value through the following levers: the continuous **improvement of the core business**, a solid **financial structure**, the commitment to **energy transition**, the development of an **internationalisation strategy**.

## Improvement of the core business

The continuous improvement of results, active participation in the regulatory context, increasing new initiatives relating to energy transition, expansion of international operations, a focus on technological innovation and strong oversight of the optimisation of the financial structure will enable the company to achieve sustainable growth for the key indicators, confirming or improving the targets in the previous plan. Specifically, there is a projected increase in EBITDA of more than 3% for the period, net profits by more than 4% per year and net earnings per share (EPS) of 5.5% per year on average.

For these reasons, in the new Plan Snam plans an increase in investments taking them to a total of €6.5 billion, approximately 14% more than the figure of €5.7 billion in the previous plan. Specifically, €5.3 billion of investments will involve the transportation network, €0.8 billion storage and regasification and €0.4 billion the new businesses linked to energy transition. A significant portion of investments for the transportation sector will be dedicated to network development initiatives such as the completion of infrastructures to connect the TAP to the national network, the completion of connections in the north-west to the local market service and cross-border flows, the network in Sardinia and the launch of the conversion of the six compression and storage plants into hybrid gas-electricity facilities.

## The solid financial structure

The optimisation of the financial structure has made it possible to reduce the cost of borrowing by 1.8% in the previous plan to 1.4% and it is expected it will remain at this figure for the entire duration of the plan. For Snam's financial structure (composed of  $\frac{3}{4}$  debt with an average life of more than 5 years, four financial years of liability management of €4.5 billion, placement of a dual tranche bond issue maturing in 5 and 15 years time, €3.2 billion in unused syndicated lines of credit due at the end of the plan), there are plans to buy back treasury shares with the launch of a further tranche of €150 million, expecting the debt/RAB ratio to be stable by 2023 at 53% including partners.

Snam has also defined financing for activities relating to sustainability both from banks and the capital markets, aligning them to the strategy and diversifying the investor base. The increasing commitment to **sustainable finance** has led Snam to have funding of more than €5 billion. In addition, in February 2019 it issued the first **Climate Action Bond**, used to finance projects relating to the reduction in CO<sub>2</sub> emissions, the development of renewables, energy efficiency and the development of green projects based on environmental criteria. Lastly, in April 2019 the Company reduced the margin of its **sustainable loan** from €3.2 billion, after reaching the targets related to social and environmental sustainability parameters.

Snam's efficiency plan surpassed expectations with projected savings for 2023 of €65 million (compared with the figure of €60 million in the previous plan and €25 million in 2016) representing an important source of value. This reduction in costs and improvement in the quality of the time to market, is due to the new technologies, simplification of the organisation processes, maintenance activities and initiatives to reduce external costs accompanied by a revision of make-or-buy decisions and supply contracts.

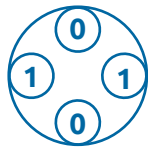
## Investment in energy transition

Under the scope of the investment plan, the initiatives of the SnamTec project (Tomorrow's Energy Company), the objective of which is to accelerate Snam's innovative capacity and its assets to take advantage of the new opportunities offered by the development of the energy

system, will grow by 65% making a total of more than €1.4 billion. The SnamTec project will focus, specifically, on three areas:



- **Environmental sustainability of the core business:** with around €700 million of investments to reduce methane emissions by 40% by 2025 (compared with the previous target of 25%) and total Scope 1 and Scope 2 CO<sub>2</sub> equivalent emissions by 40% by 2030 through the launch of the first six electricity-gas hybrid plants (€250 million of investments), an emissions measuring and elimination campaign, the technological adaptation of several gas turbines, the large-scale replacement of network components with a view to reducing methane emissions, the greater use of electricity from renewable sources and the energy efficiency of company buildings;



- **Initiatives for technological innovation and digitalisation:** with investments of around €350 million dedicated partly to the smart gas project which involves plant maintenance with new technologies, the remote inspection of 85% of assets by 2023, the use of drones and satellites for monitoring infrastructures, the development of new commercial services and gas demand forecasts through neural networking;



- **Investment in energy transition** Investments in energy transition of €400 million (double the figure of €200 million in the previous plan) dedicated to the development of biomethane infrastructures, sustainable mobility and energy efficiency and Small-scale LNG decisive the launch of the related sectors.

## Internationalisation strategy

Snam's internationalisation strategy has allowed the company to strengthen its leadership position in European energy infrastructures and focuses on supporting, also courtesy of its know-how, the development of the infrastructures of European countries and emerging countries such as China and India. This expansion has made it possible to achieve an annual return of 10% that the company expects to maintain for the entire period of the plan. The contribution to the net profit of international associate companies (TAG and GCA in Austria, Terêga in France, Interconnector UK, DESFA and TAP) will be around €160 million in 2022. As far as TAP, which Snam has a 20% stake in, is concerned, the progress of the works is at around 90% and are expected to be completed by 2020.



# Snam and the Task Force on Climate-related Financial Disclosure

## TCFD RECOMMENDATIONS

## DISCLOSURE

### GOVERNANCE

Declaring the governance model of the organisation in relation to the risks and opportunities related to climate change.

- |                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>a) Describing the supervision of the Board of Directors of the risks and opportunities related to climate change.</p>     | <p>The <b>Board of Directors (BoD)</b>, following its appointment and for its entire mandate, is informed with regard to climate change aspects and initiatives including through board induction sessions and it periodically oversees these aspects, assisted by different committees, including: the <b>Environmental, Social &amp; Governance ("ESG") Committee</b>, the <b>Control, Risks and Related-Party Transactions Committee</b> and the <b>Remuneration Committee</b>.</p> |
| <p>b) Describing the role of management in assessing and managing the risks and opportunities related to climate change.</p> | <p>The <b>management</b> functions have <b>specific responsibilities</b> as part of climate change and report directly to the Chief Executive Officer, developing their <b>activities in line with the Company's climate strategy</b>.</p>                                                                                                                                                                                                                                             |

### STRATEGY

Declaring the actual or potential impacts of the risks and opportunities related to climate change on the business, strategy and financial planning of the organisation.

- |                                                                                                                                                                          |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>a) Describing the risks and opportunities relating to climate change that the organisation has identified in the short, medium and long-term.</p>                     | <p>Snam identifies <b>transition risks</b> and <b>physical risks</b> under risks related to climate change. Specifically, the former include <b>political and legal risks</b>, <b>technological risks</b>, market risks, <b>reputation risks</b>, while the latter include the risks due to <b>acute or chronic</b> phenomena.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <p>b) Describing the impact of the risks and opportunities related to climate change on the business, strategy and financial planning of the organisation.</p>           | <p>For every risk related to climate change, Snam carries out an assessment of the <b>operational impacts</b> (industrial/business, economic, assets) and the <b>specialist impacts</b> (financial, legal, HSE, reputational and market) related to it and opportunities are identified that allow the associated impacts to be adequately managed.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <p>c) Describing the resilience of the organisational strategy, taking into consideration different climate-related scenarios, including a scenario of 2°C or lower.</p> | <p>Snam develops different <b>gas supply and demand scenarios</b> that take into consideration the profound transformation of the Italian energy system, with special reference to the role of natural gas, in the light of the possible developments of the energy and climate scenario globally, in line with the <b>European decarbonisation strategy</b> and with the <b>internationally-defined agreements</b> for slowing down the rise in temperatures and limiting the effects of global warming.</p> <p>The scenarios defined by Snam over a time horizon to 2040 are: the <b>Business-As-Usual (BAU)</b> scenario, which projects current trends and features technological developments based solely on economic merit, the <b>Centralized (CEN)</b> and <b>Decentralized (DEC)</b> scenarios, which, respectively involve growth of programmable renewable energies such as green gases, using existing gas infrastructure, and an even more rapid development of electric power and non-programmable renewable energy sources.</p> <p>Snam develops its own strategy based on these scenarios, and particularly the development scenarios. They are applied in the new <b>2019-2023 Strategic Plan</b> and they are founded on three pillars: improving the core business, internationalisation and leadership to energy transition.</p> |

## TCFD RECOMMENDATIONS

## DISCLOSURE

### RISK MANAGEMENT

Declaring how the organisation identifies, assesses and manages the risks related to climate change.

a)	Describing the processes of the organisation to identify and assess the risks related to climate change.	■ The actual and prospective risks and opportunities associated with Snam's corporate strategy are <b>identified, assessed and managed</b> through the <b>ERM model</b> (Enterprise Risk Management), which integrates the risks and opportunities related to climate change. This model breaks down into three different phases:
b)	Describing the processes of the organisation to manage the risks related to climate change.	■ <b>Identification of risky events</b> that could affect company targets through self assessment with Staff and Business Managers responsible for the implementation of initiatives aimed at the effective oversight of risks, both through specific analysis of the operational processes of every Company and the corporate Strategic Plan.
c)	Describing how the processes of identifying, assessing and managing the risks related to climate change are integrated in the overall risk management of the organisation.	■ <b>Evaluation of every event</b> through the use of prioritisation matrices in which the probability of an event occurring and its positive or negative impact. The risks and opportunities are classified on the basis of 4 priority classes: low, medium, high and critical for risks; slight, moderate, good and excellent for opportunities. ■ <b>Management of risks/opportunities</b> identified through specific actions which may involve mitigation, monitoring and management interventions or the transfer of the risk.

### METRICS AND TARGETS

Declaring the metrics and targets used by the organisation to assess and manage the significant risks and opportunities related to climate change.

a)	Declaring the metrics used by the organisation to assess the risks and opportunities related to climate change in line with its strategy and risk management process.	Snam demonstrates its commitment to promoting decarbonisation, through the <b>monitoring and improvement of its performance and its targets</b> for reducing climate-altering emissions and increasing energy efficiency. Specifically, Snam monitors the following GHG emissions:
b)	Declaring the Scope 1, 2 and 3 greenhouse gas effect emissions (GHG) and related risks.	■ <b>(Scope 1) direct emissions:</b> emissions resulting from direct combustion processes or regarding fuels that are burnt within the Group, or by direct emission into the atmosphere of GHG (e.g. methane leaks); ■ <b>(Scope 2) indirect energy emissions:</b> emissions from the consumption of electricity, heat and steam; ■ <b>(Scope 3) other indirect emissions:</b> all other types of emissions that do not come under the two previous classes, in particular those resulting from the supply chain and employee business travel. Snam also monitors its energy consumption and has special energy efficiency KPIs.
c)	Describing the objectives used by the organisation for managing the risks and opportunities related to climate change and performances related to the objectives.	In its Strategic Plan, Snam has set a target of reducing direct <b>(Scope 1) and indirect (Scope 2) CO<sub>2eq</sub> emissions</b> by <b>40%</b> by 2030 compared with 2016, which will be achieved through strengthening the target previously set for reducing <b>methane emissions</b> which has changed from -25% to <b>-40%</b> compared with 2016 figures and the definition of a new target related to the <b>55%</b> increase in <b>green electricity</b> by 2030.

# The creation of sustainable value: the Snam business model

## DESCRIPTION OF CAPITAL

### Financial Capital



The financial capital available to the Group represents the vital input for realising all the necessary investments for the correct operation of the natural gas infrastructures. The financial capacity of the Snam group is composed of its equity and debt capital, obtained on the financial markets and through own operating income, as well as the issuing of the specific Climate Action Bond to fund with a sustainable footprint.

### Human Capital



Snam's human capital is composed of the people that are part of the Group - employees and the extensive network of Italian and international suppliers - with their wealth of know-how and expertise. Snam supports the promotion of a business culture founded on several distinctive values: the promotion and development of people, the culture of security, maintaining and increasing the know-how necessary for continued technological updating and the modernisation of the Group's assets.

### Infrastructure Capital



The transport network and facilities for natural gas storage and regasification represent the vital infrastructure capital to enable Snam to provide its services to operators and users. Pipelines, storage and regasification facilities constitute the Regulatory Asset Based (RAB) necessary for the purpose of recognising the reference revenue for the regulated business, as calculated on the basis of the rules defined by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA). In addition to this, in future years Snam's infrastructure will be enriched by plants for the production and injection of biomethane, natural gas distribution plants for motor transport, as well as modernisation to accommodate the integrated mixture from hydrogen.

### Relational Capital



The Group's relational capital is represented by the licence-to-operate that stakeholders acknowledge to Snam. The confident response of stakeholders in the ability of the Group to create value is the direct consequence of more than 75 years of history that connect Snam's activities to its stakeholders and to the companies in the areas that house the infrastructures. Also, taking into consideration the expansion of Snam's business in the non-regulated market, in coming years the contribution to increasing the Group's relational capital will become increasingly more important through participation in national and international working parties and ratified agreements and understandings with the objective of developing collaborations and partnerships with businesses operating in international and non-European energy markets.

### Intellectual Capital



Intellectual capital represents Snam's distinctive heritage and includes information systems, processes and internal procedures for the efficient management of business activities. It involves practices developed and consolidated over a period of time, based on corporate know-how and aimed at guaranteeing the security of the networks and infrastructures for employees, suppliers and users.

### Natural Capital



The area in which the infrastructures rise up, the air and biodiversity represent Snam's natural capital, along with the energy resources (natural gas, biomethane and hydrogen) necessary to allow Snam to provide its services to operators and users in the energy transition scenario.

## SNAM'S CAPITAL

### Financial capital



### Human capital



### Infrastructure capital



### Relational capital



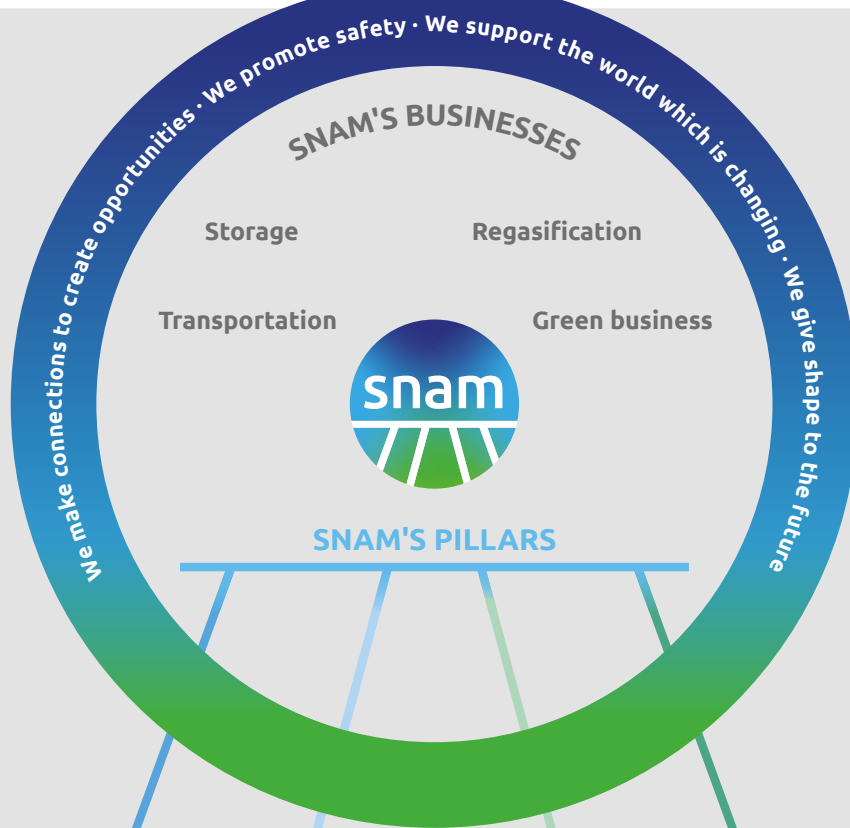
### Intellectual capital



### Natural capital



## SNAM'S VALUES



#### GROWTH OF THE CORE BUSINESS

€65 million in savings by 2023

Replace of 1000 km of network

Completion of connections in the north-west

Installation of electric compressors and digitalisation of the network

#### FINANCIAL STRUCTURE

Cost of borrowing equal to 1.4%

Debt/RAB ratio stable at 53%

Climate Action Bond  
€3.2 billion reduction in the sustainable loan margin

#### INTERNATIONAL EXPANSION

Average annual return above 10% for international subsidiaries

€160 million in net contributions from subsidiaries to 2022

Completion of TAP by 2020

#### ENERGY TRANSITION

€6.5 billion of total investments

-40% scope 1 and scope 2 emissions

Construction of biogas plants with an installed capacity of more than 40 MW

Injection of hydrogen into the network

# Snam business model

## THE CREATION OF VALUE

Creation of value and distribution of wealth



Developing and motivating people



Development and reliability of corporate assets



Quality of service and increasing the confidence of stakeholders



Corporate reputation and relations with stakeholders



Safeguarding the environment and developing the area



## THE CREATION OF VALUE

### Financial Capital

Creation of value and distribution of wealth



Snam is a solid and healthy company from a financial perspective that produces wealth for its stakeholders contributing to the economic growth of the social and environmental framework that it operates in. The **investment** programme, which includes a total of €6.5 billion for the upgrading and modernisation of the existing network and for the development of the new businesses related to the production of biomethane, bio-LNG and hydrogen, and, energy transition in general, will have a positive impact on Snam's financial **capital**.

### Infrastructure Capital

Development and reliability of corporate assets



Thanks to the continuous diversification and innovation of infrastructures, Snam ensures an increase in the value of its assets and constant security and reliability of natural gas procurement and the provision of its services.

Snam constantly works towards the development of **infrastructure capital**; specifically, in future years the greatest focus will be on the completion of the new north-west connections of the **pipeline network**, the gas conversion projects, the TAP interconnection, upgrading the storage facilities and the replacement of 1000 km of network.

### Intellectual Capital

Quality of service and increasing the confidence of stakeholders



Internal policies and procedures, the management systems implemented and the certifications obtained allow Snam to maintain a high quality in the provision of its services which translates into growing and steady confidence of its stakeholders with whom, over time, it has created productive and lasting relations and partnerships.

Compliance with standards and the execution of activities in accordance with well-defined, structure methodologies, makes it possible to provide a higher quality service and achieve **greater efficiency for processes** and control throughout the entire creation of value chain leading to an increase in the **quality** of service, which constitutes one of the key points in obtaining the **licence-to-operate**.

### Human Capital

Promoting and motivating people



Thanks to the development of courses for professional development and advancing technical, managerial and organisational skills, as well as the dissemination of a culture of health and safety in the workplace, Snam guarantees value for its people, leading to personal and professional growth. As a result of the **satisfaction** and **recognition** of the work of its employees, there is an improvement in the performance of the organisation and a general increase in **motivation**. Operating in this context, the Group's people contribute to the results, carrying out the activities assigned in a positive manner, increasing productivity, reaching the set targets and achieving the best results.

### Relational Capital

Corporate reputation and relations with stakeholders



Maintaining a good corporate reputation, in line with the corporate vision, values and mission enables Snam to build productive and lasting relations with the main stakeholders and with the industry regulatory bodies.

The **constant presence in national and international tables**, the extensive presence in the area and energy procurement security play a key role in consolidating relations with all stakeholders involved.

### Natural Capital

Safeguarding the environment and developing the area



Safeguarding the environment is an integral part in the definition of corporate policies and investment decisions for all of Snam's activities, which is fully recognised in an approach that lets the environment and economic development coexist, without neglecting the protection and development of the area. Specifically, Snam demonstrates an increasing commitment to the **fight against climate change** and **reducing energy consumption**, in **safeguarding nature** and **biodiversity**, protecting the air, managing waste and optimising water resources, issues which, each in their own way, contribute to the creation of a more habitable area. The activities in the TEC project will allow Snam to enrich its own natural capital, implementing network monitoring actions and real-time measurement of regional development, the gas consumption and energy efficiency of the infrastructures, with the dual goal of optimising the operating costs and **minimising the environmental impact** of its activities. As confirmation of the attention that the company devotes to climate protection, the Strategic Plan contains a target to **reduce** Scope 1 and Scope 2 **emissions** by 40% by 2030.

## Impacts of Snam's activities on the gas system and on the energy scenario

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### IMPACTS ON THE GAS SYSTEM

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#### Market Facilitation

From October 2016, the balancing service operated in accordance with joint, harmonised European rules aimed at promoting market trading and liquidity (Network Balancing Code). Under the new system, users are the primary parties responsible for system equilibrium and they can balance their own trading positions (injections and withdrawals from the system) through an hourly reprogramming of their own requirements, and/or by executing gas transactions on both the organised and over-the-counter markets. Snam also performs the role of Default Transportation Supplier, namely supplies gas to Sales Companies and Final Customers for which the Balancing User responsible for the related withdrawals is not identifiable. The same service is also carried out for the sales companies and final customers at third-party transporters who explicitly requested it.

#### Impact of the Default Transport Service

The service in the 2018-2019 thermal year involved 112 parties amongst Final Customers and Sales Companies, for a total volume of approximately 323,000 MWh.

#### New transport capacity products

Already in 2018 new flexibility services were introduced, such as intra-day storage auctions that consist of offering additional supply capacity to the originally contracted amount, which is allocated to customer based on an auction during the gas day in progress. In 2019, allocations for storage capacities, similar to the transportation business, were incorporated in the European PRISMA platform. This helps customers book the transportation and storage capacity on a single platform and makes Snam's storage capacity more visible on a European level. In 2019, new solutions to increase the flexibility of the services offered by Snam were being looked into to meet customers' requirements.

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#### Creation of a European Gas Market

Snam is one of the founders of PRISMA, the international project established in 2013 to promote the harmonisation of rules for accessing and providing services in implementation of the European Codes, by offering services through a single shared digital platform. Approximately 41 European operators active in the transport and storage of gas from 17 countries participate in the development of PRISMA.

#### The numbers of the PRISMA platform

In 2019, the PRISMA platform increased the number of auctions for the sale of capacity products further, going from 6,5 million in 2018 to 9,1 million in 2019. The registered number of shippers and users was, respectively 2,500 and 3,000.

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#### Gas Access And Cost

The cost of transport, distribution and metering (meter reading) services, which allow the delivery of gas to end users, is one of the three main items of the gas bill.

#### Impact of transportation service on gas cost

The cost of the transportation service in 2019 was estimated at around 5,6% of the total expenses of domestic customer (family with individual heating and annual consumption of 1,400 Smc) compared with 19% of the total cost of infrastructure services.

#### New connections

In 2019, 123 connection contracts were signed for the construction of the new delivery/redelivery points (26 of which were for biomethane and 61 of CNG Service Areas) or the upgrading of existing points, with a total increase of around 40% compared with 2018.

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(continued)

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## IMPACTS ON THE ENERGY SCENARIO

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### Security of Supplies

In 2019, Italy recorded a rise in thermal production with cumulative increase of 6 TWh compared with the same period in 2018 (+4.5%). In the third quarter of 2019, net imports actually fell by more than 15% compared with the same period of the previous year, while electricity production from renewable sources (FER) increased which, however, from the start of 2019, fell by 1% due to the 10% decrease in production in the 2nd quarter. This reduction, of around 0.8 TWh, is due to the increase of around 3.3 TWh of generation from non-programmable sources and the decrease of around 4 TWh in hydroelectric production (source ENEA).

### Diversification of sources

Thanks to the interconnection of Snam's network, Italy is the current European country that can rely on the greatest number of supply sources. Besides domestic production, the Italian system can receive gas through four methane import pipelines (Algeria, Libya, Russia and Norway) and 3 regasification terminals. It is also planned in the future to add the importation of gas from the Caspian Sea by constructing the TAP methane pipeline. In the instance of Italy, if any of the supply sources should be absent, the remaining sources of supply are capable of satisfying more than 120% of the area's total gas demand, calculated during a day of particularly high gas demand. The development of bidirectional capacity in the north of our country along the North-South corridor (reverse-flow) may also make Italian supply sources accessible to other European countries.

### Storage capacity utilisation

In 2019 Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign was 99% compared with a European average of 98% proof of Snam's efficiency in energy procurement.

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### Contribution to Decarbonisation

Gas in its various forms guarantees lower carbon dioxide emissions, with a reduction of between 25% and 40% compared to other fossil fuels, as well as reduced nitrogen oxides and fine particle levels.

### Gas in the national energy mix

The quarterly analysis of the Italian energy system in the first nine months of 2019 by ENEA highlighted an increase in primary energy sources, such as natural gas, oil and renewables of around 1,2 Mtep due to the rise in imports of electricity and solid fuels such as coal, biomass and waste intended for electricity generation. Specifically, there was a 1% fall in the consumption of oil and renewable energy sources in the first nine months of 2019 compared with the same period in 2018, while in the third quarter gas consumption rose by 7% compared with the 3rd quarter of 2018.

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# NFS Governance and organisation

Snam operates within the framework of the **Universal Declaration of Human Rights**, the fundamental conventions of the ILO and the OECD Guidelines for Multinational Enterprises, and in compliance with its own Code of Ethics, which is also a key element of the Organisational Model of Legislative Decree 231/2001.

Snam's governance plays a crucial role in value creation dynamics. It helps to determine the conditions for the Company to interact **properly and adequately with its reference environment**, in particular by putting into practice the principles of **integrity, transparency and compliance with internal and external rules**, with the ultimate aim of reconciling the interests of our various stakeholders.

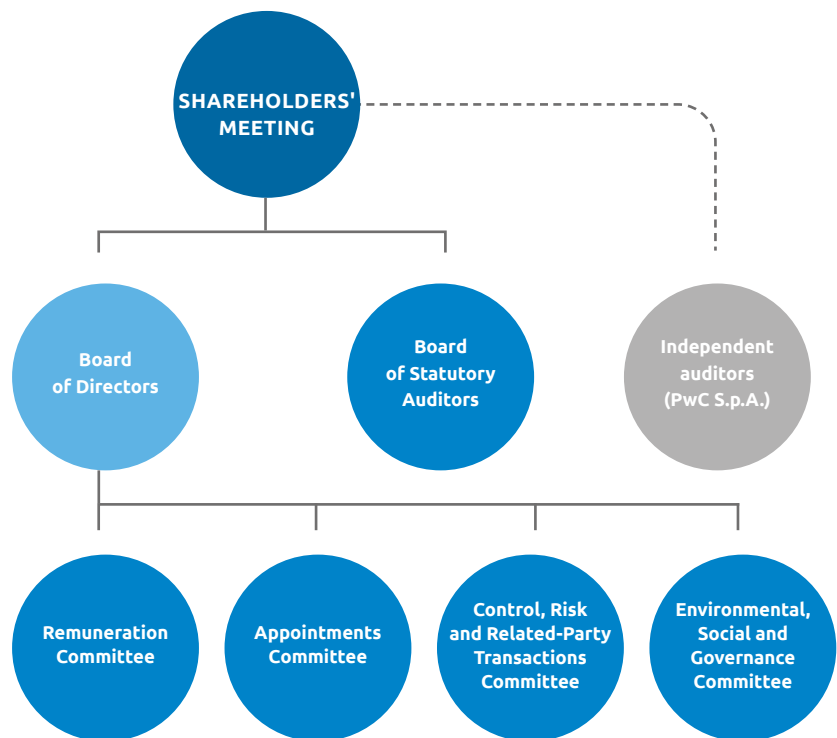
The **governance system** reflects the 'traditional' model and is developed in accordance with the applicable industry regulations (laws governing unbundling and listed companies), while also taking into account **national and international best practice**.

## Snam's Board of Directors

67% of the BoD are independent directors\*

All BoD committees are chaired by independent directors

33% of the BoD are women



The acceleration of energy transition and the development of new solutions as part of renewable energy are significant challenges for the Snam Group. As an advocate of change, in line with the strategic plan, the San Group has launched the development of new businesses and continues with the optimisation of processes and the development of its corporate structure.

\* 5 directors out of 9 who are classified as independent pursuant to the TUF and Code of Corporate Governance and a Chairman classified as independent pursuant to the TUF.



(More detailed information on governance can be found in the document "2019 Report on corporate governance and ownership structure", which was published online at [www.snam.it](http://www.snam.it) at the same time as the Annual Report).  
(More detailed information on remuneration can be found in the document "2020 Remuneration Report", published at [www.snam.it](http://www.snam.it)).



According to the Business Plan, Snam aims to be a pioneer company in **energy transition**. At the same time, the Company continues to consolidate and makes its organizational and governance systems more efficient in order to support the consolidation of its core business and the growth of new activities.

To achieve these goals during the year the following initiatives, among others, were implemented:

- strengthening the core business to make the infrastructures more modern, safe and sustainable;
- continuous improvement of the efficiency and re-engineering of corporate processes with the aim of both increasing the flexibility of the core business and helping the consolidation of the company in the new businesses;
- reorganisation of the corporate structure with the purpose of facilitating the integration and optimisation of corporate processes.

With regard to what was defined in the last point, the main changes envisaged by the new organisational structure can be summarised as follows:

- the creation of a business unit dedicated to new green activities (biomethane, sustainable mobility and energy efficiency) with the objective of accelerating the integration of the new businesses and energy transition;
- the creation of a business unit dedicated to the development of the hydrogen business, identified by Snam as one of the crucial energy factors for accelerating the fight against climate change and, as a result, contributing to the reduction of emissions with a view to future decarbonisation;
- the creation of a unique business unit dedicated to the development of international businesses, the management of foreign investments and research into new growth opportunities for the core business with the objective of exploiting the existing synergies between the three areas.

To accelerate energy transition and the decarbonisation process further, in 2019 the Snam Group gained control of companies that produce biomethane to invest in infrastructures and the construction of new plants. Specifically, the Snam Group, through the new subsidiary Snam 4 Environment, gained control of around 83% of Renerwaste, one of the leading companies operating in biogas and biomethane infrastructures in Italy.

### Snam's organisational model



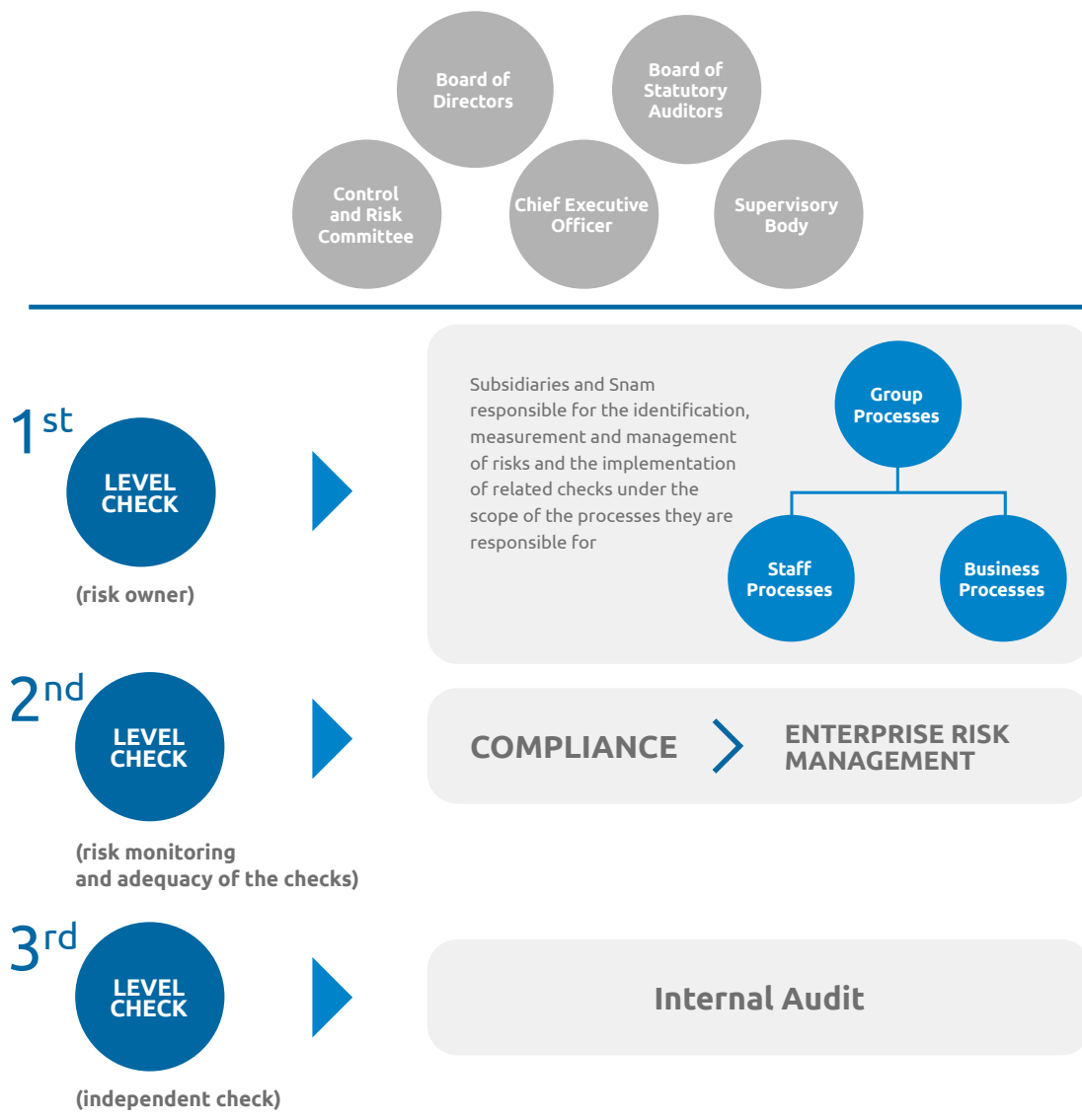
(\*) The Senior Vice President Internal Audit carries out the activities fully independently according to the instructions of the Board of Directors

# Management of risks and the control system

Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation.

The system used across the Group to identify, assess, manage and control risk has three levels, each with different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system. We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the prevention of fraud and corruption and health, safety, environment and quality.

These same controls form an integral part of the managerial processes. Management must therefore foster an environment that encourages controls, and must specifically manage “line controls”, consisting of all the control activities that individual operating units or companies perform over their own processes. Independent controls are performed by the Internal Audit department, which is responsible for checking that the system is functioning and adequate.



**NFS** In 2019, audit activities were performed by a dedicated team of 10 auditors on average.

## Activities performed by Internal Audit

(no.)	2017	2018	2019
Total number of audits performed	42	22	29
- of which relating to scheduled and/or spot audits	8	14	15
- of which relating to independent monitoring activities (Law no. 262/05)	34	8	19
Notifications received	5	4	11
- of which related to the internal control system	-	-	1
- of which concerning accountancy, audit, fraud, etc.	-	-	-
- of which related to administrative responsibility pursuant to Legislative Decree 231/2001	-	-	-
- of which relating to breaches of the anti-corruption law	1	-	-
- of which related to other subjects (Code of Ethics, harassment, theft, security, etc.) (*)	4	4	10
Reports archived due to lack of proof or because untrue	1	2	5
Reports resulting in disciplinary or managerial interventions (**), and/or submitted to judicial authorities	3	2	5
Reports under examination	3	-	1

(\*) The figure for 2019 includes the management of 4 supplements that refer to 3 reports received during the year, one of which is under examination.

(\*\*) "Management" also refers to organisational/procedural interventions relating to the improvement actions of the Internal Control and Risk Management System (SCIGR)

In 2019 the Internal Audit activities are carried out by ensuring that the conditions of complete independence and autonomy are preserved, as well as the due professional diligence, objectivity, and competence, as provided for by the Mission of the Internal Audit and by the Mandatory Guidance of the Institute of Internal Auditors and by the principles contained in the Code of Ethics. Internal Audit regularly carried out scheduled activities involving: i) the preparation of the proposed Audit Plan based on the measurement and prioritisation of the main corporate risks carried out by the ERM unit; ii) the execution of the Audit Plan, composed of 14 measures, approved by the Snam Board of Directors on 18 February 2019, following the favourable opinion of the Control and Risks and Related-Party Transactions Committee and carrying out two further audits not scheduled in the plan (spot audits); iii) carrying out the independent monitoring programme defined with the Chief Financial Officer under the scope of Snam's Corporate Reporting Control System; iv) confirmations of reports, including anonymous ones, of problems relating to the internal control and risk management system, the company's administrative responsibility, whistleblowing and v) activities inherent to relations with the External Auditors and those relating to monitoring activities for conferring additional tasks, as well as support, jointly with the legal and administrative departments, in the tender launched by CDP group aimed at identifying a single auditor for the Group for the years 2020-2028.

Below are the main activities carried out in terms of methodology:

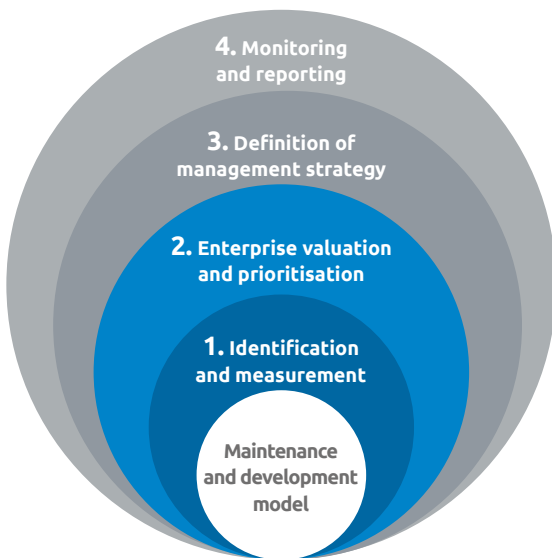
- full operation of the new tool for the management of audit activities from the planning of interventions stage to the follow up of corrective actions. In this area, for the purpose of defining the audit plan, the audit universe was updated, also in order to consider the organisational changes that took place in 2019, in particular for Snam S.p.A. and to include the new processes resulting from the acquisition of companies in relation to the new businesses;
- implementation of improvement actions highlighted following the Internal Quality Review conducted at the end of 2018, including: i) the updating of the Key Risk Indicators, as well as the implementation of new ones, as part of the continuous monitoring of the passive cycle process, preparing, from the third quarter of 2019, a report with the outcomes of the analyses for the management of the competent functions, ii) the updating of the periodic reporting introducing Key Performance Indicators (KPIs) for the activities carried out by the function as well as with reference to issues of sustainability.

**NFS** ENTERPRISE RISK MANAGEMENT PROCESS (ERM)

The Snam group, in line with the indications of the Code of Corporate Governance and international best practices, has instituted, under the direct supervision of the General Counsel, the Enterprise Risk Management (ERM) unit, which operates within the wider Internal Control and Risk Management System, in order to manage the integrated management process of corporate risks for all Group companies.

The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to manage these risks and to draw up a reporting system.

The risk is defined as an effect of the uncertainty on the targets and can be negative or positive in scope.



**1. Identification and measurement:**  
of risk events relating to corporate processes and external risk factors that could influence the achievement of corporate goals, either through direct impacts on results and corporate finances (lower revenue or higher costs) or through intangible negative effects on other types of capital, especially the licence to operate”.

**2. Enterprise measurement and prioritisation:**  
an enterprise measurement is assigned to each event, which summarises for each risk the various assessments carried out by the Risk Owners and by the centralised units with specialist skills. The prioritisation of risks is defined by combining the measurements of impact and probability.

**3. Definition of the management strategy:**  
for all risks, management measures are identified, together with any specific interventions and the relevant implementation time frames, associated with a type of risk management from among those that have been codified. The management plans for the main risks are presented to the Control and Risk Committee.

**4. Monitoring and reporting:**  
the risk mapping is periodically updated according to the enterprise measurement, and at least once a year, including for low-priority risks. Periodic reporting guarantees, at the various corporate levels, the availability and representation of information relating to the management and monitoring of the relevant risks.

## Cross-organisational nature

One of the best features of Snam's ERM model is the wide-ranging nature of its impact measurement.

Any risk event may have 8 different types of impact, some determined by the risk owners (operational impacts) and others by specialist departments (e.g. legal and financial impacts). This means risk measurement from different perspectives and team risk prioritisation.

Operational impacts are dominated by economic and industrial impacts, consistent with the fact that identifying risks starts with the analysis of the processes and objectives of the corporate strategic plan. The most prevalent specialist impacts include reputational and legal impacts, confirming the existence of an increasingly globalised external context subject to ever more complex regulations.

Using the model described above and in accordance with the Enterprise Risk Management guideline, the risk assessment cycles were performed on the entire Snam Group in 2019. At the end of 2019 approximately 141 enterprise risks were mapped 28 of them distributed across all corporate processes.

The opportunities were identified with a similar methodology to that of the risks. In this case too, the operational impacts (industrial/business and economic) of each owner were measured, using suitable metrics, as well as the other impacts (market, reputational, environment, financial) by specialist functions.

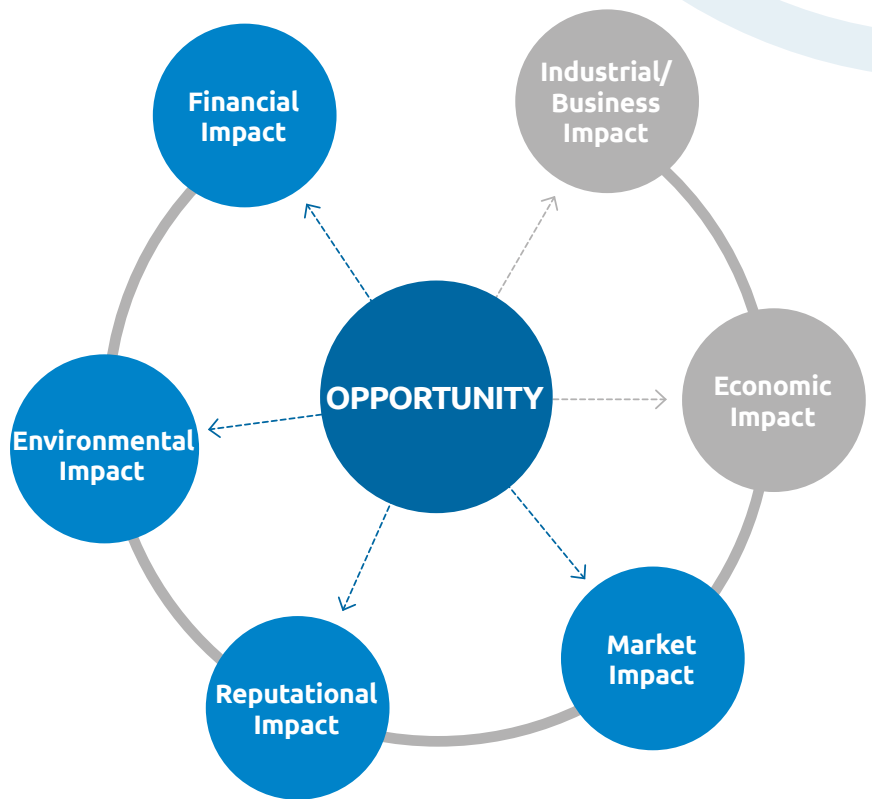
In 2019 the mapping of risks and opportunities was updated through the Integrated Risk Assurance & Compliance (RACI) platform under the scope of the Integrated Risk Assurance & Compliance model, aimed at coordinating and integrating second level control information flows with a synergistic approach, aimed at maximum rationalisation and overall efficiency

Under the scope of business risks, the main risks identified, monitored and, as specified below, were broken down into financial and non-financial risks (strategic risks, legal and non-conformity risk and operational risks).











The table below shows the mitigation and monitoring measures implemented for each type of risk.





(For more information on the main risk and uncertainty factors, please refer to the chapter "Risk and uncertainty factors" of this Report).










Classification	Description	Management actions	Impact on capitals
STRATEGIC RISKS	<b>Macroeconomic and geo-political risk</b>		
	Risks associated with political, social and economic instability in natural gas supplier countries	<ul style="list-style-type: none"> <li>■ Continuous monitoring of the political, social and macroeconomic framework</li> <li>■ Maintenance of constant relations with Authorities and Institutions responsible for managing possible crises in high-risk markets</li> </ul>	 
	<b>Regulatory and legislative risk</b>		
	Definition and updating of a regulatory framework in Italy and in the countries of interest that presents penalising parameters, in particular with regard to criteria for determining tariffs	<ul style="list-style-type: none"> <li>■ Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system</li> </ul>	
	Significant change in regulations and/or case law	<ul style="list-style-type: none"> <li>■ Ongoing regulatory oversight through the monitoring of changes in laws and rulings, analysis of changes, and the dissemination of information and further details to business and commercial departments</li> </ul>	
	<b>Risks related to climate change</b>		
	Reinforcement of the regulatory framework for greenhouse gas emissions	<ul style="list-style-type: none"> <li>■ Ongoing regulatory supervision with monitoring of the development of the greenhouse gas emissions authorisation system</li> <li>■ Target of -15% natural gas emissions from 2016 to 2022 on a like-for-like basis</li> <li>■ Target of -40% natural gas emissions from 2016 to 2025 on a like-for-like basis</li> <li>■ Target of -40% Scope 1 and Scope 2 CO<sub>2</sub> equivalent emissions from 2016 to 2030 on a like-for-like basis"</li> </ul>	  
	Change of scenarios with impact on the demand for natural gas and transported volumes	<ul style="list-style-type: none"> <li>■ Recovery of 33% of potential emissions deriving from maintenance activities, each year from 2017 to 2022</li> <li>■ Development of new business related to alternative uses of gas and implementation of the use of gas to support the energy transition (biomethane and other renewable gases, small scale LNG, CNG, gas heat-pumps and micro-cogeneration, Bio-LNG, hydrogen)</li> </ul>	  
	Increase in the severity of extreme atmospheric phenomena, with impacts on continuity and quality of service	<ul style="list-style-type: none"> <li>■ Adaptation of the recovery plan and business continuity management system to international best practices</li> <li>■ Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected</li> <li>■ Elaboration of corporate energy scenarios consistent with the national and European decarbonisation objectives developed for the containment of temperatures increase envisaged by the Paris agreements.</li> <li>■ Ongoing, systematic maintenance and monitoring measures</li> </ul>	



(continued)

Classification	Description	Management actions	Impact on capitals
<b>STRATEGIC RISKS</b>	Negative perception of the companies that operate in the fossil fuel sector by public opinion	<ul style="list-style-type: none"> <li>■ Raising awareness of public opinion and advocacy for natural gas</li> <li>■ Participation in European round table discussions on energy transition</li> <li>■ Supporting national and international initiatives aimed at strengthening the commitment to reducing methane emissions</li> <li>■ Membership of the TCFD "Task Force on Climate Related Financial Disclosure"</li> <li>■ Disclosure of the multi-year targets defined to fight climate change</li> </ul>	
<b>LEGAL AND NON-COMPLIANCE RISK</b>	<p><b>NFS</b> Possible violation of rules and regulations, with particular reference to Legislative Decree 231/2001 which provides for the company's liability for malfeasances committed by management or by third parties in relation to certain cases (corruption, fraud, health and safety of workers, environment)</p>	<ul style="list-style-type: none"> <li>■ Updating and monitoring protocols of Model 231</li> <li>■ Awareness-raising initiatives and training on the prevention of corruption</li> <li>■ Analysis and evaluation of reports received through the channels provided for by the reporting procedure</li> <li>■ Adoption and maintenance of Health, Safety and Environment management systems certified according to ISO14001 and OSHAS18001 standards</li> <li>■ Awareness-raising and training initiatives on accident prevention for employees and contractors</li> </ul>	
<b>NFS</b>	Maintaining an adequate reputational profile for suppliers and subcontractors	<ul style="list-style-type: none"> <li>■ Introduction of additional measures to prevent corruption and criminal infiltration:</li> <li>■ Obligation of suppliers and contractors to subscribe the Ethical and integrity Agreement</li> <li>■ Reputational checks on suppliers and subcontractors</li> </ul>	
	Non-alignment of corporate governance and/or the internal control and risk system with regulations and/or best practices	<ul style="list-style-type: none"> <li>■ Periodic revision of employer model</li> <li>■ Updating of Model 231 and the Code of Ethics</li> <li>■ Analysis of updates to the latest version (January 2010) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices</li> </ul>	

(continued)

Classification	Description	Management actions	Impact on capitals
<b>OPERATING RISKS</b>	Retaining gas storage concessions	<ul style="list-style-type: none"> <li>Development of storage carried out in line with the most up-to-date technical and economic criteria and best practices in science and technology so as not to damage the deposit, not to cause harm to third parties or the environment and to guarantee the optimisation of capacity in compliance with the security of the national gas system</li> </ul>	  
	<b>NFS</b> Delay to the progress of programmes involving the construction of large transportation and storage infrastructure	<ul style="list-style-type: none"> <li>Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity</li> <li>Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset.</li> <li>Strict, structured system for selecting contractors and monitoring their performance</li> </ul>	  
	<b>NFS</b> Breakages or damages to pipelines/ installations also upon exogenous events, which can cause malfunction and unexpected service interruption	<ul style="list-style-type: none"> <li>Application of management systems and procedures that take into account the specific nature of Snam's activities</li> <li>Recovery plan system and business continuity management in line with international best practices</li> <li>Communication initiatives aimed at providing information about the presence of infrastructure and behaviours to avoid/implement by third parties so as not to damage it</li> <li>Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected</li> <li>Continuous verification of insurance coverage in relation to the type of business and related risks</li> <li>Ongoing, systematic maintenance and monitoring measures</li> </ul>	
	Computer threats (Cybersecurity)	<ul style="list-style-type: none"> <li>Adaptation of IT security and business continuity systems to the ISO / IEC 27001 and ISO22013 standards respectively, with provision for related certification</li> <li>Definition of a model of security incident management team to respond promptly to events that may damage the integrity of the information and IT systems used</li> </ul>	

(continued)

Classification	Description	Management actions	Impact on capitals
<b>FINANCIAL RISKS</b>	Medium- and long-term debt rating downgrade	<ul style="list-style-type: none"> <li>Constant monitoring of rating indicators and availability of long-term credit lines</li> </ul>	
	Changes in the interest rate	<ul style="list-style-type: none"> <li>Monitoring cash-flow-at-risk using an asset and liability management (ALM) model</li> </ul>	
	Exchange rate changes	<ul style="list-style-type: none"> <li>Minimisation of transaction risk, through measures such as the use of derivatives</li> </ul>	
	Inability to raise new funds (funding liquidity risk) or to liquidate assets on the market	<ul style="list-style-type: none"> <li>Minimisation of opportunity cost and maintaining a balance in terms of debt duration and composition</li> </ul>	
	Default	<ul style="list-style-type: none"> <li>Monitoring of the contractual protection clauses in loan agreements</li> </ul>	
	Receivables	<ul style="list-style-type: none"> <li>Periodic monitoring of the credit situation and system management at certain deadlines of the stresses and any recovery actions for past due receivables</li> <li>Evaluation of the authenticity and validity of guarantees received</li> <li>Reporting of any issues with the regulatory system that may lead to opportunistic/fraudulent behaviour by operators</li> </ul>	



# Snam in 2019 – Summary Data and Information



# Applicable regulatory framework and principal developments



## TARIFF REGULATION IN ITALY

By means of Resolutions 514/2013/R/gas, 438/2013/R/gas and 531/2014/R/gas, the Italian Regulatory Authority for Energy Networks and the Environment (ARERA) defined the tariff criteria for the fourth regulatory period, in force from 1 January 2014, for transportation and regasification activities, and from 1 January 2015 for storage activities. Through subsequent resolutions 575/2017/R/gas, 653/2017/R/gas and 68/2018/R/gas the Authority defined the tariff criteria for the transition period, respectively for transportation and regasification activities (1 January 2018-31 December 2019) and for storage activities (1 January 2019-31 December 2019) concluding the fourth regulatory period.

In 2018 the Authority launched consultations for the definition of the criteria for calculating the revenue recognised for the fifth regulatory period with effect from 2020, defining these criteria in 2019.

Through subsequent resolutions 114/2019/R/gas, 474/2019/R/gas and 419/2019/R/gas the Authority defined the tariff criteria for the fifth regulatory period, respectively for transportation and regasification activities (1 January 2020-31 December 2023) and for storage activities (1 January 2020-31 December 2025) confirming the essential stability and continuity of the regulatory principles for the regulation in force.

	2014-2017	2018	2019	2020-2023	2024-2025
Transportation	4th Regulatory Period	Transitional Period		5th Regulatory Period 4 years	
Regasification	4th Regulatory Period	Transitional Period		5th Regulatory Period 4 years	
Storage	4th Regulatory Period		Transitional Period	5th Regulatory Period 6 years	

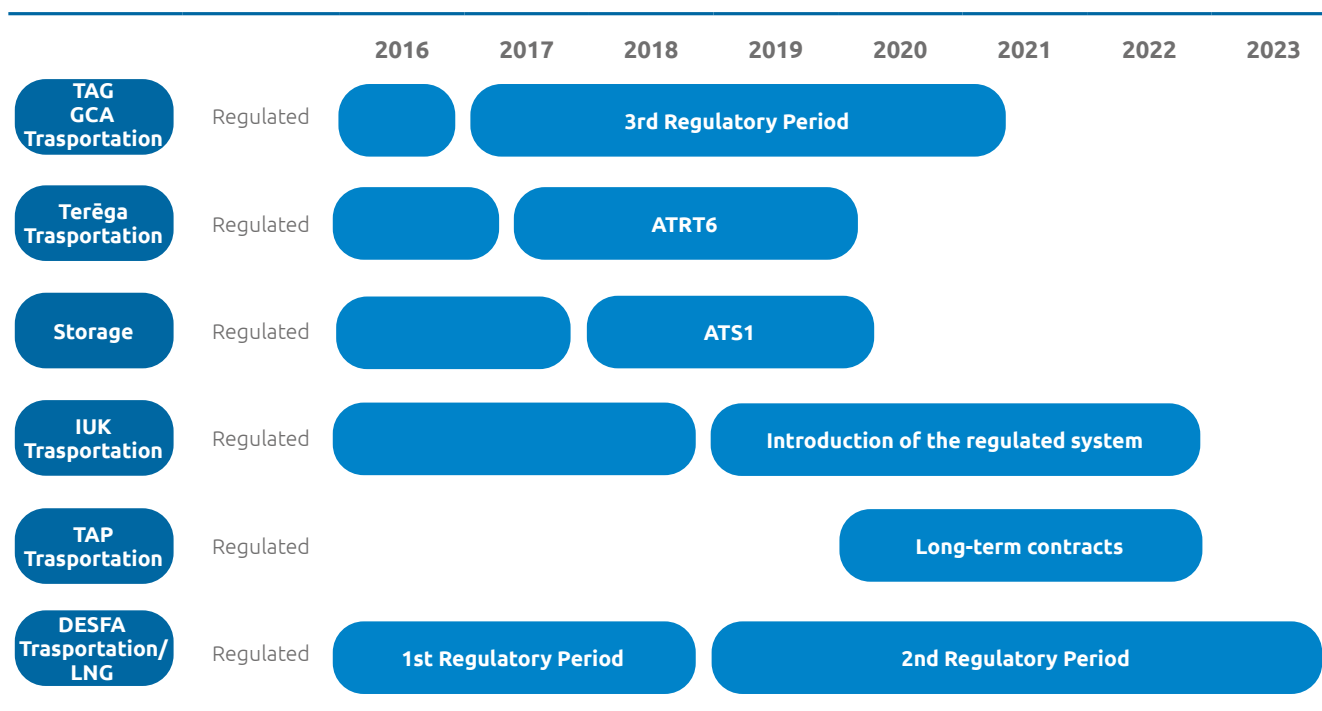
The following are the primary tariff components for each of the regulated activities carried out by Snam, based on the regulatory framework in force as at 31 December 2019. Further information regarding major new rate developments occurred, with respect to each business sector, is provided in the chapter “Business segment operating performance – Tariff regulations” of this Report.

	<b>Transportation</b>	<b>Regasification</b>	<b>Storage</b>
<b>Period time regulatory (Tariffs)</b>	<i>Transitional period:</i> 1 January 2018 - 31 December 2019	<i>Transitional period:</i> 1 January 2018 - 31 December 2019	<i>Transitional period:</i> 1 January 2018 - 31 December 2019
	<b>5th period:</b> 1 January 2020 - 31 December 2023	<b>5th period:</b> 1 January 2020 - 31 December 2023	<b>5th period:</b> 1 January 2020 - 31 December 2023
<b>Capital calculation net invested recognised for purposes regulators (RAB)</b>	<i>Transitional period:</i> Revalued historical cost Working capital recognised 0.8%	<i>Transitional period:</i> Revalued historical cost Working capital recognised 0.8%	<i>Transitional period:</i> Revalued historical cost Working capital recognised 0.8%
	<b>Confirmed for the 5th period</b>	<b>Confirmed for the 5th period</b>	<b>Confirmed for the 5th period</b>
<b>Return of the invested capital net recognised for regulatory purposes (pre-tax WACC) (*)</b>	<i>Transitional period:</i> 5.7% 2019	<i>Transitional period:</i> 6.8% 2019	<i>Transitional period:</i> 6.7% 2019
	<b>5th period:</b> 5.7% 2020-2021 (*) LIC return with WACC 5.3%	<b>5th period:</b> 6.8% 2020-2021 (*) Excluding LIC	<b>5th period:</b> 6.7% 2020-2021 (*) Excluding LIC
<b>Incentives on new investments</b>	<i>Transitional period:</i> (investments in 2019): +1% for 12 years (investments in new capacity for transport and with cost analysis positive benefits)	<i>Transitional period:</i> (investments in 2019): +1.5% for 12 years (investments in new capacity of regasification)	<i>Transitional period:</i> Withholding for 8 years of 20% of greater revenues compared with revenues recognised resulting from bids on new additional capacity
	Return on investments t-1 to offset time-lag regulatory	Return on investments t-1 to offset time-lag regulatory	Return on investments t-1 to offset time-lag regulatory
	<b>5th period:</b> (investments in the period by 2022): +1.5% for 10 years (investments in new capacity for transport and with cost analysis benefits >1.5)	<b>5th period:</b> Withholding of 40% of revenues from flexibility services (hedging revenues not subject to guarantee factor)	<b>5th period:</b> Withholding of 50% of revenues from tenders short-term Possible optional upgrading of the percentage, following guarantee % reduction on revenues
<b>Efficiency factor (X FACTOR)</b>	<i>Transitional period:</i> 1.3% - on operating costs	<i>Transitional period:</i> 0%	<i>Transitional period:</i> 4.7% - on operating costs
	<b>5th period:</b> 0.9% on operating costs	<b>5th period:</b> 3.1% on operating costs	<b>5th period:</b> 1% on operating costs

(\*) The rate of return on net invested capital (WACC) in force from 1 January 2016 was set by the Authority by means of Resolution 583/2015/R/com of 2 December 2015, “Rate of return on invested capital for infrastructural services in the electricity and gas sectors: calculation and updating criteria”. The duration of the WACC (TIWACC) regulatory period for infrastructure regulations in the gas sector is set at six years (2016-2021), and a mechanism is provided for updating the rate at mid-period according to the prevailing situation. Through resolution 639/2018/R/COM of 6 December 2018, the Authority updated the rate of return on invested capital for infrastructure services regulated by the gas sector for 2019. The respective resolutions defined the tariff regulatory criteria for the 5th regulatory period of the above-mentioned businesses, confirmed the Beta parameter value for 2020 for all sectors, keeping the WACC for that year unchanged, in line with the TIWACC framework.



## Regulation in European countries of interest to Snam: main features



### TAG GCA Transportation

- Differentiated RAB between Revalued Historical Cost and Book Value. There is also different treatment of (pre-2012) old assets and new investments.
- There are differentiated remuneration rates for the share of RAB financed through Equity (Cost of Equity (\*) 8.92% Actual Pre-Tax) and for the share financed through Debt (Cost of Borrowing 2.7% Pre-Tax Nominal).
- Revision in progress of regulatory parameters for the fourth period (2021-2024).

### Terēga Transportation

- RAB revalued annually using inflation (Consumer Price Index) taking into account new investments and amortisation and depreciation (Current economic cost method);
- WACC return rate equal to 4.25% Actual Pre-Tax.

### Terēga Storage

- Storage under regulated system from January 2018.
- WACC return rate equal to 4.75% Actual Pre-Tax; RAB around €1.2 billion.

### IUK Transportation

- Exemption system until October 2018;
- Switch from an exemption regime to a regime regulated on the expiry of long-term contracts (October 2018).

### TAP Transportation

- Third-Party Access exemption on the initial capacity (10 bcm/y);
- Exemption from tariff regulation on the initial and expansion capacity.

### DESFA Transportation/LNG

- RAB based on historical cost, Work in Progress remunerated by WACC.
- Nominal Pre-Tax remuneration rate for the period 2019-2022: 8.22%, 7.84%, 7.52%, 7.44%.
- RAB of around €0.8 billion (Transportation + LNG).
- Socialisation of the cost of LNG in the transportation tariff (50% from 2020 – compared with 75% previously).
- Recovery of the OLD Recoverable Difference accumulated between 2006 and 2016 of around €326 million, over a time frame of 16 years from 2017 to 2032.

(\*) This value includes a premium for the risk related to the marketing of capacity equal to 3.5%.

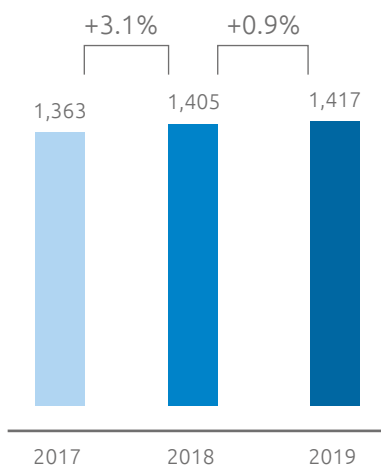
# Results

In order to allow a better evaluation of the economic-financial performance, this Report presents the reclassified financial statements and several alternative performance indicators (Non-GAAP measures), mainly represented by the results in an adjusted configuration<sup>5</sup>. Specifically, adjusted EBIT and 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 legal scheme of the Income Statement.

Income entries classified as special items for 2019 refer to: (i) financial expense from the buy back on the market of bonds under the scope of the liability management operation (€29 million excluding the tax effect); (ii) the effects of the release to the income statement of the provision for impairment losses (€26 million excluding the tax effect) following the announcement by the Council of State of 5 March 2020 with regard to uncollected receivables relating to balancing activities.

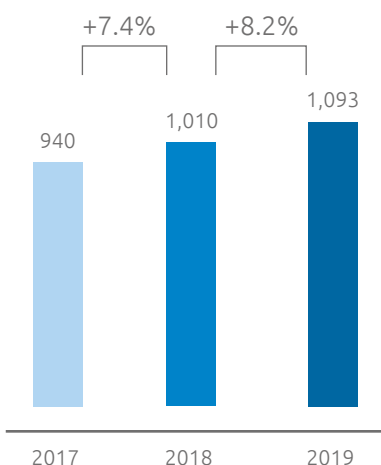
## ADJUSTED RESULTS<sup>5</sup>

### Adjusted EBIT (€ Mn)



Thanks to the solidity and efficiency of the operational management and strict financial discipline, Snam achieved positive results in line with expectations in 2019. **Adjusted EBIT<sup>6</sup>** totalled €1,417 million, up by €12 million (0.9%) compared with the adjusted EBIT for 2018. The greater revenue (+€76 million or 3.0%), essentially attributable to the natural gas transportation segment business, which benefits from the increase in tariff parameters and the investments of past years, and the contribution for the whole of 2019 of the businesses that joined the scope of consolidation in 2018 were partly offset by the increase in depreciation and amortisation (-€40 million, or 5.9%) and write-downs (-€22 million) referred to works in progress of past years' projects. Operating costs were essentially in line compared with the adjusted figure for 2018 (-€2 million or 0.5%). The effects of the actions of the efficiency plan implemented, around €15 million, were absorbed by the costs, for the year 2019, of the businesses that entered the scope of consolidation in 2018 and the new business initiatives and by the costs related to the continuation of activities in the energy transition.

### Adjusted net EBIT (€ Mn)



**Adjusted net EBIT** totalled €1,093 million, up by €83 million (8.2%) compared with adjusted net EBIT for 2018. The increase, in addition to the greater EBIT (€12 million or +0.9%) is due to the lower net financial expense (+€30 million or 15.4%) thanks to the benefits of the actions for optimising the financial structure implemented, as well as the positive market conditions, as well as greater net income from equity investments (€57 million or +35.8%) mainly courtesy of contribution of Senfluga, after the acquisition timing of DESFA (December 2018) and an exceptionality of performances recorded in 2019, and Terēga. These effects were partly absorbed by higher income taxes (-€16 million;4.5%), due mainly to the greater pre-tax profit.

<sup>5</sup> For the definition of these indicators and the reconciliation with the related reported results, in line with the guidelines of the 2015/ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 5 October 2015, please refer to the chapter "Financial review and other information - Non-GAAP measures".

<sup>6</sup> EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs, due mainly to interconnection.

## Free cash flow

+ €482 million

**Net financial debt** was €11,923 million at 31 December 2019, compared with € 11,548 million at 31 December 2018. The net cash flow from operations (€1,486 million) allowed us to fully cover the financial requirements associated with net investments (€1,004 million) and to generate a free cash flow of €482 million. The net financial debt, after cash flows from self-owned capital deriving from the payment to shareholders of the 2018 dividend (€746 million, of which an interim dividend of €298 million and €448 million for the balance) and the acquisition of treasury shares (€39 million), recorded an increase of €375 million compared with 31 December 2018, including non-monetary components related to financial debt (€75 million), which refer mainly to the change in the scope of consolidation and the financial debt recorded through the application of IFRS 16 "Leasing".

## DIVIDENDS

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 an ex-dividend date of 22 June 2020 (record date 23 June 2020). The proposed dividend, up 5% compared with 2018, in line with the dividend policy announced in the strategic plan, confirms Snam's commitment to guaranteeing shareholders an attractive remuneration that is sustainable over a period of time.

## Dividend

€0.2376 per share

### Main income statement data <sup>(a)</sup>

(millions of €)	2017	2018	2019	Change	% change
Total revenue	2,533	2,586	<b>2,665</b>	79	3.1
Total revenues net of pass-through items	2,441	2,528	<b>2,604</b>	76	3.0
Operating costs <sup>(b)</sup>	511	491	<b>496</b>	5	1.0
Operating costs net of pass-through items <sup>(b)</sup>	419	433	<b>435</b>	2	0.5
EBITDA <sup>(b)</sup>	2,022	2,095	<b>2,169</b>	74	3.5
EBIT <sup>(b)</sup>	1,363	1,405	<b>1,417</b>	12	0.9
Net profit <sup>(b) (c)</sup>	940	1,010	<b>1,093</b>	83	8.2

(a) Changes in the income statement results shown in the table, as well as in those later in this Report, unless otherwise indicated, must be understood as changes in the results for the 2019 financial year compared with the financial year 2018. Percentage changes are calculated in relation to the data indicated in the related tables.

(b) The values are reported in the adjusted configuration.

(c) Entirely attributable to Snam shareholders.

### Reported results

(millions of €)	2017	2018	2019	Change	% change
EBIT	1,348	1,384	<b>1,452</b>	68	4.9
Net profit <sup>(a)</sup>	897	960	<b>1,090</b>	130	13.5

(\*) Entirely attributable to Snam shareholders.

## Main share and income data

		2017	2018	2019	Change	% change
Net profit per share <sup>(a)</sup>	(€)	0.262	0.286	<b>0.330</b>	0.044	15.5
Adjusted net profit per share <sup>(a)</sup>	(€)	0.275	0.301	<b>0.331</b>	0.030	10.1
Group shareholders' equity per share <sup>(a)</sup>	(€)	1.81	1.78	<b>1.90</b>	0.12	6.5
Pay-out (Dividend for the period/Group net profit) <sup>(b)</sup>	%	81.61	77.71	<b>71.56</b>	(6.15)	(7.9)
Dividend yield (Dividend for the period/year-end official share price) <sup>(b)</sup>	%	5.3	5.9	<b>5.1</b>	(0.8)	(13.9)
Price/Book value (Average official price per share/Group shareholders' equity per share)	(€)	2.24	2.10	<b>2.36</b>	0.26	12.4

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

(b) The 2019 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 27 February 2020.

## Key balance sheet and cash flow figures

(millions of €)	2017	2018	2019	Change	% change
Technical investments	1,034	882	<b>963</b>	81	9.2
Net invested capital at 31 December	17,738	17,533	<b>18,181</b>	648	3.7
Group Shareholders' equity at 31 December	6,188	5,985	<b>6,255</b>	270	4.5
Net financial debt at 31 December	11,550	11,548	<b>11,923</b>	375	3.2
Free cash flow	423	1,161	<b>482</b>	(679)	(58.5)

## Key share figures

		2017	2018	2019	Change	% change
Number of shares of share capital	(million)	3,501	3,469	<b>3,395</b>	(74)	(2.1)
Number of shares outstanding on 31 December	(million)	3,415	3,301	<b>3,292</b>	(9)	(0.3)
Average number of shares outstanding during the year	(million)	3,422	3,358	<b>3,301</b>	(57)	(1.7)
Year-end official share price	(€)	4.086	3.820	<b>4.686</b>	0.866	22.7
Average official share price during the period	(€)	4.043	3.747	<b>4.474</b>	0.727	19.4
Stock Exchange capitalisation	(million)	13,953	12,606	<b>15,428</b>	2,822	22.4
Dividend per share	(€ per share)	0.2155	0.2263	<b>0.2376</b>	(0.0113)	5.0
Dividends for the period (*)	(million)	731	746	<b>780</b>	(34)	4.6
Dividends paid in the period	(million)	718	731	<b>746</b>	15	2.1

(\*) The 2019 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 27 February 2020.

# Main events

## Core business development agreements

### **Snam and Iren sign an agreement to acquire a stake in the OLT - Livorno regasifier**

On 20 September 2019 Snam and the Iren Group signed an agreement for the acquisition by Snam of a 49.07% stake of the share capital of OLT (Offshore LNG Toscana), the company that constructed and manages the offshore regasification terminal (FSRU – Floating Storage and Regasification Unit) located off the coast of Tuscany between Livorno and Pisa. The acquisition was completed on 26 February 2020x, following the prior approval of the competent authorities (Anti-trust Authority).

The consideration paid by Snam to the Iren Group for the acquisition of the entire equity investment in OLT owned by Iren Mercato S.p.A., as well as the remaining share of a shareholders' loan from Iren S.p.A. in favour of OLT stands at around €332 million in total. The amount, paid by Snam with its equity, may be subject to possible contractually-required price adjustment mechanisms. Following the transaction, Snam took control of the regasification terminal in conjunction with First State Investments International Ltd. which, via the subsidiary FS SP S.à.r.l., owns 48.24%.

## International Business Development

### **Establishment of Snam Gas & Energy Services to monitor the Chinese market**

In 2019, the Chinese company Snam Gas & Energy Services was established in Beijing, wholly owned by Snam B.V. Snam's interest in the Chinese market is linked on the one hand to the strong growth in gas consumption (190 BCM in 2015; 310 BCM in 2019) and the prospects for further growth in the medium term and on the other hand the need for new gas infrastructures (pipeline, storage and regasification capacity, biogas and biomethane plants) and the evolution of this market with the creation of a company that is solely responsible for the main infrastructure for gas and oil through the consolidation of the assets now owned by the 3 Major Oil & Gas.

Thanks to this presence, Snam has continued and started to implement the intense positioning and accreditation activities with the main stakeholders previously launched and Memorandum of Understanding with financial players have been signed (Bank of China, ICBC, Silk Road Fund - this last during the State visit to Italy of the President of the Republic of China Xi Jinping) and large companies in the energy segment (among others a strategic Memorandum of Understanding signed with CNPC - Petrochina during the CIIE in Shanghai). During 2019, Snam, also through Snam Gas & Energy Services, signed the first service contracts and initiated the provision of the same to 3 different Chinese counterparties and to an additional company (in which a Chinese counterparty holds a stake) with a focus on storage area.

## Biomethane

### Renerwaste S.r.l.

In November 2019, through the subsidiary Snam 4 Environment, Snam completed the acquisition from Ladurner Ambiente and from AB Invest of a stake of 82.63% of Renerwaste S.r.l., one of the largest companies operating in Italy in biogas and biomethane infrastructures, for an outlay at the closing, including the repayment of the shareholders' loan, of around €46 million. The transaction, entirely funded through equity, includes the possibility of Snam acquiring the remaining 17.37% of the share capital owned by Ecopartner from June 2020. Renerwaste with its three plants located, respectively, in the provinces of Lodi, Milan and Tortona, generates annual revenues of more than €20 million and employs around 50 people.

### Snam and Infore Environmental Group: Memorandum of Understanding (MoU)

At the end of 2019 Snam signed a Memorandum of Understanding with the Infore Environmental Group, an environmental services company listed on the Shanghai Stock Exchange and the controlling shareholder of Ladurner Ambiente, for potential joint initiatives for the development of biogas and biomethane infrastructure in China.

### Biomethane initiatives: binding letter of intent

In November 2019 Snam and Femogas also signed a binding letter of intent aimed at negotiating and defining agreements to launch a strategic partnership in infrastructure for biomethane from agriculture through the entry, with a 50% stake, into Iniziative Biometano, a company operating in Italy with five biogas plants, for which there is a plan for conversion to biomethane, and with various plants in the process of authorisation or construction.

Thanks to these two initiatives, Snam can increase its expertise in the management and running of plants both in the agricultural biomethane chain and the FORSU chain (organic fraction of municipal solid waste), perfectly complementary to the expertise in the design, development and construction of IES Biogas, a subsidiary of Snam since 2018 and leader in the creation of biogas and biomethane plants in Italy and abroad.

## Sustainable mobility

### Tamoil and Snam: contract for 5 new natural gas service stations

On 20 March 2019, through the subsidiary Snam4Mobility, Tamoil and Snam signed a contract for the construction of an initial batch of 5 natural gas refuelling stations in Italy, promoting the development of sustainable mobility for cars and lorries in Italy.

The agreement involves the collaboration of Tamoil and Snam4Mobility for the design, construction, maintenance and running of 4 new CNG (compressed natural gas) facilities and a new L-CNG (liquefied and compressed natural gas) facility within the national network of Tamoil distributors.

### FS Italiane, Snam and Hitachi rail: Memorandum of Understanding (MoU) on methane trains

On 28 March 2019, FS Italiane, Snam and Hitachi Rail signed a Memorandum of Understanding (MoU) that aims to convert part of the current fleet of trains of the Fondazione FS Italiane from diesel to methane, as part of the promotion of sustainable mobility in public transport in Italy. The Memorandum involves the launch of a pilot project for the transformation of one or two Fondazione FS Italiane rail cars that run on diesel into more advanced models running on liquefied natural gas (LNG) or compressed natural gas (CNG). Following a feasibility study, the companies will identify a larger number of trains to extend the trial to.

### EIB financing for sustainable mobility projects

To support the initiatives as part of sustainable mobility, on 6 June 2019 Snam signed the first loan with the European Investment Bank (EIB) to support investments promoted by the subsidiary Snam4Mobility, for a nominal value of €25 million. The investments that are the subject of the loan agreement involve the construction in Italy of 101 CNG (compressed natural gas) and 9 L-CNG (liquefied and compressed natural gas) refuelling stations for a total of around €50 million. The loan, according to EIB practice, will be equal to a maximum of 50% of the cost of the investments, has an amortising structure, maturity in December 2031 and a fixed rate of 0.55%. The loan complements the contribution of the European Union provided under the CEF programme (Connecting Europe Facility) of €1.3 million, which last December approved the Snam4Mobility's project for constructing 9 L-CNG stations.

### Snam and IP: understanding for constructing 26 new refuelling facilities

On 26 July 2019, Snam and IP signed an agreement aimed at constructing an initial batch of 26 new natural gas refuelling facilities, which will open in the network of IP distributors from 2020 throughout Italy.

The new openings represent the first phase of the implementation of the framework agreement signed in 2018 between IP and Snam to create up to 200 new methane stations in Italy. The initiative comes under the commitment of the two companies to promote sustainable mobility.

Snam and IP have jointly identified the IP refuelling stations in the ordinary and motorway network at which to install the methane supply facilities for cars (CNG - compressed natural gas), two of which will also house LNG (liquefied natural gas) systems for heavy vehicles.

The initiatives described above are part of Snam's commitment to natural gas sustainable mobility in Italy, for rail transport as well as road and maritime transport. The company is making investments to give the CNG and L-CNG distribution network in Italy a boost, through direct investments and agreements with other sector operators, and to promote the development of a biomethane (zero CO<sub>2</sub> renewable gas) supply chain in Italy. In Italy, Snam, through Snam4Mobility, has already created 9 new stations out of a total of 103 contracted stations, with the goal of creating a total of 300 in the years to come.

### **Snam, OMV and TAG sign a memorandum of understanding (MoU) for sustainable mobility**

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**

### **Agreements for the reclassification of energy for condominiums**

On 10 April 2019, Snam, through its subsidiary TEP Energy Solution operating in the energy efficiency sector, and UniCredit signed an agreement to facilitate the energy reclassification of residential buildings in Italy, making them more sustainable and safe. The understanding involves the possibility of the bank providing condominiums with credit facilities on the projects proposed by TEP as part of energy efficiency and improvements against earthquakes, such as, for example, the construction of "thermal walls", the replacement of window frames and the upgrading of heating systems.

Under this scope, it was followed by the collaboration agreement signed on 5 June 2019 by TEP with Intesa Sanpaolo to promote the energy reclassification of buildings to energy to residential and service sector use. The above-mentioned agreements include the proposal of a full service, that goes from the financial and technical consultation to the provision of the grant to the realisation of the project, in dedicated conditions and reduced times. Specifically, the condominiums can take advantage of bank loans to cover the share not included in the discounts under exiting legislation as part of the Ecobons (for a share of between 70% and 75% of the amount of the works) and Sismabonus (for a share of between 80% and 85% of the amount of the works).

TEP Energy Solution, on the other hand, will propose the CasaMia product, until now offered to around 800 condominiums throughout Italy, which is aimed at the

energy reclassification of the buildings, financing the works through savings in consumption and the sale of a tax credit linked to the Ecobonus and Sismabonus system.

### **TEA Servizi**

On 11 November 2019, through the wholly-owned company Asset Company 4 S.r.l., Snam 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 running of thermohydraulic and electric plants for industrial customers, with a special focus on small and medium businesses. The revenues of the area acquired were around €3 million in 2018. The initiative allows Snam to integrate its range of services offered to industrial customers, adding the expertise of plant engineering design, running and maintaining the current proposal developed through TEP Energy Solution.

## **Financing**

### **Bond issues**

On 28 February 2019, Snam S.p.A. concluded the issuing of its first Climate Action Bond for a sum of €500 million, with an annual coupon of 1.25% maturing on 28 August 2025. Through the issuing of the first Climate Action Bond in Europe, Snam aims to consolidate its role in energy transition in Europe, promote market awareness of market investors to the company's ESG (Environmental, Social and Governance) initiatives and investments and diversify its investor base.

On 12 September 2019, Snam S.p.A. also concluded a bond issue in two tranches of a nominal equal, respectively, to €500 and €600 million, for a total of €1.1 billion, at a fixed rate maturing, respectively on 12 May 2024 and 12 September 2034. The bonds come under the pre-funding strategy of maturities relating to 2020 with a view to reducing the cost of borrowing and increasing the average maturity.

The above-mentioned bonds come under the scope of the EMTN (Euro Medium Term Note) Programme approved by the Board of Directors on 2 October 2018, later renewed by the Board of Directors as described in the paragraph "Annual renewal of the EMTN programme".

### **Euro Commercial Paper Programme**

On 19 March 2019, the Board of Directors of Snam approved the increase of the amount of the Euro Commercial Paper programme ("ECP Programme"), approved on 2 October 2018 from €1 billion to €2 billion. The issuing of the Euro Commercial Paper may take place within a 2 year deadline from 2 October 2018 for a maximum total value of €2 billion, plus the corresponding amount of the Euro Commercial Paper repaid at any given time during the same period, to be placed with institutional investors according to the terms and conditions of the ECP Programme. The total nominal value



of the Euro Commercial Papers issued under the ECP Programme cannot, in any event, exceed the maximum limit of €2 billion.

The increase in the amount of the ECP Programme allows Snam to diversify short-term financing instruments with a view to ever increasing flexibility in the process of optimising treasury arrangements.

The Euro Commercial Papers at 31 December 2019 totalled €2 billion, equal to the maximum permitted limit of the programme.

### **EIB loans for infrastructure projects in the transportation and storage sectors**

On 28 January 2019, Snam signed a loan agreement with the European Investment Bank (EIB) for €135 million to create infrastructure projects in the natural gas transportation and storage sectors, with a fixed rate of 1.372% to be repaid through an amortisation plan maturing in 2038.

On 31 July 2019 Snam also signed a loan agreement with the EIB for €105 million for the creation of infrastructure projects in the natural gas transportation sector, for a duration of 20 years (maturing on 30 June 2039) with a fixed rate of around 0.64%.

### **Annual renewal of the EMTN programme**

On 2 October 2019, Snam S.p.A.'s Board of Directors approved the annual renewal of the EMTN (Euro Medium Term Note) programme launched in 2012, increasing the maximum overall value from €10 to €11 billion, one of the purposes of which is to ensure adequate flexibility during market upswings.

As a result, the Board authorised the issuing, to take place by 2 October 2020, of one or more further bond loans, to be placed with institutional investors mainly operating in Europe. The total nominal value of issued bonds in circulation in each instance may not exceed the maximum limit of €11 billion.

The EMTN Programme is an effective instrument for obtaining significant financial resources on the market quickly and at competitive prices, in line with the planned development of the target financial structure of the company. The bonds issued can be listed on one or more regulated and unregulated markets (so-called multilateral trading systems).

### **Bond buyback**

On 2 December 2019 Snam successfully concluded the buyback on the market of its bonds for a total nominal value of €597 million. The effects of this transaction on the 2019 income statement (€38 million, €29 million excluding the tax effect) are essentially represented by the charges deriving from the difference between the outlay deriving from the repurchase of part of the bonds on the market and the amortised cost valuation of the bonds themselves. Through this operation, Snam continues the process of optimising its debt structure and continuously improve the

cost of capital, in line with its objectives.

The year just ended represents the last of the five years of the Liability Management which, from 2015 to the present day, has contributed to reducing Snam's cost of borrowing from 2.4% in 2016 to 1.1% in 2019.

## **Other**

### **New share buyback plan and cancellation of treasury shares with no share capital reduction**

On 2 April 2019 the Ordinary Shareholders' Meeting of Snam shareholders authorised, following the withdrawal of the resolution authorising the purchase of treasury shares taken by the Ordinary Shareholders' Meeting on 24 April 2018, for the remaining part not carried out, the purchase of treasury shares, to take place on one or more occasions, for a maximum of 18 months from the date of the Meeting of 2 April 2019, with a maximum outlay of €500 million and, in any event, up to a maximum of 126,664,660 shares without exceeding 6.50% of the subscribed and released share capital (with regard to treasury shares already owned by the Company).

The Extraordinary Shareholder's Meeting held on the same date also approved the cancellation of 74,197,663 treasury shares with no nominal value with no reduction in the share capital and the resulting amendment of Article 5.1 of the Articles of Association. The shares were cancelled on 17 April 2019 after the amended Articles of Association were filed with the Register of Companies. As a result of this transaction, the share capital consists of 3,394,840,916 shares with no nominal value for a total value of €2,736 million (the same as at 31 December 2018). In execution of the resolution, the new buy back programme was launched on 16 December 2019).

In December 2019 a total of 8,412,920 Snam shares (equal to 0.25% of the share capital) were acquired for a cost of €39 million. At the date of this report, Snam has 102,412,920 shares in its portfolio equal to 3.02% of the share capital (168,197,663 at 31 December 2018 equal to 4.85% of the share capital).

### **Appointment of statutory auditors**

On 23 October 2019, the Ordinary Shareholders' Meeting of Snam S.p.A., having listened to the opinion of the Board of Statutory Auditors, approved the appointment of the independent auditors PricewaterhouseCoopers S.p.A. to conduct the audit and, at the same time, to confer, at the suggestion of the Board of Statutory Auditors, the task of the statutory audit of Snam, for the period of the financial years ended 31 December 2020 to 2028 on the independent auditors Deloitte & Touche S.p.A.

### **Cooperative compliance**

In December 2019 Snam was admitted to the cooperative compliance regime established under the scope of national tax legislation. This regime, in line with international best

practice, requires an adequate system for measuring, managing and controlling fiscal risks and is based on a closer relationship of trust and collaboration with the Financial Administration. Belonging to the Cooperative compliance, which also involves the subsidiary Snam Rete Gas, will make it possible to always increase the level of certainty on important tax issues through a constant and preventive dialogue on situations susceptible to generating tax risks. Through the admission notified by the Revenue Agency, Snam and Snam Rete Gas were registered on the list of companies that operate in full transparency with the Italian tax authorities, published on the Agency's website. The adoption of a clear and documented fiscal strategy represents the essential requirement for access to the cooperative compliance regime.

The "Tax Control Framework – Fiscal Strategy" guideline on the subject of the "Fiscal strategy of the Snam Group" represents a description of the principles that inform the Group's tax governance, both from a strategic profile, as far as the risk appetite and the objective pursued in the long-term with regard to the tax variable are concerned, and from an operating profile, as far as the architecture of the tax risk control system or the tax control framework is concerned.

Snam's Board of Directors exercises its governance and direction role, defining Snam's Tax Strategy included in the Tax Control Framework and evaluating the adequacy of the organisational structure under the scope of the tax management of fiscal risk.

