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Oggetto : Snam: first half 2020 results in line with 1H 2019,increased investments and net profit guidance confirmed despite the impacts of COVID-19

Testo del comunicato

Vedi allegato.



Snam: first half 2020 results in line with 1H 2019, increased investments and net profit guidance confirmed despite the impacts of COVID-19

- **Total revenue:** 1,346 million euros (+3.3% compared with the first half of 2019);
- **Adjusted gross operating margin (adjusted EBITDA):** 1,107 million euros, in line with the first half of 2019;
- **Adjusted net profit:** 578 million euros, in line with the first half of 2019;
- **Technical investments:** 457 million euros, including 111 million euros SnamTec investments in innovation and energy transition (+49 million euros compared with the first half of 2019, despite the slowdown due to COVID-19);
- **Net financial debt:** 12,888 million euros (11,923 million euros at 31 December 2019; +965 million euros), including the outlay related to the acquisition of interest in OLT and share buyback activity, with an average gross debt cost of 0.9%;
- **2020 net profit guidance:** confirmed at approx. 1.1 billion euros;
- **International development:** completed the acquisition of 49% of ADNOC Gas Pipelines in consortium with five international funds;
- **Energy transition:** contracts signed for the acquisition of 50% of Iniziative Biometano (agricultural biomethane) and of 70% of Miecì and Evolve (energy efficiency), with closing expected by the third quarter;
- **Sustainable mobility:** Snam4Mobility continues its international expansion thanks to Cubogas, which has been awarded a third tender for public transport in Paris;
- **Sustainable finance:** first issue of a 500 million euros Transition Bond successfully completed.

San Donato Milanese (MI), 30 July 2020 - The Snam Board of Directors, which met yesterday chaired by Nicola Bedin, approved the Consolidated Interim Financial Report as at 30 June 2020 (subject to a limited audit of the accounts).

Marco Alverà, CEO of Snam, commented:

"The results of the first half of 2020 are in line with those of the same period of 2019, and the guidance on net profit of approx. 1.1 billion euros at year-end is confirmed despite the effects of Covid, thanks to the reduction of financial expenses, the performance of our international associates and the cost control measures.

In the past few months Snam has not stopped, continuing to uphold its essential energy security service, increasing investments and laying the foundations for a quick restart. Since the beginning of June, we have resumed operations in 100% of our construction sites and by the end of the year we are aiming for a substantial recovery of delays caused by the lockdown. At the same time, we have continued our international expansion with the entry into the Abu Dhabi networks and boosted new business growths, through acquisitions in energy efficiency and biomethane as well as agreements and experiments



in the hydrogen sector. We have also strengthened our commitment to sustainable finance with the issue of the first Transition Bond.

Our goal is to accelerate Snam's development by contributing to the revitalization of the economy and to the energy transition, for the benefit of all our stakeholders and the territories in which we operate".

Highlights of the first half of 2020

(€ million)	First half		change	% change
	2019	2020		
Regulated revenues	1,252	1,273	21	1.7
New business revenues	35	61	26	74.3
Total revenue	1,303	1,346	43	3.3
Operating costs (a)	192	239	47	24.5
Gross operating margin (EBITDA) (a)	1,111	1,107	(4)	(0.4)
Operating profit (EBIT) (a)	756	733	(23)	(3.0)
Net profit (a) (b)	581	578	(3)	(0.5)

(a) The amounts for 2020 are shown in an adjusted format, net of emerging costs incurred as a result of the COVID-19 pandemic (9 million euros in total; 6 million euros net of related taxes), mainly related to donations of medical equipment, money and purchases of personal protective equipment for internal use, as well as costs for services related to workplace sanitisation and security. For the reconciliation of the reported data with the adjusted data, please refer to pages 12-13 of this press release.

(b) Entirely held by Snam shareholders.

Total revenue

Total revenue¹ amounted to 1,346 million euros, up by 43 million euros (+ 3.3%) compared with the first half of 2019.

Regulated revenues amounted to 1,273 million euros, an increase of 21 million euros or 1.7%, thanks in particular to the contribution from the transport business segment. Net of the effects deriving from the total coverage of energy costs, regulated revenues amounted to 1,243 million euros, a decrease of 9 million euros or 0.7%. The increase from tariff updating mechanisms, particularly the increase in the RAB base, was largely absorbed by lower revenues from the reduction in volumes transported as a result of the health emergency by COVID-19 as well as the milder climate compared with 2019.

