

# Directors' report - Integrated Report



# Directors' report summary

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# Reading guide

The contents of the Report on operations, which constitutes the **Integrated Report of Snam** (hereinafter also Report on Integrated Management), are presented following the indications of the Framework proposed by the IIRC (International Integrated Reporting Council). The objective of the document 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 management 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

## References in the integrated report to value creation

Time frames and dynamics	Value-creation methods	Main operating activities	Report references
<p>In the short-term, Snam creates value by pursuing its business in the manner established by the rules and procedures, with particular focus on risk management and operational efficiency. The main point of reference is the <b>annual budget</b></p>	Maintaining the efficiency and availability of the network and providing a quality service without interruptions	<ul style="list-style-type: none"> <li>- Executing the scheduled works</li> <li>- Maintenance</li> <li>- Controls and inspections</li> <li>- Compliance with the network codes</li> </ul>	<p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Business segment operating performance</p>
	Preventing and mitigating risks and detrimental outside forces	<ul style="list-style-type: none"> <li>- Managing financial risks</li> <li>- Managing operating risks</li> <li>- Managing foreign partnership portfolios</li> <li>- Managing crises</li> <li>- Preventing accidents</li> <li>- Mitigating environmental impact</li> <li>- Reorganising processes and activities</li> </ul>	<p>Elements of risk and uncertainty</p> <p>Elements of risk and uncertainty</p> <p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Other operating impacts and results</p> <p>Other operating impacts and results</p> <p>Business model and sustainable development</p>
<p>In the medium term, the ability to carry out investment programmes, thereby ensuring a flow of resources and that favourable economic conditions are maintained, is also important. The main point of reference is the <b>Business Plan</b>, which covers a period of up to <b>5 years</b></p>	Maintaining the flow of investments	<ul style="list-style-type: none"> <li>- Investment planning</li> <li>- Obtaining financial resources on the market</li> <li>- Permissions</li> <li>- Implementation of CNG, biomethane projects</li> </ul>	<p>Snam in 2018 - Summary data and information</p> <p>Snam in 2018 - Summary data and information</p> <p>Business segment operating performance</p> <p>Business model and sustainable development</p>
	Maintain, develop and transform human and relational capital to develop the business	<ul style="list-style-type: none"> <li>- Relationships with Authorities</li> <li>- Managing the supply chain in relation to the development of construction sites</li> <li>- Developing roles and capabilities</li> <li>- Managing relations with local communities</li> <li>- Partnerships related to new business</li> </ul>	<p>Business segment operating performance</p> <p>Snam in 2018 - Summary data and information</p> <p>Other operating impacts and results</p> <p>Other operating impacts and results</p> <p>Business model and sustainable development</p>
<p>In the long term, it is vital that the investment decisions and strategic choices made have interpreted trends in the best way possible. The main point of reference is the <b>infrastructure development plan</b> submitted to the Authority, which covers a period of <b>10 years</b>.</p>	Develop strategic directions and business development plans consistent with the reference scenarios	<ul style="list-style-type: none"> <li>- Planning infrastructure development</li> <li>- The 2019-2022 Business Plan</li> <li>- Creating sustainable value: the Snam business model</li> </ul>	<p>Snam in 2018 - Summary data and information</p> <p>Business model and sustainable development</p> <p>Business model and sustainable development</p>

# Letter to shareholders and stakeholders



**Carlo Malacarne**  
Chairman



**Marco Alverà**  
Chief Executive Officer

## To our Shareholders and Stakeholders,

2018 was a particularly good year for Snam, not only in terms of the results obtained, which went beyond expectations, but also for the new initiatives launched that take the company into an increasingly innovative zone, leading the energy transition and paying close attention to the people and communities in which it operates.

In March 2018, we launched the new brand identity. "Energy to inspire the world" is the message around which Snam's strategic repositioning is hinged, in an increasingly global market that is characterised by the transformation of energy and environmental scenarios.

In this context, the central role played by our energy infrastructures is confirmed, also in terms of the greater imports into Europe, the new uses of natural gas and the growing awareness of the essential role played by gas infrastructures within the energy transition.

In 2018, we consolidated our regulated business, also through the completion of the acquisition, through a European consortium, of DESFA, the Greek national natural gas infrastructures operator. This operation is strategic to the development of the southern corridor, for the diversification of gas sources and routes.

In 2018, we also launched new businesses aimed at fostering decarbonisation, allowing Snam to play a key role in the energy transition.

Snam has acquired control over IES Biogas, a leading Italian company in the development of biogas and biomethane plants, and of Enersi Sicilia, the company authorised to develop an infrastructure for the production of biomethane from municipal solid waste in the province of Caltanissetta, which will supply the surrounding municipalities with an all-renewable solution

to the disposal problem. Biomethane will be increasingly important in Italy and Europe, as a renewable source that is highly sustainable in economic terms, able to use existing transmission and storage infrastructures.

The investment in the biomethane segment adds to those made in sustainable mobility, in particular, with the acquisition of Cubogas, leader in technological solutions for natural gas vehicle refuelling stations. In total, as at 31 December 2018, 50 CNG/L-CNG, biomethane and bio LNG refuelling stations had been contracted (of which 34 with ENI). A framework agreement has been stipulated with the API Group, for the development of around 200 new natural gas and biomethane refuelling plants. The promotion of natural gas and renewable sources in the automotive segment also underlies the strategic agreement stipulated with SEAT in November.

We have invested in the energy efficiency segment with the acquisition of control over TEP Energy Solution, one of the main Italian ESCOs, whose mission is to make its clients more competitive through the reduction of energy spending.

Studies on power-to-gas technology and hydrogen, including the HYREADY project, supplement and enhance the development of new businesses.

This is the Snam of the future - Snamtec - Tomorrow's energy company - high-tech leader in renewable sources, which is increasingly inter-connected with the territory. Snamtec includes investments dedicated to these matters worth more than 850 million euro during the 2019-2022 plan.

To become leaders in a rapidly changing world, we seek to operate in an increasingly agile and efficient manner,

to optimise transversal processes whilst enhancing specific skills. It is in these terms that we have focussed on an agile organisational model that, thanks to a shorter decision-making chain, with one less hierarchical level, guarantees quicker decision-making.

The Snam Institute has also been established, with three key goals: to cultivate the technical know-how of Snam, accrued in almost 80 years of experience, causing it to grow over time, to develop managerial skills and to foster an organisational culture that is open to change and business innovation.

As part of the efficiency plan launched during the second half of 2016, we have simplified the processes and organisation, for example through the integration of maintenance, transmission and storage activities. This plan has made it possible to improve quality and time-to-market and to cut costs by around 17 million euro (36 million euro cumulatively for the period 2016-2018). Overall, the efficiency plans' target has been raised further to more than 60 million euro in 2022.

As regards the services dedicated to international operators in the gas segment, Snam Global Solutions is gradually expanding its contracts portfolio, supporting the group development strategy and capitalising on our know-how abroad.

In July, upon completion of an international tender called by Albgaz, the Albanian gas market infrastructural operator, for the selection of a qualified partner, an equity investment was established that will provide the services connected with the operation and maintenance (O&M) of the Albanian stretch of the TAP gas pipeline and which opens up the future to further potential technical collaborations for the development of the local gas market.

In the second half of 2018, a Memorandum of Understanding was signed with State Grid International Development, a 100% subsidiary of SGCC, and with the Beijing Gas Group, to investigate collaboration opportunities in China in the biogas and biomethane segments, for R&D and plants development, sustainable mobility and storage.

In a context of rising gas consumption (net of climate effects and the availability of the French nuclear power stations), 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 businesses, we have achieved very positive results that surpass our expectations. The operating profit in the adjusted configuration comes to 1,405 million euro, up 42 million euro (+3.1%) on the corresponding figure of 2017, also thanks to savings obtained with the Efficiency Plan, which made it partly possible to absorb the increase in operating costs, mainly due to the change in the consolidation scope. The adjusted net profit totalled 1,010 million euro, up by 70 million euro (+7.4%) compared to the adjusted net profit of 2017. The net cash flow from operations (1,826 million euro) allowed us to entirely finance net investments for the period, including equity investments. This flow and the collection deriving from the repayment by TAP of the shareholders' loan (371 million euro, net of the portions disbursed by Snam during the year), have made it possible to generate free cash flow of 1,161 million euro. Net financial debt, after payment to shareholders of the 2017 dividend (731 million euro in balance and interim), and cash flow deriving from the purchase of treasury shares (426 million euro) stands at 11,548 million euro, in line with the figure recorded as at 31 December 2017 (11,550 million euro).

As confirmation of the importance attributed to sustainability, we have finalised the transformation into a sustainable loan of the 3.2 billion euro in syndicate credit facilities with a bonus/malus mechanism on margins paid, linked to the achievement of specific ESG - Environment, Social and Governance - KPIs and published the Climate Action Bond Framework, which defines the criteria for the future issue of bonds aimed at financing investments in environmental sustainability. In December 2018, we successfully completed the buy-back on the bond market, for a total nominal value of approximately 538 million euro, partly financed through a new bond issue at more advantageous conditions.

This transaction shall enable Snam to continue along the virtuous path of optimisation of its debt structure in terms of reducing the cost, extending average maturity and reducing refinancing risk. In addition to this, with the aim of further optimising and supporting the total remuneration of shareholders, as part of the share buy-back programme, in 2018 we bought back a total of 113,881,762 treasury shares, equal to 3.28% of the share capital.

In line with the provisions of the strategic plan, and with a view to improving the competitiveness and security of gas procurement, in 2018 we invested 882 million euro in infrastructures in Italy and 205 million euro in equity investments, including the acquisition of the stake in DESFA and investments in TAP, the company that will be carrying the natural gas from the Caspian Sea into Europe.

The commitment to ESG topics, now integrated for some years into the strategic decision-making process, also continues. The validity of the actions set and the performance that followed, have enabled us to be included in numerous sustainability indices, including some of the most prestigious, like the Dow Jones Sustainability World Index and the FTSE4Good, as well as to come in high up in the ESG ratings of MSCI, Sustainalytics and Vigeo.

Snam's governance aims to guarantee efficiency and transparency in its business operations. With the 2018 renewal of the partnership with Transparency International, Snam sought to confirm its commitment to the fight against corruption and also re-confirm, both nationally and internationally, its best practices in terms of business ethics and transparency.

In terms of the safety of employees and contract workers, a reduction has been recorded in both the frequency and severity accident index, as further evidence of Snam's constant commitment toward developing and promoting the protection of health and safety at work, not only within the company but also in respect of its suppliers.

We continue to operate paying close attention to the environment and the territory and with increasing awareness of climate change aspects. The Company has set itself a target of reducing its natural gas emissions by 25% by 2025, with reference to 2016 values. In line with this objective, this year's results recorded a reduction in natural gas emissions of 7.9% on 2016.

In these terms, September 2018 saw Snam also adhere to the Task Force on Climate Related Financial Disclosure (TCFD). 2018 was also an important year for the Snam Foundation, which celebrated its first birthday. With new projects and initiatives, the Foundation is now entering full operation. This represents another lever to cultivate closer relations with the territory and better respond to the needs of the communities that host our infrastructures.

In looking to the future, the new strategic plan announced last November marks out a route that will allow Snam to continue to grow and create significant value for shareholders, making the most and staying one step ahead of market evolutions and helping reduce CO<sub>2</sub> emissions, improve air quality and limit energy costs. More specifically, we aim to promote the development in Italy and elsewhere, not only of biomethane but also of all other activities involved in the energy transition.

With the new investments made in the network, the focus on new technologies, the development of new businesses and sustainable finance initiatives, 2022 Snam will be increasingly innovative, efficient and take a leading role in the energy transition in Italy and throughout Europe.

On the basis of the results achieved and the Company's prospects, the Board of Directors intends to propose that the Shareholders' Meeting approve the distribution of a dividend of 0.2263 euros per share, of which 0.0905 euros per share has already been distributed as an advance in January 2019, to confirm Snam's commitment to ensuring attractive and sustainable compensation for shareholders over time.

18 February 2019  
for the Board of Directors

**The Chairman**

**The Chief Executive Officer**

# Highlights

## Financial



### Total revenue

**2,528** million euro

+87 million euro (+3.6%)

### Free cash flow

**+1,161** million euro

### Adjusted results

Adjusted EBIT

**+42** million euro (+3.1%)

Adjusted net profit

**+70** million euro (+7.4%)

Reported net profit

**960** million euro

+63 million euro (+7.0%)

### Supported the strategy with Technical investments

for **882** million euro

and equity investments

for **205** million euro

### Acquired in 2018

**113,881,762** Snam shares

for a total cost

of 426 million euro

### Proposed dividend

**0.2263** euro per share

## Operating



### Gas injected in the national network

**72.82** billion cubic metres

### Gas Demand

**72.66** billion cubic metres

### Storage capacity conferred

**12.4** billion cubic metres (+0.2 billion)

99.7% of available capacity

## Sustainability



### New natural gas emissions target

**-25% in 2025** vs 2016

### Natural gas emissions

**-7.9%** on 2016

### Number of employee and contract worker injuries

**-36%** on 2017

### Hours of training provided

**107,771**

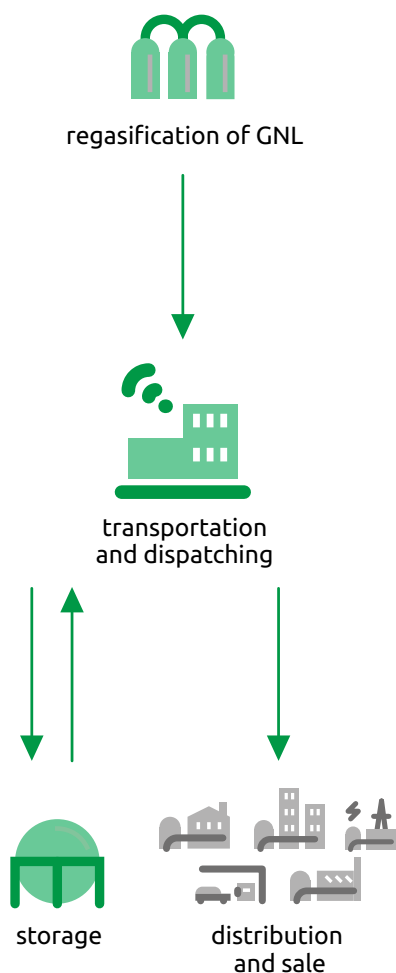
+26% on 2017

# Snam Profile



## NFS Summary

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



Snam is Europe's top operator in the implementation and integrated management of natural gas infrastructure. With approximately 3,000 employees, it conducts regulated gas segment activities in Italy and is a leading European operator in terms of regulatory asset base (RAB). Snam operates in and assures the integrated, efficient management of the transmission, dispatch and storage of natural gas, as well as the regasification of liquefied natural gas (LNG).

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. Snam also offers engineering and technical-operational services for gas operators in national and international markets.

Snam's business is mainly focused on regulated activities and is capital intensive. 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 to **provide its shareholders with attractive and sustainable returns**, while ensuring that it provides its services to all operators in a non-discriminatory manner and with the **highest standards of quality and safety**.

The company actively promotes **the use of natural gas as a flexible, low environmental-impact energy source** in the classic industrial and residential sectors, as well as in generation and transport. In recent years, Snam has launched numerous projects aimed at assuring the promotion of a more sustainable, efficient energy system, developing initiatives and interventions under the scope of energy efficiency, compressed natural gas (CNG), biomethane and liquefied natural gas (LNG).

To fulfil its role as an integrated gas player in an effective, efficient manner, Snam has redesigned its organisational structure towards a "One company" divided into business units and staff functions, renewed with a view to simplifying processes, efficiency and continuous improvement. The four business units respectively supervise: the management of transmission, storage and regasification activities carried out by **Italian subsidiaries**, the coordination of **foreign holdings**, the **development and commercial** activities, and the **development of services dedicated to operators in the gas sector**.

The company has been listed on the Italian Stock Exchange since 2001. The Snam security is included not only on the Italian FTSE Mib stock exchange, but also on some of the most important international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and on numerous sustainability indices, including some of the most prestigious, like the Dow Jones Sustainability World Index and the FTSE4Good; it is also high up in the ESG ratings of MSCI, Sustainalytics and Vigeo.

In the current context of change to the energy balances and increasing awareness of the impacts of our actions on the climate, Snam's role is increasingly central toward achieving the national and European commitments to mitigate the effects of climate change and develop decarbonised economies at accessible costs.

In November 2018, Snam launched its new **Strategic Plan** for the period **2019-2022**, marking out the route that would allow the company to generate sustainable growth and value for its stakeholders over the next few years, as well as to rise to the challenges connected with climate change.

The targets set in the new Strategic Plan, all of which are improvements on the previous one, aim to create continuous value from regulated activities and ensure a growing presence in the energy transition sector in which biomethane may play an increasingly important role. Snam's desire to make a commitment to reduce the environmental impact of its activities and help develop the energy transition, is confirmed by a dedicated investment plan called Snamtec and by the 2018 **acquisitions** aimed at expanding upon the company's know-how with regards to decarbonisation technology.

Over the next few years, the company will continue its efficient development of the core business and to expand its business into the segments of **energy efficiency**, **sustainable mobility**, **biomethane** and innovative

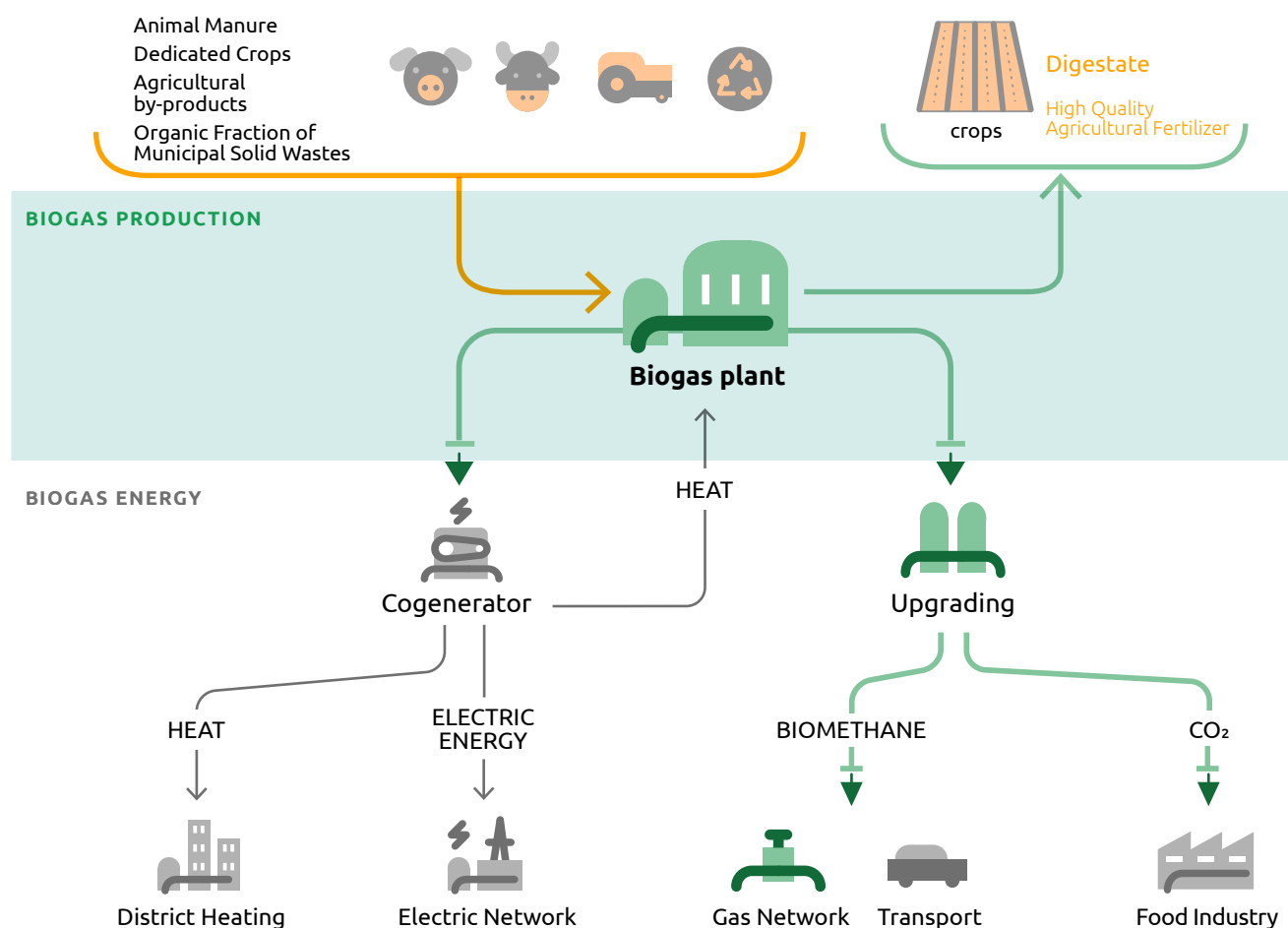
technologies in support of the use of renewable gas, a key resource for the development of the green economy of the national green economy.

The ease of transmission and storage of natural gas makes it possible to develop multiple projects linked to the promotion of **compressed natural gas (CNG)** for vehicles and **liquefied natural gas (LNG)** in heavy goods transport both overland and by sea. In this context, the next few years will see Snam committed to **strengthening the existing infrastructure** with a view to extending the network of **natural gas refuelling stations**.

The Company offers a point of reference in the integration into the Italian energy mix of **biomethane**, a renewable, programmable source that optimises existing transmission and storage infrastructures and allows for an increase in national production and reduction of Italian energy dependency, at the same time also helping reduce waste and greenhouse gas emissions in the Italian agricultural-food sector.

## Snam: the biomethane network

### FEEDING



# 2018 - Snam and the new brand identity

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

“**Energy to inspire the world**” is the message around which Snam’s strategic repositioning is hinged, in an increasingly global market that is characterised by changes and innovations that are transforming energy and environmental scenarios.

In 2018, growth in the core business of regulated activities continued, also involving the December acquisition, through a European consortium, of **DESFA**, the Greek national natural gas infrastructures operator. With reference to the energy transition, Snam has completed investments in the development of new businesses aimed at fostering decarbonisation and a better use of energy, in particular in the **biomethane** segment (IES Biogas and Enersi Sicilia), **sustainable mobility** (Cubogas) and **energy efficiency** (TEP Energy Solution).

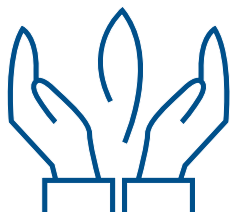
We have stipulated important agreements for the development of sustainable mobility, including through the possible development, as part of a partnership, of certain micro-liquefaction plants and agreements in China for the supply of services and evaluation of possible collaborations, in biomethane, in the research and development of renewable gas, in sustainable mobility and in storage. More specifically, as at 31 December 2018, a total of 50 CNG/L-CNG, biomethane and bio LNG refuelling stations had been contracted, of which 34 with Eni.

With the aim of globally optimising the consolidated experience of Snam, under the scope of the activities carried out by the **Snam Global Solution** business unit, we have established a joint venture with the Albanian infrastructure operator Albgaz, aimed at supplying services connected with the operation and maintenance (O&M) of gas pipelines in Albania.

During the year, moreover, the non-recourse financing of TAP was completed, the largest project finance operation for a European greenfield infrastructural project in 2018. Named “Project Finance deal of the year” for the Oil & Gas sector by Project Finance International (PFI), the project refers to a total amount financed of 3.9 billion euro, in which Snam played a role in supporting and coordinating the project, together with the other sponsors, and which involved institutional lenders like the EIB (which individually financed the project with 700 million euro), BERS and various export credit agencies, such as SACE, BPI France and Euler Hermes, as well as 17 international commercial banks.

# 2017

## 75 YEARS OF SNAM



In 2017 Snam celebrated its first **75 years of activity**, proving that the ability to put its commitment and skills to the service of the community and to keep a constant dialogue with the territories are and will be the key to its success. 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 further strengthened its infrastructures in Italy 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).

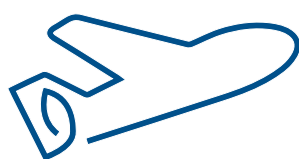
# 2016



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

As at 7 November 2016, a corporate transaction was successfully completed that resulted in the separation of Snam from the national gas distribution business in Italy, whereby the Snam Group sought 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



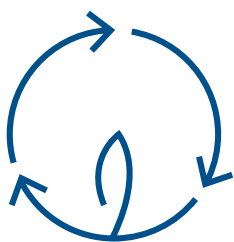
**Snam separates from Eni and expands its scope of activity to cover Europe**

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% as at 31 December 2018 following the entry of Credit 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, 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 increase and 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**

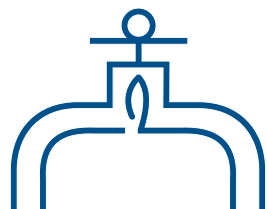


#### The integration of all regulated gas activities

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 a key integrated regulated gas activities operator, and the largest by regulatory asset base (RAB) in mainland Europe

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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 supply, 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 LNG 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.

# Snam presence in Italy and in the international infrastructure system



2012

## 1 Interconnector (23.54%)

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 (totalling 260 MW)



2013

## 2 Terëga (40.5%)

5,050 km of network; 6 compression stations (114 MW)

About 15% of French totale 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 (421 MW)





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.

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 2020



2016

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

554 km of transportation network

315 km of distribution network

5 compression stations (totalling 145 MW)



2018

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

1,450 km of transportation network:

- 2 entry point (Bulgaria and Turkey)

- 1 exit point (Bulgaria)

1 LNG terminal (5 bn m<sup>3</sup>/year)

1 compression station

### INFRASTRUCTURE IN ITALY

#### NATURAL GAS TRANSPORTATION

→ ENTRY POINT 8

⇄ REVERSE FLOW

COMPRESSOR STATION 13

PIPELINES UNDER OPERATIONS

#### NATURAL GAS STORAGE

OPERATING CONCESSIONS 9

#### LNG REGASIFICATION

REGASIFICATION PLANT 1

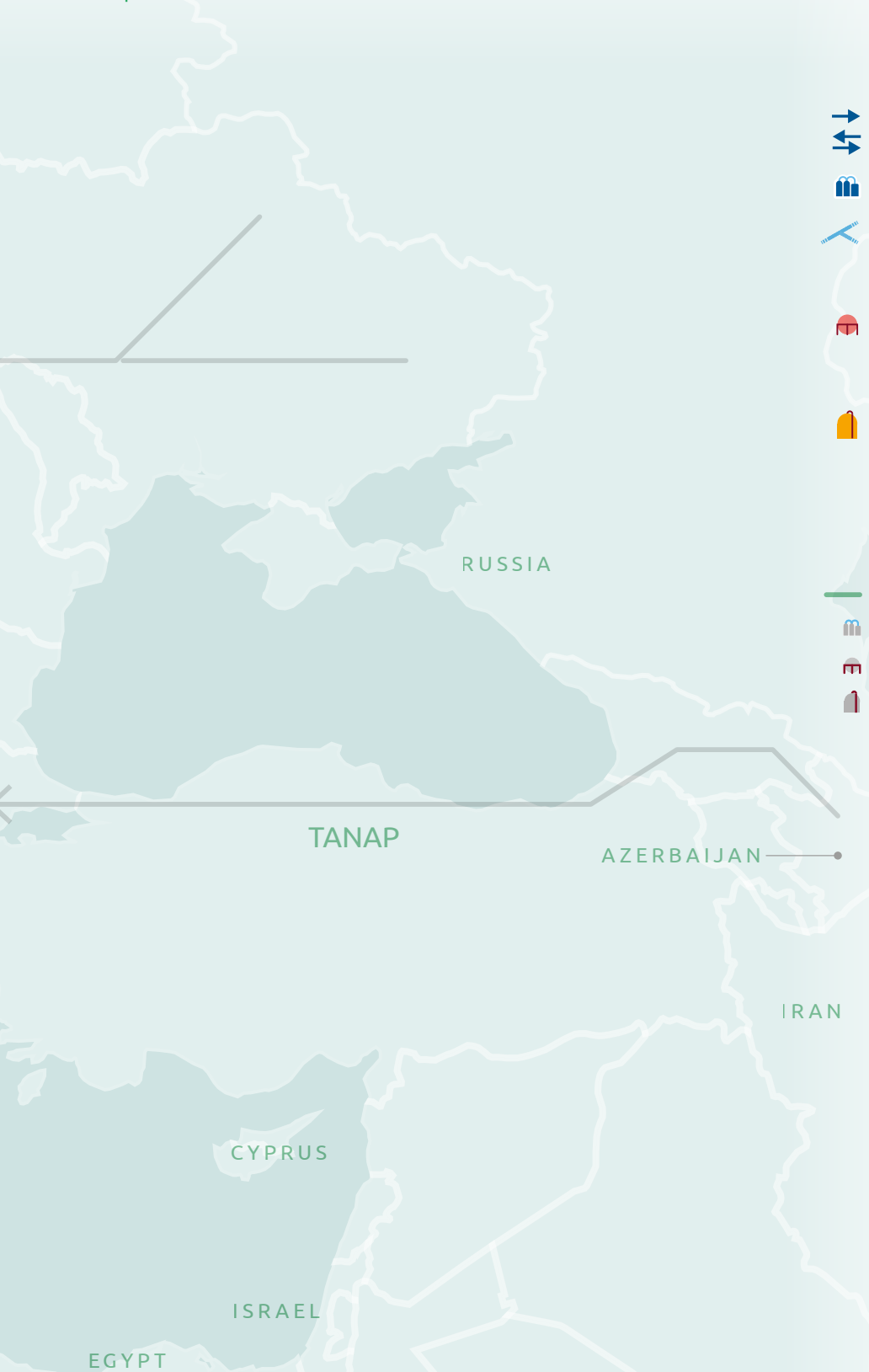
### INVESTMENTS OVERSEAS

INTERNATIONAL PIPELINES

COMPRESSOR STATION

STORAGE FIELDS

REGASIFICATION PLANT



# Business model and sustainable development



# The global energy context: the key role played by Snam in decarbonisation

The year just ended was characterised by the increasing awareness of companies and institutions worldwide of climate change and the effects caused by the rise in temperature.

A great many studies and reports have been published during the year, which analyse the actions needed in order to reduce the emissions originating from human activities and therefore slow the rise in the average temperature with respect to the pre-industrial period.

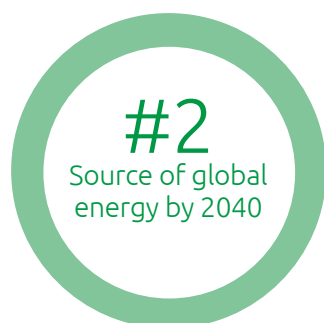
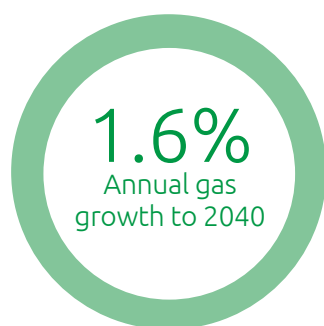
Of these, Snam helped analyse the future energy scenarios, examining the crucial role that natural gas may play in the global energy mix in the 2018 edition of the **"Global Gas Report"**. The study, which **Snam, International Gas Union (IGU)** and **The Boston Consulting Group (BCG)** unveiled at the June World Gas Conference of Washington DC (USA), analyses the scenarios for the use of natural gas, a flexible, programmable energy source that will give increasing support over the next few years to economic growth and the fight against climate change, in a process of world decarbonisation and rapid changes to global energy balances.

According to the main energy scenarios developed by the **International Energy Agency (IEA)** and analysed in the study, natural gas consumption is set to grow significantly: the **"Global Gas Report"** highlights a strong rise in the global demand for gas in 2017 and the main forecasts suggest that by 2035, gas may exceed coal as the world's second most important source of energy, after oil, increasing its share in the total energy mix from the current 22% to more than 24%.

In this historic period of changes to global energy balances, Snam intends to play a guiding role in the country's transition towards a decarbonised economic model.

The activities of the company, which already leads the national natural gas transmission, storage and regasification market, put Snam in a key position to achieve the national and European commitments to mitigate the effects of climate change. This is why, in accordance with the **targets set in the Strategic Plan** for the next few years, Snam will be supporting the use of its infrastructures to promote innovative businesses in the energy efficiency, biomethane and sustainable mobility sectors.

## Gas is projected to be the fastest growing fossil fuel



## Enabled by key market developments



Economic  
development/  
growth



Increasing  
global gas  
supply



Supportive  
government  
policies

Source: The future of gas to 2040 del "Global Gas Report 2018".

# The 2019-2022 Strategic Plan

In an energy sector that is undergoing major changes, gas infrastructures will therefore continue to play a key role in decarbonisation.

