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Informazione Regolamentata n. 0542-87-2020	Data/Ora Ricezione 05 Novembre 2020 08:00:52	MTA
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Societa' : SNAM SPA

Identificativo : 138815

Informazione
Regolamentata

Nome utilizzatore : SNAMN04 - Palladino

Tipologia : 2.2

Data/Ora Ricezione : 05 Novembre 2020 08:00:52

Data/Ora Inizio : 05 Novembre 2020 08:00:53

Diffusione presunta

Oggetto : Snam: results for the first nine months in line with 2019; increased investments, both total and including SnamTec, despite impact of COVID-19

Testo del comunicato

Vedi allegato.



Snam: results for the first nine months in line with 2019; increased investments, both total and including SnamTec, despite impact of COVID-19

- **Total revenue:** Euro 2,032 million (+3.9% compared to the first nine months of 2019);
- **Adjusted gross operating margin (adjusted EBITDA):** Euro 1,670 million (+0.5% compared to the first nine months of 2019);
- **Adjusted net profit:** Euro 873 million (+0.7% compared to the first nine months of 2019, also thanks to measures taken to optimise the financial structure);
- **Technical investments:** Euro 762 million (+17.2%), of which Euro 185 million of SnamTec investments for innovation and energy transition (Euro +112 million compared to the first nine months of 2019, despite the slowdown caused by COVID-19);
- **Net financial debt:** Euro 12,805 million (Euro 11,923 million at 31 December 2019), also following acquisitions in the period, in addition to the dividend payment and the share buyback;
- **Hydrogen:** agreements signed with FS Italiane (the Italian State Railway) to develop and spread hydrogen-powered rail transport in Italy and with British company ITM Power for commercial and technology partnership on green hydrogen and the simultaneous entry of Snam as a shareholder;
- **Energy transition:** acquisitions of 70% of Miecì and Evolve (energy efficiency) and 50% of Iniziative Biometano (agricultural biomethane) were finalised;
- **Rating:** S&P affirmed long-term rating at BBB+, revising the outlook from negative to stable;
- **Interim dividend for 2020:** Euro 0.0998 per share.

San Donato Milanese (MI), 5 November 2020 - At its meeting yesterday, chaired by Nicola Bedin, the Snam Board of Directors approved the consolidated results for the first nine months of 2020 (unaudited). The Board also approved the distribution of an interim dividend for 2020 of Euro 0.0998 per share, with payment from 20 January 2021.

Marco Alverà, Snam's CEO, commented as follows:

"Our results for the first nine months of 2020, despite the context of great uncertainty caused by the pandemic, are in line with those of the previous year thanks to the solidity of the core business, the growing contribution of new activities in the energy transition and the actions of cost containment.

We are increasingly strong in the energy transition thanks to acquisitions in biomethane and in public and private energy efficiency in Italy, and through the launch of our first green hydrogen initiative with ITM Power. We have increased investments compared to 2019 and have quickly recovered the delays in works thanks to the commitment of all our people, continuing to guarantee the essential energy security service in all the areas in



which we operate. At the same time, growth in new markets has continued, in particular with the entry into the networks of the United Arab Emirates.

We continue to work to make Snam an ever more leading player in the energy transition, more international and close to all its stakeholders”.

Summary of results for the first nine months of 2020

Highlight

(€ million)	First nine months		Change	Change %
	2019	2020		
Regulated revenue (a)	1,880	1,910	30	1.6
New business revenues	55	102	47	85.5
Total revenue	1,955	2,032	77	3.9
Operating costs (a) (b)	294	362	68	23.1
EBITDA (a) (b)	1,661	1,670	9	0.5
EBIT (a) (b)	1,125	1,105	(20)	(1.8)
Net profit (b) (c)	867	873	6	0.7

(a) Starting from 2020, energy costs related to gas for self-consumption, grid losses and unaccounted for gas (GNC), previously addressed in kind, are recognised in monetary terms.

(b) The 2020 values are shown in the adjusted configuration, net of the emerging costs borne following the emergency caused by the COVID-19 pandemic (Euro 11 million overall; Euro 8 million net of the related taxes), mainly related to donations of medical equipment and money, purchases of personal protective equipment for internal use, as well as costs for services mainly related to workplace sanitisation and security. For the reconciliation of the reported data with the adjusted data, please refer to pages 13-14 of this press release.