¹ Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (25 million euros in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (29 million euros) have been restated.



New business revenues increased by 26 million euros compared with the first half of 2019 (+74.3%) thanks to the increase in contracts for biogas and biomethane plants to the subsidiary IES Biogas, the companies that joined the group at the end of 2019, the start of deep renovation activities in the residential sector and the sales of compressors for sustainable mobility, as well as the development of Snam Global Solutions' activities.

Adjusted gross operating margin (adjusted EBITDA)

Adjusted EBITDA for the first half of 2020 amounted to 1,107 million euros, broadly in line with the corresponding amount reported in the first half of 2019 (-4 million euros, or 0.4%). The higher regulated revenues, together with the effects of cost reduction actions triggered by the lockdown measures, were absorbed by the effects of a reduction in the volumes of gas transported as a result of the COVID-19 health emergency and milder weather during the winter months (-15 million euros).

Adjusted operating profit (adjusted EBIT)

Adjusted EBIT for the first half of 2020 amounted to 733 million euros, down 23 million euros, or 3.0%, compared with the corresponding figure reported for the first half of 2019, mainly due to the physiological increase in amortisation and depreciation (-19 million euros, or 5.4%), resulting from the entry into service of new assets.

Net financial expenses

Net financial expenses amounted to 67 million euros, down 18 million euros, or 21.2%, compared with the first half of 2019, mainly due to measures taken to optimise the financial structure and treasury management and the pro-rata contribution from the OLT Shareholder Loan, despite the higher average debt for the period, mainly influenced by the outlay for the acquisition of the jointly controlled interest in OLT, the share buyback as well as the absorption of working capital of the period.

Net income from equity investments

Net income from equity investments amounted to 110 million euros, down 8 million euros, or 6.8%, compared with the first half of 2019, due to the lower contribution of the subsidiary Teréga, which had benefited from non-recurring income in the first half of the previous year, and Interconnector UK which, in line with expectations, had lower capacity commitments in the first half compared with the same period last year.

Adjusted net profit

Adjusted net profit for the first half of 2020 amounted to 578 million euros, broadly in line (-3 million euros, or 0.5%) with the reported net profit for the first half of 2019 (581 million euros). The lower profit before taxes (-13 million euros, or 1.6%), together with the



benefit from ACE - Aid to Economic Growth² reintroduced by the 2020 Budget Law, generated a tax reduction of 10 million euros, or 4.8%.

Net of the emerging costs subject to adjustment, the overall impact on net income in the first half of 2020 resulting from the effects of COVID-19 totalled approximately 5 million euros.

Technical investments

Technical investments in the first half of 2020 totalled 457 million euros (408 million euros in the first half of 2019), up by 49 million euros or 12.0% more than in the same period last year, despite the slowdown due to COVID-19. The investments related mainly to the transportation (388 million euros; 340 million euros in the first half of 2019) and storage (43 million euros; 60 million euros in the first half of 2019) business segments. On the basis of the information available to date, it is expected that by the end of the year there will be a substantial recovery of delays in relation to the investments planned for 2020.

Cash flow

Net cash flow from operations (749 million euros) allowed the company to cover entirely the net technical investments for the period (net of debts for investments) of 457 million euros. Including the disbursement related to the acquisition of the jointly controlled interest in OLT (334 million euros, including ancillary charges for the acquisition of the investment; 316 million euros net of redemptions for the period), Free Cash Flow was negative by 83 million euros. Net financial debt at 30 June 2020 amounted to 12,888 million euros, an increase of 965 million euros compared with 31 December 2019, largely due to the payment of the 2019 dividend to shareholders and the purchase of treasury shares (881 million euros in total).

Outlook

By Decree of the Presidency of the Council of Ministers (DPCM) of 23 February 2020 and subsequent amendments, measures were introduced in Italy to contain the COVID-19 epidemic, including restrictions on production activities, the mobility of people and collective society.

Snam has taken protective measures since 21 February to protect the safety of its people, both in compliance with the Italian government's restrictions and by taking further precautions.