Late November 2018, Snam launched the new **2019-2022 Strategic Plan**, which maps out the route that will allow the Group to rise to the challenges connected with climate change and help reduce emissions, minimising the rise in global temperature and limiting the costs of natural gas to end users.

In the new Plan, Snam expects to increase its investments up to **5.7 billion euro**, approximately 10% more than the 5.2 billion envisaged by the previous Plan. The growth can be traced to the development of new businesses in the energy transition sector, to the continuous attention to reducing emissions and the increase in investments in maintenance and replacement works for the existing network. In particular, **4.8 billion** of investments will regard the transmission network, **0.7 billion** storage and regasification and **0.2 billion** the new businesses linked to the energy transition. A quarter of investments in the **transmission** segment will be dedicated to development initiatives like the TAP interconnection, the north-west connections, methanisation and development projects of cross-border flows.

Investments in **storage and LNG** will instead mainly go towards strengthening the Fiume Treste storage plant. In addition to this, 200 million will instead be used to **develop new businesses for decarbonisation**: the biomethane segment, energy efficiency and sustainable mobility.

The continuous improvement of the results of the regulated core business, the new initiatives, the solid performance of international activities, the focus on technological innovation and the creation of value through the financial structure allow Snam to envisage sustainable growth in the main indicators throughout the Plan period. As compared with 2017, EBITDA is expected to rise by an average of 3.5% per year during the Plan time frame, net profit by more than 4% per year and net earnings per share (EPS) by an annual average of more than 5%.

In order to diversify the sources of finance and bring the financial strategy as closely into line as possible with the Group's general objective of making its business more sustainable in the medium/long-term, Snam has decided to look to **sustainable finance** initiatives.

These operations will allow the company to invest in specific projects in environmental sustainability and the development of technological infrastructures, thereby making an active contribution towards the fight against climate change. In this regard, in 2018, Snam finalised the transformation of the 3.2 billion euro in syndicate credit facilities, into a **sustainable loan**, the third largest sustainable loan to ever have been stipulated worldwide and the largest by a gas utility company. This loan envisages bonus/malus mechanisms according to the achievement of certain ESG (Environment, Social, Governance) KPIs. In addition, in November 2018, Snam published the **Climate Action Bond Framework**, which defines the criteria for the future issue of debenture loans aimed at financing investments in environmental sustainability.

The new Strategic Plan in fact integrates the **ESG values**, making them an integral part of Snam's growth strategy. As regards environmental protection, the new Plan sets more challenging targets in respect of the reduction of methane emissions, envisaging a 25% reduction in methane emissions by 2025 (with an interim target of -15% in 2022), as compared with the previous target of 10% by 2021.

Of the investments envisaged, 850 million will go to the **Snam - TEC (Tomorrow's Energy Company) project** for the integration of new technology to monitor the network and control and reduce natural gas emissions and consumption, as well as for initiatives regarding biomethane, renewables, energy efficiency and sustainable mobility. Additionally, in 2018, Snam adhered to the **Task Force on Climate-Related Financial Disclosures** (TCFD), undertaking to provide clear, structured reports on its activities in connection with climate change. The result of this commitment is the document "**Snam in Change – Financial Disclosure on Climate Change**", which shows Snam's activities using the climate change lens.

Snam's **attention to safety** is confirmed by the launch of the new Snam4Safety programme, created to increase the safety at work culture of employees and suppliers. ESG values are also integrated into Snam's **corporate governance**, with it today being the only Italian company, and one of just four worldwide, to have arranged for a global partnership with Transparency International for the fight against corruption.

# Creating sustainable value: the Snam business model

## Financial capital



The financial capital available to the Group is the essential input for making all the investments necessary to the correct function of the natural gas infrastructures. Snam's financial capacity comprises its own resources and debt capital obtained either on the financial markets or through its own operating income.

## Infrastructural capital



The transmission network and storage and regasification plants for natural gas represent the essential infrastructural capital that allow Snam to provide operators and users with its services.

Gas pipelines, storage plants and regasification plants are the regulatory asset based (RAB) needed to obtain recognition of the reference revenues for the regulated business, as calculated on the basis of the rules defined by the Autorità di regolazione per energia reti e ambiente (ARERA).

In addition to this, in the coming years Snam's infrastructure will be enriched with plants for the production and introduction of biomethane and natural gas distribution plants for motor vehicles

## Intellectual capital



The intellectual capital is Snam's distinctive heritage that comprises the computer systems and internal processes and procedures for the efficient management of its business activities. These practices have been developed and consolidated over time, based on company know-how and aimed at guaranteeing the safety of the networks and infrastructures for employees, suppliers and users.

## Human capital



Snam's human capital are the people making up the Group – the employees and the capillary network of Italian and international suppliers – with their wealth of knowledge and experience.

Snam supports the promotion of a business culture hinged on certain distinctive values: the optimisation and development of people, the culture of safety, the maintenance and growth of the know-how necessary for the continuous technological update and modernisation of the Group's assets.

## Relational capital



The Group's relational capital is the "licence-to-operate" that stakeholders recognise to Snam.

The trust afforded by stakeholders in the Group's capacity to create value is the direct consequence of more than 75 years of history that link Snam's activities with its stakeholders and the companies in the territories hosting the infrastructures. Also in consideration of the expansion of Snam's business into the non-regulated market, over the next few years, the contribution made towards the enhancement of the Group's relational capital will become increasingly important, through participation in national and international working parties and ratified agreements and understandings aiming to develop collaborations and partnerships with companies operating on the international and non-European energy markets.

## Natural capital



The territory in which the infrastructures stand, the air and biodiversity are Snam's natural capital, just like the energy resources (the natural gas) necessary to allow Snam to provide operators and users with its services.

## INPUT

### Financial capital

- Funding comprising own resources and debt capital
- Constant investments in upgrading and the function of company assets

### Infrastructural capital

- Network of gas pipelines for the transmission of natural gas in Italy
- Storage plants and regasification plants
- Plants for the production and injection into the network of biomethane
- Distribution network of gas for vehicles

### Intellectual capital

- Information systems, company processes and procedures aimed at assuring safety in infrastructures and efficient business management
- Know-how and technological innovation

### Human capital

- Optimisation and development of people
- Safety culture

### Relational capital

- Partnerships and long-term relations with the main stakeholders (clients, suppliers, shareholders and lenders, regulatory authority, local associations)
- Collaboration with institutions, regulatory entities, local and territorial administrations
- Commercial agreements with companies operating on the national and foreign energy markets
- National and supranational working parties

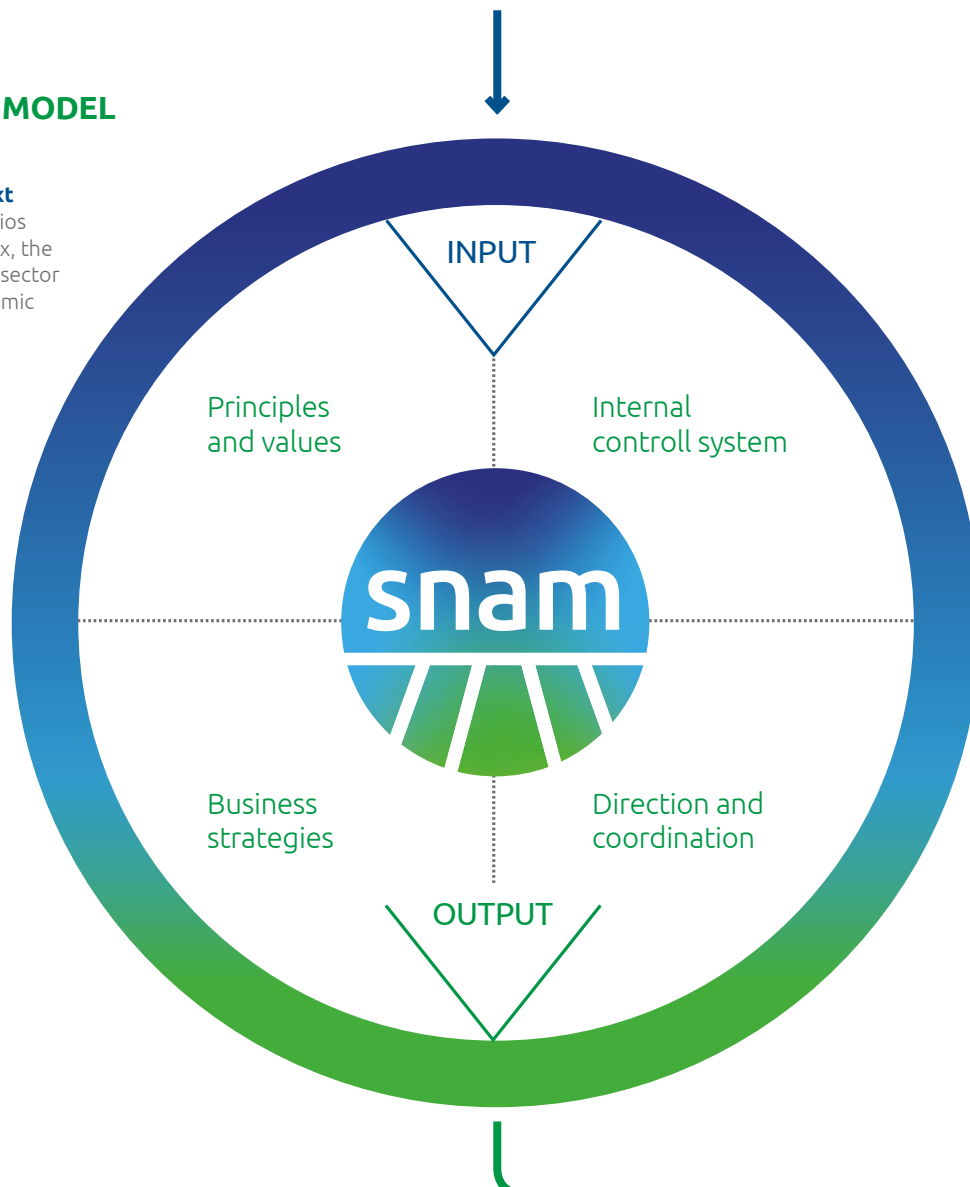
### Natural capital

- Energy resource (natural gas)
- Natural areas involved by the passage of gas pipelines and on which the plants stand

## BUSINESS MODEL

### External context

Evolution scenarios of the energy mix, the evolution of the sector and social-economic dynamics



## OUTPUT

### Financial capital

- 2,532 million euro in economic value generated
- 1,634 million euro in economic value distributed

### Infrastructural capital

- 32,625 km of gas pipelines
- Target: to develop 250 refuelling stations for methane gas-powered cars
- 14 biomethane connection contracts

### Intellectual capital

- Management and certification systems obtained by Snam and subsidiaries - extended certifications ISO 9001, ISO 14001 and OHSAS 18001 to include Snam4Mobility and Cubogas

### Human capital

- 107,771 hours of training provided
- 7 injuries involving employees and contract workers - "Zero injuries" prize, 1550 employees rewarded

### Relational capital

- Partnerships with SEAT, ENI, API, State Grid International Development and Beijing Gas
- Relations with ARERA - 12 responses to consultation documents
- Acquisition of IES biogas, Enersi Sicilia, TEP and CuboGas

### Natural capital

- 7.9 % reduction in natural gas emissions on 2016
- 227 km environmental restoration performed
- 445 km environmental monitoring
- 1,651 km of network inspected with smart pigs

## OUTCOME

- Distribution of economic value to Group stakeholders
- Financing dedicated to environmental sustainability projects

- Increased value of company assets
- Diversification and innovation in the Group infrastructures
- Diversification of the source of natural gas consumed within national borders
- Diversification of the national energy mix
- Secure procurement

- Quality of service supplied in compliance with the standards
- Greater efficiency of processes and control throughout the entire value creation chain

- People motivation and increase in their competences
- Consolidation of the safety culture for all employees and in all operative contexts

- Maintenance of a good company reputation, in line with the company vision, values and mission
- Consolidation of relations with the main Group stakeholders and regulatory entities in the natural gas sector

- Mitigation of negative environmental impacts
- Sustainability of the business activities and attention paid to the community and territory

The objectives of Snam's 2019-2022 Strategic Plan include the creation of value in all intangible capital characterising the company.

The investment programme outlined in the Strategic Plan, which envisages a total of 5.7 billion euro for the development and modernisation of the existing network and the development of new businesses connected with biomethane production and, in general, the energy transition, will have a positive impact on Snam's financial capital.

The objectives included in the Strategic Plan shall also affect the infrastructural capital: with the aim of guaranteeing the quality and continuity of service, over the next few years, development will continue of the infrastructural and network of gas pipelines, new connections to the north-west will be completed, methanisation projects, the TAP interconnection and potential storage plants.

The energy resource is the pillar on which the Snam Group's activity is based, acknowledging the importance of safeguarding the natural environment. As confirmation of the attention paid by the company to protecting climate, the Strategic Plan envisages a new target reduction of methane emissions.

The activities included in the TEC project will also allow Snam to enrich its natural capital, implementing actions to monitor the network and measure the territorial structure in real time, along with gas consumption and the energy efficiency of the infrastructures, thereby achieving the twofold objective of optimising operating costs and minimising the impact of its activities.



## 2019-2022 Strategic Plan

## Impact on capitals

### Investments in the development of the Italian gas system and new business activities connected with decarbonisation

- 4.8 billion euro in investments envisaged for the transmission network (TAP, north-west connections, Sardinia), 0.7 billion euro for storage investment (Fiume Trieste) and regasification
- 100 million euro in investments envisaged for the development of biomethane production infrastructures, 50 million euro in investments to extend the network of methane refuelling stations, 50 million euro in investment to develop small liquefaction plants



### TEC project

- Greater operative effectiveness and smart gas project
- Reduction of methane emissions
- Continuous interest in innovation and the regular update and upgrade of distinctive competences



### ESG values

- Environment: target methane emissions reduction
- Social: Snam4Safety, Snam Institute, Snam Foundation
- Corporate governance: partnership with Transparency International



### Sustainable finance

- 3.2 million euro in syndicated credit facilities
- Framework setting the rules for the future issue of debenture loans aimed at financing investments in environmental sustainability



FINANCIAL CAPITAL



INFRASTRUCTURAL CAPITAL



INTELLECTUAL CAPITAL



HUMAN CAPITAL



RELATIONAL CAPITAL



NATURAL CAPITAL

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

### IMPACTS ON THE GAS SYSTEM

#### Market facilitation

With the new "Network Balancing Code" regime, which has been in effect since October 2016, the balancing service is conducted in accordance with common and harmonised European rules, which are aimed at promoting trading and market liquidity. In a 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 Shipping Service

The service in the 2017-2018 thermal year involved 192 parties amongst Final Customers and Sales Companies, for a total volume of approximately 263,300 MWh.

#### New transmission capacity products

In 2017, Snam introduced greater flexibility in offering transmission capacity at the re-delivery points that power the thermoelectric plants and the withdrawal areas through the provision of short-term capacity products (daily and monthly). In 2018, new flexibility services were also introduced, like infra-day storage auctions.

#### Gas access and cost

The cost of transmission, 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.

#### Incidence of the transmission service on the cost of gas

The cost of the transmission service in 2018 is estimated as accounting for approximately 5% of the total costs of a typical domestic client (family with individual heating and annual consumption of 1,400 scm) as compared with 18% of the total cost of infrastructural services.

#### New connections

In 2018, 88 connection contracts were signed for the construction of new delivery/re-delivery points (of which 14 were for biomethane inputs and 43 for CNG) or the upgrading of existing points, up approximately 13% over 2017.

#### Creation of a european gas market

Snam is one of the founders of PRISMA, the international project established 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 40 European operators active in the transmission and storage of gas from 17 countries participate in the development of PRISMA.

#### The numbers of the PRISMA platform

In 2018, the PRISMA platform further increased the number of auctions for the sale of capacity products, which in fact went from 4.5 million in 2017 to 6.5 million in 2018. The number of shippers and users registered respectively come to approximately 650 and 2,500.

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

### IMPACTS ON THE ENERGY SCENARIO

#### Security of supplies

The constant, structural reduction in national production leaves Italy very much dependent on foreign gas, the import of which has recorded a 2.4% increase in the 3rd quarter of 2018 as compared with the same period of the previous year, accentuating the role played by Russia as the top supplier of Italian gas, with a share that has virtually reached 50% of the total. (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. 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.

In the instance of Italy, if any of the supply sources should fail, 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.

#### Use of storage capacity

In 2018, 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 98% as opposed to a European average of 88%.

#### Contribution to decarbonisation

Gas in its various forms guarantees lower carbon dioxide emissions, by 25% to 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 performed by ENEA highlights how, considering all the first nine months of 2018, natural gas consumption has reduced by around one percentage point on the same period of the previous year. In particular, a major reduction has been seen in consumption in the 2<sup>nd</sup> quarter (-7% in trend terms, due to the lesser thermal production linked to the resumed hydroelectric generation) and a slight increase in consumption in the 3<sup>rd</sup> quarter 2018 (+1.2% on the same quarter of 2017). Renewable energy sources (excluding biomass for thermal uses) are slightly up on the levels recorded in the 3<sup>rd</sup> quarter 2017, by approximately half a percentage point.



## 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.

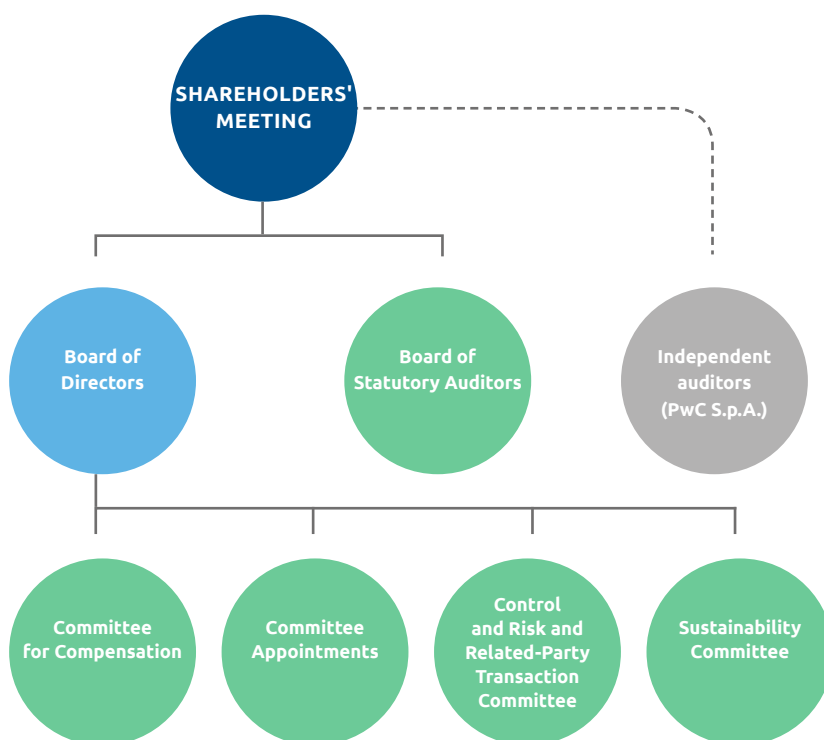
The **governance system** reflects the 'traditional' model and is developed in accordance with the applicable industry regulations (laws governing unbundling and listed companies), while also taking into account **national and international best practice**.

### Snam's Board of Directors

**56%** of the BoD is made up of independent directors

All the BoD committees are chaired by **independent** directors

**44%** of the BoD is made up of women



More detailed information on governance can be found in the document "2018 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 "2019 Remuneration Report", which was published online at [www.snam.it](http://www.snam.it) at the same as the Annual Report.



Snam's new challenge is to support national and international development through the **optimisation** of internal processes, the redefinition of the organisational structures and the **simplification** of the regulations.

The context that evolves and the consequent adjustment and evolution of the businesses provide the drive for change. In order to cope with these external stimuli and stay one step ahead, in accordance with the strategic plan, the last two years have seen the Snam group develop a long series of change programmes with the aim of making the organisation of the internal structures and processes more streamlined and efficient:

- optimisation and redesign of the processes with a view to assuring greater efficiency and continuous improvement;
- simplification and streamlining of the company regulations in order to streamline the actions in response to an ever more dynamic business;
- organisational structures that are more in line with purely organisational logics, with simpler, more flexible decision-making processes.

With reference to this latter point, in 2018 the TURN project was promoted on all Snam Corporate Staff departments and on the operating companies' office departments. The TURN project worked to create a simpler organisation and quicker decision-making processes, thereby rationalising the number of units, eliminating 1 organisational level and 150 units.

Snam's top priorities include supporting international development and new businesses. The company's constant commitment to these matters has given rise to the integration of the following contexts:

- Infrastrutture Trasporto Gas - ITG, an investment that allows Snam to strengthen its infrastructures in Italy and put additional synergies to good use in the integrated management of the whole gas system;
- CuboGas and IES Biogas, respectively operators in vehicle methane gas refuelling and in the design, development and operation of biogas and biomethane production plants;
- TEP Energy Solution, an energy efficiency company whose mission is to foster decarbonisation and ensure the better use of energy.

It also increases the group's international presence through the acquisition of DESFA, the Greek national gas transmission operator and the joint venture with Albgaz for the development of the gas market in Albania.

## The Snam Organisational Model



\* Dependent on the Chief Executive Officer, he carries out the audits entirely independently, according to the indications of the Board of Directors.

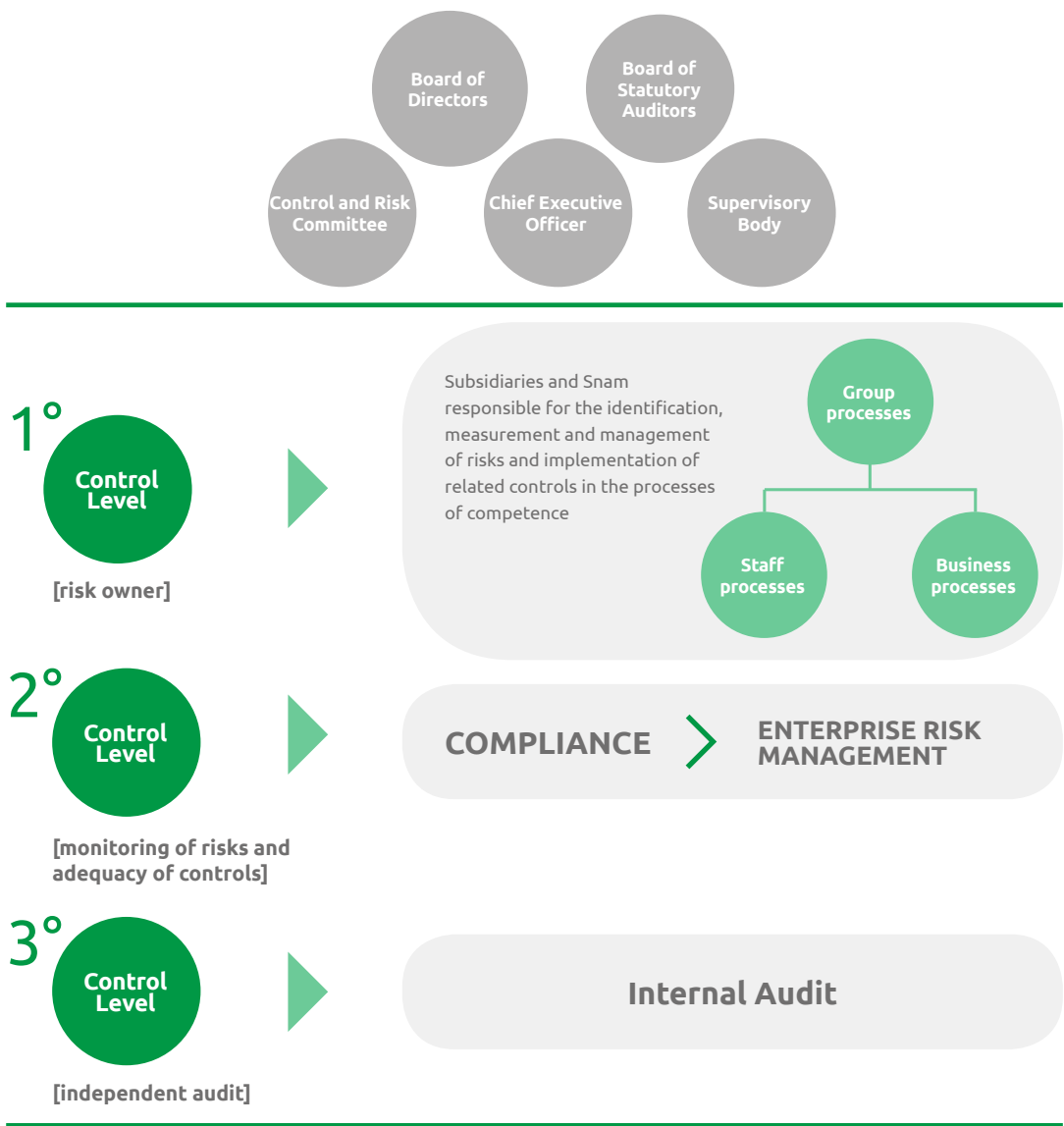
# Management of risks and the control system

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 we use 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.



In 2018, audit activities were performed by a dedicated team of an average of 10 auditors.

## Activities performed by Internal Audit

(no.)	2016	2017	2018
Total number of audits performed (*)	42	42	22
- of which relative to planned and/or spot audit activities	8	8	14
- of which relative to independent monitoring activities (Law - 262/05) (**)	34	34	8
Reports received	5	5	4
- of which related to the internal control system	1	-	-
- of which concerning accountancy, audit, fraud, etc..	-	-	-
- of which concerning administrative liability pursuant to Legislative Decree 231/2001	1	-	-
- of which concerning breaches of anticorruption law	1	1	-
- of which concerning other matters (Code of Ethics, mobbing, theft, security, etc.)	-	4	4
Reports archived due to absence of elements or found to be untrue	2	1	2
Reports resulting in disciplinary or managerial interventions, and/or submitted to judicial authorities	-	3	2
Reports pending	3	3	-

(\*) The figure relating to 2017 has been amended to take into account the audits carried out in the reference calendar year.

(\*\*) The number of audits relating to independent monitoring activities has reduced on 2017 for the following reasons: (i) part of the control activities was carried out by the Independent Auditing Firm and (ii) reports on control activities of the 2018 Independent Monitoring Programme will be produced in calendar year 2019.

In 2018, the Internal Audit activities were 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 the programmed activities, which regarded: (i) the execution of the Audit Plan, approved by the Snam Board of Directors on 13 March 2018, after obtaining the favourable opinion of the Control, Risk and Related Party Transactions Committee and spot audits not envisaged on the plan; (ii) the carrying out of the independent monitoring programme defined with the Chief Financial Officer as part of the Snam Control System on the Corporate Disclose; (iii) named or anonymous reports of problems relating to the internal control and risk management system, to the Company's administrative liability, irregularities or fraudulent acts (whistleblowing); (iv) the activities involving relations with the Independent Auditing Firm and those relating to the monitoring of the activities for the conferral of additional appointments on such.

Please also note the main activities carried out in methodology:

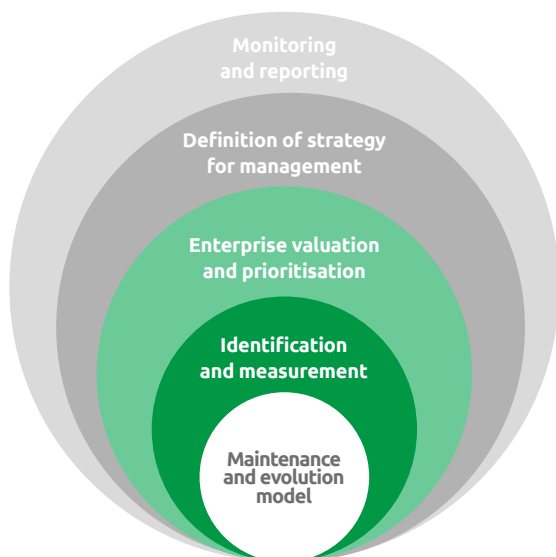
- the implementation of an Internal Audit Manual, which, with a view to ensuring continuous improvement, aimed to update the methodologies and identify standard formats so as to increase the efficiency and simplify the internal audit process;
- the development of a new tool to manage audit activities from the planning of interventions through to the follow-up of corrective action following the implementation of the Integrated Risk Assurance and Compliance Project;
- the update of the Key Risk Indicators, as well as the implementation of new ones, as part of the continuous monitoring of the expenditure cycle with the desire to structure, in 2019, dedicated reports for the functions of the first and second level control;
- the Internal Quality Review with the aim of monitoring the effectiveness and efficiency of the activities, the conformity, in going about operations, with the regulatory and operative tools of the Department and with respect to best practices and reference international standards for the profession.

## NFS THE ENTERPRISE RISK MANAGEMENT (ERM) PROCESS

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 a result of the uncertainty over the objectives, and may be negative or positive (opportunity).



### 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 and prioritisation assessment:

each event is assigned an 'enterprise measurement', which summarises, for each risk, the different measurements carried out by the risk owner and by centralised units with specialist expertise. 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. 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.

The periodic reporting activity ensures, at the various corporate levels, the availability and representation of the information on the activities concerning 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 eight 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.

The most common operational impact is industrial impact, consistent with the fact that risk identification begins with process analysis. 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.

During 2018, the risk assessment cycles were completed and the first mapping of corporate opportunities performed, according to the model described above and the "Enterprise Risk Management" guidelines approved in March by the Board of Directors, which involved the whole of the Snam Group. As at the end of 2018 approximately 138 enterprise risks appeared to be mapped, distributed across all corporate processes. Moreover, the 2018 mapping of risks and opportunities considered the new activities under the scope of new unregulated businesses, as a result of acquisitions made during the year.

Opportunities (approximately 25) were identified using a similar method to that employed for the risks. In this case too, suitable metrics were used to measure the operative impacts (industrial/business and economic) by each owner and to have the specialised departments measure the other impacts (market, reputational, environment, financial).

In 2018, the Integrated Risk Assurance and Compliance project was trialled, with the aim of defining and implementing an integrated risk assessment model that, through a single IT tool and a single database, rationalises and integrates information flows of second-level controls with a synergistic approach aimed at maximum overall efficiency.

The main enterprise risks identified and monitored were classified as financial and non-financial (strategic risks, legal and non-compliance risk and operational risks).