In this area the Board of Directors exercises overall supervision on the operation of the Tax Control Framework, through a periodic analysis of the adequate reporting of fiscal risk.



# Operating review

## Technical investments

Technical investments totalled €963 million (€882 million in 2018) and referred mainly to the natural gas transportation (€813 million) and storage (€112 million) business segments).

## Infrastructure development and integration

The main investments for the development of new infrastructure mainly involved work for the reversal of physical transportation flows at interconnection points with northern Europe (€32 million), the upgrade of the transportation network from entry points in southern Italy

through, specifically, the interconnection with TAP (€95 million) and the upgrade of the network and connection of new regional and national redelivery points (€107 million). A total of €35 million was invested in 2019 for the development of new storage fields and upgrading capacity. As a result of the work completed and disposals carried out during the year, the pipeline network in operation grew by a total of 102 km compared with 31 December 2018), while the installed capacity in compression stations stood at 961 megawatts, in line with the previous year. Available storage capacity rose by 0.1 billion cubic metres, made available by the gradual entry into operation of the new Bordolano deposit, to a level of 12.5 billion cubic metres.

## NFS Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled €424 million for transportation and €60 million for storage.

Throughout the year, the plants in the network are monitored 24 hours a day. With the help of simulation and optimisation programmes, their best asset is guaranteed with the aim of reducing the consumption of gas boosting fuels and thus containing the level of emissions. The pipeline layout is then inspected regularly on foot, by vehicle, and using helicopters to detect potentially

hazardous situations caused, for example, by the works of third parties in proximity to the pipelines. Geological inspections of the pipeline section are also carried out to identify potential instabilities along the sections. Similarly, any land slippage at specific points along the route is also kept under surveillance, using appropriate sophisticated equipment, if needed. Pipeline integrity is also monitored by passing a smart pig inside them to detect of any material defects or anomalies.

## Control and inspection of transportation activities

(km)	2017	2018	2019
Network inspected using smart pigs	1,632	1,651	1,651
Network inspected by helicopter	16,274	18,462	20,178
Network subjected to geological inspection	4,080	4,209	5,163

The security of storage plants is guaranteed by various detection systems connected to automatic security systems: explosive mixture detectors, fire detectors, smoke detectors, high or low pressure switches, pressure transmitters, fuse plug systems and heat sensitive cables, sound-level meters for detecting gas leaks and extinguisher systems. The intervention of these systems activates the security systems of the plants, monitored 24/7 by the San Donato Milanese dispatch service. All pressure vessels and lines are periodically checked by outside bodies, while the connecting flow lines between the compression and treatment systems and the clusters are monitored through the regular inspection of the section, carried out on foot or in vehicles. Periodically, a smart device fitted with sensors is passed inside these ducts, a so-called smart pig, that makes it possible to

detect the presence of any defects or irregularities in the material and even the slightest movement of the duct. In addition, microseismic monitoring is taking place, offering guarantees on the secure management of storage activities and the monitoring of soil movements with data from an interferometric satellite SAR and continuous acquisitions in real time obtained through CGPS stations.

## Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2019 was 362.9 million cubic metres/day on average, which was in line with 2018 (+0.6%), while transferred capacity totalled 231.4 million cubic metres/day on average. Network



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# 75.37

Billion m<sup>3</sup> of gas injected into the network (+3,5%)

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# 74.34

Billion m<sup>3</sup> gas demand (+2.3%)

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# 100%

of available capacity conferred

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# 57

methane tankers unloaded (+36 compared with 2018)

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saturation<sup>7</sup> was 63.8%, a decrease compared with 2018 (79.5%).

The number of active transport users in 2019 was 150, compared with 136 active users in 2018. During the year, 123 connection agreements were entered into for the creation of new delivery/redelivery points, including 26 for the injection of biomethane and 61 relating to CNG service areas.

Overall storage capacity, including strategic storage, was 17.0 billion cubic metres at 31 December 2019, an increase of 0.1 billion cubic metres over 2018 following the Bordolano site's gradual entry into service, of which 12.5 was available capacity that was fully transferred for the 2019-2020 thermal year and the remaining 4.5 billion cubic metres was for strategic storage.

There were 90 active storage customers (91 in 2018).

## Business volumes

In 2019 a total of 75.37 billion cubic metres of gas was injected into the network, an increase of 2.55 billion cubic metres (+3.5%) compared with 2018. The increase was mainly as 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, the reduction in electricity imports and the smaller production from renewable sources, particularly hydroelectric production, as well as the rise in wind and solar power.

The available storage capacity at 31 December 2019 of 12.5 billion cubic metres (+0.1 billion cubic metres compared with 2018, made available by the gradual entry into operation of the new Bordolano deposit), represents the greatest capacity offered at a European level, and was conferred in full for the 2019-2020 thermal year.

Volumes of gas moved through the storage system in 2019 amounted to 19.33 billion cubic metres, a fall of 1.74 billion cubic metres, or 8.3%, compared with 2018. The reduction was mainly attributable to lower withdrawals from storage (-1.26 billion cubic metres; -12.1%) mainly as a result of weather conditions.

During 2019, the Panigaglia (SP) LNG terminal regasified 2.40 billion cubic metres of LNG (0.91 billion cubic metres in 2018, +1.49 billion cubic metres). In 2019 57 methane tankers were unloaded (+36 compared with 2018).

The significant increase in volumes of activities compared with last year, is mainly due to the greater competitiveness of the cost of LNG compared with natural gas, as well as the new regasification capacity allocation mechanisms through dedicated auctions.

<sup>7</sup> Ratio of capacity transferred to available capacity.

## Key operating figures

In conformity with IFRS 8 "Operating segments", the operating 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. For this purpose, the companies entering the scope of consolidation in 2019 were consolidated within the "Corporate and other activities" sector, with the exception of Enura, consolidated within the "Natural gas transportation" operating sector".

### Key operating figures

	2017	2018	2019	Change	% change
<b>Natural gas transportation (a)</b>					
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) <sup>(b)</sup>	74.59	72.82	<b>75.37</b>	2.55	3.5
Transportation network (kilometres in use)	32,584	32,625	<b>32,727</b>	102	0.3
Installed power in the compression stations (MW)	902	961	<b>961</b>		
<b>Liquefied Natural Gas (LNG) regasification (a)</b>					
LNG regasification (billions of cubic metres)	0.63	0.91	<b>2.40</b>	1.49	
<b>Natural gas storage (a)</b>					
Available storage capacity (billions of cubic metres) <sup>(c)</sup>	12.2	12.4	<b>12.5</b>	0.1	0.8
Natural gas moved through the storage system (billions of cubic metres)	19.92	21.07	<b>19.33</b>	(1.74)	(8.3)
Employees in service at the year-end (number) <sup>(d)</sup>	2,919	3,016	<b>3,025</b>	9	0.3
<i>by business segment:</i>					
- Transportation	1,972	1,915	<b>1,945</b>	30	1.6
- Regasification	63	64	<b>65</b>	1	1.6
- Storage	60	59	<b>61</b>	2	3.4
- Corporate and other activities <sup>(e)</sup>	824	978	<b>954</b>	(24)	(2.5)

(a) With reference to the 2019 financial year, gas volumes are expressed in Standard cubic metres (Smc) with an Average Calorific Value (ACV) of 38.1 MJ/Smc (10,572 kWh/Smc) for transport and regasification and 39.23 MJ/Smc (10,895 kWh/Smc) for the storage of natural gas for the thermal year 2019-2020.

(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 for the thermal year 2019-2020.

(d) Fully consolidated companies.

(e) The figure for 2019 includes the resources coming, respectively, from Renerwaste joining the scope of consolidation (47 resources) and TEA Servizi (8 resources).

## **NFS** Personnel

The number of employees in service at 31 December 2019 was 3,025 (3,016 employees at 31 December 2018), an increase of 9 (+0.3%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation at 31 December 2019 was 3,042 (2,949 employees in 2018).

The following dynamics were recorded during 2019:

- the entry of 231 resources, 172 of whom were recruited from the market, 59 others who entered as a result of the change in the scope of consolidation following the acquisition of TEA Servizi S.r.l. (8 resources) and the Renerwaste Group (47 resources in total with reference to Renerwaste S.r.l. and Renerwaste Lodi S.r.l.), and the return of 4 employees from leave;
- 222 employees left the company, including 68 as a result of the termination of employment, 45 were terminated unilaterally (including, among other things, resigning and being fired) and 77 took early retirement. In addition, there were another 12 exits going on leave and 12 transfers to non consolidated companies.

With respect to the Group's distribution country-wide, 2,295 people are employed in the northern regions of Italy, 241 in the central regions and 477 in the south. Furthermore, 13 individuals are permanently employed abroad.

## **NFS** Industrial relations

In 2019 relations with trade unions nationally and locally featured numerous meetings dedicated to analysing business development projects and new organisational arrangements also following the acquisition of Cubogas.

As regards transportation and storage, the integration process resulting from the Integra project, which calls for integrating side activities of the operational companies to develop and exploit the specific skills, was followed.

For the transportation business, the Smart Gas technical committee's work continued, seeking for a more rational scheduling of the operations with the objective of analysing the technical aspects of the project. In addition, a technical commission was launched for the Smart Gas System project designed to analyse the technical issues relating to this further organisational technical development.

For the regasification business, meetings were held with the Trade Unions, nationally and locally, in order to share and discuss topics intrinsic to the business evolution.

The bargaining dynamics, consistent with the provisions of the 2013 Industrial Relations Protocol, whose reasoning were imbued with the concept of strengthening second-level negotiations, led the Parties to define productivity and profitability indicators for the 2018 Participation Bonus for all Snam Group companies.

Furthermore, all the Snam Group companies signed the implementation agreement pursuant to the Article 4 of Law 92/2012 for an early exit of an additional 110 workers who meet the requirements prescribed by the law. An electronic ticket was introduced at group level through a trade union agreement for all organisations operating in the area.

## Supply chain management

Snam adopts an 'extended' management model that, going beyond the boundaries of its company perimeter, involves and takes on the responsibility of supply chain operators (suppliers and subcontractors): everyone is encouraged to achieve increasingly sustainable performance in terms of risk mitigation, innovation of management processes, increase in operational efficiency and promotion of responsible governance procedures.

In 2019 Snam directly provided work for around 600 companies (+11% compared with 2018) 424 of which belong to the small-medium business sector (SME), concluding over 896 procurement contracts worth a total of approximately €1,550 million (+2% compared with 2018). Among the goods purchased the most important material is steel (piping, connectors, etc.) which, in 2019, amounted to a supply of approximately 86,000 tonnes.

## Procurement

(millions of €)	2017	2018	2019	2017-2019
Amount of purchases	844	1,520	1,550	3,914

Around 1,300 million procured involve Italy (distributed in all Italian regions in line with the Company's strong roots in the area), while as far as activities abroad are concerned, in 2019 Snam signed 23 contracts, worth a total of more than €3 million, and continued exporting its know-how, especially in England, for the management of gas turbines, and in China for the management and maintenance of gas storage facilities.

To guarantee the adequacy of suppliers in relation to procurement requirements, Snam is constantly conducting intense market intelligence activities and scouting activities for new suppliers: in 2019 around 260 companies were contacted, relating to about 70 different product categories and the classification of 110 new candidates was begun. The number of spontaneous applications received from prospective suppliers was 980. This activity is particularly important to support Snam's strategy to energy transition expanding the pool of suppliers for product categories involving the new businesses (biomethane, hydrogen, CNG, SSLNG).

At 31 December 2019, the vendor list included 2,085 qualified suppliers, and 722 suppliers were in the process of being renewed or obtaining new qualifications. Snam exercises control of its supply chain by monitoring supplier performance during the execution phase of contracts through audits, inspections and evaluation processes. During the year, 937 feedback reports were collected (+14% compared with 2018) on the services rendered by 117 suppliers. Additionally, 1,913 suppliers and sub-contractors were checked with regard to the regularity of contributions, through 3,959 inspections which led to the interception of 2.25% of irregularities.

With regard to the fight against corruption, all suppliers and subcontractors are required to accept the Integrity Ethics Pact and are subject to reputational checks. In 2019 2,490 reputational checks were conducted on suppliers and contractors.

In the procurement of works, which is the most important category because it is related to core activities, the suppliers considered critical (critical levels A and B) were all in possession of quality and environment management systems certified with ISO 9001, ISO 14001 and ISO 18001 standards.

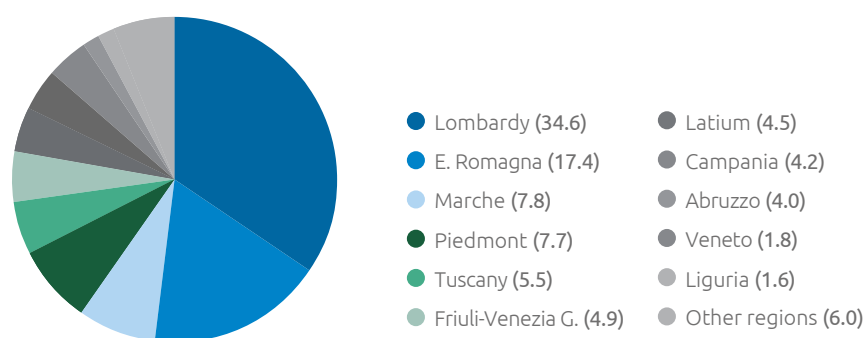
To evaluate their performance, Snam uses a rating index (IR) that takes into consideration compliance with technical contractual requirements (Quality), health-safety-environment (HSE), agreed delivery times (Level of service), establishing a good relationship with the customer for the entire duration of the



contract (Behaviour). The assessment is periodically forwarded to suppliers in the form of an analytical opinion.

Snam may restrict, suspend or even revoke the qualification of a supplier who fails to meet the agreed standards. The possible cases could include, failing to meet technical-organisational requirements, negative performance evaluation for it or its subcontractors, non-compliance with the provisions relating to contributory regularity and the rules in the Snam Code of Ethics. In 2019 41 provisions were issued in this area (+17% compared with 2018).

### Geographic breakdown of procurement in Italy (%) (\*)

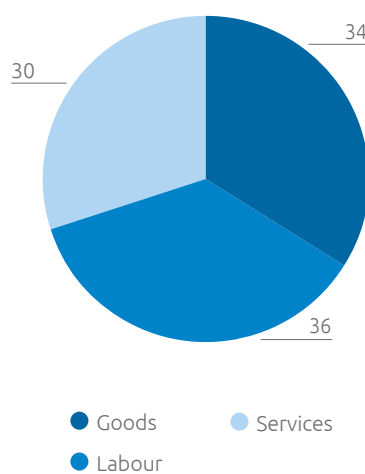


(\*) Representation of the geographical distribution refers to the registered offices of supplies.

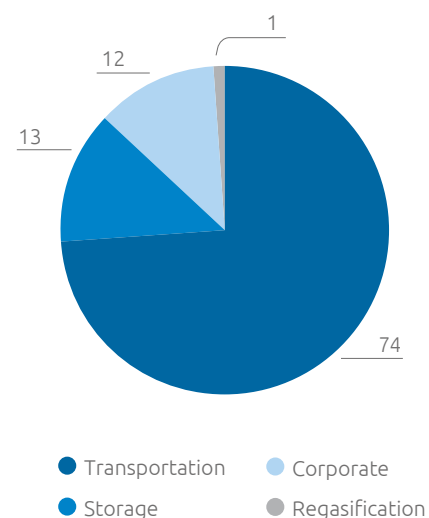
In 2019 as far as IES Biogas, TEP Energy Solutions and CUBOGAS were concerned a total of 1012 suppliers were qualified, 918 of which with at least one contract and 891 which can be qualified as small and medium-sized businesses (SMEs) making a total of 1,031 contracts issued.

The total procurement was €108.8 million with 96.3% procured in Italy.

### Procurement by goods type



### Procurement by business segment



## Accidents

Snam is constantly committed to developing and promoting health and safety in the workplace. Research into and the adoption of good business practices is subject to gradual promotion not only within the company, but also vis-à-vis suppliers, to extend and improve collaboration so as to achieve the best performance.

In 2019 a total of 7 accidents took place (the same as in 2018) 2 of which involved Snam Group employees (4 in 2018), both of which were in companies acquired last year (IES-Biogas and Cubogas) and 5 involved suppliers/contractors (3 in 2018).

### Accidents at work

(no.)	2017	2018	2019
Total employee accidents	6	4	2
Total contract worker accidents	5	3	5

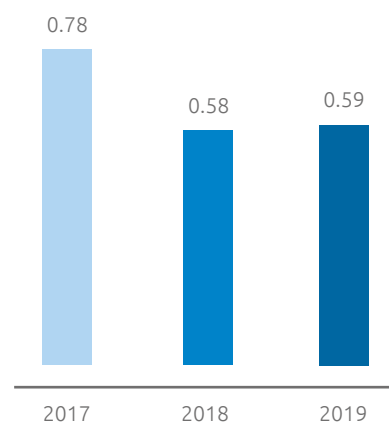
### Accident indices

	2017	2018	2019
<b>Employees and contract workers</b>			
Frequency index	0.78	0.58	0.59
Severity index	0.56	0.02	0.05
<b>Employees</b>			
Frequency index	1.24	0.84	0.41
Severity index	0.05	0.02	0.03
<b>Contract workers</b>			
Frequency index	0.54	0.41	0.71
Severity index	0.83	0.03	0.07

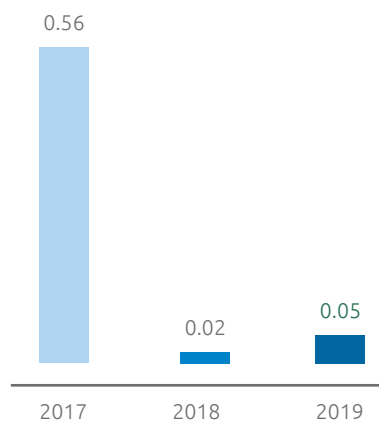
**Frequency index:** number of accidents at work resulting in absence of at least one day, per million hours worked.

**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.

#### Accidents at work - Employee and contract worker frequency index (\*)



#### Accidents at work - Employee and contract worker severity index (\*)



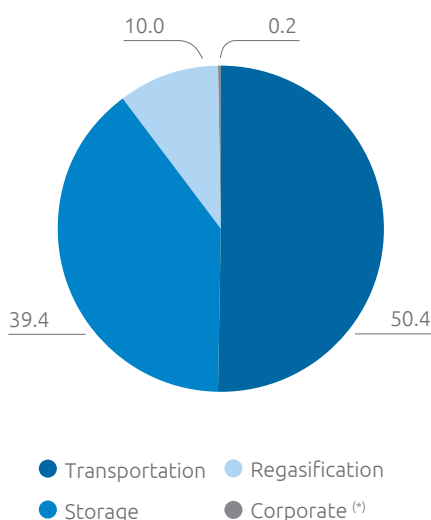
(\*) number of accidents at work resulting in an absence of at least one day, per million hours worked.

(\*) number of working days lost in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. Data includes fatal accidents.

## NFS Energy consumption

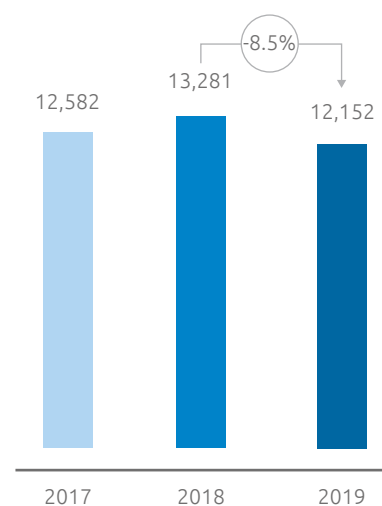
Snam's main energy consumption is attributable to the gas turbines used in the compression plants which provide the pressure necessary for transporting the gas (thrust consumption) and in the storage facilities (storage consumption) which, globally, represents 81% of total consumption, down compared with 2018 (88%) as a result of the increase in the energy consumption of the LNG Italia regasification facility which represented 10% of the Group's total consumption (3.5% in 2018). The increase is in line with the increase in the quantity of regasified gas (+170%). In 2019 total energy consumption stood at around 12,152 TJ (-8,5% compared with 2018) in spite of an overall increase in the gas injected into the network (+3.5%). This result was promoted by the difference provenance of the gas from import points (less use of the back-up network from north Africa more energy-intensive than the other ones). In addition to natural gas, the other energy sources are electricity (3.5%) and other fuels (diesel fuel, gasoline, LPG and heat), which together amount to 0.8% of the total consumption. The Company, which is committed to combating climate change, has declared that it will use 55% green electricity by 2030.

Energy consumption by business segment (%)



(\*) in Corporate the consumption of Snam4Mobility, TEP, TEA, Cubogas, IESBiogas is counted, in Transportation the consumption of ITG is also counted.

Energy consumption (TJ)



## NFS Greenhouse gas emissions

In 2019 direct CO<sub>2eq</sub> emissions amounted to approximately 1.35 million tonnes (a distinct reduction of 10% compared with 2018).

The reduction in direct emissions is partly due to the reduction in energy consumption, assisted by the different provenance of gas from import points (less use of the back-up network from north Africa which is more energy-intensive compared with the other import lines), but especially as a result of the initiatives implemented to reduce natural gas emissions, a demonstration of the effectiveness of the decarbonisation strategy adopted by Snam at the time.

Specifically, in 2019 Snam reduced its emissions into the atmosphere thanks to the adoption of various initiatives:

- reduction of natural gas emissions (down by 11.5% compared with the 2018 value and 19% compared with 2016 thanks to the adoption of different best practices);
- the production of electricity from photovoltaic plants and the purchase of green electricity (the consumption of green electricity increased, going from 37% in 2018 to 44% in 2019);
- installation of plants with LED lighting replacing other lighting equipment with greater consumption;
- savings resulting from the renovation of buildings;
- smart working.

These actions made it possible for the company not to release around 182 thousand tonnes of CO<sub>2eq</sub> into the atmosphere, the maximum value in recent years, an increase of 17% compared with 2018 as a result of the company's ever increasing commitment to combating climate change.

The CO<sub>2</sub> emissions from combustion amounted to approx 0.656 million tonnes (-9.7% compared with 2018), whereas the CO<sub>2eq</sub> emissions deriving from the methane emissions amounted to approximately 0.69 million tonnes (-10.4% compared with 2018). Natural gas emissions stood at 39.2 million m<sup>3</sup>, down compared with 44.4 million m<sup>3</sup> in 2018.

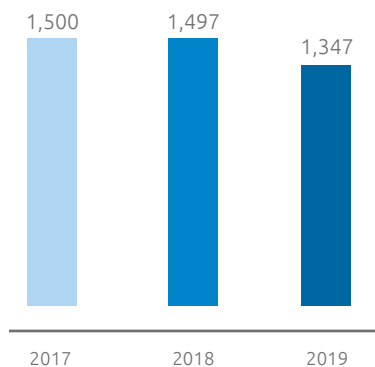
The Company, committed to tackling climate altering emissions, set new targets:

- a 40% reduction by 2030 of all direct CO<sub>2eq</sub> emissions (Scope 1) and indirect (Scope 2), from base year 2016;
- a 40% reduction in natural gas emissions by 2025 from base year 2016 (target increased by 15 percentage points compared with last year).

In 2019 the emission into the atmosphere of 9.4 million cubic metres of natural gas was prevented, equal to around 165,000 tonnes of CO<sub>2eq</sub> (+16 % compared with the approximate figure of 142,000 tonnes of CO<sub>2eq</sub> in 2018). These performances were made possible by the on-line gas compression interventions and the interventions with tapping machines, technology that makes it possible to disconnect pipelines in operation for new connections without an interruption to the service.

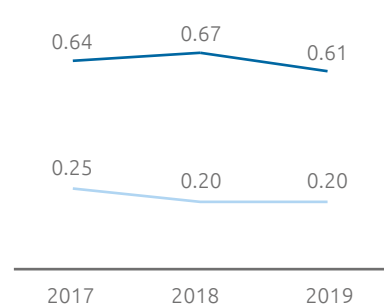
In 2019, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. In view of around 0.609 million tonnes of carbon dioxide emitted into the atmosphere, around 0.202 million tonnes were allocated free of charge, resulting in a 0.407 million tonne deficit. The allowances allocated also include those intended for the new entrants, the gas compression plants of Minerbio and Sergnano for 2018 and 2019. The allocation of free allowances by the competent national authority each year is gradually reduced each year as set out from the third regulatory period in Article 10 bis of Directive 2009/29/EC.

#### Total direct GHG emissions - Scope 1 (kt CO<sub>2eq</sub>) (\*)



\* CO<sub>2eq</sub> emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".

#### CO<sub>2</sub> emissions from ETS plants (10<sup>6</sup> t)



- Certified emissions
- Shares

#### Snam Emission Trading plants

Intangible	No. of plants	Plants' name
Transportation	13	Gas compression stations in Enna, Gallese, Istrana, Malborghetto, Masera, Melizzano, Messina, Montesano, Poggio Renatico, Tarsia, Terranuova Bracciolini, Minerbio, Segnano
Storage	8	Storage gas compression stations in Cortemaggiore, Fiume Treste, Minerbio, Ripalta, Sabbioncello, Sergnano, Settala and Bordolano
Regasification	1	Liquefied natural gas plant in Panigaglia

# Snam and the financial markets

## Snam share performance

The Snam stock ended 2019 at an official price of €4.6860, up 22.68% compared with the price of €3.8198 recorded at the end of the previous year.

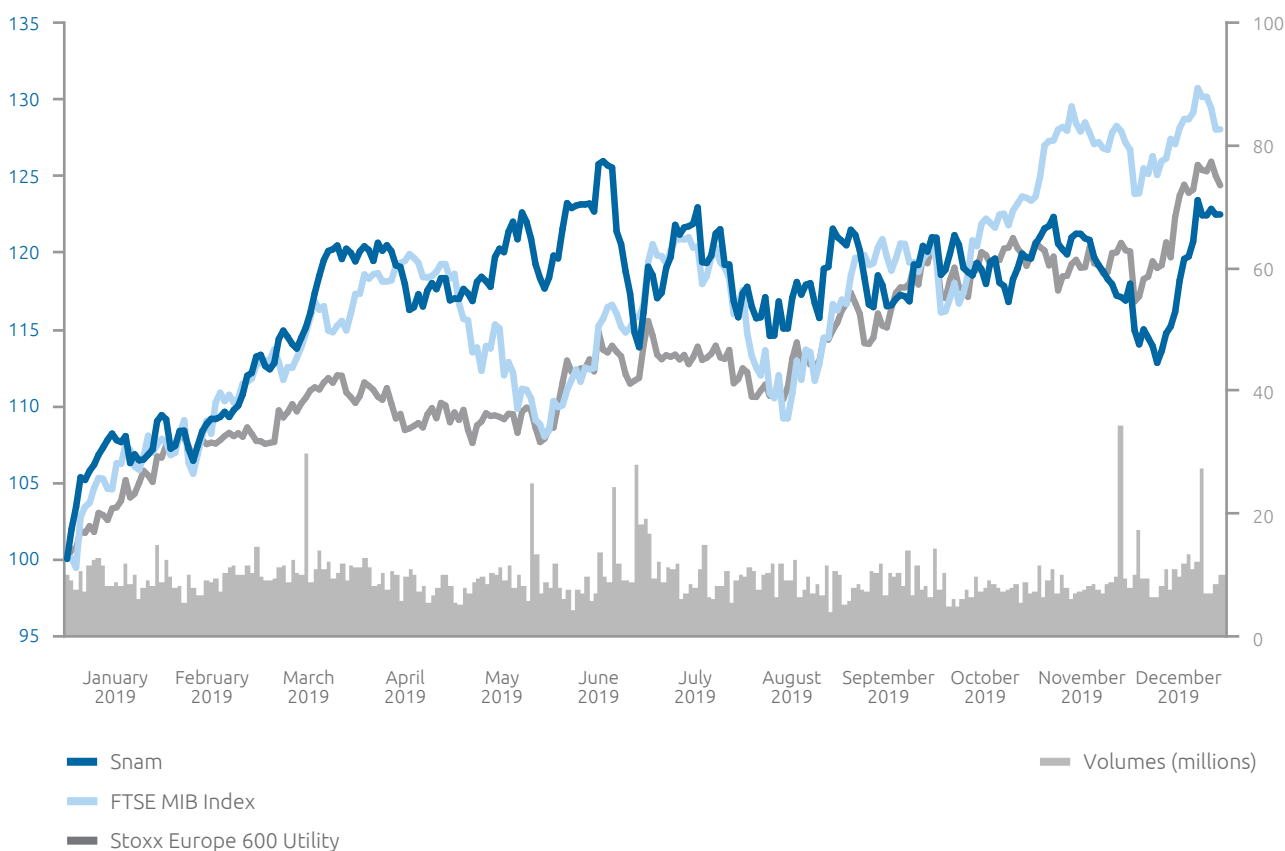
The average share value during the year was €4.4711, reaching a maximum of €4.8200 in mid June.

The stock continued to benefit from both growth prospects in all the economic and financial indicators presented to the market in the strategic plan at the end of 2018 and confirmed in the 2019 plan and the greater visibility and

clarity of the regulatory framework. It recorded a slight fall at the end of June at the same time as the payment of the dividend balance and at the end of the year as the result of a slight rise in market rates.

The Company has continued its usual investing activities with the aim of improving the competitiveness and security of gas supplies, which is central to the energy transition to a low-emissions economy, and the country's commitment to guaranteeing profitable growth to shareholders.

**Snam share performance vs FTSE MIB and STOXX Europe 600 Utilities (1 January 2019 - 31 December 2019)**



## Snam shareholding at 31 December 2019

Consolidating company	Shareholders	% ownership
Snam S.p.A.	CDP Reti S.p.A. <sup>(a)</sup>	31.04
	Romano Minozzi	7.38
	Snam S.p.A.	3.02
	Other shareholders	58.56
		<b>100.00</b>

(a) CDP S.p.A. owns 59.10% of CDP Reti S.p.A.

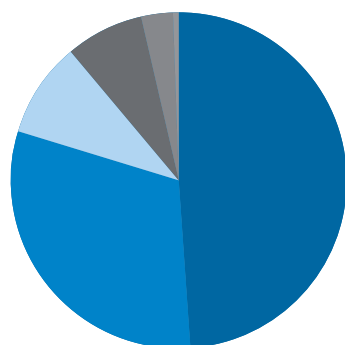
Cassa Depositi e Prestiti (CDP), a financial institution controlled by the Ministry of Economy and Finance, whose mission is to promote the growth and development of the Italian economic and industrial system, is a major shareholder in Snam S.p.A.

At the end of 2019, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 31.04% of share capital, Snam S.p.A. held 3.02% in the form of treasury shares, and the remaining 65.94% was in the hands of other shareholders.

The share capital at 31 December 2019 was composed of 3,394,840,916 shares with no par value (3,469,038,579 shares at 31 December 2018), following a total value of €2,735,670,475.56 (the same as at 31 December 2018).

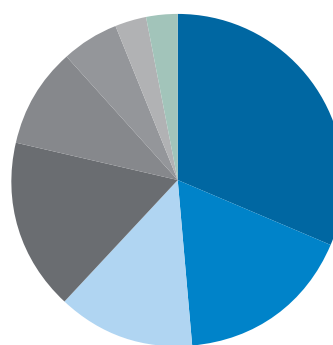
As at 31 December 2019, Snam held 102,412,920 treasury shares (168,197,663 as at 31 December 2018), equal to 3.02% of its share capital, with a book value of about €388 million (4.85% at 31 December 2018 for a book value of around €626 million). More information with regard to the changes in treasury shares in the portfolio in 2019 can be found in the chapter "Other information - Treasury shares" of this Report.

### Composition of Snam shareholders



- 48.9% Institutional investors
- 31.0% CDP Reti
- 9.2% Retail investors
- 7.4% Mr. Minozzi
- 3.0% Treasury shares
- 0.5% Bank of Italy

### Snam ownership structure by geographic area



- 30.9% Italy - Strategic investors (\*)
- 17.0% Usa & Canada
- 14.5% Continental Europe
- 14.6% Italy - Retail (\*\*)
- 9.0% UK & Irlanda
- 5.2% Rest of the world
- 4.8% Treasury shares
- 4.0% Italy - Institutional

\* Italian Strategic Investors include Bank of Italy and CDP Reti.

\*\* Italian Retail Investors include the shares held by Romano Minozzi (7.4%).

## Relations with the financial community and investor relations policy

Snam believes that maintaining constant relations with investors and the entire financial community is of strategic importance for its reputation. In this respect, it endeavours to disseminate comprehensive and timely information, capable of effectively representing the business's strategy and performance, particularly enhancing the dynamics that ensure the creation of value over time.

### 2019 Engagement Activity

In addition to the normal activities in presenting the Strategic Plan and conference calls upon the publication of the Company's results (annual, half-year and quarterly) during 2019, the following were carried out:

- 11 roadshows and 6 reverse roadshows to meet shareholders and institutional investors in the major financial centres of Europe and North America;
- 15 industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet senior management;
- meetings with more than 210 institutional investors during the year, corresponding to more than 40% of shares owned by active managers.

### Inclusion of Snam stock in sustainability indices and ESG recognition

The number of investors who also include intangible elements in their investment decisions, such as environmental, social and governance issues, is increasing significantly year on year. With it the disclosure requirement of companies is therefore also increasing with them called upon to make increasingly clearer and more complete financial data and information available to their stakeholders so they can make their investment decisions. In 2019 too, the Snam stock was included in the main international SRI stock exchange indices, an essential tool in terms of transparency towards the market and comparability with peers. This result increases the visibility of the company with regard to investors, and the entire financial market.

The overall share of Snam's institutional investors that include Corporate Social Responsibility criteria in their investment decisions stood at 13.3% of all institutional investors at the end of 2019.

## ESG indices and ratings

### Snam's presence in sustainability indices



For the eleventh year in a row, Snam's stock is listed in the Dow Jones Sustainability World Index, the world's most important stock market index assessing corporate social responsibility.



Snam's is once again present in the FTSE4Good, where it has been listed since 2002, an index created by the FTSE Group to encourage investment in companies that meet globally recognised social responsibility standards and is an important point of reference to establish benchmarks and ethical portfolios.



Snam listing is confirmed in the Ethibel Sustainability Index (ESI) Excellence Europe and in the Ethibel Sustainability Index (ESI) Excellence Global. Also reconfirmed in the Ethibel PIONEER and in the Ethibel EXCELLENCE Investment Registers: the Forum Ethibel decision indicates that the company can be characterised as an industry leader in terms of CSR.



Snam's listing has been confirmed for the fifth year running in the two sustainability indexes MSCI ACWI SRI Index and MSCI ACWI ESG Leaders, by MSCI, an international leader providing IT tools to support the investment decisions of global investors. The MSCI Global Sustainability indices includes companies having high sustainability ratings in their affiliated sectors.



For the tenth consecutive year Snam stock came to form part of the STOXX Global ESG Leaders Indices, a group of indices based on a transparent process of selection of the performance, in terms of sustainability, of 1,800 companies listed worldwide.



Snam is included in five of the main ECPI sustainability indexes. Snam's inclusion in the family of ECPI indices dates back to 2008. The ECPI methodology consists in screening based on testing more than 100 ESG (Environmental, Social and Governance) indicators



Snam is confirmed to be included in 2019 as well in the (Europe, Eurozone, World) NYSE Euronext Vigeo 120 indices, managed by Vigeo, a leading company on a European level in rating companies with regard to CSR issues.



Snam was also listed, in 2019, for the fifth year running, in the United Nations Global Compact 100 index (GC 100), developed by the United Nations Global Compact with the research firm Sustainalytics, which includes the 100 companies that have distinguished themselves at the global level both for attention to sustainability issues and to financial performance, and that adhere to the ten fundamental principles of the United Nations on the human rights, labour, environment and anticorruption issues.

### ESG Rating



It was included for the seventh consecutive year among the highest scorers of CDP, a non-profit organisation which is one of the most important internationally for climate change, and was also included on the A List.



Snam joined the CDP supply chain programme for the first time, the CDP programme aimed at the involvement of its supply chain in the climate change questionnaire. Snam got a score of A-, demonstrating the commitment of its suppliers in engagement activities involving issues related to the reduction of emissions and the development of sustainable strategies.



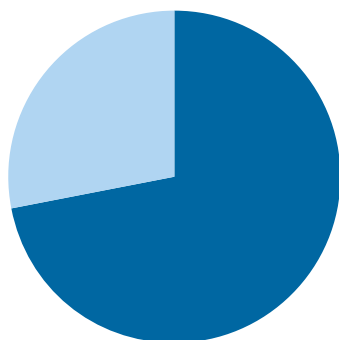
In 2018, Snam was confirmed at "PRIME" level (with rating B-) by Oekom research, a leading international agency rating socially responsible investments, which operates on behalf of institutional investors and financial services companies.



Snam was also confirmed again in 2019 in the Sustainalytics index, a leading ratings agency that evaluates companies from an ESG perspective, which the company has been part of since 2013.

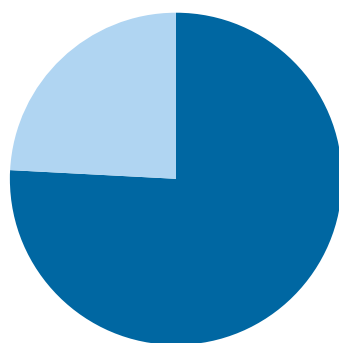


### Breakdown by duration (%)



- 72% Long term
- 28% Short term

### Breakdown by rate (%)



- 76% Fixed rate
- 24% Variable rate

## Debt management and credit rating

Snam's goal is to achieve a debt structure consistent with business requirements in terms of loan term and interest rate exposure.

The Group's net financial position at 31 December 2019 was €11,923 million, the result of a gross financial debt of €14,774 million and cash and cash equivalents of €2,851 million.

With reference to the capital market, in February 2019 Snam concluded the issue of its first Climate Action Bond for a sum of €500 million, with an annual coupon of 1.25% maturing on 28 August 2025. In June 2019 Snam issued a Private Placement for a nominal amount of €250 million, at a fixed rate maturing on 7 January 2030 with a coupon of 1.625%. In September Snam issued a dual tranche bond for €1.1 billion maturing, respectively, in around 5 year and 15 years (with the longest maturity ever issued by Snam to date), a coupon of 0% (the third zero-coupon issued by Snam) and 1% equal to €500 million and €600 million. In December 2019, Snam successfully completed a buyback on the bond market of bonds with a total nominal value of around €597 million, with an average coupon of approximately 1.3% and a remaining maturity of approximately 3.8 years. The buyback price, including the commission paid to the intermediaries and the interest accrued (€7 million), of €633 million in total, was partly financed through a €200 million reopening transaction of the bond issue at around 5 years at a fixed rate in September, with the same maturity and coupon as the original issue.

With reference to the banking market, in July Snam extended the duration of the bilateral banking lines for a total of €700 million, at the same time improving the margins.

At 31 December 2019, Snam has unused committed long-term credit facilities for an amount of approximately €3.2 billion. During the year, as part of the process to optimise the financial structure of Group, their duration was extended without an increase in margins. In April, as a result of the achievement of the targets defined in the KPIs from an ESG perspective (Environment, Social, Governance) defined in the contractual conditions of the sustainable loan, Snam achieved a reduction in margins.

Following the renegotiation, the two syndicated lines, amounting to €2.0 billion and €1.2 billion, they will expire in July 2023 and December 2024, respectively, with an extension of one year compared with the previous term. Moreover, on that same date, Snam had an active Euro Medium Term Notes (EMTN) programme with a total nominal maximum value of €11 billion<sup>8</sup>, of which it has used approximately €8.7 billion<sup>9</sup>.

Snam also has a Euro Commercial Paper Programme (ECP), for a maximum total nominal value of €2 billion. At 31 December 2019 the entire amount of the ECP programme was used as part of the company's short-/medium-term funding strategy.

8 On 2 October 2019, the Board of Directors of Snam resolved to renew the EMTN programme increasing the maximum total value from €10 billion to €11 billion. The renewal of the programme allows for the issue, by 2 October 2020, of bonds worth up to a maximum of around €1.9 billion at the resolution date, to be placed with institutional investors operating mainly in Europe.

9 It should be noted that the convertible bond issued in March 2017, for a value of €400 million, is not part of the EMTN programme.

These transactions on both the banking and bond market made it possible to optimise medium- and long-term debt maturities by extending their average term and creating conditions for a reduction in average borrowing costs in 2019.

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These transactions on both the banking and bond market made it possible to optimise medium- and long-term debt maturities by extending their average term and creating conditions for a reduction in average borrowing costs in 2019.

At the same time, the communication activity continued with the rating agencies Moody's, Fitch and Standard & Poor's, with the maintenance of the creditworthiness rating at the solid investment grade level by Moody's (Baa2 with a stable outlook), Fitch (BBB + with stable outlook), and Standard & Poor's (BBB + with a negative outlook).

In addition, when the Commercial Paper programme was renewed by Snam, the agencies confirmed the short-term rating of the company at P-2 for Moody's, A-2 for S&P and F2 for Fitch.

Snam's long-term rating by Moody's, Fitch and Standard & Poor's is a notch higher than that of Italian sovereign debt.

	MOODY'S	STANDARD & POOR'S	FitchRatings
Last update	27 September 2019	17 January 2020	19 December 2019
Rating on long-term debt	Baa2	BBB +	BBB +
Rating on short-term debt	P2	A-2	F2
Outlook	Stable	Negative	Stable







# Business segment operating performance



# Snam Infrastructures in Italy



## NATURAL GAS TRANSPORTATION

-  ENTRY POINTS 8
-  REVERSE FLOW 3
-  COMPRESSION STATIONS 13
-  PIPELINES UNDER OPERATIONS 13

## NATURAL GAS STORAGE

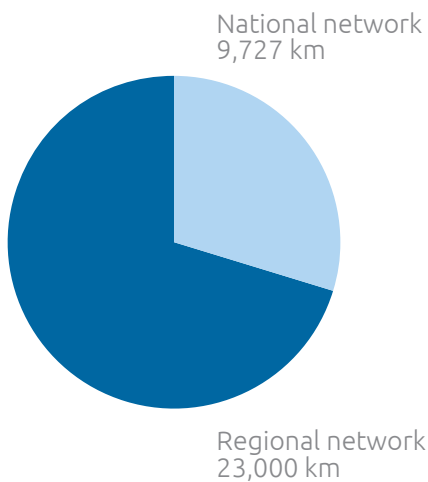
-  OPERATING CONCESSIONS 9

## LNG REGASIFICATION

-  REGASIFICATION PLANT 1

# Natural gas transportation

32,727 km  
Operating gas  
pipeline network



Snam, through its subsidiaries Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas, is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy, with over 32,727 kilometres of high- and medium-pressure gas pipelines (approximately 94% of the entire transportation system). Snam manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 13 compression stations, including the two new Minerbio and Sergnano plants that came into operation in 2018, and a new dispatching unit that has recently been renovated in terms of structure and technology. The gas coming from abroad is fed into the network in the seven import channels, corresponding to the interconnections with the import pipelines and LNG regasification terminals. Once it has been imported or regasified, the gas is transported to the local distribution networks, the regional network redelivery points or large end users such as thermoelectric power stations or manufacturing plants.

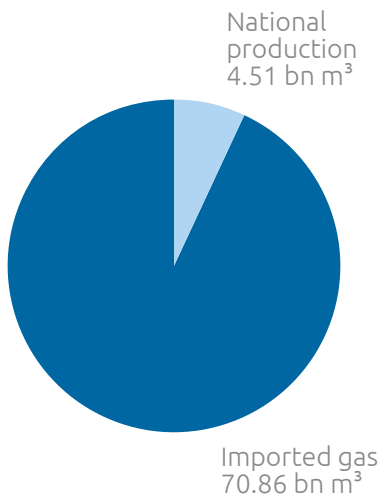
Snam awards transportation capacity to shippers who apply. In this way, users acquire the right to inject or withdraw a quantity of gas not exceeding the daily rate allocated on any day of the thermal year. The conditions for access to the service are contained in the Network Code. Shippers have the possibility of making gas sales and trades at a Virtual Trading Point (PSV) of the National Network, thanks to the dedicated IT platform.

The transportation capacity of the network again covered all user demand in 2019. In addition to the average transport capacity offered at entry points connected with foreign countries and with LNG terminals equal to 362.9 million cubic metres/day; Snam has made further transport capacities available at entry points interconnected with national producers for a total of 20.7 million cubic metres average/day and with the production of biomethane for a total of 0.3 million of cubic metres average/day.

Over the last 16 years transport operators have been constantly increasing, going from around 30 operators in 2003 to around 210 operators in 2019 (including shippers and traders).

In 2019, 123 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, including 26 contracts for the injection of biomethane and 61 relating to CNG service areas.

75.37 bn m<sup>3</sup>  
Gas injected in the  
national network



## KEY PERFORMANCE INDICATORS

The natural gas transportation sector information includes figures for Snam Rete Gas, Infrastrutture Trasporto and Enura.

(millions of €)	2017	2018	2019	Change	% change %
Total revenue (a)	2,039	2,118	<b>2,168</b>	50	2.4
- of which regulated revenues (a)	1,981	2,041	<b>2,106</b>	65	3,2
Total revenues net of pass-through items (a)	1,874	1,984	<b>2,031</b>	47	2.4
Operating costs (a)	452	479	<b>383</b>	(96)	(20.0)
Adjusted operating costs (a)	441	462	<b>418</b>	(44)	(9.5)
Adjusted operating costs net of pass-through items (*) (a)	276	328	<b>281</b>	(47)	(14.3)
EBIT	1,037	1,064	<b>1,122</b>	58	5.5
Adjusted EBIT(*)	1,048	1,081	<b>1,157</b>	76	7.0
Technical investments	917	764	<b>813</b>	49	6.4
- of which with a greater return	383	280	<b>249</b>	(31)	(11,1)
- of which with basic remuneration (b)	534	485	<b>564</b>	79	16,3
Net invested capital at 31 December	12,542	12,551	<b>12,932</b>	381	3.0
Natural gas injected into the national gas transportation network (billions of cubic metres) (c)	<b>74.59</b>	<b>72.82</b>	<b>75.37</b>	<b>2.55</b>	<b>3.5</b>
Transportation network (kilometres in use) (d)	32,584	32,625	<b>32,727</b>	102	0.3
- of which national network (d)	9,704	9,697	<b>9,727</b>	30	0.3
- of which regional network	22,880	22,928	<b>23,000</b>	72	0,3
Installed power in the compression stations (MW)	902	961	<b>961</b>		
Employees in service at year end (number)	1,972	1,915	<b>1,945</b>	30	1.6

(\*) The figures reported in the adjusted configuration exclude the costs relating to the early retirement costs of €11 million and €17 million for 2017 and 2018, respectively. With reference to 2019, the value exclude the effects of the release to the income statement of the provision for impairment losses following the receivables related to balancing activities (€35 million). More information concerning the adjusted result measures and related special items that are recognised at the consolidated level are provided in the chapter "Comment on the financial results - Non-GAAP measures".

(a) Before consolidation adjustments.

(b) To a pre-tax actual basic WAAC of 5.4% for 2018 and 5.7% for 2019.

(c) 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. With reference to 2019, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10,572 kWh/SCM).

(d) The figure includes 84 Km of network that refers to Infrastrutture Trasporto Gas.

## RESULTS

**Total revenue** amounted to €2,168 million, up by €50 million, or 2.4%, compared with 2018 (€ 2,118 million). Net of components offset in costs<sup>10</sup>, total revenue amounted to €2,031 million, up by €47 million, or 2.4%, compared with the previous year.

**Revenue from regulated activities** (€2,106 million, largely related to fees for the natural gas transportation service (€2,087 million) and incentives recognised to the Balancing Manager (€16 million) as set forth in Resolution 554/2016/R/gas. Regulated revenue, net of components that are offset in costs, amounted to € 1,969 million, up by €62 million, or 3.3%, compared with 2018. The increase is essentially due to greater transport revenues (+€61 million) mainly attributable to the tariff updating mechanisms (+€69

<sup>10</sup> The main revenue items offset in costs relate to modulation and interconnection.



million) which refer, specifically, to the increase in the WAAC, which rose from 5.4% in 2018 to 5.7% in 2019.

**Revenue from non-regulated activities** (€62 million) fell by €15 million or 19.5% compared with the 2018, due mainly to few charge backs for technical services provided to other group companies (-€17 million). The reduction corresponds to the lower costs incurred for the provision of related services, with no impact on the operating profit.

**Adjusted EBIT** amounted to €1,122 million, up by €41 million, or 3.8% compared with the adjusted EBIT for 2018 (€1,081 million). The greater revenue from regulated activities (+€62 million net of components offset in costs) together with the reduction in operating costs (+€32 million

compared with the adjusted operating costs in 2018, net of components offset in revenues and service costs subject to recharging within the group), were partly absorbed by the greater depreciation and amortisation (-€30 million) due to new infrastructures coming into service and the greater impairment of works in progress relating to projects in previous years (-€23 million).

Specifically, the reduction in operating costs is mainly due to the lower costs related to the use of gas (+€20 million), also thanks to the recognition, in 2019, by the regulatory authority, of several expenses relating to 2018<sup>11</sup>, as well as lower costs for services recharged by the subsidiary Snam S.p.A., also thanks to the management optimisation actions that were implemented for the IT infrastructures.

## Technical investments

Type of investment	2017		Type of investment	2018		2019
	Greater remuneration (%) (*)	millions of €		Greater remuneration (%) (**)	millions of €	millions of €
Development of new import capacity	2.0%	276		1.0%	279	249
Development of the national network	1.0%	10	Development			
Development of the regional network	1.0%	97				
Replacement and other		534	Replacement and other		485	564
		<b>917</b>			<b>764</b>	<b>813</b>

(\*) Compared with a pre-tax actual basic WAAC of 5.4%.

(\*\*) Compared with a pre-tax actual basic WAAC of 5.4% for 2018 and 5.7% for 2019, applied to investments in a new transport capacity and with a cost/benefit analysis of more than 1.5 pursuant to the ARERA resolution 575/2017/R/Gas.

**Technical investments** in 2019 amounted to €813 million, an increase of €49 million, or 6.4%, compared with 2018 (€764 million).

The investments were classified in accordance with Resolution 575/2017/R/gas with reference to 2018 and 2019 and 514/2013/R/gas for investments in 2017 whereby the Energy, Networks and Environment Regulatory Authority (hereinafter ARERA or the Authority) identified different categories of projects with different rates of return.

The main investments in new transport capacity **Development** (€249 million), for which a **greater return of 1%** is planned, mainly involve:

- investments in the **development of new transport capacity in the National Network function to the import and export capacity** (€142 million) under the scope of transport network upgrading projects in southern Italy including, specifically, connection with

TAP (€95 million) and the ongoing construction works for connection to the Massafra-Biccari pipeline (€13 million), the initiative supporting the market in the north-eastern part of the country and to allow the reversal of physical transport flows at the connection points with northern Europe in the area of the Po Valley (€32 million) due to the continuation of the complementary construction works for the Cervignano-Mortara pipeline and the Sergnano and Minerbio compression plants that came into service from October 2018;

- Investments in the **development of new transportation capacity in the Regional Network and the National Network** (€107 million), including: (i) the works relating to the connection of Italgas Storage S.r.l. of Cornigliano Laudense; (ii) the continuation of the construction and connection works related to the gas conversion of the Calabria Region, including, specifically, the construction activity of the S. Andrea

<sup>11</sup> The costs associated with the use of gas are reported excluding the amounts recognised by the Authority following the greater costs for the purchase of gas for the years 2018 and 2019. Taking into account the calculation mechanism used by the Authority for recognising the costs relating to 2018, in July 2019, the company quantified the amount recognised for 2019.



Apostolo-Caulonia pipeline; (iii) the continuation of the construction activities for certain biomethane and CNG connections; (iv) the completion of the complementary construction activities relating to the upgrading of the Gavi-Pietralavezzara pipeline;

**Replacement investments and other investments** with a **basic rate of return**<sup>12</sup> (€564 million) relate mainly to: (i) works aimed at maintaining the security and quality levels of the plants (€418 million), some of the main ones

being the "pipeline replacement" initiative (€126 million), including the ongoing delivery of materials and the start of construction activities for the reconstruction of the Ravenna-Recanati section of the Ravenna-Chieti pipeline (€49 million); (ii) projects relating to the development of new information systems, as well as the implementation of existing ones (€100 million); (iii) works recharged to third-parties (€19 million); (iv) the purchase of key operating assets (€18 million); (v) redelivery facilities upgrading projects (€6 million).

## Progress of work to obtain permits

To develop new sites, in addition to the technical-economic feasibility criteria, Snam adopts procedures that respond to stringent environmental and safety compatibility assessments.

The assessments of environmental effects involve all phases of the work life cycle, site selection, planning, construction,

operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure and the procedures of the Integrated Environment Authority (AIA), at the end of which the central and local administrations issue the permits required under current law.

### EIA decrees obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of decree
<b>Pipelines</b>				
San Salvo-Biccari pipeline overhauling	87.000	Apulia	Ministry of the Environment and Protection of Land and Sea	08/11/2019
Overhauling of Mestre-Gonas pipeline and downgrading	80.200	Veneto-Friuli Venezia Giulia	Ministry of the Environment and Protection of Land and Sea	05/11/2019
Overhauling of the Ravenna Mare-Ravenna Terra pipeline	25.980	Emilia-Romagna	Ministry of the Environment and Protection of Land and Sea	29/10/2019
Overhauling of the Campodarsego-Castelfranco Veneto pipeline	23.360	Veneto	Ministry of the Environment and Protection of Land and Sea	26/09/2019
Overhauling of the Pieve di Soligo-San Polo di Piave-Salgareda pipeline	34.700	Veneto	Ministry of the Environment and Protection of Land and Sea	05/09/2019
Gagliano Termini Imerese pipeline	38.340	Sicily	Ministry of the Environment and Protection of Land and Sea	06/03/2019
Overhauling of the Rimini San Sepolcro pipeline and associated works	91.915	Emilia-Romagna and Tuscany	Emilia-Romagna Region	25/03/2019

<sup>12</sup> For the investments of 2019, the basic rate of return includes the rate of return on net invested capital (real pre-tax WACC) of 5.7%.

## Integrated Environmental Authorisation decrees obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of order
<b>Pipelines</b>				
Variant crossing the Trigno River By-pass for Trivento-Agnone	0.977	Molise	Ministry of the Environment and Protection of Land and Sea	21/11/2019
By-pass for Altino 2nd Tronco Variant construction Secco River hydraulic works	0.07	Abruzzo	Ministry of the Environment and Protection of Land and Sea	02/04/2019
Tortona-Alessandria-Asti-Turin Overhaul FR 39.1	3.68	Piedmont	Ministry of the Environment and Protection of Land and Sea	06/03/2019
Variant for PIDI insertion no. 18.2 at Chieti-San Salvo (CH)	1.132	Abruzzo	Ministry of the Environment and Protection of Land and Sea	26/02/2019
Variants S. Eufemia-Crotone Overhaul of Anna River crossing (KR)	0.64	Calabria	Ministry of the Environment and Protection of Land and Sea	15/02/2019
<b>Plants</b>				
HPRS IS64/24 bar Castellana Grotte system on Castellana-Castellana Grotte pipeline		Apulia	Ministry of the Environment and Protection of Land and Sea	16/01/2019

## EIA applications submitted to Ministry of the Environment and Ministry of Cultural Heritage

	Length (km)	Regions involved	Date of submission
<b>Pipelines</b>			
Variants S. Eufemia-Crotone Overhaul of Anna River crossing (KR)	0.64	Calabria	25/10/2019
All. BIO ECOAGRIM S.r.l. of Lucera	1.052	Apulia	13/06/2019
Sestri Levante-Recco pipeline	47.8	Liguria	23/05/2019

## Applications submitted to the Ministry of the Environment to check EIA requirements

Name	Length (km)	Regions – Provinces involved	Date of submission
<b>Pipelines</b>			
By-pass for Matera in the Municipality of Lauria	21.8	Basilicata	02/12/2019
Optimisation of the Recanati-Foligno Frazione Colfiorito layout	16.96	Marche-Umbria	28/10/2019
Benevento-Cisterna lowering variants	2.097	Campania	03/10/2019
Pessano-Calolziocorte variants	5.185	Lombardy	25/06/2019
<b>Plants</b>			
Alessandria-Cairo Montenotte-Savona Trappole		Piedmont-Liguria	19/12/2019

## OPERATING REVIEW

### Gas balance on the National Transportation Network

Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10,572 kWh/SCM). The basic figure is measured in

energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

#### Demand for gas in Italy

(billions of m <sup>3</sup> )	2017	2018 (a)	2019	Change	% change % (b)
Residential and tertiary	29.48	28.76	<b>28.15</b>	(0.61)	(2.1)
Thermoelectric	25.36	24.19	<b>26.64</b>	2.45	10.1
Industrial (c)	17.8	17.39	<b>17.14</b>	(0.25)	(1.4)
Other (d)	2.51	2.33	<b>2.41</b>	0.08	3.4
<b>Total</b>	<b>75.15</b>	<b>72.67</b>	<b>74.34</b>	<b>1.67</b>	<b>2.3</b>

(a) The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.

(b) The percentage change is calculated with reference to the figures in cubic metres.

(c) Includes the consumption of the Industrial, Agricultural and Fishing, Chemical Synthesis and Automotive sectors.

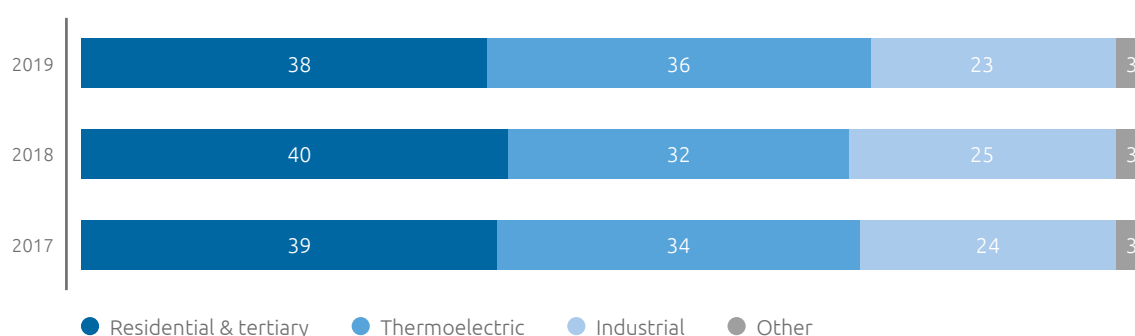
(d) Consumption and losses relating mainly to the natural gas transportation system, the energy system, the upstream sector, storage and LNG plants.

**Gas demand in Italy** in 2019 was **74.34 billion cubic metres**, up 1.67 billion cubic metres (2.3%) compared with 2018. The increase is mainly attributable to the higher consumption in the thermoelectric power generation sector (+2.45 billion cubic metres; +10.1%) and benefited from the greater use of natural gas in the generation of electricity, 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. Greater recourse to natural gas in the generation of electricity is also attributable, as well as to

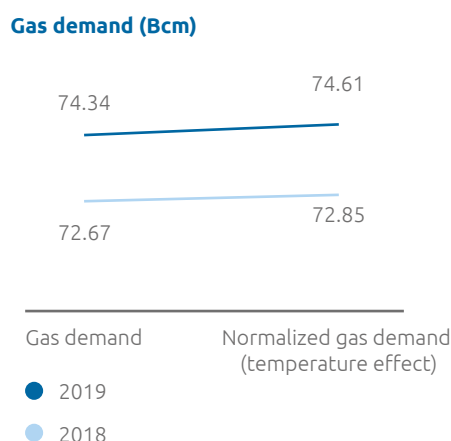
the greater competitiveness of the price of natural gas at the virtual exchange point, down by around 37% compared with 2018, to an increase in the costs of the emission of CO<sub>2</sub> (+50% compared with 2018) that penalises generation from coal.

The increase in consumption recorded in the thermoelectric sector was partly offset by lower consumption in the residential and tertiary sector (-0.61 billion cubic metres or -2.1%) attributable to the weather and, to a lesser extent, the industrial sector (-0.25 billion cubic metres or -1.4%).

#### Gas demand by sector (% of total gas demand)



**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 same figure in 2018 (72.85 billion cubic metres), also following the greater use of energy efficiency enhancing measures by the residential and tertiary sector.



## Availability of natural gas

(billions of m <sup>3</sup> )	2017	2018 (*)	2019	Change	% change % (b)
From gas injected into the network by entry point	69.35	67.70	<b>70.86</b>	3.16	4.7
From domestic output	5.24	5.12	<b>4.51</b>	(0.61)	(11.9)
<b>Total gas injected into the network</b>	<b>74.59</b>	<b>72.82</b>	<b>75.37</b>	<b>2.55</b>	<b>3.5</b>
Net balance of withdrawal/injection into storage (**)	0.23	(0.43)	<b>(1.39)</b>	(0.96)	
<b>Total availability of natural gas</b>	<b>74.82</b>	<b>72.39</b>	<b>73.98</b>	<b>1.59</b>	<b>2.2</b>

(\*) The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.

(\*\*) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption per injection/withdrawal.

The **availability of natural gas** in Italy (73.98 billion cubic metres) is equal to the sum of gas injected into the National Transportation Network and the net balance of withdrawals from and injections into the storage system, and was up by 1.59 billion cubic metres (+2.2%) compared with 2018. The increase is due to greater volumes of gas injected into

the network per point of entry (+3.16 billion cubic metres or +4.7%), in spite of the reduction in domestic production (-0.61 billion cubic metres or -11.9%), partly offset by the greater net injections into storage compared with the previous year (-0.96 billion cubic metres).

## Gas injected into the network (\*)

(billions of m <sup>3</sup> )	2017	2018	2019	Change	% change %
Domestic output	5.24	5.12	<b>4.51</b>	(0.61)	(11.9)
Entry points (**)	69.35	67.70	<b>70.86</b>	3.16	4.7
Tarvisio	30.18	29.69	<b>29.85</b>	0.16	0.5
Gries Pass	7.25	7.76	<b>11.13</b>	3.37	43.4
Mazara del Vallo	18.88	17.09	<b>10.21</b>	(6.88)	(40.3)
Cavarzere (LNG)	6.85	6.71	<b>7.91</b>	1.20	17.9
Gela	4.64	4.47	<b>5.70</b>	1.23	27.5
Livorno (LNG)	0.91	1.07	<b>3.62</b>	2.55	
Panigaglia (LNG)	0.62	0.88	<b>2.42</b>	1.54	
Gorizia	0.02	0.03	<b>0.02</b>	(0.01)	(33.3)
	<b>74.59</b>	<b>72.82</b>	<b>75.37</b>	<b>2.55</b>	<b>3.5</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.

(\*\*) Entry points connected with other countries or with LNG regasification plants.

## Injections and withdrawals of gas in the transportation network

In 2019, a total of 75.37 billion cubic metres of gas was injected into the network, an increase of 2.55 billion cubic metres (+3.5%) compared with 2018.

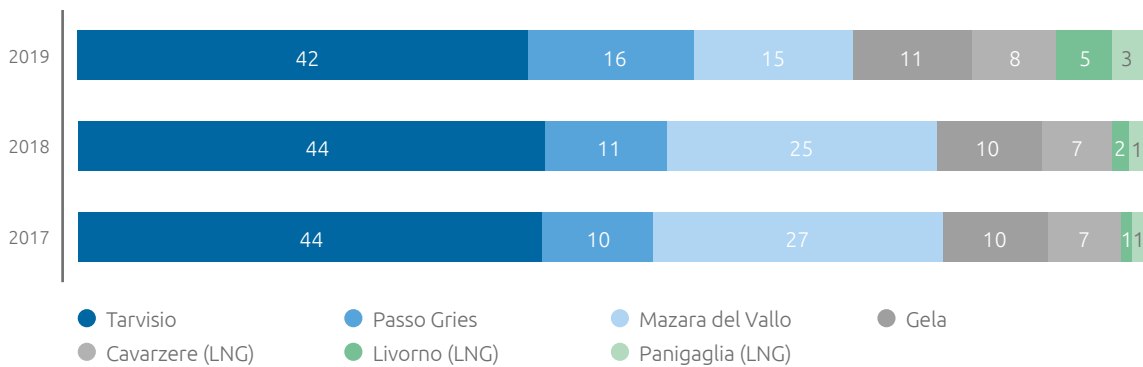
Injections into the network from domestic production fields or their collection and treatment centres totalled 4.51 billion cubic metres, down by 0.61 billion cubic metres (-11.9%) compared with 2018.

Volumes injected at entry points connected with other countries and with regasification plants, overall equal to

70.86 billion cubic metres, rose by 3.16 billion cubic metres (+4.7%) compared with 2018.

The greater volumes injected by the LNG regasification terminals (+5.29 billion cubic metres or +61.1%), also thanks to the new auction-based capacity allocation mechanisms, as well as the entry points of Passo Gries (+3.37 billion cubic metres or +43.4%) and Gela (+1.23 billion cubic metres or +27.5%), partly offset by lower volumes injected by the entry point Mazara del Vallo (-6.88 billion cubic metres or -40.3%).

### Natural gas injected into the a by import point (% of total gas injected)



### Withdrawals of natural gas

(billions of m <sup>3</sup> )	2017	2018	2019	Change	% change %
Redelivery to the domestic market	73.97	71.48	<b>73.03</b>	1.55	2.2
Exports and transit (*)	0.33	0.45	<b>0.38</b>	(0.07)	(15.6)
Consumption and emissions attributable to Snam Rete Gas	0.28	0.27	<b>0.23</b>	(0.04)	(14.8)
Gas not accounted for and other changes (**)	0.24	0.19	<b>0.34</b>	0.15	78.9
<b>Total withdrawals of natural gas</b>	<b>74.82</b>	<b>72.39</b>	<b>73.98</b>	<b>1.59</b>	<b>2.2</b>

(\*) Includes exports to the Republic of San Marino.

(\*\*) Includes variations in network capacity. In the energy report compiled by Snam Rete Gas, the natural difference between the quantity of gas metered at the entrance to the network and the quantity of gas metered at the exit, due to the technical tolerance of the metering devices, is traditionally defined as unaccounted-for gas (UFG).

The natural gas withdrawn from the National Transportation Network in 2019 (73.98 billion cubic metres) is mainly: (i) redelivery to users at network exit points (73.03 billion cubic metres; +2.2%); (ii) exports and transit

(0.38 billion cubic metres or -15.6%); and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.23 billion cubic metres or -14.8%).

## Reconciliation of the gas withdrawn from the network and Italian demand

(billions of m <sup>3</sup> )	2017	2018 (a)	2019	Change	% change % (b)
<b>Total gas injected into the network</b>	<b>74.59</b>	<b>72.82</b>	<b>75.37</b>	<b>2.55</b>	<b>3.5</b>
Net balance of withdrawal/injection into storage (c)	0.23	<b>(0.43)</b>	<b>(1.39)</b>	(0.96)	
<b>Total withdrawals of natural gas</b>	<b>74.82</b>	<b>72.39</b>	<b>73.98</b>	<b>1.59</b>	<b>2.2</b>
Exports (-) (d)	(0.33)	<b>(0.45)</b>	<b>(0.38)</b>	0.07	(15.6)
Gas injected into the regional networks of other operators	0.03	<b>0.03</b>	<b>0.03</b>		
Other consumption (e)	0.63	<b>0.69</b>	<b>0.71</b>	0.02	2.9
<b>Total Italian demand</b>	<b>75.15</b>	<b>72.66</b>	<b>74.34</b>	<b>1.68</b>	<b>2.3</b>

(a) The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.

(b) The percentage change is calculated with reference to the figures in cubic metres.

(c) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption per injection/withdrawal.

(d) Includes transit and exports to the Republic of San Marino.

(e) Includes the consumption of the LNG regasification terminals, the consumption of the compression stations for storage and the production treatment stations.

## Transportation capacity

(millions of m <sup>3</sup> /day)	Calendar year 2017			Calendar year 2018			Calendar year 2019			
	Entry points	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)
Tarvisio (**)		111.4	94.6	84.9	111.1	107.4	96.7	<b>110.6</b>	<b>98.3</b>	<b>88.9</b>
Mazara del Vallo (*) (**)		84.4	78.3	92.8	82.0	81.2	99.0	<b>86.7</b>	<b>36.1</b>	<b>41.6</b>
Passo Gries		64.4	22.4	34.7	64.4	34.8	54.0	<b>64.4</b>	<b>31.3</b>	<b>48.6</b>
Cavarzere (LNG)		26.4	24.4	92.5	26.4	24.4	92.4	<b>26.4</b>	<b>24.9</b>	<b>94.3</b>
Gela (*)		23.8	22.0	92.4	20.3	20.1	99.0	<b>22.9</b>	<b>19.0</b>	<b>83.0</b>
Livorno (LNG)		15.0	15.0	100.0	15.0	15.0	100.0	<b>15.0</b>	<b>14.3</b>	<b>95.3</b>
Panigaglia (LNG)		13.0	2.0	15.5	13.0	4.0	30.8	<b>13.0</b>	<b>7.4</b>	<b>56.9</b>
Gorizia		4.6	0.1		4.2	0.1	2.4	<b>4.0</b>	<b>0.1</b>	<b>2.5</b>
Competing capacity (*)		21.2			24.4			<b>19.9</b>		
		<b>364.2</b>	<b>258.8</b>	<b>71.0</b>	<b>360.8</b>	<b>287.0</b>	<b>79.5</b>	<b>362.9</b>	<b>231.4</b>	<b>63.8</b>

(\*) The capacities at the Mazara del Vallo and Gela entry points do not include competing capacity. This capacity, pursuant to Regulation (EU) No 984/2013 in force as of 1 November 2015, represents the transportation capacity available at one point, the allocation of which fully or partly reduces the capacity available for allocation at another point in the transportation system.

(\*\*) The capacity values at the Marzara del Vallo and Tarvisio entry points include the capacity shares pursuant to ARERA Resolution 666/2017/R/GAS.

The transportation capacity of the network again covered all user demand in 2019. Average transportation capacity provided in 2019 at the entry points connected with foreign pipes and at regasification facilities was 362.9 million cubic metres on average per day, 19.9 of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities which concern the entry points interconnected with foreign countries and the LNG terminals, a

transportation capacity is available at the domestic production entry points:

- national production at a total of 20.7 million cubic metres/day;
- the production of biomethane at a total of 0.3 million cubic metres/day.

Snam Rete Gas has prepared a long-term plan for available transportation capacity, which was sent to the Ministry of

Economic Development on 28 June 2019 and published on the Snam website at [www.snam.it/it/trasporto](http://www.snam.it/it/trasporto) in the online services/capacity section.

The document shows data about capacity at all entry points interconnected with foreign countries and with LNG terminals for the thermal year 2019-2020 and subsequent years up to 30 September 2034.

Also shown for the thermal year 2019-2020 are the transport capacities of the interconnected exit points with the foreign countries of Passo Gries, Gorizia, Bizzarone and San Marino at a total of 46 million cubic metres/day. As a result of all the infrastructures of the "Supporting the north-west market and two-way cross-border flows" project coming into service, a total capacity of 40 million cubic metres/day became available simultaneously at the Passo Gries and Tarvisio exit points. The maximum capacity of the Passo Gries exit point is 40 million cubic metres/day, while the maximum capacity of the Tarvisio exit point is 18 million

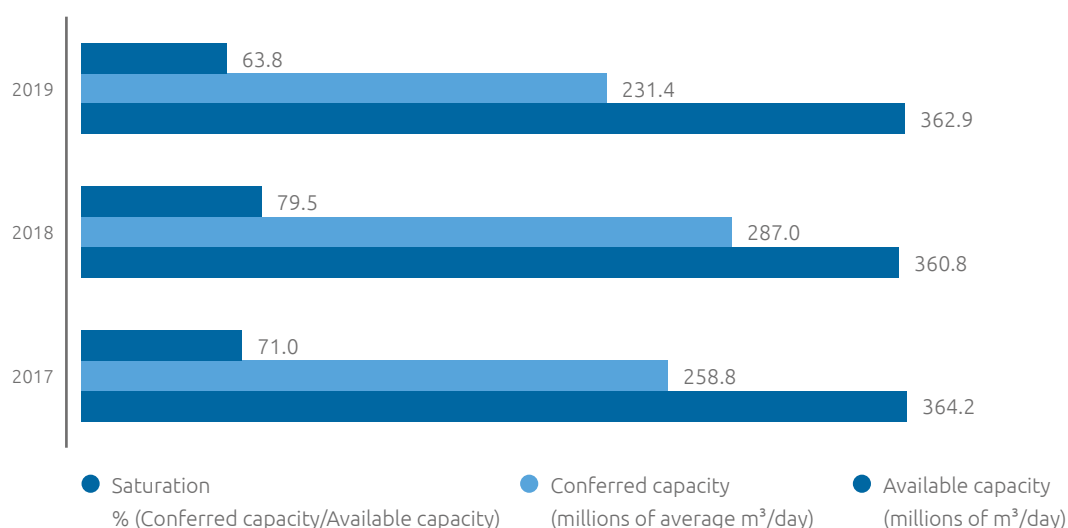
cubic metres/day, therefore there is a "competing capacity" pursuant to chapter 5, paragraph 3 of the Network Code available at the two points.

Over the last 16 years transport operators have been constantly increasing, going from around 30 operators in 2003 to around 210 operators in 2019 (including shippers and traders), with the number of customers (shippers) standing at 150 (136 in 2018).

In 2019 there was an increase in the number of Traders at PSV (Virtual Trading Points), which went from 52 Traders operating at the end of the 2017-2018 thermal year to 69 Traders operating at the end of the 2018 – 2019 thermal year.

In 2019, 123 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, including 26 contracts for the injection of biomethane and 61 relating to CNG service areas.

### Transportation capacity and saturation



### Provision and development of transportation services

	2017	2018	2019
Active customers (shippers)	128	136	150
New connection agreements for delivery/redelivery points	78	88	123

Thanks to the development of Snam services over the last 15 years, the Italian gas market has seen constant growth in transportation operators, passing from 30 in 2003 to around 210 in 2019, with 150 shippers.

In 2019, 123 connection contracts were signed for the construction of new delivery/redelivery points (of which 26 were for biomethane injection and 61 for the CNG Service areas) or the upgrading of existing points.

In 2019, the integration process through which the commercial management activities of the 3 businesses -

transportation, storage and regasification - merged into a single organisation continued, allowing the optimisation of the processes within Snam. The creation of a single commercial control room for the management of daily gas deliveries and movements, the balancing of the network (activities that define Snam's responsibilities to the market), integrating the know-how of the 3 businesses managed by Snam, has led to an improvement in performance in this area. From the point of view of services, on 22 May 2019 Snam opened the new Jarvis commercial platform of integrated

services to its customers, implemented in 2018 and developed in conjunction with market operators. The platform, which actively involves customers, is designed to adopt a process for the renewal of services and technologies to support all commercial transportation, storage and regasification processes based on the feedback received from customers and also proposes to promote the range of integrated services offered on the Italian market possibly also enabling services for the foreign market. The platform provides customers with the possibility of:

- viewing its active contracts and having access to the documentation;
- accessing the transactions, in detail, for calculating the balancing credit limit;
- independently managing their user profiles.

To facilitate the transition to the new platform, from July 2019, Snam made a simulator of the new functionalities featured available to the market operators.

In September 2019, with the release of the Trading PSV system for gas trading activities, the new Jarvis platform came into force, at the same time as the progressive shutting down of the functionalities in the PSV system used previously.

Network codes list a number of indicators for monitoring the quality of service offered by the companies. When compared against these indicators, the Snam companies maintained a high level of performance in 2019 as well. One part of these indicators, which refer to specific levels of commercial quality, gives rise to the automatic indemnification of customers in the event of failure to comply with the service quality standard.

(%)	2017	2018	2019
Contracted transport capacity/Available transport capacity (foreign entry/interconnection points)	71	79	64
Compliance with deadlines for issuing offers for connection	100	100	100
Compliance with time frames for providing services subject to specific commercial quality standards	100	100	100

## Organisational changes

During the course of 2019, the recorded number of personnel in service 018 to 1,945 resources at 31 December 2019.

The organisational structure of group companies operating in the transportation and dispatching business was redesigned with a view to greater consistency with the Snam guidelines of streamlining the organisation and processes, aimed specifically at reducing duplications with Snam units dedicated to commercial and technical activities, and integration of transportation and storage activities.

Specifically, with reference to the transportation sector, note:

- the redesigning of the structure of the plant area with a view to increasing integration between transportation and storage activities, strengthening of the oversight of the area (creation of a Northern Facilities Area and Central-Southern Facilities Area) and a more comprehensive structuring of the centralised support service, in close conjunction with the Snam Technologies & Industrial Innovation unit BUAIT (creation of the Facilities Support unit and the BUAIT Technical Facilities unit);
- the redefinition of part of the organisation dedicated

to Engineering and Construction activities with the definition of structures dedicated to the creation of Facilities and the establishment of integrated oversight support dedicated to engineering and authorisation activities;

- the move to Snam Rete Gas of all commercial activities, previously monitored by Snam, with a view to the full integration of all activities in the regulated sector and simplification of the organisational model, with the creation, at the same time, of a Commercial and Dispatching unit, in which all physical dispatching and gas measurement activities have been incorporated, previously the responsibility of the gas operations unit.

In relation to the opportunity to pursue economies of experience and scope that develop Group best practices, and to the specific requirements of other operating companies, several Snam Rete Gas structures provide technical services (for example, with regard to engineering and project management activities aimed at large investments). In addition, in relation to the organisational changes listed above, Snam Rete Gas also guarantees the supply to Stogit and LNG Italia of the commercial services previously delivered by Snam.



## Accidents

In 2019 the number of accidents was 0 for employees and 5 for contractors (compared with 4 and 3 in 2018).

### Accidents at work (no)

	2017	2018	2019
Total employee accidents	2	4	0
Total contract worker accidents	4	3	5

### Accident indices

	2017	2018	2019
<b>Employees</b>			
Frequency index (*)	0.66	1.29	0
Severity index (**)	0.03	0.03	0
<b>Contract workers</b>			
Frequency index (*)	0.47	0.46	0.83
Severity index (**)	0.90	0.03	0.08

(\*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(\*\*) 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.

## Energy consumption and emissions

The company, in accordance with its sustainable growth model, updated and set new voluntary targets, valid objectives for all Snam businesses (transportation, storage, regasification):

- to reduce its natural gas emissions by 2022 and 2025, respectively by 15% and 40%, excluding emergencies, compared with the 2016 figures;
- to reduce its scope 1 and scope 2 emissions by 2030 by 40%, excluding emergencies, compared with the 2016 figures;
- to increase the ratio between green electricity bought and the total to reach 55% by 2030.

In 2019 the emission into the atmosphere of 9.4 million cubic metres of natural gas was prevented, equal to around 165,000 tonnes of CO<sub>2eq</sub> (16% compared with 142,000 tonnes of CO<sub>2eq</sub> in 2018). These performances were made possible by the on-line gas compression interventions and the interventions with tapping machines, technology that makes it possible to disconnect pipelines in operation for new connections without an interruption to the service. These results led to a reduction in natural gas emissions of 11.7% compared with 2018, a trend completely in line with the general targets.

Total emissions of CO<sub>2eq</sub> avoided in 2019 resulting from the various initiatives adopted by the company (missing natural gas emissions, production of electricity from photovoltaic plants, purchase of green electricity, installation of LED bulbs to replace other tradition bulbs, smart working) have globally made it possible to prevent the emission into the atmosphere of 181,800 tonnes of CO<sub>2eq</sub>.

Energy consumption for transport, equal to 6,123 Terajoule (TJ), decreased by around 18% compared with 2018 in spite of an overall increase in gas injected into the network (+3.5%). This result was promoted by the difference provenance of the gas from import points (less use of the back-up network from North Africa more energy-intensive than the other ones).

In 2019, nitrogen oxide emissions totalled around 286 tonnes (-6.2% compared with 2018). To contain emissions, a programme that calls for modifying certain turbines already in operation and the installation of new units with low emission combustion systems (Dry Low Emissions) has been in progress for years. In 2019 the percentage of DLE turbines operating in transportation stood at around 95%.

## Energy consumption

	2017	2018	2019
Energy consumption (TJ)	7,459	7,463	6,123
Emissions of CO <sub>2eq</sub> - scope1 (ton) (*)	1,008,051	981,866	838,326
Emissions of natural gas (106 m <sup>3</sup> )	34.4	32.8	28.7
Natural gas recovered (106 m <sup>3</sup> )	4.1	8.2	9.4
NOx emissions (tonnes)	342	305	286

(\*) The CO<sub>2eq</sub> emissions were calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the Intergovernmental Panel on Climate Change (IPCC) scientific study the "Fifth Assessment Report IPCC".

## REGULATIONS CONCERNING THE BUSINESS SEGMENT

### Relations with the regulatory authority

Over the years Snam has established a constructive relationship and effective cooperation with the Italian Regulatory Authority for Energy, Networks and the Environment – ARERA.

### Relations with the regulatory authority (no.)

	2017	2018	2019
Responses to consultation documents and service proposals	8	10	5
Tariff proposals	4	3	4
Data collections	129	143	137
Preliminary investigations (*)	3	2	0
Proposal to amend/update contractual documents and codes (**)	14	12	6
Proposal to amend/update contractual documents and codes (approved)	12	10	6

(\*) Information sent to the Authority during 2019 with reference to investigations in the context of the sector. This includes exploratory investigations.

(\*\*) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

## GAS MARKET MONITORING

As part of its evaluations of the gas wholesale markets, the Authority gave Snam the mandate, as a leading transportation business, together with Gestore dei Mercati Energetici, to support it in monitoring activities through: (i) the preparation of a transportation and balancing, storage and regasification services integrated data base, made

available by the Regulator and supplied daily; (ii) providing indices and reports on a regular basis under the scope of the balancing function, the balancing of the system and the flexibility of procurement sources; (iii) further specific analyses at the request of the Authority.

### Relations with the regulatory authority under the scope of Gas Market Monitoring (no.)

	2019
Relations/analyses (with reference to all businesses)	6
Agreements, manuals and specific details on monitoring (with reference to all businesses)	14
Reports and data flows	13,423

## Regulation transition period 2018-2019

### Criteria for adjusting the tariffs for natural gas transport services for the transition period in the years 2018 and 2019

By means of Resolution 575/2017/R/gas, which was issued on 4 August 2017, the Authority approved the tariffs for the transport, dispatch and metering service for 2018-2019. The resolution confirms the main criteria of the previous regulation, with several amendments:

- The asset  $\beta$  parameter was confirmed for the 2018-2019 Transition Period. The value of the WACC equal to 5.4% in pre-tax real terms was therefore confirmed for 2018 and was recalculated for 2019 through the updating of the basic parameters.
- From 2018 the investments made in the year t-1 were included in the investment capital for the purpose of determining the tariffs for year t, replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time lag was applied to investments made in the period 1 January 2014 - 31 December 2016;
- The input-based incentive scheme (1-2% for 7/10 years for regional and national networks respectively) was applied to new development investments that have entered into service by 31 December 2017;
- An input-based incentive scheme (1% for 12 years for regional and national networks) was applied to investments for the construction of new transportation capacity, launched as of 31 December 2017, which will start operating in the years 2018 and 2019. The incentive was also recognised for investments that start operating during the transition period after 1 January 2018, included in the Development Plan and with a benefit-cost ratio higher than 1.5;
- The operating costs recognised in the fourth regulatory period were updated according to inflation, and a

productivity recovery factor (X-factor). The variable unit price (CV) was calculated for the years 2018 and 2019 using a reference volume of 67.2 billion cubic metres.

### Tariff regulations for 2019

By means of Resolution 280/2018/R/gas, published on 10 May 2018, the Authority approved the revenue recognised for the natural gas transportation, dispatching and metering service for 2019, which totalled €1,964 million. The RAB used to calculate 2019 revenue for transportation, dispatching and metering amounts to €16.2 billion and includes estimated investments for the year 2018. By means of Resolution 306/2018/R/gas, published on 01 June 2018, the Authority approved the proposed revenue for the natural gas transportation and dispatching service for 2019.

### Updating of the remuneration rate of the capital invested for regulatory purposes (WACC) for 2019

Through resolution 639/2018/R/gas, published on 6 December 2018, the Authority carried out an interim updating of the WACC basic parameters common to all electricity and gas sector regulated infrastructure services, pursuant to the provisions of Article 5 of the TIWACC and the gearing level, according to the forecasts of Article 6 of the TIWACC.

In the resolution the Authority confirmed the level of the risk free rate parameter (rf) equal to 0.5% (the floor) as the average return rate in real terms of EU country government bonds with ratings of at least AA in the period 1 October 2017-30 September 2018 was lower than this figure. The Authority also set the other parameters as follows:

- Country Risk Premium (CRP), at 1.4%;
- Tax shield, equal to 24% and taxation level at 31%;
- Future inflation at 1.7%.