(c) Entirely held by Snam shareholders.

Total revenue

Total revenue¹ amounted to Euro 2,032 million, an increase of Euro 77 million (+3.9%) compared with the first nine months of 2019.

Regulated revenue amounted to Euro 1,910 million, up Euro 30 million or 1.6%, thanks in particular to the contribution of the transport business segment. Net of the effects deriving from the total coverage of energy costs, regulated revenues amounted to Euro 1,858 million, down by Euro 22 million or 1.2%. The higher revenues, mainly due to rate updating mechanisms and, in particular, to the increase in RAB, were absorbed from the

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 (Euro 39 million in the first nine months of 2020). Consistently, the corresponding figures for the first nine months of 2019 (Euro 45 million) have been restated.



reduction in volumes transported as a result of the health emergency by COVID-19 as well as the milder climate compared with 2019.

Revenues from new businesses increased by Euro 47 million compared to the first nine months of 2019 (+85.5%), thanks to increased biogas and biomethane plant orders from the subsidiary IES Biogas, the companies that joined the scope of consolidation at the end of 2019, the start of activities in energy efficiency in the residential sector and sales of compressors for sustainable mobility.

Adjusted gross operating margin (adjusted EBITDA)

Adjusted gross operating margin for the first nine months of 2020 amounted to Euro 1,670 million, an increase of Euro 9 million, or 0.5%, compared to the corresponding amount reported in 2019. The positive contribution of the new businesses in the energy transition, equal to over Euro 5 million, as well as the tariff recognition of the energy costs starting from 1 January 2020 and cost reduction actions implemented as a result of the ongoing health crisis, have more than offset the decrease in regulated revenue following the lower volumes transported.

Adjusted operating profit (EBIT) (adjusted EBIT)

Adjusted operating profit for the first nine months of 2020 amounted to Euro 1,105 million, down Euro 20 million (-1.8%) compared with the corresponding figure reported for 2019, mainly due to the expected increase in amortisation and depreciation (Euro -29 million, or 5.4%), resulting from the entry into service of new assets.

Net financial expenses

Net financial expenses amounted to Euro 100 million, a decrease of Euro 26 million or 20.6% compared with the first nine months of 2019. The decrease is mainly due to the optimisation of the financial structure and treasury management, with a gross debt cost of 0.9%, despite the higher average financial debt for the period, influenced by additional equity investments, as well as the dividend payment to shareholders and share buyback activities. The reduction in net financial expenses was also affected by the pro-rata contribution from the OLT Shareholder Loan.

Net income from equity investments

Net income from equity investments amounted to Euro 163 million, a fall of Euro 7 million or 4.1% compared with the first nine months of 2019, following the lower contribution of the subsidiary Teréga, which in the first nine months of last year benefited from non-recurring income, and Interconnector UK which, in line with forecasts, had lower capacity commitments compared to the same period last year. These effects were partly offset by the higher contribution from the subsidiary TAG, following rate updating mechanisms, related to the change in regulatory period, as well as the contribution from ADNOC Gas Pipelines, an interest acquired in July 2020.



Adjusted net profit

Adjusted net profit in the first nine months of 2020 amounted to Euro 873 million, an increase of Euro 6 million or 0.7% compared with the net profit achieved in the first nine months of 2019 (Euro 867 million), thanks to the optimisation of the financial structure and the solid contribution of the associates, as well as the reduction in income taxes following the reintroduction of the ACE benefit².

Technical investments

Technical investments in the first nine months of 2020 totalled Euro 762 million (Euro 650 million in the first nine months of 2019), an increase of Euro 112 million or 17.2% despite the slowdown caused by COVID-19. The investments related mainly to natural gas transportation (Euro 634 million compared with Euro 556 million in the first nine months of 2019) and storage (Euro 91 million compared with Euro 77 million in the first nine months of 2019) segments. On the basis of the information available to date, a substantial recovery of the delays compared to the investments planned for 2020 is expected by the end of the year.