From the very early days of the pandemic, Snam secured its control rooms, plants and regional offices to guarantee normal operations and the wider energy security of the country.

² This measure, introduced by Decree-Law no. 201 of 6 December 2011 converted into Law no. 214 of 22 December 2011 and subsequent additions and amendments, was repealed by the 2019 Budget Law and reinstated by the 2020 Budget Law with a reduced rate from 1.5% to 1.3%.



In particular, the San Donato Milanese plant, the heart of Snam's infrastructure, continued its normal activities even in the most acute phase of the emergency thanks to the installation of dedicated staff accommodation and the implementation of a new shift system.

Physical presence has been reduced to a minimum. As far as construction sites are concerned, works that cannot be postponed have been identified and all appropriate precautionary measures have been taken. Since April, activities at the construction sites have gradually resumed and to date they have all been restarted.

At present, the company is unable to determine the impact of COVID-19 on 2020 and beyond in detail. However, on the basis of the latest information available and the nature of the activities conducted by Snam, as well as the containment measures that were promptly adopted by the company, Snam expects limited impact to its investment programme.

The same remarks also apply to any potential impact on the development initiatives and suppliers or customers deriving from the slow-down to business and the current macroeconomic context due to the international reach of the pandemic. The full impact of the pandemic on the Italian business cannot yet be assessed, as well as the impact to assets held by the Snam Group outside Italy, in particular in France, Austria, Greece, Albania and the United Kingdom. At present, growth in new businesses is expected to slow down.

In the first half of the year, demand for natural gas in Italy totalled 36.06 billion cubic metres, or 10.8% less (-4.38 billion cubic metres) than in the same period last year. The decrease is due, in addition to milder temperatures compared with the same period of the previous year, to the impact of COVID-19, first with the closure of all non-core activities (March-April), and then the slow recovery of industrial production (May-June). It should be noted that, based on the current regulatory framework, the maximum impact on Snam, on an annual basis, is estimated to be a reduction in revenues of approximately 9 million euros related to the commodity component.

In the current scenario, the company is continuing to implement its efficiency program, which has already resulted in savings of 55 million euros compared with 2016.

With regard to the financial structure, the optimisation activities carried out over the last three years has led to a significant reduction in the average cost of gross debt (0.9% in the first half of the year compared with 1.2% in the same period last year). The risk management activities implemented also limit the risks of negative impacts from the worsened market scenario on the Group's financial management. The company's management will continue to guarantee the sustainable remuneration for shareholders, whilst maintaining a balanced financial structure.



Significant events

- **Acquisition of a 49% stake in ADNOC Gas Pipelines in a consortium with five international funds**

On 15 July, the consortium consisting of Snam and the investment funds Global Infrastructure Partners (GIP), Brookfield Asset Management, GIC (the Singapore sovereign fund), Ontario Teachers' Pension Plan and NH Investment & Securities, completed the acquisition of a 49% stake in ADNOC Gas Pipeline Assets LLC (ADNOC Gas Pipelines) from The Abu Dhabi National Oil Company (ADNOC), announced on June 23.

- **Energy transition**

On 7 May, Snam, through its subsidiary Snam4Environment, signed an agreement with Femogas for the acquisition of a 50% stake in the share capital of Iniziative Biometano, a company that manages biogas and biomethane plants in Italy.

On 10 June, Snam announced that, through its subsidiary Snam4Efficiency, it signed contracts with Gemma S.r.l. and Fen Energia S.p.A. to acquire, 70% of Mieci S.p.A. and Evolve S.r.l., two companies active in the energy efficiency sector in Italy. The transaction enables Snam to achieve structural development of its portfolio of activities and strengthen its competitive position in this business.

Both transactions are expected to be completed during the third quarter.

- **Sustainable mobility**

Cubogas, controlled by Snam4Mobility and specialized in technological solutions for CNG (compressed natural gas) refueling stations, was awarded the tender for the construction of a new natural gas distributor for buses launched by RATP, the Parisian public transport company active in the entire Île-de-France region.