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































- OPERATIONAL IMPACT
- SPECIALIST IMPACT





 More information on the main risk and uncertainty factors is given in the chapter entitled “Elements of risk and uncertainty” in 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	■ Continuous monitoring of the political, social and macroeconomic framework	
		■ Maintenance of constant relations with Authorities and Institutions responsible for managing possible crises in high-risk scenarios	
	<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	■ 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	
	Significant change in regulations and/or case law	■ 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	
	<b>Risks related to climate change</b>		
	■ Reinforcement of the regulatory framework for greenhouse gas emissions  ■ Change of scenarios with impact on the demand for natural gas and transported volumes	■ Ongoing regulatory supervision with monitoring of the development of the greenhouse gas emissions authorisation system	
		■ Target of -10% natural gas emissions from 2016 to 2021, with same scope	
		■ Target of -15% natural gas emissions from 2016 to 2022, with same scope	
		■ Target of -25% natural gas emissions from 2016 to 2025, with same scope	
		■ Recovery of 33% of potential emissions deriving from maintenance activities, each year from 2017 to 2022	
	Increase in the severity of extreme atmospheric phenomena, with impacts on continuity and quality of service	■ 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)	
		■ Adaptation of the recovery plan and business continuity management system to international best practices	
		■ Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected	
		■ 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	
		■ Ongoing, systematic maintenance and monitoring measures	

Classification	Description	Management actions	Impact on capitals
STRATEGIC RISKS	 Growth in the sensitivity of public opinion on matters related to climate change	<ul style="list-style-type: none"> <li>■ Adhesion to national and international initiatives aimed at strengthening the commitment to reduce methane emissions</li> </ul>	 
		<ul style="list-style-type: none"> <li>■ Adhesion to the TCFD "Task Force on Climate Related Financial Disclosure"</li> </ul>	 
		<ul style="list-style-type: none"> <li>■ Disclosure of multi-year targets defined to fight climate change</li> </ul>	 
LEGAL AND NON-COMPLIANCE RISK	 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)	<ul style="list-style-type: none"> <li>■ Updating and monitoring protocols of Model 231</li> </ul>	   
		<ul style="list-style-type: none"> <li>■ Awareness-raising initiatives and training on the prevention of corruption</li> </ul>	
		<ul style="list-style-type: none"> <li>■ Analysis and evaluation of reports received through the channels provided for by the reporting procedure</li> </ul>	
		<ul style="list-style-type: none"> <li>■ Adoption and maintenance of Health, Safety and Environment management systems certified according to ISO14001 and OSHAS18001 standards</li> </ul>	
		<ul style="list-style-type: none"> <li>■ Awareness-raising and training initiatives on accident prevention for employees and contractors</li> </ul>	
	 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> </ul>	
		<ul style="list-style-type: none"> <li>■ Obligation of suppliers and contractors to subscribe the Ethical and integrity Agreement</li> </ul>	
		<ul style="list-style-type: none"> <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> </ul>	
		<ul style="list-style-type: none"> <li>■ Updating of Model 231 and the Code of Ethics</li> </ul>	
		<ul style="list-style-type: none"> <li>■ Analysis of updates to the latest version (July 2015) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices</li> </ul>	

Classification	Description	Management actions	Impact on capitals
OPERATING RISKS	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>	 
	 Delays in the progress of infrastructure implementation programmes	<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> </ul>	 
		<ul style="list-style-type: none"> <li>Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset</li> </ul>	
		<ul style="list-style-type: none"> <li>Use of innovative construction technologies with low environmental impacts (e.g. trenchless technologies, use of turbo gas with low atmospheric emissions)</li> </ul>	
		<ul style="list-style-type: none"> <li>Strict, structured system for selecting contractors and monitoring their performance</li> </ul>	
	 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> </ul>	
		<ul style="list-style-type: none"> <li>Recovery plan system and business continuity management in line with international best practices</li> </ul>	
		<ul style="list-style-type: none"> <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> </ul>	
		<ul style="list-style-type: none"> <li>Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected</li> </ul>	
		<ul style="list-style-type: none"> <li>Continuous verification of insurance coverage in relation to the type of business and related risks</li> </ul>	
		<ul style="list-style-type: none"> <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> </ul>	
		<ul style="list-style-type: none"> <li>Definition of a model of <i>security incident management team</i> to respond promptly to events that may damage the integrity of the information and IT systems used</li> </ul>	

(cont'd)

Classification	Description	Management actions	Impact on capitals
FINANCIAL RISKS	Medium- and long-term debt rating down grade	■ Constant monitoring of rating indicators and availability of long-term credit lines	
	Changes in the interest rate	■ Monitoring cash-flow-at-risk using an asset and liability management (ALM) model	
	Exchange rate changes	■ Minimisation of transaction risk, through measures such as the use of derivatives	
	Inability to raise new funds (funding liquidity risk) or to liquidate assets on the market	■ Minimisation of opportunity cost and maintaining a balance in terms of debt duration and composition	
	Default	■ Monitoring of the contractual protection clauses in loan agreements	
	Receivables	■ Periodic monitoring of the situation of receivables and systematic management at set deadlines of reminders and any action necessary to collect on overdue debt	
		■ Evaluation of the authenticity and validity of guarantees	
		■ Reporting of any issues with the regulatory system that may lead to opportunistic/fraudulent behaviour by operators	

 FINANCIAL CAPITAL

 INFRASTRUCTURAL CAPITAL

 INTELLECTUAL CAPITAL

 HUMAN CAPITAL

 RELATIONAL CAPITAL

 NATURAL CAPITAL

# Snam in 2018

## - 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 Energy Grid and Environment Regulatory Authority (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. Furthermore, with resolutions 575/2017/R/gas, 653/2017/R/gas and 68/2018/R/gas, the Authority defined tariff criteria for the transition period, respectively for the transmission and regasification businesses (period 01 January 2018-31 December 2019) and for storage (period 01 January 2019-31 December 2019).

### Fourth regulatory period

Transportation	4 years + 2 years (transitional)	January 2014	December 2019
Regasification	4 years + 2 years (transitional)	January 2014	December 2019
Storage	4 years + 2 years (transitional)	January 2015	December 2019

With reference to the transmission business, in 2018 the Authority published two consultation documents relative to criteria for determining the revenues recognised for the fifth regulatory period, starting 2020 (DCO no. 347/2018/R/gas and DCO no. 512/2018/R/gas), confirming the stability and continuity of the regulatory principles with respect to current regulations. More specifically, the Authority proposed confirming a 4-year regulatory period (2020-2023), the revalued historic cost methodology and the inclusion of works in progress (LIC) for the determination of the RAB, the recognition of a flat amount of Net Working Capital, the excess charge of  $\pm 4\%$  of revenues correlated with the volumes transported, the useful lives of assets of the current regulatory period and the update of operating costs on the basis of the price cap mechanism. Moreover, the application is proposed of an increase in the WACC of +1% for 10 years for investments that will come into operation in 2020-2021 and with a ratio of benefits/costs of more than 1.5, deferring application of the cost coverage mechanism based on total spending ("Totex") to the following regulatory period.

The following graphic shows 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 2018. 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.

	Transportation	Regasification	Storage
<b>Period end of regulation (Tariffs)</b>	<i>Transitional period:</i> ■ 1 January 2018 – 31 December 2019	<i>Transitional period:</i> ■ 1 January 2018 – 31 December 2019	<i>Current period:</i> ■ 31 December 2018  <i>Transitional period:</i> ■ 1 January 2018 – 31 December 2019
<b>Calculation of capital net invested recognised for the purpose of regulation (RAB)</b>	Revalued historical cost	Revalued historical cost	■ Revalued historical cost ■ Deduction of restoration costs recognised
<b>Remuneration of invested capital net recognised for regulatory purposes (pre-tax WACC) (*)</b>	■ 5.4% years 2016 ■ 5.7% year 2019	■ 6.6% years 2016 ■ 6.8% year 2019	■ 6.5% years 2016 ■ 6.7% year 2019
<b>Incentives on new investments</b>	<i>Transitional period:</i> (investments in FY 2018-2019): ■ +1% for 12 years + (investments in new capacity of transmission and with an analysis of benefits positive) ■ Remuneration investments t-1 (starting from 2017 investments) to offset the time-lag regulatory	<i>Transitional period:</i> (investments in FY 2018-2019): ■ +1.5% for 12 years (investments in new capacity of regasification) ■ Remuneration investments t-1 (starting from investments 2017) to offset time-lag regulatory	<i>Current and transitional period:</i> ■ Withholding for 8 years of 20% of the greater revenue with respect to recognised revenue deriving from the procedures insolvency ■ Remuneration investments t-1 to offset the time-lag regulatory (from 2014)
<b>Efficiency factor (X Factor)</b>	<i>Transitional period:</i> ■ 1.3% - on operating costs	<i>Transitional period:</i> ■ 0%	<i>Current period:</i> ■ 1.4% - on operating costs  <i>Transitional period:</i> ■ To be defined with 2019 tariffs

(\*) 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 regulatory period for infrastructural regulations in the gas sector is set at six years (2016-2021), and a mechanism is provided to update the rate halfway through the period according to the economic situation. By Resolution 639/2018/R/COM of 06 December 2018, the Authority updated the rate of remuneration of the invested capital for the infrastructural services of the electricity and gas segments for the years 2019-2021.

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

		2016	2017	2018	2019	2020	2021	2022	2023
<b>TAG GCA Transmission</b>	System regulated		3° Regulatory period						
<b>Terēga Transmission</b>	System regulated		ATRT6						
<b>Storage</b>	System regulated		ATS1						
<b>IUK Transmission</b>	System of exemption				Introduction of the regulated system				
<b>TAP Transmission</b>	System of exemption					Long-term contract			
<b>DESFA Transmission/ LNG</b>	System regulated	Regulatory period 1			Regulatory period 2				

### TAG GCA Transmission

- RAB differentiated between the portion financed with equity (revalued historical cost) and portion financed with debt (book value). Moreover, different treatment is envisaged between old assets (pre-2012) and new investments;
- Different rates of remuneration are envisaged for the share of RAB financed with equity (*Cost of Equity (\*) 8.92% actual pre-tax*) and for the share financed with debt (*Cost of Debt 2.7% nominal pre-tax*).

### Terēga Transmission

- RAB value adjusted annually using the inflation rate (Consumer Price Index), considering new investments and amortisation/depreciation (Current economic cost method);
- Rate of remuneration of WACC equal to 5.25% *actual pre-tax*.

### Terēga Storage

- Storage in regulated starting January 2018;
- Rate of remuneration of WACC equal to 5.75% *actual pre-tax*; RAB approximately 1.2 billion euro.

### IUK Transmission

- Under exemption until October 2018;
- Transfer from an exemption system to a regulated system at expiry of the long-term contracts (October 2018).

### TAP Transmission

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

### DESFA Transmission/LNG

- RAB based on historic cost, work in progress remunerated by WACC;
- Nominal pre-tax rate of remuneration of 9.22% for 2017 and 2018;
- The parameters for the new regulatory period are currently being reviewed;
- RAB of approximately 0.8 billion euro (Transmission + LNG);
- Socialisation of the cost of LNG in the transmission tariffs (75%);
- Recovery of the cumulative OLD recoverable differences 2006-2016 of approximately 326 million euro, spread out over 16 years, from 2017 to 2032.

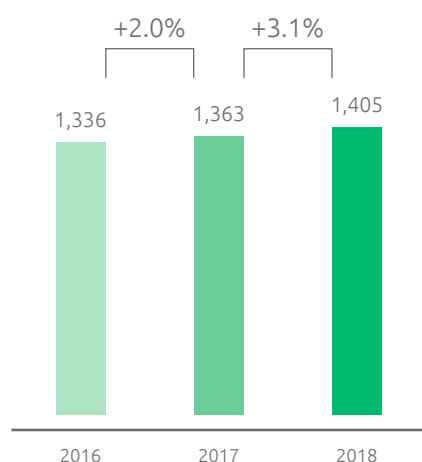
# Results

In order to allow for a better assessment of the performance of economic-financial operations, this Report includes the reclassified financial statements and some alternative performance indicators (non-GAAP measures), mainly represented by the results in the adjusted configuration<sup>1</sup>. More specifically, the operating profit and the adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the scheme of the Income Statement.

Income entries classified as special items for FY 2018 refer to: (i) the financial expenses deriving from the buy-back of bonds on the market as part of the Liability Management transaction (35 million euro, net of the related tax effect); (ii) the expenses for incentives to take voluntary redundancy in application of the early pension tool regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012, the "Fornero Law", together with the introduction of the "quota 100", envisaged by the 2019 Budget Law (15 million euro, net of the related tax effect).

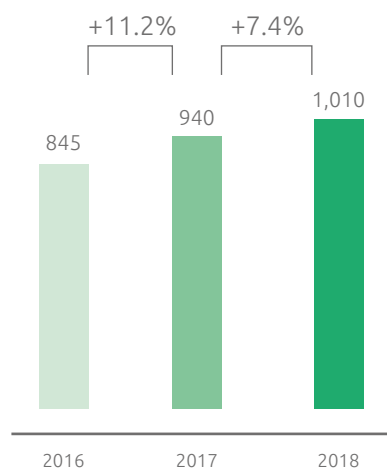
## ADJUSTED RESULTS<sup>2</sup>

**EBIT adjusted (million euro)**



Due to soundness and efficiency of operational management and rigorous financial discipline, Snam achieved very positive results, beyond expectations, in 2018. **Adjusted EBIT<sup>3</sup>** totalled 1,405 million euro, up 42 million euro (3.1%) compared with the same value from the 2017 financial year. The greater revenues (+87 million euro; +3.6%), mainly due to the contribution made by the natural gas transmission sector and the change in the consolidation scope, deriving from company mergers regarding the new businesses of CNG and biomethane, were partially offset by the increase in amortisation, depreciation and impairment (-31 million euro; 4.7%) recorded in all business segments and the increase in operating costs (-14 million euro; 3.3%). This increase is mainly due not only to the change in the consolidation scope, but also to the expenses stemming from the greater use of unaccounted-for-gas (UFG) with respect to the quantities conferred in kind by transmission users, the effects of which were partly absorbed by the efficiency actions implemented, with savings achieved in 2018 of 17 million euro.

**Adjusted net profit (million euro)**



As regards business sectors, the increase in adjusted EBIT essentially reflects the positive performance recorded by the transport sector (+33 million euro; +3.1%).

The **adjusted net profit** totalled 1,010 million euro, up by 70 million euro (+7.4%) compared to the adjusted net profit of 2017. The increase, in addition to greater operating profit (+42 million euro; +3.1%) is due to the lesser net financial expenses (+32 million euro; 14.1%), thanks to the reduction in the average cost of debt, which goes from 2.0% in 2017 to 1.5% in 2018, also due to the benefits

<sup>1</sup> For the definition of these indicators and the reconciliation of the economic ones with the related reported results, in line with the guidelines of the 2015/ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 05 October 2015, please refer to the chapter "Financial review and other information - Non-GAAP measures".

<sup>2</sup> Unless specified, the FY 2016 results refer to continuing operations. These results, due to the discontinuity factors that characterised 2016 not only exclude the special items but also reflect the Italgas Group's contribution to continuing operations, by applying the relative portion of shares, amounting to 13.5%, to Italgas Group's net profit for the entire year (pro-forma adjusted configuration).

<sup>3</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, mainly due to interconnection.

deriving from the optimisation action taken in 2016 and 2017, in particular, liability management and the increase in net income from equity investments (+9 million euro; +6.0%). These effects were partly offset by greater income taxes (-13 million euro; 3.8%), due mainly to the rise in pre-tax profit.

**Net financial debt** was 11,548 million euro as at 31 December 2018, compared with 11,550 million euro as at 31 December 2017. The net cash flow from operations (1,826 million euro) allowed us to entirely finance net investments (1,036 million euro, including equity investments of 176 million euro). This flow and the collection deriving from the repayment by TAP of the shareholders' loan (519 million euro; 371 million euro, net of the portions disbursed by Snam during the year), have made it possible to generate free cash flow of 1,161 million euro. Net financial debt, after the payment to shareholders of the 2017 dividend (731 million euro, of which 294 million euro by way of interim dividend and 437 million euro for the balance) and the cash flow deriving from the purchase of treasury shares (426 million euro), shows a reduction of 2 million euro compared to 31 December 2017.

## Free cash flow

**+1,161** million euro

## DIVIDENDS

Our healthy results and solid business fundamentals allow us to propose a **dividend of 0.2263 euro** per share to the Shareholders' Meeting, of which 0.0905 per share was paid in January 2019 as an interim dividend (298 million euro) and the balance of 0.1358 per share will be paid from 26 June 2019 with warrant date 24 June 2019 (record date 25 June 2019). The dividend proposed, up 5% on 2017, in line with the dividends policy announced in the Business Plan, confirms Snam's commitment to an attractive and sustainable remuneration of its shareholders over time.

## Dividend

**0.2263** euro per share

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

	Adjusted		
(€ million)	2016 <sup>(b)</sup>	2017	2018
Total revenue	2,560	2,533	<b>2,586</b>
Total revenue net of pass-through items	2,444	2,441	<b>2,528</b>
Operating costs	573	511	<b>491</b>
Operating costs net of pass-through items	428	419	<b>433</b>
EBITDA	1,987	2,022	<b>2,095</b>
Operating profit (EBIT)	1,336	1,363	<b>1,405</b>
Net profit <sup>(c)</sup>	845	940	<b>1,010</b>

(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 2018 financial year compared to the 2017 adjusted year. Percentage changes, unless otherwise specified, are calculated in relation to the data indicated in the related tables.

(b) These results, due to the discontinuity factors that characterised 2016 not only exclude the special items but also reflect the Italgas Group's contribution to continuing operations, by applying the relative portion of shares, amounting to 13.5%, to Italgas Group's net profit for the entire year (pro-forma adjusted configuration).

(c) Entirely held by Snam shareholders.

## Reported results

(€ million)	2016	2017	2018
Operating profit (EBIT)	1,293	1,348	1,384
Net profit (*)	861	897	960

(\*) Entirely held by Snam shareholders.

## Key balance sheet and cash flow figures

		2016	2017	2018
Net earnings per share (a)	(€)	0.169	0.262	0.286
Adjusted net earnings per share (a) (b) (c)	(€)	0.242	0.275	0.301
Group shareholders' equity per share (a)	(€)	1.86	1.81	1.78
Pay-out (Dividends for the period/Group net profit) (d) (e)	%	83.86	81.61	77.71
Dividend yield (Dividend for the period/Year-end official share price) (d)	%	5.4	5.3	5.9
Price/Book value (Average official price per share/Group shareholders' equity per share)	(€)	2.21	2.24	2.10

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

(b) The FY 2016 figure is calculated with reference to the pro-forma adjusted result.

(c) 2018 adjusted net earnings per share, calculated considering the number of shares outstanding at the year-end, is at 30.6 euro cents per share (+8.8% vs the correspond 2017 amount).

(d) The 2018 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 15 February 2019.

(e) The figure for FY 2016 was calculated with reference to the Group's net income (continuing and discontinued operations) of 861 million euro,

## Key balance sheet and cash flow figures

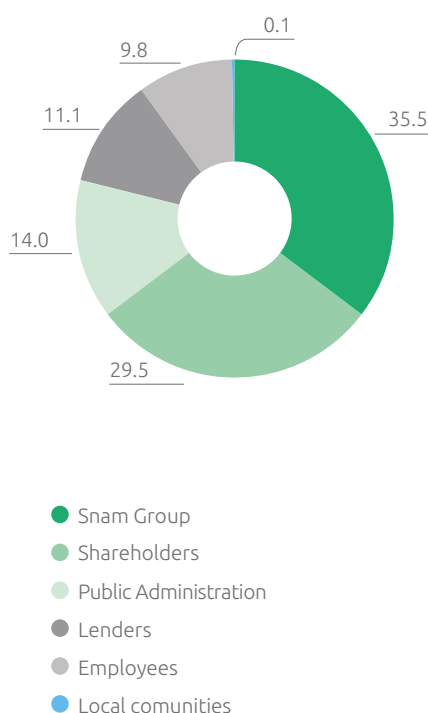
(€ million)	2016	2017	2018
Technical investments	906	1,034	882
Net invested capital at 31 December	17,553	17,738	17,533
Group shareholders' equity at 31 December	6,497	6,188	5,985
Net financial debt at 31 December	11,056	11,550	11,548
Free cash flow	1,707	423	1,161

## Key share figures

		2016	2017	2018
Number of shares of share capital	(million)	3,501	3,501	3,469
Number of shares outstanding at 31 December	(million)	3,471	3,415	3,301
Average number of shares outstanding during the year	(million)	3,497	3,422	3,358
Year-end official share price	(€)	3.923	4.086	3.820
Average official share price during the period	(€)	4.101	4.043	3.747
Market capitalisation	(million)	13,612	13,953	12,606
Dividend per share	(€ per share)	0.2100	0.2155	0.2263
Dividends for the period (*)	(million)	718	732	746
Dividends paid in the period	(million)	875	718	731

(\*) The 2018 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 15 February 2019.

### Breakdown of value added



### Breakdown of added value

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 on the basis of 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 2018, the gross global added value produced by Snam was 2,532 million euro: up 85 million euro (3.5%) compared to 2017 (2,447 million euro).

A total of 35.5% of the gross global added value produced by Snam was **reinvested within the Group** (an increase on 2017: +1.7 percentage points), of which approximately 77% was allocated to the amortisation and depreciation of the infrastructures used in the production process (80% in 2017). As regards the main reference stakeholders, 2018 shows a greater incidence of Value Added distributed to **employees** (11.1%; +0.9 percentage points on 2017) through direct compensation comprised of wages, salaries and severance pay and indirect compensation comprised of social safety charges and costs for staff-related services (canteen services, travel cost reimbursement). The value allocated to the **Public Administration** through payment of direct and indirect tax records substantial stability (14.0%; no change on 2017). With reference to **lenders**, there was a reduction in the value distributed of 2.1 percentage points (9.8%; 11.9% in 2017) also against the benefits deriving from the optimisation actions implemented in 2016 and 2017, in particular the operations of liability management, despite the greater period average debt. The value distributed to **shareholders** through the distribution of dividends records a stable incidence (29.5%; 29.9% in 2017). In the presence of growth of a unitary dividend (+5% on 2017), as confirmation of the commitment to guarantee shareholders an attractive, sustainable remuneration, a reduction is recorded in the number of shares in issue against the buy-back of treasury shares performed by Snam as part of the share buy-back programme. Lastly, an amount of approximately 3 million euro was designated for **local communities** (0.1% of the value generated) through donations and sponsorship initiatives and environmental compensation pursuant to the law.

With regard to the environmental protection, Snam spent approximately 105.7 million euro (92.1 million euro for investments and 13.6 million euro for operating costs).

# Main events

## Acquisitions in the core business

### DESFA

On **20 December 2018**, the European consortium made up of Snam (60%), Enagás (20%) and Fluxys (20%) completed, through the new company Senfluga Energy Infrastructure Holding, the acquisition by the Greek privatisation company HRADF and Hellenic Petroleum of a 66% stake in DESFA, the national operator in the natural gas infrastructure sector, for an equivalent value of 535 million euro. The Consortium has acquired a non-recourse loan with a duration of over 10 years, corresponding to around 65% of the enterprise value. DESFA has and manages, in a regulated system, a high pressure transmission network of approximately 1,500 km, as well as a regasification terminal in Revithoussa. Greece, an important crossways for the diversification of procurement and the opening of new natural gas routes in Europe, has further potential development as a hub for south-east Europe.

Thanks to the support offered by Snam, Enagás and Fluxys, the three European infrastructural companies most involved in the development of the Energy Union, DESFA may fully optimise its strategic position in the Mediterranean. The consortium will also be promoting innovation in the natural gas sector in Greece, fostering the introduction of renewable gases like biomethane so as to create a sustainable energy system and actively contribute towards the reduction of greenhouse gases and polluting emissions in the country.

## Acquisitions in new businesses

### TEP Energy Solution (TEP) - Energy efficiency

On **30 May 2018**, after obtaining antitrust clearance, through the subsidiary Asset Company 4 S.r.l., a controlling stake of 82% of the capital was acquired in TEP Energy Solution (TEP) for a total value of approximately 21 million euro. There is a contractual price adjustment mechanism in place, based on the results of FYs 2018-2020 and crossover put and call options on the interests of minority shareholders, maturing in 2020.

TEP is one of Italy's most important companies in the energy efficiency sector, as an Energy Service Company (ESCO) with more than 200 leading national and international businesses as clients and 950 thousand energy efficiency certificates. The acquisition of TEP comes under the scope of Snam's strategic plans aimed at fostering decarbonisation and a better use of energy in the territories in which it operates. The aim is to speed up the TEP growth process, with the support of the company's management team, facilitating the transfer of energy efficiency competences and technologies from major industry to small and medium enterprises and local entities.

### IES Biogas and ENERSI Sicilia - Biomethane

On **05 July 2018**, Snam acquired, for a value of approximately 4 million euro, 70% of IES Biogas, one of the most important Italian businesses involved in the design, development and management of biogas and biomethane production plants with a market share in excess of 10%. Contractual put and call options are envisaged on minority shareholders' interests, maturing in 2022.

With 2017 turnover exceeding 20 million euro, IES Biogas has to date developed more than 200 plants throughout national territory. In recent years, the company has also developed projects outside Italy.

On **29 November 2018**, Snam also completed the acquisition, for a value of around 2 million euro, of 100% of Enersi Sicilia S.r.l., a company authorised to develop infrastructure to produce biomethane from the organic fraction of municipal solid waste ("OFMSW") in the province of Caltanissetta.

This acquisition will allow Snam to create its first biomethane plant which will be capable of handling 36,000 tonnes of municipal waste per year, providing the bordering municipalities with a totally renewable solution to the problem of disposal.

The plant will be set up leveraging the managerial expertise and know-how of the subsidiary IES Biogas which will oversee its development and construction.

Said acquisitions have been carried out through the subsidiary Snam4Mobility, the company through which Snam is developing the compressed natural gas (CNG) and liquefied natural gas (LNG) engine refuelling infrastructures. The growing interest shown by the market in respect of methane and biomethane sustainable mobility shows the great potential of alternative uses of gas.

Biomethane is a source of renewable energy that derives from the biogas purification process obtained from the optimisation of the products and by-products of the agricultural and agricultural-industrial chain and the organic fraction of municipal waste. Biomethane can be released into the natural gas transmission infrastructure.

The acquisition is a first step for Snam into renewable energy, in support of its role in the energy transition.

### Cubogas - Compressed natural gas (CNG)

On **25 July 2018**, through the newly-established company Cubogas S.r.l., a 100% subsidiary of Snam4Mobility, after the meeting of several conditions precedent including the completion of the union procedures, the business unit was acquired as operating in the design, development and production of technological solutions for natural gas vehicle refuelling stations of M.T.M., a company of the Westport Fuel Systems Group.

The transaction has a value of 12.6 million euro, including price adjustments applied during closing.

The acquisition, which includes the Cubogas brand, will allow Snam to insource and fully consolidate the value created throughout the chain, taking a leadership position in the development of “turnkey” solutions for natural gas sustainable mobility. Snam will operate in such a way as to further develop the strengths of Cubogas, such as the brand value, customer focus and service level. The use of compressed natural gas (CNG) in the transport sector is one of the best technologies available to eliminate polluting emissions, to the benefit of air quality in cities.

## New business opportunities

### Snam and BHGE: agreement to develop micro-liquefaction plants for sustainable mobility

On **28 May 2018**, Snam and Baker Hughes, a GE company (NYSE: BHGE) signed a Head of Agreement for the development of micro-liquefaction infrastructures to boost sustainable mobility in heavy goods transport by road and to promote the launch of shipping in Italy.

Snam and BHGE are evaluating the possibility of developing four micro-liquefaction plants throughout national territory. The total annual production of the four plants will come to approximately 140,000 tonnes of liquefied natural gas (LNG) or bio-LNG (liquid biomethane, obtained from the organic fraction of municipal waste or agricultural and agricultural-industrial biomass) and will strengthen the Italian production of zero CO<sub>2</sub> emissions renewable gas for the transport sector.

The potential investment expected for the four plants, if the study should be successful, is around 50-80 million euro in the next few years. The agreement also envisages the opportunity of developing further micro-liquefaction infrastructures in Italy and abroad.

### Agricultural biomethane - Memorandum of Understanding: Coldiretti, Bonifiche Ferraresi, A2A, Snam and Gestore dei servizi energetici (GSE)

On **19 June 2018**, a memorandum of understanding was stipulated by Coldiretti, Bonifiche Ferraresi, A2A, Snam and Gestore dei servizi energetici (GSE), with the involvement of agricultural and industrial businesses, the Italian councils and, more generally, all players involved in the production of biomethane and the related use in the transport sector. The ultimate aim is to aggregate the chain players, so as to speed up the energy transition in transport, allowing all operators to access the services offered by the various subjects operating in biomethane and agriculture. Snam intends to promote the development and dissemination of processes and technologies for biomethane production in Italy and support the circular economy, as well as making its compressed and liquefied natural gas distribution plants and transmission network available for sustainable mobility.

## Sustainable Mobility

In the more extensive scenario of initiatives for the promotion of sustainable mobility, Snam:

- on **31 July 2018**, stipulated a framework agreement with the api Group for the creation, within IP-branded fuel sales outlets, of around 200 new natural gas and biomethane refuelling stations throughout the country. The agreement is part of the undertaking made by the two companies to promote sustainable mobility and aims to extend the natural gas distribution network for vehicles in Italy. Based on the agreement, Snam and the api Group will jointly identify the IP-branded fuel refuelling stations of the ordinary and motorway networks where the plants supplying methane for vehicles (CNG, compressed natural gas) will be installed. LNG (liquefied methane) distributors for heavy goods vehicles are also being studied;
- following on from the framework agreement signed in May 2017, by means of the subsidiary Snam4Mobility, on **3 August 2018**, stipulated with Eni the second implementation contract on the development of 20 methane refuelling stations in Italy (which follow on from the 14 contracted in 2017). The contract concerns the design, development and maintenance by Snam of 20 new CNG plants within the national Eni distributor network. The investment for these activities is expected to be approximately 10 million euro. As at 31 December 2018, a total of 50 agreements had been contracted with Eni and other operators for refuelling stations (34 with Eni in 2017 and 2018), of which 6 stations have already been developed;
- also signed, on **26 November 2018**, a strategic agreement with SEAT for the promotion of the use of natural gas (CNG - compressed natural gas) and renewable gas (biomethane) for sustainable mobility, as well as research and development projects in this area. According to the agreement signed, Snam and SEAT will be exploring business development opportunities and initiatives involving resellers, commercial clients and drivers, to promote the system of natural gas refuelling stations and the identification of new technological projects.

## Collaboration opportunities in China

Signed on:

- **28 August 2018**, with State Grid International Development (SGID), a 100% subsidiary of State Grid Corporation of China, a Memorandum of Understanding (MOU) to assess a series of possible collaboration opportunities in China and internationally, in particular in connection with uses of new technologies to reduce CO<sub>2</sub> emissions. The initiatives being examined include: (i) the development of biogas and biomethane plants to produce electricity from renewable sources in the rural areas of China; (ii) any partnership opportunities in research and development involving renewable gas,

sustainable mobility and joint electricity-gas projects. A first service contract was also signed with Petrochina Pipeline Company for the training of around 80 resources of the Chinese company;

- **25 October 2018**, an MOU with Beijing Gas, China's most important distributor and supplier of natural gas, with a network of 22 thousand kilometres and more than 6 million customers in the area of Beijing. The understanding envisages the evaluation of possible collaborations in China, in particular in biomethane and the storage of natural gas.

### Sardinia Newco

Snam and Società Gasdotti Italia (SGI) have finalised an agreement for the possible joint development of the transmission infrastructure in Sardinia, after obtaining the authorisations necessary following the procedure in progress with the competent national and regional authorities.

On **30 October 2018**, the Directorate-General for Competition of the European Commission issued its antitrust clearance (authorisation) for the establishment by Snam and Società Gasdotti Italiani-SGI of a newco for the development of the gas transmission infrastructure in Sardinia.

### Snam Global Solution - Joint venture with Albanian Gas Service Company (Albgaz)

Established in **November 2018**, a joint venture for the supply of operation and maintenance (O&M) services on the Albanian section of the TAP gas pipeline. The joint venture is owned 75% by Albgaz and 25% by Snam.

The agreement is part of the activities started by Snam's Global Solutions business unit to enhance and make Snam's consolidated experience in the market development and creation and management of gas infrastructure in Italy and Europe available to other operators at global level.

## Financing

### New share buy-back plan and cancellation of treasury shares without reducing the share capital

On **24 April 2018**, Snam's Shareholders' Meeting authorised, after revoking the part that had not been executed of the resolution to authorise the purchase of treasury shares passed by the Shareholders' Meeting on 11 April 2017, the purchase of treasury shares on one or more occasions, for the maximum duration of 18 months starting from the date of the meeting resolution. The maximum outlay authorised is 500 million euro and in any case up to a maximum of 134,564,883 shares, without exceeding 6.50% of the share capital subscribed and freed-up (regarding the treasury shares already held by the Company). The shareholders' meeting resolution sets out the terms and conditions of the price for the purchase of treasury shares to be made under the authorisation conferred. The Shareholders' Meeting has also authorised the disposal, in one or more tranches, without any time limits and even before having completed the purchases, of all or part of the Company's treasury shares purchased under the shareholders' meeting resolution, and also of the treasury shares already held.

In an extraordinary session, the same Shareholders' Meeting, again held on the same date, approved the cancellation of 31,599,715 treasury shares with no nominal value, without reducing the share capital, and the consequent amendment of Art. 5.1 of the Company's Articles of Association. The shares were cancelled on 07 May 2018 following the deposit with Companies House of the amended Articles of Association. By virtue of this operation, the share capital consists of 3,469,038,579 shares with no nominal value, with a total value of 2,736 million euro.

In execution of that resolved, the new buy-back programme was launched on **18 June 2018**.

In 2018, a total of 113,881,762 Snam shares were purchased, equal to 3.28% of the share capital, for a cost of 426 million euro (56,010,436 shares, equal to 1.60% of the share capital, for a cost of 210 million euro in 2017). Purchases were made of 36,606,724 shares as part of the share buy-back programme resolved by Snam's Shareholders' Meeting held on 11 April 2017 and of 77,275,038 shares as part of the new share buy-back programme.

As at 31 December 2018, Snam had a total of 168,197,663 treasury shares, equivalent to 4.85% of its share capital.

### Renewal of the EMTN Programme and authorisation of a Euro Commercial Paper programme

On **02 October 2018**, the Board of Directors of Snam S.p.A. resolved to renew the Euro Medium Term Note (EMTN) programme launched in 2012, for a maximum value of 10 billion euro.

As a result, the Board has decided to issue one or more additional bonds to be executed by 02 October 2019, for a maximum amount of 1.74 billion euro, increased by the

amount corresponding to the bonds repaid during the same period, 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 10 billion euro. The securities issued may be listed on one or more regulated markets.