Cash flow

Net cash flow from operating activities (Euro 1,335 million) allowed Snam to entirely cover the net technical investments for the period (net of payables for investments) of Euro 786 million and the disbursements related to the acquisition of jointly controlled interest in OLT (Euro 335 million, including ancillary charges related to the interest acquisition; Euro 307 million net of redemptions for the period) and Iniziative Biometano (Euro 9 million) as well as to the acquisition of the stake in ADNOC Gas Pipelines (Euro 221 million, including ancillary charges), generating a Free Cash Flow of Euro 10 million. Net financial debt at 30 September 2020 totalled Euro 12,805 million, recording an increase of Euro 882 million compared with 31 December 2019, including the non-monetary components, due mostly to the payment to shareholders of the 2019 dividend and the purchase of treasury shares (Euro 893 million in total).

Interim dividend

On the basis of the results for the first nine months and the forecasts for the full year 2020, Snam's Board of Directors approved the distribution to shareholders of an interim dividend for 2020 equal to Euro 0.0998 per share with payment from 20 January 2021, with an ex-dividend date of 18 January and a record date of 19 January.

² ACE – Aid to economic Growth benefit, 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 revoked by the 2019 Budget Law and reintroduced by the 2020 Budget Law with a reduced rate from 1.5% to 1.3%.



Outlook

In Italy, by Decree of the Presidency of the Council of Ministers (DPCM) of 23 February 2020 and subsequent amendments, national measures were introduced to mitigate the spread of COVID-19, including restrictions on production activities, travel and socialising. Snam, which has taken protective measures since last 21 February, has actioned all the necessary steps to ensure the safety of its people, both in compliance with the government's restrictions and by taking further precautions.

From the very early days, Snam secured its control rooms, plants and territorial offices to guarantee the country's normal operations and energy security. Specifically, the dispatching centre at San Donato Milanese, the heart of Snam's infrastructure, is continuing as normal, due to the installation of dedicated accommodation and the implementation of a new shift system.

Physical presence has been reduced to a minimum. As far as construction sites and plants are concerned, all appropriate precautionary measures have been taken.

Starting from April, activities at the construction sites have gradually resumed and nearly all work has been progressively restarted.

Following a slowdown in the summer months, the new infections curve has begun to rise again in several countries, particularly across Europe.

The Company is therefore not currently able to reliably calculate the impact of COVID-19 on the targets for 2020 and future years.

However, based on the information available today, the Company expects a limited impact compared to its 2020 targets. Any further future impact on the Group's economic/financial performance and balance sheet, as well as on business development plans, will be assessed in light of the evolution and duration of the pandemic.

In the first nine months of the year, demand for natural gas in Italy totalled 49.77 billion cubic metres, or 8.5% less (-4.59 billion cubic metres) than in the same period last year. In addition to milder temperatures compared to the same period of the previous year, the decrease is due to the effects on consumption deriving from the restrictions in the March-April period and from industrial production's gradual return to fully operational in the May-September period. It should be noted that, based on the current regulatory framework, the maximum annual impact to Snam is estimated to be a reduction in revenues of approximately Euro 9 million 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 Euro 60 million compared with the 2016 cost base.

As far as the financial structure is concerned, the optimisation carried out in recent years has resulted in a significant decrease in the average cost of gross debt (0.9% in the first nine months of the year, compared to 1.1% in the same period last year), and the risk management activities implemented limit the risk that a potential worsening of the market scenario will have a negative impact on the Group's financial management.



The company's management will continue to guarantee an attractive and sustainable remuneration for shareholders, whilst maintaining a balanced financial structure.

Significant events

- **Hydrogen**

Snam signed a partnership agreement with British company ITM Power, one of the largest global manufacturers of electrolysers, for the start of a commercial and technological collaboration for future joint development initiatives and the simultaneous entry of Snam into the shareholders' structure of ITM Power Plc with a minority interest and an investment of GBP 30 million (approximately Euro 33 million), as part of the capital increase announced on the same date.

With this agreement, Snam will have the opportunity to acquire technical expertise from a leading company in a crucial turning point for green hydrogen development. Snam's global presence will also act as a driving force for ITM Power's development, thanks to the commercial alliance for the possible development of projects in the period 2021-2025.

As part of the recent initiatives in support of hydrogen development, Snam also signed a Memorandum of Understanding with FS Italiana to assess the technical and economic feasibility and new business models linked to the development and spread of hydrogen-powered rail transport in Italy.