The order, worth approximately 1.4 million euros, provides for the supply of three compressors, two additional storages of 45 cylinders each and further accessories for the new Nanterre refueling station, which will be able to supply CNG to about 200 buses that run in the Paris metropolitan area. The Nanterre site, which is already set to supply an increasing number of buses in the future, follows the orders assigned by RATP to Cubogas over the past months for two other locations close to the French capital.

These tenders will allow Snam to contribute to the decarbonisation of Paris' public transport through a greater diffusion of natural gas to replace traditional fuels; as well as helping to demonstrate the international breadth of Cubogas' activities.



- **Testing the world's first "hybrid" hydrogen turbine for a gas network**

On 20 July, Baker Hughes and Snam announced the completion of tests for the operation of the world's first hydrogen "hybrid" turbine for a natural gas transport infrastructure. This is an all-Italian project: the new "NovalT12" turbine, which can be powered with a mixture of up to 10% of hydrogen and natural gas (H2NG), was developed and built in Italy at the Baker Hughes plant and will be installed at Snam's Istrana (Treviso) compressor station by 2021.

The trial came a few days after the launch of the European Commission's Hydrogen Strategy, according to which by 2030 Europe should be able to produce at least 40 GW of hydrogen from renewable sources, and by 2050 should be able to use it on a large scale in all sectors that are difficult to decarbonise in an alternative way. The aim of the strategy is to enable the development of hydrogen as a new clean energy carrier to contribute to achieving climate neutrality by 2050.

- **Transition Bond**

On 10 June, Snam completed the issue of its first Transition Bond for a nominal amount of 500 million euros, with an annual coupon of 0.75% and maturity on 17 June 2030.

By issuing its first Transition Bond, which follows the issue of the Climate Action Bond in February 2019, Snam intends to ensure full alignment of the company's financial strategy with the energy transition through its sustainability objectives, as well as further expanding its investor base.

- **COVID-19 health emergency**

Snam, also through Fondazione Snam, made the decision to donate 20 million euros to support the Italian health system and the third sector in the fight against the COVID-19 emergency.

In addition, the "Diamo forma al futuro" ("Let's shape the future") fund-raising campaign, promoted by Snam employees, was launched and ended on 11 May. As part of this initiative, to which the Chief Executive Officer Marco Alverà also contributed, over 10% of managers decided to reduce their GAC by percentages ranging from 5% to 25%. The total amount collected would be doubled by Snam, for a total amount of over 800,000 euros, and then donated to entities involved in the health emergency, identified together with Fondazione Snam. Transfers of over 60,000 euros were also made to external entities, doubled by the company. In addition, more than 250 days of vacation and 4,000 hours of work were donated to third parties and employees in difficulty, thanks to the generosity of over 1,200 Snam employees.



A conference call will take place at 16:00 CEST today, 30 July 2020, to present the consolidated results for the first half of 2020 to investors and financial analysts. It will be possible to attend this conference call and the supporting materials will be made available at www.snam.it in the Investor Relations section when the event begins. In the same section, it will also be possible to view the presentation through video webcasting.

Key operating figures

		First half			% change
		2019	2020	change	
Natural gas injected into the National Gas Transportation Network (a) (b)	(billions of m ³)	39.82	35.71	(4.11)	(10.3)
Gas demand (a)	(billions of m ³)	40.44	36.06	(4.38)	(10.8)
LNG regasification (a)	(billions of m ³)	1.39	1.30	(0.09)	(6.5)
Available storage capacity (a) (c)	(billions of m ³)	12.5	12.5		
Natural gas moved through the storage system (a)	(billions of m ³)	11.80	11.90	0.10	0.8
Employees in service at period end (d)	(number)	3,014	3,048	34	1.1

- (a) With regard to the first half of 2020, gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 MJ/SCM (10.575 kWh/SCM) for transportation and regasification activities and approximately 39.3 MJ/SCM (10.893 kWh/SCM) natural gas storage for the 2020-2021 thermal year.
- (b) The data for the first half of 2020 is current as at 09 July 2020. The corresponding figure for 2019 has been updated definitively and is consistent with that published by the Ministry of Economic Development.
- (c) Working gas capacity for modulation, mining and balancing services, allocated in full as at 30 June 2020.
- (d) Fully consolidated companies.