The EMTN Programme represents an effective tool to obtain significant financial resources from the market in a rapid and flexible way, at competitive costs, coherent with the expected evolution of the target financial structure of the company. As at 31 December 2018, bonds for approximately 8.0 billion euro have been issued under the EMTN Programme<sup>4</sup>.

The Board of Directors has also resolved to approve a Euro Commercial Paper programme (the "ECP Programme") for the issue of one or more Euro Commercial Papers within 2 years of 02 October 2018, for a total maximum equivalent value of 1 billion euro, increased by the amount corresponding to the Euro Commercial Papers redeemed each time during the same period, to be placed with institutional investors, as per the terms and conditions of the ECP Programme. The total nominal value of the Euro Commercial Papers issued under the ECP Programme may not exceed the maximum limit of 1 billion euro. As at 31 December 2018, the ECP Programme is used for a total nominal value of 225 million euro.

The ECP Programme enables Snam to diversify the short-term financial instruments with a view to ever greater flexibility in the process of optimising the treasury.

### Bond buyback

On **10 December 2018**, Snam successfully completed a buyback on the market of its own bonds with a total nominal value of about 538 million euro, with an average coupon of approximately 2.6% and a remaining maturity of approximately 3.7 years.

The effects of this transaction on the 2018 income statement (47 million euro, 35 million euro gross of the tax effect) are essentially represented by the charges deriving from the difference between the outlay deriving from the repurchase of the bonds on the market and the amortised cost valuation of the bonds themselves.

Through this operation, Snam continues to optimise its debt structure and continuously improve the cost of capital, in line with its objectives. The year just ended is the last of four liability management years that, from 2015 to date, have helped reduce Snam's cost of debt from 2.4% in 2016 to 1.5% in 2018.

## Other

### GasBridges share swap

On **26 April 2018**, Snam S.p.A. and Fluxys Europe B.V. completed the share swap transaction through which Fluxys Europe transferred to Snam the shares held in GasBridge 2 B.V., equal to 50% of the share capital and, at the same time, Snam transferred to Fluxys Europe, the shares held in GasBridge 1 B.V., equal to 50% of the share capital. Upon completion of the share swap, Snam held the entire capital of GasBridge 2 B.V. and Fluxys owned the entire capital of GasBridge 1 B.V. On 31 July 2018, Gasbridge 2 B.V. was renamed Snam International B.V.

### Exit incentive agreement - ISOPENZIONE

On **26 September 2018**, Snam stipulated an implementing agreement with some of the most representative trade unions, covering tools for the management of employment policies.

Under this agreement, which follows on from the preliminary agreement signed by the parties on 26 July 2017, measures were agreed in relation to the instrument for early retirement for employees, regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012 (the "Fornero Law").

The agreement intends to create, by 31 October 2019, the conditions for the companies of the Snam Group that favour the early exit of beneficiary employees in order to achieve a generational turnover.

After verification of pension requirements by INPS, a total of 110 resources are involved.

As far as the application of this implementing agreement is concerned, Snam has committed to pay the beneficiary employees, in addition to the amounts set out in the agreement, a further amount as an incentive to take voluntary redundancy.

In relation to the aforementioned agreement, the income statement recorded expenses of 15 million euro for cost of labour, including the costs for early retirement incentives granted to employees taking part.

<sup>4</sup> The convertible bond loan with a nominal value of 400 million euro is not part of the EMTN Programme.

# Operating review

## Technical investments

Technical investments totalling 882 million euro (1,034 million euro in 2017) referred mainly to the natural gas transportation (764 million euro) and storage (99 million euro) 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** (150 million euro), the **upgrade of the transportation network from entry points in southern Italy** (8 million euro) and the upgrade of the network and connection of new regional and national redelivery points (106 million euro). A total of 26 million euro was invested in 2018 for the **development of new storage fields and upgrading capacity**.

Considering the works completed and decommissioning that took place during the year, **the network of operating gas pipelines** increased by 41 km on 31 December 2017, whilst **installed power in compression plants came to 961 megawatts**, up 59 megawatts thanks to the commissioning of the new Minerbio and Sergnano plants. Available **storage capacity** rose by 0.2 billion cubic metres, made available by the new Bordolano deposit, to a level of 12.4 billion cubic metres.

## Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled 366 million euro for transmission and 57 million euro 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 section of lines is inspected regularly by vehicles, using helicopters and personnel on foot in order to detect potentially hazardous situations caused, for example, by the works of third parties in the area of 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)	2016	2017	2018
Network inspected using smart pigs	1,660	1,632	<b>1,651</b>
Network inspected by helicopter	16,218	16,274	<b>18,462</b>
Network subjected to geological inspection	1,478	4,080	<b>4,209</b>

In terms of storage, particular attention is paid to the safety plants and people. Regular maintenance and plant improvement interventions are performed on a continuous and targeted basis, in order to always apply the best available technologies. In addition to the drills required by the Seveso Directive, in 2018, at the Panigaglia regasification terminals, Snam conducted monthly safety drills simulating accidental leaks of LNG. A joint Security and Safety exercise was also carried out with the Port Authority, the Fire Department, the police, and the emergency medical services.

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# 72.82

Bn m<sup>3</sup> gas injected into the network (-2.4%)

## Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2018 was 360.8 million cubic metres/day on average, which was in line with 2017 (-0.9%), while transferred capacity totalled 287.0 million cubic metres/day on average. Network saturation<sup>5</sup> was 79.5%, a rise compared with 2017 (71.0%).

The number of active transport users in 2018 was 136, compared to 128 users active in 2017. During the year, 88 connection agreements were entered into for the creation of new delivery/redelivery points, including 14 biomethane points and 43 CNG.

Overall storage capacity, including strategic storage, was 16.9 billion cubic metres at 31 December 2018, an increase of 0.2 billion cubic metres over 2017, following the Bordolano site's gradual entry into service, of which 12.4 was available capacity that was fully transferred for the 2018-2019 thermal year (99.7%), and the remaining 4.5 billion cubic metres was for strategic storage.

There were 91 active storage customers (89 in 2017).

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# 72.66

Bn m<sup>3</sup> gas demand (-3.3%)

## Business volume

In 2018, a total of 72.82 billion cubic metres of gas was injected into the network, a reduction of 1.77 billion cubic metres (-2.4%) compared with 2017. The reduction can mainly be attributed to the lower consumption recorded in the thermoelectric business segment (-2.08 billion cubic metres; -8.2%) following the return to the normal flows of electricity imports, which reduced in 2017 due to the downtime of some French nuclear plants in the first two months of the year and the increase in hydroelectric production, which has returned to normal levels after the water shortage that characterised 2017.

Volumes of gas moved through the storage system in FY 2018 amounted to 21.07 billion cubic metres, an increase of 1.15 billion cubic metres, or 5.8%, compared with FY 2017.

The increase can be attributed to both greater injections for filling storage (+0.84 billion cubic metres; + 8.6%) and to greater deliveries from storage (+0.31 billion cubic metres; +3.1%), mainly following the climatic conditions in the first few months of 2018.

During 2018, 0.91 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.63 billion cubic metres in 2017; +0.28 billion cubic metres, or 44.4%). In 2018, 21 methane tanker loads were unloaded (15 in 2017; +40%).

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# +5.8%

volumes moved

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# +44.4%

m<sup>3</sup> regasified

<sup>5</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. To this end, please note that the companies that joined the consolidation scope in FY 2018 have been consolidated within the Corporate and other businesses segment.

	2016	2017	2018	Change	% change
Natural gas transportation (a)					
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	70.64	74.59	<b>72.82</b>	(1.77)	(2.4)
Transportation network (km in use)	32,508	32,584	<b>32,625</b>	41	0.1
Installed power in the compression stations (MW)	922	902	<b>961</b>	59	6.5
<b>Liquefied natural gas (LNG) regasification (a)</b>					
LNG regasification (billions of cubic metres)	0.21	0.63	<b>0.91</b>	0.28	44.4
<b>Natural gas storage (a)</b>					
Available storage capacity (billions of cubic metres) (c)	12.0	12.2	<b>12.4</b>	0.2	1.6
Natural gas moved through the storage system (billions of cubic metres)	20.00	19.92	<b>21.07</b>	1.15	5.8
Employees in service at period end (number) (d)	2,883	2,919	<b>3,016</b>	97	3.3
<i>of which business segments:</i>					
- Transportation	1,726	1,972	<b>1,915</b>	(57)	(2.9)
- Regasification	71	63	<b>64</b>	1	1.6
- Storage	301	60	<b>59</b>	(1)	(1.7)
- Corporate and other activities (e)	785	824	<b>978</b>	154	18.7

(a) With reference to the 2018 financial year, gas volumes are expressed in Standard cubic metres (scm) with an average Higher Calorific Value (HCV) of 38.1 MJ/scm (10.572 Kwh/scm) for transport and regasification and 39.29 MJ/scm (10.914 Kwh/scm) for the storage of natural gas for the thermal year 2018-2019.

(b) The figures for 2018 were updated as at 11 January 2019. The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) Working gas capacity for modulation, mining and balancing services, allocated almost entirely for the thermal year 2018-2019.

(d) Fully consolidated companies.

(e) The figure for 2018 includes resources obtained respectively: (i) from the entry of TEP (22 resources) and (ii) of IES Biogas (34 resources) into the consolidation area, (iii) as well as the acquisition of the Cubogas business unit (61 resources).

## **Personel trend**

The number of employees in service as at 31 December 2018 was 3,016 (n. 2,919 employees as at 31 December 2017), an increase of 97 (+3.3%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation as at 31 December 2017 was 2,949 (2,860 employees in 2017).

During the year, 2018 recorded the following performance:

- 321 new resources, of whom 195 hired from the market, 126 other new employees, including 61 resources due to a change in the consolidation of the company Cubogas S.r.l. as from 25 July 2018, 22 resources for the acquisition of TEP Energy Solution from June 2018, 34 resources for the acquisition of IES Biogas in July 2018, 9 returns to service from leave;
- 189 employees left the company, including 49 as a result of the termination of employment, 41 were terminated unilaterally (comprising both dismissals and redundancies) and 99 departures under Isopensione. Another 10 employees left on leave and 25 were transferred to companies that are not consolidated.

With respect to the Group's national distribution, 2,302 people are employed in the northern regions of Italy, 220 in the central regions and 490 in the south. Furthermore, 4 individuals are permanently employed abroad.

## **Industrial relations**

In 2018, the relationship with the trade union organisations at a national and local levels was characterised by numerous meetings (109) regarding plans for business evolution and new organisational structures, also following the acquisition of Cubogas.

As regards to transmission and storage, the integration deriving from the "Integra" project continued, which calls for integrating side activities of the operational companies to develop and exploit the specific skills.

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. Moreover, a technical commission has been set up for the "Smart Gas Plants" project, with the aim of analysing the technical matters relating to this further technical organisational evolution. In the regasification area, meetings were held with the trade unions, at national and local level, aimed at sharing and comparing the issues concerning the evolution of the business.

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 the Italian Law 92/2012 for an early exit of a further 110 workers who meet the requirements prescribed by the law.

By trade union agreement, the electronic ticket has been introduced group-wide in all territorial operative contexts.

## 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 2018, Snam directly provided work for around 540 companies, 399 of which belong to the small-medium business sector (SME), concluding 753 procurement contracts worth a total of approximately 1.5 billion euro. Among the goods purchased the most important material is steel (piping, connectors, etc.) which, in 2018, amounted to a supply of approximately 46,400 tonnes.

The increase in procurement on 2017 (approximately + 80%) was determined by the multi-year planning of purchases, the cyclical nature of the procurement process by virtue of the stipulation of contracts signed during previous years and new business activities.

More than 92% of the procurement concerns Italy (distributed in all Italian regions in line with the territorial belonging of each company), and about 8% concerns Europe. As regards business abroad, in 2018 Snam stipulated approximately 20 contracts for new activities (for a value of 6.5 million euro), thereby strongly boosting its globalisation. By virtue of its consolidated know-how in the management of complex orders, Snam operated for the first time in the United Kingdom as EPC contractor, simultaneously managing the procurement of materials, engineering and construction of plants (gas turbines). Activities will continue into 2019, further bearing out Snam's role as industry leader in Europe. During the year, important activities were also launched ahead of the imminent entrance of the Chinese market, scheduled for 2019.

In order to guarantee the adequacy of the suppliers with respect to procurement needs, Snam constantly carries out market intelligence and scouts out new suppliers: in 2018, more than 500 businesses were contacted in relation to around sixty different product categories, and approximately 200 new candidates started qualification proceedings. The number of spontaneous applications received from prospective suppliers amounted to circa 1,300. As at 31 December 2018, the vendor list included 1,465 qualified suppliers, and 611 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, 815 feedback reports were collected on the services rendered by 157 suppliers. Additionally, 1,831 suppliers and sub-contractors were checked with regard to the regularity of contributions, through 3,980 inspections which led to the interception of 2.2% 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. A total of 2,074 reputational checks were performed in 2018.

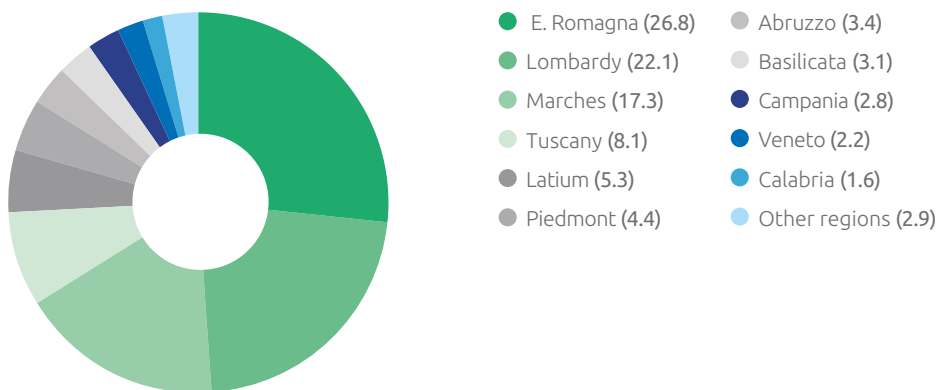
In the procurement of works, which is the most important category because it is related to core activities, the suppliers considered critical (critical levels A and B) were all in possession of quality and environment management systems certified with ISO 9001, ISO 14001 and ISO 18001 standards. The objective to have at least 65% of the suppliers of goods (critical level A) who possess environmental management systems certified according to ISO 14001, set in 2017, was achieved in 2018.

Figures for the 2018 procurement procedure do not include the newly acquired companies TEP, IES Biogas and Cubogas.

## Purchases

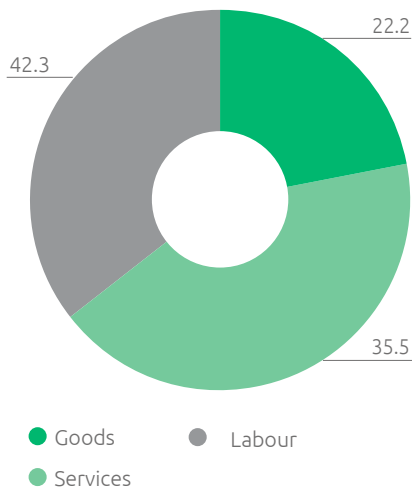
(€ million)	2016	2017	2018	2016-2018
Amount of purchases	1,359	844	1,520	3,723

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

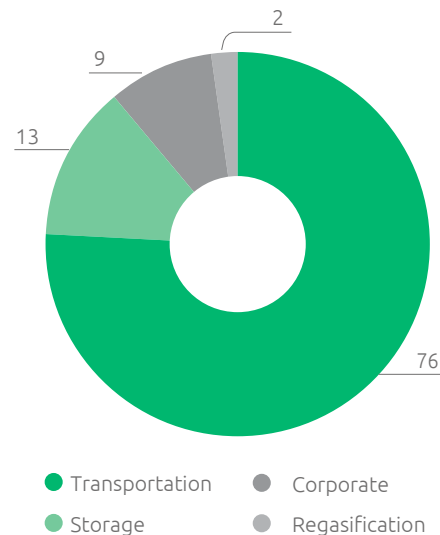


(\*) Representation of the geographical distribution refers to the registered offices of suppliers.

### 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 a gradual promotion not only within the company, but also vis-à-vis the suppliers, to extend and improve collaboration to achieve the best performance.

In 2018, there were a total of 7 accidents (11 in 2017), of which 4 occurred to employees (6 in 2017) and 3 to contracting suppliers (5 in 2017); no accidents had a fatal outcome.

## Accidents at work

(no.)	2016	2017	2018
Total employee accidents	4	6	4
Total contract worker accidents	5	5	3

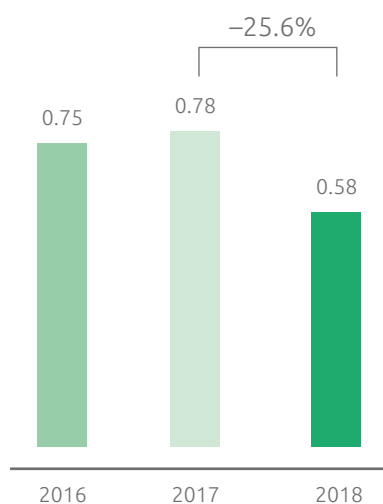
## Accident indices

	2016	2017	2018
<b>Employees and contract workers</b>			
Frequency index	0.75	0.78	0.58
Severity index	0.05	0.56	0.02
<b>Employees</b>			
Frequency index	0.81	1.24	0.84
Severity index	0.04	0.05	0.02
<b>Contract workers</b>			
Frequency index	0.71	0.54	0.41
Severity index	0.05	0.83	0.03

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

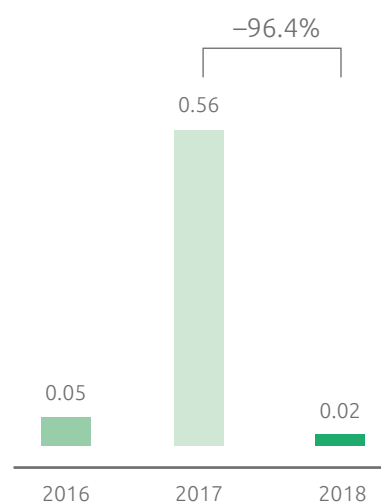
**Severity index:** number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

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



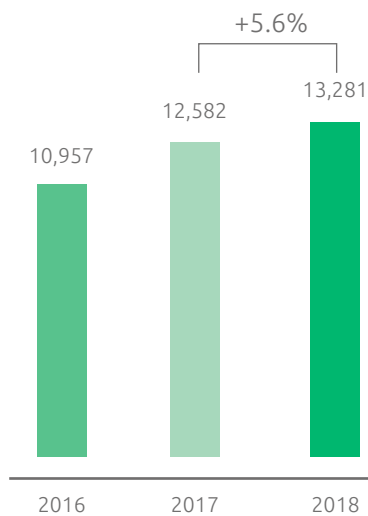
(\*) Number of accidents at work resulting in an absence of at least one day, per million hours worked.

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

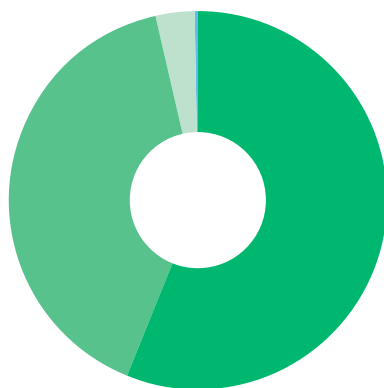


(\*) Number of working days lost in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. Data includes fatal accidents.

## Energy consumption (TJ)



## Energy consumption by business segment (%)



- 56.2% Transportation
- 40.2% Storage
- 3.5% Regasification
- 0.1% Corporate

(\*) 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".

## Energy consumption

Most of Snam's energy consumption is attributed to gas turbines used in compression systems that provide the pressure required for gas transportation (thrust consumption) and in storage concessions (storage consumption) that, overall, represent 88% of total consumption.

In 2018, energy consumption totalled around 13,281 TJ (+5.6% compared with 2017). This increase is mainly due to greater natural gas consumptions brought about by the increase in the quantity of gas stored in deposits (+9%) and the commissioning of new compression plants (Minerbio and Sergnano), which have required significant fuel consumptions to commission the plants.

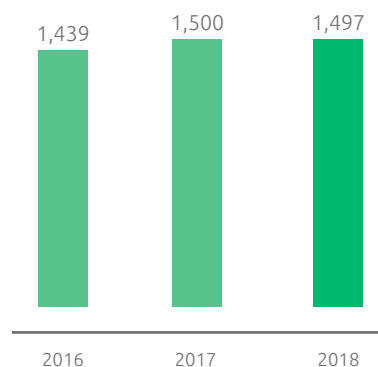
In addition to natural gas, the other energy sources are electricity (2.8%) and other fuels (diesel fuel, gasoline, LPG and heat), which together amount to 0.8% of the total consumption.

## Greenhouse gas emissions

In 2018, the direct CO<sub>2eq</sub> emissions amounted to approximately 1.5 million tonnes (stable on 2017). CO<sub>2</sub> emissions from combustion amounted to approx. 0.727 million tonnes (+5.2% compared with 2017), whereas the CO<sub>2eq</sub> emissions deriving from the methane emissions amounted to approximately 0.77 million tonnes (-4.8% compared with 2017). Natural gas emissions came in at 44.4 million of m<sup>3</sup>, down on the 46.8 million of m<sup>3</sup> booked for 2017. The increase in CO<sub>2</sub> emissions from combustion is mainly due to the greater natural gas consumptions brought about by the increase in the quantity of gas stored in deposits (+9%) and the increase in plants (two new compression plants), which have required significant fuel consumptions to commission the plants.

The company has set targets for the reduction of its natural gas emissions by 2022 and 2025 respectively as 15 and 25%, net of emergencies, with respect to 2016 values. In 2018, the emission into the atmosphere was avoided of 8.2 million cubic metres of natural gas, equal to approximately 142,200 tonnes of CO<sub>2eq</sub> (+99% on the 71,500 tonnes of CO<sub>2eq</sub> in 2017). This performance was made possible thanks to gas recompression interventions in the line (13 interventions carried out as compared with the 8 in 2017) and interventions with tapping machines, a technology that can detach methane pipelines operating for new connections without interrupting service. These results led to a reduction in 2018 emissions of 7.9% on 2016, a trend that is entirely in line with the general objective.

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



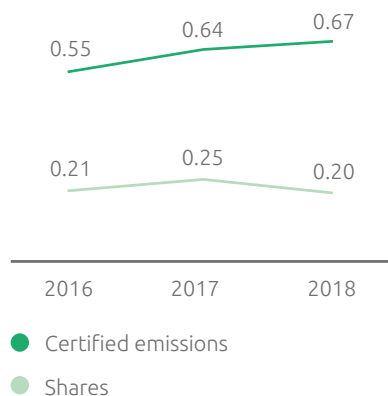
In 2018, the Snam Group's total CO<sub>2</sub> emissions from ETS plants, certified by an accredited body according to the provisions of the competent national authority, amounted to approximately 0.67 million tonnes, out of total annual allowances of approximately 0.20 million issued by the Ministry for the Environment, Land and Sea (negative balance of 0.47 million allowances). This deficit is partly offset by the quotas already present in the Snam Rete Gas plant registers, accumulated thanks to the surplus of previous years, and with the further purchase of approximately 0.20 million tonnes on the European quotas market.

With consultation document 512/2018/R/gas, published on 18 October 2018 and relating to the criteria applied to determine the revenues recognised for the fifth regulatory period for the transmission of natural gas (2020-2023), the Regulatory authority (ARERA) proposed introducing a variable price applied to the values transported, also intended to cover the costs relating to the Emission Trading system.

### Snam Emission Trading Plants

Activity	No. of plants	Name of plants
Transportation	13	Gas compression stations in Enna, Gallese, Istrana, Malborghetto, Masera, Melizzano, Messina, Montesano, Poggio Renatico, Tarsia, Terranuova Bracciolini, Minerbio, Sergnano
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

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



# Snam and the financial markets

## Snam share performance

The Snam share price ended 2018 at a close price of 3.7354 euro, slightly lower than the one recorded at the end of the previous year, adjusted for the detachment of dividends, equal to € 3,7661. The change recorded led to a Total Shareholders Return (TSR) equal to -0.8%.

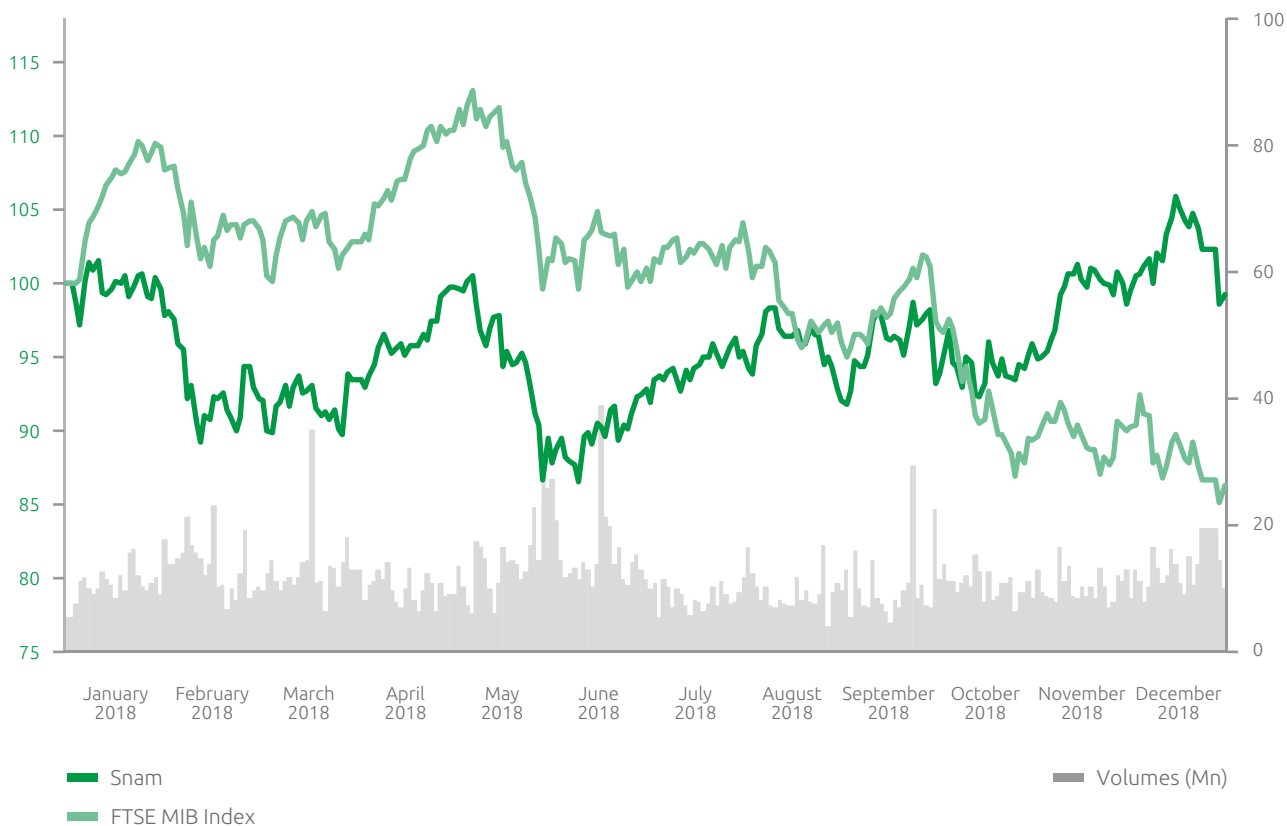
In 2018, the share suffered the rise in rates in Italy and, in particular, the spread, one of the main financial indicators used to determine the country risk, which reached 327 basis points in October, as well as the expectations for growth in interest rates and inflation.

After the announcement of the intention to present a new business plan in November, the share performed better than its peers and benchmarks.

After the plan was unveiled, also thanks to greater visibility of growth prospects of all financial and economic indicators, as well as the clear regulatory framework, it continued to perform well in the market context.

During the year, the company continued its usual investments, with the aim of improving the competitiveness and security of gas procurement, together with its commitment to guarantee shareholders profitable, remunerative growth.

## Total Shareholders Return (TSR) - Comparison of Snam prices and FTSE MIB (01 January 2018 - 31 December 2018)



## Snam Shareholding at 31 December 2018

Consolidated company	Shareholders	% Ownership
Snam S.p.A.	CDP Reti S.p.A. <sup>(a)</sup>	30.37
	Romano Minozzi	5.91
	Snam S.p.A.	4.85
	Other shareholders	58.87
		<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.

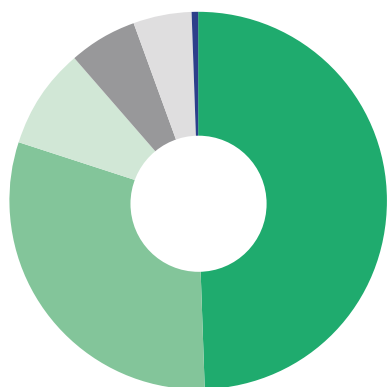
At end 2018, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 30.37% of share capital, Snam S.p.A. held 4.85% in the form of treasury shares, and the remaining 64.78% was in the hands of other shareholders.

The share capital as at 31 December 2018 consisted of 3,469,038,579 shares with no nominal value (3,500,638,294

shares as at 31 December 2017), with a total value of 2,735,670,475.56 euro (unchanged from 31 December 2017).

As at 31 December 2018, Snam held 168,197,663 treasury shares (85,915,616 as at 31 December 2017), equal to 4.85% of its share capital, with a book value of about 626 million euro (2.45% for a book value equal to 318 million euro as at 31 December 2017). More information on changes to treasury shares held in the portfolio in 2018 is given in the chapter entitled "More information - Treasury shares" of this Report.

### Composition of Snam shareholders



- 49.7% Institutional investors
- 30.4% CDP Reti
- 8.7% Retail investors
- 5.9% Minozzi
- 4.8% 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 - Retails (\*\*)
- 9.0% UK & Ireland
- 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 (5.9%).

## **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.

### **2018 Engagement Activity**

In presenting the Strategic Plan and conference calls upon the publication of the Company's results (annual, semi-annual and quarterly) during 2018, the following were carried out:

- 11 road shows to meet shareholders and institutional investors in the major financial centres of Europe, North America and Asia;
- 15 industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet senior management;
- 117 one-to-one meetings between Snam's management and investors, in addition to numerous group meetings (for a total of 161 meetings).

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

The number of investors including intangible elements, such as environmental, social and governance topics, in their investment choices, is growing significantly from year to year. With it, therefore, the demand also increases for disclosures towards companies, called to provide their financial stakeholders with ever clearer and more complete data and information, necessary to their investment choices. Again in 2018, the Snam share was included in the main international SRI stock market indices, an essential tool in terms of transparency towards the market and comparability with peers. This result helps improve the company's visibility vis-à-vis investors, as well as the entire financial market.

The overall share of Snam's institutional investors as at 31 December 2018 that include Corporate Social Responsibility criteria in their investment decisions stood at 9.7% of all institutional investors.

## Snam's presence in sustainability indices



For the tenth 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 fourth 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 include companies having high sustainability ratings in their affiliated sectors.



The Snam stock, for the ninth year in the row, is included in the STOXX Global ESG Leaders Indices, a group of indexes based on a transparent process of selection of performances, in terms of sustainability, of 1800 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.

## ESG Awards



Included, for the sixth year running, among the top scoring companies of CDP, one of the leading international non-profit organizations dealing with climate change, from whom it was also recorded in the "A List".



Snam was also listed, in 2018, 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 anti-corruption issues.



Again in 2018, Snam is confirmed as included 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.

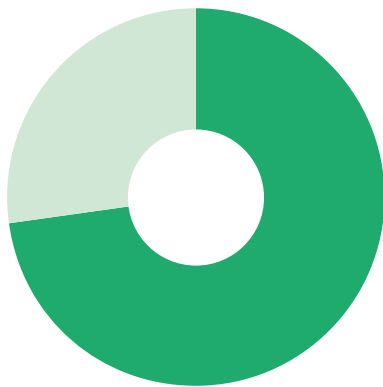


In 2018, Snam was confirmed at "PRIME" level (with rating B-) by Oekom research, a leading international agency rating socially responsible investments, which operates on behalf of institutional investors and financial services companies.



Snam is also confirmed on the Sustainalytics index, a leading ratings agency in evaluating companies in terms of ESG, to which the company has belonged since 2013.

#### Breakdown by maturity (%)



- 73% Short term
- 22% Long term

#### Breakdown by type of rate (%)



- 78% Fixed rate
- 22% 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.

As at 31 December 2018, the Group's net financial position was 11,548 million euro, resulting from a gross financial debt of 13,420 million euro and liquid funds and equivalents of 1,872 million euro.