The agreement envisages the undertaking of analyses and feasibility studies and the development of joint projects on railway lines that can be converted to hydrogen throughout Italy. In particular, FS Italiana and Snam will create a working group to assess possible pilot projects that envisage the replacement of fossil fuels with hydrogen.

- **Energy transition acquisitions**

Concluded respectively: (i) on 30 September 2020, through its subsidiary Snam4Environment, the acquisition from Femogas S.p.A. of a 50% stake in the share capital with joint control rights of Iniziative Biometano S.p.A., a company operating in Italy in the management of biogas and biomethane plants fed with biomass of agricultural origin. The acquisition allows Snam to enter the field of biomethane for agricultural production, whose development is expected to make the most significant contribution to the development of biomethane as a strategic source for the energy transition and the circular economy in Italy; (ii) on 5 October, through its subsidiary Snam4Efficiency, the acquisition of 70% with control rights, of two companies active in the energy efficiency sector in Italy, Miecì S.p.A. and Evolve S.r.l. The transaction enables Snam to achieve structural development of its portfolio of activities and a consequent substantial improvement in its competitive positioning in this business.



- **S&P rating**

On 27 October 2020, the agency S&P affirmed the company's current long-term rating at BBB+, revising the outlook from negative to stable.

The valuation reflects the similar action on the outlook of Italy's sovereign rating (BBB with an outlook ranging from negative to stable) announced on 23 October. Snam's short-term rating is confirmed at A-2. The rating agency continues to value Snam's stand-alone credit profile (SACP) at "a-".

This valuation recognises the company's leadership in gas infrastructure and the energy transition, in addition to the stable and predictable cash flow generation from regulated activities in Italy.

- **Renewal of EMTN and ECP programmes**

On 12 October 2020, Snam's Board of Directors approved the annual renewal of the EMTN (Euro Medium Term Notes) Programme launched in 2012, to be carried out by 12 October 2021 for a maximum total value of Euro 11 billion. As part of the EMTN Programme, at the date of this press release, bonds have been issued for approximately Euro 7.8 billion³, net of the Euro 500 million bond repaid on 26 October 2020.

The same Board also approved the renewal of the Euro Commercial Paper (ECP) Programme launched in 2018 and the issue of one or more Euro Commercial Papers within the deadline of 3 years from 12 October 2020, which may be associated with ESG indicators defined during the Strategic Plan in November 2020. In addition, the Board approved an extension of the maximum amount of the ECP Programme from Euro 2 billion up to Euro 2.5 billion, to be placed with institutional investors according to the terms and procedures of the ECP Programme. To date, as part of the ECP Programme, the amount of commercial paper issued totals Euro 2 billion.

- **COVID-19 health emergency**

Snam, also through the Snam Foundation, has decided to donate Euro 20 million to support the Italian health system and the third sector in the fight against the COVID-19 emergency.

Furthermore, the "Diamo forma al futuro" ("Shaping the future") fund-raising campaign, promoted by Snam employees, was launched. As part of this initiative, to which the Chief Executive Officer Marco Alverà also contributed, over 10% of managers decided to reduce their GAC, for the period May-December, by percentages ranging from 5% to 25%. The total amount collected will be doubled by Snam, for a total amount of over Euro 800,000, and will then be donated to parties involved in the health emergency and identified together with the Snam Foundation. Transfers

³ The convertible bond with nominal amount of Euro 400 million is not part of the EMTN Programme.



of over Euro 200,000 were also made to external entities, doubled by the company. In addition, more than 250 days of annual leave were donated to third parties and employees in difficulty and 4,000 hours of work, thanks to the generosity of over 1,200 employees.

A conference call will take place at 14:00 CET today, 5 November 2020, to present the consolidated results for the first nine months 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 nine months		Change	Change %
		2019	2020		
Natural gas injected into the National Gas Transportation Network (a) (b)	(billion m ³)	58.43	53.13	(5.30)	(9.1)
Gas demand (a)	(billion m ³)	54.36	49.77	(4.59)	(8.5)
LNG regasification (a)	(billion m ³)	2.03	2.14	0.11	5.4
Available storage capacity (a) (c)	(billion m ³)	12.5	12.5		
Natural gas moved through the storage system (a)	(billion m ³)	15.8	15.3	(0.5)	(3.1)
Employees in service at the period end (d)	(number)	3,006	3,080	74	2.5

- (a) With regard to the first nine months 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 39.3 MJ/SCM (10.893 kWh/SCM) natural gas storage for the 2020-2021 thermal year.
- (b) The figures for the first nine months of 2020 were updated on 12 October 2020. The 2019 values have been updated definitively and are aligned with those published by the Ministry of Economic Development.
- (c) Working gas capacity for modulation, mining and balancing services, allocated in full at 30 September 2020.
- (d) Fully consolidated companies.