Natural gas injected into the national transportation network

The volumes of gas injected into the network in the first half of 2020 totalled 35.71 billion cubic metres, down by 4.11 billion cubic metres, or 10.3%, compared with the corresponding figure for the first half of 2019 (39.82 billion cubic metres), essentially as a result of the significant drop in demand for natural gas in Italy (36.06 billion cubic metres; -4.38 billion cubic metres; -10.8%) recorded in all consumption sectors. In particular, the contraction in gas demand is attributable: (i) to the lesser consumption in the thermoelectric sector (-1.66 billion cubic metres; -12.9%), recorded almost entirely in March-June as a result of the reduction in demand for electricity caused by lockdown measures to contain the COVID-19, as well as the increase in production from hydroelectric and photovoltaic plants, partly offset by a substantial drop in electricity



import flows; (ii) to the lesser consumption in the residential and tertiary sector (-1.55 billion cubic metres; -8.9%) compared with milder temperatures in the first half of 2019. The reduction in demand for natural gas was also affected by lesser consumption in the industrial sector (-1.03 billion cubic metres; -11.4%), affected by a 20% reduction in the industrial production index in the first five months of 2020, intensified by the closure of various production activities following the lockdown (March-April) and then by the slow recovery of industrial production (May-June).

Adjusted for the weather effect, gas demand was estimated at 36.39 billion cubic metres, down by 3.32 billion cubic metres (8.4%) compared with the first half of 2019 (39.71 billion cubic metres), also following the greater use of energy efficiency enhancing measures by the residential and tertiary sector.

Liquefied Natural Gas (LNG) regasification

During the first half of 2020, 1.30 billion cubic metres of LNG (1.39 billion cubic metres in the first half of 2019) were regasified and 31 methane tankers were unloaded (33 in the first half of 2019), in line with the number of unloadings conferred.

Natural gas storage

The available storage capacity at 30 June 2020, unchanged with respect to 31 December 2019, represents the largest capacity offered at European level and it was fully conferred for the thermal year 2020-2021. The volumes of gas moved through the storage system in the first half of 2020 totalled 11.9 billion cubic metres, a slight rise compared with volumes in the first half of 2019 (+0.1 billion cubic metres; +0.8%). The higher injections were partly compensated by lower storage supply, mainly due to weather conditions.

Analysis of the Reclassified Statement of Financial Position

Fixed capital

The fixed capital (19,773 million euros) increased by 462 million euros compared with 31 December 2019, essentially as a result of: (i) the increase in long-term financial receivables (+315 million euros) following the taking over of the residual portion of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020 (332 million euros; 314 million euros net of subsequent repayments); (ii) the increase in tangible and intangible assets (+71 million euros); together with (iii) the trend in net payables related to investment activities (+60 million euros).

**Net financial debt**

(€ million)	31.12.2019	30.06.2020	change
Bonds	9,048	8,682	(366)
- of which short-term (*)	1,439	827	(612)
Bank loans	3,704	5,291	1,587
- of which short-term (*)	685	2,273	1,588
Euro Commercial Paper - ECP (**)	2,001	2,000	(1)
Financial payables for leased assets (***)	21	19	(2)
GROSS FINANCIAL DEBT	14,774	15,992	1,218
Cash and cash equivalents	(2,851)	(3,104)	(253)
NET FINANCIAL DEBT	11,923	12,888	965

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

(**) Entirely short-term.

(***) Of which 14 million euros long-term and 5 million euros short- term portions of long- term financial payables.

The increase of 965 million euros in net financial debt reflects an increase in bank borrowings (+1,587 million euros) due mainly to higher net utilisations of uncommitted credit facilities (+1,047 million euros). This effect is partly offset: (i) by a reduction in bond issues (-366 million euros), due mainly to repayments of maturing loans with a total face value of 876 million euros, absorbed in part by the issuance of the Transition Bond with a face value of 500 million euros; (ii) by an increase in cash and cash equivalents (+253 million euros), attributable mainly to cash outlays.

This press release, which is prepared voluntarily in line with best market practice, illustrates the consolidated results for the first half of 2020 (subjected to a limited audit). The results for the half-year, together with the key business trends, represent a summary of the half-year report prepared in accordance with Article 154 - ter of the Consolidated Law on Finance (CLF). The report was approved by Snam's Board of Directors on 29 July 2020 and will be published in compliance with the statutory terms.