With reference to the capital market, in January 2018, Snam issued a two-year bond for 350 million euro, at a variable rate (Euribor 3m +15bps), converted into fixed-rate bonds with an overall negative return, as part of the company's short/medium-term funding strategy. In September, Snam issued a fixed-rate bond, maturing on 18 September 2023, of an amount of 600 million euro, coupon of 1%. In December 2018, Snam had successfully completed the buy-back on the bond market, for a total par value of 538 million euro with an average coupon of around 2.6% and a residual maturity of around 3.7 years. The buy-back price, including commission paid to intermediaries and interest accrued (7 million euro), equal to a total of 580 million euro, was partly financed through a reopening of an operation for 300 million euro of the September fixed-rate bond issue with the same maturity and same coupon as the original issue.

With reference to the banking market, in July and October, Snam increased the net amount of its bilateral banking facilities for an additional 450 million euro, at very competitive conditions and below the prevalent conditions available at that time on the market, at the same time also extending the average term (previously set to November 2019) by approximately two years.

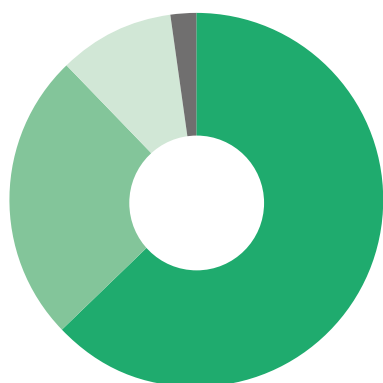
As at 31 December 2018, Snam has unused committed long-term credit facilities for an amount of approximately 3.2 billion euro. During the year, as part of the process to optimise the financial structure of group, their duration was extended, without increasing margins, and the transformation into a sustainable loan was completed. This is the third largest sustainable loan stipulated in the world and the first by a gas utility company. This loan envisages bonus/malus mechanisms according to the achievement of certain ESG (Environment, Social, Governance) KPIs.

Following the renegotiation, the two syndicated lines, amounting to 2.0 billion euro and 1.2 billion euro, will expire in July 2022 and December 2023, respectively, with an extension of one year with respect to the previous duration. In addition, on the same date, Snam has a Euro Medium Term Notes (EMTN) programme for a total maximum nominal value of 10 billion euro<sup>6</sup>, of which around 8.0 billion euro are being used<sup>7</sup>.

<sup>6</sup> On 02 October 2018, the Board of Directors of Snam resolved to renew the EMTN Programme for a maximum value of 10 billion euro. The renewal of the programme allows for the issue, by 02 October 2019, of bonds worth up to 1.74 billion euro, to be placed with institutional investors operating mainly in Europe.

<sup>7</sup> It should be noted that the convertible bond issued in March 2017, for a value of 400 million euro, is not part of the EMTN Programme.

### Breakdown by type of funding (%)



- 63% Bonds
- 25% EIB loans
- 10% Bank loans
- 2% Euro Commercial Paper - ECP

Snam also has a Euro Commercial Paper (ECP) Programme for a maximum total nominal value of 1 billion euro. As at 31 December 2018, the ECP Programme was used for a total nominal value of 225 million euro, as part of the company's short/medium-term funding strategy.

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 stable outlook), Fitch (BBB+ with stable outlook), and Standard & Poor's (BBB+ with negative outlook).

The October downgrade by one notch (from Baa1 to Baa2) by Moody's followed a similar deterioration by one notch in the rating of the Italian Republic. Moreover, during Snam's launch of the Commercial Paper programme, the agencies assigned the company a short-term rating of P-2 for Moody's, A-2 for S&P and F-2 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	29 October 2018	27 November 2018	12 December 2018
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

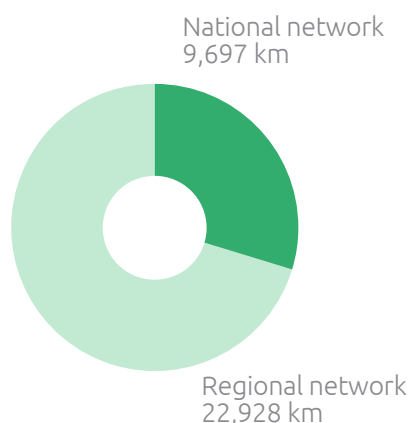


SNAM INFRASTRUCTURE IN ITALY



# Natural gas transportation

## 32,625 km Operating gas pipeline network

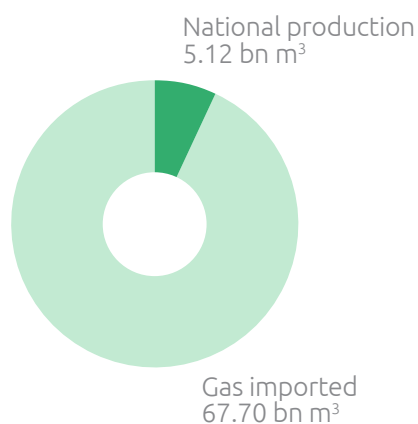


### SNAM'S PRESENCE IN TRANSMISSION IN ITALY

Through the subsidiaries Snam Rete Gas and Infrastrutture Trasporto Gas, Snam is the leading Italian natural gas transportation and dispatching operator, and owns almost all of the transportation infrastructure in Italy, with 32,625 kilometres of high- and medium-pressure gas pipelines (approximately 93% of the entire transmission system). Snam manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 13 compression stations, including the two new plants of Minerbio and Sergnano that were commissioned in 2018, and a new dispatching unit that has been recently renovated in terms of structure and technology. The gas coming from abroad is fed into the network at the seven import channel, 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 applicant shippers. In this way, users acquire the right to feed or withdraw, on any day of the thermal year, a quantity of gas not exceeding the daily flow rate. The conditions for access to the service are contained in the Network Code. The shippers have the possibility to make sales and gas exchanges at a Virtual Trading Point (PSV) of the National Network, thanks to the dedicated IT platform.

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



In 2018, the average transport capacity offered at entry points interconnected with foreign countries and with LNG terminals was 360.8 million cubic metres/day; in addition to this capacity, Snam has made transport capacities available at entry points interconnected with national producers for a total of 19.2 million cubic metres average/day and with the production of biomethane for a total of 0.1 million of cubic metres average/day.

During the last 15 years, transport operators have grown steadily, going from 30 operators in 2003 to around 200 operators in 2018 (between shippers and traders), with 136 customers (+6.7% compared to 2017).

In 2018, 88 connection contracts were signed for the construction of new delivery/redelivery points or the upgrading of existing points, of which 14 were for biomethane injection and 43 for CNG.

## KEY PERFORMANCE INDICATORS

The segment disclosure Natural gas transmission includes the values of the companies Snam Gas Network and Infrastrutture Trasporto.

(€ million)	2016	2017	2018	Change	% change
Total revenue <sup>(a)</sup>	2,035	2,039	<b>2,118</b>	79	3.9
- of which regulated revenue <sup>(a)</sup>	1,999	1,981	<b>2,041</b>	60	3.0
Total revenue net of pass-through items <sup>(a)</sup>	1,815	1,874	<b>1,984</b>	110	5.9
Operating costs <sup>(a)</sup>	469	452	<b>479</b>	27	6.0
Adjusted operating costs <sup>(a) (b)</sup>	469	441	<b>462</b>	21	4.8
Adjusted operating costs net of pass-through items <sup>(a)</sup>	249	276	<b>328</b>	52	18.8
EBIT	1,021	1,037	<b>1,064</b>	27	2.6
Adjusted EBIT <sup>(b)</sup>	1,021	1,048	<b>1,081</b>	33	3.1
Technical investments	776	917	<b>764</b>	(153)	(16.7)
- of which with a greater return	345	383	<b>280</b>	(103)	(26.9)
- of which with a basic return <sup>(c)</sup>	431	534	<b>485</b>	(49)	(9.2)
Net invested capital at 31 December	12,263	12,542	<b>12,551</b>	9	0.1
Natural gas injected in the National Gas Transportation Network (billions of cubic metres) <sup>(d)</sup>	70.64	74.59	<b>72.82</b>	(1.77)	(2.4)
Transportation network (kilometres in use) <sup>(e)</sup>	32,508	32,584	<b>32,625</b>	41	0.1
- of which national network <sup>(e)</sup>	9,590	9,704	<b>9,697</b>	(7)	(0.1)
- of which regional network	22,918	22,880	<b>22,928</b>	48	0.2
Installed capacity in the compression stations (MW) <sup>(f)</sup>	922	902	<b>961</b>	59	6.5
Employees in service at year end (number)	1,726	1,972	<b>1,915</b>	(57)	(2.9)

(a) Before consolidation adjustments.

(b) 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".

(c) At an actual basic pre-tax WACC of 5.4%, both for 2017 and 2018.

(d) The data for 2018 were updated on 11 January 2019. The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development. With reference to 2018, 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).

(e) For 2017 and 2018, the figure includes 84 km of network referring to the company Infrastrutture Trasporto Gas.

(f) For 2017, the figure excludes the units "being conserved" in relation to the Gallese plant.

## RESULTS

**Total revenue** amounted to 2,118 million euro, up by 79 million euro, or 3.9%, compared with 2017 (2,039 million euro). Net of components offset in costs<sup>8</sup>, total revenue amounted to 1,984 million euro, up by 110 million euro, or 5.9%, compared with the previous year.

The **regulated revenues** (2,041 million euro) essentially refer to the fees for the natural gas transportation service (2,023 million euro) and to the incentives granted to the Balancing Operator (RdB) (15 million euro) following the actions implemented, as required by Resolution 554/2016/R/gas. Regulated revenue, net of components that are offset in costs, amounted to Euro 1,907 million, up by Euro 91 million, or 5.0%, compared with 2017. The increase is essentially due to greater revenues from transmission (+81 million euro)<sup>9</sup> in view of the update of the invested capital recognised for regulatory-RAB purposes (+64 million euro), the greater contribution of ITG (whole year 2018 as compared with 3 months in 2017; +15 million euro) and greater incentives recognised to the Balancing Operator (+7 million euro).

**Non-regulated revenue** (77 million euro) increased by 19 million euro, or 32.8%, compared with 2017. The increase is due to the services provided to other Group companies (+16 million euro) essentially following the transfer from Stogit to Snam Rete Gas, as part of the Integra Project completed on 01 July 2017, of the business unit "Technical plants and services". The increase is matched by higher labour costs associated with the staff members transferred.

**Adjusted operating profit**, which excludes the special items represented by the charges relating to the incentives to take voluntary redundancy in application of the early pension mechanism regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012 (the "Fornero Law"), together with the introduction of the "quota 100" envisaged by the 2019 Budget Law (a total of 17 million euro), comes to 1,081 million euro, up 33 million euro, equal to 3.1% on FY 2017. The increase is due to the greater revenues (+94 million euro, net of the charge-back of services provided to other Group companies), partly offset by the greater amortisation, depreciation and impairment (-25 million euro, equal to 4.5%), essentially due to the commissioning of new assets and the rise in operating costs (-36 million euro, equal to 14.5%, net of components with equivalent entries in revenues, the effects of the corporate reorganisation as part of the Integra Project and special items). This increase is mainly due to expenses deriving from the greater use of Unaccounted-For-Gas (UFG)<sup>10</sup> with respect to the quantities conferred in kind by the users (-22 million euro, net of uses of the provision made during previous years) and greater costs for services, mainly IT in nature, charged back by the parent company Snam S.p.A., only partly offset by actions to optimise IT infrastructure management.

8 The main revenue items offset in costs relate to sales of natural gas carried out for the purposes of balancing the gas system, modulation and interconnection.

9 The change includes the adjustment of revenues recognised for natural gas transmission and dispatching for 2018, in order to take into account the final values for 2017, as ordered by the Authority in resolution 390/2018/R/gas of 18 July 2018.

10 With reference to the petition presented by the Company to the regulatory Authority - ARERA, for the recognition of the greater charges related to the purchase of gas for the coverage of the UFG for the years 2018-2019, it is specified that the Authority itself with communication of 13 February 2019, while positively assessing the Company's request, however, deemed it necessary to acquire additional information elements preliminary to the completion of the preliminary investigation. The Company is collaborating with the Authority in providing the requested information.

## Technical investments

Type of investment	2016		2017		2018		
	Greater return (%) (*)	Million €	Greater return (%) (*)	Million €	Type of investment	Greater return (%) (**)	Million €
Development of new import capacity	2.0%	226	2.0%	276	Development	1.0%	279
Development of the national network	1.0%	1	1.0%	10			
Development of the regional network	1.0%	118	1.0%	97			
Replacement and other		431		534	Replacement and other		485
		<b>776</b>		<b>917</b>			<b>764</b>

(\*) With respect to an actual pre-tax basic WACC of 5.4%. For 2016 only, the actual basic pre-tax WACC is plus 1% to offset the regulatory lag.

(\*\*) With respect to an actual basic pre-tax WACC of 5.4%, applied to investments in new transmission capacity and with a cost-benefits analysis of more than 1.5 in accordance with Resolution 575/2017/R/Gas.

**Technical investments** in 2018 amounted to 764 million euro, a decrease of 153 million euro, or 16.7%, compared with 2017 (917 million euro).

Investments have been classified consistently respectively with resolutions 575/2017/R/gas with reference to FY 2018 and 514/2013/R/gas for 2017 investments where by the Autorità di Regolazione per Energia, Reti e Ambiente ("ARERA" or the "Authority") identified different categories of projects with which a different level of remuneration is associated.

The main investments made in **developing** new transmission capacity, for which a greater remuneration of 1% is envisaged (279 million euro), mainly concern:

- investments in **developing new transmission capacity on the national network functional to import and export capacity** (174 million euro) as part of the initiative to support the market in the country's north-west, and to allow for the reversal of physical transmission flows at the interconnection points with northern Europe in the area of the Po Valley, projects to upgrade the transmission network from the entry points in southern Italy, the Cervignano-Mortara methane pipeline and the compression plants of Sergnano and Minerbio, which were commissioned starting October 2018;

- investments in **developing new transmission capacity on the regional and national networks** (106 million euro), including: (i) the continuation of works relating to the Cornigliano Laudense Italgas Storage S.r.l. connection; (ii) the continuation of construction works and connections relating to the methanisation of the region of Calabria, including the Montebello Jonico derivation.

Investments in **replacement and other investments with basic remuneration**<sup>11</sup> (485 million euro) mainly concern:

- (i) works aimed at maintaining plant safety levels, also in terms of function and quality (366 million euro) including the continuation of works for the design and acquisition of permits and start to delivery of materials for the rebuilding of the Ravenna-Chieti methane pipeline, stretch Ravenna-Recanati (27 million euro); (ii) projects relating to the development of new information systems, as well as the implementation of the existing ones (65 million euro); (iii) upgrading projects for the redelivery plants (24 million euro); (iv) reclamation works for third parties (10 million euro); and (v) the purchase of assets instrumental to operating activities (18 million euro).

11 For the investments of 2018, the basic rate of return includes the rate of return on net invested capital (real pre-tax WACC) of 5.4%.

## Progress of work to obtain permits

For the development of new sites, in addition to the technical-economic feasibility criteria, Snam adopts procedures that meet strict environmental compatibility and safety assessments.

The assessments of the environmental effects involve all the 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) procedures, and in the Integrated Environmental Authorisation (IEA) procedures, 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>				
Redoing of the Rimini-Sansepolcro methane pipeline and related works	81.915	Emilia-Romagna and Tuscany	Tuscany	18/06/18

### Integrated Environmental Authorisation (IEA) Decrees obtained during the year

Name	No. compression units	Regions involved	Competent agencies	Date of decree
<b>Gas compression plant</b>				
Gallese (review for substantial change)	3	Lazio	Ministry of the Environment and Protection of Land and Sea	11/05/2018

### Provisions for verification of whether subject to EIA obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of provision
<b>Pipelines</b>				
Mornico al Serio - Travagliato Tratto Chia ri - Travagliato	24.94	Lombardy	Province of Brescia	03/05/2018
Asti-Cuneo Variants for the development of PIG receipt/launch plants	3.941	Piedmont	Ministry for the Environment	26/09/2018

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

Name	Length (km)	Regions involved	Date of submission
<b>Pipelines</b>			
Redoing Ravenna - Chieti Tratto Ravenna - Jesi	142.6	Emilia-Romagna - Marche	30/04/2018

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

Name	Length (km)	Regions – Provinces involved	Date of submission
<b>Pipelines</b>			
Re-connection of Torino di Sangro (CH)	1.132	Abruzzo	22/06/2018
Variant for the inclusion of PIDI no. 18.2 on Chieti - San Salvo (CH)	0.113	Abruzzo	22/06/2018
Tortona - Alessandria - Asti - Turin redoing Attr. FR 39.1	3.68	Piedmont	26/07/2018
Variants S. Eufemia - Crotona Ref. Crossing of River S. Anna (KR)	0.64	Calabria	01/08/2018
Derivation for Altino 2nd section real variant Hydraulic works on the river Rio Secco	0.07	Abruzzo	21/12/2018
Asti-Cuneo Variants for the development of PIG receipt/launch plants	3.941	Piedmont	28/03/2018
<b>Plants</b>			
Plant HPRS IS64/24 bar of Castellana Grotte		Apulia	17/07/2018

## Applications for Integrated Environmental Authorisation (IEA) review submitted to the Ministry of the Environment

Name	No. compression units	Regions – Provinces involved	Date of submission
<b>Gas compression plants</b>			
Melizzano (review)	4	Campania-Benevento	24/12/2018
Montesano sulla Marcellana (review)	4	Campania-Salerno	24/12/2018
Tarsia (review)	4	Calabria-Cosenza	24/12/2018
Istrana (review, renewal and substantial change)	4	Veneto-Treviso	27/11/2018

## OPERATING REVIEW

### Gas distribution 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.

### Gas demand in Italy

(billions of m <sup>3</sup> )	2016	2017 (a)	2018	Change	% change (b)
Residential and tertiary	28.86	29.48	29.17	(0.31)	(1.1)
Thermoelectric	23.43	25.36	23.28	(2.08)	(8.2)
Industrial (c)	16.58	17.80	17.87	0.07	0.4
Other (d)	2.04	2.51	2.34	(0.17)	(6.8)
<b>Total</b>	<b>70.91</b>	<b>75.15</b>	<b>72.66</b>	<b>(2.49)</b>	<b>(3.3)</b>

(a) The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

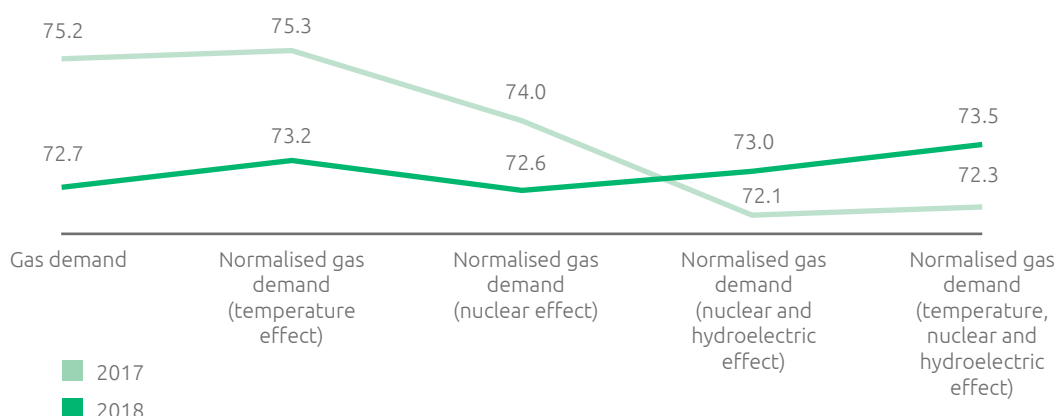
(b) The percentage changes were calculated with reference to the figures in cubic metres.

(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.

The **gas demand in Italy** in 2018 was **72.66 billion cubic metres**, down 2.49 billion cubic metres (3.3%) compared with 2017. The reduction can mainly be attributed to the lower consumption recorded in the thermoelectric industry (-2.08 billion cubic metres; -8.2%) following the return to the normal flows of electricity imports, which reduced in 2017 due to the downtime of some French nuclear plants in the first two months of the year and the increase in hydroelectric production, which has returned to normal levels after the water shortage that characterised 2017. The reduction in the demand for gas was also due to the lesser consumption in the residential and tertiary sector (-0.31 billion cubic metres; -1.1%) due to the climate trends.

**Adjusted for temperature, gas demand** was estimated at 73.2 billion cubic metres, down by 2.1 billion cubic metres (-2.8%) compared with 2017 (75.3 billion cubic metres). Adjusted not only for temperature but also for effects deriving from a return to normal hydroelectric production levels and nuclear production, normalised gas demand is estimated as 73.5 billion cubic metres, increasing by 1.2 billion cubic metres (1.7%) compared to the corresponding value for 2017 (72.3 billion cubic metres).



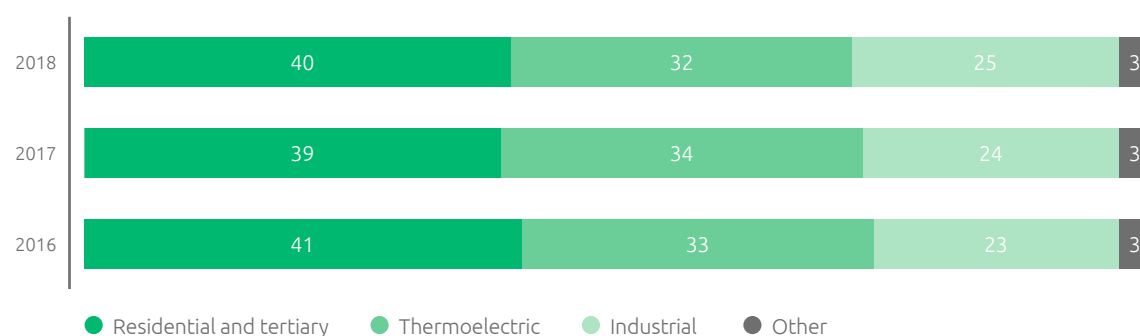
## Availability of natural gas

(billions of m <sup>3</sup> )	2016	2017 (*)	2018	Change	% change
Gas injected into the network by entry point	65.07	69.35	67.70	(1.65)	(2.4)
Domestic output	5.57	5.24	5.12	(0.12)	(2.3)
<b>Total gas injected into the network</b>	<b>70.64</b>	<b>74.59</b>	<b>72.82</b>	<b>(1.77)</b>	<b>(2.4)</b>
Net balance of withdrawals from/injections into storage (**)	(0.20)	0.23	(0.43)	(0.66)	
<b>Total availability of natural gas</b>	<b>70.44</b>	<b>74.82</b>	<b>72.39</b>	<b>(2.43)</b>	<b>(3.2)</b>

(\*) The update of 2017 figures has been finalised, and figures 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 for injection/withdrawal.

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



The **availability of natural gas in Italy** (72.39 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 down by 2.43 billion cubic metres (-3.2%) compared with 2017. The decrease was due to lesser volumes of gas injected into the network by entry point (-1.65 billion cubic metres; -2.4%) and a reduction in national production (-0.12 billion cubic metres; -2.3%), with greater net injections in storage system, associated with net withdrawals in the previous period (-0.66 billion cubic metres).

#### Gas injected into the network (\*)

(billions of m <sup>3</sup> )	2016	2017	2018 (*)	Change	% change
Domestic output	5.57	5.24	5.12	(0.12)	(2.3)
Entry points (**)	65.07	69.35	67.70	(1.65)	(2.4)
Tarvisio	28.27	30.18	29.69	(0.49)	(1.6)
Mazara del Vallo	18.87	18.88	17.09	(1.79)	(9.5)
Gries Pass	6.70	7.25	7.76	0.51	7.0
Gela	4.81	4.64	4.47	(0.17)	(3.7)
Cavarzere (LNG)	5.72	6.85	6.71	(0.14)	(2.0)
Panigaglia (LNG)	0.22	0.62	0.88	0.26	41.9
Livorno (LNG)	0.48	0.91	1.07	0.16	17.6
Gorizia		0.02	0.03	0.01	50.0
<b>Total</b>	<b>70.64</b>	<b>74.59</b>	<b>72.82</b>	<b>(1.77)</b>	<b>(2.4)</b>

(\*) The data for 2018 were updated on 11 January 2018. The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

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

#### Injections into and withdrawals from the transportation network

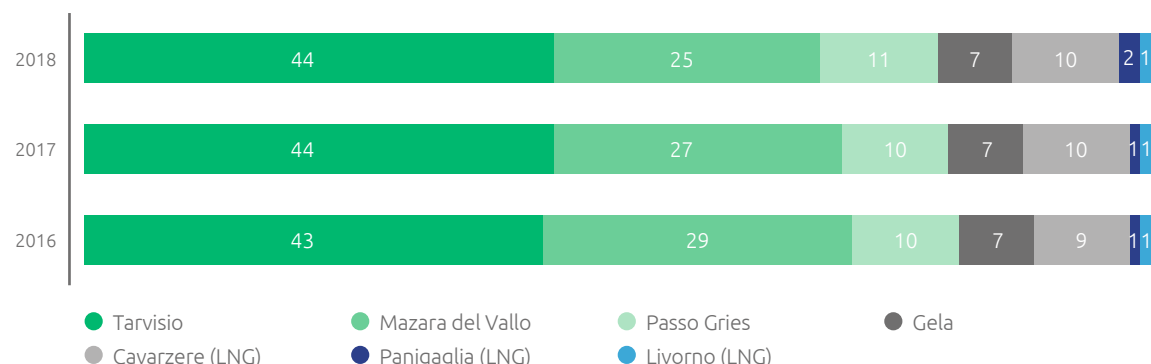
In 2018, a total of 72.82 billion cubic metres of gas was injected into the network, a decrease of 1.77 billion cubic metres (-2.4%) compared with 2017.

Injections into the network from domestic production fields or collection and treatment centres totalled 5.12 billion cubic metres, down by 0.12 billion cubic metres (-2.3%) compared to 2017.

The volumes injected at entry points connected with other countries and with regasification plants, equalled 67.70 billion cubic metres overall, a drop of 1.35 billion cubic metres (+ -2.4%) compared to 2017.

This change is due to the reduction in the volumes of gas injected at the Mazara del Vallo entry point (-1.79 billion cubic metres; -9.5%), the Tarvisio entry point (-0.49 billion cubic metres; -1.6%) and Gela (-0.17 billion cubic metres; -3.7%), the effects of which were partly offset by higher volumes injected at the entry points of Passo Gries (+0.51 billion cubic metres; +7.0%) and the LNG regasification terminals (+0.28 billion cubic metres; +3.3%).

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



### Withdrawals of natural gas

(billions of m³)	2016	2017	2018	Change	% change
Redelivery to the domestic market	69.91	73.97	<b>71.48</b>	(2.49)	(3.4)
Exports and transit (*)	0.27	0.33	<b>0.45</b>	0.12	36.4
Consumption and emissions attributable to Snam Rete Gas	0.23	0.28	<b>0.27</b>	(0.01)	(3.6)
Gas not accounted for and other changes (**)	0.03	0.24	<b>0.19</b>	(0.05)	(20.8)
<b>Total withdrawals of natural gas</b>	<b>70.44</b>	<b>74.82</b>	<b>72.39</b>	<b>(2.43)</b>	<b>(3.2)</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 2018 (72.39 billion cubic metres) is mainly: (i) redelivery to users at network exit points (71.48 billion cubic metres; -3.4%); (ii) exports

and transit (0.45 billion cubic metres; +36.4%); and (iii) consumption by the compression plants and gas emissions from the network and from Snam Rete Gas plants (0.27 billion cubic metres; -3.6%).

### Reconciliation of the gas injected and Italian gas demand

(billions of m³)	2016	2017 (a)	2018	Change	% change (b)
<b>Total gas injected into the network</b>	<b>70.64</b>	<b>74.59</b>	<b>72.82</b>	<b>(1.77)</b>	<b>(2.4)</b>
Net balance of withdrawals from/injections into storage (c)	(0.20)	0.23	(0.43)	(0.66)	(287.0)
<b>Total withdrawals of natural gas</b>	<b>70.44</b>	<b>74.82</b>	<b>72.39</b>	<b>(2.43)</b>	<b>(3.2)</b>
Exports (-) (d)	(0.27)	(0.33)	<b>(0.45)</b>	(0.12)	36.4
Gas injected into the regional networks of other operators	0.04	0.03	<b>0.03</b>	-	-
Other consumption (e)	0.70	0.63	<b>0.69</b>	0.06	9.5
<b>Total Italian demand</b>	<b>70.91</b>	<b>75.15</b>	<b>72.66</b>	<b>(2.49)</b>	<b>(3.3)</b>

(a) The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(b) The percentage changes were 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 for 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.

## Transport capacity

(millions of m <sup>3</sup> average/day)	Calendar year 2016			Calendar year 2017			Calendar year 2018		
Entry points	Transmission capacity	Transferred capacity	Saturation (%)	Transmission capacity	Transferred capacity	Saturation (%)	Transmission capacity	Transferred capacity	Saturation (%)
Tarvisio	111.6	93.4	83.7	111.4	94.6	84.9	111.1	107.4	96.7
Mazara del Vallo (*) (**)	91.5	84.9	92.8	84.4	78.3	92.8	82.0	81.2	99.0
Gries Pass	64.4	22.1	34.3	64.4	22.4	34.7	64.4	34.8	54.0
Gela (*)	30.8	26.0	84.4	23.8	22.0	92.4	20.3	20.1	99.0
Cavarzere (LNG)	26.4	24.4	92.4	26.4	24.4	92.5	26.4	24.4	92.4
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	15.0	15.0	100.0
Panigaglia (LNG)	13.0	0.6	4.6	13.0	2.0	15.5	13.0	4.0	30.8
Gorizia	4.6			4.6	0.1	2.2	4.2	0.1	2.4
Competing capacity (*)	9.7			21.2			24.4		
<b>Total</b>	<b>367.0</b>	<b>266.4</b>	<b>72.6</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>

(\*) 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 01 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.

(\*\*) Capacity values at the Entry points of Mazara del Vallo and Tarvisio include the capacity quotas pursuant to ARERA Resolution 666/2017/R/GAS.

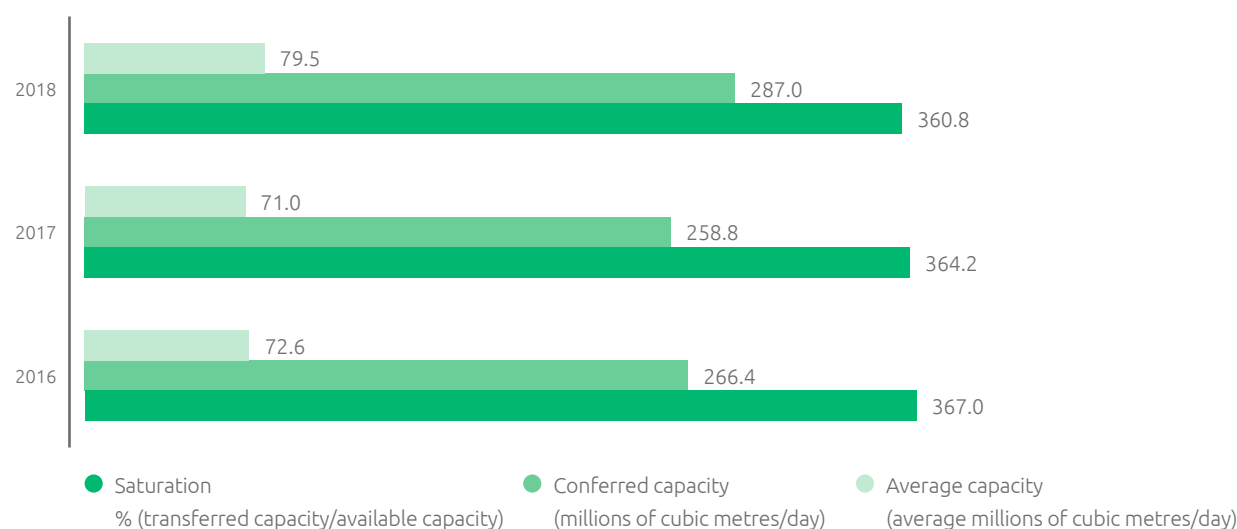
The transportation capacity of the network again covered all user demand in 2018. Average transportation capacity provided at the entry points interconnected with foreign methane pipelines and at regasification plants in 2018 was 360.8 million cubic metres per day, 24.4 of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities that concern the entry points interconnected with other countries and the LNG terminals, a transmission capacity to the entry points interconnected with national productions, for a total of 19.2 million cubic metres/day and biomethane productions, totalling 0.1 million cubic metres/day is available at the domestic production entry points.