For infrastructure services other than those of gas distribution and metering, the Authority set a D/E gearing level of 1, while the calculation of the Beta parameter was carried out during the tariff regulation of the individual businesses starting from 2020.

Based on the parameter values reported above, the Authority set the return rate on invested capital for the natural gas transportation service at 5.7% in real pre-tax terms in 2019 (5.4% for the years 2016-2018). The WACC for 2020 was calculated following the setting of the Beta parameter for the 5th regulatory period, outlined in the next section.

## Regulation for the fifth regulatory period 2020-2023

### Tariff adjustment criteria for the natural gas transportation and metering service for the fifth regulatory period (2020-2023)

Through resolution 114/2019/R/gas, published on 29 March 2019, the Authority defined the regulation criteria of the natural gas transportation tariffs for the fifth regulatory period (1 January 2020-31 December 2023).

The duration of the regulatory period was confirmed as 4 years. The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The net invested capital remuneration rate Beta parameter (WACC) remains fixed at 0.364, with the WACC remaining unchanged at 5.7% before tax for the years 2020-2021, in line with the TIWACC framework. Works in progress are included in the calculation of the RAB predicting a real pre-tax return of 5.3%. The inclusion in the RAB of investments made in the year t-1 for the purpose of remuneration to compensate the regulatory time-lag is also confirmed. Limited to the interventions included in the Development Plans that will come into operation in the years 2020-2021-2022 with a cost/benefit ratio of more than 1.5, a greater WACC of +1.5% for 10 years is applied.

The revenue component relating to the return and amortisation and depreciation is updated on the basis of an annual recalculation of net invested capital (RAB) and additional revenue from the higher rate of return for investments realised in prior regulatory periods. Amortisation and depreciation are calculated based on the useful economic and technical life of the transportation infrastructure.

Operating costs recognised for 2020 are calculated based on effective recurring costs for 2017, increased by the greater efficiency achieved in the current period (50% profit sharing), with the possibility of including any recurring costs for 2018 if adequately justified. The application of the price-cap method for the purpose of

updating operating costs is confirmed, envisaging an X-factor to return the greater efficiency achieved in the fourth regulatory period to users in 4 years.

It is expected that the largest transportation business will procure quantities of gas to cover self-consumption, leaks and unaccounted for gas (GNC) under the scope of the centralised market. The quantities of gas recognised are assessed based on the weighted average price of forward products with delivery to the PSV (Virtual Trading Point) in the reference tariff year. The resolution includes the recognition of the difference between the price recognised for these volumes and the effective procurement price, deferring the definition of the detail mechanism to the next provision.

With regard to tariff structure, the current methodology for determining the capacity/commodity split was confirmed, providing for capacity revenue to cover capital costs (return and amortisation and depreciation) and commodity revenue to cover recognised operating costs. The current revenue correction factor applied to the capacity component (100% guaranteed) and to the component related to transported volumes (allowance  $\pm 4\%$ ) is confirmed. With reference to the metering service, a mechanism to cover revenues similar to that of the transportation service (100% guaranteed) was introduced.

The tariff structure based on the entry/exit model is confirmed, including not only the domestic network but also the regional network in the reference price methodology. The entry and exit capacity fees are calculated using the capacity weighted distance methodology (CWD) with the revenues distributed between the entry and exit points 28/72.

A variable fee was introduced, applied to volumes transported, intended to cover the operating costs recognised, the costs relating to the Emission Trading system, ratifying the principle of neutrality adopted by the business in relation to price risk and incentivising virtuous behaviour aimed at reducing CO<sup>2</sup> emissions, and the costs of procurement of quantities to cover self-consumption, leaks and CNG. This fee is applied to the transportation network entry points and is calculated annually based on the volumes effectively withdrawn in the year t-2.

Lastly, there are plans for the definition of the regulation criteria for the quality of the natural gas transportation service for the fifth regulatory period to be deferred, trialling the innovative use of transportation networks, as well as the restructuring of the metering service, following specific consultations carried out in 2019. In this regard, through resolution 554/2019/R/gas, published on 23 December 2019, the Authority approved the new Consolidated Act for the regulation of the quality of the gas transportation service which contains provisions on the continuity of the service, security and commercial quality, valid for the fifth regulatory period 2020-2023.

## Approval of 2020 revenues

By means of Resolution 201/2019/R/gas, published on 28 May 2019, the Authority approved the revenue recognised and fees for the natural gas transportation and dispatching service for 2020. Revenue recognised for the natural gas storage service for 2020 amounted to € 2,096 million. The RAB used to calculate 2020 revenue for transportation, dispatching and metering amounts to €16.4 billion and includes estimated investments for the year 2019.

## Settlement and balancing

### **Approval of the Snam Rete Gas S.p.A. proposal relating to the improvement and efficiency improvement targets subject to the incentive, pursuant to point 5 of the Authority resolution 480/2018/R/gas**

Through resolution 57/2019/R/gas, published on 22 February 2019, the Authority approved the proposal of further improvement and efficiency objectives for settlement and balancing presented by Snam Rete Gas pursuant to resolution 480/2018/R/gas, point 5, functional to the recognition of the incentive of around €2.5 million set out in this resolution. Specifically, the objectives consist of the commitment to: (i) bringing forward the times for the completion of the activities of checking new dynamic profiling mechanisms function to the launch of the settlement reform pursuant to resolution 72/2018/R/gas of the Authority; (ii) ensuring greater transparency of these methods through disclosure and sharing with the operators involve as well as (iii) launching a trial in the period June-December 2019 to restrict the use of the storage capacity by the Balancing Manager, function to the implementation of the reform outlined by the Authority in previous consultations. The incentive is distributed equally between the objectives proposed by Snam Rete Gas and the recognition that will be modulated according to the activities concluded.

## Regulation of previous corrective factors

In a letter dated 26 June 2019, the regulatory authority notified Snam Rete Gas, of the amount of the corrective factors relating to previous years to be paid to the CSEA by 31 July 2019, under the "Transport expenses account" as required by Article 4.3 of the resolution 114/2019/R/gas of the same Authority.

The amount of €180 million (€154 million net of activities compensated), calculated based on the reported revenues relating to 2018 sent to the Authority pursuant to Article 4 of resolution 114/2019/R/gas, refers to the corrective factors for 2018, net of deviation revenues and residual corrective factors for previous years (2016-2017). Snam Rete Gas made the relative payment on 30 July 2019.

# Liquefied Natural Gas (LNG) regasification

17,500 m<sup>3</sup>

Daily regasification capacity maximum of LNG of the plant in Panigaglia

3.5 bn m<sup>3</sup>

Maximum annual quantity of natural gas that can be released into the network for transmission

2,40 bn m<sup>3</sup>

Quantity of LNG regasified in 2019 in Panigaglia (1.49 bn m<sup>3</sup> in 2018)

57 (+36% compared with 2018) Methane tanker loads



## LNG Italia plays a key role in ensuring adequate diversification and flexibility of supplies to the gas system

The Panigaglia plant, built in 1971 and owned by LNG Italia, is able to regasify 17,500 m<sup>3</sup> of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transport network every year.

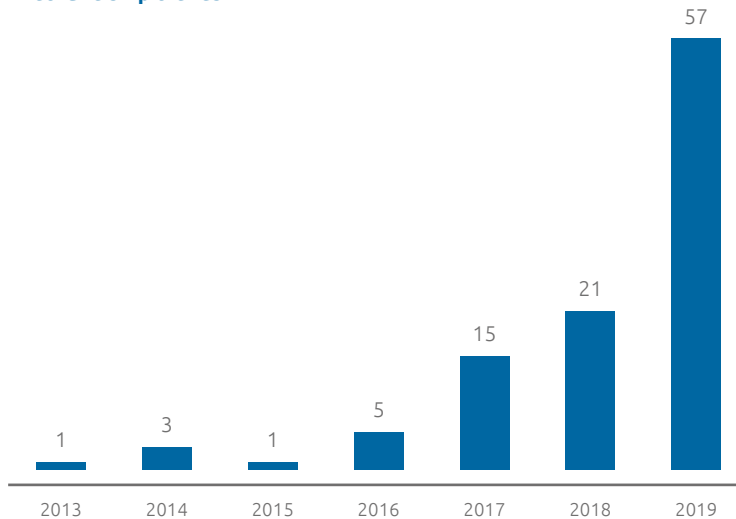
The total amount of gas regasified at the Panigaglia plant in 2019 was 2.40 billion m<sup>3</sup> (0.91 billion m<sup>3</sup> in 2018; +1.49 billion m<sup>3</sup>).

The significant increase in volumes of activities compared with last year, is mainly due to the greater competitiveness of the cost of LNG compared with natural gas, as well as the new regasification capacity allocation mechanisms through dedicated auctions.

In 2019 57 methane tankers were unloaded (+36 compared with 2018).

The new capacity allocation mechanisms based on auctions as well as the new businesses in the SSLNG sector, linked specifically to the possible future uses in heavy transport and maritime transport, will lead to a scenario of further growth in the consumption of LNG in future years.

## Methane ship trends



The regasification service can be continuous for the entire thermal year or the spot type. Moreover, from October 2018 the regasification capacity was awarded through dedicated auctions. Lastly, the regasification service includes the ancillary service, which consists of correcting the heating power of the natural gas to comply with quality requirements for its injection into the transportation network (correction of the Wobbe index).

During the course of 2019, LNG Italia provided regasification services to 6 active customers (2 customers in 2018).

## Key performance indicators

(millions of €)	2017	2018	2019	Change	% change %
Total revenue (a)	22	24	32	8	33.3
- of which regulated revenues (a)	21	20	27	7	35.0
Total revenues net of pass-through items (a)	19	21	22	1	4.8
Operating costs (a)	15	17	26	9	52.9
Operating costs net of pass-through items (a)	12	14	16	2	14.3
EBIT	2	2	1	(1)	(50.0)
Technical investments (b)	5	9	19	10	
Net invested capital at 31 December	89	86	95	9	10.5
Volumes of regasified LNG (billions of cubic metres) (c) (d)	0.63	0.91	2.40	1.49	
Tanker loads (number)	15	21	57	36	
Employees in service at 31 December (number)	63	64	65	1	1.6

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.8% for 2019, 6.6% for 2017 and for 2018.

(c) With reference to 2019, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10,572 kWh/SCM).

(d) The regasified quantities are shown gross of self-consumption and losses (QCP component), equal to 1.7% for the Panigaglia terminal.

## RESULTS

**Total revenue** amounted to €32 million, an increase of €8 million, or 33.3%, compared with 2018. Excluding the items offset in costs<sup>13</sup>, total revenue amounted to €22 million, essentially in line with 2018 (+€1 million or 4.8%).

**Regulated revenues**, amounting to €27 million, include the fees for the regasification service (€17 million, unchanged from 2018) essentially relating to the share of the guarantee factor for the year 2018, provided for in art. 18 of Annex A to Resolution 438/2013/R/gas, and the chargeback to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€10 million +€7 million compared with 2018).<sup>14</sup>

**EBIT** totalled €1 million (€2 million in 2018). The greater revenue coming from sales of natural gas were offset by the greater operating costs following withdrawals from storage.

## TECHNICAL INVESTMENTS

Technical investments for 2019 stood at €19 million, more than double the figure for the previous year (€9 million in 2018), and included investments in maintenance, aimed at the modernisation, technological adaptation and security of plant systems.

<sup>13</sup> Revenues offset in costs refer to the costs that LNG charges back to its customers for use of the transportation service provided by Snam Rete Gas.

<sup>14</sup> For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within LNG Italia S.p.A. in order to represent the substance of the operation.

These include: (i) engineering activities and general interventions on tanks (€6 million); (ii) revamping operations on systems (€2 million); (iii) various IT and property interventions (more than €2 million).

## Operating review

In 2019, 2.40 billion cubic metres of LNG were regasified at the LNG terminal in Panigaglia (SP) (compared with 0.91 billion cubic metres in 2018, +1.49 billion cubic metres), with 57 methane tankers unloaded (+36 compared with 2018), also thanks to the new mechanisms used to allocate capacity through auctions. With reference to the number of employees, this figure stood at 65 resources, essentially in line with the previous year. Under the scope of the process of integrating Snam's Italian assets, the strengthening of the organisational oversight dedicated to operating activities continued in 2019 as well, aimed at upgrading the direct oversight of the core regasification activities, as against the staff processes where activities were provided centrally by Snam.

On 26 February 2020, Snam acquired a 49.07% stake in the share capital of OLT (Offshore LNG Toscana), the company that built and manages the offshore regasification terminal (FSRU - Floating Storage and Regasification Unit) located offshore of the Tuscan coast between Livorno and Pisa. With a maximum annual regasification capacity of 3.75 billion cubic meters, OLT is the second largest Italian liquefied natural gas (LNG) terminal.

## Provision and development of regasification services

	2017	2018	2019
Active customers (shippers)	4	2	6
Compliance with the maximum period to accept proposals for monthly scheduling of deliveries (%)	100	100	100
Compliance with maximum period of interruption/reduction of capacity at the terminal due to maintenance works (%)	100	100	100

In 2018 the Company implemented a digital platform (Jarvis) aimed at improving commercial operations.

The Jarvis platform, which actively involves customers, is designed to adopt a process for the renewal of services and technologies to support all commercial transportation, storage and regasification processes based on the feedback received from customers and also proposes to promote the range of integrated services offered on the Italian market possibly also enabling services for the foreign market.

From the point of view of services, on 22 May 2019 Snam opened the new Jarvis commercial platform of integrated services to its customers, implemented in 2018 and developed in conjunction with market operators. More information with regard to the new services introduced in 2019 are given in the section "Provision and development of services - Transportation of natural gas" in this Report, also on the basis of the implementation and integrated management of the platform for all the regulated businesses in which Snam operates.



## Accidents

In 2019, there were no accidents involving either employees or contract workers.

### Accidents at work (no)

	2017	2018	2019
Total employee accidents	1	0	0
Total contract worker accidents	0	0	0

### Accident indices

	2017	2018	2019
<b>Employees</b>			
Frequency index (*)	9.31	0	0
Severity index (**)	0.17	0	0
<b>Contract workers</b>			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0

(\*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(\*\*) 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.

## Energy consumption and emissions

The company, in accordance with its sustainable growth model, updated and set new voluntary targets, valid objectives for all Snam businesses (transportation, storage, regasification):

- to reduce its natural gas emissions by 2022 and 2025, respectively by 15% and 40%, excluding emergencies, compared with the 2016 figures;
- to reduce its scope 1 and scope 2 emissions by 2030 by 40%, excluding emergencies, compared with the 2016 figures;
- to increase the ratio between green electricity bought and the total to reach 55% by 2030.

### Energy consumption

	2017	2018	2019
Energy consumption (TJ)	325	462	1.217
Emissions of CO <sub>2eq</sub> – scope1 (t) (*)	44,421	41,407	83,452
Natural gas emission (106 m <sup>3</sup> )	1.7	1.2	1.3
NOx emissions (tonnes)	14.8	22.4	49.8

(\*) The CO<sub>2eq</sub> emissions were calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the Intergovernmental Panel on Climate Change (IPCC) scientific study the "Fifth Assessment Report IPCC".

In 2019 energy consumption for the regasification of gas increased by around 163%, in line with the increase in the quantities of regasified gas (+170%). Total emissions of nitrogen oxide in 2019 amounted to around 50 tonnes

compared with 22 in 2018, a development in line with the growth of the gas treated. Natural gas emissions were in line with those of 2018, standing at 1.3 million m<sup>3</sup>.

## Regulations concerning the business segment

### Relations with the regulatory authority (no.)

	2017	2018	2019
Responses to reference documents	2	1	2
Tariff proposals	1	2	2
Data collections	28	34	24
Proposals to amend/update contractual documents and codes (*)	0	3	0
Proposal to amend/update contractual documents and codes (approved)	0	3	0

(\*) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

### Relations with the regulatory authority under the scope of Gas Market Monitoring (no.)

	2019
Relations/analyses (with reference to all businesses)	6
Agreements, manuals and specific details on monitoring (with reference to all businesses)	14
Reports and data flows	234

## Regulation transition period 2018-2019

### Criteria for adjusting the tariffs for the natural gas transport service for the transition period in the years 2018 and 2019

By means of Resolution 653/2017/R/gas, published on 2 October 2017, the Authority approved tariffs for the LNG regasification service for 2018-2019. The resolution confirms the main criteria of the previous regulation, with several amendments:

- The asset  $\beta$  parameter was confirmed for the 2018-2019 Transition Period. The value of the WACC equal to 6.6% in pre-tax real terms was therefore confirmed for 2018 and was recalculated for 2019 through the updating of the basic parameters.
- The investments made in the year t-1 were included in the invested capital recognised for the purpose of calculating the tariffs for the year t, replacing the 1% increase in the WACC covering the regulatory time lag. The 1% increase in the WACC covering the regulatory time lag was applied to investments made in the period 1 January 2014 - 31 December 2016.
- The input-based incentive scheme (2% for 16 years for

the upgrading of regasification capacity) was applied to new development investments that come into service by 31 December 2017;

- An input-based incentive scheme (1.5% for 12 years) was applied to investments for constructing new regasification capacities that became operational in the years 2018 and 2019;
- The operating costs recognised in the fourth regulatory period were updated according to inflation, and a productivity recovery factor (X-factor).
- The current provisions relating to the revenue coverage factor were confirmed.

### Updating of the remuneration rate of the capital invested for regulatory purposes (WACC) for 2019

Through resolution 639/2018/R/gas, published on 6 December 2018, the Authority carried out an interim update of the basic WACC parameters, shared by all regulated infrastructure services of the electricity sectors, for the three-year period 2019-2021, and for regulated

infrastructure services of the gas sector, for 2019, setting this value at 6.8% for regasification activities (6.6% for the years 2016-2018).

For infrastructure services other than those of gas distribution and metering, the Authority set a D/E gearing level of 1, while the calculation of the Beta parameter was carried out during the tariff regulation of the individual businesses starting from 2020. The WACC for 2020 was calculated following the setting of the Beta parameter for the 5th regulatory period.

For more information on the parameter values used by the Authority for calculating the value for 2019, please refer to the section "Regulation of activity sector - Natural gas transportation" of this Report.

## Tariff regulations for 2019

Through resolution 695/2018/R/gas "Approval of the tariffs for the LNG regasification service for 2019 and amendments and supplements to the RTRG" published on 20 December 2018, the Authority approved the revenues recognised for the regasification service for 2019 based on the proposal submitted by LNG Italia. The tariffs were set on the basis of reference revenue of €26.7 million. The revenue coverage factor has been set at 64% of the reference revenue. The RAB for LNG regasification activities was €108.7 million.

At the same time, the Authority published the definitive 2018 revenues based on the final 2017 balance sheet data, which stood at €26.7 million.

## Regulation for the fifth regulatory period 2020-2023

### Criteria for adjusting the tariffs for the liquefied natural gas regasification service for the fifth regulatory period (2020-2023)

Through resolution 474/2019/R/gas, published on 21 November 2019, the Authority defined the criteria for calculating the revenues recognised and the tariffs for the regasification service for the fifth regulatory period (1 January 2020-31 December 2023).

The duration of the regulatory period was confirmed as 4 years. The valuation of the net capital invested (RAB) is based on the revalued historical cost method.

The net invested capital remuneration rate Beta parameter (WACC) remains fixed at 0.524, with the WACC remaining unchanged at 6.8% before tax for the years 2020-2021, in line with the TIWACC framework.

Works in progress (LIC) remain excluded from the calculation of the RAB, at the same time as the recognition of financing expenses (IPCO). The operating costs recognised are calculated based on the recurring effective costs for the last available year (2018), plus the greater efficiencies achieved in the current period (50% profit

sharing), with the size of the efficiency factor (X factor) designed to restore the greater efficiencies achieved in the fourth period to consumers in the fifth regulatory period. The revenue guarantee mechanism is confirmed as 64% of revenues recognised for a duration of 20 years starting from the first year in which the business offers the regasification service or, if prior to that, from the first year of ownership of the guarantee factor pursuant to resolution ARG/gas 92/08.

In order to incentivise the range of flexible services offered, there are plans that a share of 40% of revenues from the offering of these services can be retained by the regasification business to cover the revenues not subject to the revenue guarantee factor, up to the recognised revenues.

Recognition of variable electricity costs will be introduced (dependent on the unloading of ships and regasification of LNG) through a fee applied to users. Costs relating to electricity for the basic operation of the terminal continue to be recognised in the reference revenues.

There are plans to recognise the costs relating to the Emission Trading System (ETS), ratifying the neutrality principle of the business in relation to the price risk and incentivising virtuous behaviour aimed at reducing CO<sup>2</sup> emissions.

## 2020 revenue approval

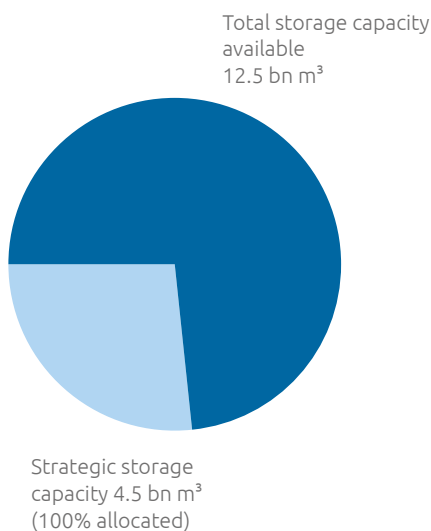
With resolution 43/2020 / R / gas "Approval of the tariffs for the LNG regasification service for 2020 and amendments and additions to the RTRG", published on 19 February 2020, the Authority approved the revenues recognized for the service of regasification for 2020 on the basis of the proposal presented by LNG Italia. The tariffs were determined on the basis of reference revenues of € 25.1 million and on energy costs of approximately € 3.1 million. The revenue coverage factor is 64% of the reference revenue. The RAB for the LNG regasification activity is € 121.8 million.

At the same time, the Authority published the definitive 2019 revenues with a total amount of 26.8 million euros, based on the final 2018 balance sheet data.

# Storage of natural gas

Total 2019 storage capacity reaches, including strategic storage, about 17.0 BCM: the European highest capacity

17.0 bn m<sup>3</sup>  
Total storage capacity



19.33 bn m<sup>3</sup>

Gas moved through the storage system

9 operating concessions

The storage system makes it possible to compensate for the different requirements for gas supply and consumption: whilst supply has a substantially constant flow throughout the year, the demand for gas is concentrated mainly in the winter period. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system.

The storage business makes use of an integrated group of infrastructure comprising deposits, wells, gas treatment plants, compression plants and the operational dispatching system. Snam has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one). In 2015, the new Bordolano site came into operation gradually increasing the capacity offered to a total of 1,050 million SMC +10.5% compared with the end of 2018).

Stogit provides its storage services (peak modulation, uniform modulation, strategic, transporter balancing, mining, short-term allocation services and, from 2018, the new Fast Cycle<sup>15</sup> service, to 90 operators based on the Storage Code approved by the Italian Regulatory Authority for Energy, Networks and the Environment (hereinafter also ARERA).

In 2019 Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign (October 2019) was 99%, in line with the European average.

The market oriented approach adopted in 2019 allowed the Company to increase the mix of customers owing a Storage contract (not only shippers serving end users but also traders who maximise revenues from buying and selling gas to the PSV - virtual trading point) as well as attracting major European players.

Thanks to the investments made to develop new deposits and upgrade existing ones, the total storage capacity at the end of 2019, on a like-for-like basis with strategic storage, reached 17.0 billion cubic metres (+0.1 billion cubic metres compared with 2018), following the Bordolano field gradually coming into operation.

A result that attests to Stogit's ability to respond to both the needs of the national market as well as the contingent dynamics linked to international markets and policies, which can significantly modify demand by increasing the value of business with policies to support the security of supplies.

<sup>15</sup> The storage service involves constant injection services and supply availability during the Thermal Year.

## Main performance indicators

(millions of €)	2017	2018	2019	Change	% change %
Total revenue (a)	601	603	598	(5)	(0.8)
- of which regulated revenues (a)	598	599	595	(4)	(0.7)
Total revenues net of pass-through items (a)	511	507	506	(1)	(0.2)
Operating costs (a)	165	168	156	(12)	(7.1)
Operating costs net of pass-through items (a)	75	72	64	(8)	(11.1)
EBIT	339	335	337	2	0.6
Technical investments (b)	101	99	112	13	13.1
Net invested capital at 31 December	3,429	3,397	3,421	24	0.7
<b>Concessions (number)</b>	<b>10</b>	<b>10</b>	<b>10</b>		
- of which operational (c)	9	9	9		
Natural gas moved through the storage system (billions of cubic metres) (d)	19,92	21,07	19,33	(1,74)	(8,3)
- of which injected	9,80	10,64	10,16	(0,48)	(4,5)
- of which withdrawn	10,12	10,43	9,17	(1,26)	(12,1)
<b>Total storage capacity (billions of cubic metres)</b>	<b>16,7</b>	<b>16,9</b>	<b>17,0</b>	<b>0,1</b>	<b>0,6</b>
- of which available (e)	12,2	12,4	12,5	0,1	0,8
- of which strategic	4,5	4,5	4,5		
Employees in service at 31 December (number)	60	59	61	2	3,4

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.7% for 2019, 6.5% for 2016-2018.

(c) Working gas capacity for modulation services.

(d) The volumes of gas are expressed in Standard cubic metres (SCM) with an average higher heating value (HHV) conventionally equal to 39.23 MJ/Smc (10.895 kWh/SCM) for natural gas storage activities for the thermal year 2019-2020 (39.29 MJ/SCM, 10.914 kWh/SCM, for the thermal year 2018-2019).

(e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full for the 2019-2020 thermal year.

## RESULTS

**Total revenue** amounted to €598 million, down by €5 million (0.8%) compared with 2018. Total revenue, excluding the items offset in costs<sup>16</sup>, amount to €506 million, essentially in line with 2018 (-€1 million -0.2%).

**Regulated revenue** (€595 million) mainly comprised fees for the natural gas storage service (€508 million) and the fees charged back relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€83 million)<sup>17</sup>, plus output-based incentives connected to the offering of new storage services (€2 million)<sup>18</sup>. Regulated revenue, excluding components that are offset in costs, amounted

to €503 million, which was unchanged when compared to 2018. The increase in the WAAC, which increased from 6.5% in 2018 to 6.7% in 2019, was absorbed by the tariff updating mechanisms.

With reference to the considerations for the storage service, note that 2019 featured an increase in the prices of auctions which meant that the amounts billed to users made it possible to reach the level of revenue recognised without recourse to the compensation mechanisms provided by the rate regulations.

**Unregulated revenues** equal to €3 million (€4 million in 2018) mainly refer to income derived from insurance

<sup>16</sup> These components refer mainly to revenue from the redebiting to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.

<sup>17</sup> Resolution 64/2017/R/gas of 16 February 2017 established that, from 1 April 2017, almost all expenses relating to the natural gas transportation service should no longer be charged to users of the storage service, but settled directly by the CSEA.

<sup>18</sup> Through Resolution 614/2018/R/gas of 30 November 2018, with reference to the 2018-2019 thermal year, the Authority introduced an incentive system for Stogit to offer additional storage capacity compared with the capacity planned under the scope of the "basic" storage services. The same mechanism was also confirmed for the 2019-2020 thermal year through the subsequent resolution 153/2019/R/gas of 16 April 2019.

reimbursements.

Operating profit in 2018 stood at €337 million, an increase of €2 million or 0.6% compared with 2017, thanks to the stability of revenues and the reduction in operating costs (+€7 million excluding the components that have a matching entry in revenues), partly offset by greater

depreciation and amortisation (-€5 million or 5.0%) due to the new infrastructures coming into operation, specifically the Bordolano site. With reference to operating costs, the reduction is mainly due to the lower costs for CO<sub>2</sub> emission rights, bought on the market to hedge the requirements for 2019, as well as lower costs for redundancy packages.

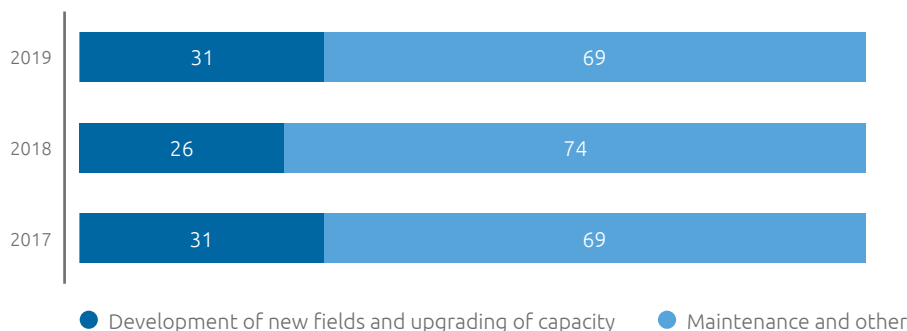
## TECHNICAL INVESTMENTS

**Technical investments** made by the Company in 2019 totalled €112 million, an increase of €13 million (approximately +13%) compared with the previous year and refer to the development of new fields and upgrading of capacity (€35 million) and maintenance and other investments (€77 million).

The main investments in the **development of new fields and upgrading of capacity** (€35 million) primarily concerned the following initiatives:

- Cortemaggiore (€19 million), for well drilling activities and for the upgrading of storage activities (peak services);
- Minerbio (€13 million), mainly for the completion of the activities related to the finalisation of the installation and start-up of the new TC7 compression unit;
- Sabbioncello (€1 million), for activities related to the installation of the new ESD system (Emergency Shut Down).

### Investment proportions by type (% of total investments)



**Maintenance and other investments** (€77 million) mainly relate to the provision of materials for operations at the Cortemaggiore plants, including commissioning and start-up (€11 million), risk analysis of the wells (€4 million), security at the Minerbio plant (€3 million) and Sergnano plant (€1 million), as well as IT and property activities (€16 million in total).

Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity.

Total storage capacity as at 31 December 2019, including strategic storage, was 17.0 billion cubic metres (+0.1 billion cubic metres compared with 2018, made available by the gradual entry into operation of the new Bordolano deposit), of which 12.5 billion cubic metres related to available capacity fully allocated for the thermal year 2019-2020 and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2018-2019, as established by the Ministry of Economic Development by means of the notice dated 8 January 2019)<sup>19</sup>.

<sup>19</sup> By means of the circular 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. By means of the announcement of 17 January 2020, the Ministry confirmed the strategic gas storage volume for the thermal year 2020-2021 (1 April 2020-31 March 2021) as 4.62 billion cubic metres, 4.5 billion cubic metres of which was allocated to Stogit

## Progress of work to obtain permits

To develop new settlements, in addition to the technical-economic feasibility criteria, Snam adopts procedures that respond to stringent environmental and safety compatibility assessments.

The assessments of environmental effects involve all phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure and the procedures of the Integrated Environment Authority (AIA), at the end of which the central and local administrations issue the permits required under current law.

### Applications submitted to the Ministry of the Environment to check EIA requirements)

Name	Capacity (MW)	Regions – Provinces involved	Date of submission
"Sergnano Storage" concession Installation TC1	25 (mechanical capacity) 66,9 (thermal capacity)"	Lombardy	03/07/19

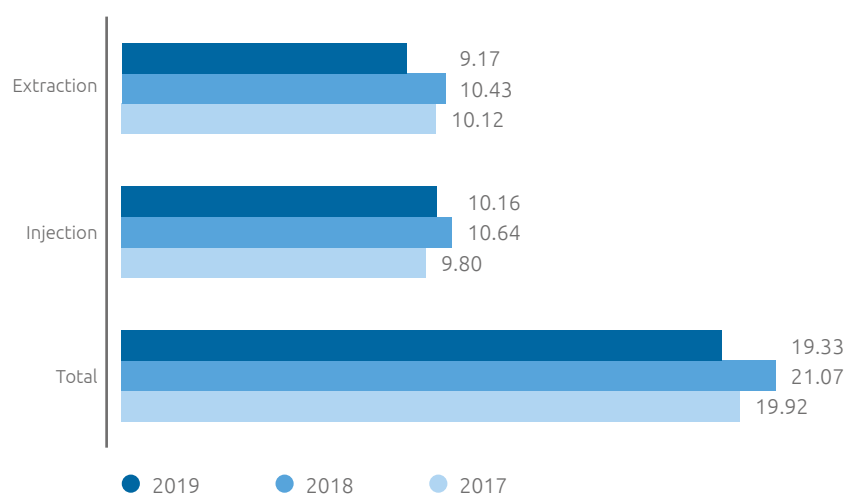
## OPERATING REVIEW

### Gas moved through the storage system

Volumes of gas moved through the storage system in 2019 amounted to 19.33 billion cubic metres, a fall of 1.74 billion cubic metres, or 8.3%, compared with 2018.

The reduction was mainly attributable to lower withdrawals from storage (-1.26 billion cubic metres; -12.1%), mainly as a result of weather conditions.

### Natural gas moved through the storage system (billions of cubic metres)



## Provision and development of storage services

	2017	2018	2019
Active customers (shippers)	89	91	90

In 2018 the Company implemented a digital platform (Jarvis) aimed at improving commercial operations. The Jarvis platform, which actively involves customers, is designed to adopt a process for the renewal of services and technologies to support all commercial transportation, storage and regasification processes based on the feedback received from customers and also proposes to promote the range of integrated services offered on the Italian market possibly also enabling services for the foreign market. From the point of view of services, on 22 May 2019 Snam

opened the new Jarvis commercial platform of integrated services to its customers, implemented in 2018 and developed in conjunction with market operators. More information with regard to the new services introduced in 2019 are given in the section "Provision and development of services - Transportation of natural gas" in this Report, also on the basis of the implementation and integrated management of the platform for all the regulated businesses in which Snam operates.

(%)	2017	2018	2019
Contracted storage capacity/Available storage capacity	99.9	99.7	100
Compliance with time frames for providing services subject to specific commercial quality standards	100	100	100
Connection flow lines subject to supervision	100	100	100
Total capacity not made available following interruptions/reductions to the service	0	0	0

## Organisational changes

At the end of 2019, the number of personnel in service totalled 61, essentially in line compared with 31 December 2018 (59).

Following the conclusion of the integration project, transportation-storage dispatching operations are managed through an integrated procedure.

Under the project for the rationalisation and simplification of the current Snam regulatory framework the process

for issuing rules to simplify and standardise operating processes was completed, including the document for the management of the availability and traceability of operating personnel.

Lastly, the project for the activation of the centres dedicated to the well and deposits area was finalised in 2019.

## Accidents

In 2019, there were no accidents involving either employees or contract workers.

### Accidents at work (no)

	2017	2018	2019
Total employee accidents	2	0	0
Total contract worker accidents	0	0	0



## Accident indices

	2017	2018	2019
<b>Employees</b>			
Frequency index (*)	6.71	0	0
Severity index (**)	0.43	0	0
<b>Contract workers</b>			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0

(\*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(\*\*) 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.

## Energy consumption and emissions

The company, in accordance with its sustainable growth model, updated and set new voluntary targets, valid objectives for all Snam businesses (transportation, storage, regasification):

- to reduce its natural gas emissions by 2022 and 2025, respectively by 15% and 40%, excluding emergencies, compared with the 2016 figures;
- to reduce its scope 1 and scope 2 emissions by 2030 by 40%, excluding emergencies, compared with the 2016 figures;
- to increase the ratio between green electricity bought and the total to reach 55% by 2030.

In 2019 energy consumption for gas storage fell by 10% compared with 2018, also thanks to the reduction in gas injected into the deposits (-4.5%). In 2019, nitrogen oxide emissions totalled around 116 tonnes (-51% compared with 2018). This decrease is mainly attributable to the reduction in consumption and use of DLE dry low emission turbines. Specifically, with the DLE turbine coming into operation in 2019 in the Minerbio storage plant as well, all the storage sites were operating with low emission units for 100% of operating hours.

## Energy consumption

	2017	2018	2019
Energy consumption (TJ)	4,787	5,337	4,784
Emissions of CO <sub>2eq</sub> – scope1 (t) (*)	447,662	473,206	423,630
Emissions of natural gas (106 m <sup>3</sup> )	10.7	10.5	9.2
NOx emissions (t)	175	236	115.9

(\*) The CO<sub>2eq</sub> emissions were calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the Intergovernmental Panel on Climate Change (IPCC) scientific study the "Fifth Assessment Report IPCC".

## REGULATIONS CONCERNING THE BUSINESS SEGMENT

### Relations with the regulatory authority

Over the years Snam has established a constructive relationship and effective cooperation with the Italian Regulatory Authority for Energy, Networks and the Environment – ARERA.

#### Relations with the regulatory authority (no.)

	2017	2018	2019
Responses to reference documents	0	1	2
Tariff proposals	5	3	3
Data collections	91	122	45
Preliminary investigations (*)	2	0	0
Proposals to amend/update contractual documents and codes (**)	4	3	4
Proposal to amend/update contractual documents and codes (approved)	2	2	4

(\*) Information sent to the Authority during 2019 with reference to investigations in the context of the sector. This includes exploratory investigations.

(\*\*) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

#### Relations with the regulatory authority under the scope of Gas Market Monitoring (no.)

	2019
Relations/analyses (with reference to all businesses)	6
Agreements, manuals and specific details on monitoring (with reference to all businesses)	14
Reports and data flows	1,975

### Temporary period regulations for 2019

Through resolution 68/208/R/gas "Start of the procedure for the definition of provisions related to the tariffs and quality of natural gas storage service for the fifth regulatory period (5PRS) and extension of the current provisions to the year 2019", published on 9 February 2018" the Authority extended the tariff criteria for the Storage service in force in the period 2015-2018 to cover 2019 confirming the value of the asset  $\beta$  parameter. The process was also launched for the revision of the criteria for the 5th regulatory period, which runs from 2020, similar to the transportation and regasification businesses, during which the opportunity of implementing a "totex" type regulatory approach will be evaluated.

The Authority also extended the regulation on the subject of the quality of the natural gas storage service for the period 2015-2018 to cover 2019.

### Updating of the remuneration rate of the capital invested for regulatory purposes (WACC) for 2019

Through resolution 639/2018/R/gas, published on 6 December 2018, the Authority carried out an interim update of the basic WACC parameters, shared by all regulated infrastructure services of the electricity sectors, for the three-year period 2019-2021, and for regulated infrastructure services of the gas sector, for 2019, setting this value at 6.7% for storage activities compared with the previous figure of 6.5% (6.5% for the years 2016-2018). For infrastructure services other than those of gas distribution and metering, the Authority set a D/E gearing level of 1, while the calculation of the Beta parameter was carried out during the tariff regulation of the individual businesses starting from 2020. The WACC for 2020 was calculated following the setting of the Beta parameter for the 5th regulatory period.

For more information on the parameter values used by the Authority for calculating the value indicated above, please

refer to the section "Regulation of activity sector - Natural gas transportation" of this Report.

## Tariff regulations for 2019

By means of Resolution 696/2018/R/gas, published on 20 December 2018, the Authority provisionally approved the corporate base revenue for the storage service for 2019, as per the tariff proposal presented by Stogit. This revenue of €499.5 million was later updated using the total annual increases in assets relating to 2018. Specifically, through resolution 297/2019/R/gas - the definitive calculation of the business revenues for the storage service for 2019, published on 10 July 2019, the Authority approved the revenues recognised definitively for the storage service for 2019. The recognised revenues amounted to €499 million. The RAB for storage activities was €4.0 billion.

## Regulation for the fifth regulatory period 2020-2023

Through resolution 419/2019/R/gas, published on 23 October 2019, the Authority defined the criteria for calculating the revenues recognised for the storage service for the fifth regulatory period (1 January 2020-31 December 2025).

The duration of the regulatory period will be extended from 4 to 6 years. The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The net invested capital remuneration rate Beta parameter (WACC) remains fixed at 0.506, with the WACC remaining unchanged at 6.7% before tax for the years 2020-2021, in line with the TIWACC framework.

Works in progress (LIC) remain excluded from the calculation of the RAV, at the same time as the recognition of financing expenses (IPCO). The operating costs recognised are calculated based on the recurring effective costs for the last available year (2018), plus the greater efficiencies achieved in the current period (50% profit sharing), with the size of the efficiency factor (X factor) designed to restore the greater efficiencies achieved in the fourth period to consumers in the fifth regulatory period. The mechanism for hedging revenues will be extended

to cover 100% of the reference revenues, also predicting the storage businesses can optionally access an updated incentive system following the remodelling of the share of revenue recognised subject to the hedge factor. The methods for recognising renewal costs are confirmed. There are plans to recognise the costs relating to the Emission Trading System (ETS), ratifying the neutrality principle of the business in relation to the price risk and incentivising virtuous behaviour aimed at reducing CO<sub>2</sub> emissions.

Lastly the resolution approves the regulatory provisions for the quality of the storage service for the period 2020-2025.

## Approval of 2020 revenues

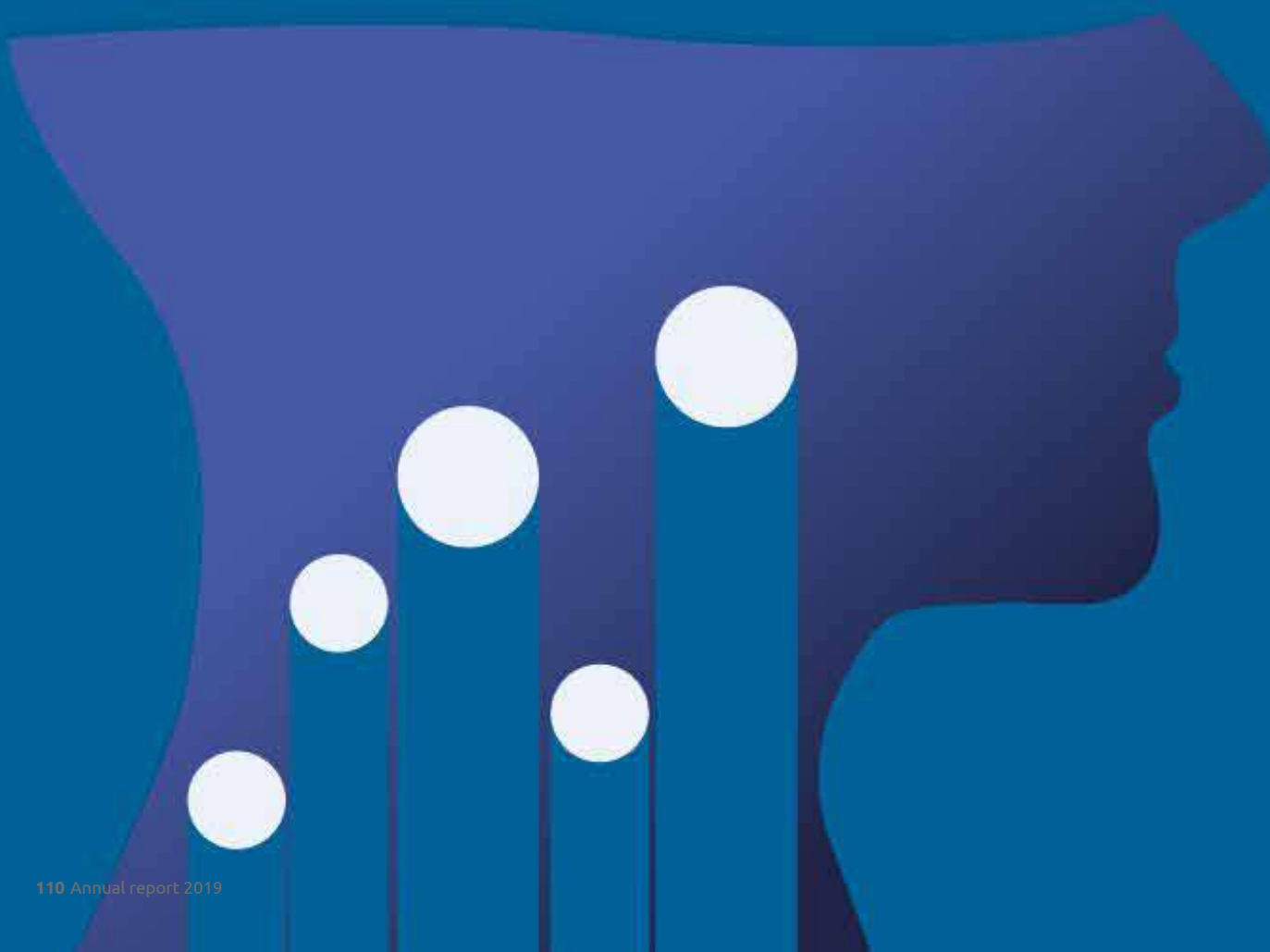
By means of Resolution 535/2019/R/gas, published on 19 December 2019, the Authority approved the revenue recognised for the storage service for 2020. The recognised revenues amounted to €491 million. The RAB for storage activities was €4.0 billion.

## Other provisions

### Resolution 67/2019/R/gas - Regulation of access to storage services and their provision. Provisions for the allocation of storage capacities for the thermal year 2019/2020

Through this resolution, published on 27 February 2019, the Authority rationalised and integrated the provisions related to access to and the provision of storage services in a Consolidated Act (RAST). With specific reference to the methods for calculating the regulated fees, the RAST involves the sterilisation of the effects resulting from the allocation of capacities with market mechanisms at fees lower than the tariff as well as incentivisation criteria for maximising the range of storage services offers. Specifically, the resolution involves the compensation via the CSEA of the difference in price between the storage tariff and the allocation price at auction applied to the allocated capacity, as well as the compensation of the costs for the purchase of the transportation capacity incurred by the storage businesses.

# Comments on financial review and other information



# Financial review

## Income Statement

2017		2018		2019		2019 adjusted vs 2018 adjusted	
Adjusted (*)	(million of €)	Reported	Adjusted (*)	Reported	Adjusted (*)	Change	% change
2,434	Regulated revenue	2,485	2,485	2,550	<b>2,550</b>	65	2.6
99	Non-regulated revenue	101	101	115	<b>115</b>	14	13.9
<b>2,533</b>	<b>Total revenue</b>	<b>2,586</b>	<b>2,586</b>	<b>2,665</b>	<b>2,665</b>	<b>79</b>	<b>3.1</b>
2,441	- Total revenue net of pass-through items	2,528	2,528	2,604	<b>2,604</b>	76	3.0
(511)	Operating costs	(512)	(491)	(461)	<b>(496)</b>	(5)	1.0
(419)	- Operating costs net of pass-through items	(454)	(433)	(400)	<b>(435)</b>	(2)	0.5
<b>2,022</b>	<b>EBITDA</b>	<b>2,074</b>	<b>2,095</b>	<b>2,204</b>	<b>2,169</b>	<b>74</b>	<b>3.5</b>
(659)	Amortisation, depreciation and impairment losses	(690)	(690)	(752)	<b>(752)</b>	(62)	9.0
<b>1,363</b>	<b>EBIT</b>	<b>1,384</b>	<b>1,405</b>	<b>1,452</b>	<b>1,417</b>	<b>12</b>	<b>0.9</b>
(227)	Net financial expense	(242)	(195)	(203)	<b>(165)</b>	30	(15.4)
150	Net income from equity investments	159	159	216	<b>216</b>	57	35.8
<b>1,286</b>	<b>Pre-tax profit</b>	<b>1,301</b>	<b>1,369</b>	<b>1,465</b>	<b>1,468</b>	<b>99</b>	<b>7.2</b>
(346)	Income tax	(341)	(359)	(375)	<b>(375)</b>	(16)	4.5
<b>940</b>	<b>Net profit</b>	<b>960</b>	<b>1,010</b>	<b>1,090</b>	<b>1,093</b>	<b>83</b>	<b>8.2</b>
940	- Attributable to Snam shareholders	960	1,010	1,090	1,093	83	8.2
	- Minority interests	960	1,010	1,090	1,093	83	8.2

(\*) The figures exclude special items.

## Summary reconciliation of adjusted results (\*)

2017	(million of €)	2018	2019	Change	% change
<b>1,348</b>	<b>EBIT</b>	<b>1,384</b>	<b>1,452</b>	<b>68</b>	<b>4.9</b>
15	Excluding special items	21	(35)	(56)	
<b>1,363</b>	<b>Adjusted EBIT</b>	<b>1,405</b>	<b>1,417</b>	<b>12</b>	<b>0.9</b>
<b>897</b>	<b>Net profit</b>	<b>960</b>	<b>1,090</b>	<b>130</b>	<b>13.5</b>
897	- Attributable to Snam shareholders	960	1,090	130	13.5
	- Minority interests				
43	Excluding special items	50	3	(47)	(94.0)
<b>940</b>	<b>Adjusted net profit</b>	<b>1,010</b>	<b>1,093</b>	<b>83</b>	<b>8.2</b>

(\*) For nature and detailed reconciliation of the individual adjustments, read the paragraph: "Non-GAAP measures" of this Report.

**Adjusted EBIT<sup>20</sup> for 2019** totalled €1,417 million, up by €12 million (0.9%) compared with adjusted pro-forma EBIT for 2018. The greater revenue (+€76 million or 3.0%), essentially attributable to the natural gas transportation segment business and the contribution for the whole of 2019 of the businesses that joined the scope of consolidation in 2018 were partly offset by the increase in depreciation, amortisation and write-downs (-€62 million or 9.0%). Operating costs were essentially in line compared with the adjusted figure for 2018 (-€2 million or 0.5%). The effects of the actions of the efficiency plan implemented, amounting to approximately € 15 million, were absorbed by the costs, recognized for the entire 2019 financial year, of the companies that entered the consolidation area during 2018, as well as by the costs related to the continuation of activities in the energy transition.

**Adjusted net EBIT** for 2019 totalled €1,093 million, up by €83 million (8.2%) compared with adjusted net EBIT for 2018. In addition to greater EBIT (€12 million; +0.9%), the increase was due to: (i) lower net financial expense (+€30 million; 15.4%) which benefit from a reduction in the average cost of gross borrowing, also following the optimisation actions implemented in period 2016-2019, as well as the positive market conditions; (ii) the greater net proceeds from equity investments (€57 million; +35.8%), also thanks to the contribution mainly from Senfluga, following the timing of the acquisition of Desfa (December 2018) and extraordinarily favourable volumes of gas, and from Terēga. These effects were partly absorbed by higher income taxes (-€16 million; 4.5%), due mainly to the greater pre-tax profit.

20 EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas segment tariff regulations generates revenue components that are offset in costs. These items refer essentially to interconnection.

## ANALYSIS OF THE ENTRIES ON THE ADJUSTED FINANCIAL STATEMENT

The segment "Corporate and other activities" includes the newly acquired companies involved in Energy Transition activities.

### Total revenue

2017	(million of €)	2018	2019	Change	% change
<b>Business segments</b>					
2,039	Transportation	2,118	<b>2,168</b>	50	2.4
22	Regasification	24	<b>32</b>	8	33.3
601	Storage	603	<b>598</b>	(5)	(0.8)
233	Corporate and other activities	268	<b>311</b>	43	16.0
(362)	Consolidation eliminations	(427)	<b>(444)</b>	(17)	4.0
<b>2,533</b>		<b>2,586</b>	<b>2,665</b>	<b>79</b>	<b>3.1</b>

### Regulated and non-regulated revenue

2017	(million of €)	2018	2019	Change	% change
<b>2,434</b>	<b>Regulated revenue</b>	<b>2,485</b>	<b>2,550</b>	<b>65</b>	<b>2.6</b>
<b>Business segments</b>					
1,816	Transportation (*)	1,907	1,969	62	3.3
18	Regasification	17	17		
508	Storage (*)	503	503		
92	<b>Revenue items offset in costs (**)</b>	<b>58</b>	<b>61</b>	<b>3</b>	<b>5.2</b>
99	<b>Non-regulated revenue</b>	<b>101</b>	<b>115</b>	<b>14</b>	<b>13.9</b>
<b>2,533</b>		<b>2,586</b>	<b>2,665</b>	<b>79</b>	<b>3.1</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 2017 and 2018 figures have been restated accordingly.

(\*\*) The main revenue components that are offset in costs are those relating to interconnection.

**Regulated revenue** (€2,550 million) increased by €65 million or 2.6% compared with 2018. Excluding items that are offset in costs, regulated revenues stood at €2,489 million, up €62 million or 2.6% thanks to the contribution of the transportation segment, which benefits from the increase from the increase of tariffs and investments of past years.

**Non-regulated revenue** (€115 million) increased by €14 million or 13.9% compared with 2018. The greater revenue from the contribution of the businesses that entered the scope of consolidation (+€28 million) and for services rendered by the Business Unit Global Solution

(+€7 million), were, to a great extent, absorbed by the lower proceeds for services rendered, regulated through several contracts concluded at 31 December 2018<sup>21</sup> (-€14 million).

Non-regulated revenues mainly involve: (i) considerations for the construction of biogas and biomethane plants (€27 million); (ii) technical-specialist services to unconsolidated foreign companies (€23 million); (iii) the provision of services relating to energy efficiency projects (€24 million); (iv) income from the rental and maintenance of fibre optic telecommunication cables (€13 million); (v) the sale of CNG compressors for motor transport (€11 million).

<sup>21</sup> This revenue is offset in costs incurred for the provision of the relative services.

## Operating costs

2017	(million of €)	2018	2019	Change	% change
<b>Business segments</b>					
441	Transportation (*)	462	<b>418</b>	(44)	(9.5)
15	Regasification	17	<b>26</b>	9	52.9
165	Storage	168	<b>156</b>	(12)	(7.1)
252	Corporate and other activities (*)	271	<b>340</b>	69	25.5
(362)	Consolidation eliminations	(427)	<b>(444)</b>	(17)	4.0
<b>511</b>		<b>491</b>	<b>496</b>	<b>5</b>	<b>1.0</b>

(\*) The values for 2017 and 2018 are reported excluding special items.

## Operating costs - Regulated and non-regulated activities

2017 (*)	(million of €)	2018	2019	Change	% change
<b>404</b>	<b>Costs of regulated activities</b>	<b>397</b>	<b>352</b>	<b>(45)</b>	<b>(11.3)</b>
267	Controllable fixed costs	274	<b>251</b>	(23)	(8.4)
7	Variable costs	6	<b>6</b>		
38	Other costs (*)	59	<b>34</b>	(25)	(42.4)
92	Cost items offset in revenue (**)	58	<b>61</b>	3	5.2
<b>107</b>	<b>Costs of non-regulated activities</b>	<b>94</b>	<b>144</b>	<b>50</b>	<b>53.2</b>
<b>511</b>		<b>491</b>	<b>496</b>	<b>5</b>	<b>1.0</b>

(\*) Net special items.

(\*\*) The main cost components that are offset in revenues are those relating to interconnection.

Operating costs totalled €496 million (€491 million in 2018). Net of components offset in revenue, operating costs totalled €435 million, essentially in line with the corresponding adjusted value in 2018 (+€2 million or +0.5%).

### Regulated business operating costs

Operating costs of regulated activities (€352 million) decreased by €45 million, or 11.3% compared with 2018. Net of components that are offset in revenues, the operating costs of regulated activities were down by €48 million or 14.2% compared with 2018.

The fixed controllable costs (€251 million) composed of the total of the cost of personnel and external costs of a recurrent nature, recorded a fall of €23 million or 8.4% compared with 2018. The reduction is mainly due to the effects of the actions of the Efficiency Plan implemented from 2016, which made it possible in 2019 to reduce costs by around €15 million (€51 million at a cumulative level for the period 2016-2019).

Other costs (€34 million) decreased by €25 million, or 42.4%, compared with the corresponding adjusted value for 2018. The reduction is mainly due to the lower costs associated with the use of gas; -€20 million<sup>22</sup>, and lower capital losses from the elimination of assets (-€4 million).

<sup>22</sup> The costs associated with the use of gas are reported excluding the amounts recognised by the Authority following the greater costs for the purchase of gas to cover GNC for the years 2018 and 2019. Taking into account the calculation mechanism used by the Authority for recognising the costs relating to 2018, in July 2019, the company quantified the amount recognised for 2019.



## Non-regulated business operating costs

Operating costs of non-regulated activities (€144 million) increased by €50 million or 53.2% compared with 2018. The increase is essentially attributable to the costs, recorded for the whole of 2019, of businesses that entered the scope of consolidation in 2018, relating mainly to the construction of biomethane plants and compressors for motor transport refuelling stations as well as relating to the implementation of energy efficiency projects, partly offset by lower costs for services rendered, related to contracts ended at 31 December 2018. The increase in operating costs for non-regulated businesses was not impacted by the dynamics of the provision for risks and charges and the provision for impairment losses and the greater costs connected with the development of new businesses and specific projects.

Net of components offset in revenue, operating costs totalled €435 million, essentially in line with the corresponding adjusted value in 2018 (+€2 million or +0.5%).

The number of employees at 31 December 2019 (3,025 resources) is broken down below by professional status:

2017	(no.)	2018	2019	Change	% change
<b>Professional status</b>					
93	Executives	107	111	4	3.7
456	Middle Managers	480	493	13	2.7
1,655	Office workers	1,682	1,683	1	0.1
715	Manual workers	747	738	(9)	(1.2)
<b>2,919</b>		<b>3,016</b>	<b>3,025</b>	<b>9</b>	<b>0.3</b>

The increase of 9 people compared with 2018 is mainly due to the resources coming from the acquisition of Renerwaste (47 resources) and TEA Servizi (8 resources) and the new hires from the job market, partly offset by the personnel leaving who took early retirement (77 resources).

## Amortisation, depreciation and impairment losses

2017	(million of €)	2018	2019	Change	% change
<b>646</b>	<b>Total amortisation and depreciation</b>	<b>682</b>	<b>722</b>	<b>40</b>	<b>5.9</b>
<b>Business segments</b>					
539	Transportation	567	598	31	5.5
5	Regasification	5	5		
95	Storage	100	105	5	5.0
7	Corporate and other activities	10	14	4	40.0
<b>13</b>	<b>Impairment losses (Recovery of value)</b>	<b>8</b>	<b>30</b>	<b>22</b>	
<b>659</b>		<b>690</b>	<b>752</b>	<b>62</b>	<b>9.0</b>

**Depreciation, amortisation and write-downs** (€752 million) increased by €62 million or 9.0% compared with 2018. The increase is mainly due to the greater depreciation and amortisation (+€40 million or +5.9%), essentially following the new infrastructure coming into operation and the businesses that joined the scope of consolidation, as well as the greater write-down of works in progress related to projects in the transportation segment in the past years (+€22 million).

Below is a breakdown of EBIT by business segment:

## EBIT

2017	(million of €)	2018	2019	Change	% change
<b>Business segments</b>					
1,048	Transportation (*)	1,081	<b>1,122</b>	41	3.8
2	Regasification	2	<b>1</b>	(1)	(50.0)
339	Storage	335	<b>337</b>	2	0.6
(26)	Corporate and other activities (*)	(13)	<b>(43)</b>	(30)	
1,363		1,405	<b>1,417</b>	12	0.9

(\*) The values are reported excluding special items.

## Net financial expense

2017	(million of €)	2018	2019	Change	% change
<b>235</b>	<b>Financial expense related to net financial debt</b>	<b>199</b>	<b>164</b>	<b>(35)</b>	<b>(17.6)</b>
236	Interest and other expense on short- and long-term financial debt (*)	202	<b>173</b>	(29)	(14.4)
(1)	Bank interest income	(3)	<b>(9)</b>	(6)	
<b>4</b>	<b>Other net financial expense (income)</b>	<b>6</b>	<b>11</b>	<b>5</b>	<b>83.3</b>
11	Accretion discount	11	<b>8</b>	(3)	(27.3)
(7)	Other net financial expense (income)	(5)	<b>3</b>	8	
<b>1</b>	<b>Gains on hedging derivatives – ineffective portion</b>	<b>2</b>	<b>1</b>	<b>(1)</b>	<b>(50.0)</b>
<b>(13)</b>	<b>Financial expense capitalised</b>	<b>(12)</b>	<b>(11)</b>	<b>1</b>	<b>(8.3)</b>
<b>227</b>		<b>195</b>	<b>165</b>	<b>(30)</b>	<b>(15.4)</b>

(\*) Excluding special items relating to liability management operations.

**Net financial charges** (€165 million excluding the special items related to the liability management operation implemented in December 2019) showed a reduction of €30 million, or 15.4%, compared with 2018. The reduction is mainly due to the lower costs related to the net financial gross debt (-€35 million or -17.6%) mainly connected to the lower average cost of borrowing, also following the benefits resulting from the actions to optimise the financial structure of the group implemented by Snam in the period 2016-2019, specifically the liability management operations, as well as the positive market conditions. Capitalised financial costs in 2019 amounted to €11 million, broadly in line with the previous year.

### Income from equity investments

2017	(million of €)	2018	2019	Change	% change
150	Effect of valuation using the equity method	157	218	61	38.9
	Dividends	2	2		
	<b>Other income (expense) from equity investments</b>		<b>(4)</b>	<b>(4)</b>	
<b>150</b>		<b>159</b>	<b>216</b>	<b>57</b>	<b>35.8</b>

**Net income from equity investments** (€216 million, +€57 million or 35.8%) essentially involve the contribution of the businesses valued using the equity method (€214 million) main attributable to the companies under joint control joint TAG (€74 million), Terēga (€44 million) and the subsidiaries Italgas (€56 million) and Senfluga (29 million). The increase of €57 million compared with 2018 is mainly attributable to the contribution for the entire year of Senfluga (+€33 million), a company which, on 20 December 2018, gained control of DESFA with a share of 66% of the share capital, which benefited from extraordinarily favourable gas volumes and to the contribution of Terēga (+€16 million), also following the release of a fund for tax disputes and of non-current effect.

### Income tax

2017	(million of €)	2018	2019	Change	% change
373	<b>Current taxes (*)</b>	385	410	25	6.5
	<b>(Deferred) prepaid taxes (*)</b>				
(16)	Deferred taxes	(16)	(14)	2	(12.5)
(11)	Deferred tax assets (prepaid taxes)	(10)	(21)	(11)	110.0
<b>(27)</b>		<b>(26)</b>	<b>(35)</b>	<b>(9)</b>	<b>34.6</b>
<b>346</b>		<b>359</b>	<b>375</b>	<b>16</b>	<b>4.5</b>

(\*) Net special items.

**Income taxes** totalled €375 million, an increase of €16 million or 4.5% compared with 2018. The increase is mainly attributable to the greater pre-tax profit.

## NON-GAAP MEASURES

Snam presents in the management report, in addition to the financial results envisaged by the IFRS, certain variables deriving from the latter, even if not envisaged by the IFRS or by other standard setters (Non-GAAP measures). Snam's management believes that these measures facilitate the analysis of the Group's performance and of the business segments, ensuring better comparability of results over time. Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS. In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from reclassifications or algebraic sums of conventional indicators<sup>23</sup> and compliant with international accounting standards<sup>24</sup>.

### Adjusted EBIT and net profit

Adjusted EBIT and 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 legal scheme of the Income Statement. Income entries classified as special items for 2019 refer to: (i) financial expense resulting from the buy back on the market of bonds under the scope of the liability management operation implemented by Snam in December 2019 (€38 million, €29 million excluding the tax effect, €47 million in 2018, €35 million excluding the tax effect). The expenses are essentially attributable to the difference between the outlay for the buy back of the bonds on the market and the valuation at amortised cost of the actual bonds; (ii) the release to the income statement of the provision for impairment losses (€35 million) following the announcement by the Council of State on 5 March 2020 which, confirming the ruling of the Milan Regional Administrative Court of 2017, ratified the recognition, by the Authority to the company, of part of the receivables not collected relating to the balancing activities for the period 1 December 2011-23 October 2012<sup>25</sup>.

23 According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are conventional indicators or in the commentary notes.

24 For the definition of these quantities refer to the Glossary.

25 For more details, see Note 26, "Guarantees, commitments and risks — Disputes", of the Notes to the consolidated financial statements.

## Special item

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. Any income components deriving from non-recurring transactions in accordance with Consob Resolution no. 15519 of 27 July 2006 are also shown separately in the IFRS financial report.

## Free cash flow

Free cash flow is the measure that allows the connection between the obligatory financial statement, which expresses the change in liquidity between the beginning and end of the period, and the change in net financial debt between the beginning and end of the reclassified cash flow statement. The free cash flow represents the surplus or cash deficit remaining after the investment financing and close alternatively: (i) on the cash change for the period, after the cash flows related to the financial payables/assets (credit/debit repayments/financial payables) have been added/subtracted, to the equity capital (payment of dividends/net acquisition of own shares/capital injections), as well as the effects on cash and cash equivalents of changes in the scope of consolidation and exchange differences arising from conversion; (ii) on the change in net financial debt for the period, after the flows relating to own capital have been added/subtracted, as well as the effects on net financial debt of changes in the scope of consolidation and exchange differences arising on conversion.



## NET FINANCIAL DEBT

Net financial debt is calculated as the financial debt net of cash and cash equivalents, securities available for sale and to be kept until maturity and short-term financial receivables.

The tables below show the reconciliation between the reported Income Statement and the adjusted Income Statement, as well as a table summarizing the special items:

(million 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
<b>Total revenue</b>	<b>2,586</b>		<b>2,586</b>	<b>2,665</b>		<b>2,665</b>
- 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)
<b>EBITDA</b>	<b>2,074</b>	<b>21</b>	<b>2,095</b>	<b>2,204</b>	<b>(35)</b>	<b>2,169</b>
Amortisation, depreciation and impairment losses	(690)		(690)	(752)		(752)
<b>EBIT</b>	<b>1,384</b>	<b>21</b>	<b>1,405</b>	<b>1,452</b>	<b>(35)</b>	<b>1,417</b>
Net financial expense	(242)	47	(195)	(203)	38	(165)
Net income from equity investments	159		159	216		216
<b>Pre-tax profit</b>	<b>1,301</b>	<b>68</b>	<b>1,369</b>	<b>1,465</b>	<b>3</b>	<b>1,468</b>
Income tax	(341)	(18)	(359)	(375)		(375)
<b>Net profit</b>	<b>960</b>	<b>50</b>	<b>1,010</b>	<b>1,090</b>	<b>3</b>	<b>1,093</b>
- Attributable to Snam shareholders	960		1,010	1,090		1,093
- Minority interests						

### Details of special items

(million of €)	2018	2019	Change	% change
<b>Special item of operating profit</b>	<b>21</b>	<b>(35)</b>	<b>(56)</b>	<b>(266.7)</b>
Charges for redundancy packages and early retirement	21		(21)	(100.0)
Release of provision for balancing impairment losses		(35)	(35)	
<b>Special item Net financial charges</b>	<b>47</b>	<b>38</b>	<b>(9)</b>	<b>(19.1)</b>
- Liability management finance charges	47	38	(9)	(19.1)
<b>Special item Income taxes</b>	<b>(18)</b>		<b>18</b>	<b>(100.0)</b>
- Taxation on special items operating profit	(6)	9	15	
- Taxation on special item net financial charges	(12)	(9)	3	(25.0)
<b>Total special item of net profit</b>	<b>50</b>	<b>3</b>	<b>(47)</b>	<b>(94.0)</b>

## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year 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 information for investors as it allows identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital.

### Reclassified statement of financial position (\*)

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

(\*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

Fixed capital (€19,311 million) increased by €455 million compared with 31 December 2018 essentially as a result of the increase in Property, plant and machinery (+€286 million), also following the recognising of leased assets as right-of-use assets through the application of the new standard IFRS 16 "Leasing" in force from 1 January 2019 (+€21 million) and equity investments (+€78 million), following the earnings in 2019 partly absorbed by dividends collected for 2018.

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

(million of €)	Property, plant and equipment	Intangible assets	Total
<b>Balance at 31 December 2018</b>	<b>16,153</b>	<b>907</b>	<b>17,060</b>
Technical investments	861	102	<b>63</b>
Amortisation, depreciation and impairment losses	(686)	(66)	<b>(752)</b>
Transfers, eliminations and divestments	(8)		<b>(8)</b>
Change in scope of consolidation	61	47	<b>108</b>
Other changes	58		<b>58</b>
<b>Balance at 31 December 2019</b>	<b>16,439</b>	<b>990</b>	<b>17,429</b>

The technical investments of 2019 total €963 million<sup>26</sup> (€882 million in 2018) and mainly refer to the segments of transport (€813 million) and storage (€112 million). The change in the scope of consolidation (+€108 million, of which €2 million is leased assets as right-of-use assets) refers to assets recorded following the acquisition of 83.63% of the Renerwaste group (€98 million)<sup>27</sup> and 100% of TEA Servizi (€10 million).

Other changes (€58 million) relate essentially to: (i) the effects resulting from the adjustment of the current value of outlays compared with the costs of dismantling and restoring sites (+€42 million)<sup>28</sup>; (ii) the recognition of leased assets as right-of-use assets in accordance with accounting standard IFRS 16 (€25 million); (iii) the contributions third-party interference works (compensation -€14 million).

## Compulsory inventories

Compulsory inventories (€363 million, unchanged from 31 December 2018) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development<sup>29</sup>.

## Equity investments

The item equity investments (€1,828 million) includes: (i) the valuation of the equity investments through the net equity method which refers mainly to the companies Trans Austria Gasleitung GmbH - TAG (€520 million), Terëga Holding S.A.S. (€482 million), Trans Adriatic Pipeline AG - TAP (€264 million), Italgas S.p.A. (€209 million), AS Gasinfrastruktur Beteiligung GmbH (€125 million) and Senfluga (€125 million); (ii) the fair value measurement through OCI of the minority interests in the company Terminale GNL Adriatico S.r.l. (€39 million).

26 An analysis of the investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

27 The business combination transaction involving the acquisition of control of Renerwaste, contractually involved a put/call option on the interests of minority shareholders of 17.37%. At the acquisition date, based on the terms of the contract through which the exercise of the options is regulated, the transaction will be reported as if Snam had acquired total control of the company, without recognising the interests of third-party shareholders. Greater information with regard to the impact of the business combination is illustrated in Note 25 "Business combinations" in the Notes to the consolidated financial statements.

28 Further information is provided in Note 21 "Provision for risks and charges" of the Notes to the consolidated financial statements.

29 By means of the circular 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. By means of the announcement of 17 January 2020, the Ministry confirmed the strategic gas storage volume for the thermal year 2020-2021 (1 April 2020-31 March 2021) as 4.62 billion cubic metres, 4.5 billion cubic metres of which was allocated to Stogit.

## Net working capital

(million of €)	31.12.2018	31.12.2019	Change
Trade receivables	1,247	<b>1,217</b>	(30)
- <i>gas balancing and settlement</i>	237	<b>198</b>	(39)
Inventories	109	<b>112</b>	3
Tax assets	26	<b>35</b>	9
Other assets	105	<b>185</b>	80
Provisions for risks and charges	(665)	<b>(713)</b>	(48)
Trade payables	(491)	<b>(487)</b>	4
- <i>gas balancing and settlement</i>	(307)	<b>(253)</b>	54
Accruals and deferrals from regulated activities	(363)	<b>(145)</b>	218
Deferred tax liabilities	(134)	<b>(106)</b>	28
Derivative liabilities/(assets)	(29)	<b>(63)</b>	(34)
Tax liabilities	(23)	<b>(35)</b>	(12)
Other liabilities	(1,041)	<b>(1,094)</b>	(53)
	<b>(1,259)</b>	<b>(1,094)</b>	<b>165</b>

The net working capital (€1,094 million) increased by €165 million compared with 31 December 2018. This increase was mainly due to: (i) the settlement of the previous tariff entries for the transportation segment relating to the years 2015-2017 (+€180 million)<sup>30</sup>; (ii) the recording of the receivable from the CSEA following lower amounts invoiced in 2019 compared with the restriction established by the Regulator (+€96 million). These factors were partly offset by: (i) the lower net assets for additional tariff components invoiced to users of the transportation service (-€55 million) mainly following the reduction in the CVOS additional tariff<sup>31</sup>; (ii) the increase in the provision for risks and charges (-€48 million) mainly following the adjustment of the current value of costs for the dismantling and restoration of sites following a reduction in anticipated discounting rates; (iii) from the greater liabilities for hedging instruments (-€34 million).

### Assets held for sale

Assets held for sale (€10 million) relate to a 6% share in the associate company Senfluga, reclassified following the agreements signed by the shareholders of Senfluga for the sale of a 10% stake in it, proportional to the stake held by each shareholder. In conformity with the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the above-mentioned stake was recorded under assets held for sale and valued at the lower of the book value and the fair value, excluding any sales costs. The completion of the transaction, subject to the approval of the Greek regulator, took place on 13 January 2020, following a payment of €16 million (€10 million as Snam's share), pegged at the values of the transaction concluded by Snam in December 2018. Following the above-mentioned sale, the percentage of Snam's equity investment in the capital of Senfluga is 54%.

<sup>30</sup> Pursuant to resolution 114/2019/R/gas of the ARERA, net assets/liabilities relating to under-invoicing, over-invoicing and penalties will no longer be subject to return through future tariff adjustments, but subject to settlement to the CSEA under the "Transport expenses account".

<sup>31</sup> Pursuant to resolution 114/2019/R/gas of the ARERA, net assets/liabilities relating to under-invoicing, over-invoicing and penalties will no longer be subject to return through future tariff adjustments, but subject to settlement to the CSEA under the "Transport expenses account".



## Statement of the comprehensive income

(million of €)	2018	2019
<b>Net profit (*)</b>	<b>960</b>	<b>1,090</b>
<b>Other components of comprehensive income</b>		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives (effective share)	(26)	<b>(44)</b>
Share of "other components of comprehensive income" of equity-accounted investments (**)	(1)	<b>(17)</b>
Tax effect	6	<b>10</b>
	<b>(21)</b>	<b>(51)</b>
<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 remeasurements of defined benefit plans for employees of investments accounted for using the equity method	1	<b>(1)</b>
Change in the fair value of minority equity investments valued at fair value through other comprehensive income - FVTOCI	1	<b>4</b>
	<b>1</b>	<b>3</b>
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(20)</b>	<b>(48)</b>
<b>Total comprehensive income (*)</b>	<b>940</b>	<b>1,042</b>

(\*) Entirely attributable to Snam shareholders.

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

## Shareholders' equity

(million of €)	
<b>Shareholders' equity at 31 December 2018 (*)</b>	<b>5,985</b>
<i>Increases owing to:</i>	
- Comprehensive income for 2019	1,042
- Other changes	31
	<b>1,073</b>
<i>Decreases owing to:</i>	
- 2018 final dividend	(448)
- 2019 interim dividend (*)	(313)
Acquisition of treasury shares	(39)
	<b>(800)</b>
<b>Shareholders' equity as at 31 December 2019</b>	<b>6,258</b>
- Attributable to Snam shareholders	6,255
- Minority interests	3

(\*) Amount paid on 22 January 2020.

Information about the individual equity items and changes therein compared with 31 December 2019 is given in Note 24 to the consolidated financial statements, "Shareholders' Equity".

## Reconciliation between the individual and consolidated net income and shareholders' equity of Snam S.p.A.

(million of €)	Net income		Shareholders' equity	
	2018	2019	31.12.2018	31.12.2019
<b>Individual financial statements of Snam S.p.A.</b>	<b>721</b>	<b>817</b>	<b>4,402</b>	<b>4,396</b>
Net income of companies included in the scope of consolidation	874	<b>972</b>		
Difference between the book value of the equity investments in consolidated businesses and the shareholders' equity of the financial statements, including the result for the period			1,618	<b>1,815</b>
<b>Consolidation adjustments for:</b>				
- Dividends	(641)	<b>(777)</b>		
- Difference between the purchase price and corresponding accounting shareholders equity		<b>(3)</b>		
- Adjustments for uniformity of accounting principles		<b>(1)</b>		
- Income from valuation of equity investments using the equity method and other income from equity investments	6	<b>82</b>	(35)	<b>47</b>
	<b>960</b>	<b>1,090</b>	<b>5,985</b>	<b>6,258</b>
Minority interests				<b>(3)</b>
<b>Consolidated Financial Statements (*)</b>	<b>960</b>	<b>1,090</b>	<b>5,985</b>	<b>6,255</b>

(\*) Shareholders' equity attributable to Snam shareholders.

## Net financial debt

(million of €)	31.12.2018	31.12.2019	Change
<b>Financial and bond debt</b>	<b>13,420</b>	<b>14,774</b>	<b>1,354</b>
Short-term financial debt (*)	3,633	<b>4,125</b>	492
Long-term financial debt	9,787	<b>10,628</b>	841
<b>Lease liabilities (**)</b>		<b>21</b>	<b>21</b>
Financial receivables and cash and cash equivalents	(1,872)	<b>(2,851)</b>	(979)
Cash and cash equivalents	(1,872)	<b>(2,851)</b>	(979)
	<b>11,548</b>	<b>11,923</b>	<b>375</b>

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

(\*\*) Including non-current lease liabilities (€15 million) and the current portion of non-current lease liabilities (€6 million).

Net financial debt was €11,923 million at 31 December 2019, compared with € 11,548 million at 31 December 2018. The net cash flow from operations (€1,486 million) allowed us to fully cover the financial requirements associated with net investments (€1,004 million) and to generate a free cash flow of €482 million. The net financial debt, after cash flows from self-owned capital deriving from the payment to shareholders of the 2018 dividend (€746 million, of which

an interim dividend of €298 million and €448 million for the balance) and the acquisition of treasury shares (€39 million), recorded an increase of €375 million compared with 31 December 2018, including non-monetary components related to financial debt (€75 million), which refer mainly to the change in the scope of consolidation and the financial debt recorded through the application of IFRS 16 "Leasing".

Financial and bond debts at 31 December 2019, amounting to €14,774 million (€13,420 million at 31 December 2018), break down as follows:

(million of €)	31.12.2018	31.12.2019	Change
Bonds	8,446	9,048	602
- <i>short term</i> (*)	913	1,439	526
Bank loans	4,749	3,704	(1,045)
- <i>short term</i> (*)	2,495	685	(1,810)
Euro Commercial Paper - ECP (**)	225	2,001	1,776
Lease liabilities (**)		21	21
	<b>13,420</b>	<b>14,774</b>	<b>1,354</b>

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

(\*\*) Entirely short-term.

Bond loans (€9,048 million) rose by €602 million compared with 31 December 2018 following the issuing of: (i) the Climate Action Bond, for a nominal amount of €500 million, fixed rate with a maturity date of 28 August 2025; (ii) a Private Placement of a nominal amount of €250 million, fixed rate with a maturity date of 7 January 2030; (iii) a dual tranche bond with a nominal amount of, respectively, €700 and €600 million, making a total of €1.3 billion, fixed rate with maturity dates, respectively of 12 May 2024 and 12 September 2034. These changes were offset: (i) by the repayment of a fixed rate bond maturing on 18 January 2019, for a nominal amount of €519 million; (ii) the repayment of a fixed rate bond loan maturing on 24 April 2019, of a nominal amount of €225 million; (iii) the repayment of a JPY 10 billion bond maturing on 25 October 2019 of a nominal amount of €83 million; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of €597 million with an average coupon of 1.3% and a residual duration of approximately 3.9 years; (v) the dynamics of accrued interest.

Bank loans (€3,704 million) fell by €1,045 million essentially following the lower net use of uncommitted lines of credit (€1,301 million). This effect was partly offset by the signing with the European Investment Bank - EIB: (i) on 28 January 2019 of a loan for projects promoted by Snam Rete Gas and Stogit, of a nominal amount of €135 million,

at a fixed rate, to be repaid through an amortisation plan expiring in 2038; (ii) on 6 June 2019 of a loan supporting investments promoted by the subsidiary Snam4Mobility for the construction of CNG and L-CNG refuelling stations, for a nominal amount of €25 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2031; (iii) on 31 July 2019 a loan for Snam Rete Gas projects, for a nominal amount of €105 million at a fixed rate to be repaid through an amortisation plan expiring in 2039.

The Euro Commercial Papers (€2,001 million) involve unsecured short-term securities issued on the money market and placed with institutional investors.

Cash and cash equivalents (€2,851 million) refer mainly to bank current and deposit accounts that can be collected quickly (€2,054 million) and short-term liquidity use transactions, due in less than three months, with banking institutions with high credit ratings (€750 million) and to cash and cash equivalents at Snam International BV (€20 million) and Gasrule Insurance DAC (€19 million).

At 31 December 2019, Snam had unused committed long-term credit lines worth €3.2 billion.

Information on financial covenants can be found in Note 18 - "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the consolidated financial statements.

## RECLASSIFIED STATEMENT OF CASH FLOWS

The reclassified statement of cash flows below summarises the legally required financial reporting format. It 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 (\*)

2017	(million of €)	2018	2019
897	Net profit	960	1,090
	<i>Adjusted for:</i>		
511	- Amortisation, depreciation and other non-monetary components	543	527
4	- Net capital losses (capital gains) on asset sales and eliminations	12	8
585	- Dividends, interest and income taxes	557	552
334	Change in working capital due to operating activities	185	(264)
(467)	Dividends, interest and income taxes collected (paid)	(431)	(427)
<b>1,864</b>	<b>Net cash flow from operating activities</b>	<b>1,826</b>	<b>1,486</b>
(1,016)	Technical investments	(849)	(954)
3	Technical disinvestments	2	
(166)	Companies leaving (entering) the scope of consolidation and business units	(32)	(34)
(75)	Equity investments	(144)	12
(154)	Change in long-term financial receivables (a)	371	(5)
(33)	Other changes relating to investing activities	(13)	(23)
<b>423</b>	<b>Free cash flow</b>	<b>1,161</b>	<b>482</b>
(350)	Change in current financial assets	350	
	Payment of lease liabilities		(6)
1,540	Change in current and non-current financial liabilities	799	1,285
(928)	Equity cash flow (b)	(1,157)	(782)
<b>685</b>	<b>Net cash flow for the period</b>	<b>1,153</b>	<b>979</b>

## Change in net financial debt

2017	(million of €)	2018	2019
423	<b>Free cash flow</b>	1,161	482
	Effect of first-time application of IFRS 9	10	
	Financial payables and receivables from companies entering the scope of consolidation	(6)	(47)
(928)	Equity cash flow (b)	(1,157)	(782)
	Change in lease liabilities		(25)
11	<b>Other changes (c)</b>	(6)	(3)
(494)	<b>Change in net financial debt</b>	2	(375)

(\*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

(a) The value of 2018 includes the receipt related to the reimbursement by TAP of Shareholders' loan.

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

(c) Include the effects of adjustment to the year-end exchange rate of financial payables in foreign currency.

## RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS WITH THE COMPULSORY FORMATS

### Reclassified statement of financial position

(million of €)	31.12.2018			31.12.2019	
Reclassified statement of financial position items (Where not expressly stated, the component is taken directly from the legally required format)	Reference to notes to consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<b>Fixed capital</b>					
Property, plant and equipment			16,153		16,439
Compulsory inventories			363		363
Intangible assets			907		990
<i>Equity investments composed of:</i>			1,750		1,828
- Investments valued using the equity method		1,710		1,787	
- Other investments		40		41	
Non-current financial assets	(Note 9)		11		3
<i>Net payables for investments, consisting of:</i>			(328)		(312)
- Payables for investment activities	(Note 19)	(337)		(320)	
- Receivables from investment/divestment activities	(Note 9)	9		8	
<b>Total fixed capital</b>			<b>18,856</b>		<b>19,311</b>
<b>Net working capital</b>					
Trade receivables	(Note 9)		1,247		1,217
Inventories			109		112
<i>Tax receivables, consisting of:</i>			26		35
- Current income tax assets and other current tax assets		17		26	
- IRES receivables for national tax consolidation scheme	(Note 9)	9		9	
Trade payables	(Note 19)		(491)		(487)
<i>Tax payables, consisting of:</i>			(23)		(35)
- Current income tax liabilities and other current tax liabilities		(23)		(35)	
Deferred tax liabilities			(134)		(106)
Provisions for risks and charges			(665)		(713)
Derivative hedging instruments	(Notes 12 and 20)		(29)		(63)
<i>Other assets, consisting of:</i>			105		185

(million of €)	31.12.2018			31.12.2019	
Reclassified statement of financial position items (Where not expressly stated, the component is taken directly from the legally required format)	Reference to notes to consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
- Other receivables	(Note 9)	72		142	
- Other current and non-current assets	(Note 12)	33		43	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(363)		(145)
- Regulated assets	(Note 12)	26		2	
- Regulated liabilities	(Note 20)	(389)		(147)	
<i>Other liabilities, consisting of:</i>			(1,041)		(1,094)
- Other payables	(Note 19)	(940)		(994)	
- Other current and non-current liabilities	(Note 20)	(101)		(100)	
<b>Total net working capital</b>			<b>(1,259)</b>		<b>(1,094)</b>
Provisions for employee benefits			(64)		(46)
<b>Assets held for sale and directly related liabilities, consisting of:</b>					<b>10</b>
- Assets held for sale				10	
<b>NET INVESTED CAPITAL</b>			<b>17,533</b>		<b>18,181</b>
Snam shareholders' equity			5,985		6,255
Minority interests					3
Net financial debt					
<i>Financial liabilities, consisting of:</i>			13,420		14,774
- Long-term financial liabilities		9,787		10,643	
- Short-term portion of long-term financial liabilities		1,657		1,675	
- Short-term financial liabilities		1,976		2,456	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			(1,872)		(2,851)
- Short-term financial receivables					
- Cash and cash equivalents	(Note 8)	(1,872)		(2,851)	
<b>Total net financial debt</b>			<b>11,548</b>		<b>11,923</b>
<b>COVERAGE</b>			<b>17,533</b>		<b>18,181</b>

## Reclassified statement of cash flows

(million of €)	2018		2019	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<b>Net profit</b>		<b>960</b>		<b>1,090</b>
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		543		<b>527</b>
- Amortisation and depreciation	682		<b>722</b>	
- Impairment losses	8		<b>30</b>	
- Equity method valuation effect	(157)		<b>(218)</b>	
- Other expense from equity investments			<b>4</b>	
- Change in provisions for employee benefits	7		<b>(18)</b>	
- Other changes	3		<b>7</b>	
Net capital losses (capital gains) on asset sales and eliminations		12		<b>8</b>
Interest and income taxes:		557		<b>552</b>
- Dividends	(2)		<b>(2)</b>	
- Interest income	(12)		<b>(11)</b>	
- Interest expense	230		<b>190</b>	
- Income taxes	341		<b>375</b>	
Change in working capital due to operating activities:		185		<b>(264)</b>
- Inventories	(33)		<b>(43)</b>	
- Trade receivables	41		<b>38</b>	
- Trade payables	76		<b>(28)</b>	
- Change in provisions for risks and charges	9		<b>6</b>	
- Other assets and liabilities	92		<b>(237)</b>	
Dividends, interest and income taxes collected (paid):		(431)		<b>(427)</b>
- Dividends collected	151		<b>134</b>	
- Interest collected	4		<b>11</b>	
- Interest paid	(230)		<b>(185)</b>	
- Income taxes (paid) received	(356)		<b>(387)</b>	
<b>Net cash flow from operating activities</b>		<b>1,826</b>		<b>1,486</b>
Technical investments:		(849)		<b>(954)</b>



(million of €)	2018		2019	
	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<b>Items from the reclassified statement of cash flows and reconciliation with the legally required format</b>				
Property, plant and equipment	(772)		(852)	
- Intangible assets	(77)		(102)	
Technical disinvestments:		2		
Property, plant and equipment	2			
Companies leaving (entering) the scope of consolidation and business units		(32)		(34)
- Change in scope of consolidation and business units	(38)		(41)	
- Change in net payables relating to investments	6		7	
Equity investments		(144)		12
- Investments in shares	(165)		(24)	
- Disinvestments in shares	21		36	
Non-current financial assets		371		(5)
- Taking out long-term financial loans	(148)		(5)	
- Repayment of long-term financial loans	519			
Other changes relating to investment activities:		(13)		(23)
- Change in net payables relating to technical investments and equity investments	(13)		(23)	
<b>Free cash flow</b>		<b>1,161</b>		<b>482</b>
Change in current financial assets		350		
Change in financial payables:		799		1,279
- Taking on long-term financial debt	1,810		2,877	
- Repaying long-term financial debt	(1,608)		(2,070)	
- Increase (decrease) in short-term financial debt	597		478	
- Repayment of lease liabilities			(6)	
Equity cash flow		(1,157)		(782)
- Dividends paid	(731)		(746)	
- Capital contributions from third-parties			3	
- Acquisition of treasury shares	(426)		(39)	
<b>Net cash flow for the period</b>		<b>1,153</b>		<b>979</b>

# Snam S.p.A. financial review

## COMPANY INFORMATION

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. In Italy it operates in the regulated natural gas transportation and dispatch business, the regasification of liquefied natural gas and the storage of natural gas. It also has a presence in the energy transition business: sustainable mobility, biomethane infrastructure from organic waste and agricultural and agro-industrial waste, energy efficiency services for apartment buildings, the public administration and industry. Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players. It has a presence in Austria through its subsidiaries (TAG and GCA), France (Terèga), Greece (DESFA) and the United Kingdom (Interconnector UK) and is one of the main shareholders of TAP (Trans Adriatic Pipeline).

Snam S.p.A. is also responsible for the strategic planning, management, coordination and control of its subsidiaries.

As at 31 December 2019, the major shareholder CDP S.p.A. held, through CDP Reti S.p.A.<sup>32</sup>, 31.04% of the share capital of Snam S.p.A. For this purpose, note that, from 1 August 2019, CDP reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF. No management and coordination activity has been formalised or exercised by CDP over Snam.

## RECLASSIFIED INCOME STATEMENT

In order to facilitate the reading of the Income Statement, taking into consideration the nature of Snam S.p.A. as an industrial holding company, the Reclassified Income Statement was prepared by presenting items relating to financial management first, because they represent the most important component of an income nature<sup>33</sup>. With reference to the other management costs, in addition to components of a non financial nature, the item also includes the depreciation, amortisation and write-down of assets.

<sup>32</sup> CDP S.p.A. holds 59.10%.

<sup>33</sup> This statement was prepared on the basis of the suggestions reported in Consob Communication no. 94001437 of 23 February 1994.

## Reclassified Income Statement

2017	(million of €)	2018	2019	Change	% change
<b>Financial income and expense</b>					
740	Income from equity investments	775	<b>898</b>	123	15.9
262	Interest income and other financial income	213	<b>159</b>	(54)	(25.4)
(292)	Interest expense and other financial expense	(249)	<b>(211)</b>	38	(15.3)
(1)	Losses from derivative contracts	(2)	<b>(1)</b>	1	(50.0)
<b>709</b>	<b>Total financial income and expense</b>	<b>737</b>	<b>845</b>	<b>108</b>	<b>14.7</b>
210	Income from services rendered	213	<b>227</b>	14	6.6
13	Other income	14	<b>15</b>	1	7.1
<b>223</b>	<b>Other operating income</b>	<b>227</b>	<b>242</b>	<b>15</b>	<b>6.6</b>
(81)	For personnel	(94)	<b>(88)</b>	6	(6.4)
(173)	For non-financial services and other costs	(146)	<b>(186)</b>	(40)	27.4
(254)	Other operating expenses	(240)	<b>(274)</b>	(34)	14.2
678	Pre-tax profit	724	<b>813</b>	89	12.3
(1)	Income tax	(3)	<b>4</b>	7	
<b>677</b>	<b>Net profit</b>	<b>721</b>	<b>817</b>	<b>96</b>	<b>13.3</b>

**Net profit** in 2019 stood at €817 million, an increase of €96 million or 13.3% compared with 2018. The increase is due mainly to the greater financial income and expense (+€108 million or +14.7%) essentially following the greater income from equity investments (+€123 million or +15.9%), partly offset by the increase in other management costs (-€34 million or 14.2%), mainly attributable to greater financial expense for the provision of non financial services and other costs (-€40 million or 27.4%).

## Analysis of income statement items

### Financial income and expense

2017	(million of €)	2018	2019	Change	% change
753	Income from equity investments	775	<b>898</b>	123	15.9
(13)	Expenses from shares				
262	Interest income and other financial income	213	<b>159</b>	(54)	(25.4)
(292)	Interest expense and other financial expense	(249)	<b>(211)</b>	38	(15.3)
(1)	Losses from derivative contracts	(2)	<b>(1)</b>	1	(50.0)
<b>709</b>		<b>737</b>	<b>845</b>	<b>108</b>	<b>14.7</b>

**Financial income and expense** in 2019 (€845 million) rose by €108 million or 14.7% compared with the previous year.

Income from equity investments (€898 million) consists mainly of the dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (€580 million) and Stogit S.p.A. (€185 million), by the company under joint control Trans Austria Gasleitung GmbH - TAG (€63 million), Terēga Holding (€13 million) and by the subsidiary Italgas S.p.A. (€26 million)<sup>34</sup>.

Interest income and other financial income (€159 million) essentially refers to interest income from the intragroup loans granted by Snam S.p.A. to subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (€129 million in total) and the income from the direct recharging and treasury arrangements concluded between Snam S.p.A. and the companies, the expenses connected by the compulsory buy back transaction implemented by Snam in December 2019 (€20 million in total).

Interest expense and other financial expense (€211 million) refers to: (i) the expenses connected to the bond buy back transaction (€38 million), equal to the difference between the buy back price of the bonds on the market and the relative value at the amortised cost; (ii) expenses for bonds<sup>35</sup> (€155 million) and for loans provided by banks and other financial institutions (€18 million).

## Other operating income

2017	(million of €)	2018	2019	Change	% change
210	Income from services rendered	213	227	14	6.6
13	Other income	14	15	1	7.1
<b>223</b>		<b>227</b>	<b>242</b>	<b>15</b>	<b>6.6</b>

**Revenue for the provision of services** (€227 million) mainly involve charge backs for services provided by Snam to subsidiaries (€198 million in total). The services provided by Snam S.p.A. to subsidiaries are regulated through service agreements and involve the following areas: ICT, Personnel and Organisation, Planning, Administration Finance and Control, General Services, Property, Security, Legal and Corporate Affairs and Compliance, Health, Safety and Environment, External Relations and Communication, Internal Audit, Technical, Commercial, Regulation and Procurement. The services provided also include the revenue on projects of the Global Solution Business Unit (€25 million).

The increase of €14 million compared with the previous year is due to the greater charge backs to subsidiaries (+€23 million), for services mainly of an ICT nature and to the greater revenue from Global Solution Business Unit projects (+€10 million) essentially following the design services rendered to the subsidiary TAP. This change was partly offset by the lower revenue from services rendered at 31 December 2018.

**Other income** (€15 million) essentially refers to income from the leasing and maintenance of fibre optic telecommunications cables for third-parties (€13 million).

<sup>34</sup> More information is provided in the appendix to the Notes to the separate financial statements, "Notes on companies controlled through a direct equity investment of Snam S.p.A."

<sup>35</sup> Details of the bond issues that took place during the year and their conditions are provided in Note 17, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.

## Other operating expenses

2017	(million of €)	2018	2019	Change	% change
173	For non-financial services and other costs	146	186	40	27.4
81	For personnel	94	88	(6)	(6.4)
<b>254</b>		<b>240</b>	<b>274</b>	<b>34</b>	<b>14.2</b>

**Costs for non financial services and other costs** are composed of operating costs (€175 million) and depreciation and amortisation (€11 million). The increase of €40 million is mainly due to the greater costs for IT services subject to recharging to Group companies, as well as the dynamics of the provision for impairment, which did not change in 2019 compared with the net utilisations in 2018.

**Personnel costs** totalled €88 million a fall compared with the corresponding period of the previous year (€94 million) mainly as a result of the effects of the reorganisation of the Group and employment policies.

The number of employees as at 31 December 2019 (742 people) is analysed below by professional status:

## Employees by professional status

31.12.2017	(no.)	31.12.2018	31.12.2019	Change	% change
	<b>Professional status</b>				
63	Executives	71	71		
239	Middle Managers	259	242	(17)	(6.6)
517	Office workers	505	426	(79)	(15.6)
3	Manual workers	3	3		
<b>822</b>		<b>838</b>	<b>742</b>	<b>(96)</b>	<b>(11.5)</b>

## Income tax

**Income tax** was positive by €4 million mainly on account of the share of non taxable dividends collected in the year.



## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position combines the assets and liabilities of the condensed statement based on how the business operates, conventionally split into the three basic functions: investment, operations and financing. Management believes that this format presents useful information for investors as it allows identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital. The reclassified consolidated statement of financial position format is used by management to calculate the key leverage and profitability ratios.

### Reclassified statement of financial position (\*)

(million of €)	31.12.2018	31.12.2019	Change
<b>Fixed capital</b>	<b>11,981</b>	<b>11,608</b>	<b>(373)</b>
Property, plant and equipment	5	20	15
Intangible assets	14	12	(2)
Equity investments	6,534	6,584	50
Long-term financial receivables	5,431	4,996	(435)
Net receivables (payables) for investments	(3)	(4)	(1)
<b>Net working capital</b>	<b>(308)</b>	<b>(334)</b>	<b>(26)</b>
<b>Provisions for employee benefits</b>	<b>(19)</b>	<b>(14)</b>	<b>5</b>
<b>Assets held for sale</b>		<b>10</b>	<b>10</b>
<b>NET INVESTED CAPITAL</b>	<b>11,654</b>	<b>11,270</b>	<b>(384)</b>
<b>Shareholders' equity</b>	<b>4,402</b>	<b>4,396</b>	<b>(6)</b>
<b>Net financial debt</b>	<b>7,252</b>	<b>6,874</b>	<b>(378)</b>
<b>COVERAGE</b>	<b>11,654</b>	<b>11,270</b>	<b>(384)</b>

(\*) Please refer to the paragraph "Non-GAAP measures" for the methodological illustration of the reclassified statements.

**Fixed capital** (€11,608 million) decreased by €373 million compared with 31 December 2018 mainly as a result of lower long-term financial receivables (-€435 million). This effect was partly offset by the increase in equity investments (€50 million) due mainly to the share capital increase in favour of Snam 4 Enviroment S.r.l. (€55 million) and the increase in property, plant and machinery (€15 million) essentially as a result of the recording of leased assets as right-of-use assets in accordance with accounting standard IFRS 16 "Leasing", in force from 1 January 2019.

## Equity investments

This item amounts of €6,584 and is composed of equity investments in the following companies:

(million of €)	% ownership	Balance at 31.12.2018	Acquisitions and subscriptions	Sales and repayments	Other changes	Balance at 31.12.2019
<b>Investments in subsidiaries</b>		<b>4,804</b>	<b>60</b>			<b>4,864</b>
Snam Rete Gas S.p.A.	100%	2,850				2,850
Stogit S.p.A.	100%	1,597				1,597
Asset company 2 S.r.l.	100%	172				172
Snam International B.V.	100%	61				61
GNL Italia S.p.A.	100%	43				43
Snam 4 Mobility S.p.A.	100%	38				38
Asset company 4 S.r.l.	100%	23				23
Gasrule Insurance D.A.C.	100%	20				20
Enura S.p.A.	55%		4			4
Snam 4 Environment S.r.l. (Formerly Asset Company 6)	100%		55			55
Snam 4 Efficiency S.r.l.	100%		1			1
<b>Investments in companies under joint control</b>		<b>1,054</b>		<b>(9)</b>		<b>1,045</b>
Trans Austria Gasleitung GmbH	84.47%	500				500
Terēga Holding S.A.S.	40.50%	452				452
AS Gasinfrastruktur Beteiligung GmbH	40%	102		(9)		93
<b>Investments in associates</b>		<b>636</b>	<b>23</b>	<b>(22)</b>	<b>(1)</b>	<b>636</b>
Trans Adriatic Pipeline AG	20%	271	23		9	303
Italgas S.p.A.	13.50%	244				244
Senfluga Energy Infrastructure Holding S.A.	60.00%	121		(22)	(10)	89
<b>Other investments</b>		<b>40</b>		<b>(5)</b>	<b>4</b>	<b>39</b>
Terminale GNL Adriatico S.r.l.	7.30%	40		(5)	4	39
<b>Total</b>		<b>6,534</b>	<b>83</b>	<b>(36)</b>	<b>3</b>	<b>6,584</b>

## Non-current financial assets

**Non-current financial assets**, including the relative short-term portions, amount to €4,996 million and refer to receivables for long-term loans disbursed to the subsidiaries Snam Rete Gas (€4,181 million) and Stogit (€778 million). The reduction of €435 million compared with 31 December 2018 is mainly due to the closing and the simultaneous repayment of existing loans to Snam Rete Gas S.p.A. and Stogit S.p.A. (€455 million in total).

## Net working capital

(million of €)	31.12.2018	31.12.2019	Change
Trade receivables	95	106	11
Tax assets	27	45	18
Net prepaid tax assets	19	29	10
Other assets	38	58	20
Provisions for risks and charges	(11)	(11)	
Tax liabilities	(27)	(45)	(18)
Derivatives	(29)	(62)	(33)
Trade payables	(62)	(81)	(19)
Other liabilities	(358)	(373)	(15)
<b>Total</b>	<b>(308)</b>	<b>(334)</b>	<b>(26)</b>

**Net working capital** (-€334 million) decreased by €26 million compared with 31 December 2018 mainly as a result of the increase in liabilities for derivative financial instruments (-€33 million) partly offset by the increase in other assets (€20 million) due to greater accrued income and prepaid expenses.

### Assets held for sale

Assets held for sale (€10 million) relate to a 6% stake in the share capital associate company Senfluga, reclassified following the agreements signed by the shareholders of Senfluga for the sale of a 10% stake in it, proportional to the stake held by each shareholder. The completion of the transaction, subject to the approval of the Greek regulator, took place on 13 January 2020, following a payment of €16 million (€10 million as Snam's share), pegged at the values of the transaction concluded in December 2018. Following the above-mentioned sale, the percentage of Snam's equity investment in the capital of Senfluga is 54%.



## Shareholders' equity

(million of €)

<b>Shareholders' equity as at 31 December 2018</b>	<b>4,402</b>
<i>Increases owing to:</i>	
- Comprehensive income for 2019 (*)	787
- Other changes	7
	<b>794</b>
<i>Decreases owing to:</i>	
- 2018 final dividend	(448)
- 2019 interim dividend	(313)
- Acquisition of treasury shares	(39)
	<b>(800)</b>
<b>Shareholders' equity as at 31 December 2019</b>	<b>4,396</b>

(\*) For further details, please refer to the Statement of comprehensive income of the Snam S.p.A. Financial Statements.

## Net financial debt

(million of €)	31.12.2018	31.12.2019	Change
<b>Financial and bond debt</b>	<b>13,462</b>	<b>14,799</b>	<b>1,337</b>
Short-term financial debt (*)	3,675	<b>4,158</b>	483
Long-term financial debt	9,787	<b>10,627</b>	840
Lease liabilities (**)		<b>14</b>	14
<b>Financial receivables and cash and cash equivalents</b>	<b>(6,210)</b>	<b>(7,925)</b>	<b>(1,715)</b>
Short-term financial receivables	(4,369)	<b>(5,120)</b>	(751)
Cash and cash equivalents	(1,841)	<b>(2,805)</b>	(964)
<b>Total</b>	<b>7,252</b>	<b>6,874</b>	<b>(378)</b>

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

(\*\*) Including non-current lease liabilities (€11 million) and the current portion of non-current lease liabilities (€3 million).

Net financial debt at 31 December 2019 was €6,874 million, a reduction of €378 million compared with 31 December 2018.

Financial and bond debts are denominated in euros and break down as follows: they refer mainly to bond loans (€9,048 million, or 61%) and bank loans (€3,672 million, or 25%, including €1,669 million provided by the European Investment Bank - EIB).

Long-term financial debt (€10,627 million) represented around 72% of gross financial debt (around 73% at 31 December 2018).

The breakdown of debt by type of interest rate at 31 December 2019 is as follows:

(million of €)	31.12.2018	%	31.12.2019	%	Change
Fixed rate	10,531	78	11,188	76	657
Floating rate	2,931	22	3,611	24	680
<b>Total</b>	<b>13,462</b>	<b>100</b>	<b>14,799</b>	<b>100</b>	<b>1,337</b>

Bond loans (€9,048 million) rose by €602 million compared with 31 December 2018 following the issuing of: (i) the Climate Action Bond, for a nominal amount of €500 million, fixed rate with a maturity date of 28 August 2025; (ii) a Private Placement of a nominal amount of €250 million, fixed rate with a maturity date of 7 January 2030; (iii) a dual tranche bond with a nominal amount of, respectively, €700 and €600 million, making a total of €1.3 billion, fixed rate with maturity dates, respectively of 12 May 2024 and 12 September 2034. These changes were offset: (i) by the repayment of a fixed rate bond maturing on 18 January 2019, for a nominal amount of €519 million; (ii) the repayment of a fixed rate bond loan maturing on 24 April 2019, of a nominal amount of €225 million; (iii) the repayment of a JPY 10 billion bond maturing on 25 October 2019 of a nominal amount of €83 million; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of €597 million with an average coupon of 1.3% and a residual duration of approximately 3.9 years; (v) the dynamics of accrued interest.

Bank loans (€3,672 million) fell by €1,077 million essentially following the lower net use of uncommitted lines of credit (€1,301 million). This effect was partly offset by the signing with the European Investment Bank - EIB: (i) on 28 January 2019 of a loan for projects promoted by Snam Rete Gas and Stogit, of a nominal amount of €135 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2038; (ii) on 6 June 2019 of a loan supporting investments promoted by the subsidiary Snam4Mobility for the construction of CNG and L-CNG refuelling stations, for a nominal amount of €25 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2031; (iii) on 31 July 2019 a loan for Snam Rete Gas projects, for a nominal amount of €105 million at a fixed rate to be repaid through an amortisation plan expiring in 2039.

The Euro Commercial Papers (€2,001 million) involve unsecured short-term securities issued on the money market and placed with institutional investors and recorded an increase of €1,776 million.

Short-term financial receivables (€5,120 million) showed an increase of €751 million compared with 31 December 2018. The increase is essentially attributable to the greater net use of current account balances of the subsidiaries Snam Rete Gas and Stogit (€678 million in total).

Cash and cash equivalents of €2,805 million (€1,841 million at 31 December 2018) mainly refer to a short-term liquidity facility, with a maturity of less than three months, with banks with a high credit standing (€750 million) and to bank current and deposit accounts that can be collected quickly (€2,055 million).

At 31 December 2019, Snam had unused committed long-term credit lines worth €3.2 billion.

## RECLASSIFIED STATEMENT OF CASH FLOWS AND CHANGE IN NET FINANCIAL DEBT

The reclassified statement of cash flows below summarises the legally required financial reporting format. It 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

2017	(million of €)	2018	2019
<b>677</b>	<b>Net profit</b>	<b>721</b>	<b>817</b>
	<i>Adjusted for:</i>		
24	- Amortisation, depreciation and other non-monetary components	11	<b>13</b>
(736)	- Dividends, interest and income taxes	(748)	<b>(866)</b>
45	Change in working capital due to operating activities	9	<b>(14)</b>
736	Dividends, interest and income taxes collected (paid)	754	<b>862</b>
<b>746</b>	<b>Net cash flow from operating activities</b>	<b>747</b>	<b>812</b>
(9)	Technical investments	(5)	<b>(5)</b>
(247)	Equity investments	(205)	<b>(48)</b>
416	Change in long-term financial receivables	1,342	<b>425</b>
(1)	Other changes relating to investing activities	(1)	
<b>905</b>	<b>Free cash flow</b>	<b>1,878</b>	<b>1,184</b>
(853)	Change in short-term financial receivables	(407)	<b>(751)</b>
	Payment of lease liabilities		<b>(4)</b>
1,559	Change in current and non-current financial debt	832	<b>1,320</b>
(928)	Equity cash flow (*)	(1,157)	<b>(785)</b>
<b>683</b>	<b>Net cash flow for the period</b>	<b>1,146</b>	<b>964</b>

(\*) Includes the cash flows from the purchase of treasury shares and the payment of the dividend to the shareholders.

### Change in net financial debt

2017	(million of €)	2018	2019
<b>905</b>	<b>Free cash flow</b>	<b>1,878</b>	<b>1,184</b>
	Effect of first-time application of IFRS 9	<b>10</b>	
7	Exchange rate differences on financial liabilities	(6)	<b>(3)</b>
4	Adjustment to fair value of financial debt		
	Change in lease liabilities		<b>(18)</b>
(928)	Equity cash flow	(1,157)	<b>(785)</b>
<b>(12)</b>	<b>Change in net financial debt</b>	<b>725</b>	<b>378</b>

# Other information

## TREASURY SHARES

In compliance with the provisions of Article 2428 of the Italian Civil Code, the treasury shares held by the Company at 31 December 2019 are analysed in the table below:

Period	No of shares	Average cost (€) (*)	Total cost (million of €)	Share capital (%) (**)
<b>Purchases</b>				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Year 2017	56,010,436	3.748	210	1.60
Year 2018	113,881,762	3.743	426	3.28
Year 2019	8,412,920	4.609	39	0.25
	<b>402,620,998</b>	<b>3.904</b>	<b>1,572</b>	
<b>Less treasury shares granted/sold/cancelled:</b>				
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(1,514,000)			
- cancelled in 2012 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
- cancelled in 2018 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(31,599,715)			
- cancelled in 2019 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(74,197,663)			
<b>Treasury shares held by the Company at 31 December 2019</b>	<b>102,412,920</b>			

(\*) Calculated on the basis of historic prices.

(\*\*) The share capital is the same as that of the date of the last acquisition of the year/period.

On 2 April 2019 the Ordinary Shareholders' Meeting of Snam shareholders authorised, following the withdrawal of the resolution authorising the purchase of treasury shares taken by the Ordinary Shareholders' Meeting on 24 April 2018, for the remaining part not carried out, the purchase of treasury shares, to take place on one or more occasions, for a maximum of 18 months from the date of the Meeting of 2 April 2019, with a maximum outlay of €500 million and, in any event, up to a maximum of 126,664,660 shares without exceeding 6.50% of the subscribed and released share capital (with regard to treasury shares already owned by the Company). The resolution of the meeting stated the terms and conditions of the price for the purchase of treasury shares and authorised the disposal, on one or more occasions, with no time limits and even before having completed all acquisitions, of all or part of the Company's treasury shares acquired on the basis of this shareholders' resolution as well as those already held. The Extraordinary Shareholder's Meeting held on 2 April 2019 also approved the cancellation of 74,197,663 treasury shares with no nominal value with no reduction in the share capital and the resulting amendment of Article 5.1 of the Articles of Association.

In execution of the resolution, the new buy back programme was launched on 16 December 2019.

From that date a total of 8,412,920 Snam shares were bought, equal to 0.25% of the share capital, for a cost of €39 million (113,881,762 Snam shares equal to 3.28% of the share capital for a cost of €426 million in 2018).

On 27 February 2020 buyback program was completed. From 1 January to 27 February 2020, n. 23,070,187 shares were bought, with a total cost of approximately 111 millions euros.

As at 31 December 2019, Snam therefore held 102,412,920 treasury shares, equal to 3.02% of its share capital (168,197,663 as at 31 December 2018, amounting to 4.85% of the share capital), with a total book value of around €389 million (€625 million as at 31 December 2018) and recognised as a reduction in shareholders' equity. The market value of the treasury shares at 31 December 2019 was around €480 million<sup>36</sup>.

The share capital as at 31 December 2019 consisted of 3,394,840,916 shares with no nominal value for a total value of €2,736 million.

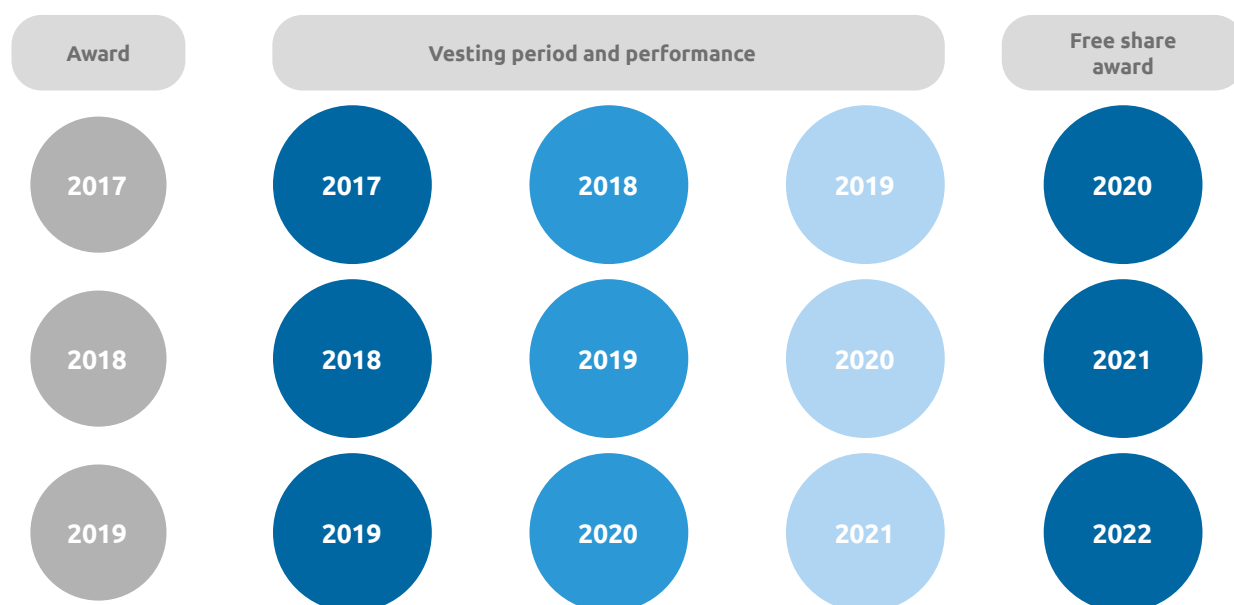
The subsidiaries of Snam S.p.A. do not hold, and have not been authorised by their Shareholders' Meetings to acquire, shares in Snam S.p.A.

## INCENTIVE PLANS FOR SENIOR MANAGERS WITH SNAM SHARES

### 2017-2019 long-term share-based incentive plan

On 11 April 2017 the Shareholders Meeting approved the 2017-2019 Long-term share-based incentive plan conferring all necessary powers on the Board of Directors to implement the plan.

The plan, intended for the Snam CEO and senior managers, identified as those who hold positions with a greater impact on company results or with strategic importance for achieving Snam's multi-year targets, includes three cycles of the annual assignment of three-year targets (the so-called rolling plan) for the years 2017, 2018 and 2019. At the end of the three-year performance period, if the underlying conditions of the plan are met, the beneficiary shall have the right to receive Company shares free of charge.



<sup>36</sup> Calculated by multiplying the number of treasury shares by the period-end official price of €4,686 per share.

A maximum number of 3,500,000 shares will service the Plan for each fiscal year that the Plan will be in effect. The Plan will be concluded in 2022, upon expiration of the Vesting Period for the last attribution made in 2019.

The number of shares that accrue is subject to the performance conditions being achieved, calculated as the average of the annual performance of the parameters identified in the three-year vesting period, which affect EBITDA, adjusted net profit and sustainability.

The Plan also involves the beneficiaries receiving, at the end of the vesting period, a Dividend Equivalent, or an additional number of shares equivalent to the ordinary and extraordinary dividends distributed by Snam during the vesting period due on the number of shares effectively granted to the beneficiaries by way of performance levels achieved under the terms and conditions of the Plan. There will also be a two-year lock-up period for the other executives who are beneficiaries on 20%<sup>37</sup> of the shares for the CEO and other executives, as recommended in the Code of Corporate Governance.

A total of 5,385,372 shares have been allocated in connection with the above-mentioned plan, 1,368,397 of which are for the 2017 allocation, 2,324,413 for the 2018 allocation and 1,692,562 for the 2019 allocation. The unitary fair value of the shares, calculated from the value of the Snam stock at the allocation dates (the grant date), is equal to €3.8548 and €3.5463 and €4.3522 per share, respectively for the 2017, 2018 and 2019 allocations. The cost for the Long-term incentive plan, measured as the labour cost component, amounts to €7 million (€3 million in 2018) with an opposing entry in shareholder equity reserves.

## COMPENSATION PAID TO DIRECTORS AND STATUTORY AUDITORS, GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES, AND INVESTMENTS HELD BY EACH OF THESE

Information on the compensation paid to directors and statutory auditors, general managers and managers with strategic responsibilities, and the equity investments held by each of these, can be found in the Remuneration Report, which is prepared in accordance with Article 123-ter of Legislative Decree 58/1998 (TUF). The Remuneration Report is available on the Snam website ([www.snam.it](http://www.snam.it)) in the Governance section.

## RELATIONSHIPS WITH RELATED PARTIES

From 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF. Considering the de facto control of CDP S.p.A. over Snam S.p.A., based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance. Operations with these parties mainly involve the exchange of goods and the provision of regulated services in the gas sector.

<sup>37</sup> The percentage reaches about 40% in case of sale of shares assigned to pay the relevant taxes.

These transactions are part of ordinary business operations and are generally settled at market conditions, i.e. the conditions which would be applied for two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the relevant legislation, the company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and auditors declare their interests affecting the Company and the Group every six months, and/or when changes in said interests occur; they also inform the CEO (or the Chairman, in the case of the CEO), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

No management or coordination activity of CDP S.p.A. has been formalised or exercised.

As at 31 December 2019, Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in Note 34 "Relationships with related parties" of the Notes to the consolidated financial statements.

Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 28 "Operating costs" of the Notes to the consolidated financial statements.

## PERFORMANCE OF SUBSIDIARIES

For performance information concerning the segments in which the Company operates wholly or in part through subsidiaries, please refer to the sections "Business segment operating performance" and "Financial review" within this Report.

## BRANCH OFFICES

As required by Article 2428, paragraph 5 of the Italian Civil Code, it is noted that Snam does not have branch offices.

## RESEARCH AND DEVELOPMENT

Research and development activities performed by Snam are described in the section "Other operating information and results - Innovation for business development" of this Report.

# Other operating information and results





This section of the report deals with activities and initiatives that have an impact on intangible business but contribute to the creation of value for the Company and its stakeholders. In Snam's business model, the stakeholders "interpret" the industry environment and can influence, sometimes decisively, the conditions that determine the availability of

the different capitals that the business needs to be able to operate. These close ties with the capitals, which develop around material issues of mutual interest, enable the stakeholders to benefit from the value that the business creates through its activities.

## Development of human, social and relationship, and intellectual capital

### EMPLOYMENT IN TIMES OF CHANGE

To continue to play a key role within an ever-changing environment while continuing to lead in an international market abundant with opportunities, it is to enhance know-how and know how to meet new challenges in the regulated and free market alike. People are called upon to effectively share their expertise and know-how and work as a team striving for a single objective: a decisive factor for creating innovation and bringing value to the business. The strong sense of belonging to the Group makes it possible to actively engage all employees in continuous improvement, which is increasingly driven by an entrepreneurial spirit, simplification and implementation capacity.

In this way Snam, in line with the goal of sustainable development, continues to generate "good employment" featuring stable and continuous working relationships involving qualified and specialist activities (57% of employees have a technical diploma and 27% are graduates). In addition, the Company's objective, through the Snam Institute is to develop know-how, not only within the business, but also on the outside.

As of 31 December 2019, out of a total of 3,025 employees, 93.1% have a permanent employment contract, including 38 part-time employment contracts, and 193 apprenticeships. The average age of Snam Group employees is 44.4 years, while the average length of service is around 18.6 years.

#### Breakdown of staff at 31 December

(no.)	2017	2018	2019
Executives	93	107	111
Middle Managers	456	480	493
Office workers	1,655	1,682	1,683
Manual workers	715	747	738
<b>Total employee</b>	<b>2,919</b>	<b>3,016</b>	<b>3,025</b>

#### Personnel broken down by type of contract

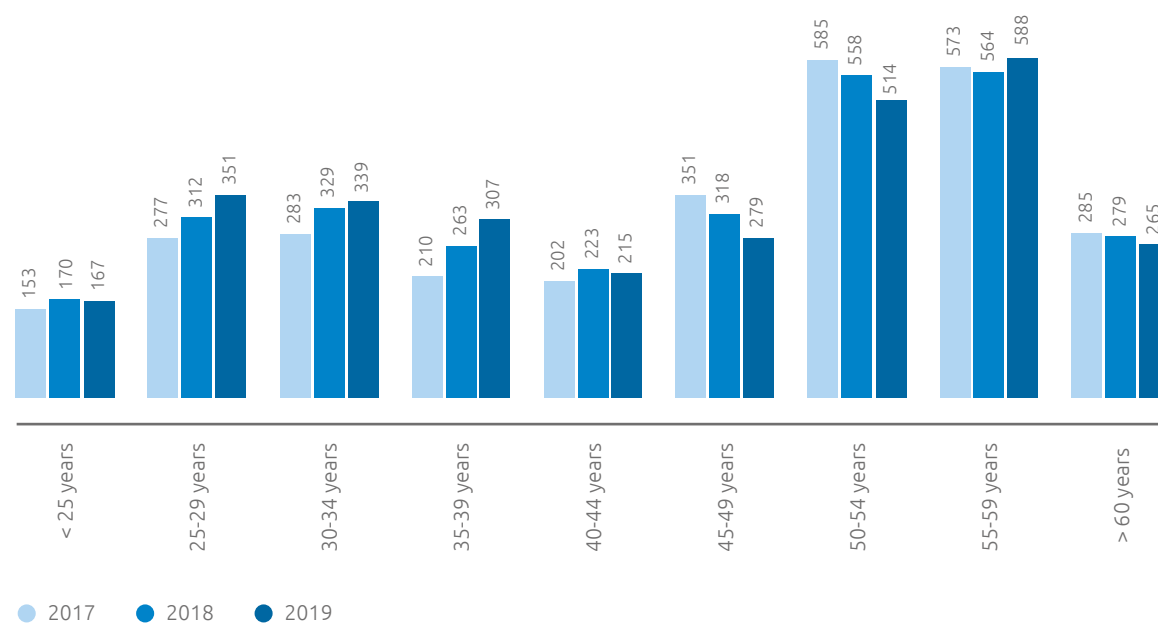
(no.)	2017	2018	2019
Permanent contract	2,755	2,812	2,817
- of which part time contract	42	41	38
Apprenticeship or internship contract	150	185	193
Fixed-term contract	14	19	15

At the end of 2019 more than 32 people were employed on a staff leasing contract (33 in 2018 and 33 in 2017).

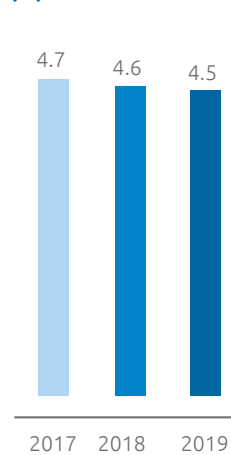
## Personnel hired during the year

(no.)	2017	2018	2019
Hired from the market (total)	148	195	172
- of which university graduates	100	108	92
- of which school graduates	48	86	79
- of which other another title	-	1	1
- of which women	53	42	38
Other new employees (non-consolidated companies, tender acquisitions, etc.)	36	126	59

## Age diversity: employees by age bracket (no.)

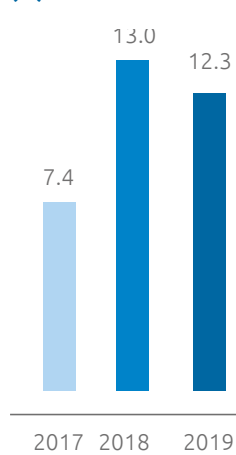


## Absenteeism rate (%)



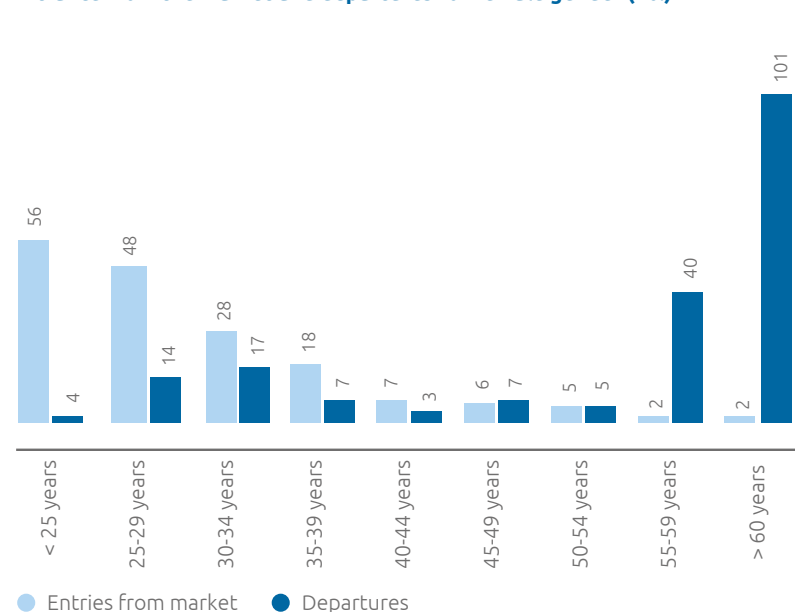
Rate of absenteeism =  
(h. absence/working h.)  
x 100

## Personnel turnover (%)



Rate of turnover =  
(entries+departures)/  
average workforce) x 100

## Entrance from the market and departures for female gender (no.)



People aged under 40 (1,164) represent 38.5% of the corporate population, an increase of 90 resources compared with 2018, also thanks to the inclusion of young talent in recent years.

The absenteeism rate does not include senior managers and it was calculated taking into consideration all hours not worked (paid and unpaid) excluding holidays, leave that has to be made up and periods of mandatory and voluntary maternity leave. In 2019 the absenteeism rate stood at 4.5%, essentially in line with the figure for the previous year. There were no essential changes between the absenteeism rate for men and women, which stood at 4.4% and 5.1%, respectively.

The turnover rate for 2019, remained consistent with the 2018 figure by virtue of the hiring campaign and incentivising redundancy and early retirement.

## **NFS** DEVELOPMENT OF ROLES AND SKILLS



In 2019 activities for the development of Snam's roles and know-how focused on improving the leadership model, consolidating the new skills model, identifying and developing talent throughout the organisation, keeping succession plans solid and structured making it possible to guarantee a sustainable succession line and intensifying the level of engagement. Specifically, the second cycle of the Performance Management system was launched, which saw the expansion of the population to include all administrative staff on site (Corporate and Operations) with 1,587 people evaluated. As planned the Performance Management system will involve the entire corporate population with the launch of the third cycle in 2020.

All work positions, with the exception of senior managers, are subjected to the analytical and overall evaluation of the factors of Complexity, Responsibility, Experience and Autonomy (CREA). In 2019, 225 CREA assessments were approved. Compensation systems are updated periodically based on a comparison with the reference markets and in consideration of instructions received from external stakeholders. In particular, these systems are meant to ensure recognition of the results achieved, the quality of the professional contribution provided and individual development potential of the person.

### **Incentive systems for the various brackets of the corporate population**

Executives	<p>The remuneration system breaks down into two parts: fixed remuneration, with possible annual adjustments for merit or progression of roles/responsibilities, and variable remuneration with incentives aimed at promoting professional contribution in the short-term, by assigning an annual monetary incentive (IMA), as well as in the medium-/long-term, by assigning a long-term share-based incentive (ILT).</p> <p>Claw-back mechanisms are also provided, aimed at recovering the variable portion if the resulting compensation is not due because it was earned based on targets that were attained as a result of malicious or grossly negligent behaviour or that were proven to be manifestly incorrect.</p> <p>The Total Reward Statement, an information package on the breakdown of individual remuneration, guarantees the promotion and transparency of the remuneration system.</p>
Non-executive population	<p>Snam adopts a short-term variable incentive plan intended to reward best performance and the young resources with potential for development.</p> <p>What is more, all companies in the group anticipate a "Participation Bonus", instituted by the National Collective Labour Agreement, based on the performance of profitability and productivity parameters, measured in relation to the targets agreed upon every year between the company and trade-union representatives.</p>

## NFS TRAINING

Training plays a fundamental role in supporting management and the entire company population in pathways to developing managerial capacity, technical skills, and a background of specific expertise.

Precisely in order to preserve technical know-how to develop it and transfer it to the new generations, Skill Centres were set up in 2019: groups of people across the organisational structures who possess consolidated and recognised know-how and expertise in specific areas that are important for the business. The 16 Skill Centres identified involved 110 Group people, identifying 175 experts and 145 trades people, working to create the 16 volumes that make up the Snam technical "trades" encyclopaedia.

These centres are also supported by an internal faculty composed of 80 employees who transfer their technical and business expertise to other colleagues through a by Snam to Snam logic. In 2019 the faculty provided around 1,200 teaching hours, contributing to the training of around 600 people.

In 2019 114,179 training hours were supplied (+5.9% compared with 2018) with 26,518 participants (+89% compared with 2018) involving 99% of the corporate population. The increase is also attributable to the provision of e-learning to the entire corporate population with 5 modules of around 1 hour each, on compliance. The following topics were dealt with: Market Abuse, Privacy, 231 Model, Anti-corruption and Antitrust.

A significant commitment was dedicated to worker training programmes regarding sensitive issues such as health, safety and the environment, by organising a number of meetings to provide updates and information and raise awareness amongst all professional figures.

On matters of business ethics and anti-corruption, in 2019 4,028 hours of training were provided with 3,981 participants.

### Staff training broken down by position

(no. of hours)	2017	2018	2019
Executives	1,908	4,392	5,669
Middle Managers	8,600	19,072	16,950
Office workers	39,316	49,650	58,238
Manual workers	35,522	34,657	33,322
<b>Total</b>	<b>85,346</b>	<b>107,771</b>	<b>114,179</b>

### Key training initiatives

(no.)	Hours provided	Participants
Technical training	47,705	8,023
Health, safety, environment and quality	29,755	5,580
Managerial training	19,524	4,356



## CORPORATE WELFARE AND WORK-LIFE BALANCE

Corporate welfare is a powerful tool that is integrated and integrated with the public welfare system and which attempts to protect people from new social risks. The definition of "corporate welfare" refers to a multiplicity of interventions, both monetary and in the form of services, capable of generating benefits for employees (who see their increasing social protection and their purchasing power) and become a lever fundamental for companies, which benefit from a better working and productive climate. With the goal of promoting a positive working environment, over the years Snam created a welfare system founded on a long tradition of attention to people, capable of growing and changing over a period of time and reaching out towards the emerging needs and requirements of the different categories of employees. The in-depth analysis of the corporate population, different needs and sensitivities, are periodically updated and allow Snam to develop shared, functional and effective services.

From 2018 the welfare offering, available on the Snammy digital platform, is organised over five areas of intervention: Family, Education, Work/Life Balance, Well-being and leisure time, Health. These five areas are then broken down into 28 services (corporate and contractual) which enable Snam to respond to the most current needs and requirements of the various bands of employees. Among the innovations in 2019, in the Family area there is BE PARENTS, online training created in conjunction with Life Based Value, which accompanies first-time new parents during and after the birth of their child, developing those skills that are also useful in the workplace. 66 employees took part in the programme (45% of whom were women).

Still in the Family area, digital education courses continued involving children and parents on technological themes and the dediCARE programme is provided, the service that listens to and takes care of needs of a social, work, welfare, economic and health of employees and their families.

In the Well-being and leisure time section, in addition to the arrangements with leading health institutions and prevention programmes, SNAMMYBENE is ongoing, the project dedicated to the well-being of employees that has been rolled out to focus on three aspects: diet, cognitive-emotional and financial.

As far as flexible working is concerned, the Smart Working initiative was extended both in terms of the scope of application and the number of hours, going from a total of 62,930 hours in 2018 to 122,762 in 2019. The programme is supported by flexible working hours for arriving and leaving,

and "short Fridays", where the working day on a Friday can end from 13.00 onwards.

The FLEXIBLE BENEFITS system is also continuing. It allows employees to convert a portion of the performance-related pay (a maximum of 60%) into a welfare credit that can be used to buy various types of services for themselves or their family members. The advantage of the initiative is to increase the purchasing power of employees, given that there is no tax on the amount converted and that the company recognised a further variable bonus from 8% to 16% based on the share converted.



## DIVERSITY

For Snam diversity means guaranteeing meritocracy and creating open and inclusive working environments and it represents a value that translates into growth for the company and the country system. In effect, Snam respects everyone's dignity, and offers equal opportunities throughout all phases and for all aspects of the employment relationship, avoiding all forms of discrimination based on sex, age, health, nationality, political opinion or religious views, a commitment formalised in the publication in October, of a policy dedicated to Diversity & Inclusion. Snam is also included among the 325 global companies on the 2020 Bloomberg Gender-Equality Index (GEI). The index is based on factors such as promoting female leadership, a commitment to reducing the gender pay gap and the culture of inclusion.

At the end of the year, the female corporate population stood at 441 resources, an increase compared with the previous year (+5.3%). Of the 38 part time contracts in the company, women account for 34 of these.

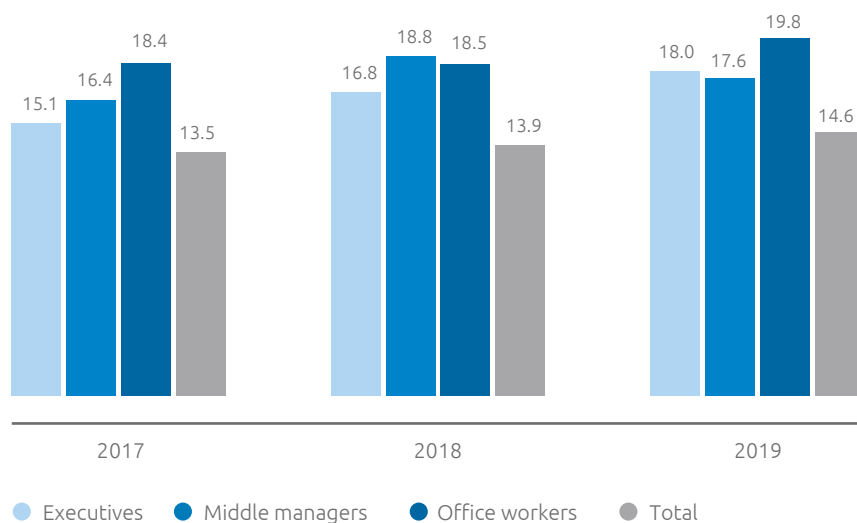
In order to make the most of diversity, Snam continued in 2019 through collaboration with Valore D, which Snam became a Contributing Member of in 2017. Valore D is the leading association of companies promoting diversity, talent and female leadership for the growth of companies and the country. In 2019 Snam took part in intercompany training and mentoring programmes offered by the association and 3 in-house workshops have been organised on the following subjects: Unconscious Bias, Happiness in the Company and Organisational Leadership. Still during the year, Snam joined InspirinGirls, the international campaign brought to Italy by Valore D which has the goal of creating awareness among young women of their talent freeing them of the gender stereotypes that hold back their ambitions.

As far as people with disabilities are concerned, 120 people with disabilities work in the Group and their career path promotes inclusion and integration in company processes.

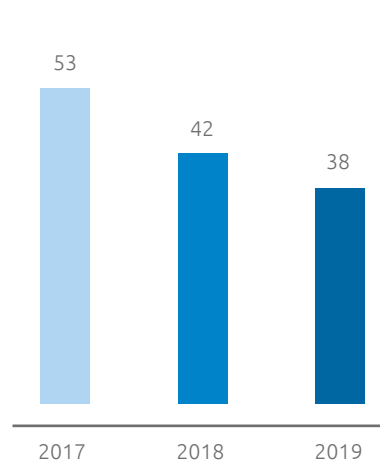
## Staff training broken down by position

(no.)	2017	2018	2019
Average hours of training provided to men (hours/year)	31.3	36.9	38.4
Average hours of training provided to women (hours/year)	15.8	28.7	33.8

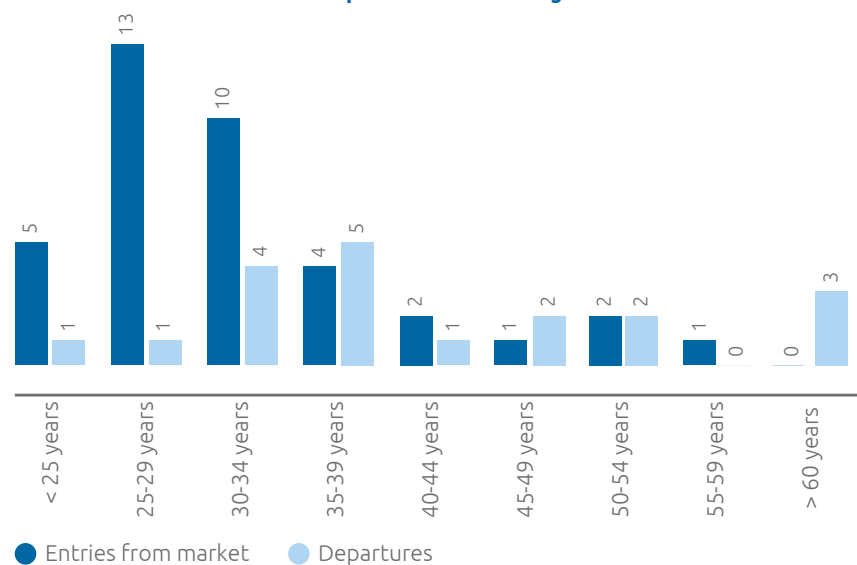
## Female presence (%)



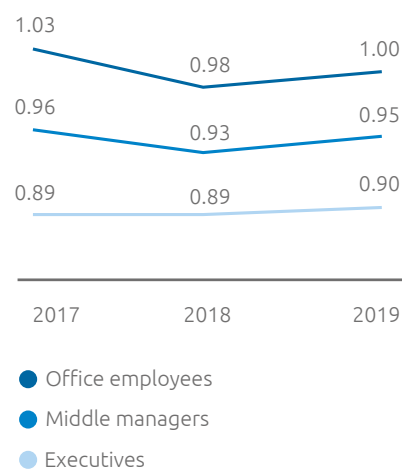
## Women hired from the market (no.)



## Entrance from the market and departures for female gender



## Women/men compensation differential



The improvement in the women-men pay gap in 2019 is due to the consolidation of the actions aimed at improving the gender balance in the company.

## Stakeholders and relationship capital

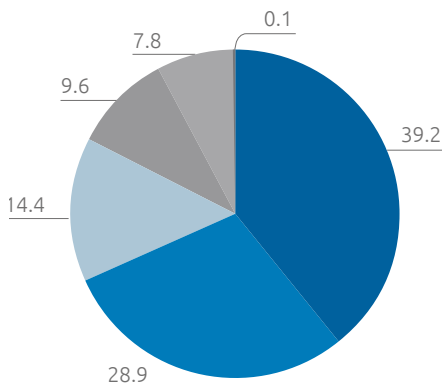
Snam promotes a continuous dialogue with its stakeholders through constant and proactive communication with specific tools and instruments and through involvement actions, with the goal of developing constant growth for both parties, generating and cultivating a mutual relationship of trust. In order to develop our business activities, internal cohesion, image and reputation are also important. As a result, it is essential to manage our long-term relations with stakeholders (social and relation capital) by focusing on trust, listening, being universally open and transparent, and attempting to maintain and develop constructive dialogue both within and outside the Company. Specifically, in 2019 engagement activities were concentrated on the energy transition front, supporting new businesses, from biomethane to energy efficiency, and the positioning of the company on the hydrogen front, in response to a market that is placing increasing importance on decarbonisation processes. As a testament to this, in October 2019 Snam organised "The Hydrogen Challenge – 2019 Global ESG Conference", an event hosted by Lanterna di Fuksas in Rome. The two days 10-11 October 2019 were dedicated to the potential of hydrogen as a clean source of energy, on the horizon of the increasing importance of environmental, social and governance (ESG) factors for businesses. The conference, sponsored by the Ministry of Foreign Affairs and "Cooperazione Internazionale" and the National Research Council (CNR), was opened by the Prime Minister, Giuseppe Conte and featured numerous speeches of international relevance.

Still on the subject of energy transition, in November 2019 Snam, Cassa Depositi e Prestiti (CDP) and Terna also organised the first edition of the "Stati Generali della Transizione Energetica Italiana" (General States of Italian Energy Transition), one of the two days of meetings dedicated to the future of the Italian energy system. The event, which featured numerous institutional speeches including that of the Prime Minister Conte, was sponsored by the Prime Minister's Office and the Ministry of Economic Development in conjunction with The European House – Ambrosetti.

As well as these major events, Snam organised other meetings and conversations with stakeholders, relating to the new businesses (sustainable mobility, biomethane, energy efficiency) and to the market and it was represented at several key events for the core business (Energy Summit Sole 24 Ore, Gastech, CERA Week) for the new activities and the world of innovation (Forum Automotive, Digital Week) and for the environment (Ecomondo, the Rimini Fair on technological innovation and sustainable development).



## Breakdown of valued added



- Snam Group
- Shareholders
- Public administration
- Employees
- Lenders
- Local Communities

## NFS VALUE DISTRIBUTED TO STAKEHOLDERS

At Snam, sustainability and the creation of value are strongly connected concepts. Sustainability creates value for the Company and stakeholders, and establishes a connection between the business and corporate social responsibility. The Company produces wealth by contributing to the economic growth of the society and environment in which it operates, and it measures this wealth in terms of added value produced and distributed to its key stakeholders.

Snam calculates the added value based on the standard prepared by the Gruppo di Studio per il Bilancio Sociale (GBS) and the GRI Standards.

The table below is useful for understanding the Group's economic impact and makes it possible to read the consolidated financial statements from the standpoint of stakeholders.

To this end, it should be noted that the calculation of the Value Added was made on the basis of the values drawn from the legal scheme of the Income Statement. In 2019, the gross global Added Value produced by Snam was €2,695 million, an increase of €163 million or 6.4% compared with 2018 (€2,532 million).

The 39.2% of the gross global Added Value produced by Snam was **reinvested within the Group** (an increase compared with 2018, +3.7 percentage points), of which around 68.4% was intended for the depreciation and amortisation of group assets (77% in 2018). With regard to the main reference stakeholders, 2019 highlighted a reduction in the value distributed to **financing** bodies (7.8% or -2.0 percentage points compared with 2018), following a reduction in financial expense attributable to the effects of the actions taken to optimise the financial structure in 2016, 2017 and 2018, specifically the liability management operations. The value distributed to **shareholder** through the distribution of dividends was essentially stable (28.9% compared with 29.5% in 2018). With a unitary dividend that is increasing (+5% compared with 2018), confirmation of the commitment to guarantee shareholders attractive and sustainable remuneration, there was a reduction in the number of outstanding shares following Snam's buyback of treasury shares as part of the share buyback programme.

With reference to **employees**, there was a decrease in the Added Value distributed (9.6% or -1.5 percentage points compared with 2018) through direct remuneration consisting of salaries, wages and TFR (employee severance indemnity) and indirect remuneration composed of social security contributions and staff-related service costs (canteen services, reimbursement of travel expenses). The reduction is essentially due to the extraordinary items recorded in 2018 following the costs of redundancy packages, the application of early retirement pursuant to Article 4, paragraphs 1-7 Law 92/2012, the "Fornero Law". The value allocated to the **Public Administration** through the payment of direct and indirect taxes was essentially stable (14.4% or +0.4% compared with 2018). Lastly, an amount of approximately €3 million was designated for **local communities** (0.1% of the value generated) through donations and sponsorship initiatives and environmental compensation pursuant to the law.

On environmental protection, Snam spent approximately €114 million (€101 million on investments and €13.4 million on operating costs).



## ENGAGEMENT OF PEOPLE

Through internal communication, Snam promotes the involvement of people with regard to events and activities which affect the company, with the aim of stimulating participation in the processes of change, especially from a cultural point of view.

Communication in 2019 focused on the enrichment of contents and the introduction of new initiatives, information activities and formats and the involvement of people, also courtesy of the collaboration with Snam Foundation and external experts.

The collaboration with the Foundation makes it possible to marry social commitment with strengthening team building and relations between people in line with company values. Initiatives for “volunteering day” continued with employees also able to involve friends and family, for Christmas with the family, dedicated to employees with children operating in 11 areas in conjunction with non-profit organisations, and match giving was introduced, a financial solidarity activity for employees in which the Snam Foundation doubles every monetary contribution made to non-profit organisations and associations.

As far as the information format is concerned, the spread of streaming and webinars for events has allowed the Snam Institute to develop a training initiative plan that is accessible to everyone through the company intranet with the objective of disseminating the issues of sustainability, talks on climate change to the open journey on the issues of Diversity & Inclusion and take an in-depth look into important themes through comparison with other companies or experts.

An important topic, which has been the subject of an information and engagement campaign for employees, is the problem of plastic and the way it is not correctly disposed of with damaging effects in particular on biodiversity in the oceans. Snam decided to work on this by eliminating single-use plastic from dining areas in its work premises from 2020. The awareness raising and engagement campaign implemented involved giving all employees a water bottle, upgrading the drinking water fountains on the premises, circulating a set of guidelines for the responsible use of plastic at home as well and information launches at the intranet portal with evocative images and payoffs of the beauty of the oceans.

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### Instruments Description

"Easy" the intranet portal	Information space for raising awareness aimed at all Snam people, but also a place for sharing and exchanging work documents. In 2019 the re-design of the instrument was launched, involving around 80 employees through focus groups for collaborative design and evaluation activities. The new version of the portal will be available from the second half of 2020.
Main hard copy and online instruments	The magazine "Energie", represents Snam's corporate identity and is the voice of the main corporate events. The "Speciali Energie" (Energy Specials) — attached to the editorial or distributed independently, with a focus on specific topics. As well as the "Osservatorio Domanda Gas" newsletter with news, analysis and comments on gas demand, a new, twice-monthly newsletter was created, "InRete" about the transportation network activities.
Meetings for sharing and engagement	Online webinar presenting the strategic plan during which the CEO illustrated the pillars of the new plan, directly answering the questions posed by employees throughout the organisation. Pulse Survey delivered to all employees for the evaluation of corporate initiatives, after which there was a webinar with the CEO to present the results and focus groups were organised with the participation of 420 people to identify an improvement action plan. Second edition of the #Storiedivalore initiative, the communication of the values and purpose of the company (a contest which led to 4 colleagues winning in Dublin at LinkedIn). "Auguri In Rete" end of year event, with video-conferencing connections with 10 Italian regional offices and 4 foreign branch headquarters (Tirana, Athens, Vienna, Beijing) with interventions focused on corporate sustainability.

## MARKET REPUTATION

Though in regulated sectors Snam has a natural monopoly, when dealing with its customers it adopts an approach based on a competitive market, in which it is essential to understand how the customer perceives value.

In December 2019 a new online survey was conducted, involving all shippers and traders with whom Snam collaborated in the Thermal Year 2018-2019 just ended.

The analysis, extended to transportation, storage and regasification activities, involved surveying customer satisfaction on the quality of services offered, the customer engagement activities undertaken by the Company and on the functionality and additional services introduced in 2019 including in response to the needs of customer that emerged on previous occasions as well as regulatory developments.

The participation rate was 57% and the results demonstrated a very positive reception with regard to the customer engagement activities implemented by Snam to improve the services offered and consolidate collaboration with its stakeholders. The total average score for the quality of service was considerably improved compared with the previous year (7.4) standing at 8.4 on a scale of 1 to 10. The collection of observations received constitutes the starting point for identifying actions aimed at making Snam's operations even more efficient.

Snam also organised in-depth workshops, which were an opportunity to meet with customers and discuss important issues with them, innovation and operating performance, balancing and transportation, storage and regasification activities and provide/receive feedback on the IT system updating process.

In 2019 4 commercial workshops were organised plus a seminar entirely dedicated to settlement, the presentation of 10-year gas transportation network development plans and the cost/benefit analysis method, a workshop on biomethane, an event with customers at the Panigaglia terminal and an event in December attended by the Snam CEO.

## RELATIONS WITH THE SUPPLY CHAIN

Snam carries out intense engagement activities with its suppliers to encourage growth and improvement and to create a common vision, sharing values, ideas, know-how, best practices and information. The ongoing dialogue with suppliers is intended to establish long-term relations and create an effective partnership, consolidating relations and endorsing a shared vision.

In 2019, over 2000 suppliers were involved in a survey on issues of social responsibility involving companies, relations between buyers, suppliers and customers, relations with businesses in the voluntary sector, interaction with local communities and financial reporting. The answers, received from a sample of suppliers corresponding to over 60% of the 2018/2019 acquisition, made it possible to outline a reliable snapshot of the sustainability of the Snam supply chain and assess its development potential.

Snam, having joined the CDP Supply Chain Program in 2019, involved its supply chain in climate change awareness raising actions. 35 strategic suppliers announced the figures for their greenhouse gas emissions (Scope 3 indirect emissions) and CDP, through the analysis of the data received, will award them a score, which will be an incentive in the management of future environmental impacts.

Another important initiative was the partnership launched with the supply chain is Snam Plasticless. Given that plastic has become one of the greatest dangers for the environment, specifically for the biodiversity of the oceans, Snam has decided to make its own contribution. As well as eliminating single-use plastic in the dining areas on its work premises from 2020, the Company decided to analyse the use of plastic in its core business and discovered that the most significant consumption involves the supply chain and packaging processes relating to the delivery and redistribution of goods used for operations. Awareness raising, dialogue and engagement activities were launched with suppliers which made it possible to set a challenging target for eliminating all plastics from packaging by 2023. Continuous communication with suppliers takes place through the Supplier Portal, the web platform through which existing and potential suppliers come into contact with Snam. Activated in 2013, the portal represents the main tool through which the Company implements its procurement policy, in total transparency, with the information published being total traceable. Suppliers and candidates mainly come into contact with Snam through this means: it contains documents, best practices, details and updates on the processes and procedures that regulate the procurement qualification and activities.

In addition, all suppliers registered have a dedicated reserved area at their disposal which contains information that involves them directly (the product categories for which they are qualified, activated contracts, performance in terms of workplace safety, notifications for invoicing for services provided).

At the end of 2019, there were more than 2,000 suppliers registered at the portal, with a number of unique users who accessed it at least once during the year standing at 1,881 (+33%). Over 700,000 thousand pages read in the year (+51% compared with 2018) are evidence of a lively site with involvement.

## RELATIONS WITH LOCAL COMMUNITIES

Snam is present, through its infrastructure, in almost all the country's regions, in areas and communities that are varied in terms of culture, traditions and economic, social and environmental conditions.

In creating new infrastructure and in managing existing infrastructure, Snam takes a strict, transparent, collaborative and constructive approach to ensure the environmental compatibility of the sites and to facilitate their acceptance on the part of stakeholders.

The assessments of environmental effects involve all phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure, at the end of which the central and local administrations issue the permits required under current law.

Snam also evaluates, in relation to the performance of the most important works (compression systems or large natural gas pipelines), the direct and indirect economic and social impact on the territory and on the local communities with "Social Impact Assessment" tools and methods. Specifically, in 2019, the collaboration project with the Department of Economics and Management of the University of Brescia, for the revision of the methodology used adopting a regionalised input-output model, was concluded. This model made it possible to evaluate the impact of a project, calculating the added value generated by the investment starting with the total value of production.

Over time Snam has built a network of relationships with regional branches of Confindustria and other local associations to discuss issues of energy, economic and environmental policy affecting the territory. On a local level, the Company collaborates with authorities and participates in the works of numerous associations and committees, offering its commitment, and skills and know how to participate in the social innovation and sustainable development processes.

In addition, the Company's collaboration with local and national authorities to best lay out its plans for carrying out the work to both the authorities and the affected communities is ongoing. During the course of the year, 99 meetings were held with local government authorities and regional associations to illustrate works projects. Together with the latter, 8 agreements were concluded involving easements, in which the easement is a lien for owners of land, remunerated by Snam, not to construct buildings and not to carry out deep excavations a certain distance from the pipeline.

In 2019, approximately €0.3 million was allocated for donations and sponsorships and about €2.6 million for environmental compensation.

## Performance of the main initiatives in the territory

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**Young Energy from Snam, to bring young people closer to work**

The programme, established to facilitate the orientation of students and bring them closer to the world of work through initiatives focused on its business, is in its third edition. In this academic year, Young Energy will be held in 5 regions and 8 technical colleges with around 800 students involved in training activities. Since the first edition, 18 young people from the organisations involved in the project have been hired.

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**“Thumbs Up Youth Award”**

This is a project dedicated to sustainable development in which around 400 students from the third and fourth grades have taken part, under the scope of the school/work alternation project. Through this initiative, realised by the Thumbs Up association, with the support of the Cariplo Foundation and in partnership with the Università Cattolica del Sacro Cuore, Snam involved around 60 students of the Liceo Statale “G.B. Vico” (Milan) in proposing solutions for energy efficiency solutions at their school.

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**Snam Foundation, the Corvetto Adottami project**

This is a multi-sector participatory initiative that involves the community launched by the Snam Foundation to actively contribute to the redevelopment and social redevelopment of the Corvetto district in Milan, together with the Cariplo Foundation and, specifically, through the LacittàIntorno and Qubi projects with the Municipality of Milan and a network of local associations.

In 2019 laboratories were launched for social inclusion at the Candia Institute, a joint project together with a network composed of regional subjects and Snam suppliers of the “Tappeto Volante” (magic carpet), the urban regeneration that unites the Grossi Institute with the Emilio Alessandrini Park and a monitoring system for the project was launched.

Snam and the Foundation organised a hackstorm during volunteering day through which corporate know-how supported the partnership that will redevelop the market covered by Piazza Ferrara.

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**The Snam Foundation and company volunteering**

The second edition of Volunteering Day was organised in 2019, extended in length (two weeks) and scope. The initiative involved not only employees, but also their friends and family and Snam partners with the global participation of 750 people, around 150 of whom were family members, universities, start-ups, partners and suppliers. In total, more than 6,000 hours of volunteering were supplied to 70 organisations in the voluntary sector spread over 60 locations in Italy.

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**Snam Foundation, the TESORI ban**

An initiative launched in 2017 in conjunction with Confagricoltura aimed at promoting social agriculture projects through the development of social assets, local skills and the strengthening of relations with the area. Projects in 2 areas were supported in 2019: Recanati and Ronco all'Adige.

In the former, a small industrial pasta factory was created, which will house students for professional internships and educational workshops; in the latter, structures were installed for pet-therapy activities and hydroponic cultivation, aimed at improving the well-being of people with mental health problems and involving children and young people of the community.

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## THE VALUE OF BRAND REPUTATION

Snam continued to consolidate its brand identity, strengthening the position of the company in terms of energy transition and decarbonisation in the areas, with constant activity supporting the new businesses, from biomethane and sustainable mobility to energy efficiency, with a specific focus on hydrogen and on the potential leadership position of Snam and Italy in the development of this clean energy source, always in line with the purpose of “Energy to inspire the world”. The objective is to communicate proactively and transparently with all its stakeholders, from the press to the ever increasing audience reached through social media and the company website not forgetting overseeing and conversing with the areas involved in the main projects. By virtue of this undertaking, Snam’s visibility in the media increased, as well as the publication of news on proprietary platforms. Specifically, Snam recorded a more obvious presence in international media particularly on issues of global interest, first and foremost energy transition. Snam was confirmed, for the sixth year running, on the podium of leading Italian companies in the field of digital communication. For the last 15 years the company has been in the top 10 of the Italian webranking classification by Lundquist in conjunction with the Swedish company Comprend, standing out for its digital transparency. The 2019 survey involved 112 companies: among the listed companies Snam took second place with a score of 91.3 out of 100, establishing itself as one of only two firms that scored over 90 points in the band of excellence. Future international research, dedicated to the digital communication of sustainability, placed Snam among the “Gold” companies.

As far as social activities are concerned, in 2019 Snam won the “Best employer brand su LinkedIn” award, recognition that confirms how digital platforms, specifically LinkedIn, represent a strategic tool for the company to make themselves known by possible candidates and get in touch with them. The growth in Snam’s reputation is also proved by the result of the international “Top Employers” classification by Forbes and Statista: according to the analysis, the company is one of only two Italian organisations among the best 150 in the world to work in. The research is based on 1.4 million interviews conducted globally and regionally.

# NFS Innovation for business development

The Group's strategic evolution in an increasingly complex and challenging context will require it to rely more heavily on developing innovation and on the good use of technological assets to ensure that it makes the most of what has already been achieved, as well as developing innovative solutions, as a support for and source of business development.

As part of the Strategic Plan to 2023, the Snamtec (Tomorrow's Energy Company) project continued with the objective of accelerating Snam's innovative capacity and its assets to take advantage of the opportunities offered for

the development of the energy system. The project focused on three areas:

- energy efficiency in the core business and emissions reduction;
- innovation and technology;
- investment in energy transition.

The research and development activities launched in previous years that have been continuing or which concluded in the year and the new projects with potential repercussions in different areas of company operations are listed below.

<b>Gas metering</b>	<p><b>Alternative instruments and quality measurement</b> – Activities continued under the scope of gas quality measurement to adapt the quality meters installed in the network in order to make it possible to remotely monitor and manage equipment. With regard to controlling the quality of the gas injected into the transportation network, a project for the installation of H<sub>2</sub>O dew point meters and hydrogen sulphide analysers has been launched and is in the process of being implemented.</p> <p><b>Natural gas emissions estimation</b> – The evaluation of methods for estimating natural gas emissions and research into the potential impacts, throughout the gas supply chain, of chemical components present in traces in biomethane is continuing in order to create the conditions for its safe development in conjunction with the European research group GERG (Groupe Européen de Recherches Gazières, <a href="http://www.gerg.eu">www.gerg.eu</a>).</p>
<b>Governance and monitoring of the network and plants</b>	<p><b>Remote control</b> – In 2019 activities continued with the aim of analysing the requirements of the acquisition processes and the management of data relating to the control and operation of the network, of increasing its effectiveness levels and identifying the best supporting technologies of the whole remote-controlled process.</p> <p><b>Safety</b> – Initiatives continued for the protection against fire, through vacuum technology, of the plant control rooms. A project was later launched to install similar fire detection/extinguishing systems in the technical rooms of the compression stations.</p> <p>In the second half of 2019, tests on the surveillance cameras capable of detecting the escape of methanol from the tanks are being conducted at the Ripalta facility. If the results of these tests are positive, this technology will be extended to all facilities where this substance is present.</p> <p>The replacement of the security management systems was completed in 2019 by installing electronic systems with SIL certification (Safety Integrity Level) at the Brugherio and Settala facilities and the same actions will be carried out in 2020 at the Fiume Treste plant).</p> <p><b>Monitoring compression units</b> – In 2019 a project was launched for the modernisation of a telediagnostic system for the compression units through the acquisition of thermodynamic and functional parameters for the future development of predictive analysis aimed at improving performance. In addition, in 2019 a project was completed for the development of a dashboard that collects the main important parameters needed for dispatch for the improved management of the turbochargers.</p> <p><b>Electrocompressors</b> – Research for the introduction of electrocompressors at the compression and thrust systems at storage sites continues, with the goal of improving the management of the systems, guaranteeing greater flexibility and reducing greenhouse gas emissions.</p> <p><b>Trigeneration</b> – In 2019 work was completed for commissioning high efficiency trigeneration plants at the Gallese and Istrana compression stations. These systems allow the self-production of electricity with internal combustion engines and the recovery of heat and the refrigeration necessary for the users of the stations. The start up of the system at the Gallese station took place in the last quarter of 2019 achieving an energy saving of more than 65% with further improvement margins following the tuning in 2020.</p> <p><b>Treatment systems</b> – Installation of latest generation, high performance equipment with a low environmental impact. The first installation of the new generators at the Fiume Trieste facility is expected from 2020.</p>

Physical integrity of infrastructures	<p><b>Collaboration with EPRG</b> – The collaboration with EPRG (European Pipeline Research Group, <a href="http://www.eprg.net">www.eprg.net</a>) continued. It is an association that conducts research into pipeline-related topics and counts Europe’s biggest gas transportation and pipeline manufacturing companies among its members, and of which Snam is a member. This group manages projects (broken down into three major areas: Design, Material and Corrosion) with the aim of constantly improving the knowledge and management of the integrity of gas pipelines throughout their life cycle (pipe manufacturing, pipeline construction and operation).</p> <p><b>Electrical protection</b> – The pilot project for innovating the electrical protection system continues. It is aimed at experimenting in the field of equipment and operational solutions based on the results of the study conducted in 2016.</p> <p><b>Geochemical and microsimical monitoring</b> – As regards storage, with regard to the new projects for the operation of deposits in conditions of overpressure and the strengthening of monitoring systems, work continues on the construction and installation of geochemical and microseismic monitoring prototypes. In 2018, Stogit focused its attention on activities aimed at monitoring microseismicity, by upgrading its networks to standards of technological excellence. The experiments, protocols and guidelines for monitoring seismicity, soil deformation and pore pressure were successfully concluded in 2019 at the Minerbio facility.</p>
Maintenance and checking of networks	<p><b>Revision of maintenance processes</b> – The “Sistema Manutenzione Asset Rete Trasporto Gas” Project (SMART GAS) continued. It is a corporate initiative aimed at improving the effectiveness of technical-operational processes, for the purpose of an overall overhaul of the working processes and regulations relating to the maintenance of company assets, through the identification of the need to develop the professional model of resources and technological tools used for carrying out maintenance operations. Specifically, the Smart LNG design and realisation phase was launched in 2019 for operations at the Panigaglia LNG terminal. The dematerialisation of the archives in the regional units continued through the eDoc document system which will be fully integrated in Smart gas.</p> <p><b>Leak detection trialling</b> – The trial of a system aimed at identifying and locating gas leaks along the transport network, based on the analysis of the pressure waves and the detection of possible perturbations and their propagation time, continued.</p> <p><b>Reduction of natural gas emissions into the atmosphere</b> – The initiatives aimed at reducing emissions continued, with the definition, specifically, of all preparatory activities for the implementation of an LDAR programme (Leak Detection &amp; Repair) for measuring and repairing leaks in Snam plants.</p> <p><b>Experimentation with air flyover checks</b> – For the purpose of evaluating the existence of technologies which are useful for the improvement of air flyover controls, trial operations continued on two themes: assessment of the current satellite detection technologies available and participation in the trial operations carried out by ENAV and ENAC on the development of the flight infrastructure in the BVLOS mode of drones.</p>
New businesses	<p><b>Innovative use of existing infrastructures</b> – The work of the Working Party dedicated to sharing information and experience on the issue of the innovative use of existing infrastructures in relation to their capacity to transport (and potentially store) different gases other than natural gas continues, with the ultimate purpose of evaluating the impacts in different areas of the business and identifying practical solutions to the problems encountered.</p> <p>The following initiatives were also examined under the scope of European associations (Marcogaz):</p> <ul style="list-style-type: none"> <li>■ <b>Power 2 Gas:</b> the process through which the electricity produced by renewable sources that is surplus to immediate consumption is transformed into hydrogen to be injected directly into the network (limited to the technically-acceptable quantities) or used for the production of synthetic methane (SINGAS) also to be injected into the network and possibly stored later;</li> <li>■ <b>Adsorbed Natural Gas (ANG):</b> this is one of the latest technological developments for the storage of natural gas in tanks. The adsorption of natural gas in a porous sorbent injected into a recipient (tank/canister) takes place at ambient temperature and low pressure (25 - 35 bar).</li> </ul>

# Mitigation of environmental and health and safety effects

Accident prevention and environmental protection are areas of management in which the creation of value is linked to the ability to mitigate the most significant impacts caused by the Company's business activities. Safeguarding the physical integrity of staff and natural capital is an integral part of the definition of Snam's corporate policies and investment decisions.

On these issues, Snam adopts specific certified management systems, with the aim of overseeing the corporate processes and activities that have the biggest impacts, linked to the fight against climate change, the reduction of energy consumption and the protection of nature and biodiversity.

## MANAGEMENT SYSTEMS

Snam also continued its commitment to expanding and maintaining management systems that cover certain specific issues such as health and safety at work, the environment and the quality of services provided.

In 2019, Snam implemented all the necessary activities to extend the certification of the management systems to the new companies that entered the scope of consolidation and to maintain and update other existing certifications in accordance with the new (ISO 14001:15 e, ISO 9001:15) standards.

To this end, 227 audits were conducted (92 of which by an external team) and 38 audits on health, safety and the environment at contractors working on site. The latter and the internal audits were partly carried out by the Snam internal team, composed of 47 auditors.



## Management systems

Company	Certification scope	Type of certification and accreditation	Year of first certification
Snam	Management of the operational continuity for the design, development and centralised management of process and remote control systems for the dispatch of natural gas transportation.	ISO 22301	2018
	Processes presided over by the Snam units for both the transportation of natural gas through pipelines, auxiliary systems and compression systems (Administration, Business Development, Marketing of services, Realisation of assets, Asset Management, HSEQ, Planning and control, Supply chain) and for storage in natural gas geological units (Marketing of services).	ISO 9001	2016
	Company	ISO 14001	2015
	Management of the security of information for the design, development and centralised management of process and remote control systems for the dispatch of natural gas transportation.	ISO 27001	2014
	Company	BS OHSAS 18001	2012
Snam Rete Gas	Company	ISO 9001	2016
	Natural gas dispatch and transportation activities	ISO 22301	2015
	Company	ISO 14001	2013
	Company	BS OHSAS 18001	2010
	Testing laboratory (LAB 764 Piped gaseous flows)	ISO 17025	2007
	Calibration laboratory (LAT 155 Natural gas mixtures)	ISO 17025	2002
GNL Italia	Company	BS OHSAS 18001	2012
		ISO 14001	2000
Stogit	Company	BS OHSAS 18001	2012
	Design and delivery of natural gas metering and accounting	ISO 9001	2008
	Company	ISO 14001	2002
ITG	Company	ISO 9001	2018
		ISO 14001	2010
		BS OHSAS 18001	2009
Snam 4 Mobility	Company	BS OHSAS 18001	2018
		ISO 9001	2018
TEP	Company	ISO 14001	2018
		UNI 11352:2014	2013
Cubogas	Company	ISO 9001:2015	2010
		BS OHSAS 18001	2018
IES Biogas	Company	ISO 9001	2018
		ISO 14001	2018
TEA Servizi	Company	ISO 9001:2015	2018
		UNI 11352:2014	2019
		ISO 9001	2014
		ISO 14001	2014

## PREVENTION OF ACCIDENTS AND PROTECTION OF HEALTH

The Snam Group has a long-term commitment to developing and promoting the protection of health and safety at its workplaces, as part of an ongoing process to improve its HSE performance in accordance with its Health, Safety, Environment and Quality Policy.

When managing health and safety issues, it is essential to implement standardised management systems developed and maintained in accordance with the BS OHSAS 18001 standard. Specifically, Snam's Worker Health and Safety Management System aims to carry out strategic guidance, coordination and monitoring for the Group's operating companies.

**NFS** Accident prevention, Snam's main health and safety objective, is carried out through the adoption of targeted actions aimed at eliminating or reducing risk factors inherent in employees' work.

The in-depth analysis of the causes of accidents aims to identify any measures necessary to eliminate, mitigate and correct risk factors, implementing organisational, technical and managerial solutions on equipment, plants and workplaces, as well as evaluating operational and behavioural procedures of employees and suppliers.

In a logic of the continuous improvement of its performance, in the early months of 2018 Snam launched the "Snam4Safety" project, with the goal of further strengthening the culture and awareness of all employees and contractors on the issue of health and safety. Specifically, in 2019 the organisational and IT instruments were completed and implemented to make the new behavioural models in the project operational.

In order to raise awareness among employees on the issue of safety, in 2011 Snam established an initiative called the "Zero Accident Award", which rewards employees who go 365 consecutive days without an accident in the workplace. Personnel taking part in the initiative are divided into homogeneous teams according to employment/safety manager. In 2019 8 teams out of a total of 810 employees were rewarded.

An awareness raising initiative, the "Trofeo Sicurezza Appaltatori" (Contractor's Safety Prize), is also dedicated to contractors with the aim of focusing the attention of suppliers on these issues. Specifically, the performance of businesses is evaluated by collecting and analysing specific indicators (such as, for example, accident indices and negative feedback on subject of interest). In 2019, the Contractor Safety Prize (for results achieved in 2018) was awarded for the third year in a row to Max Streicher, a company specialised in the building of energy infrastructure, more specifically gas pipelines.

### Health and safety training

(no. of hours)	2017	2018	2019
Hours provided	8,193	25,219	20,291
Equity investments	1,508	4,515	2,916

As far as health and safety training is concerned, in addition to the hours counted in the table, in 2019, 6,685 hours of HSEQ integrated training that cannot be broken down was provided for 1,505 participants.

The protection of workers' health is based on ongoing monitoring of risk elements analysed in corporate processes and the implementation of adequate prevention and protection measures. Work environment inspections are periodically carried out by the Duty Doctor and the Prevention and Protection department, in order to evaluate adequate and appropriate working and environmental conditions and to identify possible measures for prevention or improvement.

Snam's workers are not exposed to a high risk of contracting occupational diseases (no cases have been recorded in the last three years). Personnel exposed to specific risk factors undergo periodic medical health surveillance by the appropriate medical staff. These employees can under the specific healthcare protocols defined according to risk, plus any supplementary specialist visits. Employees whose work requires them to travel to non-European countries receive specific preventive care.

The various initiatives run by Snam to promote workers' health include: a flu vaccine campaign, an early-diagnosis plan to prevent cancer, agreements with specialist institutions, a ban on smoking in the workplace (which also includes e-cigarettes), and a ban on drinking alcohol in company canteens. After a year in which no reports of any kind were received, one case of an occupational illness was reported in 2019 which is being investigated.

## Health monitoring

(no.)	2017	2018	2019
Medical visits	1,914	1,350	1,984
Periodical medical visits	1,688	1,061	1,747
Environmental surveys	279	247	243

## CLIMATE CHANGE AND ENERGY EFFICIENCY

Snam contributes to the fight against climate change starting with its energy decisions: in 2019, 95.7% of the Company's energy requirements were covered through the use of natural gas.

The main greenhouse gases (GHG) emitted into the atmosphere due to Snam's activities are methane (CH<sub>4</sub>), the main component of natural gas and carbon dioxide (CO<sub>2</sub>). Methane emissions arise from the release of natural gas into the atmosphere and are generated by the normal plant operation, by operations to connect new gas pipelines and the maintenance thereof, or by accidental events occurring on infrastructure, whereas the CO<sub>2</sub> produced is directly correlated with fuel consumption. In 2019, like last year, the contribution from the use of hydrofluorocarbons (HFC) in refrigeration systems was included in the evaluation of direct emissions (equal to approximately 1.48 kt CO<sub>2eq</sub>).