Pursuant to Article 154-bis, paragraph 2 of the CLF, the Manager appointed to prepare the company's accounting documents, Luca Oglialoro, declares that the accounting information included in this press release corresponds to the documents, accounting ledgers and other records.



Disclaimer

This press release includes forward-looking statements, particularly in relation to: future trends in natural gas demand, investment plans and future operating performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. Actual results could therefore differ from those announced due to various factors, including: foreseeable trends in natural gas demand, supply and prices, general macroeconomic conditions, the impact of energy and environmental legislation, success in the development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.



RECLASSIFIED INCOME STATEMENT

	First half				
	2019	2020		2020 adjusted vs 2019	
(€ million)	Reported	Reported	Adjusted (a)	Change	Change %
Core business revenues	1,268	1,285	1,285	17	1.3
Regulated revenues (b)	1,252	1,273	1,273	21	1.7
- Transportation (c)	992	1,014	1,014	22	2.2
- Storage (c)	251	248	248	(3)	(1.2)
- Regasification	9	11	11	2	22.2
Non-regulated revenue	16	12	12	(4)	(25.0)
New business revenues	35	61	61	26	74.3
Total revenues (b)	1,303	1,346	1,346	43	3.3
Core business costs (b)	(156)	(188)	(179)	(23)	14.7
Fixed costs	(139)	(144)	(142)	(3)	2.2
Variable costs	(10)	(21)	(21)	(11)	
Other costs	(7)	(23)	(16)	(9)	
New business costs	(36)	(60)	(60)	(24)	66.7
Total operating costs (b)	(192)	(248)	(239)	(47)	24.5
EBITDA	1,111	1,098	1,107	(4)	(0.4)
Amortisation, depreciation and impairment losses	(355)	(374)	(374)	(19)	5.4
EBIT	756	724	733	(23)	(3.0)
Net financial expenses	(85)	(67)	(67)	18	(21.2)
Net income from equity investments	118	110	110	(8)	(6.8)
Profit before taxes	789	767	776	(13)	(1.6)
Income taxes	(208)	(195)	(198)	10	(4.8)
Net profit (d)	581	572	578	(3)	(0.5)

- (a) The values exclude the special items.
- (b) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (25 million euros in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (29 million euros) have been restated.
- (c) 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. Consistently, the corresponding figures for the first half of 2019 have been restated.
- (d) Entirely held by Snam shareholders.



Reconciled summary of adjusted results

(€ million)	First half			
	2019	2020	Change	% Change
EBIT	756	724	(32)	(4.2)
Exclusion of special items for emerging COVID-19 costs:		9	9	
- of which donations		7	7	
- of which sanitary material for internal use		1	1	
- of which services		1	1	
Adjusted operating profit (adjusted EBIT)	756	733	(23)	(3.0)
Net profit (a)	581	572	(9)	(1.5)
Exclusion of special items for emerging COVID-19 costs net of related taxes		6	6	
Adjusted net profit (a)	581	578	(3)	(0.5)

(a) Entirely held by Snam shareholders.

Statement of comprehensive income

(€ million)	First half	
	2019	2020
Net profit (*)	581	572
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective share)	(52)	(15)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (**)	(22)	(25)
Tax effect	12	4
	(62)	(36)
Total other components of comprehensive income, net of tax effect	(62)	(36)
Total comprehensive income (*)	519	536

(*) Entirely held by Snam shareholders.

(**) The values essentially refer to the change in the fair value of derivative financial instruments used to hedge investments in associates.



Reclassified statement of financial position

(€ million)	31.12.2019	30.06.2020	Change
Fixed capital	19,311	19,773	462
Property, plant and equipment	16,439	16,469	30
- of which rights of use of leased assets	21	19	(2)
Compulsory inventories	363	363	
Intangible fixed assets	990	1,031	41
Equity investments	1,828	1,844	16
Long-term financial receivables	3	318	315
Net payables for investments	(312)	(252)	60
Net working capital	(1,094)	(618)	476
Provisions for employee benefits	(46)	(43)	3
Assets held for sale	10		(10)
NET INVESTED CAPITAL	18,181	19,112	931
Shareholders' equity	6,258	6,224	(34)
- Held by Snam's shareholders	6,255	6,221	(34)
- Minority interests	3	3	
Net financial debt	11,923	12,888	965
- of which financial payables for leased assets (*)	21	19	(2)
COVERAGE	18,181	19,112	931

(*) Of which 14 million euros long-term and 5 million euros short-term portions of long-term financial payables.



RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	First half	
	2019	2020
Net profit	581	572
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	237	265
- Net capital losses (capital gains) on asset sales and write-offs	3	1
- Dividends, interest and income taxes	279	247
Change in working capital due to operating activities	285	(176)
Dividends, interest and income taxes collected (paid)	(164)	(160)
Net cash flow from operating activities	1,221	749
Technical investments	(402)	(457)
Equity investments	6	(5)
Change in long-term financial receivables		(314)
Other changes relating to investment activities	(31)	(56)
Free cash flow	794	(83)
Repayment of financial payables for leased assets	(3)	(3)
Change in short- and long-term financial payables	577	1,220
Equity cash flow (a)	(743)	(881)
Net cash flow for the period	625	253

CHANGE IN NET FINANCIAL DEBT

(€ million)	First half	
	2019	2020
Free cash flow	794	(83)
Exchange rate differences on financial debt	(2)	
Change in financial payables for leased assets	(24)	(1)
Equity cash flow (a)	(743)	(881)
Change in net financial debt	25	(965)

(a) Includes cash flows from the payment of dividends to shareholders and the purchase of treasury shares.

Methodological note

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



adopted in preparing the report on operations in the first half of 2020 are the same as used to prepare the 2019 Annual financial report, to which reference should be made for a description.

No changes occurred to the consolidation area of the Snam Group at 30 June 2020 with respect to that in place at 31 December 2019.

In preparing the Half-Yearly Financial Report as at 30 June 2020, Snam and the Group companies have considered the impact of the current economic context characterised by the effects of the COVID-19 pandemic, the related accounting implications related to the valuation of assets and liabilities, disclosure and assessment of going concern, also taking into account the recommendations published by ESMA³, IOSCO⁴ and Consob⁵.

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 sectors, 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 indicators⁶ and compliant with international accounting standards⁷.

³ ESMA 32-63-972 of 20 May 2020 "Implications of the COVID-19 outbreak on the half-yearly financial Reports".

⁴ In its "Statement on Importance of Disclosure about COVID-19" of 29 May, the International Organization of Securities Commissions (IOSCO) stresses the importance for investors of timely information on the impacts of COVID-19.

⁵ Consob Recommendation no. 8/2020 of 16 July 2020 "COVID 19 - A call for attention on financial reporting".

⁶ 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 shareholders' equity and the statement of cash flows are conventional indicators or in the commentary notes.

⁷ For the definition of these quantities, refer to the Glossary: www.snam.it/it/utilita/glossario/.



With regard to the impact of COVID-19 on the determination of alternative performance indicators, ESMA⁸ recommends caution in the use of separate items in the income statement with regard to the impacts of COVID-19 in order to ensure consistency in the determination of alternative performance indicators, and not to affect the comprehensibility of a company's financial performance if new indicators are not adequately justified.

In accordance with these recommendations, also due to the limited impact of COVID-19 on its results, Snam has not changed the Non-GAAP financial disclosure provided previously, simply isolating emerging costs directly related to the current pandemic situation as income components classified under special items, as illustrated below.

EBITDA, EBIT and adjusted net profit

EBITDA, EBIT and adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the legal scheme of the Income Statement.

The income statement items classified as special items in the first half of 2020 include 9 million euros in costs incurred as a result of the emergency caused by the COVID-19 pandemic (6 million euros net of related taxes), broken down as follows: (i) donations of medical equipment (5 million euros) and money (2 million euros), also through the Fondazione Snam, in favour of the Italian health system and the third sector; (ii) purchases of personal protective equipment for internal use (1 million euros); costs for services (1 million euros), mainly related to workplace sanitisation and security.

No special items were recognised in the first half of 2019.

Special items

The income components are classified under special items, if significant, 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.

⁸ For more information see ESMA document 32-51-370 "ESMA Guidelines on Alternative Performance Measures (APMs)" of 17 April 2020, Q&A no. 18.

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