Snam Rete Gas has prepared a long-term plan for available transportation capacity, which was sent to the Ministry of Economic Development on 26 June 2018 and published on the on-line services/capacity section of the Snam website: [www.snam.it/it/trasporto](http://www.snam.it/it/trasporto).

The document shows data about capacity at all entry points interconnected with foreign countries and with LNG terminals for the thermal year 2017-2018 and subsequent years up to 30 September 2033.

Also shown for the thermal year 2017-2018 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 10 million cubic metres/day. On the Tarvisio exit point, 18 million cubic metres/day of interruptible transport capacity is available, subject to the presence of an incoming physical flow or a null physical flow at the Passo Gries entry point. For the exit point from Passo Gries, there is currently a transport capacity equal, physically, to 5 million cubic metres/day, and works have been completed to build a physical transport capacity of up to 40 million cubic metres/day, offered starting 01 October 2018.

## Transmission capacity and saturation



## Provision and development of transportation services

	2016	2017	2018
Active customers (shippers)	136	128	136
New connection agreements for delivery/redelivery points	45	78	88

In 2018, 88 connection contracts were signed for the construction of new delivery/redelivery points or upgrading of existing points, of which 14 were for biomethane injection and 43 for CNG (of which 17 from Snam 4 Mobility). Thanks to the development of the Snam services over the last ten years, the Italian gas market has seen constant growth in the transportation operators, passing from 30 in 2003 to almost 200. Via the PRISMA platform, with the new balancing regime (EU Regulation 312/2014), in operation since October 2016, operators can operate gas exchanges and transmission capacity transactions on an infra-daily, daily, monthly, quarterly or annual basis, for up to a maximum of 15 years.

In 2018, the integration process continued, as had begun in July 2017, which caused the commercial management activities of the three businesses regarding transmission, storage and regasification, to flow into a single organisation. In this regard, a project has been developed that integrates know-how and improves performance: a single Commercial Control Room, which works 24 hours a day, overseeing the Italian gas system, a commitment that envisages specific information obligations envisaged by the Network Balancing Code, such as the hourly publication, on the Snam website, of information on the system balancing status, and the publication, twice a day for each shipper, of information on gas withdrawals, with the main aim of improving the quality of service offered to the client, reducing handling time.

To promote even greater flexibility of the system, in compliance with the Authority's Resolutions no. 336/2016/R/gas and 512/2017/R/gas, the Italian gas system has the possibility of booking monthly and daily transport capacity at the redelivery points, and related withdrawal areas that feed electricity generation plants.

This new mode of access to the gas transport system is combined with the needs of the electricity system to have more flexible assignment methods, so it can respond in a timely and efficient way to changes in the operating conditions of the electricity system.

To manage customer relations, Snam currently uses numerous software applications and web portals that have been developed over time, represent a distinguishing capital for the company and are continuously updated. In particular, Snam provides the Myg@sview Portal, a tool aimed at supporting timely and flexible communications, that allows a set of "smart" data to be personalised according to individual needs, as well as direct communications with them, and inform them via SRG ("chat" mode).

In 2018, this instrument was further implemented, increasing its potential use, also thanks to operator suggestions, with the release to production of new widgets that, for example, with the possibility of extracting the data displayed, indicate the number and details of the points concerned by the reduction and/or interruption of transmission capacity, report the lack of a declaration adhering to the alternative transmission service, indicate the total amount of invoices for Transmission and Balancing, with a list of overdue invoices, those due in the first 15 days of the month and in the next 15 days, showing the situation of the gas held in deposit, space and gas under warranty, divided up by type of service, indicate the gas daily imbalance price. The comprehensive overhaul of the Snam website was completed, redefining the sections relating to the gas transmission, storage and regasification businesses with

the aim of improving use of the information by clients and introducing graphic forms of representation. In 2018, the Company also embarked on a project (Jarvis) aimed at improving the entire commercial platform. During the study phase, workshops were held, dedicated to clients, so as to jointly design the new computer system. In this regard, clients very much appreciated their involvement, as shown by the annual customer satisfaction survey. 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, even in 2018. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

(%)	2016	2017	2018
Contracted transport capacity/Available transport capacity (foreign entry/interconnection points)	72	71	79
Compliance with deadlines for issuing offers for connection	100	100	100
Compliance with deadlines for performing services subject to specific business quality standards	100	100	100

## Organisational changes

During the course of 2018, the number of personnel in service fell by a total of 57, going from 1,972 resources as at 31 December 2017, to 1,915 resources as at 31 December 2018.

In September 2018, the Dispatching and Metering Department was reorganised, with the simplification of the organisational structure, with a view to maximising synergies between the various operating processes.

As part of the SmartGas project, optimisation continued of the various processes in the Operations area, with specific reference to the review of legislation and gas pipeline and compression plants maintenance standards, the activation of new professional roles operating on the territory, the development and implementation of the most advanced IT and digital solutions for the management of operative processes. More specifically, in 2018 the roll-out was completed of SmartGas on all compression plants and the training of all labourers completed towards the move to the new figures of Advanced Maintenance Skill (AMS) and Basic Maintenance Skill (BMS). Finally, the first Specialised Technicians (TECS) were also introduced.

With a view to enhancing and organising the synergic integration of Italian assets and, after the transfer process of the Stogit business unit "Plants and Technical Services" in 2018, the competent departments of Snam Rete Gas in the context of Plant Management, Dispatching & Measurements, Engineering and Construction and Supply Chain, have strengthened and made concrete action aimed at assuring direct control of the operations, maintenance and control activities for storage facilities, storage dispatching operations and engineering activities, and implementation of investment projects related to surface facilities, improvements to plant engineering and the procurement of goods, works and services, in accordance with that defined by the service contracts. More specifically, two mixed storage and transmission poles have been developed for the operation and maintenance of two new compression plants, Minerbio and Sergnano. Additionally, in 2018 the integrated (transmission-storage) dispatch management project was completed.

In October 2018, the General Manager of Engineering and Constructions was appointed, responsible for supervising the development and management of investment projects, along with the General Manager for Gas Operations, responsible for supervising the operation and maintenance of the relevant transmission and storage infrastructures and the dispatch, transmission and storage and metering of gas, with a view to better allocating responsibilities within the specific purviews.

Additionally, 2018 also was the conclusion of the process of integrating the company Infrastrutture Trasporto Gas (ITG) into the Snam Group. The acquisition of Infrastrutture Trasporto Gas made it possible to achieve a better, more synergic management of the Cavarzere-Minerbio methane pipeline, through a specific service contract stipulated by

Snam Rete Gas and ITG. In 2018, integration of ITG business and staff into the other group companies' structures, continued. With a view to obtaining greater efficiency and synergy, most of the people were allocated to cover needs in other group companies, after training, where necessary. The activity has now been completed, apart from one person who will be integrated in the first part of 2019.

Finally, as part of the project to rationalise and simplify the current Snam regulations, 6 new rules were issued, which will simplify and standardise the operative processes.

As compared with 2017, the management actions linked to the generational mix change have made it possible to fight the normal "ageing" of the population by one year and further rejuvenate the overall average age, which goes from 46.8 in 2017 to 46.1 in December 2018.

## Accidents

In 2018, the number of accidents was booked as 4 for employees and 3 for contract workers.

### Accidents at work

(no.)	2016	2017	2018
Total employee accidents	1	2	4
Total contract worker accidents	4	4	3

### Accident indices

	2016	2017	2018
<b>Employees</b>			
Frequency index (*)	0.32	0.66	1.29
Severity index (**)	0.004	0.03	0.03
<b>Contract workers</b>			
Frequency index (*)	0.65	0.47	0.46
Severity index (**)	0.05	0.90	0.03

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

(\*\*) Number of working days lost (calendar days) in relation 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

In accordance with its sustainable growth model, the company has set voluntary targets for the reduction of its natural gas emissions by 2022 and 2025 respectively as 15% and 25%, net of emergencies, with respect to 2016 values; this objective is valid for all Snam's businesses (transmission, storage, regasification).

In 2018, the emission into the atmosphere was avoided of 8.2 million cubic metres of natural gas, equal to approximately 142,200 tonnes of CO<sub>2eq</sub> (+ 99% on the 71,500 tonnes of CO<sub>2eq</sub> in 2017). This performance was made possible thanks to gas recompression interventions in the line (13 interventions carried out as compared with the 8 in 2017) and interventions with tapping machines, a technology that can detach methane pipelines operating for new connections without interrupting service. These results led to a reduction in 2018 natural gas emissions of 7.9% on 2016, a trend that is entirely in line with the general objective.

Total avoided CO<sub>2</sub> emissions in 2018 deriving from the various initiatives adopted by the company (lack of natural gas emissions, electricity production by photovoltaic plants, purchase of green electricity, installation of LED lamps in lieu of other lighting bodies, smart working) have made it possible, globally, to avoid the release into the atmosphere of a total of 154,800 tonnes of CO<sub>2</sub>.

Energy consumption for transport, which depends on a series of factors, some of which are beyond the control of the transporter, insofar as they are determined by the commercial decisions made by the user (e.g. gas injection points and backbones used) are basically unchanged on 2017. In 2018, nitrous oxide emissions totalled approximately 305 tonnes (+ -10.7% compared to 2017). To limit polluting 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 2018, 5 new turbines were introduced to DLE at thrust plants (TC1-2-3 in Sergnano and TC1-2 in Minerbio).

### Energy consumption

	2016	2017	2018
Energy consumption (TJ)	5,824	7,459	7,463
Emissions of CO <sub>2eq</sub> - scope1 (ton) (*)	921,954	1,008,051	981,866
Natural gas emissions (106 m <sup>3</sup> )	34.6	34.4	32.8
Natural gas recovered (106 m <sup>3</sup> )	4.5	4.1	8.2
NO <sub>x</sub> emissions (tonnes)	228	342	305

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

## REGULATIONS CONCERNING THE BUSINESS SEGMENT

### Relations with the regulatory authority

(no.)	2016	2017	2018
Responses to consultation documents (*)	10	8	10
Tariff proposals	5	4	3
Data collections	112	129	143
Preliminary investigations (**)	1	3	2
Proposal to amend/update contractual documents and codes (***)	12	14	12
Proposal to amend/update contractual documents and codes (approved)	12	12	10

(\*) In 2018, a similar number of responses to consultation documents was supplied through trade associations.

(\*\*) Information sent to the Authority during 2018 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.

### 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 04 August 2017, the Authority approved the tariffs for the transport, dispatch and metering service for 2018-2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- the asset  $\beta$  parameter was confirmed for the Transitional Period 2018-2019. the WACC value of 5.4% in real pre-tax terms is therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- from 2018 the investments made in the year  $t-1$  will be 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 has been 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) will be 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) will be 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 will also be 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 will be updated according to inflation, and a productivity recovery factor (X-factor). The variable unit price (CV) will be calculated for the years 2018 and 2019 using a reference volume of 67.2 billion cubic metres.

### Tariff regulations for 2018

By means of Resolution 757/2017/R/gas, published on 17 November 2017, the Authority approved the revenue recognised for the natural gas transportation and dispatching service for 2018. Revenue recognised for the natural gas storage service for 2018 amounted to 1,947 million euro. The RAB used to calculate 2018 revenues for transport, dispatching and measurement activities was 16 billion euros, and included the investments made in 2017.

The tariffs proposed for the natural gas dispatch and transmission service for 2018 were published by the Authority with resolution 795/2017/R/gas of 5 December 2017.

By means of subsequent Resolution 390/2018/R/gas, published on 19 July 2018, the Authority determined the revenue recognised for the natural gas transmission and dispatching service for 2018, in order to take into account the final values booked for 2017.

### 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 and dispatching service for 2019, which came to 1,964 million euro. The RAB used to calculate 2019 revenues for transport, dispatching and

measurement activities was 16.2 billion euro, and included the investments estimated for 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.

## Regulation for the fifth regulatory period 2020-2023

### Consultations no. 347/2018/R/gas and no. 512/2018/R/gas relative to the “Criteria for the tariff regulation for the natural gas transmission and metering service for the fifth regulatory period”

With consultation documents no. 347/2018/R/Gas and no. 512/2018/R/gas, published respectively on 22 June 2018 and 18 October 2018, the Authority gave guidelines on the criteria for tariff regulation for the natural gas transmission and metering service for the fifth tariff regulatory period.

More specifically, the Authority proposed:

- confirmation of a 4-year regulation period (2020-2023);
- revision of the value of the  $\beta$  asset parameter in order to determine the rate of remuneration (WACC);
- confirmation of the revalued historic cost method to determine the RAB and the use of the gross fixed investments deflator recorded by ISTAT for value adjustment confirmation of a 4-year regulation period (2020-2023);
- confirmation of the recognition of flat net working capital of 0.8%;
- the inclusion of work in progress (LIC) in calculating the RAB, recognising remuneration equal to the WACC calculated with a D/E ratio of 4;
- confirmation of the useful lives of assets of the current regulatory period;
- determination of operating costs recognised on the basis of the costs of the last year available at the time of presentation of tariff proposals for 2020, i.e. costs relating to 2017, increased by the greater efficiencies achieved in the current period (profit-sharing 50% measured over 2017), envisaging subsequent balance calculations due to any differences, with the efficiency factor (X-factor) sized so as to return the greater efficiencies realised in the fourth regulatory period to users in 4 years;
- the annual update of the variable price (CV) on the basis of the volumes recorded in the year  $t-2$ ;
- confirmation of the excess of  $\pm 4\%$  of revenues correlated to volumes transported;
- limited to investments that will come into operation in the years 2020-2021, with a costs/benefits ratio of more than 1.5, application of an increase in the WACC of  $+1\%$  for 10 years;
- introduction of a variable price applied to volumes carried intended to cover recognised operating costs,

costs relating to the Emission Trading system and costs for the procurement of quantities to cover self-consumption, losses and CNG with a price risk hedging mechanism;

- the experimentation of some cost covering mechanisms based on total spending (“Totex”), deferring to the next regulatory period for a more complete application of the mechanism;
- the definition of regulatory criteria for the metering service in a subsequent consultation document.

The sending of observations for the second and last consultation document no. 512/2018/R/gas was concluded on 17 December 2018, so as to allow for the adoption of the final provision by end February 2019.

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

By resolution 639/2018/R/gas published on 06 December 2018, the Authority performed the infra-period update of the basic parameters of the WACC, common to all regulated infrastructural services of the gas and electricity sectors, in accordance with the provisions of Article 5 of the TIWACC and the gearing level, according to the provisions of Article 6 of the TIWACC.

In the resolution, the Authority confirmed the level of the risk free rate (rf) parameter as 0.5% (floor) insofar as the average rates of return in real terms of government securities in EU countries with a rating of at least AA recorded in the period 01 October 2017-30 September 2018 fell below said value.

The Authority also set the other parameters as follows:

- Country Risk Premium (CRP), 1.4%;
- Tax shield, 24% and tax level 31%;
- Prospective inflation of 1.7%.

For infrastructural services other than gas distribution and metering, the Authority has arranged for a gearing level D/E of 1, whilst the Beta parameter will be determined during the rate regulation of the individual businesses, starting 2020.

On the basis of the values of the above parameters, for 2019 the Authority has set the rate of return on invested capital for the natural gas transmission service as 5.7% in actual pre-tax terms (5.4% for 2016-2018). The WACC for the years 2020 and 2021 will be determined after the beta parameter has been set for the 5 regulatory period.

## Integrated Text on Balancing (TIB)

### **Resolution no. 480/2018/R/gas - "Definition of incentive parameters pursuant to Article 9 of the TIB (Integrated Text on Balancing), valid starting 01 October 2018"**

By means of Resolution 480/2018/R/gas, which was published on 28 September 2018, the Authority defined the economic incentive parameters for the Balancing Operator with reference to the period 01 October 2018-31 December 2019. The resolution confirmed the general layout of the current incentive mechanism, modifying some parameters. More specifically, the performance objective p3 (residual balancing) was strengthened, envisaging an increase to the maximum value with respect to performance p2 (market TSO intervention price), the basic value of which is reduced from 3% to 2%.

The Authority has reduced the overall incentive by a fixed amount of 5,500 euro/day (approximately 2 mln euro/year), recognising the Balancing Operator an equal amount upon achieving additional improvement objectives (also with reference to the new "Settlement" system as set out below), in connection with which Snam Rete Gas will send a proposal to the Authority.

During thermal year 2017/18, a significant improvement was recorded to the overall performance of Snam Rete Gas with respect to the previous thermal year, in the pursuit of balancing consistently with the efficient function of the transmission network. This improvement has allowed for an increase in the total economic amount of incentives recognised to Snam Rete Gas (from approximately 3.9 to approximately 14.8 million euro).

## Settlement

### **Resolution 676/2018/R/gas - Provisions on the terms and conditions for the disbursement of balances relative to the price differences determined upon completion of settlement sessions**

By resolution 676/2018/R/gas, published on 21 December 2018, the Authority established that the management of balances of price differences, determined upon completion of previous adjustment sessions for the period 2013-2019, in accordance with Resolution 223/2018/R/gas, shall take place as part of the neutrality mechanism in relation to price differences. More specifically, it is established that, in order to determine the transmission tariffs relative respectively to the years 2020 and 2021, the revenues deriving from the application of price differences (RSCN and RSCR) relative to the years 2018 and 2019 shall be considered net of the amounts of the balance calculated upon completion of the adjustment sessions, the results of which are produced that same year.

## Other provisions

### **Snam Rete Gas - Regulation criteria for natural gas transportation and dispatching tariffs for the period 2010-2013**

By means of Ruling 2888/2015, the State Council rejected the appeal filed by ARERA for a review of the ruling of the Regional Administrative Court of Milan no. 995/2013, which had annulled the provisions contained in Resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 regarding natural gas transportation and dispatch tariffs for the period 2010-2013 relating, specifically, to the commodity/capacity distribution, reform of the entry/exit model and gas intended for consumption by the compression plants (self-consumption).

By means of Resolution 428/2015/C/gas, ARERA decided to file an appeal for the aforementioned ruling to be overturned on the grounds of factual errors; this was subsequently waived on 29 March 2018, given the onset lack of interest in proceeding. At the same time, the Authority complied with the aforementioned rulings under Resolution 550/2016/R/gas, with which, having reformed the rules for self-consumption, it justifiably confirmed the pricing criteria for the rest, in the light of consultations carried out.

Given the confirmatory nature of the aforementioned resolution, the original applicant filed an appeal for compliance with the aforementioned rulings and a declaration of the nullity of resolution 550/2016/R/gas. With ruling no. 494/2017, the Regional Administrative Court of Milan partially heard the appeal with specific reference to the issues of commodity/capacity distribution, believing that the Resolution challenged had inexactly and partially complied with ruling 995/2013 and that, therefore, the Authority should carry out an additional assessment of the effects of the decisions made.

The ruling no. 494/2017 was contested by the appellant, as well as, incidentally, by the ARERA. By recent ruling no. 1840/2018 of 23 March 2018, the Council of State, in partially upholding the incidental appeal brought by the Authority, rejected the claim for nullity due to violation of the ruling submitted by the appellant in the first instance and ordered the conversion of the rite into ordinary proceedings for annulment. The appellant consequently resumed the proceedings before the Regional Administrative Court of Milan.

# Regasification of Liquefied Natural Gas (LNG)

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

Daily regasification capacity maximum of LNG of the plant in Panigaglia

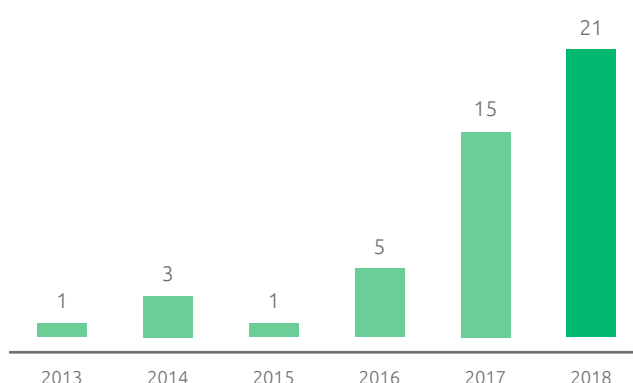
The Panigaglia plant, built in 1971 and owned by GNL Italia, is able to regasify 17,500 cubic metres of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transport network every year. Total gas regasified at the Panigaglia plant in 2018 came to 0.91 billion m<sup>3</sup> (0.63 billion m<sup>3</sup> in 2017; +44.4%).

In 2018, 21 methane tanker loads were unloaded (15 in 2017; +40%).

### Methane tanker trend

## 3.5 bn m<sup>3</sup>

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



## 0.91 bn m<sup>3</sup> (+44.4%)

Quantity of LNG regasified in 2018 in Panigaglia

The regasification service includes unloading the LNG from the vessel, operating storage for the time required for vaporising the LNG, regasifying it and injecting it into the national network at the Panigaglia entry point. Moreover, starting October 2018, GNL Italia has made a service available to terminal users, called the "Flexibility service", which enables the user so requesting to alter its daily delivery profile.

The regasification service can be continual for the entire thermal year or work on a spot basis and starting October 2018, the regasification capacity is conferred by means of suitable auction procedures; it also includes the auxiliary service, which consists of correcting the calorific power of natural gas to respect the quality specifications required for its release to the transmission network (correction of the Wobbe index).

The new capacity allocation mechanisms through auction, as well as the new businesses in the sector of SSLNG linked, in particular, to possible future uses in heavy good transport and shipping, lead us to hypothesise further growth in LNG consumption over the next few years.

In 2018, GNL Italia supplied 2 active clients (4 in 2017) with the regasification service.

## 21 (+40%)

Methane tanker loads

## Key performance indicators

(€ million)	2016	2017	2018	Var. ass.	Var. %
Total revenue (a)	19	22	<b>24</b>	2	9.1
- of which regulated revenue (a)	18	21	<b>20</b>	(1)	(4.8)
Total revenue net of pass-through items (a)	19	19	<b>21</b>	2	10.5
Operating costs (a)	12	15	<b>17</b>	2	13.3
Operating costs net of pass-through items (a)	12	12	<b>14</b>	2	16.7
EBIT	(5)	2	<b>2</b>		
Technical investments (b)	7	5	<b>9</b>	4	80.0
Net invested capital at 31 December	93	89	<b>86</b>	(3)	(3.4)
Volumes of regasified LNG (billions of cubic metres) (c) (d)	0.21	0.63	<b>0.90</b>	0.27	42.9
Tanker loads (number)	5	15	<b>21</b>	6	40.0
Employees in service at 31 December (number)	71	63	<b>64</b>	1	1.6

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.6% for 2016, 2017 and 2018. For 2016 only, the pre-tax real base WACC is plus 1% lump sum surcharge to offset the regulatory lag.

(c) With reference to 2018, 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 24 million euro, an increase of 2 million euro, or 9.1%, compared with FY 2017. Net of components offset in costs <sup>12</sup>, total revenue amounted to 21 million euro, up by 2 million euro, or 10.5%, compared with FY 2017. The increase is mainly due to the greater unregulated revenues from sales of natural gas made on the balancing platform.

The **regulated revenues**, amounting to 20 million euro, include the fees for the regasification service (17 million euro; -1 million euro on 2017) 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. (3 million euro; no change on 2017).<sup>13</sup>

**EBIT** amounted to 2 million euro, unchanged compared with FY 2017. The greater revenue obtained from natural gas sales was offset by the greater operating costs against the related picking from the warehouse.

<sup>12</sup> Revenues offset in costs refer to the costs that GNL charges back to its own customers for using the transportation service provided by Snam Rete Gas.

<sup>13</sup> For the purposes of the consolidated financial statements, this revenue is eliminated, along with transportation costs, by GNL Italia S.p.A. in order to represent the substance of operations.

## TECHNICAL INVESTMENTS

Technical investments in FY 2018 totalled 9 million euro (5 million euro in 2017) and involved maintenance projects aimed at assuring the modernisation, technological adjustment and safety of the plant systems.

These include: (i) engineering interventions on tanks (2 million euro); (ii) interventions on the pier (approximately 1 million euro); (iii) revamping of plants (1 million euro); (iv) miscellaneous IT and property interventions (1 million euro).

## OPERATING REVIEW

During 2018, 0.91 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.63 billion cubic metres in 2017; +0.28 billion cubic metres; +44.4%).

In 2018, 21 methane tanker loads were unloaded (15 in 2017; + 40%).

### Provision and development of regasification services

	2016	2017	2018
Active customers (shippers)	4	4	2
Compliance with the maximum period of interruption/reduction in capacity at the terminal due to maintenance works (%)	100	100	100

## Organisational changes

As part of the integration of Snam's Italian assets, which began on 01 July 2017, the LNG operational departments strengthened their direct overseeing of the core business of regasification and strengthened the processes whose activities have been centralised with Snam and Snam Rete Gas.

In 2018, as part of the rationalisation and simplification project of Snam's current regulations, 6 new rules were issued, which will simplify and standardise the operative processes.

At end 2018, staff in service were basically in line with 31 December 2017.

## Accidents

In 2018, there were 0 accidents involving both employees and contract workers.

### Accidents at work

(no.)	2016	2017	2018
Total employee accidents	1	1	0
Total contract worker accidents	0	0	0

### Accident indices

	2016	2017	2018
<b>Employees</b>			
Frequency index (*)	8.65	9.31	0
Severity index (**)	0.660	0.17	0
<b>Contract workers</b>			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0

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

(\*\*) Number of working days lost (calendar days) in relation 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

	2016	2017	2018
Energy consumption (TJ)	128	325	462
Emissions of CO <sub>2eq</sub> – scope1 (ton) (*)	54,298	44,421	41,407
Natural gas emissions (106 m <sup>3</sup> )	2.9	1.7	1.2
NO <sub>x</sub> emissions (tonnes)	5.5	14.8	22.4

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

In 2018, energy consumption for gas regasification increased by 42%, a rise that is entirely in line with the quantity of gas regasified (+42%). Total nitrogen oxide emissions in 2018 came to 22 tonnes with respect to the 15 in 2017, with a performance in line with the growth of the gas treated. Finally, natural gas emissions have dropped drastically on 2017, going from 1.7 to 1.2 million of m<sup>3</sup>, due to the greater continuity in the use of the terminal as compared with previous years.

## Regulations concerning the business segment

### Relations with the regulatory authority

(no.)	2016	2017	2018
Responses to consultation documents (*)	1	2	1
Tariff proposals	1	1	2
Data collections	25	28	34
Proposals to amend/update contractual documents and codes (**)	3	0	3
Proposal to amend/update contractual documents and codes (approved)	0	0	3

(\*) In 2018, a similar number of responses to consultation documents was supplied through trade associations.

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

### 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 02 October 2017, the Authority approved tariffs for the LNG regasification service for the transitional period 2018-2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- the asset  $\beta$  parameter was confirmed for the Transitional Period 2018-2019. The WACC value of 6.6% in real pre-tax terms is therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- the investments made in the year  $t-1$  will be 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 has been applied to investments made in the period 01 January 2014-31 December 2016;

- the input-based incentive scheme (2% for 16 years for the upgrading of regasification capacity) will be applied to new development investments that come into service by 31 December 2017;
- an input-based incentive scheme (1.5% for 12 years) will be applied to investments for constructing new regasification capacities that will become operational in the years 2018 and 2019;
- the operating costs recognised in the fourth regulatory period will be updated according to inflation, and a productivity recovery factor (X-factor);
- the current provisions relating to the revenue coverage factor are confirmed.

## **Tariff regulations for 2018**

With Resolution 878/2017/R/gas, "Determination of the tariffs for the LNG regasification service of the company GNL Italia S.p.A., for the year 2018", the Authority approved the recognised revenues for the regasification service for the year 2018 on the basis of the proposal presented by GNL Italia. The tariffs were set on the basis of a reference revenue of €26.9 million. The revenue coverage factor has been set at 64% of the reference revenue. As at 31 December 2017, the RAB for regasification activities was €107.9 million.

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

With Resolution 639/2018/R/gas, published on 06 December 2018, the Authority performed the infra-period update of the basic parameters of the WACC common to all regulated infrastructural services of the electricity sector, for the three years 2019-2021 and for the regulated infrastructural services of the gas sector, for 2019, fixing for the regasification business, this value at 6.8% (6.6% for the years 2016-2018).

For infrastructural services other than gas distribution and metering, the Authority has arranged for a gearing level D/E of 1, whilst the Beta parameter will be determined during the rate regulation of the individual businesses, starting 2020. The WACC for the years 2020 and 2021 will be determined after the beta parameter has been set for regulatory period 5.

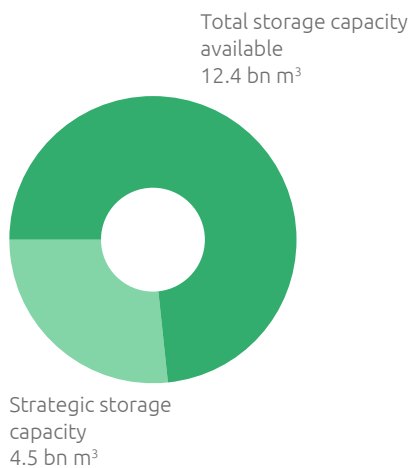
For more information on the values of the parameters used by the authority to determine the above value, please see the section entitled "Regulation concerning the business segment - Natural gas transmission" of this Report.

## **Tariff regulations for 2019**

With Resolution 695/2018/R/gas, "Approval of the tariffs for the LNG regasification service for the year 2019 and amendments and supplements to the RTRG", published on 20 December 2018, the Authority approved the recognised revenues for the regasification service for the year 2019 on the basis of the proposal presented by GNL Italia. The tariffs were set on the basis of base revenue of 26.7 million euro. The revenue coverage factor has been set at 64% of the reference revenue. The RAB for regasification activities was 108.7 million euro. At the same time, the Authority has published the definitive 2018 revenues, based on the final 2017 equity data, which totalled 26.7 million euro.

# Natural gas storage

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



The total storage capacity in 2018, including strategic storage, amounts to 16.9 billion cubic metres: the largest capacity at the European level.

Through its subsidiary company Stogit, Snam is the largest storage operator in Italy, with a 98% share of total available storage capacity, and one of the largest operators in Europe.

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 integrated infrastructure comprising deposits, wells, gas treatment plants, compression stations 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 started operating, gradually increasing the capacity offered by a total of 950 million scm.

Stogit supplies its storage services (peak modulation, uniform modulation, strategic, transporter balancing, mining, short-term conferral services and, as from 2018, the new Fast Cycle service<sup>14</sup>) to 91 operators on the basis of a Storage Code approved by the Autorità di Regolazione per Energia Reti e Ambiente (the Italian Environment and Networks Energy Regulatory Authority, or "ARERA").

Thanks to the investments made into developing new fields and strengthen existing ones, the total storage capacity at the end of 2018, considering equal strategic storage, reached 16.9 billion cubic metres (+ 0.2 billion cubic metres compared to 2017), following the gradual commissioning of the Bordolano field.

In 2018, 21.07 billion cubic metres of natural gas was moved through the storage system, an increase of 1.15 billion cubic metres, or 5.7%, compared with 2017, following both the greater storage injections (+8.6%) and the greater deliveries from storage (3.1%).

On 28 October 2018, Stogit reached a modulation volume in stock held at the storage system of 11,874 million standard cubic metres of gas (MSm<sup>3</sup>), thereby booking a new all-time high, exceeding the previous level of 11,835 MSm<sup>3</sup>, reached on 31 October 2017. 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.

21.7 bn m<sup>3</sup>

Gas moved through the storage  
system

9 Operating concessions

<sup>14</sup> Storage service that envisages a willingness to provide constant injection and delivery during the Thermal Year.

## Key performance indicators

(€ million)	2016	2017	2018	Change	% change (**) %
Total revenue (a)	584	601	<b>603</b>	2	0.3
- of which regulated revenue (a)	583	598	<b>599</b>	1	0.2
Total revenue net of pass-through items (a)	503	511	<b>507</b>	(4)	(0.8)
Operating costs (a)	151	165	<b>168</b>	3	1.8
Adjusted operating costs net of pass-through items (a)	70	75	<b>72</b>	(3)	(4.0)
EBIT	346	339	<b>335</b>	(4)	(1.2)
Technical investments (b)	117	101	<b>99</b>	(2)	(2.0)
Net invested capital at 31 December	3,421	3,429	<b>3,397</b>	(32)	(0.9)
Concessions (number)	10	10	<b>10</b>		
- of which operational (c)	9	9	<b>9</b>		
Natural gas moved through the storage system (billions of cubic metres) (d)	20.00	19.92	<b>21.07</b>	1.15	5.8
- of which injected	9.96	9.80	<b>10.64</b>	0.84	8.6
- of which withdrawn	10.04	10.12	<b>10.43</b>	0.31	3.1
Total storage capacity (billions of cubic metres)	16.5	16.7	<b>16.9</b>	0.2	0.9
- of which available (e)	12.0	12.2	<b>12.4</b>	0.2	1.2
- of which strategic	4.5	4.5	<b>4.5</b>		
Employees in service at 31 December (number)	301	60	<b>59</b>	(1)	(1.7)

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC of 6.5%.