Natural gas injected into the National Transportation Network

The volumes of gas injected into the network during the first nine months of 2020 totalled 53.13 billion cubic metres, down by 5.30 billion cubic metres, or 9.1%, compared to the corresponding figure for the first nine months of 2019 (58.43 billion cubic metres), essentially as a result of the significant drop in demand for natural gas in Italy (49.77 billion cubic metres; -4.59 billion cubic metres; -8.5%) recorded in all consumption sectors. In particular, the contraction in gas demand is attributable: (i) to the lesser consumption in the residential and tertiary sector (-1.84 billion cubic metres; -9.6%) compared to milder temperatures in the corresponding period of 2019 and the gradual increase in energy efficiency enhancing measures; (ii) to the lesser consumption in the thermoelectric sector (-1.59 billion cubic metres; -7.8%), as a result of the reduction in demand for electricity caused by lockdown measures to contain COVID-19 as of March, as well as the increase in production from hydroelectric and photovoltaic plants, partly offset by a substantial drop in electricity import flows.

The reduction in demand for natural gas was also affected by lesser consumption in the industrial sector (-1.11 billion cubic metres; -8.6%), affected by a 15.5% reduction in the industrial production index in the period January-August compared to 2019, intensified by the closure of various production activities following the lockdown (March-April) and then by the slow recovery of industrial production that has not yet returned to pre-COVID levels.



Adjusted for the weather effect, gas demand was 50.10 billion cubic metres, down by 3.53 billion cubic metres or 6.6% compared with the same figure in the first nine months of 2019 (53.63 billion cubic metres), also following the greater use of energy efficiency enhancing measures by the residential and tertiary sectors.

Liquefied Natural Gas (LNG) regasification

During the first nine months of 2020, 2.14 billion cubic metres of LNG (2.03 billion cubic metres in the first nine months of 2019) were regasified and 51 methane tankers were unloaded (49 in the corresponding period of 2019), in line with the number of unloadings conferred.

Natural gas storage

The storage capacity available as of 30 September 2020, which was unchanged compared with 31 December 2019, is the most extensive capacity in Europe and was allocated in full for the 2020-2021 thermal year. The volumes of gas moved through the storage system in the first nine months of 2020 amounted to 15.3 billion cubic metres, a slight decrease compared to the volumes moved in the first nine months of 2019 (-0.5 billion cubic metres; -3.1%), essentially as a result of the lower injections in the storage plants.

Analysis of the Reclassified Statement of Financial Position

Fixed capital

The fixed capital (Euro 20,137 million) increased by Euro 826 million compared to 31 December 2019, essentially as a result of: (i) the increase in long-term financial receivables (Euro +305 million) 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 (Euro 332 million; Euro 304 million net of subsequent repayments); (ii) the increase in equity investments (Euro +275 million) mainly following the acquisition of 49% of ADNOC Gas Pipelines, in consortium with five international funds, and the joint control of Iniziative Biometano, as well as the capital increase of TAP, which Snam is obliged to invest in, in proportion to the shareholding owned, by virtue of the agreements signed during the acquisition of the equity investment; (iii) the increase in tangible and intangible assets (Euro +246 million, including the trend in net payables related to investment activities).



Net financial debt

(€ million)	31.12.2019	30.09.2020	Change
Bonds	9,048	8,664	(384)
- of which short-term (*)	1,439	805	(634)
Bank loans	3,704	5,276	1,572
- of which short-term (*)	685	2,274	1,589
Euro Commercial Paper - ECP (**)	2,001	2,002	1
Financial payables for leased assets (***)	21	20	(1)
GROSS FINANCIAL DEBT	14,774	15,962	1,188
Cash and cash equivalents	(2,851)	(3,157)	(306)
NET FINANCIAL DEBT	11,923	12,805	882

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

(**) Entirely short term.