Snam intends to develop projects to strengthen its operational excellence and thus contribute to the containment of climate-altering emissions. Lastly, the Company set new targets for reducing its Scope 1 and Scope 2 natural gas and CO<sub>2eq</sub> emissions:

- a 40% reduction by 2030 of all direct CO<sub>2eq</sub> emissions (Scope 1) and indirect (Scope 2), from base year 2016;
- a 40% reduction in natural gas emissions by 2025 from base year 2016 (target increased by 15 percentage points compared with last year).

Various initiatives were adopted to achieve these targets including the recompression of gas in the transportation network and compression systems, the production of electricity from photovoltaic plants, the purchase of green electricity, the installation of LED lighting systems to replace other lighting equipment with greater consumption, the savings from the redevelopment of buildings, the continuation of the smart working project. All of these interventions made it possible, globally, to prevent the emission into the atmosphere of **181,800 tonnes of CO<sub>2eq</sub>**, the highest value recorded in recent years (+17% compared with 2018).

As far as the use of electricity produced from renewable sources and from photovoltaic plants owned by the Company is concerned, in 2019 it represented 44% of total electricity consumed: from this year the Enna compression plant (transportation) will also procure green electricity. This plant joins those of Messina and Terranuova B. (SRG), Brugherio (STG), the Panigaglia LNG Plant and several areas of Snam4 Mobility.

In addition, in February 2019 Snam issued the first Climate Action Bond, used to finance projects relating to the reduction of CO<sub>2</sub> emissions, the development of renewables, energy efficiency and the development of green projects based on environmental criteria.

## Renewable source plants

Type	2017			2018			2019		
	(no.)	Total capacity (kW)	Energy produced (kWh)	(no.)	Total capacity (kW)	Energy produced (kWh)	(no.)	Total capacity (kW)	Energy produced (kWh)
Wind generators	1	1.7		1	1.7		1	1.7	
Photovoltaic plants	1,366	984.4	1,044,309	1,534	1,052.7	1,128,383	<b>1,793(*)</b>	<b>1,127.3</b>	<b>829,459</b>
<b>Total</b>	<b>1,367</b>	<b>986</b>		<b>1,535</b>	<b>1,054.4</b>		<b>1,794 (*)</b>	<b>1,129</b>	

(\*) Including 1,497 back-up plants.

Snam installed photovoltaic plants in several of the buildings it owns (territorial headquarters and maintenance centres) and at certain gas storage facilities. In 2019 the total number of plants reached 1,794 units (+17% compared to 2018) and the installed power increased by 75 kW compared to 2018, passing from 1,054 kW to 1,129 kW (+7%).

This increase mainly involves the installation of 258 new back-up systems and a new photovoltaic system connected to the electricity grid. The reduction in the energy produced was caused by the non-availability of several systems adversely affecting the forecast annual production.

## **NFS** ENVIRONMENTAL MONITORING AND RESTORATION IN THE DEVELOPMENT OF THE GAS PIPELINE NETWORK

Snam considers safeguarding nature in the areas where it operates to be of particular importance. For this reason during the realisation phase of its works it is implementing the most appropriate project decisions to keep the impacts on biodiversity to a minimum. Once the infrastructures have been completed, the Company will put in place environmental restoration and monitoring projects in agreement and in collaboration with the responsible bodies.

The objective of vegetation restoration, in particular reforestation, is not merely to reconstitute forest areas but to reconstitute the landscape in general and to revive the biological functionality of vegetated areas, understood especially in their role as habitats for fauna with specific biodiversity characteristics. Restoration and reforestation is followed by the implementation of "cultivation treatments", i.e. the care and maintenance, for a period of at least five years, of the plants which have been planted.

The monitoring projects involve sections of several pipelines that interfere, even only marginally, with natural areas high in fauna and ecological value. These programmes are aimed at checking the renaturalisation process of the areas affected by the works, based on the comparison between the conditions after the restoration ("post-operam") and the original conditions ("ante-operam"). Monitoring is normally performed for the most significant habitats identified in the design phase. The km of pipelines subject to replanting depends on the km of lines laid in the year and the environments they have passed through.

### Environmental restoration and monitoring

<b>(network km)</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
Restoration	203	227	<b>63</b>
New reforestation (*)	21	21	<b>8</b>
Plant care	59	74	<b>73</b>
Environmental monitoring	388	445	<b>747</b>

(\*) Surface area covered by new reforestation: 157,000 m<sup>2</sup>.



# Elements of risk and uncertainty



# Introduction

This chapter illustrates the main elements of uncertainty featured in the ordinary management of Snam's operations.

The risks identified by Snam are broken down into financial and non financial risks. The latter are classified in the following categories:

- strategic;
- legal and non-compliance;
- operating.

Financial risks are illustrated in Note 25. "Guarantees, commitments and risks – financial risk management", of the Notes to the consolidated financial statements.

## STRATEGIC RISKS

### Regulatory and legislative risk

**Regulatory and legislative risk** for Snam is linked to the regulation of activities in the gas sector. The decisions of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) and the National Regulatory Authorities of the countries in which the foreign subsidiaries operate, European and national regulations and, more generally, the change in the regulatory reference framework, could have a significant impact on the operations, results and financial stability of the Company.

It is not possible to foresee the effect that future changes in legislative and fiscal policies could have on Snam's business and on the industrial sector in which it operates.

Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

### Macroeconomic and geo-political risk

Because of the specific nature of the business in which Snam operates, there are also **risks associated with political, social and economic instability in natural gas supplier countries**, mainly related to the gas transportation sector. A large part of the natural gas transported in the Italian national transportation network is imported or moved through countries in the MENA area (Middle East and North Africa, particularly Algeria, Tunisia, Libya and, in terms of the TANAP-TAP, Turkey along with the states bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine and in the

future, Azerbaijan and Georgia), nations subject to political, social and economic instability which could evolve into potential crisis scenarios in the future.

In particular, the import and transit of natural gas from/ and through these countries are subject to an extensive set of risks, including: terrorism and common crime, changes in political-institutional balances; armed conflict, socio-political and ethno-sectarian tensions; disorder and unrest; inadequate legislation on insolvency and creditor protection; limits on investment and the import and export of goods and services; introduction of and increases in taxes and excises; forced renegotiation of contracts; nationalisation of assets; changes in trade policies and monetary restrictions.

If a Shipper using the transportation service via Snam's networks cannot procure the transportation of natural gas from/or through the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, to an extent such so as to determine or incentivise the consequential inability to fulfil contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

In addition, Snam is exposed to macro-economic risks deriving from relocation or tension on financial markets or situations deriving from exogenous phenomena, which could have an impact on liquidity and access to financial markets.

### Commodity risk linked to changes in the price of gas

With reference to the **risk connected with changes in the price of natural gas**, however, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover own gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind. Similar coverages of risk are guaranteed by the regulations of countries in which the foreign affiliates operate or the relative transportation contracts. However, in relation to transportation activities, the Energy, Networks and Environment Regulatory Authority (ARERA) has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by users of the service to the leading transportation company, of quantities of gas to cover unaccounted-for gas (UFG), due as a percentage of the quantities respectively injected into and withdrawn from the transportation network. Specifically, the Authority, by means of Resolution 514/2013/R/gas, defined the permitted level of the UFG given the average value registered over the last two years, and decided to keep

this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. This approach was subsequently confirmed for the years 2018 and 2019 of the transition period as well.

Through resolution no. 114/2019/R/gas, under the scope of the process for revising the criteria for calculating the revenues recognised for the natural gas transportation and metering service for the fifth regulatory period (2020-2023), the criteria for recognising UFG were also defined. On the basis of these criteria, from 2020, the recognition of quantities of own gas, network leaks and UFG will take place in monetary terms instead of recognition in kind by shippers. However, the change in the price of natural gas will continue not to represent a significant risk factor for Snam, since there is a hedging mechanism for the risk associated with differences between the price recognised for own gas, network leaks and UFG volumes and the effective procurement price. With reference to the quantities recognised, the above-mentioned resolution confirmed the current criterion relating to own gas and leaks, while for UFG the permitted level will be updated annually and will therefore be equal to the average of the quantities effectively recorded in the last four years available.

Taking the above-mentioned unaccounted for gas mechanisms into consideration, with reference to the transition period, concluded on 31 December 2019, the uncertainty with reference to any UFG quantities recorded in excess of the quantities recognised remains. In this regard note that, under the scope of the dialogue established with the ARERA, in 2019, it recognised part of the higher charges incurred in 2018 and early recognition for the same phenomena on any quantities in excess of the quotas recognised in 2019. Generally speaking, the change in the regulatory framework with regard to the recognition of natural gas quantities to cover own gas, network leaks and UFG could have negative effects on the Snam Group's operations, result balance sheet and cash flow.

## Market risk

With reference to the **risk connected with demand for gas**, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via its directly controlled transportation companies, is partly related to volumes transported. The ARERA, however, introduced a guarantee mechanism with respect to the share of revenues related to the volumes transported. This mechanism provides for the reconciliation of major or minor revenues, exceeding  $\pm 4\%$  of the reference revenues related to the volumes transported. Under this mechanism, approximately 99.5% of total revenues from transportation activities are guaranteed. This mechanism was also confirmed, through resolution 114/2019/R/gas for the fifth regulatory period.

Based on the tariff system currently applied by the ARERA to natural gas storage activities, Snam's revenues, via Stogit, relate to infrastructure usage. However, the ARERA has introduced a mechanism to guarantee reference revenues that allows companies to cover a significant portion of revenues recorded. Until the fourth regulatory period (2015-2019), the minimum guaranteed level of revenues recognised was around 97%, while for the fifth regulatory period (2020-2025) resolution 419/2019/R/gas extended the level of guarantee to all recognised revenues (100%). This resolution also introduced an upgraded incentive mechanism following a reduction in the share of revenue recognised subject to the hedge factor. This mechanism will be defined by the ARERA with subsequent provisions.

Lastly, with reference to the tariff regulation criteria for the LNG regasification service for the fifth regulatory period (2020-2023), resolution 474/2019/R/gas confirmed the reference revenue hedging mechanism at a minimum guaranteed level of 64%.

In general, the change to the regulatory framework in force could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

Abroad, protection from market risk is offered by the French regulatory authority (Terēga) and Greek (Desfa), from the TAP and Austria long-term contracts (different expiry dates for TAG and Gas Connect from 2023). In Austria and the United Kingdom (Interconnector UK) regulation does not guarantee hedging volume risk.



## Risk of climate change

Over the last few years, significant climatic phenomena have occurred with increasing frequency, which, together with the ever-increasing data on CO<sub>2</sub> emissions, have led to the introduction of regulations that have introduced increasing CO<sub>2</sub> reduction targets, with particular reference to European operators. The evolution of these phenomena and the introduction of these regulations could represent a growing risk against which, however, companies have the opportunity to act, mitigating it, both by implementing increasingly stringent and demanding policies to reduce greenhouse gas emissions (possibly also by taking actions that could increase the cost of compliance with current regulations), and by continuing to position themselves in the energy transition, thus seizing the opportunities. In this sense, Snam will continue its commitment to strengthen a sustainable business model on all ESG factors, starting with those that have an impact on the climate and the environment, and define a virtuous path towards climate neutrality by 2050.

The **risks connected with the emissions market** fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. With the start of the third regulatory period (2013-2020) of the European Emissions Trading System (EU - ETS), the updating of the sector regulations has had as its main objective the authorisations for emitting greenhouse gases and a constant reduction of the quotas on emissions released free of charge. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant, and will also depend on the actual functionality of the plants. The shares assigned free of charge to Group plants are no longer sufficient to comply with the regulatory obligations relating to ETS mechanisms, therefore Snam will procure the missing shares on the market. The further development in progress of the European regulation could lead to identifying new methods for the management of the necessary shares.

Through resolution 114/209/R/gas of 28 March 2019 the ARERA defined the regulatory criteria for the fifth regulatory period (2020-2023) of the natural gas transportation and metering service, including, among other things, the recognition of costs relating to the Emission Trading System (ETS). Resolutions 419/2019/R/gas and 474/2019/R/gas introduced the recognition of costs relating to the ETS mechanism for the storage system as well (regulatory period 2020-2025) and for the regasification service (2020-2023).

The climate change scenarios could cause a change in the choice of energy mixes of various European countries and in the behaviour of the population and could have an impact on the demand for natural gas and volumes transported, and could also influence the development of the use of alternatives to gas, promote greater penetration of renewable bases (biomethane, synthetic methane and hydrogen) and the promotion of new businesses. Climate change could also increase the severity of extreme weather events (floods, droughts, extreme temperature fluctuations), worsening natural and hydro-geological conditions in some areas with a possible impact on the quality and continuity of the service provided by Snam as well as on Italian and European gas demand. With reference to the effects of the change in the gas demand on the balance sheet, income statement and financial position of the Snam Group, see the previous paragraph "Market risk".

With regard to the new climate agreements in force globally (including the Paris Agreement adopted at COP 21 in 2015 in which governments agreed to maintain the average increase in global temperature to below 2°C compared with pre-industrial levels as the long-term objective) aimed at promoting the transition to a more sustainable economy that promotes zero-emission energy sources, can anticipate a regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at a European and national level, which could also have an impact on the development and financing of energy infrastructure globally.

## Legal and non-compliance risk

**Legal and non-compliance risk** concerns the failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. As regards specific cases, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, inter alia, may also result in (possibly significant) sanctions on the Company based on the administrative responsibility of entities (Legislative Decree 231 of 8 June 2001). With regard to the **Risk of Fraud and Corruption**, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations.

Reputational checks and also accepting and signing the Ethics and Integrity Agreement are pillars of the control system designed to prevent the risks associated with illegal behaviour and criminal infiltration of our suppliers and sub-contractors, with the goal of guaranteeing transparent relations and professional morality requirements throughout the supply chain and for the entire duration of the association.

Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the Global Corporate Supporter Partnership. As part of this collaboration, in October 2018 Snam renewed its partnership with the Transparency International, General Secretariat in Berlin, on the eighteenth International Anti-Corruption Conference of Transparency International held in Copenhagen. On this occasion Snam took part in a select round table discussion which, for the first time, included the participation of 4 companies from the private sector as well, including Snam as the only Italian company.

In 2019, Snam also strengthened its collaboration with other important bodies active in the fight against corruption.

Specifically, in October Snam became part of the Partnering Against Corruption Initiative (PACI) of the World Economic Forum, an initiative with the intention of bringing together the main Compliance & Anti-corruption Officers of several of the most important companies in the world at least twice a year to share and reinforce best practices and preventive arrangements; in November it joined the Integrity & Compliance Taskforce of the B20 under the Presidency of Saudi Arabia, whose work began in January 2020 with an inception event and will continue for the entire year until the summit in October in which the results of the works and the proposals to submit to the G20 will be presented.

In addition to new collaborations, in 2019 Snam also participated in a series of events dedicated to the issues of transparency, integrity, business ethics, as well as best practices and good governance for the prevention of corruption. Among the most significant events that Snam took part in 2019, first and foremost those held at the OECD should be mentioned, namely the Global Anti-Corruption & Integrity Forum in March on "Tech for Trust: risks and opportunities of new technologies for anti-corruption & integrity", the Trust in Business Forum and the Working Party on State Ownership and Privatisation Practices in October at the OECD and, lastly, Snam also participated in the Working Group on Bribery in December 2019, an annual consultation which was preceded by a select meeting of permanent members of the business at the OECE (BIAC). In addition, in October, Snam's General Counsel was also appointed as Vice Chairman of BIAC's Anti-corruption Committee, an extremely important recognition, which will see Snam — the only Italian company in the BIAC leadership — even more committed and involved in the activities of the OECD on the issues of integrity and anti-corruption.

Lastly, in December Snam took part in the Italian Business Integrity Day — an initiative under the patronage of the Anti-corruption Coordination of the Ministry of Foreign Affairs — which took place at the 8<sup>th</sup> Conference of the Member States of the United Nations Convention Against Corruption in Abu Dhabi. In that setting, Snam reported the challenges that it faces daily in the fight against corruption and the best practices implemented to manage various complex issues. In this context, Snam also participated in a round table discussion organised by the United Nations Office on Drugs and Crime called "Private sector as a Partner in Anti-Corruption Education", in which it reported on its experience and its commitment to education, aimed not only at its personnel but also to the outside.

## OPERATIONAL RISKS

### Ownership of storage concessions

The risk linked to **maintaining storage concessions** is associated for Snam to the business in which the subsidiary Stogit operates on the basis of concessions provided by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted — within the statutory terms — the extension request at the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion. One concession (Fiume Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years<sup>38</sup>. Following the appeals in 2011 submitted by the Municipalities of Azzanello, Verolavecchia and another seven parties also representing environmental associations, the Council of State, with the opinion included in the Presidential Decree of 16 September 2019 cancelled the evaluation of the environmental impact with regard to the Bordolano storage facility. From the perspective of the risk of business continuity for the storage activities at Bordolano, note that: (i) the Council of State's decision is without prejudice to the contents of the 2009 VIA Decree and with reference to the subsequent provisions with illegality confirming the lasting validity of the provisions contained therein, protecting security and public safety; (ii) Article 29, paragraph 3 of the environment act requires that in the case of the cancellation of the VIA provision in a judicial setting relating to a project already realised, the competent authority can allow the works or activities to continue. Through Note U.0025890 of 22 November 2019,

the Ministry of Economic Development issued a provision pursuant to Article 29, paragraph 3 of Legislative Decree 152/2006 relating to the continuation of operations for the Bordolano storage facility. The note of the Ministry of the Environment DVA - U.28389 of 29 October 2019, reopened the VIA proceedings with the participation of the Municipalities of Azzanello and Verolavecchia; the proceedings are in progress and are being followed by Stogit.

If Snam is unable to retain ownership of one or more of its concessions or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on the Company's operations, results, balance sheet and cash flow.



### MALFUNCTION AND UNEXPECTED SERVICE INTERRUPTION

The risk of the **malfunctioning and unforeseen interruption of the service** is determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

<sup>38</sup> The Stogit concessions issued prior to the entry into force of Legislative Decree 164/2000 can be extended by the Ministry of Economic Development a maximum of twice, for ten years at a time, pursuant to Article 1, paragraph 61 of Law 239/2004. Pursuant to Article 34, paragraph 18 of Decree-Law 179/2012, converted by Law 221/2012, the duration of the single Stogit concession issued after the entry into force of Legislative Decree 164/2000 (Bordolano) is for thirty years with the possibility of extension for a further ten years.

## **NFS** DELAYS IN THE PROGRESS OF INFRASTRUCTURE IMPLEMENTATION PROGRAMS

There is also the concrete possibility that Snam could incur **delays in the progress of infrastructure construction** programmes as a result of several unknowns linked to operating, economic, regulatory, authorisation, competition and social factors, regardless of its intentions. Snam is therefore unable to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting Snam's financial position and results.

Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. In addition, changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results.

## **NFS** ENVIRONMENTAL RISKS

Snam and the sites in which it operates are subject to laws and regulations relating to pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential costs and liabilities related to the operation and its assets. The costs of possible environmental restoration obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility and are therefore difficult to estimate. Snam cannot predict if and how environmental regulations and laws may over time become more binding and cannot provide assurance that future costs to ensure compliance with environmental legislation will not increase or that these costs can be recovered within the mechanism's tariffs or the applicable regulation. Substantial increases in costs related to environmental compliance and other aspects related to it and the costs of possible sanctions could negatively impact the business, operating results and financial and reputational aspects.

## **NFS** EMPLOYEES AND STAFF IN KEY ROLES

Snam's ability to operate its business effectively depends on the skills and performance of its personnel. The loss of "key" personnel or the inability to attract, train or retain qualified personnel (particularly for technical positions in which the availability of appropriately qualified personnel may be limited) or situations in which the capacity to implement the long-term business strategy is influenced negatively due to significant disputes with employees could trigger an adverse effect on the business, financial conditions and operating results.

## Risk linked to foreign equity investments

Snam's investee companies abroad may be subject to regulatory/legislative risk, conditions of political, social and economic instability, market risks, and the cyber security, credit and financial and other risks typical of the natural gas transportation and storage segments identified for Snam such to negatively influence their operations, economic results, balance sheet and cash flows. For Snam, this could have negative impacts on the contribution to profit generated by such investments.

## Risks associated with future acquisitions/ equity investments

Every investment made under the scope of joint venture agreements and any future investment in Italian or foreign companies could involve an increase in the complexity of the Snam Group's operations and it may not be possible to ensure that these investments generate the anticipated income under the scope of the acquisition or investment decision and are correctly integrated in terms of quality standards, policies and procedures consistent with the rest of Snam's operations. The integration process could require additional costs and investments. The failed integration of the investment made could have a negative impact on the business, operating results and financial aspects.

## CYBER SECURITY

Snam carries out its activities through a complex technological architecture relying on an integrated model of processes and solutions capable of promoting the efficient management of the entire country's gas system. The development of the business and recourse to innovative solutions capable of continuous improvement, however, requires increasing attention to be focused on aspects of cyber security. For this reason, Snam has developed its own cyber security strategy based on a framework defined in accordance with standard principles on the subject and focusing constant attention on Italian and European regulatory developments, especially as far as the world of critical infrastructures and essential services is concerned. First and foremost, this strategy involves adapting one's own processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and ISO 22301 (Business Continuity Management Systems) and the formal certification of conformity to the listed standards. Alongside this and in accordance with technological developments, solutions aimed at protecting the Company from the cyber threats and malware are assessed and, where deemed appropriate, implemented.

More specifically, Snam has defined a cyber security incident management model intended to prevent and, when necessary, guarantee prompt remediation against events potentially capable of harming the confidentiality, integrity and availability of information processed and the IT systems used. At the basis of these activities is a Security Incident Response Team which, by relying on technologies that make it possible to collect and correlate all security events recorded throughout the company's IT infrastructure, has the task of monitoring all anomalous situations that could have negative impacts for the company and activate, when necessary, suitable escalation plans to guarantee the involvement of the various operating structures.

With reference to the management of information supporting business processes, it is worth highlighting that the company owns (fibre) assets used for data transmission to and from the country; this gives greater intrinsic security thanks to not being dependent on the service provided by third-parties and the possibility of using the communication channel exclusively. Lastly, as part of the cyber incident management activities (preventive and reactive) information-sharing with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events. A great deal of attention is also paid to increasing awareness and specialist training of personnel, in order to facilitate the identification of weak signals and raising consciousness about risks of a cyber nature that could occur during normal work activities.



# Outlook



Natural gas is establishing itself globally as an increasingly plentiful and competitive energy source as well as an immediate and economical solution to decarbonisation, with a significant growing forecast for **gas demand** in future years, particularly in the Americas and China.

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 Europe and in Italy there has been a recovery in demand in recent years, associated with the growing need for imports from diversified routes in the light of the decline in domestic production and in view of various countries gradually abandoning thermoelectric production from coal. In Europe, import requirements grew by 30% since 2014 and is expected to rise further in the medium-term, while in Italy, according to joint Snam-Terna scenario published on 30 September 2019, gas consumption to 2040 is expected to be essentially in line with current consumption, with renewable gases (biomethane and hydrogen green) playing an increasing part.

Snam has forecast an increase in **investments** for 2019-2023, bringing them to €6.5 billion, around 14% higher than in the 2018-2022 plan, thanks to the greater contribution of new energy transition businesses and the increase in investments in replacements (1,000 km of network replacements are scheduled over the time frame of the plan) in order to continue to guarantee the maximum resilience, flexibility and efficiency of the existing infrastructures.

Investments in the **SnamTec** project (Tomorrow's Energy Company) are projected to be €1.4 billion, with the goal of accelerating Snam's innovative capacity and its assets for taking advantage of the opportunities offered by the development of the energy system.

Through the new plan to 2023 Snam intends to strengthen its role in **energy transition** increasing its presence in the biomethane sector, which will play a strategic role in the decarbonisation journey and confirming its commitment to sustainable mobility and energy efficiency. In addition, it wants to be among the pioneers in the use of **hydrogen** as the clean energy source of the future in energy transition, establishing a business unit with the task of evaluating potential pilot projects and contributing to the development of the supply chain.

Environmental, social and governance factors (**ESG**) are increasingly integrated in the Company's management and strategies. From an environmental perspective, methane emissions are expected to fall by 40% to 2025 (with 2016 as the base) compared with the 25% target of the previous plan. There is projected to be a 40% reduction in CO<sub>2</sub> emissions to 2030 thanks to the launch of the conversion of six gas-electric hybrid power plants which will also contribute

to the flexibility of the electric system and to energy efficiency actions at buildings. There is also projected to be a 40% reduction in CO<sub>2</sub> to 2030 from electricity consumption thanks to greater recourse to solar power.

At the level of governance, the Shareholders' Meeting approved the permanent inclusion in the by-laws of provisions that guarantee the minimum representation of one third in corporate bodies of the less represented gender and a new policy was adopted to promote diversity and inclusion within the company. On the issue of combating corruption, Snam is one of the four companies (the only Italian one) to have forged a global partnership with Transparency International and, since the beginning of 2019, it has already carried out 5,000 reputational checks at suppliers and third-parties.

Snam expected to reinforce the **efficiency plan** launched in the second half of 2016, with an additional €65 million of anticipated savings to 2023, with 2016 as the base, compared with the €60 million in the previous plan. At a cumulative level, €51 million has already been recorded for the period 2016-2019, the target previously planned for 2021.

The **optimisation of the financial structure** over the last three years led to a reduction in the average cost of borrowing from 2.4% in 2016 to around 1.3% in 2019, including the effects of non-recurring items. The actions implemented also make it possible to reduce the volatility of the cost of borrowing, which is estimated to remain stable at an average value of 1.4% over the time frame of the plan. In addition, with the objective of aligning the financing strategy with its sustainability targets and expanding its investor base, the first Climate Action Bond has been issued which sets the rules for the issuing of bond loans aimed at financing investments under the scope of environmental sustainability and to April 2019 the margin of the sustainable loan was reduced by €3.2 billion.

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.



# 2019 consolidated non-financial statement

(Legislative Decree no. 254 of 30 December 2016)

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## INTRODUCTION AND GUIDE TO READING THE DOCUMENT

The Consolidated Non-Financial Statement (hereinafter also the "Non-Financial Statement", "Declaration" or "DNF") of the Snam Group constitutes a specific section of the Report on Operations-Integrated Report (hereinafter also Report on Integrated Management) and is drafted in compliance with the provisions of the Legislative Decree of 30 December 2016, no. 254 and subsequent supplements (hereinafter also the Decree)<sup>39</sup>.

The DNF contains relevant data and information in relation to environmental, social and personnel-related issues, respect for human rights, and the fight against active and passive corruption. The relevance of the individual themes is defined taking into account the activities carried out and the characteristics of Snam<sup>40</sup>.

The scope of reference of the information in the DNF coincides with the scope of consolidation of the Consolidated financial statements and includes:

- **Corporate and other activities** (Snam S.p.A. with the subsidiaries Gasrule Insurance DAC, Snam International BV, Snam Gas & Energy Service-Beijing);
- **Transportation** (Snam Rete Gas S.p.A., Asset Company 2 S.r.l., Infrastrutture Trasporto Gas S.p.A., Enura S.p.A.);
- **Liquefied Natural Gas regasification** (GNL Italia S.p.A.);
- **Storage** (Stogit S.p.A.);
- **Sustainable mobility and Biomethane** (Snam4Mobility S.p.A., Cubogas S.r.l., IES Biogas S.r.l., Enersi Sicilia S.r.l., Snam4Environment S.r.l. and Gruppo Renerwaste);
- **Energy efficiency** (Asset Company 4 S.r.l., TEP Energy Solution S.r.l. and TEA Servizi S.r.l.).

Regarding the environmental aspects reported, the companies Snam International BV, Gasrule Insurance DAC, Enura SpA, Snam4Environment Srl, Renerwaste Group (acquired at the end of 2019) and Snam Gas & Energy Service-Beijing are excluded from the consolidation. These companies have no significant environmental impact and

weight on the total workforce of the Group by less than 2%. Regarding health and safety aspects, the company Snam Gas & Energy Service-Beijing is excluded from the consolidation, as it also has low relevance on this aspect.

The structure of the Snam Group, including investments abroad, is shown on pages 6-7 of the Integrated Management Report<sup>41</sup>.

The content of the DNF is integrated, where necessary or appropriate, with other information included in the Report on Integrated Operations, in the Report on Corporate Governance and Ownership Structures, and on the Company's website ([www.snam.it](http://www.snam.it)), which can be found and consulted by following the specific references<sup>42</sup>.

In order to standardise the reporting of data and information, as well as to facilitate the connection with each issue envisaged by the Decree, each area listed above has been divided into specific paragraphs divided into four sections dedicated respectively to:

- the main results achieved, future objectives and reference SDGs;
- relevance of the theme and related risks generated or suffered;
- company policies and commitments and their implementation in management operations;
- relevant performance indicators to understand the results obtained in pursuing these commitments.

Specifically, this report has been prepared in conformity with the GRI Sustainability Reporting Standards published in 2016 by the GRI (Global Reporting Initiative) adopting the option "in accordance – Core"<sup>43</sup>. Within the DNF, with reference to the financial year ended 31 December 2019, the results of the previous two financial years have been reported for comparison purposes.

The Report on Integrated Operations, of which DNF is a specific section, is published in the 2019 Annual Financial Report available on the Company's website at [www.snam.it/en/investor\\_relations/Reports/](http://www.snam.it/en/investor_relations/Reports/).

39 See Article 5, paragraph 1 of Legislative Decree no. 254 of 30 December 2016, Law no. 145 of 30 December 2018, Article 1073.

40 See Article 3, paragraph 1 of the Decree no. 254 of 30 December 2016.

41 See Article 4, paragraph 1 of the Decree no. 254 of 30 December 2016.

42 See Article 5, paragraph 4 of the Decree no. 254 of 30 December 2016.

43 See Article 3, paragraph 5 of the Decree no. 254 of 30 December 2016.

## PROFILE AND ACTIVITIES OF SNAM

Founded in 1941 as Società Nazionale Metanodotti, for more than 75 years Snam Snam is one of the world's leading energy infrastructure operators and one of the largest Italian listed companies in terms of market capitalization. The company's sustainable and technologically advanced network guarantees security of supply and promotes development in the areas in which it operates, while also contributing to promote the energy transition. Through its international subsidiaries, it operates in Albania (AGSCO), Austria (TAG, GCA), China (Snam Gas & Energy Services Beijing), France (Terèga), Greece (DESFA) and the United Kingdom (Interconnector UK). Snam is also one of the main shareholders of TAP (Trans Adriatic Pipeline), the final section of the Southern Energy Corridor.

The company has the most extensive transmission network among European peers (over 41,000 km including international activities) and greatest natural gas storage capacity (ca. 20 billion cubic meters, including international activities). It is also one of the main regasification operators in Europe, an activity it carries out through its Panigaglia terminal and its stakes in the Livorno (OLT)<sup>44</sup> and Rovigo (Adriatic LNG) plants in Italy and in the Revithoussa (DESFA) plant in Greece, with a total pro rata regasification capacity of around 8.5 billion cubic metres per year.

Snam contributes to the decarbonisation of the Italian system through its new energy transition businesses: sustainable mobility (compressed natural gas (CNG) and bio-CGN and liquefied natural gas (LNG) and bio-LNG, small-scale LNG distributors), biomethane infrastructure from organic waste and agricultural and agro-industrial waste, energy efficiency services for apartment buildings, the public administration and industry. In addition, in 2019 Snam was the first European company to trial the introduction of hydrogen mixed with natural gas into its network.

Its business model is based on sustainable growth, the development of talent, transparency in relations with the regions, also thanks to constantly listening to and having discussions with local communities and the social initiatives of the Snam Foundation. Through the SnamTec project, launched in 2018, Snam has greatly accelerated investments for energy transition, focusing on technological development, innovation and businesses in the green economy, such as sustainable mobility, biomethane, and more in general the use of renewable gases, energy efficiency, thereby promoting the journey towards decarbonisation.

Snam has been listed on the Italian stock exchange since 2001. Its share price features not only on the Italian FTSE MIB index but also on leading international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and the major sustainability indices (Dow Jones Sustainability World Index, FTSE4Good, Ethibel, MSCI, STOXX, ECPI).

For more information on the size of the national infrastructure network and the scope of Snam's activities, please refer to the paragraph "Snam's presence in Italy and in the international infrastructure system" of the Integrated Management Report.

## STAKEHOLDER RELATIONS

Positive and consistent relations over time with stakeholders is a fundamental part of Snam's management model. Relations with stakeholders are carried out with the aim of increasing mutual trust and establishing an ongoing, honest and transparent dialogue. All corporate structures contribute to the various activities involving stakeholders, each within their own prerogatives, roles and responsibilities with centralised coordination.

Snam's approach to stakeholder engagement, explained in the **Stakeholder engagement policy**, is aimed at:

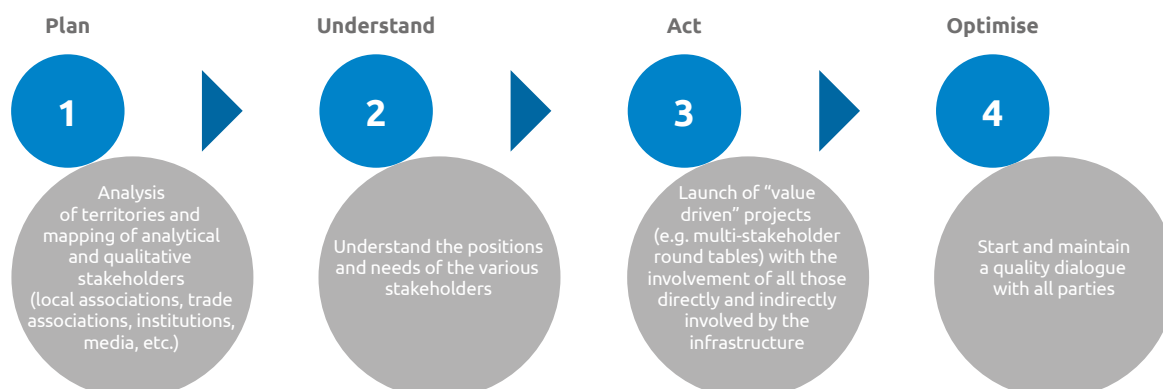
- identifying the various categories of stakeholders, through mapping, with whom the Company deals, following the evolution of the context and development of company activities;
- analysing and understanding the profile of stakeholders and the position of the Company with regard to them;
- taking an in-depth look at the interests and issues that are important for each category of stakeholder, through the periodic updating of the materiality analysis;
- regularly communicating management results to stakeholders in relation to the material issues of mutual interest through the Sustainability Report and all the other reporting and communication tools.

The updating of stakeholder mapping, which took place in 2019, provides for the recognition by all corporate functions of those with whom there are regular relations.

The processing of the results led to the identification of the following categories: **Communities and local areas, Investors and lenders, Other operators, Media, Suppliers, Customers, People, Business partners, Authorities and Institutions.**

<sup>44</sup> The acquisition of a 49.07% share of the OLT regasification terminal was completed on 26 February 2020.

## Stakeholder Engagement



In 2019 Snam engaged its stakeholders mainly on issues relating to energy transition, from biomethane to energy efficiency, to the position of the company on the hydrogen front, organising information events and taking part in themed events. The main activities carried out include:

- the organisation, in October 2019, of **"The Hydrogen Challenge - 2019 Global ESG Conference"**, dedicated to the potential of hydrogen as a clean energy source;
- the launch of the **"Snam Plastic Less"** programme, an initiative aimed at reducing the use of plastic in industrial packaging by 100% by 2023, eliminating single-use plastic in drink vending machines on all company premises by 2020;
- the organisation, together with Cassa Depositi e Prestiti (CDP) and Terna, of the first edition of the **"Stati Generali della Transizione Energetica Italiana"** (General States of Italian Energy Transition), one of the two days of meetings dedicated to the future of the Italian energy system.

In addition to these major events, Snam organised other meetings and dialogues with stakeholders, especially related to the new businesses and market performance, and intensified its oversight activities and dialogue in areas affected by major works projects. An event worthy of mention is the first Snam publicity campaign dedicated to the **"Casa Mia"** programme of the subsidiary TEP Energy Solution: **"The future is already out there"**. The campaign, scheduled for the web portals of the major daily newspapers, the Rome and Milan underground TV circuit, on dynamic billboards and on some tram lines, interprets the key messages of energy efficiency and reclassification. For more information, please refer to the paragraph "Stakeholder and relationship capital" in "Other operating information and results" of the Integrated Management Report.

## MATERIAL ISSUES IN RELATION TO THE ACTIVITIES CARRIED OUT

### Materiality analysis

In order to identify the environmental, social and personnel-related issues, with respect to human rights and the fight against active and passive corruption considered material, taking into account the activities and characteristics of the business, the Company, in the same way as every year, has updated its **materiality analysis** aimed at identifying the most significant issues for the Group and for stakeholders under the scope set out in Legislative Decree 254/2016 and subsequent supplements, to the extent necessary to ensure the understanding of the Snam Group operations, its performance, results and impact it produces. Materiality is the principle of reference to better focus the reporting of activities on **materiality issues** or sustainability issues that best reflect the organisation's economic, environmental and social impacts or that influence stakeholders' decisions.

At the end of 2019 Snam launched an activity for the updating of the universe of issues that historically are part of its sustainability framework. Specifically, the analysis process started with identifying the issues reported in the main sustainability trends, the most important industry publications and through a benchmark with the main peer companies comparable with Snam at a national and international level. The directions provided by the **Sustainability Accounting Standards Board (SASB)**, for the Extractives & Minerals Processing: Oil & Gas midstream" sector were also taken into consideration.

To define the most relevant issues from the company's point of view, the internal documentation available was analysed (e.g. 2019-2023 Strategic Plan), the main policies adopted, the main risks identified by the ERM model and the sustainability issues emphasised. The preliminary internal

relevance of the issues identified in this way was then **submitted to management**, through interviews directed at the heads of each function, in order to analyse the perception of the issues from the company's perspective. Specifically, each function, where deemed appropriate, was able to update the arrangements for these issues. On the other hand, in order to define the most significant issues from the perspective of stakeholders, the analyses described above were used, identifying the most recurrent

and more significant themes. The arrangements produced were then integrated with the results of the **online survey** sent to all categories of stakeholders and the **specific workshops** dedicated to employees, customers and suppliers. The following categories of stakeholders were involved in the various analyses: Communities and local areas, Investors and lenders, Other operators, Media, Suppliers, Customers, People (Employees) and Authorities and Institutions.

## THE INVOLVEMENT OF STAKEHOLDERS

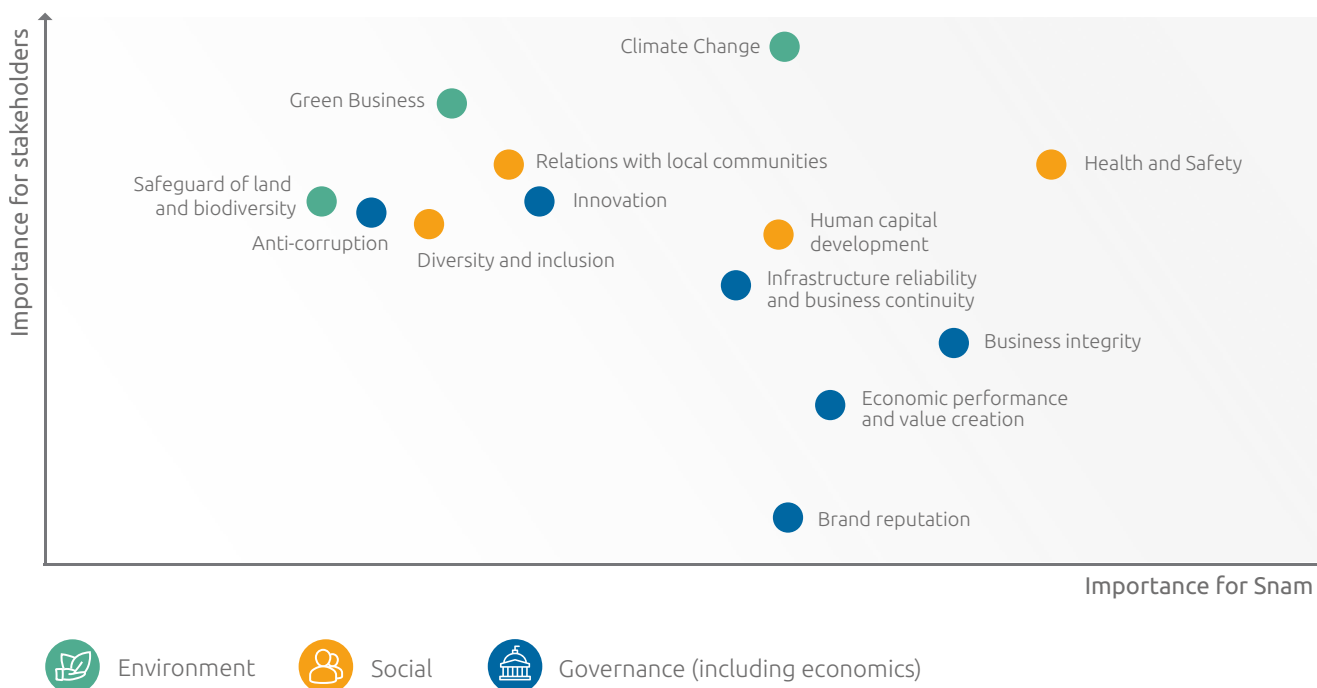
In order to integrate the external perspective of stakeholders in its materiality analysis, Snam has directly involved several categories of stakeholders by holding dedicated workshops. These workshops, held at three different times, involved the representatives of the categories **customers, suppliers and employees**, who were asked to give their opinions on the relevance of specific themes. After an introduction on Snam's position on the issue of sustainability, this was followed by a brief induction on the concept of "materiality" and the analyses conducted to identify the relevant issues. Later on, stakeholders were asked to evaluate the significance of the themes of sustainability through the following activities:

- validation of the universe of issues;
- prioritisation of the issues validated in this way through the use of a hard copy questionnaire and an online tool.

The results of the workshop, together with the preliminary analyses described above (trend, sector and benchmark), have made it possible to determine the external relevance of sustainability issues.

This activity, met with a very positive final judgement by the participants, who appreciated the involvement method and issues dealt with.

### 2019 materiality matrix



The joint consideration of internal and external significance led to identifying areas of priority and materiality. The materiality matrix was validated by management, the ESG Committee and the CEO.

The analyses described above also made it possible to identify further issues which, although not material, are, however, relevant for Snam or its stakeholders. These are: **Waste management, Management of water resources, Employment, Relations with the authorities and quality of services, Relations with local communities, Respecting human rights, Protection of the air.**

These themes were analysed and prioritised, but in relation to Snam's activities and the evaluations of stakeholders, as they do not come under the category of material issues. These aspects are, however, closely supervised and monitored by the Company.

### Results of the materiality analysis with respect to the Decree

The material issues within the areas covered by Legislative Decree 254/2016 and subsequent supplements are those relating to Health and Safety, Climate change, Protecting local areas and biodiversity, Green business, Economic performance and creation of value, Reliability of infrastructure and business continuity, Brand reputation, Innovation, Relations with local communities, Development and protection of human capital, Fight against corruption, Business integrity, Diversity and inclusion.

Scope of the decree	2019 material issues	Reference GRI standards
<b>Environment and health and safety</b>	Climate change, Green business, Health and safety, Protecting the environment and biodiversity	GRI 302 Energy 2016 GRI 304 Biodiversity 2016 GRI 305 Emissions 2016 GRI 403 Occupational Health & Safety 2016
<b>Social aspects</b>	Reliability of infrastructure and business continuity, Innovation, Economic performance and creation of value, Relations with local communities, Brand reputation	GRI 201 Economic Performance 2016 GRI 203 Indirect economic impact 2016 GRI 413 Local communities 2016
<b>Aspects concerning the management of personnel</b>	Diversity and inclusion, Development and protection of human capital	GRI 401 Employment 2016 GRI 404 Training and Education 2016 GRI 405 Diversity and Equal opportunities 2016
<b>Protecting Human Rights</b>	Diversity and inclusion	GRI 406 Non discrimination 2016
<b>Prevention of active and passive corruption</b>	Business Integrity, Fight against corruption	GRI 205 Anti-corruption 2016 GRI 419 Socio-economic compliance 2016

## ORGANISATION MODEL AND MANAGEMENT OF OPERATIONS

### Corporate and organisational structure

Snam's corporate governance system – a set of planning, management and control rules and methodologies necessary for the Company to function – was outlined by the Board of Directors:

- in compliance with the regulations to which the Company is subject as a listed issuer;
- in accordance with the Code of Corporate Governance;
- in compliance with the national and international best practices with which the Company compares itself.

This system is based on certain key principles, such as correct and transparent business management implemented through the identification of information flows between corporate bodies and an efficient definition of the internal control and risk management system.

Snam exercises management and coordination activities with regard to subsidiaries and has adopted the guidelines on Corporate Governance which define, among other things, the principles, contents, instruments and operating methods of strategic activities carried out by Snam in line with its own corporate governance system and the characteristics of its organisational structure, at the same time taking into account legal autonomy and the principles of the correct corporate and business management of the subsidiaries. The organisational structure of Snam features four business units and staff functions, designed with a view to simplifying processes, efficiency and continuous improvement. The business units focus on the activities of (i) international development, (ii) development of the hydrogen business, (iii) development of businesses related to energy transition, (iv) the management of Italian subsidiaries and the development of technical services centred on specialist know-how and expertise for gas sector operators.

The Board of Directors plays a central role in overseeing the company's commitment to sustainable development along the value chain. In 2019 it was assisted with these tasks by the Sustainability Committee, replaced in May 2019 by the newly established **ESG Committee**, which makes proposals and provides advice and is made up of three non-executive directors, two of which are independent, including the Chairman. The committee is responsible for the promotion and integration of environmental, social and governance factors in corporate strategies in compliance with sustainable development, as well as the coordination of the preparation of non-financial information. Specifically, in 2019, the Sustainability Committee met twice and then the ESG Committee met six times and dealt, on several occasions (two meetings) with issues relating to climate change analysing the results and strategies in this regard, with a 100% attendance rate of committee members.

### Manner of conducting activities

We manage our business in accordance with the Corporate System Framework, the organisational and procedural system applied across all Group companies in Italy and abroad, created to ensure that the system of rules governing the business is clear, simple and organic. The system is inspired by the Code of Ethics<sup>45</sup> and is based on management policies, described in the following chapters, based on the principles enunciated by the United Nations Universal Declaration of Human Rights, the fundamental ILO Conventions and the OECD Guidelines for Multinational Enterprises. The main policies<sup>46</sup> referred to in the document are:

- the Sustainable Development Policy;
- the Health, Safety, Environment and Quality Policy;
- the Stakeholder Engagement Policy;
- the Human Rights Policy;
- the Policy for the management of philanthropic activities and social initiatives;
- the Social Supply Chain Policy;
- the Enterprise Risk Management Guidelines;
- the Policy Statement in the Anti-corruption Guidelines<sup>47</sup>,
- the Diversity & Inclusion Policy.

Furthermore, Snam adheres to the UN Global Compact, the most important international sustainable development initiative, which aims to promote and disseminate ten global ethical principles concerning human rights, environmental protection, workers' rights and anti-corruption.

In order to successfully implement this system, managerial actions need to be based on the allocation of specific objectives to each position of responsibility and on the transparent assessment of results, thereby enabling continual improvements in the effectiveness and efficiency of corporate processes.

### Internal Control and Risk Management System

The Internal Control and Risk Management System ("SCIGR") is a collection of guidelines, rules and organisational structures aimed at allowing for the identification, measurement, management and monitoring of the main risks, including the issues pursuant to Article 3, paragraph 1 of Legislative Decree 254/2016 (environmental and social issues, relating to personnel, respecting human rights, the fight against active and passive corruption).

Snam adopted and undertakes to promote and maintain

<sup>45</sup> The Snam Code of Ethics can be consulted on the Company website at [www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice\\_etico.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice_etico.pdf).

<sup>46</sup> See Article 3, paragraph 1, letter b of the Legislative Decree no. 254 of 30 December 2016. Snam's policies can be consulted on the Company website at [www.snam.it/it/sostenibilita/strategie\\_e\\_impegni/](http://www.snam.it/it/sostenibilita/strategie_e_impegni/).

<sup>47</sup> The Anti-corruption Guidelines updated in 2019 which can be consulted on the Company's website at [www.snam.it/export/sites/snam-rp/repository/file/Governance/lineaguida/anticorruzione/snam\\_anticorruzione\\_01.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/lineaguida/anticorruzione/snam_anticorruzione_01.pdf).

an adequate Internal Control and Risk Management System. This system is integrated into the organisational, management and accounting structure and, in general, into the corporate governance of Snam and is based on the Corporate Governance Code which Snam complies with, taking as references the national and international models and best practices.

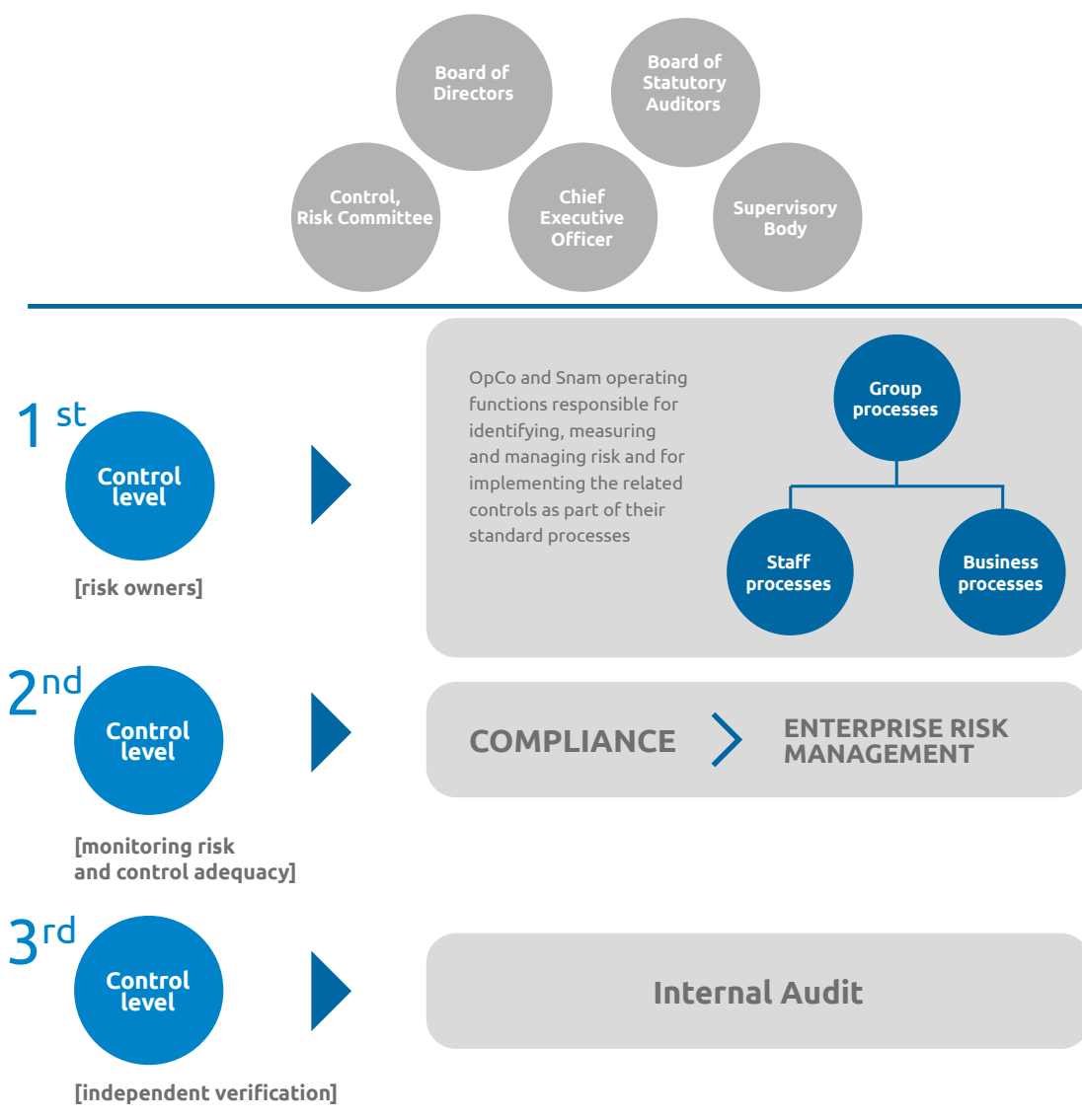
The guiding principles on which the SCIGR is based are defined in the Code of Ethics:

- the segregation of the activities of the persons in charge of the authorisation, execution, or control procedures;
- the existence of company regulations that can provide general benchmark principles for governing corporate processes and activities;
- the existence of formal rules for the exercise of signatory powers and internal authorisation powers;

- traceability (guaranteed through the adoption of information systems that can identify and reconstruct sources, information and checks carried out in support of the formation and implementation of the Company's decisions and financial resources management procedures).

The internal control and risk management system is audited and updated over time to ensure it is always suited to overseeing the main areas of corporate risk. In this context, and also in order to execute the provisions of the Code of Corporate Governance, Snam has adopted an ERM (Enterprise Risk Management) system.

The Board of Directors charges the CEO with giving structure to and maintaining the entire system. The system is divided into three levels, each with different objectives and associated responsibilities.





Level One	<p>Identification, evaluation and monitoring of risks inherent to the individual Group processes.</p> <p>This level includes the functions of the Snam Group <b>owners</b> of the individual risks, responsible for their identification, measurement and management, and for the implementation of the necessary controls in the processes pertaining to them.</p>
Level Two	<p>Monitoring the main risks to ensure they are effectively and efficiently managed and processed, and monitoring the adequacy and functioning of the controls in place to protect against these risks; support for Level One in defining and implementing adequate management systems for the main risks and related controls.</p> <p>This level includes the functions of the Group <b>staff</b> in charge of the coordination and management of the main control systems (e.g. Corporate Administrative Liability, Corporate Reporting, Anti-corruption; <b>Antitrust</b>).</p>
Level Three	<p>Independent and objective verification of the operating effectiveness and adequacy of Levels One and Two, and, in general, of the overall risk management methods. <b>Internal Audit</b> operates on the basis of the "Guidelines on internal audit activities".</p>

The ERM Model, in particular, provides suitable tools for identifying, measuring, managing and monitoring the main risks that could affect the achievement of strategic objectives. The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to mitigate these risks and to draw up a reporting system.

We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the prevention of fraud and corruption and health, safety, environment and quality.

Similarly, the ERM model allows the mapping of opportunities, referring to the positive effects of the uncertainty of corporate objectives.

The results of the risk and opportunity assessment and monitoring activities and the related mitigation measures are presented regularly to the Control and Risk and Related-Party Transactions Committee, the Board of Statutory Auditors and the Supervisory Bodies of Snam and its subsidiaries. They are also used by the Internal Audit department to draw up the audit schedules.

## Risk Assurance & Integrated Compliance

The Board of Directors approved the "Risk Assurance & Integrated Compliance" Guideline, which has the objective, under the scope of the SCIGR, of integrating the second control level models and promoting and sustaining conformity to the reference regulations and the prevention of offences through a dedicated Compliance Programme for the Prevention of Offences (CPPI), fully compliant with the Code of Ethics.

The Guideline defines the content of the CPPI in line with best practice standards, in full compliance with the Code of Ethics which defines the values, behavioural principles and guidelines on which the entire SCIGR that Snam recognises, accepts, shares and assumes, internally and externally, are based.

The CPPI is implemented and rendered operational through:

- the regulatory system;
- the corporate governance provisions adopted in conformity with applicable legislation and international best practices;
- the provisions, methodologies and activities of the models applied by the dedicated functions;
- an integrated Risk Assurance & Compliance process.

The following are significant elements for the implementation of the CPPI:

- the Risk Assurance & Integrated Compliance model;
- the systems: reporting<sup>48</sup>, rewarding and penalty;
- training and communication.

The integrated Risk Assurance & Compliance model is intended to improve the perception of the checks by the various owners involved and to make the SCIGR even more efficient through better coordination and integration of the flows and interaction between the three lines of control, valuing the respective contributions.

This model involves the use of a Risk Assurance & Integrated Compliance (RACI) information platform that makes it possible to coordinate the risk management activities implemented under the scope of the second level control models, maintaining the specific characteristics of the methodologies of each model<sup>49</sup> and create an integrated data base (Risk & Control Register), where the models involved in the Risk Assurance & Integrated Compliance process share a single risk and control catalogue. This repository makes it possible collect consistent and complete

48 The CPPI is also effective thanks to the contribution made by the adoption of a whistleblowing system. The Guideline "Anonymous reports received by Snam and subsidiaries" regulates the process of receiving, analysing and dealing with the reports from anyone anonymously and confidentially [www.snam.it/export/sites/snam-rp/repository/file/Governance/procedure/procedure\\_segnaizoni/snam\\_segnaizoni\\_anche\\_anonime\\_04.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/procedure/procedure_segnaizoni/snam_segnaizoni_anche_anonime_04.pdf).

49 The prerogatives of the Chief Financial Officer in particular are preserved as a result of Article 154-*bis* of the TUF, with reference, among other things, to the preparation of adequate administrative and accounting procedures for preparing the financial statements and the consolidated financial statements as well as any other financial reports.



information and data in an integrated fashion to support the decision making processes of the top management and corporate bodies which receive dedicated reports.

### **Organisational management and control model pursuant to Legislative Decree 231/2001 (Model 231)**

Snam S.p.A.'s Model 231 is composed of an organic set of principles, rules and provisions concerning, inter alia, the management and control of each corporate process. Its aim is to protect the Company from any conduct that may incur its administrative responsibility, pursuant to Legislative Decree 231 of 2001, in relation to offences committed or attempted in the interest or the benefit of the company by parties in so-called top management positions in the structure or by parties subject to their supervision and control.

The Board of Directors adopted the 231 Model to prevent the offences referred to in the legislation on corporate administrative liability for the offences committed in the interests or for the benefit of the company, and appointed a Supervisory Body having autonomous initiative and control powers, in compliance with the laws and regulations.

The analysis of corporate processes and the comparative analysis of the existing control environment and of the control systems are carried out according to the COSO Framework (most recently published in May 2013), which is the international reference model for the establishment, updating, analysis and assessment of the internal control system.

The Subsidiaries have also adopted a Model 231<sup>50</sup> commensurate with their own specific nature, appointing their own Supervisory Body to monitor the implementation of Model 231 and its effective application.

At the end of 2019 risk assessment and gap analysis activities were carried out through the "Risk Assurance & Integrated Compliance" model, created with the intention of uniting the entire risk and control detection and management system supporting business operations, aimed at updating the 231 Model of Snam and the subsidiaries.

This update also involved the offences introduced by Law 39/2019 (Fraud in sporting competitions, illegal gambling or betting and the use illegal gambling devices) and by Legislative Decree 105/2019 (violation of national cybersecurity regulations).

According to the logic of the Risk Assurance & Integrated Compliance model, the scope of 231 was revised from an integrated logic which, starting from the specific nature of the original Sensitive Activities pursuant to the special part of the 231 Models, has made it possible to develop and apply an integrated analysis method for "Crime Risk" in line with the reference best practices.

The outcomes of these activities will make it possible to adapt the Special Part documents known as the "Processes, Sensitive Activities and Specific Control Standards of the 231 Model" for Group companies, giving evidence of the new 231 methodology applied.

Snam also developed a specific training programme aimed at circulating the principles and contents of Legislative Decree 231/2001 and Model 231. A specific course aimed at ensuring the correct raising of awareness with regard to the prevention of offences relating to 231 issues for management and the reference corporate population (Senior Managers, Middle Managers and Administrative Workers) was created and delivered.

More generally, a Compliance Route was created and made available in the second half of 2019 aimed at the entire corporate population arranged in 5 modules on the following themes: Model 231, Privacy, Market Abuse, Antitrust e Anti-corruption. Lastly, for some time Snam has been preparing, as part of the reporting management process (so-called whistleblowing)<sup>51</sup>, specific communication channels that the subsidiaries also refer to in addition to Snam.

In order to guarantee levels of excellence and independence, Snam has entrusted the management of the aforementioned communication channels to an external subject (Ombudsman), who ensures the receipt and analysis of each report applying criteria of maximum confidentiality suitable, among other things, for the protection of the integrity of the persons reported and the effectiveness of the investigations<sup>52</sup>.

As regards the ERM Model in particular and the summary representation of the main risks Snam generates or suffers<sup>53</sup> in relation to its activities and related mitigation actions implemented, for further details please refer to the paragraph "Management of risks and control system – The Enterprise Risk Management (ERM) process" of the Integrated Management Report.

The risks generated or suffered are also described in full in the chapter Risk factors and uncertainties of the Integrated Management Report.

50 The 231 Model is available on the Company's website at [www.snam.it/export/sites/snam-rp/repository/file/Governance/responsabilita\\_administrativa\\_231/Modello-231\\_snam\\_finale\\_2019.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/responsabilita_administrativa_231/Modello-231_snam_finale_2019.pdf).

51 The Guideline is available on the Company website at [www.snam.it/export/sites/snam-rp/repository/file/Governance/procedure/procedure\\_segnaiazioni\\_snam\\_segnaiazioni\\_anche\\_anonime\\_04.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/procedure/procedure_segnaiazioni_snam_segnaiazioni_anche_anonime_04.pdf).

52 Detailed information on the topics discussed in this section can be found in the "Report on Corporate Governance and Ownership Structure 2019", available on the Company's website at [www.snam.it/en/governance-conduct/reports-and-documentation/index.html](http://www.snam.it/en/governance-conduct/reports-and-documentation/index.html).

53 See Article 3, paragraph 1, letter C of Decree no. 254 of 30 December 2016.

## ENVIRONMENTAL AND HEALTH AND SAFETY ASPECTS

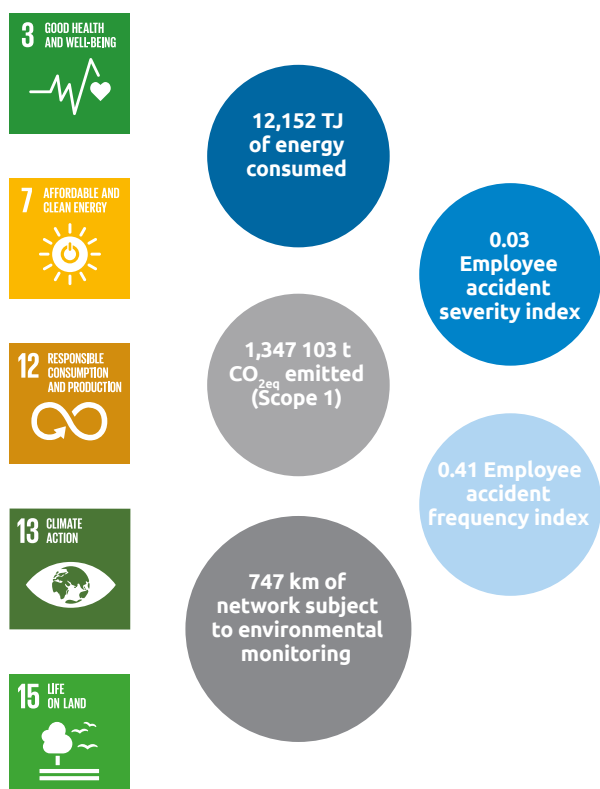
### Relevance and related risks

The material issues that Snam considers to be linked to aspects relating to the environment, health and safety are the following ones:

- **Climate change:** because the company operates in the energy sector, Snam is aware of its role in fighting against climate change. Snam actually includes challenging targets for the reduction of emissions and energy efficiency projects in its strategy to guarantee an ever-decreasing impact on climate change. However, the issue of climate change and the contribution that different operators can make to mitigating its risks are becoming increasingly central to the strategies of players in the energy sector as well as, gradually, in other sectors. Snam promotes more sustainable business management through the use and production of energy from renewable sources (e.g. installation of photovoltaic, biomethane, bio-LNG and hydrogen systems). In this sense, together with the development of scenarios shared with Terna, as provided for by legislation, and which envisage a central role for gas in the context of the energy transition to a world with neutrality with respect to CO<sub>2</sub> emissions, Snam is promoting the development and use of green gas, which in some cases represent the only solution with respect to the broader decarbonisation objectives.

- **Green business:** Snam integrates new green businesses in its operations like biogas, compatibility with increasing amounts of hydrogen, power-to-gas technologies and focuses on sustainable mobility, aimed at promoting de-carbonisation and less use of energy, as described in the new 2019-2023 Strategic Plan. For more information, please refer to the paragraphs “Snam in brief” and the “2019-2023 Strategic Plan” in the Integrated Management Report.
- **Health and safety:** the safety of our people is a vital factor in Snam’s day to day activities and we actively monitor the actual and potential risks in order to mitigate and prevent accidents in the workplace and the impacts on people’s health.
- **Protecting local areas and biodiversity:** Snam is committed to preserve biodiversity in the areas in which it operates through efficient and responsible environmental management, specifically during the construction of infrastructures. Snam safeguards the landscape heritage and the areas in which there are Group plants or facilities, through surveying and monitoring activities aimed at minimising the impacts on biodiversity and the most important habitats and it minimises its environmental impact by including policies to protect the soil, subsoil and water table during operations.

Protecting the air and the management of waste and water resources are issues that are not only material following the materiality analysis, but are supervised by Snam. As far as air protection is concerned, the only significant emissions are those of nitrogen oxides that derive mainly



### FUTURE GOALS

- **-40%** methane emissions by 2025 compared with 2016
- **-40%** scope 1 and 2 emissions by 2030 compared with 2016
- **+55%** green electricity/ total electricity ratio by 2030
- **-100%** plastic packaging in the supply chain by 2023 and elimination of plastic in break areas by 2020 (PlasticLess programme)

from the combustion of natural gas in the gas turbines installed in the compression plants (thrust and storage). There has been a programme in place for many years to reduce these emissions which involves altering some of the existing turbines and installing new units with low emission combustion systems (DLE). As regards water management, this is not a material issue because water resources are used in limited quantities, mainly in the operations of the GNL Italia regasification plant and for sanitary and green care use. In the same way, waste management is also not a material issue, taking into consideration the limited amount of waste produced by the company's operations. The main operational risk with an impact on the environment, health and safety is represented by breakages or damage to pipelines and plants, also as a result of extraordinary events such as fires, landslides or extreme weather conditions due to climate change. These events could cause significant damage in addition to a reduction in revenues.

The complete list of risks to the environment, health and safety is as follows:

- Climate change risk within strategic risks;
- Possible violation of rules and regulations risk in relation to the health and safety of workers and the environment within the legal and non-compliance risks;
- Breakage or damage to the pipeline risk with damage to the environment/people within operational risks;
- Environmental risks within operational risks.

A more extensive description of these risks is given in the chapter Risk factors and uncertainty in the Integrated Management Report.

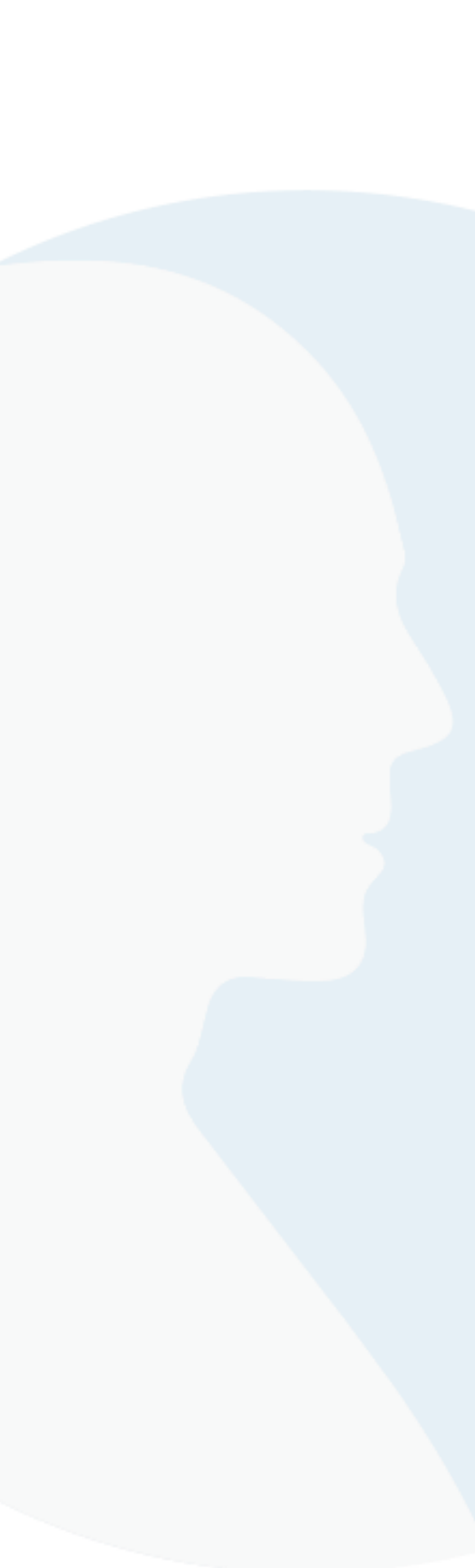
#### **Policies, commitments and management model**

With regard to environmental and health and safety issues, Snam is committed, through the HSEQ Policy and the Sustainable Development Policy to:

- ensure respect for the protection of health and safety of workers and the environment, through the prevention of accidents, injuries and occupational illnesses;
- promote actions to fight climate change by implementing operational and management measures to reduce greenhouse gas emissions;
- promote energy efficiency and guarantee the sustainable use of natural resources;
- prevent pollution and guarantee the protection of ecosystems and biodiversity;
- set up procedures to identify and respond to emergency situations and monitor the consequences of accidents.

The management of the aspects mentioned in the policies and the consequent actions for their implementation are mainly implemented within the management systems developed in compliance with the international standards ISO 14001 and OHSAS 18001, systems regularly verified and certified by a third-party which all Group companies have. These actions are detailed in the Report on Integrated Management:

- for the development and maintenance aspects of the management systems, refer to the paragraph "Mitigation of environmental, health and safety impacts – Management systems": this paragraph contains the certifications of the Company and the subsidiaries and details of the audits conducted by a team of auditors;
- for aspects of health protection and accident prevents, see the paragraph "Mitigation of environmental, health and safety impacts – Prevention of accidents and health protection": this paragraph contains corporate initiatives for the prevention of accidents and how much the Company does for the health and health monitoring of its employees;
- as far as the aspects regarding greenhouse gas emissions, energy efficiency, the production and use of energy from renewable sources are concerned, see the paragraphs "Summary data and information – Operating performance" and "Mitigation of environmental, health and safety impacts – Climate change and energy efficiency": these paragraphs give details of the Company's greenhouse gas emissions, the initiatives for containing emissions and energy efficiency and on the type, capacity and quantity of energy produced by renewable energy plants owned by Snam;
- for the mitigation aspects of environmental impacts and the protection of biodiversity, see the paragraph "Mitigation of environmental, health and safety impacts – Environmental monitoring and restoration in the development of the pipeline network": this paragraph contains details on the environmental restoration activities related to the installation of new infrastructures.



The preventive assessments of the effects on the environment and on the safety of new settlements are carried out in the context of the Environmental Impact Assessment (EIA) procedures, at the end of which the administrations responsible, both at central and local level, issue the authorisations required by current legislation. The progress of the permit activities is reported in the paragraph “Progress of activities related to obtaining permits” in the chapters Natural gas transportation and storage in the Integrated Management Report.

Overseeing the safety and quality levels of the plants is of great importance to Snam. The pipelines were regularly inspected on foot, in vehicles and by helicopter to detect potential hazardous situations and an inspection was carried out on the pipeline conditions by inserting smart devices in them to detect any defects. These actions are described in detail in the paragraph “Summary data and information – Maintenance of plant security and quality” of the Integrated Management Report. Environmental and safety requirements in the workplace are considered in the qualification and selection of suppliers. The highly critical suppliers operating in the procurement of works, the most significant and most risky category for core activities, in particular for health and safety and environmental aspects, are all in possession of certified quality, environmental and safety management systems according to ISO 9001, ISO 14001 and OHSAS 18001 or ISO 45001 standards. The aspects of health and safety and environmental management are also part of the evaluation phase of the services rendered by suppliers.

The fight against climate change not only takes the form of actions to reduce emissions and energy efficiency projects, but it is also expressed on a strategic level through increasing the use of natural gas as a key factor in the decarbonisation process. The Company is committed to the integration of the new green businesses in its operations, with special reference to the development of green gases, such as hydrogen, biomethane and synthetic methane.

#### **Performance indicators**

The indicators representing the results of the management of environmental aspects with details of the reference GRI standard are listed below.

Compared with 2018, accidents involving employees halved, going from 4 to 2, while those involving contractors increased from 3 to 5, none of which were fatal. Snam Scope 1 emissions for 2019 stood at around 1.35 million tonnes of CO<sub>2eq</sub>, a 10% reduction compared with 2018, in spite of the 3.5% increase in the volume of natural gas transported in the pipeline network. The reduction in direct emissions, like the reduction in energy consumption (-8.5%) is mainly due to initiatives to reduce natural gas emissions implemented in the reference period, a demonstration of the effectiveness of the decarbonisation strategy adopted by Snam at the time.

Indicator	GRI Standard	Unit Metering	2017	2018	2019
Employee accident frequency index		Accidents per 106 hours worked	1.24	0.84	0.41
Contractor accident frequency index			0.54	0.41	0.71
Severity rate for employee accidents (a)		Work days lost per 103 hours worked	0.05	0.02	0.03
Severity rate for contractor accidents (a)		Work days lost per 103 hours worked	0.83	0.03	0.07
Employee accidents (of which fatal)	403-2		6(0)	4(0)	2(0)
of which due to a traffic accident			1	2	0
of which due to a professional accident (maintenance, inspection, checks)			1	1	1
of which due to a general accident (slipping, bumpage, tripping)		no.	4	1	1
Contractor accidents (of which fatal)			5 (1)	3(0)	5(0)
Recognised cases of professional illnesses (b)			0	0	0
Employee absenteeism (c)				4.7	4.6
Women employees absenteeism		%	-	4.8	5.1
Men employees absenteeism			-	4.6	4.4
Emissions of CO <sub>2eq</sub> – scope 1 (d)	305-1	103 t CO <sub>2eq</sub>	1,500	1,497	1,347
Energy consumption.			12,582.3	13,281.0	12,152.2
of which natural gas			12,153.2	12,801.4	11,627.9
of which diesel			77.9	91.0	82.6
of which gasoline			2.3	2.8	3.9
of which LPG	302-1	TJ	0.4	0.4	0.4
of which electricity purchased on the network (e)			335.3	372.8	419.6
of which thermal energy purchased			10.8	8.5	14.8
of which electricity from renewable sources			2.4	4.1	3.0
Transportation network within Natura 2000 sites (f)	304-1	km	12.6	1.4	3.68

(a) Number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. Data is calculated including the contribution of fatal accidents, for each of which 7,500 days of absence were considered.

(b) In 2019 a case of an occupational illness was reported which is in the process of being confirmed.

(c) For the purposes of calculating the employee absenteeism rate, all hours worked (paid and unpaid) were excluded, excluding holidays and recoveries. The absenteeism rate does not include Senior Managers and mandatory or voluntary maternity leave.

(d) The emissions of CO<sub>2eq</sub> were consolidated according to the operational control approach. The GHG gas included in the calculation are CO<sub>2</sub> and CH<sub>4</sub> and the emissions are calculated with a GWP of methane equal to 28, as indicated in the scientific study by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

(e) The percentage of electricity produced from renewable sources and consumed by the Group depends on the individual national electricity mixes. For Italy, there is also a self-consumption of electricity from renewable sources.

(f) Natura 2000 sites are special protection areas/sites of Community interest. The indicator gives the km of lines laid in these sites in the year. In 2019, the only Natura 2000 site affected by the installation of infrastructure was SIC Vallata dello Stilaro by the works on the "S. Andrea Apostolo dello Ionio – Caulonia Pipeline", the "Stilo and Bivongi By-pass" and the "Municipality of Bivongi Connection".

## SOCIAL ASPECTS

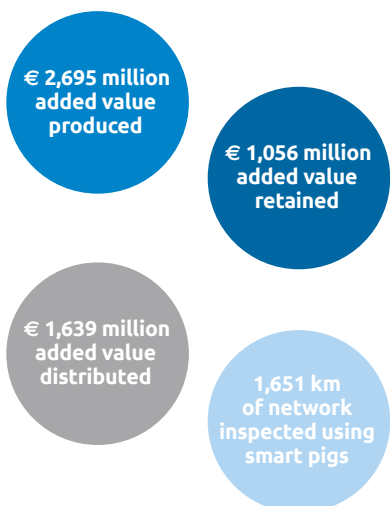
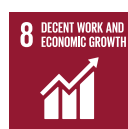
### Relevance and related risks

Material issues related to the social sphere regarding Snam's activities are listed below:

- **Reliability of infrastructures and business continuity:** Snam works daily to ensure the reliability of its infrastructures and services in order to prevent and/or mitigate potential situations that could compromise the continuity of the business and public safety (e.g. emergencies, cyber attacks). For more information, please see the paragraph "Summary data and information – Maintenance of plant security and quality" of the Integrated Management Report.
- **Innovation:** in view of a more complex and challenging scenario, Snam has paid special attention to the search for new technologies from a perspective of increasing efficiency in conducting its business and reducing the impact on the environment. For more information, please see the paragraph "Innovation in business development" in the Integrated Management Report.
- **Economic performance and creation of value:** economic sustainability and business growth represent key objectives and factors that enable business activities as a whole. Promoting the creation of shared value in the medium-/long-term for all categories of stakeholders, through operational and financial efficiency and committing to the development of business activities capable of generating value for all Group stakeholders are fundamental issues for Snam.

- **Relations with local communities:** by creating and supporting projects for local communities, Snam intends to have a positive impact on the social fabric in the areas in which the company operates reinforcing the licence-to-operate.
- **Brand reputation:** Snam safeguards and values its reputation through constant communication, proactive and diversified, striving for dialogue with its reference public and seeking to expand it further. The company communicates through a multimedia, integrated strategy via traditional and digital channels, also involving its employees and partners as brand ambassadors, and through events and campaigns to confirm Snam's centrality in the country system and as a player in energy transition, nationally and internationally, with a special focus on the areas and communities in which it operates. For more information, please see the paragraph "Stakeholders and relationship capital" in the Integrated Management Report.

The subject of the supply chain was not deemed to be material following the analysis conducted, but it is, however, monitored by Snam. The Group has, for some time, adopted policies for selecting suppliers, contractors and commercial partners based on fair and transparent processes which include the integration of sustainable criteria. With regard to material issues concerning the social sphere, the most significant risks are linked to possible breaks in the pipes and the possible increase in the severity of extreme weather conditions as a result of climate change, which could have direct impacts on the continuity and quality of the service provided.



### FUTURE GOALS

- **€350 million** of investments in innovation and technology by 2023, part of the SnamTec project "Tomorrow's Energy Company"
- **€400 million** of investments in the infrastructure replacement programme by 2023

With reference, on the other hand, to the construction of new infrastructures, the main operational risk is related to possible delays in the progress of the construction works. As far as the Snam brand is concerned, the most significant risks are related to maintaining an adequate reputation profile vis a vis the major stakeholders and to possible violations of industry rules and regulations.

The complete list of social sphere risks is as follows<sup>54</sup>:

- Risk related to climate change within Strategic risks;
- Risk related to maintaining an adequate reputation profile for suppliers and subcontractors within Legal and non-compliance risks;
- Possible violation of rules and regulations within Legal and non-compliance risks;
- Risk of delay in the progress of programmes for constructing infrastructures within Operational risks;
- Risk of breaks in or damage to pipes within Operational risks;
- Risk of cyber threats within Operational risks.

### **Policies, commitments and management model**

Snam, in line with the guidelines of its Stakeholder Engagement Policy, maintains regular and frequent relations with local government bodies and with local stakeholder associations to share projects for new facilities.

Snam's business development model is based on sustainable growth and the promotion of economic and social development and the continuous dialogue with all players in the communities and areas in which the business operates. In line with this commitment, the Company has a Social Supply Chain Policy, which facilitates the involvement of social businesses in the supply chain and promotes their inclusion as subcontractors, through reward mechanisms in the evaluation of offerings.

Through the Sustainable Development Policy and the Policy for the management of philanthropic activities and social initiatives, Snam also pledges to promote initiatives in the areas in which the Company operates to promote local development.

The initiatives in the area integrate the comparison with institutions and other stakeholders that takes place in the context of authorisation procedures and environmental impact assessment and, for some plants, also socio-economic. Relations with local areas are reported in detail in the paragraph "Stakeholders and relationship capital – Relations with local areas" of the Integrated Management Report.

These activities are also supported by the work of the Snam Foundation<sup>55</sup>. The Foundation is involved in innovative "corporate citizenship" practices to promote civil, cultural and economic development in priority areas of public interest, encouraging partnerships and making design skills and expertise available. One example is the three-year collaboration launched with the Cariplo Foundation aimed at development urban regeneration projects and combating poverty. Over time Snam has established an extensive network of relations with local associations, Confindustria Energia and the authorities, with which it handles issues of energy, economic and environmental policy. Locally and nationally, the Company collaborates with regulatory bodies and takes part in associations and committees making its know-how and expertise on social innovation and sustainable development available to them<sup>56</sup>.

<sup>54</sup> The risks relating to the social sphere are described in detail in the chapter "Risk and uncertainty factors".

<sup>55</sup> More information on the Snam Foundation is available on the Company's website at [www.snam.it/en/Sustainability/responsibility\\_towards\\_everyone/foundation.html](http://www.snam.it/en/Sustainability/responsibility_towards_everyone/foundation.html).

<sup>56</sup> More information on relations between Snam and the associations is available on the Company's website at [www.snam.it/en/Sustainability/responsibility\\_towards\\_everyone/innovation\\_and\\_technology.html](http://www.snam.it/en/Sustainability/responsibility_towards_everyone/innovation_and_technology.html).

## Performance indicators

In 2019, the gross Global Added Value produced by Snam was €2,695 million, an increase of €163 million or 6.4% compared with 2018 (€2,532 million).

The percentages distributed to the major reference stakeholders (lenders, shareholders, employees, public administration, local communities) are in line with those in 2018. The most significant change relates to the gross global added value reinvested by Snam within the Group, which rose by 3.7 percentage points compared with 2018. For more information, please refer to the paragraph “Stakeholder and relationship capital” in “Other operating information and results” of the Integrated Management Report.

Indicator	GRI Standard	Unit metering	2017	2018	2019
Added value produced (A)			2,447	2,532	<b>2,695</b>
Added value distributed (B)			1,621	1,634	<b>1,639</b>
Employees (*)			249	280	<b>258</b>
Local communities Donations and sponsorships Statutory environmental compensation			5	3	<b>3</b>
Lenders (bondholders and banks)	201-1	€ millions	292	249	<b>211</b>
Shareholders (**)			732	746	<b>780</b>
Government			343	356	<b>387</b>
Direct taxes			329	341	<b>375</b>
Indirect taxes			14	15	<b>12</b>
Added value retained by the Company (A)-(B)			826	898	<b>1,056</b>

(\*) Includes staff-related service costs.

(\*\*) The 2019 figure refers to the dividend proposed by the Board of Directors subject to the approval of the Shareholders' Meeting of 18 June 2020.



## ASPECTS CONCERNING THE MANAGEMENT OF PERSONNEL

### Relevance and related risks

The relevant topics related to personnel management, in relation to Snam's activities, are as follows:

- **Diversity and inclusion:** for Snam, protecting employees promoting merit and diversity means actively advocating the creation of an inclusive and effective work environment through initiatives of dialogue and collaboration.
- **Developing and safeguarding human capital:** Snam is constantly committed to the development of the expertise and potential of its people, encouraging professional development and policies for attracting and retaining talent and promoting the transfer of skills and expertise. Increasing the technical, managerial and organisational skills of its employees, including through training activities and the activation of systematic listening systems for employees is therefore of vital importance. In addition, Snam is convinced of the importance of the work/life balance and for this reason it has developed numerous welfare initiatives to support its employees.

The issue of employment is considered to be important by Snam, but it did not emerge as material from the analysis conducted, taking into consideration the fact that the Company operates in countries featuring well-defined rules on the protection of workers.

With regard to the material issues, the most significant risks, managed by the competent corporate functions, are limited to situations in which "key" personnel are lost or the inability to attract, train or retain qualified personnel or situations in which the capacity to implement the long-term business strategy is negatively affected as a result of serious disputes with employees.

For a more extensive description of the main risks generated or suffered by Snam in relation to the management of persons, please see the chapter "Risk and uncertainty factors" of the Integrated Management Report and the item "Employees and personnel in key roles" within Operational risks.