(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 39.29 MJ/Smc (10.914 Kwh/SCM) for natural gas storage activities for the thermal year 2018-2019 (39.4 MJ/SCM, 10.930 Kwh/SCM, for the thermal year 2017-2018).

(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 2018-2019 thermal year.

## RESULTS

**Total revenue** amounted to 603 million euro, an increase of 2 million euro, or 0.3%, compared with FY 2017. Total revenue net of items offset in costs<sup>15</sup> was 507 million euro, representing a decrease of 4 million euro or 0.8% compared with FY 2017.

**Regulated revenue** (599 million euro) mainly comprised fees for the natural gas storage service (510 million euro) and the fees charged back to users relating to the natural gas transmission service provided by Snam Rete Gas S.p.A. (87 million euro)<sup>16</sup>. Regulated revenue, net of components offset in costs, total 503 million euro, down 5 million euro or 1.0% on FY 2017. This is mainly due to the tariff update mechanisms and the lesser recognition by the Authority of contribution costs for compensation to Regions pursuant to Italian Law no. 244 of 24 December 2007<sup>17</sup> (-2 million euro). The **non-regulated revenues** equal to 4 million euro (3 million euro in 2017) mainly refer to income derived from insurance reimbursements.

**Operating profit** achieved in 2017 amounted to 335 million euro, down by 4 million euro or 1.2%, compared to FY 2017. The reduction can be attributed to lower storage revenue (-3 million euro, net of components offset in costs) and higher amortisation, depreciation and impairment (-3 million euro), due to the entry into service of new infrastructures, referring, in particular, to the Bordolano site.

## TECHNICAL INVESTMENTS

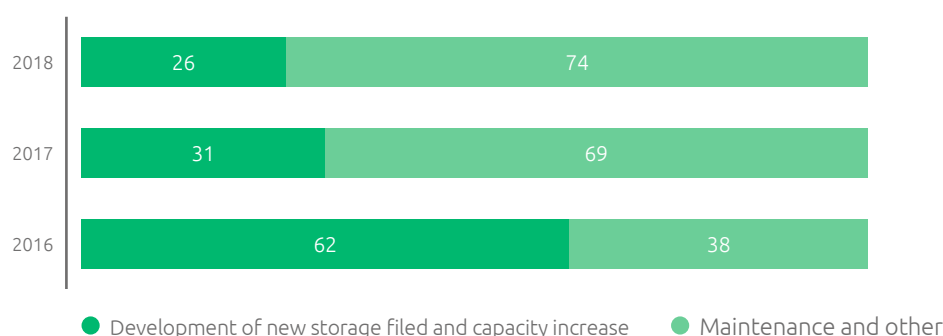
Technical investments in 2018 totalled 99 million euro, a decrease of 2 million euro (-2.0%) compared with the previous year (101 million euro), and refer to the development of new fields and upgrading of capacity (26 million euro) and maintenance and other investments (73 million euro).

The main investments in the development of new fields and upgrading of capacity (26 million euro) primarily concerned the following initiatives:

- Minerbio (16 million euro) for activities related to installing the new TC7 compression unit;
- Cortemaggiore (6 million euro) for the start-up of drilling, with the development of the station and supply of materials;
- Sabbioncello (1 million euro), for the purchase of material related to the installation of the new ESD/PSD safety system.

Investments in maintenance and other (73 million euro) mainly relate to the rationalisation of the Cortemaggiore plants (10 million euro), the work over of the Sabbioncello shaft (6 million euro) and IT and property activities (totalling 16 million euro).

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



<sup>15</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>16</sup> Resolution 64/2017/R/gas of 16 February 2017 established that almost all expenses relating to the natural gas transmission service, starting 01 April 2017, shall no longer be debited to storage service users, but rather liquidated directly by the CSEA.

<sup>17</sup> With Resolution 855/2017/R/ gas published on 15 December 2017, the Regulatory Authority has established that these costs are allocated to the storage company by applying the revenue restriction (the so-called SG Factor), thus ensuring neutrality.

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 2018, including strategic storage, was 16.9 billion cubic metres (+0.2 billion cubic metres compared with 2017, made available by the new Bordolano deposit), of which 12.4 billion cubic metres related to available capacity almost fully allocated for the thermal year 2018-2019 (equal to 99.7% of the available capacity) and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2017-2018, as established by the Ministry of Economic Development by means of the notice dated 06 February 2018)<sup>18</sup>.

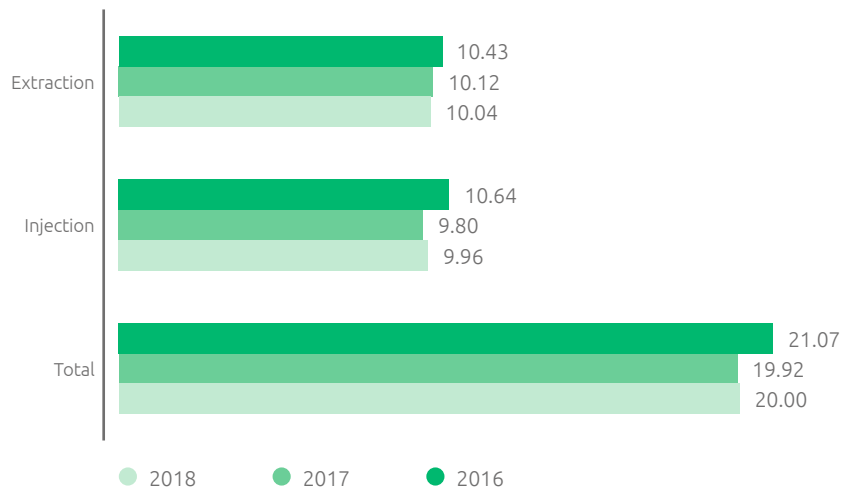
## OPERATING REVIEW

### Gas moved through the storage system

Volumes of gas moved through the storage system in FY 2018 amounted to 21.07 billion cubic metres, an increase of 1.15 billion cubic metres, or 5.8%, compared with FY 2017.

The increase can be attributed to both greater injections for filling storage (+0.84 billion cubic metres; + 8.6%) and to greater deliveries from storage (+0.31 billion cubic metres; +3.1%), mainly following the climatic conditions in the first few months of 2018.

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



<sup>18</sup> On 06 February 2018, the Ministry confirmed the total volume of strategic storage for the contractual year 2018-2019 (01 April 2018-31 March 2019) at 4.62 billion cubic metres, unchanged on thermal year 2017-2018 (01 April 2017-31 March 2018). The Stogit share was unchanged at 4.5 billion cubic metres. By circular letter of 08 January 2019, the same Ministry confirmed for storage thermal year 2019-2020 (01 April 2019-31 March 2020), the strategic gas storage volume of 4.62 billion standard cubic metres, of which 4.5 billion cubic metres are the competence of Stogit.

## Provision and development of storage services

	2016	2017	2018
Active customers (shippers)	91	89	91

In 2018, the integration process continued, as had begun in July 2017, which caused the commercial management activities of the three businesses regarding transmission, storage and regasification, to flow into a single organisation. In order to manage exchanges among operators and relationships with them, over time Snam has developed IT systems and web portals that now represent a unique feature of the Company that is upgraded regularly. In this regard, the comprehensive overhaul of the Snam website was completed, redefining the sections relating to

the gas transmission, storage and regasification businesses with the aim of improving use of the information by clients and introducing graphic forms of representation. Network codes list a number of indicators for monitoring the quality of service offered by the companies. Snam companies continued to maintain excellent performance with respect to these indicators in 2018. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

(%)	2016	2017	2018
Storage capacity allocated under contract/Available storage capacity	100	99.9	99.7
Compliance with deadlines for performing services subject to specific business 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 end 2018, staff in service numbered 59 resources, in line with 31 December 2017 (60 resources).

In 2018, under the Operations area, the roll-out was completed of SmartGas, also in the compression plants. With a view to enhancing and organisation of the synergic integration of Italian assets and, after the transfer process of the Stogit business unit "Plants and Technical Services" in 2018, the skilled roles of Snam Rete Gas in the context of Plant Management, Dispatching & Measurements, Engineering and Construction and Supply Chain, as defined by the service contracts, have strengthened and made concrete action aimed at assuring direct control of the operations, maintenance and control activities for storage facilities, storage dispatching operations and engineering

activities, and implementation of investment projects related to surface facilities, improvements to plant engineering and the procurement of goods, works and services. More specifically, two mixed storage and transmission poles have been developed for the operation and maintenance of two new compression plants, Minerbio and Sergnano. Additionally, in 2018 the integrated (transmission-storage) dispatch management project was completed. In 2018, as part of the project to rationalise and simplify the current Snam regulations, 6 new rules were issued, which will simplify and standardise the operative processes.

## Accidents

In 2018, there were 0 accidents involving both employees and contract workers.

### Accidents at work

(no.)	2016	2017	2018
Total employee accidents	1	2	0
Total contract worker accidents	1	0	0

### Accident indices

	2016	2017	2018
<b>Employees</b>			
Frequency index (*)	2.00	6.71	0
Severity index (**)	0.110	0.43	0
<b>Contract workers</b>			
Frequency index (*)	1.27	0	0
Severity index (**)	0.07	0	0

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

(\*\*) Number of working days lost (calendar days) in relation 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

In 2018, energy consumption for storage rose by 11%, an increase that is in line with the quantity of gas stored in the deposits (+9%). Total nitrogen oxide emissions in 2018 came to 236 tonnes (+34% on 2017), which are due both

to the increase in gas storage and the need to use non-DLE Minerbio turbo compressors due to the temporary unavailability of the low-emissions ones. To reduce these emissions, starting 2019 the Minerbio compression plant will only have low-emissions turbo compressors (DLE).

### Energy consumption

	2016	2017	2018
Energy consumption (TJ)	4,985	4,787	5,337
Emissions of CO <sub>2eq</sub> – scope1 (t) (*)	461,976	447,662	475,752
Emissions of natural gas (10 <sup>6</sup> m <sup>3</sup> )	10.7	10.7	10.5
NO <sub>x</sub> emissions (t)	201	175	235.7

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

## REGULATIONS CONCERNING THE BUSINESS SEGMENT

### Relations with the regulatory authority

(no.)	2016	2017	2018
Responses to consultation documents (*)	2	0	1
Tariff proposals	3	5	3
Data collections	89	91	122
Preliminary investigations (**)	1	2	0
Proposal to amend/update contractual documents and codes (***)	4	4	3
Proposal to amend/update contractual documents and codes (approved)	1	2	2

(\*) In 2018, a similar number of responses to consultation documents was supplied through trade associations.

(\*\*) Information sent to the Authority during 2018 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.

### Tariff regulations for 2018

By means of Resolution 360/2018/R/gas “Final approval of the business revenue for the storage service relative to 2018, for the companies Stogit S.p.A. and Edison Stoccaggio S.p.A.”, published on 29 June 2018, the Authority gave final approval of the reference revenue for the storage service for 2018 for the company Stogit, which considers the annual final equity increases relative to 2017. The recognised revenues amounted to 500.5 million euro. The RAB for storage activities was €4.0 billion.

By means of Resolution 855/2017/R/gas, published on 15 December 2017, the Authority provisionally approved the revenue for the storage service for 2018, as per the proposal presented by Stogit. This is aimed at providing a reference figure for calculating the fees for the allocation of storage capacity.

### Temporary period regulations for 2019

By means of Resolution 68/2018/R/gas “Start of proceedings for the formation of provision on tariffs and quality of the natural gas storage service for the fifth regulatory period (5PRS) and extension of the criteria in force to 2019”, published on 09 February 2018, the Authority extended for 2019 the tariff criteria of the Storage service in force in the period 2015-2018, confirming the value of the  $\beta$  asset parameter. The procedure was also launched for the review of the criteria for regulatory period 5, which will start from 2020, similarly to the transmission and regasification business, and during which the possibility of implementing a “totex” type regulatory approach, will be considered.

For 2019, the Authority has also extended regulation on the quality of the natural gas storage service for the period 2015-2018.

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

With Resolution 639/2018/R/gas, published on 06 December 2018, the Authority performed the infra-period update of the basic parameters of the WACC common to all regulated infrastructural services of the electricity sector, for the three years 2019-2021 and for the regulated infrastructural services of the gas sector, for 2019, fixing for the storage business, this value at 6.7% from the previous 6.5% (6.5% for the years 2016-2018).

For infrastructural services other than gas distribution and metering, the Authority has arranged for a gearing level D/E of 1, whilst the Beta parameter will be determined during the rate regulation of the individual businesses, starting 2020. The WACC for the years 2020 and 2021 will be determined after the beta parameter has been set for the 5 regulatory period.

For more information on the values of the parameters used by the authority to determine the above value, please see the section entitled "Regulation concerning the business segment - Natural gas transmission" 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. These revenues came to 499.5 million euro and will be updated upon approval of the definitive revenues, determined using the final equity increases for 2018. The RAB for storage activities was 4.0 billion euro.

## Other provisions

### Storage service incentive mechanisms

With consultation document 155/2018/R/gas "Introduction of incentive mechanisms for the supply of storage services", published on 19 March 2018, the Authority considered the introduction of a mechanism that would encourage storage companies to make additional flexibility available with respect to that envisaged in the "basic" storage services. These products will supplement those currently supplied on a monthly, weekly and daily basis and will enable completion of the range of "forward" storage services available, allowing users to benefit from additional services within a prefixed term or to transfer part of their provisions over time.

The premium for the storage company, in addition to the revenue recognised, will be equal to a percentage of the proceeds deriving from the conferral of such products, with an average value expected to be around 40% of these proceeds. The submission of observations was concluded last 20 April 2018.

### **Resolution 350/2018/R/gas - “Provisions on settlement relating to storage services for the 2018-2019 thermal year”**

With Resolution 350/2018/R/gas published on 22 June 2018, the Authority envisaged, in continuity with the 2017-2018 thermal year, provisions for the issue of sterilising the impact of transferring storage capacity at fees below the regulated tariff, to guarantee the storage companies have a revenue flow that is substantially equivalent to that obtained by applying, to the capacity allocated through auction, of the corresponding tariffs. The resolution envisages the offsetting through the Cassa per i servizi energetici e ambientali (Energy and Environmental Services Fund or “CESA”) of the difference in price between the storage tariff and the price of assignment by auction applied to the capacity conferred, as well as the offsetting of costs for the purchase of transmission capacity, incurred by the storage company.

Moreover, with reference to the proceeds deriving from the sale of capacity released on a day-ahead basis by the transmission operators, the resolution establishes that starting 01 April 2018, storage companies shall pay these proceeds to CSEA (at present, they are rebated to the TSOs) and that the TSOs will pay CSEA the proceeds collected in connection with thermal year 2017-2018.

### **Resolution 614/2018/R/gas - “Short-term storage services - definition of incentive parameters for the delivery phase”**

By this resolution, published on 30 November 2018, the Authority introduced for the delivery phase of Thermal Year 2018-2019, a system of incentives for the supply by Stogit of additional storage capacity with respect to that envisaged in the “basic” storage services.

The incentive mechanism envisages the withholding of a premium by Stogit, in addition to the revenues recognised, equal to a percentage of the proceeds deriving from the conferrals of additional capacity (profit sharing).

The profit sharing is fixed:

- at 100% of the cost function for the purchase and sale of fortnight delivery capacity (advances/postponements of capacity);
- at 30% for the sale of capacity on a monthly, weekly, daily and infra-daily basis.

An increase to 50% is envisaged of the profit sharing pursuant to point (b) when Stogit makes available additional functions relative to the daily and infra-daily capacity conferral process; these functions were activated by Stogit starting 07 January 2019, with the consequent increase to 50% of profit sharing.

# Comments on financial review and other information



# Comments on the financial review

## INCOME STATEMENT

2016		2017		2018		2018 adjusted vs 2017 adjusted	
Pro-forma adjusted (**)	(€ million)	Reported	Adjusted (*)	Reported	Adjusted (*)	Change	% change
2,444	Regulated revenue	2,434	2,434	2,485	2,485	51	2.1
116	Non-regulated revenue	99	99	101	101	2	2.0
<b>2,560</b>	<b>Total revenue</b>	<b>2,533</b>	<b>2,533</b>	<b>2,586</b>	<b>2,586</b>	<b>53</b>	<b>2.1</b>
2,415	- Total revenues net of pass-through items	2,441	2,441	2,528	2,528	87	3.6
(573)	Operating costs	(526)	(511)	(512)	(491)	20	(3.9)
(428)	- Operating costs net of pass-through items	(434)	(419)	(454)	(433)	(14)	3.3
<b>1,987</b>	<b>EBITDA</b>	<b>2,007</b>	<b>2,022</b>	<b>2,074</b>	<b>2,095</b>	<b>73</b>	<b>3.6</b>
(651)	Amortisation, depreciation and impairment	(659)	(659)	(690)	(690)	(31)	4.7
<b>1,336</b>	<b>EBIT</b>	<b>1,348</b>	<b>1,363</b>	<b>1,384</b>	<b>1,405</b>	<b>42</b>	<b>3.1</b>
(263)	Net financial expenses	(283)	(227)	(242)	(195)	32	(14.1)
135	Net income from equity investments	161	150	159	159	9	6.0
<b>1,208</b>	<b>Pre-tax profit</b>	<b>1,226</b>	<b>1,286</b>	<b>1,301</b>	<b>1,369</b>	<b>83</b>	<b>6.5</b>
(363)	Income tax	(329)	(346)	(341)	(359)	(13)	3.8
<b>845</b>	<b>Net profit (***)</b>	<b>897</b>	<b>940</b>	<b>960</b>	<b>1,010</b>	<b>70</b>	<b>7.4</b>

(\*) The values exclude special items.

(\*\*) Details on adjustments made are given in the chapter "Comments on the economic and financial results" of the 2017 Annual Financial Report.

(\*\*\*) Entirely held by Snam shareholders.

## Reconciled summary of adjusted results (\*)

(€ million)	2017	2018	Change	% change
<b>Operating profit (EBIT)</b>	<b>1,348</b>	<b>1,384</b>	<b>36</b>	<b>2.7</b>
Excluding special items	15	21	6	40.0
<b>Adjusted EBIT</b>	<b>1,363</b>	<b>1,405</b>	<b>42</b>	<b>3.1</b>
<b>Net profit (**)</b>	<b>897</b>	<b>960</b>	<b>63</b>	<b>7.0</b>
Excluding special items	43	50	7	16.3
<b>Adjusted net profit</b>	<b>940</b>	<b>1,010</b>	<b>70</b>	<b>7.4</b>

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

(\*\*) Entirely held by Snam shareholders.

**Adjusted operating profit**<sup>19</sup> for FY 2018, which excludes special items (21 million euro), comes to 1,405 million euro, up 42 million euro (or 3.1%) on the adjusted operating profit of 2017. The greater revenues (+87 million euro; 3.6%), mainly due to the contribution made by the transmission segment and the change in the consolidation scope, deriving from company mergers regarding the new businesses of CNG and biomethane, were partially offset by the increase in period amortisation, depreciation and impairment (-31 million euro; 4.7%), mainly due to the amortisation deriving from the commissioning of new infrastructures and the greater operating costs (-14 million euro; 3.3%).

In particular, the rise in operating costs is mainly due to: (i) the change in the consolidation scope (34 million euro); (ii) expenses deriving from the greater use of Unaccounted-For-Gas (UFG) with respect to the quantities conferred in kind by the users (22 million euro, net of uses of the provision made during previous years); (iii) costs incurred by the Global Solution Business Unit in exchange for services provided (3 million euro), in addition to impacts of employment policies. These factors were partly offset by: (i) the trend of the provisions for risks and charges and the provision for doubtful debt (totalling 25 million euro); (ii) the effects of efficiency drives implemented starting 2016, which in 2018 made it possible to cut costs by around 17 million euro (36 million euro cumulatively for the period 2016-2018).

The **net adjusted profit** for FY 2018, which excludes special items (50 million euro, net of the related tax effect), comes to 1,010 million euro, up 70 million euro (or +7.4%) on the adjusted net profit of FY 2017.

The increase, in addition to greater operating profit (+42 million euro; +3.1%) is due: (i) to the lesser net financial expenses (+32 million euro; 14.1%) that benefit from a reduction in the average cost of debt, also in view of the benefits deriving from the optimisation action taken in 2016 and 2017; (ii) the greater net income from equity investments (+9 million euro; +6.0%). These effects were partly absorbed by greater income taxes (+13 million euro; 3.8%), due mainly to the rise in pre-tax profit.

<sup>19</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. These components refer essentially to interconnection.

## Analysis of the entries on the adjusted financial statement

The “Corporate and other activities” sector includes the new companies acquired in 2018, responsible for activities related to the Energy Transition.

### Total revenue

2016	(€ million)	2017	2018	Change	% change
<b>Business segments</b>					
2,035	Transportation	2,039	<b>2,118</b>	79	3.9
19	Regasification	22	<b>24</b>	2	9.1
584	Storage	601	<b>603</b>	2	0.3
226	Corporate and other activities	233	<b>268</b>	35	15.0
(304)	Consolidation eliminations	(362)	<b>(427)</b>	(65)	18.0
<b>2,560</b>		<b>2,533</b>	<b>2,586</b>	<b>53</b>	<b>2.1</b>

### Regulated and non-regulated revenue

2016	(€ million)	2017	2018	Change	% change
<b>2,444</b>	<b>Regulated revenue</b>	<b>2,434</b>	<b>2,485</b>	<b>51</b>	<b>2.1</b>
<b>Business segments</b>					
1,855	Transportation	1,889	1,975	86	4.6
18	Regasification	18	17	(1)	(5.6)
426	Storage	435	435		
145	<b>Revenue items offset in costs (*)</b>	<b>92</b>	<b>58</b>	<b>(34)</b>	<b>(37.0)</b>
116	<b>Non-regulated revenue</b>	<b>99</b>	<b>101</b>	<b>2</b>	<b>2.0</b>
<b>2,560</b>		<b>2,533</b>	<b>2,586</b>	<b>53</b>	<b>2.1</b>

(\*) The main revenue items offset in costs relate to interconnection.

**Regulated revenues** (2,485 million euro) rose by 51 million euro in respect to the fiscal year 2017 (+2.1%). Net the components that have a counterpart in costs, the regulated revenue totals 2,427 million euro, an increase of 85 million euro or 3.6%, thanks to the continuous investment and greater volumes of ITG (the whole year 2018 vs the 3 months in 2017; +15 million euro). Regulated revenues relate to transmission (1,975 million euro), storage (435 million euro) and regasification (17 million euro).

**Non-regulated revenues** (101 million euro, net of consolidation eliminations) are basically in line with FY 2017 (+2 million euro or 2.0%). The greater revenues deriving from the contribution made by companies that joined the consolidation scope (+34 million euro) and services provided

by the Global Solution Business Unit (+5 million euro) were to a large extent absorbed by the lesser revenues from services provided to the Italgas Group, regulated by means of various contracts stipulated as at 31 December 2017<sup>20</sup> (-46 million euro).

Non-regulated revenues mainly regard: (i) prices for the development of biogas and biomethane plants (23 million euro); (ii) technical-specialised services for foreign companies not consolidated (16 million euro); (iii) proceeds deriving from the rental and maintenance of optic fibre telecommunication cables (13 million euro); (iv) revenues for provisions of services to the Italgas Group (14 million euro)<sup>21</sup>; (v) sale of compressors for vehicles - CNG (7 million euro).

20 These revenues have counter-entries in costs incurred for the provision of the related services.

21 Please note that as at 31 December 2018, the contracts for services provided to the Italgas Group were concluded.

## Operating costs

2016	(€ million)	2017	2018	Change	% change
<b>Business segments</b>					
469	Transportation	441	<b>462</b>	21	4.8
12	Regasification	15	<b>17</b>	2	13.3
151	Storage	165	<b>168</b>	3	1.8
245	Corporate and other activities	252	<b>271</b>	19	7.5
(304)	Consolidation eliminations	(362)	<b>(427)</b>	(65)	18.0
<b>573</b>		<b>511</b>	<b>491</b>	<b>(20)</b>	<b>(3.9)</b>

## Operating costs - Regulated and non-regulated activities

2016	(€ million)	2017	2018	Change	% change
<b>456</b>	<b>Costs of regulated activities</b>	<b>404</b>	<b>397</b>	<b>(7)</b>	<b>(1.7)</b>
271	Controllable fixed costs	267	<b>274</b>	7	2.6
9	Variable costs	7	<b>6</b>	(1)	(14.3)
31	Other costs (*)	38	<b>59</b>	21	55.3
145	Cost items offset in revenue (**)	92	<b>58</b>	(34)	(37.0)
<b>117</b>	<b>Costs of non-regulated activities</b>	<b>107</b>	<b>94</b>	<b>(13)</b>	<b>(12.1)</b>
<b>573</b>		<b>511</b>	<b>491</b>	<b>(20)</b>	<b>(3.9)</b>

(\*) Net special items.

(\*\*) The main cost items offset in revenue relate to interconnection.

## Operating costs of regulated activities

Operating costs of regulated activities (397 million euro) decreased by 7 million euro, or 1.7% compared to FY 2017. Net of components offset in revenues, operating costs for regulated activities rose by 27 million euro or 8.7% on FY 2017.

Controllable fixed costs (274 million euro), which comprise the sum of personnel expenses and recurring external costs, rose by 7 million euro, or 2.6%, compared with 2017 (267 million euro). The increase is due to emerging costs<sup>22</sup> in ICT, mainly deriving from the separation of Italgas, and the greater contribution of ITG, the effects of which have been partially absorbed by the efficiency drives implemented.

Other costs (59 million euro, net of the special items) increased by 21 million euro, or 55.3% compared to FY 2017. The increase is essentially due to expenses deriving from the greater use of Unaccounted-For-Gas (UFG) with respect to the quantities conferred in kind by the transmission users, in accordance with resolution 514/2013/R/Gas of the Regulatory Authority (22 million euro, net of uses of the provision made during previous years) and greater capital losses from the elimination of assets (+8 million euro). These effects have been partially offset by net uses of the provisions for risks and charges (-7 million euro) in view of net provisions made in 2017, mainly for tax litigation.

<sup>22</sup> Please note that in consideration of the closure of the service contracts with the Italgas Group, the effects on the income statement will conclude in FY 2019.

### Operating costs of non-regulated activities

Operating costs of non-regulated activities (94 million euro) are down by 13 million euro or 12.1% on FY 2017, mainly due to the lesser costs for services, mainly ICT in nature, charged back to the Italgas Group (-43 million euro), settled by means of contracts concluded as at 31 December 2017 and net uses of provisions for risks and charges and the provision for doubtful debt (-18 million euro in total). These effects were partly offset by the greater costs deriving from the new businesses that joined the consolidation scope (34 million euro), relating essentially to the development of biomethane plants and turbo compressors for vehicles, as well as greater costs connected with the development of new businesses and specific projects (6 million euro).

The number of employees as at 31 December 2018 (3,016 resources) is analysed below by professional status.

2016	(no.)	2017	2018	Change	% change
Professional status					
87	Executives	93	107	14	15.1
421	Middle Managers	456	480	24	5.3
1,651	Office workers	1,655	1,682	27	1.6
724	Manual workers	715	747	32	4.5
<b>2,883</b>		<b>2,919</b>	<b>3,016</b>	<b>97</b>	<b>3.3</b>

The increase of 97 resources with respect to FY 2017 is mainly due to the inclusion of new companies in the consolidation scope (117 resources). Personnel who left the Group, mainly exploiting the instrument of Isopensione (99 resources) were replaced by new employees hired from the market, in line with the Group's employment policies.

### Amortisation, depreciation and impairment

2016	(€ million)	2017	2018	Change	% change
<b>616</b>	<b>Total amortisation and depreciation</b>	<b>646</b>	<b>682</b>	<b>36</b>	<b>5.6</b>
Business segments					
517	Transportation	539	567	28	5.2
5	Regasification	5	5		
87	Storage	95	100	5	5.3
7	Corporate and other activities	7	10	3	42.9
<b>35</b>	<b>Impairment losses (Reversals)</b>	<b>13</b>	<b>8</b>	<b>(5)</b>	<b>(38.5)</b>
<b>651</b>		<b>659</b>	<b>690</b>	<b>31</b>	<b>4.7</b>

**Amortisation and Depreciation** (690 million euro) increased by 31 million euro, equal to 4.7%, in respect to the fiscal year 2017. The increase was principally due to higher depreciation (+36 million euro; +5.6%) recorded in all sectors of activities, essentially as a result of the effective date of new infrastructure, partly offset by lower devaluation (-5 million euro; -38.5%).

Below is a breakdown of adjusted EBIT by business segment:

#### Adjusted EBIT

2016	(€ million)	2017	2018	Change	% change
<b>Business segments</b>					
1,021	Transportation	1,048	<b>1,081</b>	33	3.1
(5)	Regasification	2	<b>2</b>		
346	Storage	339	<b>335</b>	(4)	(1.2)
(26)	Corporate and other activities	(26)	<b>(13)</b>	13	(50.0)
1,336		1,363	<b>1,405</b>	42	3.1

#### Net financial expenses

2016	(€ million)	2017	2018	Change	% change
<b>281</b>	<b>Financial expense related to net financial debt</b>	<b>235</b>	<b>199</b>	<b>(36)</b>	<b>(15.3)</b>
281	- Interest and other expense on short- and long-term financial debt (*)	236	<b>202</b>	(34)	(14.4)
	- Bank interest income	(1)	<b>(3)</b>	(2)	
<b>4</b>	<b>Other net financial expense (income)</b>	<b>4</b>	<b>6</b>	<b>2</b>	<b>50.0</b>
10	- Accretion discount	11	<b>11</b>		
(6)	- Other net financial expense (income)	(7)	<b>(5)</b>	2	(28.6)
<b>1</b>	<b>Losses on derivatives – ineffective portion</b>	<b>1</b>	<b>2</b>	<b>1</b>	<b>100.0</b>
<b>(23)</b>	<b>Financial expense capitalised</b>	<b>(13)</b>	<b>(12)</b>	<b>1</b>	<b>(7.7)</b>
<b>263</b>		<b>227</b>	<b>195</b>	<b>(32)</b>	<b>(14.1)</b>

(\*) Net special items.

The **net financial charges** (195 million euro, net of the special items related to the liability management operation implemented in December 2018) show a reduction of 32 million euro, or 14.1%, compared to 2017. The reduction is due to lower finance charges correlated to the net financial debt (-34 million euro; -14.4%) principally connected to the lower average cost of the debt, also thanks to benefits deriving from optimisation interventions in the group's financial structure put into effect by Snam in 2016 and 2017, in particular liability management operations.

The finance charges capitalised in the fiscal year 2018 total 12 million euro, basically in line with the previous year.

#### Income from equity investments

2016	(€ million)	2017	2018	Change	% change
135	Equity method valuation effect	150	157	7	4.7
	Dividends		2	2	
135		150	159	9	6.0

The **net income from equity investments** (159 million euro) concern the shares in the net results for the period of companies evaluated with the equity method, in particular the joint ventures TAG (74 million euro), Terēga (28 million euro) and AS Gasinfrastruktur Beteiligung GmbH (11 million euro) and the associate Italgas (43 million euro).

#### Income tax paid

2016	(€ million)	2017	2018	Change	% change
403	Current taxes (*)	373	385	12	3.2
	(Deferred) prepaid taxes (*)				
(22)	Deferred taxes	(16)	(16)		
(18)	Prepaid taxes	(11)	(10)	1	(9.1)
(40)		(27)	(26)	1	(3.7)
363		346	359	13	3.8

(\*) Net special items.

**Income taxes** total 359 million euro, a 13 million euro rise, equal to 3.8%, in respect to the fiscal year 2017. The increase was attributable mainly to greater pre-tax profit, the effects of which were partly absorbed by the benefits deriving from the Super Amortisation (years 2015, 2016 and 2017) and Hyper Amortisation (year 2018) introduced by the 2016 and 2017 Stability Law.

## 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 03 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>.

### Operating profit and adjusted net profit

The operating profit and the adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the legal scheme of the Income Statement. Income entries classified as special items for FY 2018 refer to: (i) the financial expenses deriving from the buy-back of bonds on the market as part of the Liability Management transaction (47 million euro; 35 million euro net of the related tax effect), implemented by Snam in December 2018; (ii) the expenses for incentives to take voluntary redundancy in application of the early pension tool regulated by Art. 4, paragraphs 1-7 of Italian Law no. 92/2012, the "Fornero Law", together with the introduction of the new calculation logics for retirement age, termed the "quota 100", envisaged by the 2019 Budget Law (21 million euro in total; 15 million euro net of the related tax effect).