(***) Of which Euro 14 million long-term and Euro 6 million short- term portions of long- term financial payables.

The increase in net financial debt of Euro 882 million is due to the increase in bank loans (Euro +1,572 million) mainly as a result of the greater use of uncommitted lines of credit (Euro +1,047 million) and the underwriting of bank Term Loans for a total incremental nominal value of Euro 590 million. This effect was partly offset by: (i) the reduction in bonds (Euro -384 million), mainly due to repayments of loans due for a total nominal value of Euro 876 million, partly absorbed by the issue of the Transition Bond, for a nominal amount of Euro 500 million; (ii) higher cash and cash equivalents (Euro +306 million) relating essentially to short-term liquidity transactions.

This press release on the unaudited consolidated results of the first nine months of 2020, was prepared on a voluntary basis in accordance with the provisions of Article 82-ter "Additional periodic financial information" of the Consob Issuers' Regulation 11971 of 14 March 1999, as amended, in line with the quarterly information provided by Snam in the past and consistent with the minimum contents and time schedules of the Group's financial calendar.

Pursuant to Article 154-bis, paragraph 2 of the TUF, 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 contains forward-looking statements, specifically relating to: changes in demand for natural gas, investment plans and future management performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. The actual results may therefore differ from those forecasts as a result of several factors: foreseeable trends in natural gas demand, supply and price, general macroeconomic conditions, the effect of energy and environmental legislation, the successful development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.



RECLASSIFIED INCOME STATEMENT

	First nine months			2020 adjusted vs 2019	
	2019	2020	2020 adjusted vs 2019	Change	Change %
(€ million)	Reported	Reported	Adjusted (a)	Change	Change %
Core business revenues	1,900	1,930	1,930	30	1.6
Regulated revenues (b)	1,880	1,910	1,910	30	1.6
- Transportation (c)	1,489	1,519	1,519	30	2.0
- Storage (c)	377	374	374	(3)	(0.8)
- Regasification	14	17	17	3	21.4
Non-regulated revenue	20	20	20		
New business revenues	55	102	102	47	85.5
Total revenue (b)	1,955	2,032	2,032	77	3.9
Core business costs (b)	(239)	(276)	(265)	(26)	10.9
Fixed costs	(199)	(204)	(202)	(3)	1.5
Variable costs	(15)	(32)	(32)	(17)	113.3
Other costs	(25)	(40)	(31)	(6)	24.0
New business costs	(55)	(97)	(97)	(42)	76.4
Total operating costs (b)	(294)	(373)	(362)	(68)	23.1
Gross operating margin (EBITDA)	1,661	1,659	1,670	9	0.5
Amortisation, depreciation and impairment losses	(536)	(565)	(565)	(29)	5.4
Operating profit (EBIT)	1,125	1,094	1,105	(20)	(1.8)
Net financial expenses	(126)	(100)	(100)	26	(20.6)
Net income from equity investments	170	163	163	(7)	(4.1)
Profit before taxes	1,169	1,157	1,168	(1)	(0.1)
Income taxes	(302)	(292)	(295)	7	(2.3)
Net profit (d)	867	865	873	6	0.7

- (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 (Euro 39 million in the first nine months of 2020). Consistently, the corresponding figures for the first nine months of 2019 (Euro 45 million) 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 nine months of 2019 have been restated.
- (d) Entirely held by Snam shareholders.



Reconciled summary of adjusted results

(€ million)	First nine months			
	2019	2020	Change	Change %
Operating profit (EBIT)	1,125	1,094	(31)	(2.8)
Exclusion of special items for emerging COVID-19 costs:		11	11	
- of which donations		7	7	
- of which sanitary material for internal use		1	1	
- of which services		3	3	
Adjusted operating profit (EBIT) (adjusted EBIT)	1,125	1,105	(20)	(1.8)
Net profit (*)	867	865	(2)	(0.2)
Exclusion of special items for emerging COVID-19 costs net of related taxes		8	8	
Adjusted net profit (*)	867	873	6	0.7

(*) Entirely held by Snam shareholders.