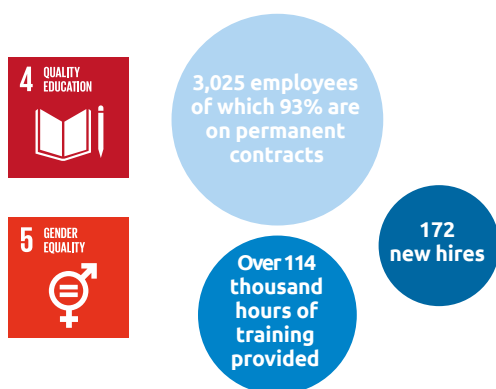
### Policies, commitments and management model

Snam guarantees all workers the right to express their thoughts freely, to join associations and to engage in trade union activities. Dialogue with social partners<sup>57</sup> is classified and regulated by the current Protocol for Industrial Relations, signed in 2013.

Through the Policy for Sustainable Development and the new Diversity & Inclusion policy, Snam is committed to:

- develop its system of professional and managerial skills supporting the growth of its resources;
- attract and retain qualified resources;
- ensure the involvement of staff so that they participate actively in the improvement processes;
- adopt work practices based on a culture of diversity and equal opportunities ensuring that all employees and contractors are treated with dignity;
- create a welcoming work environment with no direct or indirect discrimination of any kind.

With particular regard to the commitment to ensure gender diversity<sup>58</sup>, this has been strengthened with Snam joining Valore D, the association of companies that promotes diversity, talent and female leadership for the growth of companies and the country. In addition, Snam is a partner of InspirinGirls, the international campaign that aims to reinforce the awareness in young women of their talent freeing them of gender stereotypes.



### FUTURE GOALS

- **320,000 hours** of training provided by 2023
- Extension of **Performance Management System** to the entire business

<sup>57</sup> See Article 3, paragraph 1, letter d of Legislative Decree no. 254 of 30 December 2016. At the end of 2019, 25.7% of employees were members of a union.

<sup>58</sup> See Article 3, paragraph 1, letter d of Legislative Decree no. 254 of 30 December 2016..

The actions and initiatives for the implementation of these policies are reported in detail in the Report on Integrated Management:

- for aspects of performance and quality of employment see the paragraphs “Summary data and information – Operational performance” and “Employment in times of change” in the “Development of human capital”: these paragraphs contain general data on performance and employment in terms of staff joining and leaving, geographical distribution and types of contracts;
- for aspects of the development of human capital, see the paragraphs “Development of roles and skills”, “Training” and “Corporate welfare and the work/life balance” in the “Development of human capital”: this section contains the corporate actions for increasing the development of its employees such as performance evaluation systems and training initiatives, as well as the corporate welfare system;
- for industrial relations, see the paragraph “Summary data and information - Industrial relations”: this paragraph contains details of meetings with the representatives of trade unions and the content of the issues discussed;
- for aspects of gender diversity, see the paragraph “Diversity” in “Development of human capital”: this section contains the Company’s actions to promote inclusion and equal opportunities and some data concerning female employment, including the gender pay gap.

## The diversity of corporate bodies

The Company believes that diversity is a value that makes a positive contribution to the effectiveness of the actions of corporate bodies. In effect, in the composition of the administration, management, and control bodies it pursues a target of integration of professionals having different profiles, thus acknowledging the importance, for the good functioning of corporate bodies, of complementary experience and skills, to be combined with the diversity of the genders and age groups of the corporate body members. Snam adopts all the necessary measures to ensure diversity under the profiles expressed above, not least the approval, on 23 October 2019, by the Shareholders’ Meeting, of a change to the by-laws, which makes the criterion of gender distribution in the Board of Directors and the Board of Statutory Auditors permanent for at least one third of the total members.

In the light of the data shown below it is believed that in the composition of its corporate bodies Snam ensures an adequate gender diversity, highlighting the growth of the less represented gender, namely female. In effect:

- two Chairmen of the Committees out of 4 are female;
- on the Board of directors 3 out of 9 members (or one third of the total) are female;
- the Board of Statutory Auditors is composed of three Standing Statutory Auditors (one of whom is a female) and of two female Alternate Statutory Auditors.

The Company also carefully analyses the wealth of expertise of the members of the administrative and control bodies and commits to the continued enhancement of the various skills present within the various bodies, so as to establish administration, management, and control bodies having expertise in relevant sectors for Snam, such as the engineering sector in infrastructure and/or energy businesses. The Company ensures the monitoring of the situation in relation to diversity and the complementary nature of professional profiles and contributes to increasing the wealth of knowledge of members of the administrative and control bodies through board inductions, through which specific industry expertise is acquired.

As far as age is concerned, Snam’s by-laws do not contain specific limits for members of corporate bodies. It is believed that statutory limits are not required because adequate diversity is already guaranteed, as demonstrated by the following figures:

- the age of Snam’s directors varies between 42 and 67 years, with an average age of 54;
- the age of Snam’s statutory auditors varies between 43 and 68 years, with an average age of 54.

In addition, with regard to the methods adopted to implement diversity policies, note the board evaluations conducted with the contribution of an external advisor. Snam carried out an evaluation, on 18 March 2020, of the functioning of the Board of Directors and of its committees and of their size and composition, also considering elements such as the professional characteristics, the experience — including managerial experience — and the gender of its members and their seniority.

For further details on the subject of diversity in relation to the composition of the administrative, management and control bodies pursuant to Article 10 of the Decree, please refer to the paragraph “Description of the Snam policy on diversity” in the 2019 Report on corporate governance and ownership structures.

## Performance Indicators

The following are representative indicators of the results of the management of social and personnel-related aspects, with an indication of the reference GRI standard.

Note, in the main changes between the 2019 and 2018 values, an increase in the number of hours of training provided to employees equal to 5%, also attributable to the

provision of e-learning to the entire corporate population in 5 modules, of around 1 hour each, on Compliance. The following topics were dealt with: Market Abuse, Privacy, 231 Model, Anti-corruption and Antitrust. In addition, there was an increase in 2019 in total departures, following an early retirement scheme which involved 77 people. The managerial class of the Company, composed of middle managers and senior managers, includes 604 people, 18% of whom are women, in line with 2018.

Indicator	GRI Standard	Unit metering	2017		2018		2019	
Total number of employees	102-8	no.	2,919		3,016		3,025	
<b>Employees by type of contract</b>								
Permanent contract (of which women)			2,755	(369)	2,812	(395)	2,817	(417)
Apprentice or first employment contract (of which women)	102-8	no.	150	(15)	185	(20)	193	(23)
Fixed-term contract (of which women)			14	(9)	19	(4)	15	(1)
<b>Employees by type of employment</b>								
Full time (of which women)	102-8	no.	2,877	(357)	2,975	(382)	2,987	(407)
Part time (of which women)			42	(36)	41	(37)	38	(34)
<b>Employees by geographical area</b>								
Employees in northern Italy			2,204		2,302		2,294	
Employees in central Italy	102-8	no.	202		220		241	
Employees in southern Italy and Sicily			509		490		477	
Employees abroad			4		4		13	
<b>Entries and departures</b>								
Total entries from the market (of which women)			148	(53)	195	(42)	172	(38)
Entries from the market <30 years			57		110		104	
Entries from the market between 30 and 49 years		no.	88		78		59	
Entries from the market >50 years			3		7		9	
Total new hires rate			5.1		6.5		5.7	
Hire rate (*) <30 years		%	13.3		22.8		20.1	
New hires rate (*) between 30 and 49 years			8.4		6.9		5.2	
Hire rate (*) >50 years	401-1		0.2		0.5		0.6	
Departures (of which women)			69	(12)	189	(24)	198	(19)
Departures < 30 years (of which women)			10		8		18	
Departures between 30 and 49 years (of which women)		no.	21		30		34	
Departures > 50 years (of which women)			38		151		146	
Turnover rate (**)		%	2.4		6.3		6.6	
Voluntary departure rate (***)			1.0		1.2		1.5	

Indicator	GRI Standard	Unit metering	2017	2018	2019
<b>Training</b>					
Total hours of training			85,346	107,771	114,179
Average hours of training for men			31.3	36.9	38.4
Average hours of training for women			15.8	28.7	33.8
Average hours of manager training	404-1	no.	20.5	41.0	51.1
Average hours of training for directors			18.9	39.7	34.4
Average hours of training for white collars			23.8	29.5	34.6
Average hours of training for blue collars			49.7	46.4	45.2
<b>Diversity of governing bodies</b>					
Members of the Board of Directors			9	9	9
<i>of which women</i>		no.	4	4	3
<i>of which women</i>		%	44.44	44.44	33.33
Members of the Board of Directors < 30 years					
Members of the Board of Directors between 30 and 49 years	405-1	no.	2	2	2
Members of the Board of Directors > 50 years			7	7	7
Members of the Board of Directors < 30 years		%			
Members of the Board of Directors between 30 and 49 years			22.22	22.22	22.22
Members of the Board of Directors > 50 years			77.78	77.78	77.78
<b>Diversity of employees</b>					
Senior Managers (of which women)			93 (14)	107 (18)	111 (20)
Middle Managers (of which women)			456 (75)	480 (90)	493 (87)
Administrative Staff (of which women)		no.	1,655 (304)	1,682 (311)	1,683 (333)
Manual Workers (of which women)			715 (0)	747 (0)	738 (1)
Female Senior Managers			15	16.8	18.0
Female Middle Managers	405-1		16	18.8	17.6
Female Administrative Staff			18	18.5	19.8
Female Manual Workers		%			0.1
Employees < 30 years			15	16	17
Employees between 30 and 49 years			36	38	38
Employees > 50 years			50	46	45

(\*) The hire rate by age group shows the ratio of employees hired from the market in the age group/the total number of employees in the corresponding age group at 31/12. The total hire rate was calculated as total market hires/average headcount.

(\*\*) The turnover rate is calculated as departures (excluding those due to transfers to non consolidated companies)/total number of employees at 31/12.

(\*\*\*)The voluntary departure rate is calculated as departures due to resignations/average headcount.

## PROTECTING HUMAN RIGHTS

### Relevance and related risks

Safeguarding human rights is a subject that, according to the type and geographical area of Snam's activities, is associated with a limit risk profile involving possible violations which were not deemed significant following the recent updating of the materiality analysis. Snam considers the issue of safeguarding human rights connected in particular to the aspects of diversity and equal opportunities, expressed specifically in this area from a perspective of **non discrimination**.

### Policies, commitments and management model

Snam's Code of Ethics establishes Snam's commitment to the protection and promotion of human rights, inalienable and unavoidable prerogatives of human beings and the basis for building societies founded on the principles of equality, solidarity, repudiation of war and the protection of civil and political rights, social, economic and cultural rights and so-called third generation rights (right of self-determination, peace, development and protection of the environment). In this regard, Snam operates in the framework of the United Nation's Universal Declaration of Human Rights, the fundamental conventions of the ILO – International Labour Organization and the Guidelines of the OECD for Multinational Businesses.

In relation to these aspects Snam, has also adopted a human rights policy through which it pledges to prevent and repudiate:

- all sorts of discrimination and violence, forced or child labour;
- any form of sexual harassment or that referring to the personal and cultural diversity of individuals;
- harassment or attitudes in any way attributable to bullying.

The Human Rights Policy and the new policy of Diversity & Inclusion defined in 2019 also reiterate the commitment, already stated in the specific policies mentioned in the previous chapters, aimed at promoting personal well-being, both as an individual and as part of social training, based on the following principles and management guidelines:

- safeguarding the dignity, freedom and equality of human beings;
- protecting jobs, working conditions and trade-union freedoms;
- the confidentiality of personal data;
- protection of health and safety;
- guaranteeing professional growth and pay based strictly on merit and skill;
- protection of the system of values and principles in matters of transparency and sustainable development;
- creation of a welcoming work environment with no direct or indirect discrimination of any kind.

As a consequence, the management of human rights in the aspects mentioned is integrated with the related management models.

In addition, in 2019 Snam voluntarily amended its Articles of Association with regard to the provisions of gender equality in the composition of the Board of Directors and the Board of Statutory Auditors to include gender distribution. Specifically, at least one third of the members of the Board of Directors and the Board of Statutory Auditors must belong to the less represented gender, in line with the most recent recommendations of the Code of Corporate Governance of listed companies and national and international best practices.



### FUTURE GOALS

- Launch of the **Inclusion Team** to promote and spread the culture of diversity and equal opportunities, creating a work environment that values all people

## Performance Indicators

The following are representative indicators of management results regarding the protection of persons from discriminatory practices, with an indication of the GRI

reference standard: Specifically, in 2019, as in the previous two years, no reports were received on episodes related to discriminatory practices.

Indicator	GRI Standard	Unit Metering	2017	2018	2019
Reports received for episodes related to discriminatory practices					
Reports examined	406-1	no.	/	/	/
Reports with corrective actions during implementation			/	/	/
Corrective actions implemented			/	/	/
Archived reports			/	/	/

## PREVENTION OF ACTIVE AND PASSIVE CORRUPTION

### Relevance and related risks

The relevant topics related to the fight against active and passive corruption, in relation to Snam's activities, are as follows:

- **Business integrity:** Snam considers maintaining business integrity as vital for its economic and social relations, promoting that activities should be carried out in an honest, correct and fair manner in compliance with the principles and values on which the Group is based;
- **Fight against corruption:** Snam recognises corruption as a serious threat to its development. The Group believes that business should be conducted in full compliance with the rules and with a commitment to fighting against corruption nationally and internationally, in relations with both public and private officials.

The risk of corruption is present in various areas of business activity, also involving the relationships inherent in the supply chain. The occurrence of unlawful actions in these areas could imply sanctions and possible repercussions for Snam, as well as serious damage to its reputation.

The complete list of risks in the prevention of active and passive corruption is as follows:

- risk of possible violation of rules and regulations in relation to corruption within Legal and non-compliance risks;
- risk related to Maintaining an adequate reputation profile for suppliers and sub-contractors within Legal and non-compliance risks.

The more extensive description of the risk of fraud and corruption and, more generally, of the legal and non-compliance risks is reported in the chapter Risk and uncertainty factors in the Integrated Management Report.



0 cases of proven corruption

4,028 hours of training on anti-corruption, code of ethics and model 231

### FUTURE GOALS

- Completion of the **Compliance programme** with regard to the training objectives relating to the themes of Anti-corruption and Model 231:
  - 100% Model 231 by 2020;
  - 100% Anti-corruption by 2022.

## POLICIES, COMMITMENTS AND MANAGEMENT MODEL

### Anti-corruption Compliance Programme

Snam has defined an Anti-corruption Compliance Programme designed to identify and assess corruption risks inherent in exercising its business activities and to prevent the violation of both internal and external rules. This programme is not limited to adopting the 231 Model (aiming to prevent offences from which administrative liability for offences by the company arises, including corruption offences) but, consistent with the provisions of international guidelines and best practices, has also implemented the following instruments<sup>59</sup>:

- Top level commitment, i.e. the commitment by the top management to fight corruption;
- the adoption of specific anti-corruption policies;
- the establishment of an Anti-corruption Legal Function (Ethics & Anti-bribery);
- anti-corruption due diligence for all business associates;
- the monitoring by an external and independent adviser to verify the actual knowledge and implementation of the above-mentioned procedures;
- raising the awareness of staff through training and information activities;
- disciplinary measures in the event of breaches of the anti-corruption rules;
- periodic risk assessment.

### Collaboration with Transparency International and other initiatives

Since 2016 Snam has been working with Transparency International to develop a partnership under the scope of the Global Corporate Supporters Forum promoted by the NGO. By virtue of the agreement, Snam became one of the international partners of the Forum as the first Italian company. This Forum has been created with the

aim of grouping together companies that stand out for their integrity in business management, in compliance with the standards of good governance, transparency and accountability promoted by Transparency International, in the framework of the global commitment against corruption and promoting ethical business conduct. This agreement was renewed for the next two years in October 2018 at the 18th International Anti-Corruption Conference of Transparency International.

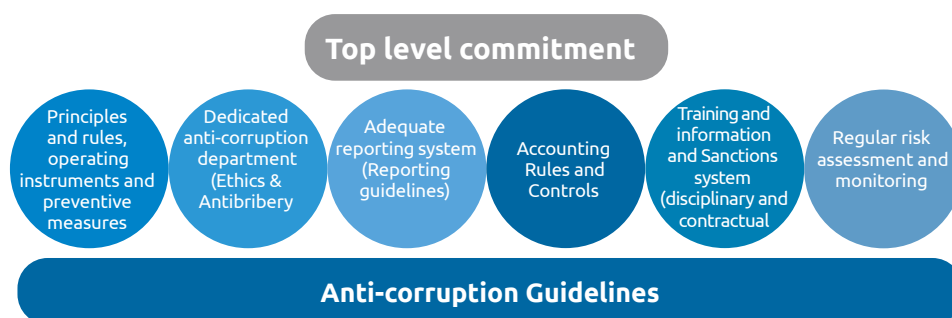
The partnership — sealed with a Memorandum of Understanding — formalised the principles of the management of the anti-corruption programmes and policies of combating fraud and irregularities, conflict of interest and whistleblowing, among the other measures aimed at strengthening the highest anti-corruption standards acknowledged by Transparency International.

In 2019 thanks to Snam's constant commitment to the issues of anti-corruption, business ethics, integrity and transparency, the company was involved in various initiatives, including:

- Anti-corruption & Integrity Forum and Working Party on Bribery Consultation at the OECD;
- Half-yearly Conference of the Partnering Against Corruption Initiative (PACI) of the World Economic Forum;
- Italian Business Integrity Day organised by the Foreign Ministry and Cooperation International in conjunction with the Italian Ambassador in Abu Dhabi, at the 8<sup>th</sup> Conference of the Member States of the United Nations Convention Against Corruption.

In March 2019 the "Snam Model" was also presented to the convention on public ethics, transparency and legality promoted by the Municipality of Milan, Transparency International and the Polytechnic.

Between October and November 2019, Snam's General Counsel was appointed the Vice-Chair of the Anti-corruption Committee of the BIAC and an effective member of the Compliance & Integrity Taskforce at the B20 under the chairmanship of Saudi Arabia.



<sup>59</sup> In this regard, the Code of Ethics provides, inter alia, that Snam rejects any kind of corruption (in all its forms with reference to any public or private entity) and that practices of corruption, unlawful favours, collusive behaviour, solicitations, direct and/or through third parties, personal and career advantages for themselves or others, are without exception prohibited.

### Anti-corruption Compliance Programme Highlights

- Zero Tolerance Policy towards any form of corruption
- Specific rules and controls in relation to the activities identified as potentially "at risk" and to the activities concerning the effective implementation of anti-corruption compliance
- Clear distinction between permitted conduct and prohibited conduct
- Special attention to relations with public officials and with suppliers and sub-contractors and, in general, with all associated businesses
- Establishment of the Ethics & Anti-bribery dedicated function
- Annual monitoring activities with the involvement of managed
- Specific training launched in 2016 for over 1,442 participants, which continued in 2017 and 2018 for all new hires, and was updated in 2019 with regard to the corporate population involved (2,906 people)
- Preparation of the "Anti-corruption Mini Guide", distributed to all Snam people, as something that can easily be consulted, directed at reinforcing the anti-corruption culture
- Example of "absolute excellence" from Transparency International Italy following its "Assessment on Transparency in Reporting on Anti-Corruption"
- 5,348 reputation checks were carried out into counterparties in 2019 (2,490 of which were suppliers and sub-contractors)

The Anti-corruption Guideline is an integral part of a broader corporate ethics control system, aimed at ensuring the compliance by Snam with national and international Anti-corruption Laws and with the best international standards in the fight against corruption, also to protect Snam's reputation. Among other things, the Anti-corruption Guideline focuses on the selection of suppliers and business partners, on the management of the relations with them and on the relevant contractual protection clauses. The Anti-corruption Procedure applies to Snam and its subsidiaries and is also brought to the attention of investee companies, with the aim of promoting conduct and information flows consistent with those expressed by Snam. Furthermore, Snam uses its influence, to the extent reasonable according to the circumstances, so that the companies and the entities in which Snam owns a non-controlling shareholding and business partners meet the standards specified in the Anti-corruption Guideline<sup>60</sup>.

### Performance Indicators

Below are the representative indicators of the results of the management of the aspects related to the prevention of corruption, with an indication of the reference GRI standard. In 2019, the training cycle launched in 2016 continued with the aim of reducing the concept of business ethics, legality and anti-corruption in the daily operating reality, enabling the participants to recognise potential Red Flags and manage them. The training on these issues in fact follows a cyclical trend that follows the evolution of the regulations applicable to the Company and the related update of the internal regulatory system. The increase compared with 2018 is attributable to the "231 Model" and "Ethics and Anti-corruption" modules within the wider Compliance process provided by the Company in 2019 made available in an e-learning format with training videos of around 1 hour each.

Indicator	GRI Standard	Unit metering	2017	2018	2019
Cases of proven corruption			0	0	0
Reports received on corruption and under examination	205-3	no.	0	0	0
Reports received on corruption and archived because unfounded			1		
Hours of training on anti-corruption, code of ethics and model 231			327	321	4,028
Participations in training on anti-corruption, code of ethics and model 231 (*)	205-2		112	112	3,981

(\*) Instead of the participants, the number of participations is reported as data aligned with the attendance recording system as far as training is concerned.

60 The Anti-corruption Guideline is available on the Company website at: [www.snam.it/export/sites/snam-rp/repository/file/Governance/lineaguida/anticorruzione/snam\\_anticorruzione\\_01.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/lineaguida/anticorruzione/snam_anticorruzione_01.pdf).



## GRI STANDARD CORRELATION TABLE

### Application of the GRI standards

The content of the report refers to Snam's material issues and the related material GRI topics. The General Disclosures (Standard 102) required for the application of the GRI Standards in accordance with the core option were covers. The specific standard topics of the 200 (Economic), 300 (Environmental) and 400 (Social) series were selected in relation to the themes listed in the materiality matrix

published in the section "Material issues in relation to the activities carried out" of this Declaration.

As regards standard 103 (Management approach), we proceeded as follows:

- for item 103-1 (defining the internal and external scope for each material topic), the following table was compiled;
- for items 103-2 (approach to management), and 103-3 (evaluation of approach to management) the disclosure was made for sub-groups of material GRI topics and for each of Snam's material topics which could not be related to a specific standard topic.

Key:

T = Transportation; S= Storage; R= Regasification; C= Corporate; M = Sustainable mobility; B = Biomethane; E = Energy efficiency; One Company= T, S, R, C

Material issues	GRI aspects	Scope of the aspect		Reporting restrictions	
		Internal	External	Internal	External
Climate change	GRI 305 Emissions	T, S, R	Suppliers	-	Emissions related to energy consumption of suppliers
	GRI 302 Energy	T, S	Suppliers	-	Energy consumption of suppliers
Health and safety	GRI 403 Occupational Health & Safety	One Company	Suppliers	-	-
Protecting the local area and biodiversity	GRI 304 Biodiversity	T	Suppliers	-	-
Green business	-	One Company	-	-	-
Economic performance	GRI 201 Economic Performance	One Company	-	-	-
Reliability of infrastructures and business continuity	-	One Company	-	-	-
Brand reputation	-	One Company	-	-	-
Innovation	-	One Company	-	-	-
Relations with local communities	GRI 413 Local communities	One Company	-	-	-
	GRI 203 Indirect economic impact	One Company	-	-	-
Combating corruption	GRI 205 Anti-corruption	One Company	Suppliers	-	-
Business integrity	GRI 419 Socio-economic compliance	One Company	-	-	-
Developing and safeguarding human capital	GRI 401 Employment	One Company	-	-	-
	GRI 404 Training and Education	One Company	-	-	-
Diversity and inclusion	GRI 405 Diversity and Equal opportunities	One Company	-	-	-
	GRI 406 Non-discrimination	One Company	-	-	-

## GRI Standard correlation table

The reporting standard adopted by the Snam Group for the preparation of its DNF is the GRI Sustainability Reporting Standards, published in 2016 by the GRI - Global Reporting Initiative. Specifically, according to the provisions of GRI

Standard 101: Foundation, paragraph 3, in this document reference was made to the Reporting Standards shown in the table below.

RF = Integrated Financial Report - NFS = Non-Financial Statement

GRI Standard	Disclosure	Description	Reference document	Omissions/Notes
<b>GRI 102 – General disclosure 2016</b>				
Organisational profile	102-1	Name of the organisation		Snam S.p.A.
	102-2	Activities brands, products and services	RF "Summary" (in Snam profile)	
	102-3	Location of headquarters		Snam S.p.A. Piazza Santa Barbara, 7 20097, San Donato Milanese (MI)
	102-4	Location of operations	RF "Snam's presence in Italy and in the international infrastructure system" (in Snam profile)	
	102-5	Ownership structure	RF "Governance and organisation" (in "Business model and sustainable development")	
	102-6	Markets served	RF "Summary" (in Snam profile) RF "Snam's presence in Italy and in the international infrastructure system" (in Snam profile)	
	102-7	Size of the organisation	NFS "Introduction and guide to reading the document" NFS "Profile and activities of Snam" NFS "Aspects concerning the management of personnel" RF "Snam in 2019" (in Summary Data and Information)	
	102-8	Information on employees and other workers	NFS "Aspects concerning the management of personnel"	
	102-9	Supply Chain	RF "Management of the supply chain" (in "Snam in 2019 – Summary Data and Information : Operating review")	
	102-10	Significant changes to the organisation and its supply chain	NFS "Introduction and guide to reading the document" RF "Management of the supply chain" (in "Snam in 2019 – Summary Data and Information : Operating review")	
	102-11	Precautionary principle or approach	NFS "Internal Control and Risk Management System" NFS "Environmental and health and safety aspects" RF "Progress of activities related to obtaining permits" (in "Business segment operating performance: Natural gas transportation" and "Business segment operating performance: Natural gas storage")	
	102-12	External initiatives		Snam belongs to the Global Compact and Task Force on Climate Related Financial Disclosure (TCFD)
	102-13	Membership of associations	NFS "Social aspects"	
	Strategy	102-14	Statement from senior decision-maker	RF "Letter to the shareholders and stakeholders"

<b>GRI Standard</b>	<b>Disclosure</b>	<b>Description</b>	<b>Reference document</b>	<b>Omissions/Notes</b>
Ethics and integrity	102-16	Values, principles, standards, and norms of behaviour	NFS "Methods for conducting activities"	
Governance	102-18	Governance structure	RF "Governance and organisation" (in "Business model and sustainable development")	
	102-40	List of stakeholder groups	NFS "Stakeholder relations"	
Stakeholder engagement	102-41	Percentage of employees covered by collective bargaining agreements		100%. The CCNL applies to non managerial staff (Energy and Oil contract, Metal workers contract, Commercial contract). The National Contract for Managers of Companies producing Goods and Services is applied to Management
	102-42	Identifying and selecting stakeholders	NFS "Stakeholder relations"	
	102-43	Approach to stakeholder engagement	NFS "Stakeholder relations" NFS "Material issues in relation to the activities carried out" RF "Stakeholders and relationship capital" (in "Other operating information and results")	
	102-44	Key topics and main critical areas	NFS "Significant material issues in relation to the activities carried out"	
	102-45	Entities included in the consolidated financial statements and excluded from the NFS		There are no differences in the scope of consolidation
	102-46	Defining the contents of the NFS and limits relating to issues	NFS "Introduction and guide to reading the document" NFS "Material issues in relation to the activities carried out" NFS "Application of the GRI standards"	
	102-47	List of material topics	NFS "Material issues in relation to the activities carried out"	
Reporting process	102-48	Restatement of information compared with the previous report		There is no significant data or information that has been changed compared with the previous report
	102-49	Changes in reporting	NFS "Introduction and guide to reading the document" NFS "Material issues in relation to the activities carried out" NFS "GRI Standard correlation table"	
	102-50	Reporting period	NFS "Introduction and guide to reading the document"	
	102-51	Date of most recent report		Latest document published: 2017 Consolidated Non Financial Statement, included in the 2017 Management Report - Integrated Report
	102-52	Reporting cycle		The NFS is published annually

GRI Standard	Disclosure	Description	Reference document	Omissions/Notes
Reporting process	102-53	Contact point for questions regarding the report		Domenico Negrini (domenico.negrini@snam.it), Bruno Andreetto (bruno.andreetto@snam.it)
	102-54	Statement of compliance with the GRI Standards	NFS "Introduction and guide to reading the document" NFS "GRI Standard correlation table"	
	102-55	GRI Index	NFS "GRI Standard correlation table"	
	102-56	External assurance	NFS "Independent auditors' report"	
<b>Economic topics (GRI 200)</b>				
GRI 201 2016 Economic performance	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Social aspects" RF "Stakeholders and relationship capital" (in "Other operating information and results")	
	201-1	Direct economic value generated and distributed	NFS "Social aspects" RF "Stakeholders and relationship capital" (in "Other operating information and results")	
GRI 203 2016 Indirect economic impacts	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Social aspects"	
	203-2	Significant indirect economic impacts	RF "Management of the supply chain" (in "Snam in 2019 – Summary Data and Information : Operating review") RF "Stakeholders and relationship capital" (in "Other operating information and results")	
GRI 205 Anti-corruption 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Prevention of active and passive corruption"	
	205-2	Communication and training about anti-corruption policies and procedures	NFS "Prevention of active and passive corruption" RF "Development of human capital" (in "Other operating information and results") RF "Supply chain management" (in "Snam in 2019 – Summary Data and Information : Operating review")	100% of employees and members of the Board of Directors were informed with regard to the policies and procedures adopted by Snam on combating corruption
	205-3	Survey of confirmed cases of corruption and actions taken	NFS "Prevention of active and passive corruption"	
<b>Environmental topics (GRI 300)</b>				
GRI 302 Energy 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Environmental and health and safety aspects"	
	302-1	Energy consumption within the organisation	NFS "Environmental and health and safety aspects" RF "Climate change and energy efficiency" (in "Other results and impacts of management - Mitigation of environmental and health and safety effects") RF "Energy consumption and emissions" (in "Business segment operating performance: Natural gas transportation", "Business segment operating performance: Natural gas storage" and "Business segment operating performance: Liquefied Natural gas (LNG) regasification")	

GRI Standard	Disclosure	Description	Reference document	Omissions/Notes
GRI 304 Biodiversity 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Environmental and health and safety aspects"	
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	NFS "Environmental and health and safety aspects" RF "Environmental monitoring and renewal in the development of the pipeline network" (in "Other operating information and results - Mitigation of environmental and health and safety effects")	
GRI 305 Emissions 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Environmental and health and safety aspects"	
	305-1	Direct (Scope 1) GHG emission	NFS "Environmental and health and safety aspects" RF "Climate change and energy efficiency" (in "Other operating information and results") RF "Energy consumption and emissions" (in "Business segment operating performance: Natural gas transportation", "Business segment operating performance: Natural gas storage" and "Business segment operating performance: Liquefied Natural gas (LNG) regasification")	
<b>Social topics (GRI 300)</b>				
GRI 401 2016 Employment	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Aspects concerning the management of personnel"	
	401-1	New employee hires and employee turnover	NFS "Aspects concerning the management of personnel" RF "Employment in times of change" (in "Other operating information and results": Development of human capital)	The breakdown of the data by country are not reported as it is not applicable (almost all the employees are located in Italy)
GRI 403 Occupational Health and safety 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Environmental and health and safety aspects"	
	403-2	Types of injury and rates of injury, occupational illnesses, lost days, and absenteeism, and number of work-related fatalities	NFS "Environmental and health and safety aspects" RF "Prevention of accidents and health protection" (in "Other operating information and results - Mitigation of environmental and health and safety effects")	Accidents involving employees and contractors for the whole of Italy (for employees, 2 in northern Italy and for contractors, 3 in northern Italy, 1 in central Italy and 1 in southern Italy). Only men were involved in the accidents
GRI 404 Training and education 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Aspects concerning the management of personnel"	
	404-1	Average hours of training per year per employee	NFS "Aspects concerning the management of personnel" RF "Training" (in "Other operating information and results": Development of human capital)	

GRI Standard	Disclosure	Description	Reference document	Omissions/Notes
GRI 405 Diversity and equal opportunities 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Aspects concerning the management of personnel" NFS "Protecting human rights"	
	405-1	Diversity of the governing bodies and employees	NFS "Aspects concerning the management of personnel" NFS "Protecting human rights" RF "Diversity" (in "Other operating information and results - Development of human capital")	
GRI 406 Non-discrimination 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Protecting human rights"	
	406-1	Incidents of discrimination and corrective actions taken	NFS "Protecting human rights"	
GRI 413 Local communities 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Social aspects"	
	413-1	Operations involving the local community, evaluation of the impact and development programmes	RF "Progress of activities related to obtaining permits" (in "Business segment operating performance: Natural gas transportation" and "Business segment operating performance: Natural gas storage")	
GRI 419 Socio-economic compliance 2016	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Prevention of active and passive corruption"	
	419-1	Non-compliance with laws and regulations in the social and economic area	RF "Disputes and other provisions" (in "Notes to the consolidated financial statements") RF "Criminal disputes" (in "Notes to the consolidated financial statements") RF "Italian Regulatory Authority for Energy, Networks and the Environment – ARERA" (in "Notes to the consolidated financial statements")	
<b>Snam's Material topics not associated with the GRI material topics</b>				
Green business	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Environmental and health and safety aspects" RF "The 2019-2023 Strategic Plan" (in "Business model and sustainable development")	
Reliability of infrastructures and business continuity:	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Social aspects" RF "Maintenance of plant security and quality" (in "Snam in 2019 – Summary Data and Information : Operating review") RF "Innovation for business development" (in "Other operating information and results")	
Brand reputation	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Social aspects"	
Innovation	103-1, 103-2, 103-3	Approach to the management of the issue	NFS "Social aspects" RF "Innovation for business development" (in "Other operating information and results")	

This Non Financial Statement was approved by the Board of Directors of Snam S.p.A. on 18 March 2020.

The Statement was audited by the independent auditors (PwC S.p.A.) in accordance with the criteria in the International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information issued by the International Auditing and Assurance Standards Board (IAASB). The results of the audits conducted are given in the Independent Auditors' Report below.

# Independent auditors' report



## **Independent auditor's report on the consolidated non-financial statement**

*pursuant to article 3, paragraph 10, of Legislative Decree No. 254/2016 and article 5 of CONSOB Regulation No. 20267 of January 2018*

To the Board of Directors of Snam SpA

Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016 (the "Decree") and article 5 of CONSOB Regulation No. 20267/2018, we have performed a limited assurance engagement on the consolidated non-financial statement of Snam SpA and its subsidiaries (hereafter the "Group") for the year ended 31 December 2019 prepared in accordance with article 4 of the Decree, presented in a specific section of the *Directors' report*, and approved by the Board of Directors on 18 March 2020 (hereafter the "NFS").

### **Responsibility of the Directors and of the Board of Statutory Auditors for the NFS**

The Directors are responsible for the preparation of the NFS in accordance with article 3 and 4 of the Decree and with the "GRI-Sustainability Reporting Standards" defined in 2016 (hereafter the "GRI Standards"), identified by them as the reporting standards.

The Directors are responsible, in accordance with the law, for the implementation of internal controls necessary to ensure that the NFS is free from material misstatement, whether due to fraud or unintentional errors.

Moreover, the Directors are responsible for identifying the content of the NFS, within the matters mentioned in article 3, paragraph 1, of the Decree, considering the activities and characteristics of the Group and to the extent necessary to ensure an understanding of the Group's activities, its performance, its results and related impacts.

Finally, the Directors are responsible for defining the business and organisational model of the Group and, with reference to the matters identified and reported in the NFS, for the policies adopted by the Group and for the identification and management of risks generated and/or faced by the Group.

The Board of Statutory Auditors is responsible for overseeing, in the terms prescribed by law, compliance with the Decree.

### **PricewaterhouseCoopers SpA**

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### **Auditor's Independence and Quality Control**

We are independent in accordance with the principles of ethics and independence set out in *the Code of Ethics for Professional Accountants* published by the *International Ethics Standards Board for Accountants*, which are based on the fundamental principles of integrity, objectivity, competence and professional diligence, confidentiality and professional behaviour. Our audit firm adopts *International Standard on Quality Control 1 (ISQC Italy 1)* and, accordingly, maintains an overall quality control system which includes processes and procedures for compliance with ethical and professional principles and with applicable laws and regulations.

### **Auditor's responsibilities**

We are responsible for expressing a conclusion, on the basis of the work performed, regarding the compliance of the NFS with the Decree and with the GRI Standards. We conducted our engagement in accordance with "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereafter "ISAE 3000 Revised"), issued by the *International Auditing and Assurance Standards Board (IAASB)* for limited assurance engagements. The standard requires that we plan and apply procedures in order to obtain limited assurance that the NFS is free of material misstatement. The procedures performed in a limited assurance engagement are less in scope than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised ("*reasonable assurance engagement*") and, therefore, do not provide us with a sufficient level of assurance that we have become aware of all significant facts and circumstances that might be identified in a reasonable assurance engagement.

The procedures performed on the NFS were based on our professional judgement and consisted in interviews, primarily with company personnel responsible for the preparation of the information presented in the NFS, analysis of documents, recalculations and other procedures designed to obtain evidence considered useful.

In particular, we performed the following procedures:

1. analysis of the relevant matters reported in the NFS relating to the activities and characteristics of the Group, in order to assess the reasonableness of the selection process used, in accordance with article 3 of the Decree and the with the reporting standards adopted;
2. analysis and assessment of the criteria used to identify the consolidation area, in order to assess their compliance with the Decree;
3. comparison of the financial information reported in the NFS with those reported in Snam Group's Consolidated Financial Statements;
4. understanding of the following matters:
  - business and organisational model of the Group, with reference to the management of the matters specified by article 3 of the Decree;
  - policies adopted by the Group with reference to the matters specified in article 3 of the Decree, actual results and related key performance indicators;
  - main risks, generated and/or faced by the Group, with reference to the matters specified in article 3 of the Decree.

With reference to those matters, we compared the information obtained with the information presented in the NFS and carried out the procedures described under point 5 a) below;





5. understanding of the processes underlying the preparation, collection and management of the significant qualitative and quantitative information included in the NFS. In particular, we held meetings and interviews with the management of Snam SpA and with the personnel of Snam Rete Gas SpA and Stogit SpA and we performed limited analysis of documentary evidence, to gather information about the processes and procedures for the collection, consolidation, processing and submission of the non-financial information to the function responsible for the preparation of the NFS.

Moreover, for material information, considering the activities and characteristics of the Group:

- at holding level
  - a) with reference to the qualitative information included in the NFS, and in particular to the business model, the policies adopted and the main risks, we carried out interviews and acquired supporting documentation to verify their consistency with available evidence;
  - b) with reference to quantitative information, we performed analytical procedures as well as limited tests, in order to assess, on a sample basis, the accuracy of consolidation of the information;
- for the following sites, compression plant of Poggio Renatico (Snam Rete Gas SpA) and storage plant of Minerbio (Stogit SpA), which were selected on the basis of their activities, their contribution to the performance indicators at a consolidated level and their location, we carried out site visits during which we met local management and gathered supporting documentation regarding the correct application of the procedures and calculation methods used for the key performance indicators.

### **Conclusions**

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of Snam Group as of 31 December 2019 has not been prepared, in all material respects, in compliance with articles 3 and 4 of the Decree and with the GRI Standards.

Milan, 11 May 2020

PricewaterhouseCoopers SpA

*Signed by*  
Giulio Grandi  
(Partner)

*Signed by*  
Paolo Bersani  
(Authorised signatory)

*This report has been translated from the Italian original solely for the convenience of international readers. We have not performed any controls on the English translation of the NFS 2019 of Snam Group.*

# Consolidated Financial Statements 2019



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# Financial statements

## STATEMENT OF FINANCIAL POSITION (\*)

(millions of €)	Note	31.12.2018		31.12.2019	
		Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	(8)	1,872		<b>2,851</b>	
Trade receivables and other receivables	(9)	1,347	420	<b>1,376</b>	<b>291</b>
Inventories	(10)	109		<b>112</b>	
Current income tax assets	(11)	10		<b>12</b>	
Other current tax assets	(11)	7		<b>14</b>	
Other current assets	(12)	27		<b>19</b>	
		<b>3,372</b>		<b>4,384</b>	
<b>Non-current assets</b>					
Property, plant and equipment	(13)	16,153		<b>16,439</b>	
Compulsory inventories	(10)	363		<b>363</b>	
Intangible assets	(14)	907		<b>990</b>	
Investments valued using the equity method	(15)	1,710		<b>1,787</b>	
Other investments	(16)	40		<b>41</b>	
Other receivables	(9)	1		<b>3</b>	
Other non-current assets	(12)	36	1	<b>26</b>	<b>1</b>
		<b>19,210</b>		<b>19,649</b>	
<b>Non-current assets held for sale</b>	(17)			<b>10</b>	
<b>TOTAL ASSETS</b>		<b>22,582</b>		<b>24,043</b>	

(millions of €)	Note	31.12.2018		31.12.2019	
		Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term financial liabilities	(18)	1,976		2,456	
Short-term portion of long-term financial liabilities	(18)	1,657		1,675	
Trade payables and other payables	(19)	1,768	274	1,801	189
Current income tax liabilities	(11)	14		26	
Other current tax liabilities	(11)	9		9	
Other current liabilities	(20)	86	27	97	22
		<b>5,510</b>		<b>6,064</b>	
<b>Non-current liabilities</b>					
Long-term financial liabilities	(18)	9,787		10,643	
Provisions for risks and charges	(21)	665		713	
Provisions for employee benefits	(22)	64		46	
Deferred tax liabilities	(23)	134		106	
Other non-current liabilities	(20)	437		213	
		<b>11,087</b>		<b>11,721</b>	
<b>TOTAL LIABILITIES</b>		<b>16,597</b>		<b>17,785</b>	
<b>SHAREHOLDERS' EQUITY</b>					
	(24)				
Share capital		2,736		2,736	
Reserves		3,212		3,131	
Net profit		960		1,090	
Negative reserve for treasury shares in the portfolio		(625)		(389)	
Interim dividend		(298)		(313)	
<b>Shareholders' equity held by Snam's shareholders</b>		<b>5,985</b>		<b>6,255</b>	
<b>Minority interests</b>				<b>3</b>	
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>5,985</b>		<b>6,258</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>22,582</b>		<b>24,043</b>	

(\*) During the first time application of IFRS 16, the Snam Group chose to apply the standard retroactively, booking the cumulative effect of the application as at 1 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 zero. For more information, please refer to Note 2 of the Accounting principles and interpretations applicable from 2019.

## INCOME STATEMENT

(millions of €)	Note	2018		2019	
		Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
<b>Revenue</b>	(27)				
Core business revenue		2,555	1,600	2,635	1,576
Other revenue and income		31	1	30	1
		<b>2,586</b>		<b>2,665</b>	
<b>Operating costs</b>	(28)				
Purchases, services and other costs		(311)	(77)	(281)	(61)
Personnel cost		(201)		(180)	2
		<b>(512)</b>		<b>(461)</b>	
<b>Amortisation, depreciation and impairment losses</b>	(29)	<b>(690)</b>		<b>(752)</b>	
<b>EBIT</b>		<b>1,384</b>		<b>1,452</b>	
<b>Financial income (expenses)</b>	(30)				
Financial expense		(252)		(213)	
Financial income		12	8	11	
Derivative financial instruments		(2)		(1)	
		<b>(242)</b>		<b>(203)</b>	
<b>Income (expense) on equity investments</b>	(31)				
Equity method valuation effect		157		218	
Other income (expense) from equity investments		2		(2)	
		<b>159</b>		<b>216</b>	
<b>Pre-tax profit</b>		<b>1,301</b>		<b>1,465</b>	
Income tax	(32)	(341)		(375)	
<b>Net profit</b>		<b>960</b>		<b>1,090</b>	
- Attributable to Snam shareholders		960		1,090	
- Minority interests					
<b>Earnings per share attributable to Snam shareholders (€ per share)</b>	(33)				
- basic		0.286		0.330	
- diluted		0.280		0.323	

## STATEMENT OF COMPREHENSIVE INCOME

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

(\*) Entirely attributable to Snam shareholders.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Equity pertaining to Snam shareholders														
		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Fair value reserve of minority interests (FYTOCI)	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
(millions of €)																
	Balance at 31 December 2017	(Note 24) 2,736	(318)	1,140	547	(8)	(8)	(674)	58	2,112	897	(294)	6,188			6,188
	Effects of first-time application of IFRS 9									8			8			8
	Balance at 1 January 2018 (A)	2,736	(318)	1,140	547	(8)	(8)	(674)	58	2,120	897	(294)	6,196			6,196
	<b>Net profit for 2018</b>										<b>960</b>		<b>960</b>			<b>960</b>
	<b>Other components of comprehensive income</b>															
	<i>Components that can be reclassified to the income statement:</i>															
	Portion of equity-accounted investments pertaining to "other components of comprehensive income"									(1)			(1)			(1)
	Change in fair value of cash flow hedge derivatives					(20)							(20)			(20)
						(20)			(1)				(21)			(21)
	<i>Components that cannot be reclassified to the income statement</i>															
	Change in fair value of equity investments valued at fair value with an effect on OCI							1						1		1
								<b>1</b>						<b>1</b>		<b>1</b>
	<b>Total comprehensive income for 2018 (B)</b>					<b>(20)</b>		<b>1</b>	<b>(1)</b>		<b>960</b>		<b>940</b>			<b>940</b>
	<b>Transactions with shareholders:</b>															
	Interim dividend for 2017 €0.0862 per share)											(294)	294			



## Equity pertaining to Snam shareholders

(millions of €)

	Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Fair value reserve of minority interests (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
Final 2017 dividend (*)											(437)		(437)		(437)
Allocation of 2017 residual net profit										166	(166)				
Interim dividend for 2018 (€0.0905 per share)												(298)	(298)		(298)
2017-2019 Share-based incentive plan									3				3		3
Acquisition of treasury shares		(426)											(426)		(426)
<b>Total transactions with shareholders (C)</b>		<b>(426)</b>							<b>3</b>	<b>166</b>	<b>(897)</b>	<b>(4)</b>	<b>(1,158)</b>		<b>(1,158)</b>
<b>Other changes in shareholders' equity:</b>															
Cancellation of treasury shares		119	(119)						7				7		7
<b>Total other changes in shareholders' equity (D)</b>		<b>119</b>	<b>(119)</b>						<b>7</b>				<b>7</b>		<b>7</b>
<b>Balance at 31 December 2018</b> <b>(E = A + B + C + D)</b>	(Note 24)	<b>2,736</b>	<b>(625)</b>	<b>1,021</b>	<b>547</b>	<b>(28)</b>	<b>(8)</b>	<b>1</b>	<b>(674)</b>	<b>67</b>	<b>2,286</b>	<b>960</b>	<b>(298)</b>	<b>5,985</b>	<b>5,985</b>

(\*) The dividend between the interim dividend and the final dividend is €0.2155 per share.

		Equity pertaining to Snam shareholders														
(millions of €)		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Fair value reserve of minority interests (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity
<b>Balance at 31 December 2018 (A)</b>	(Note 24)	2,736	(625)	1,021	547	(28)	(8)	1	(674)	67	2,286	960	(298)	5,985		5,985
<b>Net profit for 2019</b>												1,090		1,090		1,090
<b>Other components of comprehensive income</b>																
<b><i>Components that can be reclassified to the income statement:</i></b>																
Portion of equity-accounted investments pertaining to "other components of comprehensive income"										(17)				(17)		(17)
Change in fair value of cash flow hedge derivatives						(34)								(34)		(34)
						(34)				(17)				(51)		(51)
<b><i>Components that cannot be reclassified to the income statement</i></b>																
Change in fair value of equity investments valued at fair value with an effect on OCI								4						4		4
Share of the "other components of the total profit" of the shares evaluated according to the shareholders' equity method of the remeasurements of defined-benefit plans for employees										(1)				(1)		(1)
								4		(1)				3		3
<b>Total comprehensive income for 2019 (B)</b>						(34)		4		(18)		1,090		1,042		1,042

		Equity pertaining to Snam shareholders															
		Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Fair value reserve of minority interests (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Interim dividend	Total	Minority interests	Total shareholders' equity	
(millions of €)																	
<b>Transactions with shareholders:</b>																	
	Interim dividend for 2018 (€0.0905 per share)										(298)	298					
	Final dividend for 2018 (€0.1358 per share) (*)										(448)		(448)		(448)		
	Allocation of 2018 residual net profit									214	(214)						
	Interim dividend for 2019 (€0.095 per share)											(313)	(313)		(313)		
	2017-2019 Share-based incentive plan								7					7		7	
	Acquisition of treasury shares		(39)											(39)		(39)	
	<b>Total transactions with shareholders (C)</b>		<b>(39)</b>						<b>7</b>	<b>214</b>	<b>(960)</b>	<b>(15)</b>	<b>(793)</b>		<b>(793)</b>		
<b>Other changes in shareholders' equity:</b>																	
	Cancellation of treasury shares		275	(275)													
	Capital contributions from third-party shareholders														3	3	
	Other changes								8	13				21		21	
	<b>Total other changes in shareholders' equity (D)</b>		<b>275</b>	<b>(275)</b>					<b>8</b>	<b>13</b>			<b>21</b>	<b>3</b>	<b>24</b>		
	<b>Balance at 31 December 2019 (E = A + B + C + D)</b>	(Note 24)	<b>2,736</b>	<b>(389)</b>	<b>746</b>	<b>547</b>	<b>(62)</b>	<b>(8)</b>	<b>5</b>	<b>(674)</b>	<b>64</b>	<b>2,513</b>	<b>1,090</b>	<b>(313)</b>	<b>6,255</b>	<b>3</b>	<b>6,258</b>

(\*) The dividend between the interim dividend and the final dividend is €0.2263 per share

## CASH FLOW STATEMENT

(millions of €)	Notes	2018	2019
<b>Net profit</b>		<b>960</b>	<b>1,090</b>
Adjustments for reconciling net profit with cash flows from operating activities:			
Total amortisation and depreciation	(29)	682	722
Impairment losses on tangible and intangible fixed assets	(29)	8	30
Effect of valuation using the equity method	(15)	(157)	(218)
Other expense from equity investments	(16)		4
Net capital losses (capital gains) on asset sales, cancellations and eliminations		12	8
Dividends		(2)	(2)
Interest income		(12)	(11)
Interest payable		230	190
Income tax	(32)	341	375
Other changes		3	7
Changes in working capital:			
- Inventories		(33)	(43)
- Trade receivables		41	38
- Trade payables		76	(28)
- Provisions for risks and charges		9	6
- Other assets and liabilities		92	(237)
<i>Working capital cash flow</i>		185	(264)
Change in provisions for employee benefits		7	(18)
Dividends collected		151	134
Interest collected		4	11
Interest paid		(230)	(185)
Income taxes paid net of reimbursed tax credits (*)		(356)	(387)
<b>Net cash flow from operating activities</b>		<b>1,826</b>	<b>1,486</b>
- of which with related parties	(35)	1,681	1,555
Investments:			
- Property, plant and equipment (**)	(13)	(772)	(852)
- Intangible assets	(14)	(77)	(102)
- Change in scope of consolidation and business units		(32)	(34)
- Equity investments		(165)	(24)
- Long-term financial receivables		(148)	(5)
- Change in payables and receivables relating to investments		(13)	(23)
<i>Cash flow from investments</i>		(1,207)	(1,040)
Divestments:			
- Property, plant and equipment		2	
- Long-term financial receivables		519	
- Equity investments		21	36
<i>Cash flow from divestments</i>		542	36

<b>(millions of €)</b>	<b>Notes</b>	<b>2018</b>	<b>2019</b>
<b>Net cash flow from investment activities</b>		<b>(665)</b>	<b>(1,004)</b>
- of which with related parties	(34)	(188)	(33)
Assumption of long-term financial debt		1,810	2,877
Repayment of long-term financial debt		(1,608)	(2,070)
Increase (decrease) in short-term financial debt		597	478
Change in current financial assets		350	
Payment of lease liabilities			(6)
		1,149	1,279
Acquisition of treasury shares		(426)	(39)
Dividends paid to Snam shareholders		(731)	(746)
Net capital contributions from third-party shareholders			3
<b>Net cash flow from financing activities</b>		<b>(8)</b>	<b>497</b>
- of which with related parties	(35)	(14)	
<b>Net cash flow for the period</b>		<b>1,153</b>	<b>979</b>
<b>Cash and cash equivalents at the beginning of the period</b>	(8)	<b>719</b>	<b>1,872</b>
<b>Cash and cash equivalents at the end of the period</b>	(8)	<b>1,872</b>	<b>2,851</b>

(\*) More than 99% of taxes paid in Italy.

(\*\*) For Cash flow statement purposes only, the flow includes: (i) the change in inventories of piping and other ancillary materials used in constructing the plants, with reference to the natural gas transportation sector (€11 million and -€5 million, respectively for 2018 and 2019); (ii) the contributions on third-party interference works, so-called compensation (€22 million and €14 million, respectively for 2018 and 2019).

# Notes to the consolidated financial statements

## COMPANY INFORMATION

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as “Snam”, the “Snam Group” or the “Group”), is an integrated group at the forefront of the regulated gas sector and a major player in terms of its regulatory asset base (RAB) in the sector.

In Italy, Snam operates in the regulated natural gas transportation and dispatch business, the regasification of liquefied natural gas and the storage of natural gas. It also has a presence in the energy transition business: sustainable mobility, biomethane infrastructure for the generation of biomethane from organic waste and agricultural and agro-industrial waste, energy efficiency services for apartment buildings, the public administration and industry. Snam operates in Europe’s major energy corridors through agreements with and equity investments in the leading industry players. It has a presence in Austria through its subsidiaries (TAG and GCA), France (Terèga), Greece (DESFA) and the United Kingdom (Interconnector UK) and is one of the main shareholders of TAP (Trans Adriatic Pipeline).

Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).

Through the resolution of 1 August 2019, the Board of Directors of CDP S.p.A. which, through the subsidiary CDP Reti S.p.A. owns a stake in Snam S.p.A. of 31.04%, reclassified its equity investment in the latter, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraphs 1 and 2 of the Italian Civil Code and Article 93 of the TUF.

No management or coordination activity of CDP S.p.A. has been formalised or exercised over Snam S.p.A.

## 1) BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) and the currently applicable interpretations issued by the IFRS Interpretation Committee (IFRSIC), including those previously

issued by the Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) prior to that. For simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as “IFRS” or “International Accounting Standards”.

The consolidated financial statements are prepared in consideration of future business continuity using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.

The consolidated financial statements as at 31 December 2019, approved by the Board of Directors of in its meeting of 18 March 2020, are audited by PricewaterhouseCoopers S.p.A. (PwC). PwC has full responsibility for auditing the consolidated financial statements of the Snam Group; in the limited cases in which other auditors intervene, it assumes responsibility for the work carried out by the latter.

The consolidated financial statements are presented in euros. Given their size, amounts in the financial statements and respective notes are expressed in millions of euros, unless otherwise specified.

## 2) ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE FROM 2019

For the financial year ended 31 December 2019, the Group applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2019, which are described below.

### IFRS 16 “Leasing”

Through regulation 2017/1986 issued on 31 October 2017, the European Commission adopted the regulatory provisions contained in the document “IFRS 16 Leasing”, issued by the IASB on 13 January 2016, which defines a lease as a contract that attributes to an entity the right to use an asset for a specific period of time in exchange for consideration and eliminates, for the lessor, the distinction between the financial and the operating lease, introducing a single accounting model for leasing.

### Definition of leasing

By applying this model, the entity recognises: (I) in its balance sheet, an asset representing the relative right to use the asset and a liability representing the obligation to make the payments contractually agreed upon, for all leases with a duration of more than 12 months

not considered material<sup>1</sup>; (ii) in its income statement, depreciation of the asset recognised and, separately, the debt income recorded.

The distinction between an operating and a financial lease continues to apply for preparation of the financial statements of lessors.

The provisions in IFRS 16 replace the provisions in IAS 17 “Leasing” and in IFRIC 4 “Determining whether an arrangement contains a lease”, SIC 15 “Operating leases - Incentives” and SIC 27 “Evaluating the Substance of Transactions in the Legal Form of a Lease” and are effective for financial years before or after 1 January 2019.

The Group adopted IFRS 16 from 1 January 2019 amending its own accounting principle for reporting lease agreements as a result. Specifically, IFRS 16 was applied using the amended retroactive application method (IFRS 16.C5b and C7), by virtue of which the cumulative effect of the first time application is reported as an adjustment of the opening balance of the retained earnings from 1 January 2019 without restating the comparative information.

At the first time application date, the Group decided to adopt the practical expedient in the transition provisions of IFRS 16 that allows the principle to be applied to contracts previously classified as lease agreements by applying IAS 17 and IFRIC 4 and not applying this principle to agreements that were not identified as containing a lease by applying IAS 17 and IFRIC 4 (IFRS16.C3). Therefore, the definition of leasing contained in IFRS 16 was only applied to agreements signed or amended on 1 January 2019 or a later date.

#### Accounting model for the lessor

As a lessor, by applying the provisions of IAS 17 and IFRIC 4, the Group classified leases as operating or financial, assessing whether the agreement essentially transfers all the risks and benefits associated with the ownership of the underlying asset. From 1 January 2019, the Group applied IFRS 16 reporting assets as rights of use and liabilities for leases in its statement of financial position as illustrated below.

Specifically, lease liabilities were initially reported at an amount equal to the current value of the following payments due for the lease not yet made at the commencement date: (i) fixed (or essentially fixed) payments, net of any incentives to receive; (ii) variable payments that depend on rates or indices; (iii) an estimate of the payment, by the lessor, as a guarantee of the residual value; (iv) the payment of the exercise price of the purchase option, if the lessor is reasonably certain of exercising it; and lastly (v) the payment of contractual penalties for the termination of the lease if the lessor is reasonably certain of exercising this option. The current value of the payments is calculated using a discount rate equal to the Group’s incremental borrowing rate taking into account the frequency and duration of

payments under the lease agreement. Following the initial reporting, lease liabilities are valued at the amortised cost and restated, to offset the recorded value of the related right-of-use asset if there is a change in payments due for lease following: (i) contractual renegotiations; (ii) changes in rates or indices; or (iii) changes in the assessments made with regard to the exercising of the contractually-required options (e.g. purchase of a leased asset, extension or termination of the contract).

The right-of-use asset is initially recorded at cost, calculated as the sum of the following components: (i) the initial amount of the lease liability; (ii) the initial direct costs incurred by the lessor; (iii) any payments made at the commencement date or before it, net of any incentives received by the lessor; and (iv) the best estimate of the costs that the lessor expects to incur for the dismantling and removal of the underlying assets as well as the possible restoration of the site (or the costs for restoring the asset to the conditions established in the contract).

After the initial recording, the right-of-use asset is adjusted to take into account (i) the shares of depreciation and amortisation, (ii) any losses in value and (iii) the related effects and any restatements of the lease liability.

During the first time application, the Group decided to avail itself of the following practical expedients and/or options set out in the accounting principle, with reference to leases previously classified as operating leases, pursuant to IAS 17:

- value the right-of-use asset at the amount equal to the amount equal to the initial liability of the lease net of any prepayments recorded in the statement of financial position immediately before the first time application date (IFRS 16.C8b) ii);
- not reporting assets and liabilities relating to leases which end within 12 months of the initial application date; these agreements will be recorded as short-term leases (IFRS 16.C10c);
- excluding the initial direct costs from the valuation of the right-to-use asset at the first time application date (IFRS 16.C10d);
- with reference to the extension and termination options, the Group based its own evaluations on the experience gained at the initial application date.

The contracts in which Snam is the lessor (or lessee) mainly refer to property rental and the long-term vehicle leasing.

<sup>1</sup> Snam uses the waiver permitted for short-term leasing and for those of a moderate value, recording payments relating to these types of leases in the income statement as long-term operating costs of the lease agreement.

### Leases previously classified as financial leases

With reference to leases previously classified as financial pursuant to IAS 17, the book value of the right-of-use asset and the lease liability at 1 January 2019 corresponds to the book value of the leased asset and the lease liabilities in accordance with IAS 17 immediately before this date.

### Effects on the financial statements

The effects of the first time application of IFRS 16, also taking into account the practical expedients listed above, have led to an increase in financial liabilities of €20 million and an increase in assets for property, plant and equipment of €20 million. The impact on the Group's shareholders' equity, net of the related tax effect, was consequently zero.

During the valuation of lease liabilities, the Group discounted the payments due for leases using the weighted average of the marginal borrowing rate at 1 January 2019, equal to 1.33%. This value was calculated by weighting the market returns of the bond loans issued by Snam, diversified according to the duration of the various lease agreements.

At 1 January 2019, the existing differential between the increase in financial liabilities and the amount of commitments reported in the financial statements in connection with operating lease agreements that cannot be cancelled, stood at €14 million mainly attributable (over 90%) to the effect resulting from the inclusion of the definite reasonably renewable options in the minimum contractual term.

### IFRIC 23 "Uncertainty over income tax treatments"

Regulation 2018/1595, issued by the European Commission on 23 October 2018 homologated the regulatory provisions contained in IFRIC 23 "Uncertainty over income tax treatments" issued by the IASB on 7 June 2017. The document provides guidelines on how to calculate current and deferred taxes if there are uncertainties over the application of tax regulations. In calculating the income taxes to be reported in the financial statements, the entity should consider the probability that the tax authority may or may not accept the tax treatment adopted by the entity. If the above acceptance is deemed unlikely, the entity should reflect the uncertainties in the calculation of current and deferred taxes, making use of one of the following methods: the most likely amount and the expected value; if this is not the case, the income taxes recorded in the financial statements will be consistent with the tax treatment adopted in the tax declaration. The entity should review the estimates of the uncertainties if new information becomes available or there are changes in circumstances. These provisions will take effect from financial years starting on or after 1 January 2019. No significant impacts were recorded

in the financial statements resulting from the adoption of the new interpretation.

### Other principles/interpretations in force from 1 January 2019

Regulation 2019/237 issued by the European Commission on 8 February 2019 approved the regulatory provisions in the document "Long-term interests in associate companies and joint ventures". Amendments to IAS 28 Investments in associate companies and joint ventures issued by the IASB on 12 October 2017. The document offers several clarifications for companies that have interests in financial projects mainly with loans advanced to associate companies and joint ventures rather than through equity funding. Specifically, for long-term loans, which essentially represent a further net investment of the entity, in the associate company or joint venture, to which the net equity method is not applied, the entity should: (i) carry out an impairment test applying the expected credit loss model of IFRS 9 "Financial Instruments", and later on (ii) applying the net equity method to the residual balance until zero is reached and then carrying out the impairment test governed by IAS 36 if the conditions of IAS 28.40-43 are complied with.

European Commission Regulation No. 2019/402 of 13 March 2019 officially endorsed the provisions of the document "Amending, reducing or extinguishing the plan". Amendments to IAS 19 "Employee benefits" issued by the IASB on 7 February 2018. The document specifies the accounting rules for cases in which an amendment, reduction or extinguishment of an existing defined-benefit plan takes place; if one of the situations mentioned above occurs during the year, an entity is obliged to apply the updated actuarial theories in restating its net liability (asset) for the rest of the subsequent period.

Regulation 2019/412 issued by the European Commission on 14 March 2019 approved the regulatory provisions contained in the "Annual cycle of updates to IFRS 2015-2017" issued by the IASB on 12 December 2017. The document contains amendments to the following principles: (i) IFRS 3 "Business Combinations", defining that when an entity gains control of a business, that could previously be qualified as a joint options, it should remeasure the interest previously owned in that business, because the operation is configured as a business combination created in several stages; (ii) IFRS 11 "Joint Arrangements", clarifying that, when an entity that participates in a joint operation without having joint control, acquires joint control, it does not have to remeasure the interest previously held in that business; (iii) IAS 12 "Income taxes", clarifying that, irrespective of the fact that the dividends were reported as a reduction of shareholders' equity, an entity should report the physical effects of the dividends for purpose of tax on the income



in the income statement at the time of the liability relating to dividend to be paid; (iv) IAS 23 “Financial expense”, clarifying that specific loans required for the construction and/or purchase of an asset, if they remain in existence even after the time at which the asset is available and ready for use or sale, should no longer be considered as specific and therefore should be included in the general loans in order to define the capitalisation rate. In addition, the document specifies how the amount of financial expense that an entity could capitalise during a financial year should not exceed the amount of financial expense incurred during that financial year.

European Commission Regulation 2018/498 of 22 March 2018 officially endorsed the following: the regulatory provisions contained in the document “Elements of early payment with negative compensation - Amendments to IFRS 9” issued by the IASB on 12 October 2017. The document allows the measurement at amortised cost or at the Fair Value Through Other Comprehensive Income (FVTOCI) of a financial asset featuring an early payment option through negative compensation. The document also clarified the accounting method of an amendment to or exchange of a financial liability at amortised cost that has not been subject to derecognition. The difference between original contractual cash flows and the modified cash flows, discounted at the effective interest rate, should be reported in the income state at the date of the amendment or exchange.

No impacts were identified as a result of the implementation of the above-mentioned arrangements.

### 3) CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of Snam S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – “Consolidated Financial Statements”. Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the

appendix “Subsidiaries, associates and equity investments of Snam S.p.A. at 31 December 2019”, which is an integral part of these notes. The same appendix lists the changes that took place in the scope of consolidation between 31 December 2018 and 31 December 2019.

All financial statements of consolidated companies close at 31 December and are presented in euros.

### Companies included in the scope of consolidation

Figures relating to subsidiaries are included in the consolidated financial statements, based on standardised accounting principles, from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders’ equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control. The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders’ equity, the income statement and the statement of comprehensive income.

Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders’ equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders’ equity transferred; (ii) the effect of the alignment to the fair value of any residual equity investment maintained; (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

## Equity investments in associates and joint ventures

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control<sup>2</sup>. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity-accounted investments".

## Business combinations

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.

Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (Partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

## Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired (or the vendor company) pre-dating the transaction or, alternatively, at the values from the consolidated financial statements of the common ultimate parent.

With regard to the sale of business, the treatment of the difference between the contractually defined consideration and the carrying amounts of the transferred business is differentiated depending on the entities involved in the transfer.

<sup>2</sup> Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

With regard to contributions involving businesses under common control, on the other hand, irrespective of the pre-existing investment relationship, the transferee entity must recognize the transferred business at its historical carrying value, increasing its own equity by an equal amount; the transferring entity shall recognize the investment in the transferee entity at an amount equal to the increase in the latter's shareholders' equity.

This accounting treatment refers to the proposal by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued in October 2016.

### Accounting treatment of put options written on the shares of a subsidiary

Under IAS 32, paragraph 23, a contract that contains an obligation for an entity to purchase its own equity instruments for cash or another financial asset gives rise to a financial liability for the present value of the redemption amount (fixed-price put option).

Therefore, if the entity does not have the unconditional right to avoid delivery of cash or other financial instruments when a put option on shares in subsidiaries is exercised, the liability is recognised; all subsequent changes are recognised in profit or loss. The same accounting treatment is applicable when, in addition to a put option, there is also the simultaneous presence of a symmetrical put and call options related to non-controlling interest.

Snam considers shares already acquired by the Group to be the subject of put options (i.e. symmetrical put and call options), in cases where non-controlling interests do not remain with third-party shareholders, the economic benefits and risks associated with the actual ownership of the shares; therefore, in such circumstances, it does not recognise non-controlling interests in the consolidated financial statements.

### Intragroup transactions that are eliminated in the consolidation process

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

## 4) MEASUREMENT CRITERIA

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

### Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The balance sheet assets also contain items purchased for security or environmental reasons which, although not directly improving the future economic benefits of the existing assets, are necessary to carry out corporate activity.

The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses, other than replacement of identifiable components, which restore but do not increase the performance of the assets, are posted in the income statement in the year in which they were incurred.

Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the "initial line pack") is depreciated over the useful life of the plant to which it refers. On the contrary, the commercial component, which may be sold on the market or employed for alternative uses (the "operating line pack"), is not depreciated, since it is not, by its nature, subject to

depreciation; and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas.

Property, plant and equipment is derecognized on disposal or when no future economic benefit is expected from its use or disposal; the relative profit or loss is recognized in the income statement.

## Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application<sup>3</sup>:

### Annual amortisation rate (%)

<b>Buildings</b>	2-2.5
Plant and equipment - Transportation	
<b>Pipelines</b>	2
Compression stations	5
Gas reduction/regulation plants	5
Radio links	25
Measuring and control instruments and systems	5
<b>Plant and equipment - Storage</b>	
Pipes	2
Treatment stations	4
Compression stations	5
Storage wells	2
Monitoring and control instruments and systems	5
<b>Plant and equipment - Regasification</b>	
Regasification plants	4
Tanks and pipelines	4

3 The application rate or internal could be higher depending on the residual life following business combination acquisitions and/or transactions.

<b>Centralized IT infrastructures</b>	20
<b>Other plant and equipment</b>	2.5-12.5
<b>Metering equipment</b>	5
<b>Industrial and commercial equipment</b>	10-35
<b>Other assets</b>	10-33
<b>Rights of use</b>	the economic-technical life and duration of the contract

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately. Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section).

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets, if any, are depreciated during the period of the concession or of the useful life of the asset, if lower.

## Leasing

A contract is or contains a lease if it gives an entity the right to control the use of an identified asset for a certain period of time in exchange for a fee<sup>4</sup>.

By applying this model, the lessor<sup>5</sup> recognises: (i) in its balance sheet, an asset representing the relative right to use the asset and a liability representing the obligation to make the payments contractually agreed upon, for all leases with a duration of more than 12 months not considered

4 The provisions of IFRS 16 "Leasing" came into force on 1 January 2019. The Group applied the new arrangements without restating the previous years or comparison, as permitted by the same principle (amended retroactive application method as governed by paragraphs C5b and C7 of IFRS 16.). Previously the arrangements in force governing leasing essentially required: (i) that assets under finance leases, that refer to agreements involving the essential transfer of the risks and benefits of the ownership, are recorded, at the contract start date, in the balance sheet assets at the fair value of the asset, net of contributions that the lessor is responsible for or, if less, at the current value of the minimum payments due for the lease, offsetting the financial payable to the tenant; and, on the other hand (ii) with reference to operating leases, for the entire duration of the contract, the allocation of the rental to the income statement.

5 The distinction between operating and finance leases, on the other hand, is maintained for the purpose of preparing the financial statements of the lessors.

material<sup>6</sup>; (ii) in its income statement, depreciation of the asset recognised and, separately, the debt income recorded. With reference to the duration of the lease, in addition to the period of the contract that cannot be cancelled, where there is reasonable certainty, the additional periods offered by the contractual extension options are also considered, or connected to the failure to exercise the early termination options in the contract.

Lease liabilities were initially reported at an amount equal to the current value of the following payments due for the lease not yet made at the commencement date: (i) fixed (or essentially fixed) payments, net of any incentives to receive; (ii) variable payments that depend on rates or indices; (iii) an estimate of the payment, by the lessor, as a guarantee of the residual value; (iv) the payment of the exercise price of the purchase option, if the lessor is reasonably certain of exercising it; and lastly (v) the payment of contractual penalties for the termination of the lease if the lessor is reasonably certain of exercising this option. The current value of the payments is calculated using a discount rate equal to the Group's incremental borrowing rate taking into account the frequency and duration of payments under the lease agreement. Following the initial reporting, lease liabilities are valued at the amortised cost and restated, to offset the recorded value of the related right-of-use asset if there is a change in payments due for lease following: (i) contractual renegotiations; (ii) changes in rates or indices; or (iii) changes in the assessments made with regard to the exercising of the contractually-required options (e.g. purchase of a leased asset, extension or termination of the contract).

The right-of-use asset is initially recorded at cost, calculated as the sum of the following components: (i) the initial amount of the lease liability; (ii) the initial direct costs incurred by the lessor; (iii) any payments made at the commencement date or before it, net of any incentives received by the lessor; and (iv) the best estimate of the costs that the lessor expects to incur for the dismantling and removal of the underlying assets as well as the possible restoration of the site (or the costs for restoring the asset to the conditions established in the contract). After the initial recording, the right-of-use asset is adjusted to take into account (i) the shares of depreciation and amortisation, (ii) any losses in value and (iii) the related effects and any restatements of the lease liability.

## Intangible assets

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit access to it by others. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws. Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.

Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred. Intangible fixed assets are derecognized on disposal or when no future economic benefit is expected from their use or disposal; the relative profit or loss is recognized in the income statement.

## Storage concessions

The value of storage concessions, which consists of the natural gas reserves present in deposits ("cushion gas"), is recorded under "Concessions, licences, trademarks and similar rights" and is not subject to amortisation, since: (i) the volume of said gas is not modified by storage activities; and (ii) the economic value of the gas that can be recovered at the end of the concession, pursuant to the provisions of the Ministerial Decree of 3 November 2005, "Criteria for determining an adequate consideration for the return of assets intended for a concession-holder for natural gas storage" of the Ministry of Productive Activities, is not lower than the value recorded in the financial statements.

<sup>6</sup> Snam uses the waiver permitted for short-term leasing and for those of a moderate value, recording payments relating to these types of leases in the income statement as long-term operating costs of the lease agreement.

## Amortisation of intangible assets

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

### Annual amortisation rate (%)

Other intangible fixed assets	
Industrial patent rights and intellectual property rights	20-33
Other intangible assets	20, or according to the duration of the contract

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation.

## Grants

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions.

Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

## Impairment of non-financial fixed assets

### Impairment of property, plant and equipment and intangible assets with a finite useful life

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets (Cash Generating Units or CGUs).

If the reasons for impairment losses no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

### Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

## Investments valued using the equity method

Equity investments in joint ventures and associates are valued using the equity method.

In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the share of the other components of comprehensive income of the investee. Dividends paid out by the investee



are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the “Consolidation principles” section).

In the case of assumption of an association (or joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income. When the transferral of equity investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of recorded value; (ii) the effect of the alignment to the fair value of any residual equity investment maintained; (iii) any amounts posted to other components of comprehensive income relating to the investee which will be reversed to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.

If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the carrying amount with the related recoverable value and the difference is recognised in profit and loss under “Income (expense) from equity investments”.

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under “Income (expense) from equity investments”.

The parent company’s share of any losses of the investee company, greater than the investment’s book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

## Cash and cash equivalents

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

## Inventories

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the entity expects to receive from their sale in the normal course of business, net of the estimated costs for the completion and the realisation of the sale.

The cost of natural gas inventories is determined using the weighted average cost method.

Note that transactions involving strategic gas do not have commercial substance<sup>7</sup>, therefore they do not involve a change in inventories.

## Financial instruments

### Financial assets – debt instruments

Depending on the characteristics of the instrument and the business model adopted for management, the financial assets, that represent the debt instruments are classified into the following three categories: (i) financial assets valued at amortised cost; (ii) financial assets valued at fair value with the effects recognised under other components of comprehensive income (hereinafter also OCI); (iii) financial assets valued at fair value with the effects recognised in the income statement.

The initial recording takes place at the fair value; for trade receivables without a significant financial component, the initial value recognised is represented by the price of the transaction.

After the initial recognition, financial assets that generate contractual cash flows exclusively representative of payments of principal and interest are valued at the amortised cost if held with the purpose of collecting the contractual cash flows (the so-called hold to collect business model). According to the amortised cost method the initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the

<sup>7</sup> Or the risk, the timing or the amount of the future cash flows of the entity are not intended to change following these transactions IFRS 15.9c.

difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording.

Receivables and other financial assets valued at the amortised cost are presented in the statement of assets and liabilities net of the impairment provision.

Financial assets representing debt instruments where the business model includes both the possibility of collecting the contractual cash flows and the possibility of realising capital gains from their sale (the so-called hold to collect and sell model), they are valued at fair value with the effects recognised as OCI (hereinafter also FVTOCI).

In this case the changes in fair value of the instrument recognised at shareholders' equity, under other components of comprehensive income. The cumulative amount of the changes in fair value, recognised in the shareholders' equity reserve that includes other components of comprehensive income is subject to reversal to the income statement at the time of the derecognition of the instrument. The interest income calculated using the effective interest rate, exchange rate differences and impairments are recorded in the income statement.

A financial asset representing a debt instrument that is not valued at amortised cost or at the FVTOCI is valued at fair value with the effects recognised in the income statement (hereinafter FVTPL); financial assets held for trading come under this category.

When the purchase or the sale of financial assets takes place in accordance with a contract that involves the regulation of the transactions and the handing over of the asset within a certain number of days, established by the market control bodies or by market agreements (e.g. the acquisition of securities on regulated markets), the transaction is recognised at the regulation date.

Financial assets that are disposed of are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

### Impairment of financial assets

The valuation of the recoverability of financial assets representing debt instruments that are not valued at fair value with effects on the income statement is carried out based on the Expected Credit Loss model.

Specifically, the expected losses are usually calculated based on the product of: (i) the exposure to the counterparty net of mitigating features (exposure at default); (ii) the probability that the counterparty does not fulfil its payment obligation (probability of default); (iii) the estimate, in percentage terms, of the quantity of credit that is not recovered in the case of default (loss given default) defined on the basis of previous experience and possible

recovery actions that can be carried out (e.g. out-of-court actions, litigation, etc.).

Taking into consideration the characteristics of regulated markets, credit exposures more than 90 days overdue are considered to be in default or, in any event, credit exposures subject to litigation or for which restructuring/renegotiation actions are taking place. Exposures for which credit recovery measures have been implemented through legal/judicial proceedings are defined as disputed.

Impairments of trade receivables and other receivables are recognised in the income statement, net of any write-backs in the item "Write-backs (write-downs) net of commercial receivables and other receivables".

The recoverability of long term financial receivables granted to associate companies and joint ventures, the repayment of which is not planned or is not probable in the foreseeable future, and which, in essence, represent a further investment in them, is valued, firstly, based on the expected credit loss model and, secondly, together with the investment in the associate company/joint venture by applying the criteria in the "Net equity method". The application of the expected credit loss model does not consider any adjustments of the book value of the long-term interest resulting from the application of the criteria in "Investments valued through the net equity method".

Because they are not held for trading, financial assets representing minority interests are valued at fair value alternatively with the recognition of the effects: (i) in the income statement (valuation at fair value recognised in the income statement or FVTPL) or (ii) in the shareholders' equity reserve that includes the other components of comprehensive income, without plans for their reversal to the income statement if realised (valuation at fair value recognised in the income statement or FVTOCI). This classification can be made security by security, exclusively at the time of initial recognition and it is irrevocable.

The dividends from these investments are recognised in the income statement under "Income (expense) from investments". The valuation at cost of a minority interest is allowed in limited cases in which the cost represents an adequate estimate of the fair value.

### Financial liabilities

Financial liabilities, unlike derivative instruments, including financial debt, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Financial assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.



### Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset in the balance sheet when there is: a currently legally enforceable right to set off and the intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### Derivative financial instruments and hedge accounting

Derivatives, including embedded derivatives, are assets and liabilities recognised at fair value using the criteria set out under "Fair value measurement" below.

Under the scope of the strategy and objectives defined for risk management, the qualification of transactions as hedging requires: (i) the verification of the existence of an economic relationship between the object hedged and the hedging instrument for the purpose of offsetting the changes in value and ensuring this offsetting capacity is not invalidated by the level of counterparty credit risk; (ii) the definition of a hedge ratio consistent with the risk management objectives, under the scope of the risk management strategy defined, where necessary activating the appropriate rebalancing actions. The amendments of the risk management objectives, the disappearance of the conditions indicated previously for the qualification of transactions as hedging or the activation of rebalancing operations cause the total or partial prospective discontinuation of the hedge.

In order to qualify a transaction as a fair value hedge or cash flow hedge, at the start of the hedge a formal document is prepared that illustrates the strategies and objectives of the risk management and identifies the hedge instrument, the instrument hedged, the nature of the risk hedged as well as the methods through which the evaluation of whether the hedge relationship satisfies the hedge effectiveness requirements takes place.

When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.

When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of the effective derivatives are initially recognised in the shareholders' equity reserve for other components of comprehensive income and subsequently reported in the income statement in the same way as the economic effects produced by the hedged transaction. In the case of hedging future transactions that involve the recording of a non-financial asset or

liability, the cumulative variations of the fair value of the hedge derivatives, recognised in shareholders' equity, are recognised in the adjustment of the book value of the non-financial asset/liability subject to hedging (basis adjustment).

The ineffective portion of the hedge is recorded under "(Expense) income from derivatives" in the income statement.

Changes in the fair value of derivatives which do not satisfy the requirements to be classed as hedging instruments, including any ineffective components of hedging derivatives, are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "(Expense) income from derivatives".

Embedded derivatives, incorporated in financial assets, are not subject to accounting separation; in these cases the entire hybrid instrument is classified based on the general classification criteria of financial assets. Embedded instruments incorporated in financial liabilities and/or non-financial assets are separated from the main contract and measured separately if the embedded instrument: (i) meets the definition of derivative; (ii) is measured at fair value as a whole with the recognition of the effects in the income statement (FVTPL); (iii) if the characteristics and risks of the derivative are not closely connected to those of the main contract. Assessment of the existence of embedded derivatives to be separated and accounted for as derivatives takes place when the company enters into a contract and subsequently, in the event of amendments to the contract terms and conditions that result in significant changes in the cash flow generated by the contract.

### Fair value measurement

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access. The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its maximum and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market

or other factors suggest that a different use by market operators would maximise its value.

The fair value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of financial instruments considers the credit risk of the counterparty for financial assets (through a "Credit Valuation Adjustment" - CVA) and the entity's own risk of default for financial liabilities (through a "Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs for assets or liabilities that are not based on observable market data.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

## Non-current assets held for sale and discontinued operations

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether a non-controlling investment is maintained following the sale. Verification of compliance with the terms and conditions provided for classification of an item as held for sale requires management to make subjective valuations formulating reasonable and realistic assumptions based on the information available to it.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.

Immediately prior to classification of an item as held for sale, the assets and liabilities included in a disposal group are measured as required by the accounting standards applicable to them. Subsequently, non-current assets held for sale are not amortised or depreciated, and are measured at the lower of book value and the related fair value, less any sales costs (see "Fair value measurements" above).

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and their fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

When events occur that no longer allow non-current assets or disposal groups to be classified as held for sale, they are reclassified under the respective items of the balance sheet and measured at the lower of: (i) the book value at the classification date as held for sale; and (ii) the recoverable value at the reclassification date.

## Provision for risks and charges and contingent assets

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.

Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of

the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at the value representing the best estimate of the amount that the Company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits arising from the contract, and the cost of terminating the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.

Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

Contingent assets, or possible assets that result from past events and whose existence will only be confirmed when one or more uncertain future events, not totally under the control of the business, occur or do not occur, are not recognised unless obtaining the related benefits is virtually certain. If obtaining the benefits is probable, the contingent assets are illustrated in the notes to the financial statements. The contingent assets are periodically re-examined in order to assess the probability of the business obtaining economic benefits: the assets and the income are recognised in the year in which obtaining the benefits has become virtually certain.

## Employee benefits

### Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as "defined-benefit" or "defined-contribution" plans.

#### ■ Defined-benefit plans

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in "Finance expense (income)".

#### ■ Defined-contribution plans

In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

### Other long-term benefits

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

## Payments based on shares

Labour costs, consistent with the essential nature of the remuneration that they comprise, the cost of share-based incentive plans. The incentive cost is calculated with

reference to the fair value of the instruments allocated and the forecast of the number of share that will effectively be allocated; the share pertaining to the financial year is calculated pro-rata temporis throughout the vesting period, or the period between the grant date and the allocation date. The fair value of the shares underlying the incentive plan is calculated at the grant date taking into account the forecasts with regard to reaching the performance parameters associated with market conditions and is not adjusted in future financial years; when obtaining the benefit is also connected to conditions other than market conditions, the estimate relating to these conditions is reflected by adjusting the number of shares during the vesting period that are expected to effectively be allocated. At the end of the vesting period, if the plan does not allocate shares to the participants because the performance conditions have not been achieved, the share of the cost relating to the market conditions is not subject to reversal to the income statement.

## Treasury shares

Treasury shares, including those held to service share-based incentive plans, are measured at cost and entered as a reduction of shareholders' equity. The economic effects arising from any subsequent sales are recognised in shareholders' equity.

## Distribution of dividends

The distribution of dividends to the Company's shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's shareholders or, in the case of interim dividends, by the Board of Directors.

## Foreign currency transactions

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- monetary assets and liabilities in currencies other than the functional currency are converted into Euro by applying the exchange rate in effect on the reporting date, allocating the effect to the income statement.

- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

## Revenue from contracts with customers

The recognition of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the obligation performance, represented by the contractual promises to transfer goods and/or services to a customer; (iii) calculating the price of the transaction; (iv) allocating the price of the transaction to the performance obligations identified based on the stand alone sales price of each of the goods or services; (v) measuring the revenue when the performance obligation is met, or at the time of the transfer to the customer of the goods or services promised; the transfer is considered to be completed when the customer obtains control of the goods or service, which can take place over time or at a point in time.

As regards the activities carried out by the Snam Group, revenue is generally recognised when the service is provided. The largest share of core revenue relates to revenue from regulated activities, with the income governed by the regulatory framework established by the Italian Regulatory Authority for Energy, Networks and the Environment. Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. In the transportation segment<sup>8</sup>, the difference between the revenue recognised by the regulator (the "revenue cap") and the revenue actually accrued is recognised with a contra-entry in the balance sheet under "Other assets", if positive, or "Other liabilities", if negative. This difference will be reversed in the income statement in future years by way of tariff changes. In the Regasification and Storage segments, however, any difference between the revenue recognised by the regulator and the accrued revenue is recognised in the balance sheet item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA).

By virtue of the principle of neutrality defined by applicable legislation, transactions carried out on the balancing market do not generate either costs or revenue, because they are mere pass-through items. Any (positive or negative) differences from the usage of different prices for the

8 With regard to the capacity portion of revenue, penalties for exceeding committed capacity and balancing fees.

transactions above will be neutralized by recognizing an asset or liability for CSEA, given that these differences are equalized by the latter.

Revenues are measured for the amount equal to the fair value of the consideration which the business believes it has the right to in exchange for the goods and/or services promised to the customer, with the exception of amounts collected on behalf of third-parties. If there is a variable consideration, the business estimates the amount of the consideration it shall have the right to in exchange for the transfer of goods and/or services promised to the customer; specifically, the amount of the consideration can vary in the presence of discounts, incentives, concessions on the price, performance bonuses, penalties or if the actual price depends on certain future events taking place or not.

Revenue is reported net of items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in Note 27 - "Revenue" of the Notes to the consolidated financial statements.

Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue.

## Dividends received

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

## Costs

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs relating to emission allowances, calculated on the basis of market prices, are only recognised for the portion of carbon dioxide emissions in excess of the allocated allowances. Earnings relating to emissions allowances are recognised at the point of realising the earnings by transfer. The monetary receivables assigned in place of the free assignment of emissions allowances are recognised as a contra-entry under the income statement item "Other revenue and income".

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

## Income tax

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income

taxes are recognised based on the amount which is expected to be paid/ recovered to/ from the tax authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.

Regarding corporation tax (IRES), Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up, except for Tea Servizi S.r.l. and Renerwaste S.r.l. and their subsidiaries. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities"/"Current income tax assets".

Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates applicable in financial years in which the temporary difference will be cancelled, approved or essentially approved at the end closing date of the reference year of the financial statements. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability; with reference to assets for prepaid taxes, their recoverability is verified at least annually.

If there are uncertainties over the application of tax regulations: (i) if it is deemed probable that the tax

authorities will accept the uncertain tax treatment, the income taxes (current and/or deferred) to be recognised in the financial statements according to the tax treatment applied or which it is expected to apply during the tax return are calculated; (ii) in cases where it is not deemed probable that the tax authorities will accept the uncertain tax treatment, this uncertainty is reflected in calculating the (current and/or deferred) taxes to be recognised in the financial statements.

Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset and/or at the level of the consolidating company in the presence of the taxation regime set out in the national consolidation scheme. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

## Information by operating segment

Disclosure on business segments has been prepared pursuant to IFRS 8 – "Operating Segments": consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management to allocate resources to the different segments and to analyse the respective performances.

An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the same entity); (ii) for which the operating results are regularly reviewed by the entity's most senior decision-makers for the purpose of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.

Specifically, the declared operating segments are as follows: (i) natural gas transportation (the "transportation segment"); (ii) liquefied natural gas regasification (the "regasification segment"); (iii) natural gas storage (the "storage segment") relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit, respectively.

## 5) FINANCIAL STATEMENTS<sup>9</sup>

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). Specifically:

- the balance sheet items are broken down into assets and liabilities, and then further into current or non-current items<sup>10</sup>;
- the income statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the statement of comprehensive income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the statement of changes in shareholders' equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders' equity;
- the cash flow statement is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group's situation with regard to its balance sheet, income statement and financial position.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement. With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 34 – "Related-party transactions", are shown separately in the financial statements.

In compliance with IAS 1, unless otherwise stated, comparative data refer to the previous year.

<sup>9</sup> The financial statements are the same as those adopted for the 2018 Annual report.

<sup>10</sup> Assets and liabilities are classified as current if: (i) their realization/settlement is part of the normal operating cycle of the company or in the twelve months after the financial year-end; (ii) consist of the cash or cash equivalents without restrictions that would limit usage thereof in the 12 months following the closure of the year; or (iii) are held mainly for trading. Derivative instruments held for trading are classified as current items, regardless of their maturity date. Derivative instruments used for hedging are classified as current items if their realization is expected within the 12 months subsequent to the closure of the year; otherwise they are classified as non-current items.



## 6) USE OF ESTIMATES

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

### Impairment of non-financial fixed assets

Non-financial assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.

The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the usage value, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are discounted using a rate that takes account of the risk inherent to the asset concerned.

The basis of the impairment testing used by management in relation to the property plant and machinery, intangible assets and investments measured using the equity method are illustrated respectively in the sections "Impairment of non-financial fixed assets" and "Investments valued using the equity method".

### Provision for site dismantling and restoration

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for compliance with dismantling and restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.

The criticality of estimates of dismantlement and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied. The calculation of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the Company's management.

### Investments and Business Combinations

Verification of the existence of control, joint control, considerable influence over another entity as well as, in the case of joint operations, verification of the existence of enforceable rights and obligations requires Corporate Management to exercise professional judgement taking into consideration the characteristics of the corporate structure and agreements between the parties as well as other facts and circumstances that are relevant for the purpose of this check. Similar considerations also apply in cases of a planned change in status following a loss of control, joint control or connection with the possible need to activate the classification as "assets held for sale/discontinued operation".

The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the attribution of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

## Environmental liabilities

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.

The Group does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, however it cannot be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the potential for contaminations emerging; (ii) the refurbishment in progress and to be followed and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

## Employee benefits

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.

The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

## Provisions for risks and charges

In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimation of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

## Fair Value

Calculating the fair value of financial and non-financial instruments is a structured process featuring the use of complex evaluation methodologies and techniques that involve collecting up to date information from the reference markets and/or using internal input data.

Similar to other estimates, calculating the fair value, albeit based on the best information available and on the adoption on adequate evaluation methodologies and techniques, it intrinsically features random elements and the exercising of professional judgement and could create forecasts with different values from those that will effectively be realised.

## Classification and measurement of investments made for development and maintenance of proprietary infrastructures

The Snam Group makes significant investments for development and maintenance of its own infrastructures. Assessing the recoverability of the investments currently underway and the distinction of the costs as improvements, upgrades and transformations that increase the infrastructure and the expenses for ordinary maintenance and repairs which restore but do not increase the performance of the assets, includes valuation elements. These assessments are formulated on the basis of objective criteria that the Group has developed to facilitate an application consistent with its accounting policies.



## 7) RECENTLY ISSUED ACCOUNTING STANDARDS

### Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, but not yet in force

The main accounting standards and interpretations approved by the European Commission in 2019 but not yet in force are listed and described below.

#### Other principles and interpretations approved by the European Commission, but not yet in force

Regulation 2019/2104, issued by the European Commission on 29 November 2019 endorsed the regulatory provisions contained in the document "Amendments of IAS 1 and IAS 8: definition of material". The arrangements are effective from the financial years starting on or after 1 January 2020.

The document reformulated and clarified the definition "material" with reference to the following concepts: (i) "obscuring"; obscuring important information with others that could be omitted can have a similar effect to omission or misrepresentation; (ii) "could reasonably be expected to influence"; the mass of information to be provided should not suffer from the remote risk of influencing users of the financial statements; (iii) "primary users"; it is them and not all the possible users of the financial statements to be considered when determining the information to be presented.

Regulation 2019/2075, issued by the European Commission on 29 November 2019 endorsed the regulatory provisions contained in the document "Amendments to References to the Conceptual Framework in IFRS Standards". The arrangements are effective from the financial years starting on or after 1 January 2020 and early application is permitted. The document includes the updating of the references in international accounting standards in order to include the new features introduced by the revised version of "Conceptual Framework for Financial Reporting", issued by the IASB on 29 March 2018. Among the main aspects resulting from the introduction of the new versions of the Conceptual Framework we find the updating of the definitions of "assets" and "liabilities" as well as the process for their evaluation, elimination and presentation. The document also clarifies important concepts such as the identification of the financial statement recipients and the targets that the financial statements intend to reach, and it also deals with the issues of prudence and uncertainty in the evaluations for financial statement information.

Regulation 2020/34 issued by the European Commission on 15 January 2020 approved the regulatory provisions in the document "Reform of the reference indices for determining interest rates. Amendments to IFRS 9, IAS 39 and IFRS 7". The objective of the IASB is provide financial information from the gradual elimination of parameters on interest

rates such as Interbank Offered Rates (IBORs); in particular, some specific accounting requirements for hedging to mitigate potential effects resulting from the uncertainty caused by the IBOR reform are being changed. In addition, the amendments require companies to provide additional information to investors with regard to their hedge ratios which are directly affected by these uncertainties. The amendments apply from 1 January 2020. Early application is permitted.

No impacts were identified as a result of the implementation of the above-mentioned arrangements.

### Accounting standards and interpretations issued by the IASB/IFRIC and not yet approved by the European Commission

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed.

On 18 May 2017, the IASB issued the document IFRS 17 "Insurance Contracts", which is applicable to all insurance companies. They define the principles for recognition, measurement, presentation and disclosure, replacing IFRS 4. The measures contained in IFRS 17 will take effect from financial years starting on or after 1 January 2021, subject to deferrals established upon approval by the European Commission. The new standard requires a "Building Block Approach" (BBA) based on expected cash flow and the specification of a "risk adjustment" and of a Contractual Service Margin (CSM) which represents expected profit from insurance contract. This margin is reported in the income statement in the period in which the insurance cover is provided. Moreover, there are two alternative approaches in addition to the BBA which are the "Variable Fee Approach" (VFA) and the Premium Allocation Approach (PAA), applicable in specific cases. The new standard also provides a new procedure for recognition in profit and loss that presents separately the (i) insurance revenues, (ii) insurance service expenses and (iii) insurance finance income or expenses.

On 22 October 2018, the IASB issued the document "Amendments to IFRS 3 Business Combinations", the provisions of which are effective from the financial years starting on or after 1 January 2020, notwithstanding subsequent deferrals established upon approval by the European Commission. The amendments introduced by the documents are aimed to facilitate the classification of a transaction such as the acquisition of a business or group of assets.

On 23 January 2020, the IASB issued the document "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current", the provisions of which will take effect from financial years starting on or after 1 January 2022, subject to deferrals

established upon approval by the European Commission. The IASB clarifies the criteria that should be used to determine whether the liabilities should be classified as current or non-current. The amendments aim to promote consistency in the application of the requirements helping companies to determine whether payables and other liabilities with an uncertain settlement date should be classified as current (due or potentially to be settled within a year) or non-current. In addition, they include clarifications regarding the classification requirements of payables that an entity could extinguish through conversion to equity. The early application of these amendments is permitted. Snam is analysing the standards and interpretations in question, where applicable, to assess whether their adoption will have a significant impact on the financial statements.

## 8) CASH AND CASH EQUIVALENTS

Cash and cash equivalents of €2,851 million (€1,872 million at 31 December 2018) refer mainly to bank current and deposit accounts that can be collected quickly (€2,054 million) and short-term liquidity use transactions, due in less than 90 days, with banking institutions with high credit ratings (€750 million) and to cash and cash equivalents at Snam International BV (€20 million) and Gasrule Insurance DAC (€19 million).

Borrowing interest rates on short-term liquidity use transactions and on bank deposit accounts that can be collected quickly are slightly more than 0%. The book value of cash and cash equivalents approximates to their fair value. They are not subject to any usage restrictions.

A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the cash flow statement.

## 9) TRADE RECEIVABLES AND OTHER CURRENT AND NON-CURRENT RECEIVABLES

Trade receivables and other current receivables equal to €1,376 million (€1,347 million at 31 December 2018) and other non-current receivables equal to €3 million (€1 million at 31 December 2018) break down as follows:

(millions of €)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,247		1,247	1,217		1,217
Financial receivables	10	1	11		3	3
- short-term						
- long-term	10	1	11		3	3
Receivables from investment/divestment activities	9		9	8		8
Other receivables	81		81	151		151
	<b>1,347</b>	<b>1</b>	<b>1,348</b>	<b>1,376</b>	<b>3</b>	<b>1,379</b>

Trade receivables (€1,217 million; €1,247 million at 31 December 2018) mainly refer to the natural gas transportation (€993 million) and storage (€152 million) segments.

Trade receivables relating to the storage sector (€152 million) include the VAT receivable invoiced to users for the use of strategic gas collected and not replenished (€77 million).

Receivables are reported net of the provision for impairment losses (€102 million; €137 million at 31 December 2018). This provision essentially relates to impairment losses recorded in previous years on receivables from the balancing service pursuant to resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas) of uncollected receivables for the period from 1 December 2011 to 23 October 2012<sup>11</sup> (€91 million, including the relative interest).

Changes in the provision for impairment losses on receivables during the year are shown below:

(millions of €)	Provision for impairment losses at 31.12.2018	Provisions	Utilisations for excess	Provision for impairment losses at 31.12.2019
Trade receivables	137	1	(36)	<b>102</b>
	<b>137</b>	<b>1</b>	<b>(36)</b>	<b>102</b>

Net uses of the provision for impairment losses (€35 million) involve the release to the income statement of the provision for impairment losses following the announcement by the Council of State on 5 March 2020 confirming the ruling of the Milan Regional Administrative Court of 2017, ratified the recognition, by the Authority to the company, of part of the receivables not collected relating to the balancing activities for the period 1 December 2011-23 October 2012<sup>12</sup>.

Financial receivables amount to €3 million (€11 million at 31 December 2018). Compared with 31 December 2018, receivables fell by €8 million essentially due to the conversion into equity, in February 2019, of the residual portion of the Shareholders' Loan to TAP (€10 million).

Receivables for investment/divestment activities (€8 million; €9 million at 31 December 2018) include receivables for private contributions recorded for third-party interference works involving the transportation sector (compensation).

Other receivables (€151 million; €81 million at 31 December 2018) comprise:

(millions of €)	31.12.2018	31.12.2019
IRES receivables for the national tax consolidation scheme	9	<b>9</b>
Other receivables:	72	<b>142</b>
- Energy and Environmental Services Fund (CSEA)	63	<b>124</b>
- Advances to suppliers	4	<b>6</b>
- Other	5	<b>12</b>
	<b>81</b>	<b>151</b>

11 For more information, please see Note 26 "Guarantees, commitments and risks – Disputes – Recovering receivables from certain users of the transportation and balancing system".

12 For more details, see Note 26, "Guarantees, commitments and risks – Disputes", of the Notes to the consolidated financial statements.

IRES receivables for the national tax consolidation scheme (€9 million, compared with €9 million at 31 December 2018) related mainly to receivables from the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

Receivables from the CSEA (€124 million) refer to the transportation sector and are attributable to the gas settlement, introduced by the Authority through resolutions 670/2017/R/gas and 782/2017/R/gas, and to the incentives paid to the balancing manager.

All receivables are in euros. The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the contractual terms and conditions.

The seniority of trade and other receivables is shown below:

(millions of €)	31.12.2019			31.12.2019		
	Trade receivables	Other receivables (**)	Total	Trade receivables (*)	Other receivables (**)	Total
Non-overdue and non-impaired receivables	1,134	97	1,231	1,085	162	1,247
Overdue and non-impaired receivables:	113	4	117	132		132
- 0-3 months overdue	15		15	11		11
- 3-6 months overdue	3		3	7		7
- 6-12 months overdue	1		1	26		26
- more than 12 months overdue	94	4	98	88		88
	<b>1,247</b>	<b>101</b>	<b>1,348</b>	<b>1,217</b>	<b>162</b>	<b>1,379</b>

(\*) The exposure is net of overdue and impaired receivables for an amount equal to €102 millions (€137 millions at 31 December 2018).

(\*\*) Including financial receivables, receivables from investment/divestment activities and other receivables.

Overdue and non-impaired receivables (€132 million, €117 million at 31 December 2018) mainly refer to the storage segment (€77 million), principally comprising VAT<sup>13</sup> billed to users in previous years for the use of strategic gas which was withdrawn but not replenished by them pursuant to the provisions established in the Storage Code.

Receivables from related parties are described in Note 35 "Related-party transactions".

Specific information on credit risk can be found in Note 26 "Guarantees, commitments and risks - Credit risk".

13 As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

## 10) INVENTORIES

Inventories, which amount to €475 million (€472 million at 31 December 2018) are analysed in the table below:

(millions of €)	31.12.2018			31.12.2019		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
<b>Inventories</b> (current assets)	<b>155</b>	<b>(46)</b>	<b>109</b>	<b>157</b>	<b>(45)</b>	<b>112</b>
Raw materials, consumables and supplies	103	(14)	89	106	(13)	93
Finished products and merchandise	52	(32)	20	51	(32)	19
<b>Compulsory inventories</b> (Non-current assets)	<b>363</b>		<b>363</b>	<b>363</b>		<b>363</b>
	<b>518</b>	<b>(46)</b>	<b>472</b>	<b>520</b>	<b>(45)</b>	<b>475</b>

### Inventories (current assets)

Inventories of raw materials, consumables and supplies (€93 million; €89 million at 31 December 2018) primarily include stock materials relating to the pipeline network (€38 million) and to storage plants (€11 million), and natural gas used for transportation activities (€19 million).

Inventories of finished products and merchandise (€19 million, €20 million at 31 December 2018) mainly refer to the natural gas present in the storage system (619 million standard cubic metres, unchanged from 31 December 2018) and do not include compulsory inventories, recognised under "Non-current assets" in the balance sheet.

Inventories are reported net of the provision for impairment losses of €45 million (€46 million at 31 December 2018). The provision essentially involves the impairment loss (€30 million) recorded in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011<sup>14</sup>.

Changes in the provision for impairment losses during the year are shown below:

(millions of €)	Provision for impairment losses at 31.12.2018	Other changes	Provision for impairment losses at 31.12.2019
Raw materials, consumables and supplies	14	(1)	13
Finished products and merchandise	32		32
	<b>46</b>	<b>(1)</b>	<b>45</b>

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

<sup>14</sup> For more information regarding the progress of the lawsuits under way, see Note 26 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from users of the storage system".

## Compulsory inventories (non-current assets)

Compulsory inventories (€363 million, unchanged from 31 December 2018) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development<sup>15</sup>:

## 11) CURRENT INCOME TAX ASSETS/LIABILITIES AND OTHER CURRENT TAX ASSETS/LIABILITIES

Current income tax assets/liabilities and other current tax assets/liabilities break down as follows:

(millions of €)	31.12.2018	31.12.2019
<b>Current income tax assets</b>	<b>10</b>	<b>12</b>
IRES	9	9
IRAP	1	
Other assets		3
<b>Other current tax assets</b>	<b>7</b>	<b>14</b>
VAT	4	11
Other taxes	3	3
	<b>17</b>	<b>26</b>
<b>Current income tax liabilities</b>	<b>(14)</b>	<b>(26)</b>
IRES	(13)	(22)
IRAP	(1)	(4)
<b>Other current tax liabilities</b>	<b>(9)</b>	<b>(9)</b>
IRPEF withholdings for employees	(7)	(7)
VAT	(1)	(1)
Other taxes	(1)	(1)
	<b>(23)</b>	<b>(35)</b>

Current income tax assets of €12 million (€10 million at 31 December 2018) mainly involve IRES receivables (€9 million) following the receivables for additional IRES (€8 million).

Other current tax assets of €14 million (€7 million at 31 December 2018) mainly refer to VAT receivables (€11 million).

<sup>15</sup> On 8 January 2019, the Ministry confirmed the total volume of strategic storage for the contractual year 2019-2020 (1 April 2019-31 March 2020) at 4.62 billion cubic metres or approximately 48,846 gigawatt hours GWh, unchanged compared with the thermal year 2018-2019 (1 April 2018-31 March 2019). The Stogit share was unchanged at 4.5 billion cubic metres.

Current income tax liabilities of €26 million (€14 million at 31 December 2018) mainly refer to IRES payables in connection with the national tax consolidation scheme (€22 million).

Other current tax liabilities of €9 million (the same as at 31 December 2018) mainly relate to IRPEF (personal income tax) withholdings for employees (€7 million).

Taxes pertaining to the year under review are shown in Note 32 - "Income taxes".

## 12) OTHER CURRENT AND NON-CURRENT ASSETS

*Other current assets*, which amount to €19 million (€27 million at 31 December 2018) and *other non-current assets* of €26 million (€36 million at 31 December 2018) break down as follows:

(millions of €)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Regulated activities	16	10	26	1	1	2
Market value of derivative financial instruments	4		4			
Other assets:	7	26	33	18	25	43
- Prepayments	6	13	19	9	10	19
- Security deposits		13	13		13	13
- Other	1		1	9	2	11
	<b>27</b>	<b>36</b>	<b>63</b>	<b>19</b>	<b>26</b>	<b>45</b>

The item "Other assets" (€43 million; €33 million at 31 December 2018) essentially comprises:

- prepayments (€19 million), relating to upfront fees and the substitute tax on revolving credit lines (€14 million) and to insurance premiums (€5 million). The current and non-current portions amount to €9 million and €10 million respectively (€6 million and €13 million at 31 December 2018);
- security deposits (€13 million) issued to support operations mainly relating to the natural gas transportation sector.

### 13) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, which amounts to €16,439 million (€16,153 million at 31 December 2018) changed as follows:

<b>31.12.2018</b>							
(millions of €)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
<b>Cost at 31.12.2017</b>	<b>167</b>	<b>443</b>	<b>22,205</b>	<b>108</b>	<b>210</b>	<b>1,138</b>	<b>24,271</b>
Investments	2		3	7		793	805
Disposals	(1)	(4)	(17)	(3)	(2)	(4)	(31)
Change in scope of consolidation			1		1		2
Other changes	3	33	1,003	5	26	(1,111)	(41)
<b>Cost at 31.12.2018</b>	<b>171</b>	<b>472</b>	<b>23,195</b>	<b>117</b>	<b>235</b>	<b>816</b>	<b>25,006</b>
<b>Provisions for amortisation and depreciation at 31.12.2017</b>		<b>(107)</b>	<b>(7,862)</b>	<b>(53)</b>	<b>(153)</b>		<b>(8,175)</b>
Total amortisation and depreciation		(11)	(578)	(12)	(21)		(622)
Disposals		2	10	3	1		16
Change in scope of consolidation			(1)				(1)
Other changes			(1)				(1)
<b>Provisions for amortisation and depreciation at 31.12.2018</b>		<b>(116)</b>	<b>(8,432)</b>	<b>(62)</b>	<b>(173)</b>		<b>(8,783)</b>
<b>Provision for impairment losses at 31.12.2017</b>	<b>(1)</b>	<b>(4)</b>	<b>(25)</b>			<b>(33)</b>	<b>(63)</b>
(Impairment losses)/reversals			(2)			(6)	(8)
Disposals			1				1
<b>Provision for impairment losses at 31.12.2018</b>	<b>(1)</b>	<b>(4)</b>	<b>(26)</b>			<b>(39)</b>	<b>(70)</b>
<b>Net balance at 31.12.2017</b>	<b>166</b>	<b>332</b>	<b>14,318</b>	<b>55</b>	<b>57</b>	<b>1,105</b>	<b>16,033</b>
<b>Net balance at 31.12.2018</b>	<b>170</b>	<b>352</b>	<b>14,737</b>	<b>55</b>	<b>62</b>	<b>777</b>	<b>16,153</b>



(millions of €)	31.12.2019						Total
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	
<b>Cost at 31.12.2018</b>	171	472	23,195	117	235	816	25,006
Investments			5	12	1	843	861
Disposals		(1)	(23)	(7)	(1)	(4)	(36)
Change in scope of consolidation		2	74	1		2	79
- of which leased assets as right-of-use assets		2					2
Other changes	2	11	682	5	50	(717)	33
Leased assets as rights-of-use assets (*)	3	20			2		25
<b>Cost at 31.12.2019</b>	176	504	23,933	128	287	940	25,968
<b>Provisions for amortisation and depreciation at 31.12.2018</b>		(116)	(8,432)	(62)	(173)		(8,783)
Total amortisation and depreciation		(11)	(605)	(12)	(22)		(650)
Disposals			20	7	1		28
Change in scope of consolidation			(18)				(18)
Leased assets as rights-of-use assets	(1)	(4)			(1)		(6)
<b>Provisions for amortisation and depreciation at 31.12.2019</b>	(1)	(131)	(9,035)	(67)	(195)		(9,429)
<b>Provision for impairment losses at 31.12.2018</b>	(1)	(4)	(26)			(39)	(70)
(Impairment losses)/reversals			(3)			(27)	(30)
<b>Provision for impairment losses at 31.12.2019</b>	(1)	(4)	(29)			(66)	(100)
<b>Net balance at 31.12.2018</b>	170	352	14,737	55	62	777	16,153
<b>Net balance at 31.12.2019</b>	174	369	14,869	61	92	874	16,439

(\*) It includes first application effects of IFRS 16 (€20 millions) and changes of the year (€5 millions).

Property, plant and equipment (€16,439 million, compared with €16,153 million at 31 December 2018) relates mainly to transportation (€13,401 million), storage (€2,845 million) and regasification (€100 million) infrastructure.

Investments<sup>16</sup> (€861 million) refer mainly to the transportation (€723 million) and storage (€103 million) segments.

During the year, Snam capitalised €10 million of financial expenses (€12 million in 2018).

Depreciation (€656 million), included leased assets as right-of-use assets, refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.

Capital contributions recorded against the net value of property, plant and equipment stood at €389 million (€385 million at 31 December 2018).

Disposals (€8 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to transportation segment assets.

16 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

Impairment losses and reversals (€30 million) refer essentially to the write-down of assets not yet ready for use in the transportation segment.

The value of plant and equipment includes site dismantling and restoration costs (€266 million), relating mainly to the natural gas storage (€165 million) and transportation (€100 million) sectors.

Other changes (€33 million) relate to: (i) the revised downgrading of the estimate of site dismantling and restoration costs essentially refers to the storage sector, where the effects were partly absorbed by the reduction in anticipated discounting rates (€42 million in total); (ii) the change in inventories of pipes and ancillary materials used in the construction of plants, with reference to the natural gas transportation sector (€5 million); (iii) contributions to third-party interference works (compensation -€14 million).

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 26 "Guarantees, commitments and risks".

There are no real guarantees on property, plant and equipment, with the exception of some property relating to two subsidiaries that came under the scope of consolidation in November 2019, with mortgages as collateral for bank loans (worth a total of around €70 million, double the original amount of the loans). The above real guarantees were cancelled in January 2020 in view of the repayment in full of the bank loans.

## Property, plant and equipment by business segment

Property, plant and equipment by operating segment break down as follows:

(millions of €)	31.12.2018	31.12.2019
<b>Historical cost</b>	<b>25,006</b>	<b>25,968</b>
Transportation	20,934	21,645
Storage	3,893	4,020
Regasification	158	176
Corporate and other activities	21	127
<b>Provision for amortisation, depreciation and impairment losses</b>	<b>(8,853)</b>	<b>(9,529)</b>
Transportation	(7,690)	(8,244)
Storage	(1,080)	(1,175)
Regasification	(72)	(76)
Corporate and other activities	(11)	(34)
<b>Net balance</b>	<b>16,153</b>	<b>16,439</b>
Transportation	13,244	13,401
Storage	2,813	2,845
Regasification	86	100
Corporate and other activities	10	93

## 14) INTANGIBLE ASSETS

Intangible assets, which amounted to €990 million (€907 million at 31 December 2018) break down as follows:

(millions of €)	31.12.2018					Total
	Finite useful life			Indefinite useful life		
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	
<b>Cost at 31.12.2017</b>	<b>701</b>	<b>763</b>	<b>42</b>	<b>27</b>	<b>27</b>	<b>1,560</b>
Investments				77		77
Disposals	(1)					(1)
Change in scope of consolidation		2	19		9	30
<b>Other changes</b>	<b>63</b>	<b>4</b>	<b>3</b>	<b>(66)</b>	<b>6</b>	<b>10</b>
<b>Cost at 31.12.2018</b>	<b>763</b>	<b>769</b>	<b>64</b>	<b>38</b>	<b>42</b>	<b>1,676</b>
<b>Provisions for amortisation and depreciation at 31.12.2017</b>	<b>(571)</b>	<b>(97)</b>	<b>(42)</b>			<b>(710)</b>
Total amortisation and depreciation	(54)	(4)	(2)			(60)
Disposals	1					1
<b>Provisions for amortisation and depreciation at 31.12.2018</b>	<b>(624)</b>	<b>(101)</b>	<b>(44)</b>			<b>(769)</b>
<b>Provision for impairment losses at 31.12.2017</b>						
<b>Provision for impairment losses at 31.12.2018</b>						
<b>Net balance at 31.12.2017</b>	<b>130</b>	<b>666</b>		<b>27</b>	<b>27</b>	<b>850</b>
<b>Net balance at 31.12.2018</b>	<b>139</b>	<b>668</b>	<b>20</b>	<b>38</b>	<b>42</b>	<b>907</b>

(millions of €)	31.12.2019					
	Finite useful life				Indefinite useful life	Total
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	
<b>Cost at 31.12.2018</b>	763	769	64	38	42	1,676
Investments				102		102
Change in scope of consolidation		31	7		9	47
Other changes	91	3	(1)	(93)		
<b>Cost at 31.12.2019</b>	854	803	70	47	51	1,825
<b>Provisions for amortisation and depreciation at 31.12.2018</b>	(624)	(101)	(44)			(769)
Total amortisation and depreciation	(61)	(4)	(1)			(66)
<b>Provisions for amortisation and depreciation at 31.12.2019</b>	(685)	(105)	(45)			(835)
<b>Provision for impairment losses at 31.12.2018</b>						
<b>Provision for impairment losses at 31.12.2019</b>						
<b>Net balance at 31.12.2018</b>	139	668	20	38	42	907
<b>Net balance at 31.12.2019</b>	169	698	25	47	51	990

Industrial patent rights and intellectual property rights of €169 million (€139 million at 31 December 2018) mainly concern information systems and applications in support of operating activities.

Concessions, licences, trademarks and similar rights (€698 million; €668 million at 31 December 2018) refer essentially to concessions for natural gas storage activities (€656 million) and, specifically to the concessions of Settala (€226 million), Sergnano (€126 million), Fiume Treste (€91 million) and Brugherio (€56 million). The value of the storage concessions is represented by the reserves of natural gas in the fields ("cushion gas"<sup>17</sup>). The value also includes the fair value attributed at the Purchase Price Allocation of Renerwaste, as governed by IFRS3, related to the multi-year concessions for running the three waste management plants.

The change in the scope of consolidation (€47 million) refers to intangible fix assets recorded following the acquisition transactions completed in November 2019 by the companies Renerwaste and TEA Servizi.

The increase in assets with an indefinite useful life (€9 million) refers to the goodwill following the acquisition transactions of the companies Renerwaste (€8 million) and TEA Servizi (€1 million)<sup>18</sup>. This goodwill was allocated to the CGUs represented by these companies acquired.

17 Cushion gas is not depreciated.

18 For further information, see Note 25 - "Business combinations".

Investments (€102 million) refer mainly to the transportation (€88 million) segment<sup>19</sup>.

Amortisation (€66 million) refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note 26 - "Guarantees, commitments and risks".

As required by the reference accounting principle (IAS 36), assets and goodwill are subject to impairment testing. Impairment tests are conducted for all CGUs where there are impairment indicators and/or goodwill allocated to the CGUs. In 2019, the tests were also carried out for the main CGUs irrespective of whether there were impairment indicators and/or goodwill. In particular, the main CGUs were represented by:

- the businesses for regulated activities for the transportation, regasification and storage of natural gas by the companies Snam Rete Gas and ITG, GNL and Stogit;
- the CNG businesses composed of refuelling stations and compressor, of the companies Snam 4 Mobility and Cubogas;
- the biogas/biomethane businesses by the companies IES Biogas, and by the newly acquired company Renerwaste;
- the energy efficiency business, by the company TEP Energy Solutions and by the newly acquired company TEA Servizi.

With reference to the CNG business represented the refuelling stations, the recoverable value of the Snam 4 Mobility CGU was calculated on the basis of the Discounted Cash Flow (DCF) Method. Taking into consideration the start up stage of the business, the cash flows were calculated taking into consideration a longer time horizon compared with the forecast data of the 2020-2023 Plan approved by the Board, in order to be able to consider all the effects that could have a significant impact on cash flows. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

With reference to other CNG activities (compressors), the recoverable value of the CGU Cubogas was determined based on the Discounted Cash Flow (DCF) Method, using the 2020-2023 Plan approved by the Board. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

With reference to the biogas/biomethane business, the recoverable value of the CGU IES Biogas was determined on the basis of the Discounted Cash Flow (DCF) Method, using the 2020-2023 Plan approved by the Board. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

With reference to the energy efficiency business, the recoverable value of the CGU TEP Energy Solutions was calculated on the basis of the Discounted Cash Flow (DCF) Method. Because of the nature of the business, significantly affected by the physical benefits related to the energy reclassification of buildings, the cash flows were calculated over a longer time horizon than the Plan approved by the Board, equal to the period in which these benefits are expected to remain in force. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

For the newly acquired companies operating in the biogas/biomethane and energy efficiency business, the recoverable value allocated to the CGUs was assumed to be equal to the purchase prices of the companies also taking into account the timing of the acquisition transactions.

With reference to the Transportation (Snam Rete Gas), Regasification (GNL) and Storage (Stogit) CGUs, the recoverable value was defined corresponding to estimated value of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) net of the flat-fee components<sup>20</sup>, of the Employee Severance Pay (TFR) and contributions received.

With reference to the ITG CGU, the recoverable value allocated to the CGU was calculated using the Discounted Cash Flow (DCF) Method, using the 2020-2023 Plan approved by the Board. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

For all CGUs, the recoverable value as represented above was higher than the net book value of the CGUs included in the goodwill.

As set out in IAS 36, all the CGUs subject to impairment testing were subjected to a sensitivity analysis of the recoverable value, in the worst case scenario formulated which includes a 0.5% increase in the discount rate applied to cash flows. This stress test did not highlight any loss in value of the CGUs.

<sup>19</sup> Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

<sup>20</sup> The RAB is the reference basis for the determination of the service tariffs and, therefore, of the cash flows generated by the activities. The value of the RAB is defined through the historical cost method revalued as regards the fixed assets, and on a flat rate basis for the working capital, the employee severance indemnity and, with reference to the storage sector, the site dismantling and restoration fund.

## Intangible assets by business segment

Intangible assets by business segment break down as follows:

(millions of €)	31.12.2018	31.12.2019
<b>Historical cost</b>	<b>1,676</b>	<b>1,825</b>
Transportation	721	809
Storage	835	844
Regasification	6	6
Corporate and other activities	114	166
<b>Provision for amortisation, depreciation and impairment losses</b>	<b>(769)</b>	<b>(835)</b>
Transportation	(544)	(594)
Storage	(159)	(166)
Regasification	(4)	(4)
Corporate and other activities	(62)	(71)
<b>Net balance</b>	<b>907</b>	<b>990</b>
Transportation	177	215
Storage	676	678
Regasification	2	2
Corporate and other activities	52	95

## 15) INVESTMENTS VALUED USING THE EQUITY METHOD

Investments valued using the equity method, amounting to €1,787 million (€1,710 million at 31 December 2018) break down as follows:

(millions of €)	Equity investments in		
	joint ventures	associates	Total
<b>Initial value at 01.01.2018</b>	<b>1,164</b>	<b>383</b>	<b>1,547</b>
Acquisitions and subscriptions	5	160	165
Capital gains from measurement using the equity method	117	48	165
(Capital losses) from measurement using the equity method		(8)	(8)
Exchange rate conversion differences		(1)	(1)
Sales and repayments	(16)		(16)
Decrease owing to dividends	(114)	(35)	(149)
Other changes	(57)	64	7
<b>Final value at 31.12.2018</b>	<b>1,099</b>	<b>611</b>	<b>1,710</b>
<b>Initial value at 01.01.2019</b>	<b>1,099</b>	<b>611</b>	<b>1,710</b>
Acquisitions and subscriptions		23	23
Capital gains from measurement using the equity method	128	97	225
(Capital losses) from measurement using the equity method		(7)	(7)
Exchange rate conversion differences		6	6
Sales and repayments	(9)	(22)	(31)
Decrease owing to dividends	(98)	(34)	(132)
Other changes	7	(14)	(7)
<b>Final value at 31.12.2019</b>	<b>1,127</b>	<b>660</b>	<b>1,787</b>

Acquisitions and subscriptions (€23 million) relate to TAP's capital increase following the shareholder loan requests received during the course of the year. Capital gains from valuations using the equity method (€225 million) refer mainly to the share for the results of the jointly controlled companies TAG (€74 million), Terêga (€44 million) and AS Gasinfrastruktur Beteiligung GmbH (€10 million) and associate companies Italgas (€56 million) and Senfluga (€33 million). Capital losses from valuations using the equity method (€7 million) refer to the share of the results of the associate company TAP.

Disposals and redemptions (€31 million) refer to the reduction in the book value of Senfluga (€22 million) following the repayment of the share capital and AS Gasinfrastruktur Beteiligung (€9 million) following the distribution of part of the share premium reserve.

The decrease in dividends (€132 million) refers to the jointly controlled companies TAG (€63 million) and Terêga (€35 million) and the associate companies Italgas (€26 million) and Interconnector (UK) (€8 million).

Other changes (-€7 million) mainly refer to the change in fair value of the hedging derivatives of associate companies (-€23 million) partly offset by the conversion to equity in February 2019 of the remaining share of the Shareholders' Loan to TAP (+€9 million).

For investments, except for what is stated with reference to the investment in TAP<sup>21</sup>, there were no real guarantees.

At 31 December 2019 the Group conducted impairment testing for each investment in associate and jointly controlled companies; in particular, for the Italgas CGU, the recoverable value was determined on the basis of the stock market capitalization of the homonymous stock on 31 December 2019, expression of the market values on that date. For the remaining CGUs, the recoverable amount was determined through the Dividend Discount Model (DDM) Method, based on the most recent plans of the respective companies. For the discounting of cash flows, the cost of equity was used (Cost of Equity - Ke). No impairments were revealed by these tests.

As set out in IAS 36, all investments subject to impairment testing were subjected to a sensitivity analysis of the recoverable value, in the worst case scenario formulated which includes a 0.5% increase in the discount rate applied to cash flows. This stress test did not highlight any loss in value of the investments.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2019", which is an integral part of these Notes.

## Other information on equity investments

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates for the financial years ended 31 December 2018 and 31 December 2019 are provided below.

<sup>21</sup> For more information, see Note 25, "Guarantees, Commitments and Risks – Commitments, guarantees and pledges - TAP".



## Investments in joint ventures

The economic-financial data relating to each investment in joint ventures deemed significant, refers to values in the financial statements prepared on the basis of IFRS for investee companies<sup>22</sup> are listed below:

(millions of €)	31.12.2018		
	Terēga Holding S.A.S. (*)	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH
Current assets	146	57	2
- of which cash and cash equivalents	34	20	2
Non-current assets	2,891	1,116	582
<b>Total assets</b>	<b>3,037</b>	<b>1,173</b>	<b>584</b>
Current liabilities	(146)	(105)	(3)
- of which current financial liabilities	(81)	(35)	(3)
Non-current liabilities	(1,685)	(497)	(283)
- of which non-current financial liabilities	(1,423)	(353)	(283)
<b>Total liabilities</b>	<b>(1,831)</b>	<b>(602)</b>	<b>(286)</b>
<b>Shareholders' equity</b>	<b>1,165</b>	<b>571</b>	<b>298</b>
Equity investment held by the group % (**)	40.50%	89.22%	40.00%
Share attributable to the Group	472	509	119
<b>Book value of the equity investment</b>	<b>472</b>	<b>509</b>	<b>124</b>
Revenue	461	308	
Operating costs	(179)	(124)	
Amortisation, depreciation and impairment losses	(132)	(56)	
<b>EBIT</b>	<b>150</b>	<b>128</b>	
Financial income	1		2
Financial expense	(37)	(14)	(7)
Income (expense) from equity investments			28
Income tax	(31)	(32)	
<b>Net profit</b>	<b>83</b>	<b>82</b>	<b>23</b>
Other components of comprehensive income			
<b>Total comprehensive income</b>	<b>83</b>	<b>82</b>	<b>23</b>

(\*) The data for 2018 were restated consistent with the definitive values of the financial statements approved by the company at 31.12.2018.

(\*\*) The investment in Trans Austria Gasleitung GmbH is measured on the basis of the percentage of economic rights held.

22 Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.

(millions of €)	31.12.2019		
	Terēga Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH
Current assets	133	46	2
- of which cash and cash equivalents	40	5	2
Non-current assets	2,930	1,104	605
<b>Total assets</b>	<b>3,063</b>	<b>1,150</b>	<b>607</b>
Current liabilities	(174)	(92)	(3)
- of which current financial liabilities	(74)	(12)	(3)
Non-current liabilities	(1,700)	(475)	(292)
- of which non-current financial liabilities	(1,425)	(337)	(244)
<b>Total liabilities</b>	<b>(1,874)</b>	<b>(567)</b>	<b>(295)</b>
<b>Shareholders' equity</b>	<b>1,189</b>	<b>583</b>	<b>312</b>
Equity investment held by the group % (*)	40.50%	89.22%	40.00%
Share attributable to the Group	482	520	125
<b>Book value of the equity investment</b>	<b>482</b>	<b>520</b>	<b>125</b>
Revenue	502	312	
Operating costs	(208)	(127)	
Amortisation, depreciation and impairment losses	(103)	(61)	
<b>EBIT</b>	<b>191</b>	<b>124</b>	
Financial income			2
Financial expense	(52)	(11)	(7)
Income (expense) from equity investments			23
Income tax	(45)	(30)	(2)
<b>Net profit</b>	<b>94</b>	<b>83</b>	<b>16</b>
Other components of comprehensive income			
<b>Total comprehensive income</b>	<b>94</b>	<b>83</b>	<b>16</b>

(\*) The investment in Trans Austria Gasleitung GmbH is measured on the basis of the percentage of economic rights held.

## Information on Investments in joint ventures

### Terēga Holding S.A.S.

Terēga Holding S.A.S. is a company operating under French law which, through Terēga S.A.S., wholly-owned by Terēga Holding S.A.S.) controls 100% of Terēga S.A.

Terēga S.A. (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation and storage activities in France are subject to regulation. At 31 December 2019 Terēga Holding S.A.S. was an investee of Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue du Crédit Agricole). Terēga Holding S.A.S.'s consolidated financial statements include Terēga Holding S.A.S., Terēga S.A.S and Terēga S.A.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GIC.

### Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment. It owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point. Natural gas transportation in Austria is a regulated activity.

As at 31 December 2019, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and (GCA) also stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GCA.

### AS Gasinfrastruktur Beteiligung GmbH

AS Gasinfrastruktur Beteiligung GmbH is an Austrian company jointly controlled by Snam S.p.A. and the Allianz group, with holdings of 40% and 60% respectively. The company holds 100% of the Austrian company AS Gasinfrastruktur GmbH, which in turn holds 49% of the share capital of Gas Connect Austria GmbH, which is controlled by OMV AG.

The corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and Allianz.

## Significant restrictions

Pursuant to the provisions of IFRS 12, the major significant restrictions on investee companies' ability to transfer funds to Snam in the form of dividends, loan repayments or advances appear below.

### Terēga S.A.S.

The payment to shareholders of interest on the nominal amount of the €670 million convertible bond (of which Snam has subscribed €272 million) may be deferred at the discretion of the issuer Terēga S.A.S.

## Investments in associates

The economic-financial data relating to investments in associate companies deemed significant, refers to the values in the financial statements prepared in accordance with the IFRS of investee companies<sup>23</sup>, and are reported below.

<b>31.12.2018</b>				
<b>(millions of €)</b>	<b>Trans Adriatic Pipeline AG (TAP)</b>	<b>Italgas S.p.A.</b>	<b>Senfluga Energy Infrastructure Holding S.A. (*)</b>	<b>Interconnector UK Ltd</b>
Current assets	108	748	347	37
Non-current assets	4,050	6,011	815	668
<b>Total assets</b>	<b>4,158</b>	<b>6,759</b>	<b>1,162</b>	<b>705</b>
Current liabilities	(257)	(899)	(176)	(108)
Non-current liabilities	(2,619)	(4,531)	(519)	(117)
<b>Total liabilities</b>	<b>(2,876)</b>	<b>(5,430)</b>	<b>(695)</b>	<b>(225)</b>
<b>Shareholders' equity</b>	<b>1,282</b>	<b>1,329</b>	<b>467</b>	<b>480</b>
Equity interest held by the Group (%)	20%	13.50%	60%	23.68%
Share attributable to the Group	256	179	117	114
<b>Book value of the equity investment</b>	<b>258</b>	<b>180</b>	<b>117</b>	<b>55</b>
Revenue		1,641		168
<b>EBIT</b>	<b>(29)</b>	<b>453</b>	<b>(6)</b>	<b>47</b>
<b>Net profit</b>	<b>(18)</b>	<b>314</b>	<b>(6)</b>	<b>37</b>
Other components of comprehensive income		(3)		
<b>Total comprehensive income</b>	<b>(18)</b>	<b>311</b>	<b>(6)</b>	<b>37</b>

(\*) The values reflect the recognition, as provisional accounting, of the assets and liabilities assumed by Senfluga when it acquired the controlling interest in DESFA at its fair value. Shareholders' equity includes amounts pertaining to minorities of 272 million euro.,

23 The financial statement figures for associates, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.

(millions of €)	31.12.2019			
	Trans Adriatic Pipeline AG (TAP)	Italgas S.p.A.	Senfluga Energy Infrastructure Holding S.A. (*)	Interconnector UK Ltd
Current assets	79	985	220	32
Non-current assets	4,100	7,247	839	426
<b>Total assets</b>	<b>4,179</b>	<b>8,232</b>	<b>1,059</b>	<b>458</b>
Current liabilities	(210)	(1,319)	(105)	(29)
Non-current liabilities	(3,103)	(5,118)	(466)	(173)
<b>Total liabilities</b>	<b>(3,313)</b>	<b>(6,437)</b>	<b>(571)</b>	<b>(202)</b>
<b>Shareholders' equity</b>	<b>866</b>	<b>1,795</b>	<b>488</b>	<b>256</b>
Equity interest held by the Group (%)	20%	13.5%	54%**	23.68%
Share attributable to the Group	264	209	124	61
<b>Book value of the equity investment</b>	<b>264</b>	<b>209</b>	<b>125</b>	<b>61</b>
Revenue	2	1,893	257	88
<b>EBIT</b>	<b>(39)</b>	<b>516</b>	<b>141</b>	<b>39</b>
<b>Net profit</b>	<b>(40)</b>	<b>424</b>	<b>88</b>	<b>33</b>
Other components of comprehensive income	(93)	(6)	(5)	28
<b>Total comprehensive income</b>	<b>(133)</b>	<b>418</b>	<b>83</b>	<b>61</b>

(\*) The shareholders' equity includes the value pertaining to minority shareholders, equal to €258 million.

(\*\*) The equity investment held by the Group reflects the reclassification to Assets held for sale equal to 6% (€10 million).

## Information on investments in associates

### Trans Adriatic Pipeline A.G. (TAP)

Trans Adriatic Pipeline A.G. (TAP) is a Swiss company formed to design, develop and build a new gas pipeline, currently under construction, which will extend from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania.

As at 31 December 2019, TAP A.G. was an investee of Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).

In December 2019 TAP concluded a project financing agreement for the construction of the pipeline.

Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

### Italgas S.p.A.

Italgas S.p.A. is an Italian company that controls 100% of Italgas Reti S.p.A., Seaside S.r.l. and Italgas Acqua., companies operating in the natural gas distribution sector in Italy, energy efficiency and the management of the water service in five municipalities in Campania.

As at 31 December 2019, following the spin-off of the natural gas distribution business from Snam S.p.A. which took place in 2016, Italgas S.p.A., was a investee of Snam (13.5%), C.D.P. Reti S.r.l. (26.05%), while the remainder is owned by third party shareholders.

On 7 November 2016, the effective date of aforementioned separation, which covered all the shares each company held in Italgas S.p.A., the shareholder agreement signed by Snam S.p.A., CDP Reti S.p.A. and CDP Gas S.r.l., on 20 October 2016 entered into effect. The shareholder agreement establishes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved

subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (including in the event of an Accelerated Exit) are subject not only to advance approval by CDP Reti, but also to the subrogation of a third party. In addition, Snam may not increase its equity investment. The agreement has a three-year term that is renewable barring notice of termination; in the event that Snam does not renew, CDP Reti shall have an option to purchase at fair market value Snam's equity investment in Italgas.

### Senfluga Energy Infrastructure Holding

Senfluga Energy Infrastructure Holding is a company through which the European consortium composed of Snam (60%)<sup>24</sup>, Enagás (20%) and Fluxys (20%) owns a 66% stake of DESFA, the national operator in the natural gas infrastructure sector. DESFA owns and manages a regulated system for a high pressure transportation network covering around 1,500 km, as well as a regasification terminal at Revithoussa. Greece, an important crossroads for the diversification of procurement and the opening of new natural gas routes in Europe, has further development potential as a south-east European hub.

Under current corporate governance rules, none of Senfluga's shareholders is able to exercise control over the company, including in a joint capacity.

### Interconnector UK Ltd

Interconnector UK Ltd is a company under British law that owns the two-way pipeline that joins the United Kingdom to Belgium and the rest of Europe.

At 31 December 2019 Interconnector UK Ltd was an investee company of Snam International B.V. (23,68%) and Fluxys UK Ltd (76.32%).

The company directly holds 48% of the company under Dutch law Interconnector Zeebrugge Terminal S.C./C.V. Scrl and 1% indirectly through Interconnector Leasing company Ltd.

## 16) OTHER INVESTMENTS

Other investments of €41 million (€40 million at 31 December 2018) mainly involve the minority interest of 7.3% held by Snam S.p.A. in the share capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG) and breaks down as follows:

<b>(millions of €)</b>	
<b>Value at 31.12.2018</b>	<b>40</b>
Acquisitions and subscriptions	1
Income from valuation to FVTOCI	4
Sales and repayments	(5)
Other changes	1
<b>Value at 31.12.2019</b>	<b>41</b>

The profit from the measurement of the Fair Value Through Other Comprehensive Income (FVTOCI) of €4 million refers to the change in fair value of the investment at 31 December 2019.

<sup>24</sup> Following the sale of the 6% stake that took place on 13 January 2020, the share held by Snam was 54%. For more information, refer to Note 17 "Assets held for sale".

## 17) ASSETS HELD FOR SALE

Assets held for sale (€10 million) relate to a 6% share in the associate company Senfluga, reclassified following the agreements signed by the shareholders of Senfluga for the sale of a 10% stake in it, proportional to the stake held by each shareholder. In conformity with the provisions of IFRS 5 “Non-current assets Held for Sale and Discontinued Operations”, the above-mentioned stake was recorded under assets held for sale and valued at the lower of the book value and the fair value, excluding any sales costs. The completion of the transaction, subject to the approval of the Greek regulator, took place on 13 January 2020, following a payment of €16 million (€10 million as Snam’s share), pegged at the values of the transaction concluded by Snam in December 2018. Following the above-mentioned sale, the percentage of Snam’s equity investment in the capital of Senfluga is 54%.

## 18) SHORT-TERM FINANCIAL LIABILITIES, LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

*Short-term financial liabilities*, amounting to €2,456 million (€1,976 million at 31 December 2018), and *long-term financial liabilities*, including short-term portions of long-term liabilities totalling €12,318 million (€11,444 million at 31 December 2018), break down as follows:

(millions of €)	31.12.2018					31.12.2019				
	Long-term financial liabilities					Long-term financial liabilities				
	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bonds		913	4,408	3,125	7,533		1,439	3,800	3,809	7,609
Bank loans	1,751	744	1,175	1,079	2,254	455	230	1,798	1,221	3,019
Euro Commercial Paper - ECP	225					2,001				
Lease liabilities							6	11	4	15
	<b>1,976</b>	<b>1,657</b>	<b>5,583</b>	<b>4,204</b>	<b>9,787</b>	<b>2,456</b>	<b>1,675</b>	<b>5,609</b>	<b>5,034</b>	<b>10,643</b>

## Short-term financial liabilities

Short-term financial liabilities, standing at €2,456 million (€1,976 million at 31 December 2018) mainly relate to the use of floating rate uncommitted bank lines of credit (€450 million) and the issuing of unsecured short-term bonds (Euro Commercial Papers) issued by the money market and placed with institutional investors (€2,001 million). The increase compared with 31 December 2018 of €480 million is mainly due to the issuing of Euro Commercial Papers (€1,775 million) partly offset by the lower net use of lines of credit (-€1,301 million). There are no short-term financial liabilities denominated in currencies other than the euro.

The weighted average interest rate on short-term financial liabilities was -0.11% (-0.04% for 2018).

The market value of short-term financial liabilities is the same as their book value.



## Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, including the short-term portion of long-term liabilities, amounted to €12,318 million (€11,444 million at 31 December 2018). The breakdown of bond loans (€9,048 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

<b>(millions of €)</b>							
<b>Issuing company</b>	<b>Issued (year)</b>	<b>Currency</b>	<b>Nominal amount</b>	<b>Adjustments (a)</b>	<b>Balance at 31.12.2019</b>	<b>Rate (%)</b>	<b>Maturity (year)</b>
<b>Euro Medium Term Notes (EMTN)</b>							
SNAM S.p.A. (b) (c) (d) (e)	2012	€	602	6	608	5.25	2022
SNAM S.p.A. (b) (c) (d) (f)	2012	€	526	16	542	3.5	2020
SNAM S.p.A. (c) (d) (e)	2013	€	259	8	267	3.375	2021
SNAM S.p.A. (c) (d) (e)	2014	€	390	9	399	3.25	2024
SNAM S.p.A. (c) (d) (e) (g)	2014	€	246	4	250	1.5	2023
SNAM S.p.A. (c) (d) (e) (h)	2015	€	195	(17)	178	1.375	2023
SNAM S.p.A.	2016	€	1,250	(5)	1,245	0.875	2026
SNAM S.p.A.	2016	€	500	(1)	499		2020
SNAM S.p.A. (e)	2017	€	393	3	396	1.25	2025
SNAM S.p.A. (i)	2017	€	300		300	0.641	2022
SNAM S.p.A. (j)	2017	€	350		350	0.836	2024
SNAM S.p.A.	2017	€	650	(2)	648	1.375	2027
SNAM S.p.A. (i)	2018	€	350		350	0.212	2020
SNAM S.p.A. (l) (e)	2018	€	595	(3)	592	1.00	2023
SNAM S.p.A.	2019	€	500	(2)	498	1.25	2025
SNAM S.p.A. (i)	2019	€	250		250	1.625	2030
SNAM S.p.A.	2019	€	700	(5)	695		2024
SNAM S.p.A.	2019	€	600	(11)	589	1.00	2034
			<b>8,656</b>		<b>8,656</b>		
<b>Convertible bonds</b>							
SNAM S.p.A.	2017	€	400	(8)	392		2022
			<b>9,056</b>	<b>(8)</b>	<b>9,048</b>		

(a) Includes: (i) issue commission/discount; (ii) accrued interest

(b) Bond loans subject to the 2016 liability management operation.

(c) Bond loans subject to the 2017 liability management operation.

(d) Bond loans subject to the 2018 liability management operation.

(e) Bond loans subject to the 2019 liability management operation.

(f) Bond loan subject to reopening in September 2013 for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.

(g) Bond loan subject to reopening in January 2015 for an incremental amount of €250 million, with the same interest rate and maturity as the original placement.

(h) Bond loans subject to the 2015 liability management operation.

(i) Floating-rate bond, converted into fixed-rate through an IRS hedging derivative.

(l) Bond loan subject to reopening in November 2018 for an incremental amount of €300 million, with the same interest rate and maturity as the original placement.

Bond loans (€9,048 million) rose by €602 million compared with 31 December 2018 mainly following the issuing of: (i) the Climate Action Bond, for a nominal amount of €500 million, fixed rate with a maturity date of 28 August 2025; (ii) a Private Placement of a nominal amount of €250 million, fixed rate with a maturity date of 7 January 2030; (iii) a dual tranche bond with a nominal amount of, respectively, €700 and €600 million, making a total of €1.3 billion, fixed rate with maturity dates, respectively of 12 May 2024 and 12 September 2034. These changes were partly offset by: (i) by the repayment of a fixed rate bond maturing on 18 January 2019, for a nominal amount of €519 million; (ii) the repayment of a fixed rate bond loan maturing on 24 April 2019, of a nominal amount of €225 million; (iii) the repayment of a JPY 10 billion bond maturing on 25 October 2019 of a nominal amount of €83 million; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of €597 million with an average coupon of 1.3% and a residual duration of approximately 3.9 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction, concluded in December 2019 stood at €626 million<sup>25</sup>, including the fees paid to intermediaries and accrued interest (€5 million in total).

Payables for bank loans (€3,704 million) relate to term loans, of which €1,669 million concern European Investment Bank (EIB) funding.

There are no other long-term bank loans denominated in currencies other than the euro.

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.2%<sup>26</sup> (0.3% for 2018).

There were no breaches of loan agreements as at the reporting date.

The market value of long term financial debts, including the short-term portion totals €12,755 million<sup>27</sup> (€11,564 million at 31 December 2018).

Snam also has unused committed credit lines totalling €3.2 billion.

## Financial covenants and negative pledge commitments

At 31 December 2019 Snam had unsecured bilateral and syndicated loan agreements in place with banks and other lending institutions, with the exception of some bank loans (totalling €25.9 million) relating to two subsidiaries that entered the scope of consolidation in November 2019<sup>28</sup>. Some of these agreements include, inter alia, compliance with typical international practice commitments, some of which are subject to specific materiality thresholds, such as, for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (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 on the debt of subsidiaries.

Failure to comply with these covenants, and the occurrence of other events such as cross-default events could result in Snam's failure to comply and, possibly, 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 credit rating is lower than BBB (Standard & Poor's/ Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three ratings agencies.

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

At 31 December 2019, the financial debt subject to these restrictive clauses amounted to approximately €3.2 billion. Bonds issued by Snam as at 31 December 2019, with a nominal value of €9.1 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.

25 For more information on the operation, see the section "Snam in 2019 – Summary data and information - Main events" in the Directors' Report.

26 It excludes the depreciation of the upfront fees.

27 It includes bonds, whose value is estimated on the basis of the market listings at 31 December 2019, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.

28 These loans were repaid in January 2020.

## Breakdown of net financial debt

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(millions of €)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	1,872		1,872	2,851		2,851
B. Securities available for sale and held to maturity						
<b>C. Cash (A + B)</b>	<b>1,872</b>		<b>1,872</b>	<b>2,851</b>		<b>2,851</b>
<b>D. Short-term financial receivables</b>						
E. Short-term financial liabilities to banks	1,751		1,751	455		455
F. Long-term financial liabilities to banks	744	2,254	2,998	230	3,019	3,249
G. Bonds	913	7,533	8,446	1,439	7,609	9,048
H. Short-term financial liabilities to related parties						
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	225		225	2,001		2,001
M. Other long-term financial liabilities (*)				6	15	21
<b>N. Gross financial debt (E + F + G + H + I + L + M)</b>	<b>3,633</b>	<b>9,787</b>	<b>13,420</b>	<b>4,131</b>	<b>10,643</b>	<b>14,774</b>
<b>O. Net financial debt (N - C - D)</b>	<b>1,761</b>	<b>9,787</b>	<b>11,548</b>	<b>1,280</b>	<b>10,643</b>	<b>11,923</b>

(\*) The value includes financial payables for leased assets recorded pursuant to IFRS 16 "Leasing".

## Reconciliation of net financial debt

In compliance with the provisions of IAS 7 "Statement of Cash Flows", we provide below the cash and non-cash changes to liabilities arising from financing activities and to assets included in net financial debt.

(millions of €)	31.12.2018	Cash flow changes	Changes without effects on cash flows			31.12.2019
			Impact of IFRS 16	Foreign Exchange difference	Change in scope of consolidation	
Cash and cash equivalents (*)	1,872	979				2,851
<b>Liquidity and financial receivables</b>	<b>1,872</b>	<b>979</b>				<b>2,851</b>
Short-term financial debt	1,976	478			2	2,456
Long-term financial liabilities (**)	11,444	807		3	43	12,297
Lease liabilities		(6)	25		2	21
<b>Gross financial debt</b>	<b>13,420</b>	<b>1,285</b>	<b>25</b>	<b>3</b>	<b>47</b>	<b>14,774</b>
<b>Net financial debt</b>	<b>11,548</b>	<b>306</b>	<b>25</b>	<b>3</b>	<b>47</b>	<b>11,923</b>

(\*) Including cash and cash equivalents from the change in the scope of consolidation.

(\*\*) Includes the current portion of long-term financial liabilities.

## 19) TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables, which amount to €1,801 million (€1,768 million at 31 December 2018) comprise the following:

(millions of €)	31.12.2018	31.12.2019
Trade payables	491	487
Payables for investments	337	320
Other payables	940	994
	<b>1,768</b>	<b>1,801</b>

Trade payables of €487 million (€491 million at 31 December 2018) relate mainly to the natural gas transportation (€350 million, including €253 million relating to gas balancing activities), storage (€26 million) and regasification (€8 million) business segments.

Payables for investment activities of €320 million (€337 million at 31 December 2018) relate mainly to the natural gas transportation (€253 million) and storage (€38 million) business segments.

Other payables of €994 million (€940 million at 31 December 2018) break down as follows:

(millions of €)	31.12.2018	31.12.2019
Other payables		
- Payables to the Energy and Environmental Services Fund (CSEA)	570	597
- Interim dividend	298	313
- Payables to employees	32	35
- Payables to pension and social security institutions	19	19
- Consultants and professionals	8	8
- Other	13	22
	<b>940</b>	<b>994</b>

Payables to the CSEA (€597 million) essentially refer to ancillary tariff components applied to users of the transportation service, to be returned to the system. The interim dividend (€313 million) refers to the payable to shareholders following the 2019 interim dividend of €0.095 per share, approved on 13 November 2019. The interim dividend was paid from 22 January 2020. Note 35 - "Related-party transactions" contains information about payables due to related parties.

The fair value measurement of trade and other payables has no material impact given the short period of time between when the payable arises and its due date and the contractual terms and conditions.

## 20) OTHER CURRENT AND NON-CURRENT LIABILITIES

*Other current liabilities*, amounting to €97 million (€86 million at 31 December 2018), and *other non-current liabilities*, amounting to €213 million (€437 million at 31 December 2018), break down as follows:

(millions of €)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
Liabilities from regulated activities	38	351	389	49	98	147
Market value of derivative financial instruments	7	26	33	7	56	63
Other liabilities	41	60	101	41	59	100
- Security deposits		46	46		47	47
- Prepaid revenue and income	29	6	35	26	6	32
- Prepaid contributions for connecting to the transportation network		6	6		6	6
- Other	12	2	14	15		15
	<b>86</b>	<b>437</b>	<b>523</b>	<b>97</b>	<b>213</b>	<b>310</b>

Liabilities from regulated activities, amounting to €147 million (€389 million at 31 December 2018), relate to:

- the transportation business segment (€118 million) following the penalties charged to users who have exceeded the committed capacity. The current and non-current portions amount to €49 million and €69 million respectively (€37 million and €322 million at 31 December 2018). The significant reduction compared with 31 December 2018 is due to the settlement of the previous tariff entries made in July 2019;
- the storage business segment (29 million) following the fees for the balancing and stock replenishment, to be returned to users of the service in accordance with the provisions of resolution 50/06 of the Authority corresponding entirely to the non-current portion (€1 and €29 million, respectively for the current portion and non-current portion at 31 December 2018).

The market value of derivatives at 31 December 2019 is as follows:

(millions of €)	31.12.2018			31.12.2019		
	Current	Non-current	Total	Current	Non-current	Total
<b>Other assets</b>	<b>4</b>		<b>4</b>			
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives	4		4			
<b>Other liabilities</b>	<b>(7)</b>	<b>(26)</b>	<b>(33)</b>	<b>(7)</b>	<b>(56)</b>	<b>(63)</b>
Cash flow hedging derivatives:						
- Fair value interest rate hedging derivatives	(6)	(26)	(32)	(6)	(56)	(62)
- Accrued expenses on derivatives	(1)		(1)	(1)		(1)

The liabilities arising from measurement at market value of the derivative financial instruments used as cash flow hedges (€63 million) refer to:

- two derivative Interest Rate Swap "Forward Start" contracts with Mandatory Early Termination, stipulated in July 2017 and August 2018 to cover the risk of interest rate fluctuations of long-term bond issues scheduled for 2020 and 2021, of nominal total value of €500 million and a total market value of €43 million;
- an Interest Rate Swap derivative, stipulated in August 2017, with a market value of €11 million. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of €350 million. The 7 year bond has a maturity of 2 August 2024 and variable rate linked to 3 month Euribor + 40 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.436%;

- an Interest Rate Swap derivative, stipulated in February 2017, with a market value of €3 million. The IRS agreement is used to hedge against interest rate fluctuations following a long-term bond issue worth €300 million. The loan, which has a duration of five years and matures on 21 February 2022, pays a variable interest rate linked to 3 month Euribor plus 60 bps. The IRS has converted the floating-rate liability into an equivalent fixed-rate liability with reference rate of 0.0408%;
- an Interest Rate Swap derivative, stipulated in July 2018, with a market value of €2 million. The IRS is used to hedge against the fluctuation risk of a 50% portion of the floating rate term loan of €500 million. The 3-year term loan, has a maturity of 31 October 2021 and variable rate linked to 3 month Euribor + 45 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.0570%;
- an Interest Rate Swap derivative, stipulated in July 2018, with a market value of €2 million. The IRS is used to hedge against the fluctuation risk of the interest rate resulting from a floating rate term loan of €150 million. The 5-year term loan has a maturity of 31 July 2022 and variable rate linked to 3 month Euribor + 58 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.1250%;
- an Interest Rate Swap derivative, stipulated in December 2015, with a market value of €1 million. The IRS is used to hedge against the fluctuation risk of the interest rate resulting from a floating rate term loan of €9 million. The 13-year term loan, has a maturity of 30 June 2028 and variable rate linked to 6 month Euribor. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 1.04%;
- an Interest Rate Swap derivative, stipulated in December 2018, with a market value of €1 million. The IRS is used to hedge against the fluctuation risk of the remaining 50% portion of the floating rate term loan of €500 million. The 3-year term loan, has a maturity of 31 October 2021 and variable rate linked to 3 month Euribor + 45 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of -0.0440%;
- an Interest Rate Swap derivative, stipulated in August 2013, with a market value of less than €1 million. The IRS is used to hedge against the fluctuation risk of the interest rate resulting from a floating rate term loan of €1 million. The loan, has a maturity of 30 June 2028 and variable rate linked to 6 month Euribor. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 2.16%;
- an Interest Rate Swap derivative, stipulated in January 2018, with a market value of less than €1 million. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of €350 million. The 2 year bond has a maturity of 29 January 2020 and variable rate linked to 3 month Euribor + 40 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of -0.1878%.

The main characteristics of the derivatives in question are summarised in the tables below:

### Interest rate Swap - Forward Start

Type of derivative (millions of €)	Contract start date	Maturity date	Early extinguishment date	Residual term (years)	Snam pays	Snam receives	Nominal value at 31.12.2018	Nominal value at 31.12.2019	Market value at 31.12.2018	Market value at 31.12.2019
IRS - Forward start (*)	30/10/19	30/10/26	30/01/20	6.8	1.1805%	Euribor 6m	250		(9)	
IRS - Forward start	29/10/20	29/10/27	29/01/21	7.8	1.4225%	Euribor 6m	250	<b>250</b>	(8)	<b>(23)</b>
IRS - Forward start	15/04/21	15/04/28	15/07/21	8.3	1.3130%	Euribor 6m	250	<b>250</b>	(5)	<b>(20)</b>

(\*) Derivate closed on 24 May 2019.

### Interest rate Swap

Type of derivative (millions of €)	Contract start date	Maturity date	Residual term (years)	Snam pays	Snam receives	Nominal value at 31.12.2018	Nominal value at 31.12.2019	Market value at 31.12.2018	Market value at 31.12.2019
Interest Rate Swap	02/08/17	02/08/24	4.6	0.4360%	Euribor 3m	350	<b>350</b>	(5)	<b>(11)</b>
Interest Rate Swap	21/02/17	21/02/22	2.1	0.0408%	Euribor 3m	300	<b>300</b>	(2)	<b>(3)</b>
Interest Rate Swap	30/07/18	31/10/21	1.8	0.0570%	Euribor 3m	250	<b>250</b>	(2)	<b>(2)</b>
Interest Rate Swap	31/07/18	31/07/22	2.6	0.1250%	Euribor 3m	150	<b>150</b>	(1)	<b>(2)</b>
Interest Rate Swap	31/10/18	31/10/21	1.8	-0.0440%	Euribor 3m	250	<b>250</b>	(1)	<b>(1)</b>
Interest Rate Swap (*)	31/12/15	30/06/28	8.5	1.0400%	Euribor 3m	10	<b>9</b>		<b>(1)</b>
Interest Rate Swap (*)	07/08/13	30/06/28	8.5	2.1600%	Euribor 3m	1	<b>1</b>		
Interest Rate Swap	29/01/18	29/01/20	0.1	-0.1878%	Euribor 3m	350	<b>350</b>		

(\*) Derivative contracts from the change in the scope of consolidation.

The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 26 - "Guarantees, commitments and risks - Management of financial risks".

Other liabilities of €100 million (€101 million at 31 December 2018) mainly include: (i) the security deposits (€47 million; €46 million at 31 December 2018) paid as collateral by the users of the balancing service, pursuant to resolution ARG/gas 45/11 (ii) the liabilities for prepaid revenue and income (€32 million) essentially regarding the prepaid income to TAP for the presentation of design services rendered (€21 million corresponding entirely to the current portion) and the prepaid fee for the concession to use the fibre optic cables given to a telecommunications operator (€8 million, including €2 million as the current portion and €6 million as the non-current portion).



## 21) PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, which amount to €713 million (€665 million at 31 December 2018) are analysed in the table below:

31.12.2018							
(millions of €)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				against charges	for excess		
Provision for site dismantlement and restoration	610		11	(6)		(8)	<b>607</b>
Provision for litigation	16	6		(1)	(2)		<b>19</b>
Provision for tax litigation	10			(3)	(1)		<b>6</b>
Other provisions	41	20		(26)	(2)		<b>33</b>
	<b>677</b>	<b>26</b>	<b>11</b>	<b>(36)</b>	<b>(5)</b>	<b>(8)</b>	<b>665</b>

31.12.2019							
(millions of €)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				against charges	for excess		
Provision for site dismantlement and restoration	607		7	(9)		42	<b>647</b>
Provision for litigation	19	3			(4)		<b>18</b>
Provision for tax litigation	6	1			(1)		<b>6</b>
Other provisions	33	21		(12)			<b>42</b>
	<b>665</b>	<b>25</b>	<b>7</b>	<b>(21)</b>	<b>(5)</b>	<b>42</b>	<b>713</b>

The provision of €647 million for site dismantling and restoration (€607 million at 31 December 2018) includes the estimated (discounted) costs that will be incurred for the removal of facilities and the restoration of sites in the natural gas storage<sup>29</sup> (€518 million) and transportation (€124 million) business segments. The discounting for the site dismantling and restoration provision was carried out using the corresponding to the euro area Corporate Bond returns with an "AA" rating. The rate thus determined was between 0.62% and 1.09%. Disbursements relating to the dismantling and restoration operations will be incurred over a time horizon covering the next 42 years.

The other changes (€42 million) refer to the estimated change as a result of the anticipated reduction in discounting rates partly absorbed by the downgrading of the estimated site dismantling and restoration costs that mainly refer to the storage business segment.

The provision for litigation (€18 million; €19 million as at 31 December 2018) included costs which the Company has estimated it will incur for existing lawsuits. The risk provision for tax disputes (€6 million; the same at 31 December 2018) contains the estimate of the probable expenses in the event of levying of assessments and pursuant to tax disputes.

<sup>29</sup> The costs refer to the estimated expenses for the removal of the connection works to the Livorno LNG regasification terminal - OLT Offshore LNG Toscana.

Other provision for risks and charges (€42 million; €33 million at 31 December 2018) mainly involve the expenses that the insurance company Gruppo Gasrule Insurance DAC expects to incur following insured claims (€18 million) and the redundancy package fund (€13 million).

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity<sup>30</sup> of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(millions of €)	Change in discount rate	
	Reduction of 10%	Increase of 10%
<b>Effect on the net obligation at 31.12.2019</b>		
Provision for site dismantlement and restoration	12	(12)

## 22) PROVISIONS FOR EMPLOYEE BENEFITS

*Provisions for employee benefits*, amounting to €46 million (€64 million at 31 December 2018), can be broken down as follows:

(millions of €)	31.12.2018	31.12.2019
Employee severance pay (TFR)	26	25
Supplemental healthcare provision for company executives of Eni (FISDE)	3	4
Isopensione provision	25	12
Other employee benefit provisions	10	5
	<b>64</b>	<b>46</b>

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€25 million; €26 million at 31 December 2018).

<sup>30</sup> For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

The supplementary healthcare provision for Company executives of Eni (FISDE) of €4 million (€3 million at 31 December 2018) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current<sup>31</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group executives<sup>32</sup> and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

The early retirement fund (€12 million) refers to expenses incumbent upon the employer from application of the implementation agreement, relating to the early retirement instrument for employees regulated pursuant to Article 4 paragraphs 1 - 7 of Law 92/2012 (the "Fornero Law").

Other provisions for employee benefits (€5 million, €10 million at 31 December 2018) refer to the long-term benefits associated with seniority bonuses (€3 million), deferred monetary incentive plans (IMD) and long-term monetary incentive plans (ILT) (€2 million in total).

Deferred monetary incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Snam's commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term monetary incentive plans, involve the granting and payment, of a variable monetary bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters. From 2017, in place of the long-term monetary incentive plans (IMD and ILT) a new share-based long-term incentive plan (share ILT) was introduced<sup>33</sup>, the recipients of which was extended in 2018.

Seniority bonuses are benefits paid upon reaching a minimum service period at the company and are paid in kind in the form of goods and/or services.

31 For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

32 The Fund provides the same benefits for Snam Group executives.

33 For more information on the characteristics of this plan, refer to the "Other information" paragraph of the Directors' Report.

The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows<sup>34</sup>:

(millions of €)	31.12.2018					31.12.2019				
	TFR	FISDE	Isopensione provision	Other provisions	Total	TFR	FISDE	Isopensione provision	Other provisions	Total
<b>Current value of the obligation at the start of the year</b>	<b>30</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>58</b>	<b>26</b>	<b>3</b>	<b>25</b>	<b>10</b>	<b>64</b>
Current cost			15	2	17		1	(6)		(5)
Cost in interest						1				1
Revaluations/ (Impairment losses):	(1)		1			1		(1)	(1)	(1)
- Actuarial (gains) and losses resulting from changes in the financial assumptions										
- Effect of past experience	(1)		1			1		(1)	(1)	(1)
Benefits paid	(3)		(4)	(4)	(11)	(3)		(6)	(4)	(13)
Change in scope of consolidation										
<b>Current value of the obligation at the end of the year</b>	<b>26</b>	<b>3</b>	<b>25</b>	<b>10</b>	<b>64</b>	<b>25</b>	<b>4</b>	<b>12</b>	<b>5</b>	<b>46</b>

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(millions of €)	31.12.2018			31.12.2019		
	TFR	Isopensione provision	Total	TFR	Isopensione provision	Total
Effect of past experience	(1)	1		1	(1)	
	(1)	1		1	(1)	

34 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

(millions of €)	31.12.2018			31.12.2019		
	TFR	FISDE	Other provisions	TFR	FISDE	Other provisions
Discount rate (%)	1.6	1.6	0.1-1.6	0.9	0.9	0.9
Inflation rate (%) (*)	1.5	1.5	1.5	0.9	0.9	0.9

(\*) With regard to the other provisions, the rate relates only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible<sup>35</sup> change in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(millions of €)	Change in discount rate	
	Reduction of 0.5%	Increase of 0.5%
<b>Effect on the net obligation at 31.12.2018</b>		
Employee severance pay (TFR)	1	(1)
FISDE	1	(1)

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(millions of €)	31.12.2018					31.12.2019				
	TFR	FISDE	Isopensione provision	Other provisions	Total	TFR	FISDE	Isopensione provision	Other provisions	Total
Within the next year	1		8	5	14	2		4	2	8
Within five years	5		17	3	25	6		2		8
Between five and ten years	9			1	10	9	1		1	11
Beyond 10 years	11	3		1	15	8	3	6	2	19
	<b>26</b>	<b>3</b>	<b>25</b>	<b>10</b>	<b>64</b>	<b>25</b>	<b>4</b>	<b>12</b>	<b>5</b>	<b>46</b>

<sup>35</sup> Any changes relating to mortality do not have a significant effect on the liability.

The weighted average maturity of obligations for employee benefit plans is shown below:

	31.12.2018				31.12.2019			
	TFR	FISDE	Isopensione provision	Other provisions	TFR	FISDE	Isopensione provision	Other provisions
Weighted average maturity (years)	10	22	2	4	9	23	1	6

### 23) DEFERRED TAX LIABILITIES

*Deferred tax liabilities* of €548 million (€541 million at 31 December 2018) are stated net of prepaid tax assets that can be offset of €442 million (€407 million at 31 December 2018).

There are no prepaid tax assets which cannot be offset.

(millions of €)	31.12.2018	Provisions	Utilisations	Other changes	Change in scope of consolidation	31.12.2019
Deferred tax liabilities	541	2	(16)	12	9	548
Prepaid tax assets	(407)	(39)	27	(22)	(1)	(442)
	<b>134</b>	<b>(37)</b>	<b>11</b>	<b>(10)</b>	<b>8</b>	<b>106</b>

Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

(millions of €)	31.12.2019								
	Opening balance	Provisions	Utilisations	Significant impacts on shareholders' equity	Other changes	Change in scope of consolidation	Final balance	Of which: IRES	Of which: IRAP
<b>Deferred tax liabilities</b>	<b>541</b>	<b>2</b>	<b>(16)</b>		<b>12</b>	<b>9</b>	<b>548</b>	<b>531</b>	<b>17</b>
Depreciation and amortisation exclusively for tax purposes	422		(14)				408	408	
Site dismantlement and restoration	80	2			12		94	80	14
Revaluation of property, plant and equipment	19					2	21	19	2
Capitalisation of financial expenses	7						7	6	1
Impairment losses on receivables in excess of tax deductibility	3						3	3	
Other temporary differences	10		(2)			7	15	15	
<b>Prepaid tax assets</b>	<b>(407)</b>	<b>(39)</b>	<b>27</b>	<b>(10)</b>	<b>(12)</b>	<b>(1)</b>	<b>(442)</b>	<b>(404)</b>	<b>(38)</b>
Site dismantlement and restoration	(169)	(3)	2		(12)		(182)	(155)	(27)
Non-deductible amortisation and depreciation	(129)	(27)	5				(151)	(149)	(2)
Provision for risks and charges and other non-deductible provisions	(57)	(5)	11				(51)	(47)	(4)
Non-repayable and contractual grants	(20)						(20)	(17)	(3)
Employee benefits	(15)	(2)	7				(10)	(9)	(1)
Other temporary differences	(17)	(2)	2	(10)		(1)	(28)	(27)	(1)
<b>Net deferred tax liabilities</b>	<b>134</b>	<b>(37)</b>	<b>11</b>	<b>(10)</b>	<b>0</b>	<b>8</b>	<b>106</b>	<b>127</b>	<b>(21)</b>

Prepaid tax assets and deferred tax liabilities are considered to be long term. Note 32 "Income taxes" provides information about taxes for the year.

## 24) SHAREHOLDERS' EQUITY

Shareholders' equity, which amounts to €6,258 million (€5,985 million at 31 December 2018) breaks down as follows:

(millions of €)	31.12.2018	31.12.2019
Share capital	2,736	2,736
Share premium reserve	1,021	746
Legal reserve	547	547
Other reserves	67	64
Fair value reserve of minority interests	1	5
Retained earnings	2,286	2,513
Net profit for the year	960	1,090
<i>Less:</i>		
- Consolidation reserve	(674)	(674)
- Negative reserve for treasury shares in the portfolio	(625)	(389)
- Reserve for fair value of cash flow hedging derivatives net of tax effect	(28)	(62)
- Reserve for defined-benefit plans for employees net of tax effect	(8)	(8)
- Interim dividend	(298)	(313)
<b>Shareholders' equity held by Snam's shareholders</b>	<b>5,985</b>	<b>6,255</b>
<b>Shareholders' equity attributable to third parties</b>		<b>3</b>
<b>Total shareholders' equity</b>	<b>5,985</b>	<b>6,258</b>

Below is a breakdown of the shareholders' equity of Snam at 31 December 2019.

### Share capital

The share capital at 31 December 2019 consisted of 3,394,840,916 shares without nominal value (3,469,038,579 at 31 December 2018), with a total value of €2,735,670,475.56 (unchanged from 31 December 2018). The reduction is due to the cancellation of 74,197,663 treasury shares in the portfolio with no nominal value, with no share capital reduction, approved by the Snam Shareholders' Meeting, held in extraordinary session on 2 April 2019 and completed on 17 April 2019.

### Share premium reserve

The share premium reserve at 31 December 2019 totalled €746 million (€1,021 million at 31 December 2018). The reduction of €275 million is due to the use of part of the reserve following the cancellation of 74,197,663 treasury shares in the portfolio with no share capital reduction, approved by the Extraordinary Shareholders' Meeting held on 2 April 2019 and completed on 17 April 2019.



## Legal reserve

The legal reserve stood at €547 million at 31 December 2019 (unchanged from 31 December 2018).

## Other reserves

Other reserves of €64 million (€67 million at 31 December 2018) mainly refer to the effects resulting from the valuation of investments using the equity method.

## Retained earnings

Retained earnings totalled €2,513 million (€2,286 million at 31 December 2018). The increase of €227 million was mainly due to the allocation of the 2018 residual profit.

## Consolidation reserve

The negative consolidation reserve of €674 million (unchanged from 31 December 2018) includes the value derived from the difference between the acquisition cost of the Italgas and Stogit equity investments (€1,597 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the relative shareholders' equity attributable to the Group on the transaction completion date (€923 million).

## Negative reserve for treasury shares in the portfolio

The negative reserve for treasury shares in the portfolio includes the purchase cost, net of uses, of 102,412,920 treasury shares, equal to 3.02% of the share capital (168,197,663 shares at 31 December 2018), for an amount of €389 million (€625 million at 31 December 2018). The reduction of €236 million is mainly due to the cancellation of 74,197,663 treasury shares in the portfolio, approved by the Snam Shareholders' Meeting on 2 April 2019, partly offset by the buy back of 8,412,920 shares to execute the new buy back programme launched on 16 December 2019.

Detailed information on treasury shares and long-term share-based incentive plans are shown in the "Other information" section of Directors' Report, to which reference should be made.

## Reserve for fair value of cash flow hedging derivatives net of tax effect

The fair value reserve for cash flow hedge financial instruments (-€62 million at 31 December 2019; -€28 million at 31 December 2018 net of tax effects) includes the fair value measurement of derivative instruments, 6 Interest Rate Swaps (IRF) and 2 Forward start Interest Rate Swaps, illustrated in Note 20 "Other current and non-current liabilities".

The changes in the reserve during the course of the year are shown below:

(millions of €)	Gross reserve	Tax effect	Net reserve
<b>Reserve at 31.12.2018</b>	<b>(37)</b>	<b>9</b>	<b>(28)</b>
Changes in 2019	(44)	10	(34)
<b>Reserve at 31.12.2019</b>	<b>(81)</b>	<b>19</b>	<b>(62)</b>

## Reserve for defined-benefit plans for employees net of tax effect

At 31 December 2019, the reserve for remeasurement of employee benefit plans of -€8 million (unchanged from 31 December 2018) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

## Interim dividend

The 2019 interim dividend of €313 million, of €0.095 per share, was approved on 13 November 2019 by the Board of Directors pursuant to Article 2433-bis, paragraph 5 of the Italian Civil Code. The interim dividend was paid out as of 22 January 2020, with an ex-coupon date of 20 January 2020 and a record date of 21 January 2020.

## Dividends

On 2 April 2019, the Snam S.p.A. Shareholders' Meeting approved the distribution of the 2018 ordinary dividend of €0.2263 per share, including €0.095 per share for an amount of €298 million already distributed by way of an interim dividend. The balance of the dividend of €0.1358 per share, for a sum of €448 million, was paid from 26 June 2019, with an ex-dividend date of 24 June 2019 and a record date of 25 June 2019.