Statement of comprehensive income

(€ million)	First nine months	
	2019	2020
Net profit (*)	867	865
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)	(67)	(17)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (**)	(40)	(31)
Tax effect	16	4
	(91)	(44)
Total other components of comprehensive income, net of tax effect	(91)	(44)
Total comprehensive income (*)	776	821
	776	821

(*) 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	30.09.2020	Change
Fixed capital	19,311	20,137	826
Property, plant and equipment	16,439	16,600	161
- of which rights of use of leased assets	21	20	(1)
Compulsory inventories	363	363	
Intangible fixed assets	990	1,045	55
Equity investments	1,828	2,103	275
Long-term financial receivables	3	308	305
Net payables for investments	(312)	(282)	30
Net working capital	(1,094)	(782)	312
Provisions for employee benefits	(46)	(40)	6
Assets held for sale	10		(10)
NET INVESTED CAPITAL	18,181	19,315	1,134
Shareholders' equity	6,258	6,510	252
- Held by Snam's shareholders	6,255	6,507	252
- Minority interests	3	3	
Net financial debt	11,923	12,805	882
- of which Financial payables for leased assets (*)	21	20	(1)
COVERAGE	18,181	19,315	1,134

(*) Of which Euro 14 million long-term and Euro 6 million short-term portions of long-term financial payables.



RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	First nine months	
	2019	2020
Net profit	867	865
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	363	403
- Net capital losses (capital gains) on asset sales and write-offs	3	1
- Dividends, interest and income taxes	408	371
Change in working capital due to operating activities	(297)	(123)
Dividends, interest and income taxes collected (paid)	(191)	(182)
Net cash flow from operating activities	1,153	1,335
Technical investments	(640)	(761)
Technical divestments	1	1
Equity investments	(5)	(235)
Change in long-term financial receivables		(304)
Other changes relating to investment activities	(59)	(26)
Free cash flow	450	10
Repayment of financial payables for leased assets	(4)	(5)
Change in short- and long-term financial payables	2,072	1,194
Equity cash flow (a)	(743)	(893)
Net cash flow for the period	1,775	306

CHANGE IN NET FINANCIAL DEBT

(€ million)	First nine months	
	2019	2020
Free cash flow	450	10
Exchange rate differences on financial debt	(6)	
Change in financial payables for leased assets	(24)	(4)
Equity cash flow (a)	(743)	(893)
Other non-monetary changes		5
Change in net financial debt	(323)	(882)

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



Methodology notes

The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. The recognition and measurement criteria adopted for the preparation of the results for the first nine months of 2020 are the same as those used to compile the 2019 Annual Report and the 2020 Half Year Financial Report, which should be referred to for a description of these criteria.

There were no changes in the Snam Group's scope of consolidation at 30 September 2020 with respect to the one in place at 31 December 2019.

Given their size, amounts are expressed in Euro million.

Non-GAAP measures

In addition to the financial parameters required by the IFRS, as part of its management disclosure Snam is presenting some parameters resulting from the latter, not yet required by the IFRS or by other standard setters (non-GAAP measures).

Snam's management believes that these measures facilitate the analysis of the performance of the Group and its business segments, ensuring that it is easier to compare the results over a period of time and to enable financial analysts to evaluate Snam's results based on their forecast models.

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 indicators⁴ and compliant with international accounting standards.

With regard to the impact of COVID-19 on the determination of alternative performance indicators, ESMA⁵ 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

⁴ According to the CESR/05-178b recommendation of October 2005, conventional indicators are all data included in the certified financial statements drafted in compliance with IFRS or within the Income Statement, Statement of Financial Position and Statement of Cash Flows.

⁵ For more information see ESMA document 32-51-370 "ESMA Guidelines on Alternative Performance Measures (APMs)" of 17 April 2020, Q&A no. 18.



comprehensibility of a company's financial performance through new indicators if 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.

Gross operating margin, operating profit and adjusted net profit

Gross operating margin, operating profit 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 nine months of 2020 include Euro 11 million in costs incurred as a result of the emergency caused by the COVID-19 pandemic (Euro 8 million net of related taxes), broken down as follows: (i) donations of medical equipment (Euro 5 million) and money (Euro 2 million), also through the Snam Foundation, in favour of the Italian health system and the third sector; (ii) purchases of personal protective equipment for internal use (Euro 1 million); costs for services (Euro 3 million), mainly related to workplace sanitisation and security.

No special items were recognised in the first nine months 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.

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