In its meeting of 18 March 2020, the Board of Directors proposed to the Shareholders' Meeting convened for 28 April 2020 the distribution of an ordinary dividend of € 0.2376 per share, of which €0.095 per share, for an amount of €313 million, was already distributed as the interim dividend. The dividend of € 0.1426 per share will be paid out from 24 June 2020, with an ex-coupon date of 22 June 2020 and a record date of 23 June 2020.

## 25) BUSINESS COMBINATIONS

### TEA Servizi

On 11 November 2019, the acquisition of TEA Servizi was completed through the subsidiary Asset Company 4 S.r.l., for a total value of €8 million. TEA is one of the main Italian companies operating in the energy efficiency sector, as an Energy Service Company (ESCO), with over 200 customers which include major national and international companies and 950 thousand energy efficiency certificates. The operation is a Business combination in conformity with IFRS 3, Business combinations. To this end, on the date that control was acquired, the individual assets acquired and the liabilities assumed were recognized at the relative fair values, as provisional accounting separate from goodwill.

The accounting effects of the business combination, in accordance with the provisions of IFRS 3 - "Business combinations", are summarised below:

(millions of €)	Values after assignment of fair value
Fair value of the consideration	7
Fair value of contingent consideration (earn out)	1
Total net assets identifiable at fair value	7
<b>Goodwill</b>	<b>1</b>

The calculation of the business combination consideration included the current value of the contractually-due earn out on achieving the specific operating results.

The main values of the assets and liabilities of TEA at the acquisition date are summarised below:

(millions of €)	Values after assignment of fair value
Current assets	3
Non-current assets	9
Goodwill	1
<b>Assets acquired</b>	<b>13</b>
Current liabilities	1
Short-term financial liabilities	-
Long-term financial liabilities	2
Non-current liabilities	2
<b>Liabilities acquired</b>	<b>5</b>
<b>Shareholders' equity acquired</b>	<b>8</b>

The goodwill of €1 million was calculated as the difference between the fair value of the consideration and the fair value of the net assets acquired.

From the acquisition date (November 2019), TEA's contribution to revenues and net consolidated earnings was less than €1 million.

## Renerwaste

On 20 November 2019 Snam, through the new subsidiary Snam 4 Environment, completed the acquisition of a share of around 83% of Renerwaste, one of the leading companies in Italy operating in the biogas and biomethane infrastructures, for a value of around €46 million (including €16 million by way of repayment of existing shareholder loans and €30 million by way of a contractual consideration). The transaction, entirely funded through equity, includes the possibility of Snam, acquiring the remaining minority interest of around 17% of the share capital owned by Ecopartner from June 2020. The contract includes put and call options on the interests of minority shareholders expiring in 2020. The operations of Renerwaste, which owns three plants<sup>36</sup>) and currently generate annual revenues of more than €20 million and employ around 50 people.

The operation is a Business combination in conformity with IFRS 3, Business combinations. To this end, on the date that control was acquired, the individual assets acquired and the liabilities assumed were recognized at the relative fair values, as provisional accounting separate from goodwill.

At the acquisition date, on the basis of the terms of the contract governing the exercise of the cross put and call options on the interests of minority shareholders (equal to 17%), the transaction was accounted for as if Snam had acquired control over 100% of Renerwaste, without therefore recognising the interests of minority shareholders.

The present value of expected payments if the options are exercised was included in the determination of the consideration of the business combination including the earn out under the above option (roughly €6 million).

The accounting effects of the business combination, in accordance with the provisions of IFRS 3 - "Business combinations", are summarised below:

<b>(millions of €)</b>	<b>Values after assignment of fair value</b>
Fair value of the consideration	30
Fair value of minority interests put/call option	6
Total net assets identifiable at fair value	28
<b>Goodwill</b>	<b>8</b>

<sup>36</sup> Based on the contractual arrangements, when certain conditions are verified, Snam has the right, by 2022, to buy two SPVs to which permits for the construction of another two plants will be granted to.

The main values of the assets and liabilities of Renerwaste at the acquisition date are summarised below:

(millions of €)	Values after assignment of fair value
Current assets	15
Non-current assets (*)	90
Goodwill	8
<b>Assets acquired</b>	<b>113</b>
Current liabilities	24
Short-term financial liabilities	2
Long-term financial liabilities	43
Deferred tax liabilities	8
<b>Liabilities acquired</b>	<b>77</b>
<b>Shareholders' equity acquired</b>	<b>36</b>

(\*) Non-current assets include, among intangible fixed assets, multi-year concessions for three waste management plants.

Goodwill (€8 million) was calculated as the difference between the fair value of the consideration, including the financial component relating to the option to purchase the interests of minority shareholders and the fair value of the net assets acquired.

From the acquisition date (end of November 2019), Renerwaste's contribution to net consolidated earnings was less than €1 million. With reference to revenues, the contribution amounted to €4 million.

If the business combination had been effective from 1 January 2019, Renerwaste's contribution to the Group's net result would have been an insignificant amount.



## 26) GUARANTEES, COMMITMENTS AND RISKS

Guarantees, commitments and risks, amounting to €4,467 million (€5,950 million at 31 December 2018) comprise:

(millions of €)	31.12.2018	31.12.2019
<b>Guarantees given:</b>	<b>1,262</b>	<b>1,230</b>
In the interest of subsidiaries	69	<b>101</b>
In the interest of associates	1,193	<b>1,129</b>
- of which TAP	1,129	<b>1,129</b>
<b>Commitments and risks:</b>		
<b>Commitments</b>	<b>2,021</b>	<b>1,126</b>
Commitments for the purchase of goods and services (*)	1,691	<b>892</b>
Commitments in associates (**)	324	<b>234</b>
- of which TAP	324	<b>234</b>
Other	6	
<b>Risks</b>	<b>2,667</b>	<b>2,111</b>
Third-party assets on deposit	2,609	<b>2,073</b>
Compensation and litigation	58	<b>38</b>
	<b>5,950</b>	<b>4,467</b>

(\*) The value for 2019 includes legally-binding orders at 31 December 2019.

(\*\*) The value shown in the table refers to the residual commitment.

### Guarantees given

Guarantees given in the interest of subsidiaries (€101 million; €69 million at 31 December 2018) essentially relate to: (i) indemnities issued in favour of third-parties to guarantee the execution of works (€33 million); (ii) bank guarantees in favour of the INPS to guarantee fulfilment of the obligations undertaken under the scope of performances associated with early retirement, regulated by Article 4, paragraph 1-7 of Law 92/2012 - Fornero Law (€22 million); (iii) guarantees given in favour of the Revenue Agency in the interest of the subsidiaries Stogit, GNL and Snam4Mobility (€41 million). The guarantees given in the interest of associates (€1,129 million; €1,193 million at 31 December 2018) refer to the guarantee given in the interest of TAP relating to the project loan for the construction of the pipeline (for more information, refer to the next paragraph "Commitments, guarantees and pledges - TAP").

### Commitments

Commitments for the purchase of goods and services (€892 million; €1,691 million at 31 December 2018) involve the commitments undertaken with suppliers for the purchase of tangible assets and the provision of services relating to investment projects in process.

Commitments in associates (€234 million, €324 million at 31 December 2018) refer to the commitment undertaken by Snam S.p.A. with regard to TAP by way of the shareholding owned (for more information, refer to the next paragraph "Commitments, guarantees and pledges - TAP").

### Commitments, guarantees and pledges - TAP

Commitments in associates (€234 million) refer to Snam S.p.A.'s residual commitment, as a shareholder and in relation to the project loan for the construction of the pipeline by way of the shareholding owned, equal to 20%, with regard to Trans Adriatic Pipeline AG (TAP).

The commitment relates to the total costs of the project, including the financial expense in the realisation of the work resulting from the loan agreement, concluded by TAP, in December 2018. Note that following the finalisation of the project financing for TAP, around 75% of the cost of the project will be funded by lending institutions.

Based on the project funding concluded, Snam S.p.A.'s commitment to TAP could gradually be reduced as a result of the provision to TAP of loans by lending institutions.

In the phase relating to the construction and start-up of the plant, the loan agreement of the associate TAP will be, inter alia, accompanied by a debt service guarantee up to a maximum Snam pro rata amount of €1,129 million.

At 31 December 2019 the effective value of the guarantee relating to the above loan stood at around €654 million.

The guarantee will be released when certain requirements agreed with the lending institutions are verified, including, specifically, the completion and start-up of the plant.

When the project is realised, during operation, another support mechanism is planned by shareholders to repay the loan, the debt payment undertaking, which will be activated when certain, specific conditions occur. The structure of the project financing concluded for TAP includes several limitations for shareholders for transactions of this type, including: (i) a restriction on the possibility of TAP shares being freely available according to certain time frames; (ii) the pledging of the shares owned by Snam in TOP in favour of the lenders for the entire duration of the loan.

## Risks

Risks related to third-party assets on deposit, equal to €2,111 million (€2,609 million at 31 December 2018) relate to approximately 9 billion cubic metres of natural gas deposited in the storage plants by customers of the service. This amount was determined by applying the estimated unit repurchase cost<sup>37</sup> of approximately €0.23 per standard cubic metre (€0.32 per standard cubic metre at 31 December 2018) to the quantities of gas deposited.

Risks concerning compensation and litigation amounting to €38 million (€58 million at 31 December 2018) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

## FINANCIAL RISK MANAGEMENT

### Introduction

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations in interest and exchange rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Snam's policies and principles for the management and control of financial risks. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from such financial instruments. Information on other risks affecting the company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk and uncertainty" section of the Directors' Report.

### Interest rate change risk

Interest rate change risk is associated with fluctuations in interest rates affecting the market value of the Company's financial assets and liabilities and its net financial expense. Snam aims to optimise interest rate risk while pursuing its financial objectives.

The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits.

At 31 December 2019, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.

<sup>37</sup> Value calculated on the basis of the CCI Tariff, or the wholesale price established by the ARERA every quarter.

The exposure to interest rate change risk at 31 December 2019 was approximately 24% of the total exposure of the Group (22% at 31 December 2018). At 31 December 2019 Snam has Interest Rate Swaps (IRS) amounting to €1,660 million in total, that refer to hedges for the entire notional amount under three floating rate bond loans of €1 billion in total due in 2020, 2022 and 2024, respectively, and on floating rate bilateral loans for a total of €660 million due in 2021, 2023 and 2028.

The IRS derivative contracts are used to convert floating rate loans to fixed rate loans.

At 31 December 2019, Snam had IRS Forward Starting derivatives of a notional amount totalling €500 million, maturing in the medium to long-term, for highly probable future financial liabilities to be undertaken up to 2021 for coverage of financial requirements.

The effects on shareholders' equity and net profit at 31 December 2019 are shown below, assuming a hypothetical change in the interest rate basis points of +/-10% actually applied during the course of the year:

(millions of €)	31.12.2019			
	Profit for the period		Shareholders' equity	
	Interest +10 bps	Interest -10 bps	Interest +10 bps	Interest -10 bps
<b>Floating-rate loans</b>				
Effect of interest rate change	(5)	5		
<b>Floating-rate loans converted by IRSs into fixed-rate loans</b>				
Effect of interest rate change on the fair value of hedging derivatives pursuant to IAS 39 – effective portion (*)			7	(7)
<b>Effect on pre-tax profit</b>	<b>(5)</b>	<b>5</b>	<b>7</b>	<b>(7)</b>
Tax effect	1	(1)	(2)	2
	<b>(4)</b>	<b>4</b>	<b>5</b>	<b>(5)</b>

(\*) The change in the interest rate has no effect on profit and loss. Therefore the change in the fair value of the derivative contracts following the decrease in the interest rates affects equity only.

Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow.

## Exchange rate risk

Snam's exposure to exchange rate risk relates to both transaction risk and translation risk. Transaction risk is generated by the conversion of commercial or financial receivables (payables) into currencies other than the functional currency and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is carried out and the time it is settled (collection/ payment).



Translation risk relates to fluctuations in the exchange rates of currencies other than the consolidation currency (the euro), which can result in changes to consolidated shareholders' equity. Snam's risk management system aims to minimise transaction risk through measures such as the use of derivatives. It cannot be ruled out that significant future changes in exchange rates may generate negative effects on Snam Group's operations, balance sheet and cash flow, irrespective of the policies for hedging the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.

There is a EUR/GBP exchange rate risk with regard to Snam's investment in the associate Interconnector UK. Snam, however, believes that this risk should be considered as limited, given the low historical volatility of the EUR/GBP exchange rate, also taking into consideration the recent increase in volatility following Brexit. With reference to Snam's investment in the associate TAP, there is a EUR/CHF exchange rate risk on the equity cash calls based on the contractual commitments undertaken by shareholders. The latter are limited in terms of amount following the positive conclusion of the project financing. This risk is adequately hedged through the use of forward contracts.

## Credit risk

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and the financial balance of Snam. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any disputes are handled by the business units and the centralised Snam departments. Snam, as far as regulated activities, which current represent almost all activities, are concerned, provides its business services to around 200 operators in the gas sector, with 10 operators representing approximately 70% of the entire market (Eni, Edison and Enel Global Trading hold the top three spots). The rules for client access to the services offered are established by the Authorities and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in selling and providing said services and contain contractual conditions, which significantly reduce the risk of non-compliance by the clients. The Codes contain guarantees to be provided to cover the obligations undertaken. In certain cases, if the customer has a credit rating issued by leading international organisation, the issuing of these guarantees can be mitigated. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. Specifically, the current balancing rules require Snam, on the basis of criteria of financial merit, mainly operates in buying and selling on

the GME balancing platform to guarantee the necessary resources for the safe and efficient movement of gas from the injection points to the withdrawal points in order to guarantee the constant equilibrium of the network. The above framework also requires Snam to have recourse to the storage resources of functional users to cover the imbalances of the system and related economic regulation. Snam's maximum exposure to credit risk as at 31 December 2019 is represented by the book value of the financial assets recorded in the consolidated financial statements of the Snam Group as at 31 December 2019.

As shown in Note 9 - "Trade and other receivables", overdue and non-impaired receivables at 31 December 2019 amounted to €132 million (€117 million at 31 December 2018) and related chiefly to the storage segment (€77 million), mainly in relation to VAT invoiced to users for the use of strategic gas wrongfully withdrawn in 2010 and 2011, and to various receivables from public administrations.

Approximately 39% of trade receivables (55% as at 31 December 2018) were with extremely reliable clients, including Eni, which represents 16% of total trade receivables (22% as at 31 December 2018).

The current context characterised by the expansion of contagion from COVID-19, together with the macro economic context it is creating, could cause a financial stress situation with regard to both some customers and some suppliers or a slowdown in activities that could have an impact on Snam's assets and/or liabilities. With reference to the development of energy transition activities, similarly a slowdown in activities and a similar context risk is predicted, with possible repercussions on collection and payments activities, which currently represent an extremely limited amount compared with the entire scope of the Snam Group.

## Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

Snam's risk management objective aims to establish a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.

The financial market is characterized by a continuous growth of sources of financing for companies able to improve the environmental impact of their investments. The interest of the investors is linked and subordinated to the ability of the companies themselves to achieve certain objectives in terms of environmental sustainability.

About the correct management of liquidity risk, the diversification of funding sources also through the use of sustainable finance instruments is therefore crucial to guarantee companies wide access to financial markets at competitive costs, with consequent positive effects on the economic situation, equity and financial position of the companies themselves.

Similarly, for Snam, the failure to achieve certain KPIs in the ESG area, within the general objective of the Group to make its business more sustainable in the medium-long term, could lead to higher financing costs or to the lack of access to some sources of funding.

The mitigation of this risk passes through Snam's extreme attention to ESG issues, traditionally a relevant and structured part of the corporate strategy.

In line with this approach, in 2018 Snam finalized the transformation into syndicated credit lines of €3.2 billion into sustainable loans, the third largest sustainable loan signed in the world and the first by a gas utility. This loan provides for bonus/malus mechanisms based on the achievement of certain KPIs in the ESG (Environment, Social, Governance) area. In addition, in February 2019 Snam issued its first 500 million euros Climate Action bond, a bond aimed at financing investments in the area of environmental sustainability.

As shown in the "Interest rate risk" section, the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the European Investment Bank and EIB and bonds and commercial papers).

Snam's objective is to maintain a debt structure that is balanced in composition between bonds and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

At 31 December 2019, Snam had unused committed long-term credit lines worth approximately €3.2 billion. In addition, at the same date, Snam has a Euro Medium Term Notes programme (EMTN), worth a maximum total nominal amount of €11 billion, used around €8.7 billion<sup>38</sup>, and a Euro Commercial Paper Programme (ECP), worth a maximum total nominal amount of €2 billion, fully used at 31 December 2019.

Snam's cash and cash equivalents mainly refer to short-term liquidity transactions, with a maturity of less than three months, with a bank with a high credit standing as well as to bank deposits.

Although the Snam Group has relations with diverse counterparties with a high credit standing, based on the management policy and ongoing monitoring of their credit risk, the default of a counterparty or the difficulty to liquidate assets on the market could have negative effects on the Snam Group's operations, results balance sheet and cash flow.

## Rating risk

With reference to rating risk, Snam's long term rating is equal to: (i) Baa2 with stable outlook, confirmed on 27 September 2019 by Moody's Investor Services; (ii) BBB+ with negative outlook, confirmed on 17 January 2020 by Standard & Poor's Global Rating ("S&P"); (iii) BBB+ with stable outlook, confirmed on 19 December 2019 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's, Standard & Poor's and Fitch is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by Moody's and S&P, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

The company's short-term rating, used as part of Snam's Commercial Paper programme, is P-2 for Moody's, A-2 for S&P and F2 for Fitch.

Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's operations, results, balance sheet and cash flow.

38 It should be noted that the convertible bond issued in March 2017, for a value of €400 million, is not part of the EMTN programme.

## Risk of default and debt covenants

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk.

At 31 December 2019 Snam had unsecured bilateral and syndicated loan agreements in place with banks and other lending institutions, with the exception of some bank loans (totalling €25.9 million) relating to two subsidiaries that entered the scope of consolidation in November 2019<sup>39</sup>.

Some of these agreements include, *inter alia*, compliance with typical international practice commitments, some of which are subject to specific materiality thresholds, such as, for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (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 on the debt of subsidiaries.

The bonds issued by Snam as at 31 December 2019 provide for compliance with covenants that reflect international market practices regarding, *inter alia*, negative pledge and *pari passu* clauses.

Failure to meet these covenants, and the occurrence of other events, for example cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relative 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 Baa2 (Moody's) for 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 operations, results, balance sheet and cash flow, resulting in additional costs and/or liquidity issues. There are no covenants among these commitments that involve compliance with ratios of an economic and/or financial nature.

39 These loans were repaid in January 2020.

## Future payments for financial liabilities, trade and other payables

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments and other liabilities connected to derivative instruments:

(millions of €)	Future flows				Maturity				
	31.12.2018	31.12.2019	Share within 12 months	Share after 12 months	2021	2022	2023	2024	Oltre
Bank loans	4,747	3,704	685	3,019	1,282	94	305	117	1,221
Bonds (*)	8,422	9,056	1,376	7,680	259	1,302	1,037	1,440	3,642
Euro Commercial Paper - ECP	225	2,000	2,000						
Lease liabilities		21	6	15	4	4	2	1	4
Interest on loans (*)	754	772	140	632	124	109	82	71	246
<b>Financial liabilities</b>	<b>14,148</b>	<b>15,553</b>	<b>4,207</b>	<b>11,346</b>	<b>1,669</b>	<b>1,509</b>	<b>1,426</b>	<b>1,629</b>	<b>5,113</b>
Forward start derivative instruments (**)	47	48		48	48				
<b>Derivative liabilities</b>	<b>47</b>	<b>48</b>		<b>48</b>	<b>48</b>				
	<b>14,195</b>	<b>15,601</b>	<b>4,207</b>	<b>11,394</b>	<b>1,717</b>	<b>1,509</b>	<b>1,426</b>	<b>1,629</b>	<b>5,113</b>

(\*) Future payments include the cash flow generated by hedging derivatives.

(\*\*) The future payments are calculated as at the Mandatory Early Termination Date.

With reference to the payment terms for trade and other payables, please see Note 19 "Trade payables and other payables".

## Other information on financial instruments

With reference to the categories covered by IFRS 9 "Financial instruments", note that, with the exception of the valuation of derivative agreements and minority investments, financial assets and liabilities, depending on the characteristics of the instrument and the business management adopted for their management, entirely come under the financial instruments valued through the amortised cost method.

The book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

(millions of €)	Book value		Income/Expense recognised in the income statement		Other components of comprehensive income (a)	
	Balance at 31.12.2018	Balance at 31.12.2019	Balance at 31.12.2018	Balance at 31.12.2019	Balance at 31.12.2018	Balance at 31.12.2019
<b>Financial instruments measured at amortised cost</b>						
Trade and other receivables (b)	1,341	<b>1,380</b>	5	<b>35</b>		
Financial receivables (c)	11	<b>3</b>	8			
Trade and other payables (b)	1,814	<b>1,848</b>				
Financial payables (c)	13,420	<b>14,774</b>	(237)	<b>(200)</b>		
<b>Financial instruments measured at fair value</b>						
Net assets (liabilities) for hedging derivatives (c)	(29)	<b>(63)</b>	(2)	<b>(1)</b>	(20)	<b>(34)</b>
<b>Other financial assets valued at the FVOCI</b>						
Minority interests	40	<b>39</b>	2	<b>2</b>	1	<b>4</b>

(a) Net of tax effect.

(b) The effects on the income statement are recorded under "Purchases, services and other costs".

(c) The effects on the income statement are recorded under "Financial income/(expense)".

## Market value of financial instruments

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
- level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- level 3: inputs not based on observable market data.

In relation to the above, the classification of activities and liabilities measured at fair value in the statement of financial position according to the fair value hierarchy concerned: (i) derivative financial instruments at 31 December 2019 classified at level 2 and recorded in Note 19 "Other current and non-current liabilities" (€63 million); (ii) the minority interest in Adriatic LNG, valued at the FVTOCI, classified at level 3 and illustrated in Note 16 "Other investments" (€39 million).

## DISPUTES AND OTHER MEASURES

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects.

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

### Criminal disputes

#### **Snam Rete Gas S.p.A. - Tresana incident**

The public prosecutor at the Massa district court initiated criminal proceedings in relation to an incident that occurred on 18 January 2012 in the Municipality of Tresana regarding an explosion that took place during maintenance work carried out by a subcontractor. After committal to trial was ordered by the preliminary hearing judge, the trial began on 23 June 2015. At the hearing of 15 September 2017, the district court of Massa acquitted all the defendants of the offences charged against them due to lack of evidence. On 12 January 2018, the Public Prosecutor filed an appeal. On 17 April 2019, the Genoa Court of Appeal confirmed the first instance judgement with a ruling. Therefore, there was total acquittal for manslaughter because of the lack of evidence and the case did not proceed for alleged violations of accident prevention regulations for the duration of the terms of the law.

#### **Snam Rete Gas S.p.A. - Pineto incident**

On 6 March 2015 in Mutignano landslide affected 10 metres of the San Benedetto Del Tronto-Chieti section of the Ravenna-Chieti pipeline, causing it to break with the consequent escape of gas, with a subsequent fire due an electricity pylon collapsing at the same time.

With regard to this event, the Public Prosecutor at the Court of Teramo immediately opened an investigation into negligence associated with the forest fire. Upon completion, the Prosecutor requested the Snam Rete Gas technicians and technical managers be brought to court. The preliminary hearing judge set a date of 3 October 2018. At the first main hearing on 10 January 2019, the presiding member of the bench asked the defence and the Public Prosecutor to comment on moving the proceedings to a single judge proficient in this issue. The parties referred to the decision of the Court, which after a short period in council chambers, passed the proceedings onto a competent single judge. The first hearing was adjourned to April 2020.

#### **Snam Rete Gas S.p.A. - Sestino (AR) incident**

The public prosecutor at the Court of Arezzo initiated criminal proceedings in relation to the incident that took place on 19 November 2015 in the town of Sestino (AR), involving a gas leak on a section of piping. On 26 November 2015, a one-time notice of technical investigation was served which indicated that certain directors and managers, including those who served in the past, are included in the list of parties under investigation. The Public Prosecutor has appointed its own technical consultants. The investigating magistrate, following the request of the Public Prosecutor, definitively closed the proceedings.

### **IES Biogas - criminal offence conviction**

On 2 November 2018 a criminal offence conviction was issued by the Court of Venice, with regard to an IES Biogas executive following the workplace accident that took place on 29 September 2016 involving a company employee, during the maintenance of a silo agitator. On 16 November 2018, a notice of opposition was filed against the criminal offence conviction, which requested the definition of the proceedings in the form of the simplified and shortened ruling. At the hearing on 25 September 2019, the judge, accepting the adjournment request submitted by both the defence team of the accused and the injured party, adjourning the hearing and arranging the examination of the witness that requested from Company in the notice of opposition. A date is yet to be set for the hearing.

## **Autorità di Regolazione per Energia Reti e Ambiente - ARERA**

### **Snam Rete Gas S.p.A. Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A and request for information**

Through Resolution VIS 97/11, notified on 15 November 2011, the ARERA started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 systems owned by the distributor; through Resolution 431/2012/S/Gas the proceedings were brought together with other proceedings involving said events contested by the company launched with regard to the distributor involved. Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct. By means of Resolution 332/2015/S/gas, the ARERA declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Upon completion of the investigation on 20 October 2017, the ARERA notified the results to Snam Rete Gas, which confirmed the charges made when the proceedings were initiated. The company has requested time for it to formulate its own defence and, to this end, a hearing was called before the board of the Authority on 1 March 2018 during which the defence brief was submitted. After the proceedings, the Authority, although accepting some of the Company's arguments deemed relevant from the perspective of the quantification of the fine, imposed an administrative monetary fine on Snam Rete Gas, through resolution 206/2018/S/gas of 5 April 2018, of €880 thousand. Though it paid the pecuniary fine, the Company has appealed Resolution 206/2018/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

### **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<sup>40</sup>. As a result of these rulings, the Company has obtained recognition of an amount of approximately €40 million (including VAT). An accrual had been made to the provision for impairment losses on receivables, partially released in profit and loss statement following the sentence, in relation to the costs in question.

### **Snam Rete Gas S.p.A. - Resolution 9/2014/S/gas – “Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas”**

With Resolution 9/2014/S/gas the ARERA launched punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement. Upon conclusion of the proceedings, with its resolution 853/2017/S/gas, the Authority sentenced Snam Rete Gas to pay a pecuniary fine of €95 thousand since, although it accepted a part of the Company's arguments which were significant insofar as determining the amount of the fine, it considered that the Company was late in complying with Resolution 292/2013/R/Gas.

Though it paid the pecuniary fine, the Company has appealed Resolution 853/2017/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

### **Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 regarding the: “Adoption of measures on the odorising of gas for domestic use and similar for end users connected directly to the natural gas transportation networks”**

Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the ARERA amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation of transportation companies to odorise gas for end users connected directly to the transportation network, which, taking into account the categories of use

indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the ARERA ordered that the transportation companies shall complete the implementation of the adaptation plans by 31 January 2017, after carrying out a survey of the redelivery points involved (by 31 July 2015) and sending the ARERA the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified. Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey.

Having carried out the survey, when sending the plan and the subsequent updates Snam Rete Gas once again found that the deadline set by the ARERA with its Resolution 484/2016/E/gas was unreasonable. Consequently, in the appeal with which Snam Rete Gas challenged Resolution 250/2015/R/gas, it also included an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended.

The request was accepted by the Council of State. Following the hearing that was held on 16 January 2019, through ruling no. 869 of 17 April 2019, the Milan Regional Administrative Court accepted the appeal submitted by Snam Rete Gas declaring the unlawfulness of the deadline set by the Authority because it was clearly unreasonable as it does not take into account the complexity of the activities to be carried out by the transportation company and the need to collaborate with end users on whom the burden of guaranteeing the use of gas in safe conditions for the workers involved weighs.

Note that through the Ministerial Decree of 18 May 2018 the Minister for Economic Development placed the responsibility of guaranteeing the use of gas in safe conditions on the end users directly connected to the natural gas transportation network, where there is domestic or similar use of gas, even only in part, if combined with technological uses. Following the functional activities to the implementation of the Decree, the end users demonstrated that they guaranteed the safe use of the gas in accordance with the methods laid down by said Decree.

As part of the Consultation Document (DCO 203/2019/R/Gas) as preparation for the revision of the regulation on the transportation service quality, the ARERA demonstrated its intention to: (i) confirm the regulatory framework pursuant to the above Resolution 250/2015/R/Gas without setting a deadline by which the Plan has to be implemented; and (ii) promoting a regulatory amendment aimed at coordinating the regulation with the above-mentioned Ministerial Decree. Following on from what the DCO anticipates, through Resolution 554/2019/R/gas, the Authority confirmed the previous regulatory regime (the obligation of the

<sup>40</sup> For more information, refer to the next paragraphs “Recovering receivables from certain users of the transportation and balancing system”.



transportation company to take responsibility for the odorising) thereby putting forward the issue of coordination with the obligations imposed by the Decree. While waiting for a possible amendment to the regulation, as it is impossible to implement both regulatory provisions and taking into consideration the specific powers awarded to the Minister on the issue of odorising, on 21 February 2020 Snam Rete Gas challenged Resolution 554/2019/R/gas through an appeal lodged on 21 February 2020. The company proceeded to write down part of the related plants.

### **Snam Rete Gas S.p.A. Determination DSAI/69/2017/gas – Initiation of proceedings for imposition of punitive and prescriptive measures regarding the safety of the natural gas transportation system**

With its resolution 58/2017/E/Gas, the Authority closed the additional investigation order pursuant to Resolution 299/2015/E/gas in relation to 69 emergency events that took place on the Snam Rete Gas network. The resolution mentioned certain critical issues that were discovered during the investigation, in relation to which Snam Rete Gas provided the necessary clarifications. Through the later Determination DSAI/69/2017/gas it decided to launch punitive proceedings believing that, following the clarifications provided by Snam Rete Gas, there were still critical issues with regard to the registration methods of the results of surveillance activities and the possibility of verifying the information and data recorded relating to said activities. As part of the investigation the Company sent the documents and information requested by the Authority through the Determination in order to document the implementation of the changes to the information systems functional to overcoming the above-mentioned critical issues. Through Resolution 146/2018/E/gas the Authority arranged an inspection, later carried out on 25-26 September 2018, during this the information contained in the documentation previously sent by the Company was verified. On 19 September 2019, the ARERA announced the results of the investigation which confirmed what was stated previously and documented by the Company with regard to termination of the conduct in the proceedings. Following the results of the investigation, the Company filed a statement of defence and was heard, on 26 November 2019, before the Authority's Board. Lastly, through Resolution 1/2020/S/Gas, the Authority deemed the challenges to the results of the investigation formulated by the company as part of the decision-making stage as having foundation, arranged the closure of the punitive proceedings as there were no grounds for the contested violations in the provision for launching proceedings.

## **Tax disputes**

### **TEP Energy Solution - Formal notice of assessment**

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 audit was spurred by a more extensive investigation launched 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.

Later, on 30 July 2019, the Revenue Agency and TEP signed separate deeds of acceptance to settle the above-mentioned notices of tax assessment, following which the Company paid the agreed amounts, while enforcing the contractual guarantees released by vendors in favour of Snam when it acquired control of the company from the latter (which took place in May 2018). Alongside the hearing with the Tax Authority discussions were initiated with the Public Prosecutor who, on 3 October 2019, filed a motion to dismiss, for which the decision of the preliminary magistrate is being awaited.

### **Snam Rete Gas S.p.A. - IMU/TASI - northern Italy municipalities**

The municipalities of northern Italy sent Snam Rete Gas 17 assessment notices for IMU/TASI for the years 2013, 2014 and 2015, which follow on from requests for information for land registry purposes pursuant to Article 1, paragraph 693 of Law 147/2013. The Company has made an allocation to the provision for risks and charges.

### **Stogit S.p.A. - IMU**

The Municipality of Bordolano served Stogit S.p.A. with notices of assessment for IMU property tax for the years 2012, 2013 and 2014.

The notices come to a total of around €560 thousand (including taxes, penalties and interest). Through ruling no. 130/5/2019, the Cremona Provincial Tax Court confirmed the tax liability for the years 2012 and 2013, deferring the assessment for 2014 to a later hearing.

In the light of the above-mentioned rulings, the Company will use the provision previously allocated, releasing the excess amount.

### **GNL Italia S.p.A. - Local duties**

The municipality of Porto Venere advised of assessment notices for TARSU/TARI for the years from 2012 to 2017 and for IMU for the year 2013, totalling €578 thousand in all. GNL Italia S.p.A. settled the dispute with the municipality by paying a sum of €184 thousand.

## **Recovering receivables from certain users of the transportation and balancing system**

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

### **Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012**

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority.

Through its subsequent Resolution 351/2012/R/gas<sup>41</sup>, the Authority ordered the application of the variable unit fee CVBL to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to €6 million over a minimum of 36 months.

The Authority subsequently opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012<sup>42</sup>. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013. On the same date, the Authority: (i) opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service.

41 The aforementioned resolution was annulled pursuant to the ruling 1587/2014 of the Regional Administrative Court of Milan insofar as the obligation of Users to pay the CVBL consideration of €0.001/Scm with effect from 1 October 2012. Moreover, with the subsequent Resolution 372/2014/R/gas the coefficient was redefined at the same amount of €0.001/Scm.

42 The time period set for the preliminary investigation which was initially limited to 1 December 2011-31 May 2012, was subsequently extended to 23 October 2012.

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company appealed Resolution 608/2015/R/gas, before the Regional Administrative Court of Milan, which partially admitted the appeal submitted by the Company with ruling 942/2017; this was in turn partially appealed by the Company and the Authority. The ruling was then confirmed through the ruling of the Council of State 1630/2020, published on 5 March 2020. As a result of these rulings, the Company has obtained, through CSEA, a recognition of an amount of approximately €40 million (including VAT).

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to balancing and transport items. Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service<sup>43</sup>. Having received these orders, Snam Rete Gas initiated the executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the Users, partly because of the bankruptcy procedures under way at all of these Users.

In particular, at present:

- five Users were declared bankrupt. With regard to all five Users, Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest; as part of these proceedings, a proposal for arrangement with creditors was submitted and approved by the majority of the creditors;
- one User has requested to be admitted to the arrangement with creditors and the Court Authorities have issued a ruling endorsing the arrangement<sup>44</sup>.

43 The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. The oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

44 In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

## Unpaid receivables after 23 October 2012

In 2013, two further transport contracts were terminated and Snam Rete Gas initiated injunction proceedings. It obtained three payment orders, of which two for receivables relating to the balancing service and one for the transport service. Both Users appealed, with the relative rulings rejecting the claims and consolidating the securities acquired by Snam Rete Gas. The executive procedures that were initiated resulted in a negligible recovery of amounts when compared to the overall amounts due from the Users which were then declared bankrupt. Snam Rete Gas regularly submitted its claims in the respective arrangements with creditors.

In 2014, a further transport contract was terminated and Snam Rete Gas initiated provisional executive procedures for recovery of the receivables, one relating to balancing services and the other to transport services. The User was declared bankrupt and Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

Finally, in 2015 a further transportation contract was terminated and Snam Rete Gas initiated debt recovery measures, securing two provisional executive injunctions against the User, one for the balancing service and the other for the transport service. Moreover, the User was recently declared bankrupt and Snam Rete Gas has regularly submitted its claims for the arrangements with creditors.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

Lastly, we note that on 12 February 2016 the Public Prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five Users. In May 2017, the investigation was concluded and the investigated parties were charged with the being involved in a criminal association and committing aggravated fraud against Snam Rete Gas. In September 2018, both Snam Rete Gas and Stogit were notified, as the injured parties, of the preliminary hearing set for 19 December 2018 before the Court of Milan. At that hearing the judge accepted SRG joining the proceedings as a civil party and adjourned it until 11 April 2019.

These criminal proceedings resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud.

## Recovering receivables from users of the storage system

### Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code

Following withdrawals from strategic storage made by a User in November and December 2010, Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. The appropriate executive actions were launched as a result.

Following the withdrawals and the failure to replenish the strategic gas in the initial months of 2011 as well, Stogit requested and obtained a second provisional executive injunction for the further sums accrued.

Urgent proceedings were also launched for the replenishment of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

In 2012 the above user together with another two users (who also defaulted with regard to Stogit) were added to the proceedings for an arrangement with creditors, in which Stogit formally transmitted and documented the amounts of its receivables with these users.

Moreover, following the sub-proceedings to dismiss the arrangement, the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit

promptly filed a proof of claim and its receivables were admitted in full.

However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was appealed by one of the creditors. The Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

### Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one User pursuant to Article 186-ter.

At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million SCM.

Stogit has therefore taken the appropriate actions.

The Court of Rome then declared the User bankrupt and Stogit submitted its claim, which was accepted.

### Withdrawals made from strategic storage by a User, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, relating to October and November 2011

Stogit filed with the Civil Court of Milan for a provisionally enforceable payment injunction.

While the proceedings were ongoing, the Court of Rome declared the User bankrupt. Consequently, the Civil Court of Milan declared the case interrupted and Stogit submitted its claim, which was accepted.

At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.

## Emissions Trading

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC. The reduction of CO<sub>2</sub> emissions comes under the objectives set by the European Union in the 2020 Climate and Energy Package, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%.

There are 22 Snam Group plants subject to the Emissions Trading regulation, 13 of which are Snam Rete Gas compression plants, 8 Stogit storage facilities and the GNL Italian regasification plant.

In 2019 the free allocation for the Snam Group was 201,910 quotas, taking into consideration the 19,525 quotas allocated for 2018 and 2019 to the new gas compression plants of Minerbio and Sergnano. Not taking these quotas into consideration, the free allocation would have been reduced by 10 % compared with 2018, as a result of the gradually decreasing allocation of free quotas by the competent national authority, planned for the third regulatory period by Article 10 bis of Directive 2009/29/CE.

In 2019, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. In view of around 0.609 million tonnes of carbon dioxide emitted into the atmosphere, around 0.202 million tonnes were allocated, resulting in a 0.407 million-tonne deficit.

## Other commitments and risks

The other unevaluated commitments and risks are:

### Commitments arising from the contract for the acquisition of Stogit from Eni

At 31 December 2019 the residual commitments resulting from the above agreements involve hedging mechanisms to keep the risks and/or benefits that may derive from the following pertaining to Eni: (i) the possible exploitation of the gas owned by Stogit at the time of the transfer of the shares other than that recognised by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) in the case of its sale, or partial sale, if certain quantities were to become no longer instrumental to the regulated concessions and therefore available for sale; (ii) the possible sale of the storage capacity which should

be freely available on a negotiable basis rather than a regulated basis, or the transfer of concessions held by Stogit at the time of the share transfer that may become dedicated to mainly storage activities which are no longer regulated.

### Commitments arising from the contract through which Edison acquired Terminale GNL Adriatico S.r.l.

The price determined for the acquisition of Terminale GNL Adriatico S.r.l. is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

As at 31 December 2019, the commitment arising from the aforementioned agreement refers to the hedging mechanisms established to maintain the risks and/or benefits arising from conclusion of new contracts for usage of the terminal capacity under Edison.

### Commitments arising from the TEP Energy Solution S.r.l. purchase contract

The price determined for the acquisition of TEP Energy Solution S.r.l. is subject to adjustment mechanisms based on the contractual commitments undertaken and intended to operate even after the execution date.

At 31 December 2019, the commitment resulting from the above agreement involves hedging mechanisms based on the economic results achieved by TEP in the financial years 2018-2020, to be settled contractually in cash for a sum which cannot, in any event, exceed €2.5 million.

### Commitments arising from the Renerwaste S.r.l. purchase contract

Based on the contractual agreements, upon the occurrence of certain conditions, by 2022, Snam has the right to acquire two SPVs to which authorizations will be granted for the construction of two further plants for the production of Biogas/Biomethane.

## 27) REVENUE

The breakdown of revenue for the period, which totalled €2,665 million (€2,586 million in 2018), is shown in the following table:

(millions of €)	2018	2019
Core business revenue	2,555	2,635
Other revenue and income	31	30
	<b>2,586</b>	<b>2,665</b>

The Group generates most of its revenue in Italy. An analysis of revenue by business segment can be found in Note 34 - "Information by business segment". Revenue from related parties is illustrated in Note 35 "Related-party transactions".

### Core business revenue

Core business revenue, which totalled €2,635 million (€2,555 million in 2018), is analysed in the following table:

(millions of €)	2018	2019
Natural gas transportation (*)	1,942	2,006
Igassificazione di Gas Naturale Liquefa (LNG) regasification	17	17
Storage of natural gas (*)	510	511
Corporate and other activities	86	101
	<b>2,555</b>	<b>2,635</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.

### Natural gas transportation

Core business revenue (€2,006 million) relates mainly to fees for transportation services (€2,002 million) and mainly relate to Eni S.p.A. (€1,114 million) and Enel Trade S.p.A. (€319 million). Transportation revenue includes the charge back to users of the costs of connecting the Company's network to that of other operators (€52 million)<sup>45</sup>.

Snam provided its transportation service to 150 companies in 2019.

### Liquefied Natural Gas (LNG) regasification

Core business revenue (€17 million) refers to the regasification service fees, mainly attributable to the revenue coverage factor recognised by the Authority pursuant to Resolution 653/2017/R/gas<sup>46</sup> (€11 million). Snam provided its regasification service to 6 companies in 2019.

45 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

46 Article 19 "Application methods for the revenue coverage factor" of Annex A to Resolution 537/2017/R/gas set the revenue coverage factor at 64% of the revenues in question.

### Natural gas storage

Core business revenue (€511 million) relates essentially to fees for modulation storage (€416 million) and strategic storage (€83 million) services. Snam provided its natural gas storage service to 90 companies in 2019.

Revenue from the Group core business is reported excluding tariff components, mainly with reference to the transportation sector, additional to the tariff and intended to cover gas system general expenses (€1,287 million, €1,162 million in 2018). The amounts that refer to the above-mentioned components are repaid by Snam to the Energy and Environmental Services Fund (CSEA).

With reference to the residual sector "Corporate and other assets" which is not subject to separate disclosure pursuant to IFRS 8 "Operating segments", the core business revenue (€101 million) mainly involve: (i) considerations for the construction of biogas and biomethane plants (€27 million); (ii) technical-specialist services to unconsolidated foreign companies (€25 million); (iii) the provision of services relating to energy efficiency projects (€24 million); (iv) income from the rental and maintenance of fibre optic telecommunication cables (€13 million); (v) the sale of CNG compressors for motor transport (€11 million).

### Other revenue and income

Other revenue and income, standing at €30 million (€31 million in 2018) mainly relates to the incentives paid to Snam Rete Gas S.p.A. for balancing services, based on technical and economic performance, regulated by resolution 554/2016/R/Gas (€16 million), income of a property nature (€4 million) and contributions for new connections to the transportation network (€2 million).

## 28) OPERATING COSTS

The breakdown of operating costs for the period, which totalled €461 million (€512 million in 2018), is shown in the following table:

(millions of €)	2018	2019
Purchases, services and other costs	311	281
Personnel cost	201	180
	<b>512</b>	<b>461</b>

The costs incurred with related parties are described in Note 35 "Related-party transactions".

### Purchases, services and other costs

Purchases, services and other costs, which amounted to €281 million (€311 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Purchase costs for raw materials, consumables, supplies and goods	145	213
Costs for services	290	319
Costs for the use of third-party assets	21	26
Changes in Raw materials, consumables, supplies and goods	(19)	(49)
Net accrual to (utilisation of) provisions for risks and charges	6	13
Accruals to (utilisation of) provision for impairment losses on receivables	(5)	(35)
Other expenses	37	29
	<b>475</b>	<b>516</b>
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(164)</b>	<b>(235)</b>
of which purchase costs for raw materials, consumables, supplies and goods	(69)	(102)
of which costs for services	(95)	(133)
	<b>311</b>	<b>281</b>

Costs for services, which amounted to €186 million (€195 million in 2018), related to:

(millions of €)	2018	2019
IT (Information Technology) services	50	59
Purchase of transportation capacity (interconnection)	49	52
Technical, legal, administrative and professional services	42	52
Ordinary maintenance	32	27
Personnel-related services	22	23
Construction, planning and coordination of work	27	27
Telecommunications services	13	12
Provision of utilities	16	19
Insurance	7	8
Other services	32	40
	<b>290</b>	<b>319</b>
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(95)</b>	<b>(133)</b>
	<b>195</b>	<b>186</b>

Costs for the use of third-party assets which amounted to €26 million (€21 million in 2018) referring mainly to short-term lease agreement charges of a moderate amount, as well as IT and software licences.



The positive change in raw materials, ancillary materials, consumables, supplies and goods (€49 million) is mainly due to the natural gas purchases, mainly for use in transportation activities.

Net allocations to provisions for risks and charges, equal to €13 million, net of uses, mainly refers to: (i) expenses for incentives for the departure of employees (€8 million); (ii) the allocation to the accident reserve fund for the captive company Gasrule (€5 million).

For more details about the change in provisions for risks and charges, please see Note 22 "Provisions for risks and charges".

Net uses of the provision for impairment losses (€35 million) involve the release to the income statement of the provision for impairment losses following the announcement by the Council of State on 5 March 2020 confirming the ruling of the Milan Regional Administrative Court of 2017, ratified the recognition, by the Authority to the company, of part of the receivables not collected relating to the balancing activities for the period 1 December 2011-23 October 2012<sup>47</sup>.

More information on changes of the provision for impairment losses can be found in Note 9 "Trade and other receivables".

Other expenses, which amounted to €29 million (€37 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Direct and indirect taxes	15	12
Capital losses on eliminations of property, plant and equipment and intangible assets	12	8
CO <sub>2</sub> emission rights	5	1
Other expenses	5	8
	<b>37</b>	<b>29</b>

### Personnel cost

Personnel cost, which amounted to €180 million (€201 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Wages and salaries	163	167
Social security contributions (pensions and healthcare assistance)	46	48
Employee benefits	17	(5)
Other expenses	32	25
	258	235
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(57)</b>	<b>(55)</b>
	<b>201</b>	<b>180</b>

The item other expense (€25 million) mainly includes the expenses for defined contribution plans (€11 million) and the expenses for redundancy packages (€8 million).

A description of employee benefits can be found in Note 23 "Provisions for employee benefits".

<sup>47</sup> For more details, see Note 26, "Guarantees, commitments and risks – Disputes", of the Notes to the consolidated financial statements.

### Average number of employees

The average number of payroll employees included in the scope of consolidation, broken down by status, is as follows:

Professional status	31.12.2018	31.12.2019
Executives	104	116
Middle Managers	464	494
Office workers	1,650	1,699
Manual workers	731	733
	<b>2,949</b>	<b>3,042</b>

The average number of employees is calculated on the basis of the monthly number of employees for each category.

The number of personnel in service at 31 December 2019 was 3,025 resources (3,016 resources at 31 December 2018), an increase of 9 resources (+0.3%) compared with 31 December 2018. The increase is mainly due to new companies joining the scope of consolidation.

### Snam share-based incentive plan for senior managers

On 11 April 2017 the Shareholders Meeting approved the 2017-2019 Long-term share-based incentive plan conferring all necessary powers on the Board of Directors to implement the plan.

The plan, intended for the Snam CEO and senior managers, identified as those who hold positions with a greater impact on company results or with strategic importance for achieving Snam's multi-year targets, includes three cycles of the annual assignment of three-year targets (the so-called rolling plan) for the years 2017, 2018 and 2019. At the end of the three-year performance period, if the underlying conditions of the plan are met, the beneficiary shall have the right to receive Company shares free of charge.

A maximum number of 3,500,000 shares will service the Plan for each fiscal year that the Plan will be in effect. The Plan will end in 2022, when the vesting period of the last allocation in 2019 expires.

A total of 5,492,810 shares have been allocated in connection with the above-mentioned plan, 1,368,397 of which are for the 2017 allocation, 2,324,413 for the 2018 allocation and 1,800,000 for the 2019 allocation. The unitary fair value of the shares, calculated from the value of the Snam stock at the allocation dates (the grant date), is equal to €3.8548 and €3.5463 and €4.3522 per share, respectively for the 2017, 2018 and 2019 allocations. The cost for the Long-term incentive plan, measured as the labour cost component, amounts to €7 million (€3 million in 2018) with an opposing entry in shareholder equity reserves. Taking into consideration the non-market conditions to which receiving the benefit is connected, the cost reflects the adjustment, throughout the vesting period, of the number of shares that will effectively be granted.

For more information on the features of the Plan, see the Directors' Report "Financial review and Other Information".

### Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities<sup>48</sup> (“key management personnel”), in office during the year amounted (including contributions and ancillary charges) to €11 million (€9 million in 2018) and breaks down as follows:

(millions of €)	2018	2019
Wages and salaries	7	6
Post-employment benefits		1
Share-based payments	2	4
	9	11

### Remuneration due to directors and statutory auditors

The remuneration due to directors amounted to €6.0 million and €4.2 million respectively for 2019 and 2018. The remuneration due to statutory auditors amounted to €0.4 million (€0.2 million in 2018). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor in Snam S.p.A. and in other companies included in the scope of consolidation, giving rise to a cost for Snam, even if not subject to personal income tax.

## 29) AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation, depreciation and impairment, which amounted to €752 million (€690 million in 2018), can be broken down as follows:

(millions of €)	2017	2018
<b>Total amortisation and depreciation</b>	<b>682</b>	<b>722</b>
Property, plant and equipment	622	656
Intangible assets	60	66
<b>Impairment losses</b>	<b>8</b>	<b>30</b>
Property, plant and equipment write-downs	8	30
	690	752

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 13 “Property, plant and equipment”, and Note 14 “Intangible assets”.

An analysis of amortisation, depreciation and impairment by business segment can be found in Note 34 “Information by business segment”.

<sup>48</sup> This includes managers who have the power and the responsibility, both directly and indirectly, for the planning, direction and supervision of Snam. Snam managers with strategic responsibility, unlike directors and statutory auditors, are identified with reference to the following positions: (i) Chief Industrial Assets Officer; (ii) Chief Commercial Regulation and Development Officer; (iii) Chief International Assets Officer; (iv) Chief Global Solution Officer; (v) Chief Financial Officer; (vi) General Counsel; (vii) Executive Vice President Human Resources and Organization.

### 30) FINANCIAL EXPENSE (INCOME)

Financial expense (income), which amounted to €203 million (€242 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Financial expense (income)	234	191
Financial expense	237	200
Financial income	(3)	(9)
Other financial expense (income)	6	11
Other financial expense	15	13
Other financial income	(9)	(2)
Losses (Gains) on hedging derivatives – ineffective portion	2	1
Losses from derivative contracts	2	1
	<b>242</b>	<b>203</b>

(millions of €)	2018	2019
<b>Financial expense (income)</b>	<b>234</b>	<b>191</b>
<b>Expense on financial debt:</b>	<b>249</b>	<b>211</b>
Interest and other expenses on bond loans	232	193
Fees on loans and bank credit lines	7	7
Interest expense on credit lines and loans due to banks and other lenders	10	11
<b>Financial expense capitalised</b>	<b>(12)</b>	<b>(11)</b>
<b>Income from financial receivables:</b>	<b>(3)</b>	<b>(9)</b>
Interest and other income on short- and long-term financial assets	(3)	(9)
<b>Other financial expense (income):</b>	<b>6</b>	<b>11</b>
Accretion discount (*)	11	8
Other expenses	4	5
Interest income on long-term financial receivables	(8)	
Other income	(1)	(2)
Losses (Gains) on hedging derivatives – ineffective portion	2	1
	<b>242</b>	<b>203</b>

(\*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note 20 "Provisions for risks and charges", and Note 21 "Provisions for employee benefits".

Expense on financial debt (€211 million) related to: (i) interest expense and other expense on bond loans (€193 million), referring essentially to interest on 20 bond loans (€145 million) and expenses from the liability management operation (€38 million) which led to the buy back on the market of bonds with a total nominal value of €597 million and an average coupon of approximately 1.3% and residual duration of approximately 3.9 years; (ii) interest expense to the banks relating to revolving lines of credit and loans totalling €11 million; (iii) the portion attributable to the period of upfront fees on revolving credit lines (€4 million) and credit line non-usage fees (€3 million).

Financial expense capitalised (€11 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial expense (€11 million) mainly involved expenses connected to the time relating to the storage and transportation sector site dismantling and restoration provision (€7 million in total).

### 31) INCOME (EXPENSE) FROM EQUITY INVESTMENTS

Income and expense from equity investments, which amounted to €216 million (€159 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
<b>Effect of valuation using the equity method</b>		
Capital gains from valuation using the equity method	165	225
Capital losses from valuation using the equity method	(8)	(7)
Dividends	2	2
Other expense from equity investments		(4)
	<b>159</b>	<b>216</b>

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 15 "Equity-accounted investments". Dividends (€2 million) relating to the minority interest of the company Terminale GNL Adriatico S.r.l., valued on a fair value basis with an opposing entry in shareholders' equity "Fair Value Through Other Comprehensive Income - FVTOCI".

### 32) INCOME TAX

Income taxes for the year, which amounted to €375 million (€341 million in 2018), can be broken down as follows:

(millions of €)	2018			2018		
	IRES	IRAP	Total	IRES	IRAP	Total
<b>Current taxes</b>	<b>313</b>	<b>60</b>	<b>373</b>	<b>339</b>	<b>62</b>	<b>401</b>
Current taxes for the year	314	60	374	339	62	401
Adjustments for current taxes relating to previous years	(1)		(1)			
<b>Deferred and prepaid taxes</b>	<b>(32)</b>		<b>(32)</b>	<b>(25)</b>	<b>(1)</b>	<b>(26)</b>
Deferred taxes	(16)		(16)	(14)		(14)
Deferred tax assets (prepaid taxes)	(16)		(16)	(11)	(1)	(12)
	<b>281</b>	<b>60</b>	<b>341</b>	<b>314</b>	<b>61</b>	<b>375</b>

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year can be broken down as follows:

(millions of €)	2018		2019	
	Tax rate	Balance	Tax rate	Balance
<b>IRES</b>				
Pre-tax profit		1,301		1,465
<b>IRES due, calculated based on the theoretical tax rate</b>	<b>24.0%</b>	<b>312</b>	<b>24.0%</b>	<b>352</b>
<i>Changes to the theoretical rate:</i>				
- Income from equity investments	(2.9%)	(38)	<b>(3.5%)</b>	<b>(51)</b>
- Tax on dividends	1.1%	14	<b>1.1%</b>	<b>16</b>
- Other permanent differences	(0.5%)	(7)	<b>(0.2%)</b>	<b>(3)</b>
<b>IRES due for the year recorded on the income statement</b>	<b>21.6%</b>	<b>281</b>	<b>21.4%</b>	<b>314</b>

(millions of €)	2018		2019	
	Tax rate	Balance	Tax rate	Balance
<b>IRAP</b>				
Difference between value and production costs		1,399		1,431
<b>IRAP due, calculated based on the theoretical tax rate</b>	<b>3.9%</b>	<b>55</b>	<b>3.9%</b>	<b>56</b>
<i>Changes to the theoretical rate</i>				
Regional IRAP rates delta	0.2%	3	<b>0.3%</b>	<b>4</b>
Other permanent differences	0.1%	2	<b>0.1%</b>	<b>1</b>
<b>IRAP due for the year recorded in the income statement</b>	<b>4.3%</b>	<b>60</b>	<b>4.2%</b>	<b>61</b>

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 23 "Deferred tax liabilities".

### Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(millions of €)	2018			2019		
	Pre-tax value	Tax effect	Post-tax value	Pre-tax value	Tax effect	Post-tax value
Remeasurement of defined-benefit plans for employees						
Portion of equity-accounted investments pertaining to "other components of comprehensive income"	(1)		(1)	(18)		(18)
Change in fair value of minority investments valued at the FVTOCI				4		4
Change in fair value of cash flow hedge derivatives	(26)	6	(20)	(44)	10	(34)
<b>Other components of comprehensive income</b>	<b>(27)</b>	<b>6</b>	<b>(21)</b>	<b>(58)</b>	<b>10</b>	<b>(48)</b>
<b>Deferred/prepaid taxes</b>		<b>6</b>			<b>10</b>	

### 33) EARNINGS PER SHARE

Basic earnings per share, at €0.330 per share (€0.286 per share in 2018), are calculated by dividing the net profit attributable to Snam (€1,090 million; €960 million in 2018) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,300,593,207 shares; 3,357,806,084 shares in 2018).

Diluted earnings per share are calculated by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be added to the outstanding shares. For 2019, the diluted earnings per share take into account the potential effects from the allocation of the treasury shares in the portfolio against the issuing of the convertible bond loan into Snam ordinary shares and those from the long-term share-based incentive plan, with reference to the grants in 2017, 2018 and 2019.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,386,571,782 and 3,441,622,458 for 2019 and 2018, respectively.

## Reconciliation of basic and diluted earnings per share

The reconciliation of the weighted average number of outstanding shares used to determine basic and diluted earnings per share is set out below:

	2018	2019
<b>Weighted average number of outstanding shares used to calculate basic earnings per share</b>	<b>3,357,806,084</b>	<b>3,300,593,207</b>
Number of potential shares for the long-term incentive plans	1,262,145	<b>3,424,347</b>
Number of potential shares against the issuing of the convertible bond.	82,554,228	<b>82,554,228</b>
<b>Weighted average number of outstanding shares used to calculate diluted earnings per share</b>	<b>3,441,622,458</b>	<b>3,386,571,782</b>
<b>Group net profit (€ millions) (a)</b>	<b>960</b>	<b>1,090</b>
Dilution effect of the convertible bond	3	<b>3</b>
<b>Group diluted net profit for diluted earnings (€ millions) (a)</b>	<b>963</b>	<b>1,093</b>
Basic earnings per share (€ per share) (a)	0.286	<b>0.330</b>
Diluted earnings per share (€ per share) (a)	0.280	<b>0.323</b>

(a) Entirely held by Snam shareholders.

## 34) INFORMATION BY BUSINESS SEGMENT

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used for 2019 by the Company's management for allocating resources to the different segments and for analysing the respective performances.

The business segments for which information is provided are natural gas transportation ("Transportation"), LNG regasification ("Regasification") and natural gas storage ("Storage"). They relate to activities carried out predominantly by Snam Rete Gas, ITG and Enura, GNL Italia and Stogit respectively.

The information by business segment as at 31 December 2019 and 31 December 2018 is listed below.



(millions of €)	Corporate and other activities	Transportation and dispatch	Storage	Regasification	Consolidation adjustments and eliminations	Total
<b>2018</b>						
Net core business revenue (a)	267	2,087	597	21		2,972
<i>less: intra-segment revenues (b)</i>	<i>(181)</i>	<i>(145)</i>	<i>(87)</i>	<i>(4)</i>		<i>(417)</i>
Revenue from third parties	86	1,942	510	17		2,555
Other revenue and income	1	26	3	1		31
Net (accruals to) utilisations of provisions for risks and charges	(3)	(3)				(6)
Amortisation, depreciation and impairment losses	(10)	(575)	(100)	(5)		(690)
<b>EBIT</b>	<b>(17)</b>	<b>1,064</b>	<b>335</b>	<b>2</b>		<b>1,384</b>
Valuation of equity investments using the equity method	157					157
Total assets	4,163	14,570	4,012	107		22,852
<i>- of which investments valued using the equity method</i>	<i>1,710</i>					<i>1,710</i>
Total liabilities	13,997	9,941	2,587	50	(9,978)	16,597
Investments in property, plant and equipment and intangible assets	10	764	99	9		882
<b>2019</b>						
Net core business revenue (a)	310	2,139	594	27		3,070
<i>less: intra-segment revenues (b)</i>	<i>(209)</i>	<i>(133)</i>	<i>(83)</i>	<i>(10)</i>		<i>(435)</i>
Revenue from third parties	101	2,006	511	17		2,635
Other revenue and income	2	25	1	2		30
Net (accruals to) utilisations of provisions for risks and charges	(7)	(6)				(13)
Amortisation, depreciation and impairment losses	14	628	105	5		752
<b>EBIT</b>	<b>(43)</b>	<b>1,122</b>	<b>337</b>	<b>1</b>		<b>1,417</b>
Valuation of equity investments using the equity method	218					218
Total assets	5,172	14,694	4,053	124		24,043
<i>- of which investments valued using the equity method</i>	<i>1,787</i>					<i>1,787</i>
Total liabilities	15,458	9,911	2,598	65	(10,247)	17,785
Investments in property, plant and equipment and intangible assets	19	813	112	19		963

(a) Balances before elimination of intra-segment revenue.

(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.

Revenue is generated by applying regulated tariffs or market conditions. The revenue was mainly generated in Italy; costs were incurred almost entirely in Italy.

## 35) RELATED-PARTY TRANSACTIONS

From 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF.

Considering the de facto control of CDP S.p.A. over Snam S.p.A., based on the current Group ownership structure the related parties of Snam are represented by Snam's joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and joint ventures, as well as the subsidiaries and joint ventures of the Ministry of Economy and Finance (MEF). Members of the Board of Directors, Statutory Auditors and Snam Group and CDP managers with strategic responsibilities, and their families, are also regarded as related parties.

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the relevant legislation, the Company has adopted internal guidelines to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Snam is not subject to any direction or coordination activities. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of related-party transactions, the following should be pointed out pursuant to the disclosure obligations set forth under Consob Regulation No. 17221 of 12 March 2010:

- the conclusion between Snam Rete Gas S.p.A. and Eni S.p.A. of the natural gas transportation agreement for the Thermal Year 2018-2019. On 4 February 2019, the value of the transport contract exceeded the significance threshold of €140 million as defined in the Snam "Procedure for transactions in which directors and auditors have an interest and transactions with related parties";
- the conclusion between Snam Rete Gas S.p.A. and Enel Global Trading S.p.A. of the natural gas transportation agreement for the Thermal Year 2018-2019. On 3 October 2019, the value of the natural gas transportation contract for the Thermal Year 2018-2019 concluded between Snam Rete Gas S.p.A. and Enel Global Trading S.p.A. exceeded the significance threshold of €140 million identified in the Snam guideline "Procedure for transactions in which directors and auditors have an interest and transactions with related parties". This figure, based on the capacity values committed by Enel Global Trading S.p.A., actually amounted to €142,180,585.

The above contracts are defined in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code approved by the Regulatory Authority for Energy Networks and the Environment (ARERA) pursuant to Resolution 75/2003, as amended.

The calculation of a fee for services rendered take place through application of the natural gas transportation and dispatching tariffs approved by Resolution of the Authority. These contracts are configured as ordinary transactions concluded at conditions equivalent to market or standard conditions because, pursuant to paragraph 2 of the guideline (published on the website [www.snam.it](http://www.snam.it)): (i) they come under ordinary operations and related financial operations; (ii) the conditions applied are based on regulatory tariffs.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the current year and the previous one for comparison purposes. The nature of the most significant transactions is also stated.

## Commercial and other transactions

Commercial and other transactions can be broken down as follows:

(millions of €)	31.12.2018				2018					
	Receivables	Other assets	Payables	Other liabilities	Costs (a)			Revenue (b)		
					Goods	Services	Other	Goods	Services	Other
<b>Companies under joint control and associates</b>										
Interconnector UK	1			1					1	
Senfluga	3								3	
TAG GmbH									3	
Terêga S.A.S.	1									
Trans Adriatic Pipeline AG (TAP)	6			26					10	
	<b>11</b>			<b>27</b>					<b>17</b>	
<b>Snam Foundation</b>								<b>2</b>		
<b>Parent company</b>										
Cassa Depositi e Prestiti			96							
			<b>96</b>							
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>										
Italgas Group	5		1				3		16	
Terna Group						1				
	<b>5</b>		<b>1</b>			<b>1</b>	<b>3</b>		<b>16</b>	
<b>Companies jointly controlled by the parent company Cassa Depositi e Prestiti</b>										
Saipem Group			19			19				
Valvitalia Finanziaria S.p.A.					5	2				
			<b>19</b>		<b>5</b>	<b>21</b>				
<b>Companies owned or controlled by the State</b>										
Gestore dei mercati energetici S.p.A.	26		14		47					
Anas group	1	1	3							
Enel Group (c)	81		55						337	
Eni Group (c)	282		84		1	23	1		1,226	1
Ferrovie dello Stato group	4		1						4	
Finmeccanica group			1		1					
	<b>394</b>	<b>1</b>	<b>158</b>		<b>48</b>	<b>23</b>	<b>1</b>		<b>1,567</b>	<b>1</b>
<b>Total</b>	<b>410</b>	<b>1</b>	<b>274</b>	<b>27</b>	<b>53</b>	<b>45</b>	<b>6</b>		<b>1,600</b>	<b>1</b>

(a) Includes costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

(c) Inclusive of amounts on the balance sheet relating to balancing activities.

(millions of €)	31.12.2019				2019					
	Receivables	Other assets	Payables	Other liabilities	Costs (a)			Revenue (b)		
					Goods	Services	Other	Goods	Services	Other
<b>Companies under joint control and associates</b>										
Interconnector UK	1			1					3	
Albanian Gas Services	1								1	
Senfluga										
TAG GmbH	3		2						2	
Terëga S.A.S.	1									
Trans Adriatic Pipeline AG (TAP)	4			21					15	
	10		2	22					21	
<b>Snam Foundation</b>	1									
<b>Parent company</b>										
Cassa Depositi e Prestiti			100							
			100							
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>										
Italgas Group	1		2				1			1
	1		2				1			1
<b>Companies jointly controlled by the parent company Cassa Depositi e Prestiti</b>										
Saipem Group			16			22				
Valvitalia Finanziaria S.p.A.			1		3	2				
			17		3	24				
<b>Companies owned or controlled by the State</b>										
Gestore dei mercati energetici S.p.A.	11		6							
Anas group	2	1	3		36				2	
Enel Group (c)	65		24			1			354	
Eni Group (c)	200		34			22			1,197	
Ferrovie dello Stato group	1		1						2	
Finmeccanica group						2				
	279	1	68		36	25			1,555	
<b>Total</b>	<b>291</b>	<b>1</b>	<b>189</b>	<b>22</b>	<b>39</b>	<b>49</b>	<b>1</b>		<b>1,576</b>	<b>1</b>

(a) Includes costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

(c) Inclusive of amounts on the balance sheet relating to balancing activities.

### Companies under joint control and associates

The most significant commercial relations with companies under joint control and associates include:

- the provision to TAP of services for the construction of transport infrastructures governed by the Engineering and Project Management (EPMS) Agreement;
- the provision to TAG of services for the realisation of the transport infrastructures governed by the Engineering, Procurement and Construction Management (EPCM) Agreement.

### Companies jointly controlled by the parent company Cassa Depositi e Prestiti

The most significant commercial relations with companies under the joint control of Cassa Depositi e Prestiti include the purchase by Saipem of design and works supervision services for the realisation of natural gas transportation and storage infrastructures, regulated by agreements signed at normal market conditions.

### Companies owned or controlled by the State

The most significant commercial relations with companies controlled or owned by the State involve:

- the provision to the Eni Group and the Enel Group of natural gas transportation, regasification and storage services, regulated by tariffs established by the Authority;
- the purchase by the Eni Group of electricity used for carrying out activities.

Additionally, as at 31 December 2019 there were assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

### Financial transactions

Financial transactions can be broken down as follows:

(millions of €)	31.12.2018			2018	
	Receivables	Payables	Guarantees and Commitments	Expenses	Income
<b>Companies under joint control and associates</b>					
Senfluga Energy Infrastructure Holding S.A.			64		
Trans Adriatic Pipeline AG (TAP)	10		1,453		8
	<b>10</b>		<b>1,517</b>		<b>8</b>

(millions of €)	31.12.2019			2019	
	Receivables	Payables	Guarantees and Commitments	Expenses	Income
<b>Companies under joint control and associates</b>					
Trans Adriatic Pipeline AG (TAP)			<b>1,363</b>		
			<b>1,363</b>		

### Companies under joint control and associates

Financial relations with companies under joint control and associates include:

- the debt service guarantee on the loan agreement of the associate TAP, in the phase relating to the construction and start-up of the plant;
- Snam S.p.A.'s remaining commitment as a shareholder and in relation to the project funding for the construction of the pipeline on the basis of the shares owned, equal to 20%, with regard to TAP<sup>49</sup>.

### Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet and income statement is summarised in the following table:

(millions of €)	31.12.2018			31.12.2019		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Statement of financial position</b>						
Trade receivables and other current receivables	1,347	420	31.2	<b>1,341</b>	<b>291</b>	<b>21.7</b>
Other non-current assets	36	1	2.8	<b>26</b>	<b>1</b>	<b>3.8</b>
Trade payables and other payables	1,768	274	15.5	<b>1,801</b>	<b>189</b>	<b>10.5</b>
Other current liabilities	86	27	31.4	<b>97</b>	<b>22</b>	<b>22.7</b>

The impact of related-party transactions on the income statement is summarised in the following table:

(millions of €)	2018			2019		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Income Statement</b>						
Core business revenue	2,555	1,600	62.6	<b>2,635</b>	<b>1,576</b>	<b>59.8</b>
Other revenue and income	31	1	3.2	<b>30</b>	<b>1</b>	<b>3.3</b>
Purchases, services and other costs	311	77	24.8	<b>316</b>	<b>61</b>	<b>19.3</b>
Personnel cost	201			<b>180</b>	<b>(2.0)</b>	<b>(1.1)</b>
Financial income	13	8	61.5	<b>11</b>		

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions that would be applied between two independent parties.

49 For more information, see Note 26, "Guarantees, commitments and risks – Commitments, guarantees and pledges - TAP".

The principal cash flows with related parties are shown in the following table.

<b>(millions of €)</b>	<b>2018</b>	<b>2019</b>
Revenue and income	1,601	1,577
Cost and expense	(77)	(59)
Change in trade receivables and other current receivables	64	129
Change in trade and other payables	80	(87)
Change in other current liabilities	13	(5)
Interest received (paid)		
<b>Net cash flow from operating activities</b>	<b>1,681</b>	<b>1,555</b>
Investments:		
- Tangible and intangible fixed assets	(27)	(30)
- Equity investments		
- Long-term financial receivables	(148)	
- Change in payables and receivables relating to investments	(13)	(3)
<b>Cash flow from investments</b>	<b>(188)</b>	<b>(33)</b>
- Financial receivables (consideration for the sale)	519	
<i>Cash flow from divestments</i>	<i>519</i>	
<b>Net cash flow from investment activities</b>	<b>331</b>	<b>(33)</b>
Increase (decrease) in short-term financial debt	(14)	
<b>Net cash flow from financing activities</b>	<b>(14)</b>	
<b>Total cash flows with related parties</b>	<b>1,998</b>	<b>1,522</b>

The effect of cash flows with related parties is shown in the following table:

<b>(millions of €)</b>	<b>2018</b>			<b>2019</b>		
	<b>Total</b>	<b>Related parties</b>	<b>Share %</b>	<b>Total</b>	<b>Related parties</b>	<b>Share %</b>
Cash flow from operating activities	1,826	1,681	92.1	<b>1,486</b>	<b>1,555</b>	
Cash flow from investment activities	(665)	331		<b>(1,004)</b>	<b>(33)</b>	<b>3</b>
Cash flow from financing activities	(8)	(14)		<b>497</b>		

### 36) PUBLIC FUNDS - INFORMATION PURSUANT TO ARTICLE 1, PARAGRAPHS 125-129, LAW NO. 124/2017

Pursuant to Article 1, paragraph 125 of Law No. 124/2017 and later amendments, the information with regard to funds received from Italian public bodies by Snam S.p.A. and its wholly-consolidated subsidiaries are reported below. The consolidated information takes into account the funds received from Italian state bodies/public bodies. Specifically, the following are not presented: (i) forms of incentives/subsidies received in application of a general aid scheme to all those entitled; (ii) considerations relating to the provision of work/services, including sponsorships; (iii) refunds and indemnities paid to parties involved in training and orientation internships; (iv) contributions for ongoing training by inter-professional funds in the form of a legal association; (v) association contributions for membership of trade and regional associations, as far as to foundations, or equivalent organisations, functional to the activities related to the business. The funds are identified according to the cash criterion. Disclosure requirements on the issue of the transparency of public funds granted, pursuant to Law 124 of 2017, Article 1, paragraph 126, are not applicable to the Snam Group.

The information presented below includes funds of more than €10 thousand, supplied by the same party in 2019, including through a number of acts. Pursuant to the provisions of Article 3-quater of Legislative Decree 135/2018, converted with amendments by Law No. 12 of 11 February 2019 for funds received, refer to the guidelines contained in the National State Aid Register pursuant to Article 52 of Law No. 234 of 24 December 2012.

<b>Beneficiary</b>	<b>Lender</b>	<b>Subject of the contribution</b>	<b>Amount of economic benefit received (€)</b>
Snam S.p.A.	Lombardy Region	I-Gap Project: professional training	25,379

### 37) SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

### 38) POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.



### 39) SIGNIFICANT EVENTS AFTER THE END OF THE FINANCIAL YEAR

On 31 December 2019, China notified the WHO (World Health Organisation) that it had identified a group of people, in the city of Wuhan, the capital of the Chinese province of Hubei, suffering symptoms of pneumonia with unknown features, caused by an unidentified virus not previously examined, which from that time became known as COVID-19 (the new coronavirus).

From February 2020 cases of infection from COVID-19 were diagnosed in over 100 countries throughout the world and measures and actions were taken by the individual countries to contain the epidemic, which became increasingly more stringent as information spread globally. On 11 March the WHO declared that COVID-19 should be considered "a pandemic".

In Italy, through four Decrees from the Prime Minister's Office, dated 23 February, 8 March, 9 March and 11 March 2020, restrictions and measures aimed at containing the COVID-19 epidemic were dictated and measures identified proposing to be more hard-hitting for the purpose of preventing the spread of the contagion, intervening, in particular, by restricting people's mobility and introducing social distancing.

Snam, which undertook protective measures as early as 21 February 2020, equipped itself to implement new initiatives, both for alignment with the restrictions and for adopting additional precautions, with the goal of protecting its people.

The measures identified by the public authorities to fight and contain the contagion, have not at the moment prevented the continuation of routine operations as a whole, with no interruptions or slow-downs in the provision of the services offered by the Snam Group.

With reference to the impacts on costs, even potential, and on the anticipated cash flows resulting from the Coronavirus, the company, at present, is not capable of reliably calculating any repercussions on the 2020 results or any implications for future years. Based on the current and most up to date information available, including as a result of the nature of the activities carried out by Snam, the company expect limited impacts related to the situation described above.

Snam immediately took all the necessary steps to ensure the normal operation of the company and the energy security of the country.

At present, any effects on the development initiatives and suppliers or customers deriving from the slow-down to business and the current macroeconomic context consequent to the international reach of the pandemic, cannot yet be assessed. The same remarks also apply to the assets held by the Snam Group outside Italy, specifically in France, Austria, Greece, Albania and the UK.

Snam, partly through the Snam Foundation, has allocated €20 million to initiatives for the Italian healthcare system and the voluntary sector to deal with the Coronavirus emergency. The provisions and skills of Snam, which is strictly working with local authority, will go to hospitals, healthcare facilities and other institutions for the purchase of the equipment and items needed, for healthcare and to support voluntary sector organisations protecting the young and the elderly. In this regard, Snam has signed contracts to purchase 500 lung ventilators and 650 thousand N95 masks that will be donated to the territories most affected by the emergency. Through this initiative, Snam intends to demonstrate that it is close to healthcare operators and to support the institutions, the voluntary sector and the areas in Italy busy dealing with the emergency.

#### **40) PUBLICATION OF THE FINANCIAL STATEMENTS**

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 18 March 2020, in accordance with the law.



# Certification of the consolidated financial statements

pursuant to Article 154-bis, paragraph 5 of Legislative Decree 58/98 (Consolidated Finance Act)

1. The undersigned Marco Alverà and Franco Pruzzi, as Chief Executive Officer and Chief Financial Officer of Snam S.p.A. respectively, certify, taking into account Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
  - the adequacy, considering the Company's characteristics, and
  - the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2019.
  
2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2019 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
  
3. It is also certified that:
  - 3.1 The consolidated financial statements at 31 December 2019:
    - a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
    - b) are consistent with the accounting records and ledgers;
    - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.
  - 3.2 The Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

18 March 2020

/Signed/Marco Alverà  
Marco Alverà  
Chief Executive Officer

/Signed/Franco Pruzzi  
Franco Pruzzi  
Manager responsible for preparing the  
Company's financial reports

# Independent Auditors' Report



## **Independent auditor's report**

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the shareholders of Snam SpA

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### **Report on the Audit of the Consolidated Financial Statements**

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#### **Opinion**

We have audited the consolidated financial statements of Snam Group (the Group), which comprise the consolidated statement of financial position as of 31 December 2019, the consolidated income statement, statement of comprehensive income, consolidated statement of changes in equity, consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

#### **Basis for Opinion**

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Snam SpA (the Company) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### **Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed

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#### **PricewaterhouseCoopers SpA**

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in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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**Key Audit Matters**

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**Auditing procedures performed in response to key audit matters**

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**Investment in property, plant and equipment and intangible assets and related impairment tests**

*Note 13 “Property, plant and equipment” and Note 14 “Intangible assets” of the Notes to the consolidated financial statements as of 31 December 2019.*

Property, plant and equipment and intangible assets amounted to Euro 17,429 million as of 31 December 2019, accounting for 89% of total non-current assets.

The gas transportation, regasification and storage businesses in which the Snam Group operates are characterised by specific regulations issued by the Italian Regulatory Authority for Energy, Networks and the Environment (“ARERA”). In detail, revenues of the three operating businesses of the Group are determined by ARERA based on a predefined return on capital expenditure (on tangible and intangible assets), depreciation/amortisation charges and certain operating costs.

During the year the Snam Group invested around Euro 861 million, mainly on infrastructure for gas transportation (Euro 723 million), storage (Euro 103 million) and regasification (Euro 19 million).

In consideration of the significant amounts of capital investments, we identified a key audit matter relating to the appropriate recognition of assets in accordance with international financial reporting standards IAS 16 “Property, plant and equipment” and IAS 38 “Intangible assets”.

At the year end, management considered

As part of our audit procedures we analysed, understood and assessed the Group’s internal control system in relation to the business processes “Assets” and “Investments” underlying controls on the capitalisation of expenditure, the management of fixed assets and the preparation of impairment tests.

We identified and validated the operation and effectiveness of relevant (manual and automated) controls over those processes, also using the support of experts in IT systems and business process analysis belonging to the PwC network.

We verified the reconciliation of the asset register to the general ledger and recalculated depreciation charges, on a test basis.

In relation to additions of the period we selected a sample of transactions and verified the correct application of the capitalisation criteria required by the applicable financial reporting standards.

We analysed projects included in assets under construction and discussed with management the key items of expenditure, their nature and, for the oldest projects, potential existence of impairment losses.



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**Key Audit Matters**

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appropriate to test property, plant and equipment and intangible assets for impairment, regardless of the existence of possible impairment indicators, in consideration of the materiality of the amounts involved. An impairment test was performed for each of the cash generating units (CGUs) in which the Snam Group operates.

The recoverability of the values of fixed assets is tested by comparing the carrying amount with the recoverable amount, which is the higher of fair value and value in use.

In detail, the recoverable amounts of assets included in the regulated businesses is generally estimated by management by reference to the capital invested used by ARERA to calculate the applicable tariffs (the Regulatory Asset Base, "RAB"), which market operators consider the minimum measurement of fair value for those assets.

For the remaining CGUs the recoverable amount of each CGU is determined as its value in use calculated using the Discounted Cash Flow (DCF) method.

We identified a key audit matter relating to the measurement of property, plant and equipment and intangible assets with regard to the risk of impairment losses, in consideration of the materiality of the balance and the fact that the valuation process involves a high degree of judgement by management in assessing possible impairment indicators and, where necessary, in estimating the recoverable amount.

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**Auditing procedures performed in response to key audit matters**

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We obtained the impairment tests performed by the Company and met with management to understand the method adopted to identify and assess possible indicators of impairment and to carry out impairment testing.

For the regulated businesses, we obtained and tested the estimated RAB as of 31 December 2019 and verified that the values matched those included in the Tariff Proposals prepared for the year 2020 and approved by ARERA, respectively, with Resolution 201/2019 for the gas transportation business, Resolution 535/2019 for gas storage and Resolution 43/2020 for the regasification business.

For the remaining CGUs we verified the accuracy of the valuation models adopted, the reasonableness of the assumptions underlying the estimated future cashflows and discount rates used and the mathematical accuracy of the quantification of the recoverable amount.

In our analyses of the valuation models and discount rates applied we used the support of experts from the PwC network.

Finally, we verified the accuracy and completeness of disclosures presented in notes 13 and 14 to the consolidated financial statements as of 31 December 2019.





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**Key Audit Matters**

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**Auditing procedures performed in response to key audit matters**

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**Measurement of equity investments**

*Note 15 “Investments valued under the equity method” to the consolidated financial statements as of 31 December 2019.*

The balance of equity investments in entities measured under the equity method as of 31 December 2019 was Euro 1,787 million and relates mainly to equity investments in foreign joint ventures.

Investments in associates and joint ventures are measured under the equity method. At the year end, in accordance with its internal procedures, and regardless of the existence of possible indicators of impairment, management decided to test all equity investments for impairment by comparing the carrying amount with the recoverable amount, which is the higher of fair value and value in use.

In detail, the recoverable amount of the investment in Italgas was determined with reference to stock market prices, and those of the remaining equity investments as the respective values in use based on the Dividend Discount Model (DDM).

Based on the activities performed, management did not identify any impairment loss on equity investments as of 31 December 2019.

We identified a key audit matter concerning the measurement of equity investments in entities valued under the equity method with regard to the risk of impairment losses, in consideration of the materiality of the balance and the fact that the valuation process involves a high degree of judgement by management in assessing possible impairment indicators and, where necessary, in estimating the recoverable amount.

As part of our audit procedures we analysed, understood and evaluated the Group’s internal control system in relation to the business process “Business Development” which includes specific controls related to impairment testing.

We obtained the impairment tests performed by the Company and held meetings with management to understand the method adopted to identify and assess possible indicators of impairment and to carry out impairment testing.

We compared the carrying amounts of equity investments with the corresponding equity share and analysed their performance against previous years’ and budgeted results.

For Italgas we verified the accuracy of the stock market prices used.

For the remaining equity investments we verified the accuracy of the valuation models adopted, the reasonableness of the assumptions underlying the estimated future cashflows and discount rates used, and the mathematical accuracy of the quantification of the recoverable amount.

In our analyses of the valuation models and discount rates applied we used the support of experts from the PwC network.

Finally, we verified the accuracy and completeness of disclosures provided in note 15 to the consolidated financial statements as of 31 December 2019.

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**Key Audit Matters**

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**Auditing procedures performed in response to key audit matters**

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**Revenue recognition**

*Note 4 “Measurement criteria” and Note 27 “Revenues” to the consolidated financial statements as of 31 December 2019.*

Revenue recognition for regulated businesses is governed by the regulatory framework established by ARERA, therefore the rates applied to services rendered are defined by a regulatory scheme rather than by contract.

Revenues recognised in the income statement are those allowed by the regulator (the “revenue cap”). In accordance with current legislation, any difference between the allowed revenues and amounts actually billed/to be billed to customers will later be subject to monetary settlement with Cassa per i Servizi Energetici e Ambientali (CSEA).

In consideration of the significant volume of transactions and the complexity of the regulations applicable to the quantification of revenues, we identified the revenue recognition process as a key audit matter with reference to the correct calculation of revenues.

As part of our audit procedures we analysed, understood and evaluated the Group’s internal control system in relation to the business process “Assets” which includes specific controls related to revenue recognition.

We identified and validated the operation and effectiveness of relevant (manual and automated) controls over those processes, also using the support of experts in IT systems and business process analysis belonging to the PwC network.

We verified the reconciliation of revenue figures with the “revenue cap” identified by ARERA in its resolutions approving revenues for the year 2019 for the gas transportation, storage and regasification businesses.

We verified the correct calculation of the difference between revenues allowed by ARERA and revenues earned, for each business, based on the difference between the “revenue cap” and amounts billed to customers during the year.

Finally, we carried out balance confirmation procedures with third parties to obtain documentary evidence supporting the trade receivables reported in the consolidated financial statements. For the parties where we did not receive balance confirmations we performed alternative procedures on the balance as of 31 December 2019 to obtain relevant and reliable supporting evidence.



### ***Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements***

The directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as they determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

The directors are responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, the directors use the going concern basis of accounting unless they either intend to liquidate Snam SpA or to cease operations, or have no realistic alternative but to do so.

The board of statutory auditors is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of our audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;



- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors;
- We concluded on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

#### ***Additional Disclosures required by Article 10 of Regulation (EU) No. 537/2014***

On 24 April 2018 the shareholders of Snam SpA in general meeting engaged us to perform the statutory audit of the Company's and consolidated financial statements for the years ending 31 December 2018 to 31 December 2026.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is



Pursuant to article 3, paragraph 10, of Legislative Decree No. 254 of 30 December 2016, the non-financial statement is the subject of a separate statement of compliance issued by ourselves.

Milan, 11 May 2020

PricewaterhouseCoopers SpA

*Signed by*

Giulio Grandi  
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

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May 2020