## 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.

### 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. "Free cash flow" represents the surplus or cash deficit remaining after the investment financing and closes 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.

<sup>23</sup> 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.

<sup>24</sup> For the definition of these quantities refer to the Glossary.

## Net financial debt

Net financial debt is calculated as financial debt net of liquid funds and equivalents, securities available for sale and to be held to 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)	2017			2018		
	Reported	Special item	Adjusted	Reported	Special item	Adjusted
Regulated revenue	2,434		2,434	2,485		2,485
Non-regulated revenue	99		99	101		101
<b>Total revenue</b>	<b>2,533</b>		<b>2,533</b>	<b>2,586</b>		<b>2,586</b>
- Total revenues net of pass-through items	2,441		2,441	2,528		2,528
Operating costs	(526)	15	(511)	(512)	21	(491)
- Operating costs net of pass-through items	(434)	15	(419)	(454)	21	(433)
<b>EBITDA</b>	<b>2,007</b>	<b>15</b>	<b>2,022</b>	<b>2,074</b>	<b>21</b>	<b>2,095</b>
Amortisation, depreciation and impairment	(659)		(659)	(690)		(690)
<b>EBIT</b>	<b>1,348</b>	<b>15</b>	<b>1,363</b>	<b>1,384</b>	<b>21</b>	<b>1,405</b>
Net financial expenses	(283)	56	(227)	(242)	47	(195)
Net income from equity investments	161	(11)	150	159		159
<b>Pre-tax profit</b>	<b>1,226</b>	<b>60</b>	<b>1,286</b>	<b>1,301</b>	<b>68</b>	<b>1,369</b>
Income tax	(329)	(17)	(346)	(341)	(18)	(359)
<b>Net profit (*)</b>	<b>897</b>	<b>43</b>	<b>940</b>	<b>960</b>	<b>50</b>	<b>1,010</b>

(\*) Entirely held by Snam shareholders.

## Details of special items

(€ million)	2017	2018	Change	% change
<b>Special item of operating profit</b>	<b>15</b>	<b>21</b>	<b>6</b>	<b>40.0</b>
Charges for facilitated movements and Isopension	15	21	6	40.0
<b>Special item Net financial charges</b>	<b>56</b>	<b>47</b>	<b>(9)</b>	<b>(16.1)</b>
- liability management finance charges	56	47	(9)	(16.1)
<b>Special Item - Investments valued using the equity method</b>	<b>(11)</b>		<b>11</b>	<b>(100.0)</b>
- Adjustment of Terēga deferred taxes	(11)		11	(100.0)
<b>Special item Income taxes</b>	<b>(17)</b>	<b>(18)</b>	<b>(1)</b>	<b>5.9</b>
- Taxation on special items operating profit	(4)	(6)	(2)	50.0
- Taxation on special item net financial charges	(13)	(12)	1	(7.7)
<b>Total special item of net profit</b>	<b>43</b>	<b>50</b>	<b>7</b>	<b>16.3</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 additional information for investors as it allows identification of the sources of financing (equity and third-party funds) and the application of such funds for fixed and working capital.

### Reclassified statement of financial position (\*)

(€ million)	31.12.2017	31.12.2018	Change
<b>Fixed capital</b>	<b>18,875</b>	<b>18,856</b>	<b>(19)</b>
Property, plant and equipment	16,033	<b>16,153</b>	120
Compulsory inventories	363	<b>363</b>	
Intangible assets	850	<b>907</b>	57
Equity investments	1,591	<b>1,750</b>	159
Long-term financial receivables	373	<b>11</b>	(362)
Net payables for investments	(335)	<b>(328)</b>	7
<b>Net working capital</b>	<b>(1,079)</b>	<b>(1,259)</b>	<b>(180)</b>
<b>Provisions for employee benefits</b>	<b>(58)</b>	<b>(64)</b>	<b>(6)</b>
<b>NET INVESTED CAPITAL</b>	<b>17,738</b>	<b>17,533</b>	<b>(205)</b>
<b>Shareholders' equity</b>	<b>6,188</b>	<b>5,985</b>	<b>(203)</b>
<b>- entirely attributable to Snam's shareholders</b>	<b>6,188</b>	<b>5,985</b>	<b>(203)</b>
<b>Net financial debt</b>	<b>11,550</b>	<b>11,548</b>	<b>(2)</b>
<b>Coverage</b>	<b>17,738</b>	<b>17,533</b>	<b>(205)</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 (18,856 million euro) was down by 19 million euro on 31 December 2017. The reduction is mainly due to the lesser long-term financial receivables (-362 million euro) mainly in view of the repayment, by TAP, of the shareholders' loan, to a large extent absorbed by the increase in tangible and intangible fixed assets (+177 million euro) and the increase in equity investments (+159 million euro), mainly due to the purchase of DESFA.

The change in property, plant and equipment and in intangible assets can be broken down as follows:

(€ million)	Property, plant and equipment	Activity assets	Total
<b>Balance at 31 December 2017</b>	<b>16,033</b>	<b>850</b>	<b>16,883</b>
Technical investments	805	77	<b>882</b>
Amortisation, depreciation and impairment	(630)	(60)	<b>(690)</b>
Transfers, eliminations and divestments	(14)		<b>(14)</b>
Change in scope of consolidation	1	30	<b>31</b>
Other changes	(42)	10	<b>(32)</b>
<b>Balance at 31 December 2018</b>	<b>16,153</b>	<b>907</b>	<b>17,060</b>

The technical investments of 2018 of the continuing operations total 882 million euro<sup>25</sup> (1,034 million euro in 2017) and principally refer to the sectors of transmission (764 million euro) and storage (99 million euro). The change in the consolidation area (+31 million euro) refers to the assets recorded in view of acquisitions of 82% of the capital of TEP Energy Solution (24 million euro) and 70% of the share capital of IES Biogas (4 million euro)<sup>26</sup>. Other changes (-32 million euro) relate essentially to: (i) contributions on works for interference with third parties (so-called recalls; -22 million euro); (ii) the change in inventory of piping and related accessory materials used in plant construction (-11 million euro); and (iii) the effects of adjusting the current value of expenditure relating to the charges for storage site dismantling and restoration (-8 million euro)<sup>27</sup>.

### Compulsory inventories

The fixed warehouse stock – compulsory inventories – equal to 363 million euro (equal as at 31 December 2017), comprise a minimum degree of natural gas that the storage company is required to withhold in accordance with Italian Presidential Decree no. 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>28</sup>.

### Equity investments

The equity investments item (1,750 million euro) included: (i) the valuation of equity investments using the equity method and referred mainly to Trans Austria Gasleitung GmbH - TAG (509 million euro), Terēga Holding S.A.S. (466 million euro), Trans Adriatic Pipeline AG – TAP (258 million euro), Italgas S.p.A. (180 million euro), AS Gasinfrastruktur Beteiligung GmbH (124 million euro), and Senfluga (117 million euro); (ii) the fair value measurement of the minority stake held in the company Terminale GNL Adriatico S.r.l. (40 million euro).

25 An analysis of the technical investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

26 For both company mergers, crossover contractual put and call options are envisaged over the interests of minority shareholders, respectively 18% and 30% for TEP and IES Biogas. As at the date of acquisition, in accordance with the terms of the contract regulating the exercise of options, the transactions were booked as though Snam had acquired control over 100% of the companies, without, therefore, noting the interests of minority shareholders. The main company mergers performed in 2018 are described under note 24 "Business combinations" of the consolidated financial statements, to which reference is made.

27 Further information is provided in Note 20 "Provision for risks and charges" of the Notes to the consolidated financial statements.

28 On 06 February 2018, the Ministry confirmed the total volume of strategic storage for the contractual year 2018-2019 (01 April 2018-31 March 2019) at 4.62 billion cubic metres, unchanged on thermal year 2017-2018 (01 April 2017-31 March 2018). The Stogit share was unchanged at 4.5 billion cubic metres.

### Long-term financial receivables

Long-term financial receivables (11 million euro) show a reduction of 362 million euro. The reduction is mainly due to the repayment by TAP, through a true-up mechanism, of the shareholders' loan (519 million euro, in view of the 373 million euro relative to outstanding receivables as at 31 December 2017 and 156 million euro relative to receivables accrued in 2018), following the completion, on the banking market, of the project financing for the gas pipeline development project<sup>29</sup>.

### Net working capital

(€ million)	31.12.2017	31.12.2018	Change
Trade receivables	1,274	<b>1,247</b>	(27)
- of which balancing	251	<b>223</b>	(28)
Inventories	86	<b>109</b>	23
Tax receivables	46	<b>26</b>	(20)
Other assets	50	<b>105</b>	55
Provisions for risks and charges	(677)	<b>(665)</b>	12
Trade payables	(406)	<b>(491)</b>	(85)
- of which balancing	(207)	<b>(230)</b>	(23)
Accruals and deferrals from regulated activities	(231)	<b>(362)</b>	(131)
Tax liabilities	(11)	<b>(23)</b>	(12)
Deferred tax liabilities	(165)	<b>(134)</b>	31
Derivative liabilities/(assets)	(12)	<b>(29)</b>	(17)
Other liabilities	(1,033)	<b>(1,042)</b>	(9)
	<b>(1,079)</b>	<b>(1,259)</b>	<b>(180)</b>

Net working capital (1,259 million euro) was down by 180 million euro on 31 December 2017. The reduction is mainly due to: (i) the increase in accruals and deferrals from regulated activities (-131 million euro) mainly due to penalties and greater volumes billed to users of the transmission service, with respect to the restriction of revenues established by the Regulatory Authority; (ii) the performance of commercial operations (-112 million euro), which recorded lesser receivables for 27 million euro, mainly following the lesser volumes of gas traded under the scope of balancing and greater trade payables (-85 million euro), primarily due to the transmission sector gas settlement, introduced by the Regulatory Authority by resolutions 670/2017/R/gas and 782/2017/R/gas<sup>30</sup>. These effects were partially offset by the rise in other net assets (+46 million euro, net of other liabilities), mainly due to the greater receivables of the transmission segment towards the CSEA in reference to the gas settlement.

29 For more information, see Note 25, "Guarantees, commitments and risks", of the consolidated financial statements.

30 By this resolution, the Authority approved the provisions on gas settlement for the determination of physical and economic items of adjustment for the previous period (years 2013-2017). The regulation also envisages that any imbalance in items receivable and payable from and to users, shall be regulated by the CSEA in order to guarantee the neutrality of Snam Rete Gas as major transmission company. In this regard, it is noted that in exchange for the settlement, net working capital as at 31 December 2018 recorded a drop of 25 million euro following the greater collections of items receivable, not yet re-distributed to the system as at that date.

## Statement of comprehensive income

(€ million)	2017	2018
<b>Net profit (*)</b>	<b>897</b>	<b>960</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 hedging derivatives (effective share)	(8)	(26)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	(3)	(1)
Tax effect	2	6
	(9)	(21)
<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	
Change in fair value of minority share measured at fair value through other comprehensive income - FVTOCI (**)		1
Tax effect		
		1
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(9)</b>	<b>(20)</b>
<b>Total comprehensive income (*)</b>	<b>888</b>	<b>940</b>

(\*) Entirely held by Snam shareholders.

(\*\*) The amount refers to the change in fair value of the minority share in Adriatic LNG, allocated to shareholders' equity in compliance with IFRS 9. For more information, see Note 16 "Other equity investments" of the Notes to the consolidated financial statements.

## Shareholders' equity

<b>(€ million)</b>	
<b>Shareholders' equity at 31 December 2017 (*)</b>	<b>6,188</b>
Effect of the first time adoption of the provisions of IFRS 9 (**)	8
<b>Shareholders' equity at 01 January 2018 (*)</b>	<b>6,196</b>
<i>Increases owing to:</i>	
- Comprehensive income for 2018	940
- Other changes	10
	<b>950</b>
<i>Decreases owing to:</i>	
- 2017 dividend balance	(437)
- 2018 interim dividend (***)	(298)
Acquisition of treasury shares	(426)
	<b>(1,161)</b>
<b>Shareholders' equity at 31 December 2018 (*)</b>	<b>5,985</b>

(\*) Entirely held by Snam shareholders.

(\*\*) Net of tax effect. Further information is provided in Note 1 "Basis of presentation" of the Notes to the consolidated financial statements.

(\*\*\*) Amount paid on 23 January 2019.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2017 is provided in Note 23 "Shareholders' equity" in the Notes to the consolidated financial statements.

## Reconciliation between the separate and consolidated net income and shareholders' equity of Snam S.p.A.

(€ million)	Net income		Shareholders' equity	
	2017	2018	31.12.2017	31.12.2018
<b>Financial statements of Snam S.p.A.</b>	<b>677</b>	<b>721</b>	<b>4,861</b>	<b>4,402</b>
Net income of companies included in the scope of consolidation	799	<b>874</b>		
Difference between book value of equity investments in consolidated companies and shareholders' equity reported in financial statements including net income for the period			1,382	<b>1,618</b>
<b>Consolidation adjustments for:</b>				
- Dividends	(604)	<b>(641)</b>		
- Income from the measurement of equity investments using the equity method and other income from equity investments	25	<b>6</b>	(55)	<b>(21)</b>
	<b>(579)</b>	<b>(635)</b>	<b>(55)</b>	<b>(21)</b>
Minority interests				
<b>Consolidated Financial Statements</b>	<b>897</b>	<b>960</b>	<b>6,188</b>	<b>5,985</b>

## Net financial debt

(€ million)	31.12.2017	31.12.2018	Change
<b>Financial and bond debt</b>	<b>12,619</b>	<b>13,420</b>	<b>801</b>
Short-term financial debt (*)	2,443	<b>3,633</b>	1,190
Long-term financial debt	10,176	<b>9,787</b>	(389)
<b>Financial receivables and cash and cash equivalents</b>	<b>(1,069)</b>	<b>(1,872)</b>	<b>(803)</b>
Cash and cash equivalents	(719)	<b>(1,872)</b>	(1,153)
Short-term financial receivables	(350)		350
	<b>11,550</b>	<b>11,548</b>	<b>(2)</b>

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

Net financial debt was 11,548 million euro as at 31 December 2018, compared with 11,550 million euro as at 31 December 2017.

The net cash flow from operations (1,826 million euro) allowed us to entirely finance net investments (1,036 million euro, including equity investments of 176 million euro). This flow and the collection deriving from the repayment by TAP of the shareholders' loan (519 million euro; 371 million euro, net of the portions disbursed by Snam during the year), have

made it possible to generate free cash flow of 1,161 million euro. Net financial debt, after the payment to shareholders of the 2017 dividend (731 million euro, of which 294 million euro by way of interim dividend and 437 million euro for the balance) and the cash flow deriving from the purchase of treasury shares (426 million euro), shows a reduction of 2 million euro compared with 31 December 2017, including non-monetary components relating to net financial debt (2 million euro).

Financial debts and bonds as at 31 December 2018 of 13,420 million euro (12,619 million euro as at 31 December 2017) are as follows:

(€ million)	31.12.2017	31.12.2018	Change
Bonds	8,672	<b>8,446</b>	(226)
- of which short-term (*)	1,042	<b>913</b>	(129)
Bank loans	3,931	<b>4,749</b>	818
- of which short-term (*)	1,385	<b>2,495</b>	1,110
Euro Commercial Paper - ECP (**)		<b>225</b>	225
Other financing (**)	16		(16)
	<b>12,619</b>	<b>13,420</b>	<b>801</b>

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

(\*\*) Entirely short-term.

Financial and bond debts are denominated in euros <sup>31</sup> and refer mainly to bond loans (8,446 million euro, or 62.9%) and bank loans (4,749 million euro, or 35.4%, including 1,448 million euro provided by the European Investment Bank - EIB).

The bonds decreased by 226 million euro (8,446 million euro) compared to 31 December 2017. The reduction is mainly due to: (i) the repayment of a fixed-rate bond loan maturing on 19 March 2018, for a nominal amount of 851 million euro; (ii) the repayment of a fixed-rate bond maturing on 10 September 2018, for a nominal amount of 70 million euro; (iii) the repurchase on the market of fixed-rate bonds for a total nominal value of 538 million euro with an average coupon of 2.6% and a residual duration of approximately 3.7 years. These effects were partially offset by the issue of: (i) a variable-rate bond<sup>32</sup>, on 22 January 2018, for a nominal value of 350 million euro; (ii) a fixed-rate bond, on 11 September 2018, for a nominal value of 600 million euro; (iii) a fixed-rate equity linked bond, on 27 November 2018, for a nominal value of 300 million euro.

Funding for bank loans (4,749 million euro) increased by 818 million euro mainly following the underwriting of three bank term loans for a total nominal value of 700 million euro, and of a greater net use of uncommitted credit facilities for a value of approximately 393 million euro. This effect is partially offset by the early repayment of a bank term loan for a nominal value of 250 million euro.

Long-term financial liabilities (9.787 million euros) made up approximately 73% of gross financial debt (around 81% as at 31 December 2017). Fixed-rate financial debts amounted to around 78% of gross financial debt.

The Euro Commercial Papers (225 million euro) regard unsecured short-term securities issued on the money market and placed with institutional investors.

Cash and cash equivalents (1,872 million euro) refer mainly to a short-term use of liquid funds, maturing within three months, with the counterparty being a bank of high credit standing (1,000 million euro), an on-call bank deposit (810 million euro) and cash held at the company Gasrule Insurance DAC (17 million euro) and Snam International BV (14 million euro).

As at 31 December 2018, Snam had unused committed long-term credit facilities worth 3.2 billion euro. In terms of sustainable finance, November 2018 saw the completion of the transformation of these pooled credit facilities into a sustainable loan with 19 national and international banks of primary standing, with a bonus/malus mechanism on the margins paid connected with the achievement of specific ESG (Environment, Social and Governance) KPIs: this is the third largest sustainable loan stipulated in the world and the absolute largest by a gas utility company.

Information on financial covenants can be found in Note 17 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the consolidated financial statements.

31 Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

32 The above-mentioned interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

## 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 (\*)

2016 (**)	(€ million)	2017	2018
861	Net profit (***)	897	960
	<i>Adjusted for:</i>		
757	- Amortisation, depreciation and other non-monetary components	511	543
36	- Net capital losses (capital gains) on asset sales and eliminations	4	12
884	- Dividends, interest and income taxes	585	557
(176)	Change in working capital due to operating activities	334	185
(735)	Dividends, interest and income taxes collected (paid)	(467)	(431)
<b>1,627</b>	<b>Net cash flow from operating activities</b>	<b>1,864</b>	<b>1,826</b>
(1,145)	Technical investments	(1,016)	(849)
2	Technical disinvestments	3	2
1,502	Companies (entering) leaving the scope of consolidation and business units	(166)	(32)
(168)	Equity investments	(75)	(144)
(133)	Change in long-term financial receivables	(154)	371
22	Other changes relating to investment activities	(33)	(13)
<b>1,707</b>	<b>Free cash flow</b>	<b>423</b>	<b>1,161</b>
1,585	Financial credits in companies leaving the scope of consolidation		
	Change in short-term financial receivables	(350)	350
(2,297)	Change in short- and long-term financial debt	1,540	799
(978)	Equity cash flow (a)	(928)	(1,157)
<b>17</b>	<b>Net cash flow for the period</b>	<b>685</b>	<b>1,153</b>

## Change in net financial debt

2016 (**)	(€ million)	2017	2018
1,707	Free cash flow	423	1,161
	Effect of the first time adoption of the provisions of IFRS 9		10
2,009	Financial debts and credits from companies entering the area of consolidation		(6)
(978)	Equity cash flow (a)	(928)	(1,157)
(15)	Other changes (b)	11	(6)
2,723	Change in net financial debt	(494)	2

(\*) 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.

(\*\*) With reference to FY 2016, the flows indicated refer to the Snam Group and therefore include cash flow relating to discontinued operations (natural gas distribution). More specifically, the net cash flow from operating activities, investments and financing activities attributable to discontinued operations total respectively +413 million euro, -298 million euro and -116 million euro.

(\*\*\*) With reference to FY 2016, net income is attributable for 591 million euro to continuing operations and 270 million euro to discontinuing operations.

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

(b) Include the effects of adjustment to the year-end exchange rate of financial payables in foreign currency.

## Reconciliation of the reclassified financial statement with the compulsory formats

### Reclassified statement of financial position

(€ million)	31.12.2017		31.12.2018	
Reclassified balance sheet items (Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the 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			16,033	<b>16,153</b>
Compulsory inventories			363	<b>363</b>
Intangible assets			850	<b>907</b>
<i>Equity investments comprising:</i>			<i>1,591</i>	<i><b>1,750</b></i>
- Equity investments measured using the equity method		1,547		<b>1,710</b>
- Other equity investments		44		<b>40</b>
Long-term financial receivables	(note 9)		373	<b>11</b>
<i>Net payables for investments, consisting of:</i>			<i>(335)</i>	<i><b>(328)</b></i>
Payables for investment activities	(note 18)	(347)		<b>(337)</b>
- Receivables from investment/divestment activities	(note 9)	12		<b>9</b>
<b>Total fixed capital</b>			<b>18,875</b>	<b>18,856</b>
<b>Net working capital</b>				
Trade receivables	(note 9)		1,274	<b>1,247</b>
Inventories			86	<b>109</b>
<i>Tax receivables, consisting of:</i>			<i>46</i>	<i><b>26</b></i>
- Current income tax assets and other current tax assets		37		<b>17</b>
IRES receivables for the national tax consolidation scheme	(note 9)	9		<b>9</b>
Trade payables	(note 18)		(406)	<b>(491)</b>
<i>Tax liabilities, consisting of:</i>			<i>(11)</i>	<i><b>(23)</b></i>
- Current income tax liabilities and other current tax liabilities		(11)		<b>(23)</b>
Deferred tax liabilities			(165)	<b>(134)</b>
Provisions for risks and charges			(677)	<b>(665)</b>
Derivative hedging instruments	(note 12 and 19)		(12)	<b>(29)</b>

(€ million)	31.12.2017			31.12.2018	
Reclassified balance sheet items (Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<i>Other assets, consisting of:</i>			50		105
- Other receivables	(note 9)	13		72	
- Other current and non-current assets	(note 12)	37		33	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(231)		(362)
- Regulated assets	(note 12)	68		26	
- Regulated liabilities	(note 19)	(299)		(388)	
<i>Other liabilities, consisting of:</i>			(1,033)		(1,042)
- Other payables	(note 18)	(920)		(940)	
- Other current and non-current liabilities	(note 19)	(113)		(102)	
<b>Total net working capital</b>			<b>(1,079)</b>		<b>(1,259)</b>
Provisions for employee benefits			(58)		(64)
<b>NET INVESTED CAPITAL</b>			<b>17,738</b>		<b>17,533</b>
Shareholders' equity (entirely attributable to Snam's shareholders)			6,188		5,985
<b>Net financial debt</b>					
<i>Financial liabilities, consisting of:</i>			12,619		13,420
- Long-term financial liabilities		10,176		9,787	
- Short-term portion of long-term financial liabilities		1,070		1,657	
- Short-term financial liabilities		1,373		1,976	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			(1,069)		(1,872)
- Short-term financial receivables		(350)			
- Cash and cash equivalents	(note 8)	(719)		(1,872)	
<b>Total net financial debt</b>			<b>11,550</b>		<b>11,548</b>
<b>COVERAGE</b>			<b>17,738</b>		<b>17,533</b>

## Reclassified statement of cash flows

(€ million)	2017		2018	
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>897</b>		<b>960</b>
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		511		543
- Amortisation and depreciation	646		682	
- Impairment losses	13		8	
- Equity method valuation effect	(161)		(157)	
- Change in provisions for employee benefits	13		7	
- Other changes			3	
Net capital losses (capital gains) on asset sales and eliminations		4		12
Interest and income taxes:		585		557
- Dividends			(2)	
- Interest income	(9)		(12)	
- Interest expense	265		230	
- Income taxes	329		341	
Change in working capital due to operating activities:		334		185
- Inventories	(42)		(33)	
- Trade receivables	1		41	
- Trade payables	(26)		76	
- Change in provisions for risks and charges	16		9	
- Other assets and liabilities	385		92	
Dividends, interest and income taxes collected (paid):		(467)		(431)
- Dividends collected	149		151	
- Interest collected	2		4	
- Interest paid	(265)		(230)	
- Income taxes (paid) received	(353)		(356)	
<b>Net cash flow from operating activities</b>		<b>1,864</b>		<b>1,826</b>

(€) million)	2017		2018	
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
Technical investments:		(1,016)		(849)
Property, plant and equipment	(950)		(772)	
- Intangible assets	(66)		(77)	
Technical disinvestments:		3		2
Property, plant and equipment	3		2	
Companies (entering) leaving the scope of consolidation and business units		(166)		(32)
- Change in scope of consolidation and business units	(166)		(38)	
- Change in net payables relating to investments			6	
Equity investments		(75)		(144)
- Investments in shares	(111)		(165)	
- Disinvestments in shares	36		21	
- Change in net debts relating to investments				
Short-term financial receivables		(154)		371
- Stipulation of short-term financial receivables	(154)		(148)	
- Repayment of short-term financial receivables			519	
Other changes relating to investment activities:		(33)		(13)
- Change in net payables relating to technical investments	(33)		(13)	
<b>Free cash flow</b>		<b>423</b>		<b>1,161</b>
Change in long-term financial receivables		(350)		350
Change in financial payables:		1,540		799
- Taking on long-term financial debt	3,129		1,810	
- Repaying long-term financial debt	(1,465)		(1,608)	
- Increase (decrease) in short-term financial debt	(124)		597	
Equity cash flow		(928)		(1,157)
- Dividends paid	(718)		(731)	
- Acquisition of self-owned shares	(210)		(426)	
<b>Net cash flow for the period</b>		<b>685</b>		<b>1,153</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, through the full operative subsidiaries Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas S.p.A. (ITG), GNL Italia S.p.A. and Stogit S.p.A., respectively oversee the business of natural gas transmission, regasification and storage. Through newcos and acquired companies, it is also present in the sustainable mobility and energy efficiency businesses.

Snam S.p.A. operates in Europe through agreements with the leading industry players and direct equity investments in the share capital of companies, in the main continental energy corridors. Through its subsidiaries, it operates in Austria (TAG and GCA), France (Terëga), Greece (Senfluga) and the United Kingdom (Interconnector UK) and is amongst 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.

Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam S.p.A. [pursuant to accounting standard IFRS 10 - Consolidated Financial Statements]. No management and coordination activity has been formalised or exercised.

As at 31 December 2018, CDP S.p.A. holds, through CDP Reti S.p.A.<sup>33</sup> 30.37% of the share capital of Snam S.p.A.

### RECLASSIFIED INCOME STATEMENT

In order to facilitate the understanding of the Income Statement, in consideration of the nature of Snam S.p.A. as an industrial holding company, the reclassified draft income statement has been prepared, presenting first the items relating to financial operations, insofar as this is the most significant component of the income<sup>34</sup>. With reference to other operating expenses, the item includes not only non-financial costs but also the amortisation, depreciation and impairment of assets.

<sup>33</sup> Company in which CDP S.p.A. holds a share of 59.10%.

<sup>34</sup> This is prepared on the basis of the suggestions given in Consob Communication no. 94001437 of 23 February 1994.

## Reclassified income statement

Pro-forma 2016	(€ million)	2017	2018	Change	% change
<b>Financial income and expense</b>					
568	Income from equity investments	740	<b>775</b>	35	4.7
642	Interest income and other financial income	262	<b>213</b>	(49)	(18.7)
(647)	Interest expense and other financial expense	(292)	<b>(249)</b>	43	(14.7)
(1)	Losses on derivatives	(1)	<b>(2)</b>	(1)	100.0
<b>562</b>	<b>Total financial income and expense</b>	<b>709</b>	<b>737</b>	<b>28</b>	<b>3.9</b>
203	Income from services rendered	210	<b>213</b>	3	1.4
12	Other income	13	<b>14</b>		
<b>215</b>	<b>Other operating income</b>	<b>223</b>	<b>227</b>	<b>4</b>	<b>1.8</b>
(79)	For personnel	(81)	<b>(94)</b>	(13)	16.0
(162)	For non-financial services and other costs	(173)	<b>(146)</b>	27	(15.6)
(241)	Other operating expenses	(254)	<b>(240)</b>	14	(5.5)
536	Pre-tax profit	678	<b>724</b>	46	6.8
(13)	Income taxes	(1)	<b>(3)</b>	(2)	
<b>523</b>	<b>Net profit</b>	<b>677</b>	<b>721</b>	<b>44</b>	<b>6.5</b>

**Net profit** achieved in 2018 amounted to 721 million euro, up by 44 million euro (6.5%), compared to the 2017 financial year. The increase is mainly due to the greater financial income and charges (+28 million euro; +3.9%), primarily following the greater income from equity investments (+35 million euro; +4.7%) and the reduction of other operating expenses (+14 million euro; +5.5%), mainly due to the lesser costs for the provision of non-financial services and other costs (+27 million euro). These effects have been partly offset by the increased personnel expenses (-13 million euro), mainly relating to expenses for incentives to take redundancy and Isopensione.

## Analysis of income statement items

### Financial income and expense

2016	(€ million)	2017	2018	Change	% change
593	Income from equity investments	753	<b>775</b>	22	2.9
(25)	Expenses from shares	(13)		13	(100.0)
642	Interest income and other financial income	262	<b>213</b>	(49)	(18.7)
(647)	Interest expense and other financial expense	(292)	<b>(249)</b>	43	(14.7)
(1)	Losses on derivatives	(1)	<b>(2)</b>	(1)	100.0
<b>562</b>		<b>709</b>	<b>737</b>	<b>28</b>	<b>3.9</b>

**Financial income and charges** booked for 2018 (737 million euro) increased by 28 million euro, equal to 3.9%, in respect to the previous financial year.

Income from equity investments (775 million euro) consist mainly of the dividends distributed by the subsidiaries Snam Rete S.p.A. (479 million euro), and Stogit S.p.A. (157 million euro), by the joint venture Trans Austria Gasleitung GmbH - TAG (73 million euro), Terēga Holding (19 million euro) and the associate Italgas S.p.A. (23 million euro)<sup>35</sup>.

The asset interest and other financial revenue (213 million euro) essentially concern: (i) interest income deriving from infra-group loans granted by Snam S.p.A. to the subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (180 million euro in total); (ii) the financial revenue deriving from the recharge to the companies Snam Rete Gas S.p.A. and Stogit S.p.A. of the charges connected to the buyback operation put into effect by Snam in the month of December 2018 (25 million euro in total); (iii) the proceeds connected with the shareholders' loan granted to TAP (8 million euro).

The Liability Interest and other financial expenses (249 million euro) principally refer: (i) to the expenses connected to the bond buyback operation (47 million euro), equal to the difference between the reacquisition price for the bonds on the market and the relative value to the depreciated cost; (ii) to expenses on bond loans<sup>36</sup> (185 million euro) and on loans issued by Banks and other Financial Institutions (17 million euro).

#### Other operating income

2016	(€ million)	2017	2018	Change	% change
203	Income from services rendered	210	213	3	1.4
12	Other income	13	14	1	7.7
<b>215</b>		<b>223</b>	<b>227</b>	<b>4</b>	<b>1.8</b>

**Income from services provided** (213 million euro) mainly refers to charge-backs for services provided by Snam to subsidiaries and other investees (totalling 192 million euro). The services provided by Snam S.p.A. are regulated by means of service contracts covering the following areas: ICT, Personnel and Organisation, Planning and Control, Administration, Tax and Corporate Strategy, General and Property Services, Security, Legal and Corporate Affairs, Compliance and ERM, HSEQ, Institutional Relations and Communication, Internal Audit, Commercial, Finance, Technical, Regulation and Procurement. The services also include revenues on projects of the Global Solution Business Unit (16 million euro).

**Other income** (14 million euro) essentially refers to income from leasing and maintaining fibre-optic telecommunications cables for third parties (13 million euro).

<sup>35</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>36</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

2016	(€ million)	2017	2018	Change	% change
162	For non-financial services and other costs	173	146	(27)	(15.6)
79	For personnel	81	94	13	16.0
<b>241</b>		<b>254</b>	<b>240</b>	<b>(14)</b>	<b>(5.5)</b>

**Costs for non-financial services and other costs** consist of operating costs (138 million euro) and amortisation/depreciation (8 million euro). The 27 million euro reduction is mainly due to the lesser costs for IT services charged back to the Italgas Group, regulated by means of various contracts stipulated as at 31 December 2017 and the performance of the provision for doubtful debt.

**Personnel costs** total 94 million euro and record a rise on the same period of last year (13 million euro), mainly due to the greater expenses for incentive to take redundancy and Isopensione (totalling 11 million euro).

The number of employees as at 31 December 2018 (838 people), basically in line with 31 December 2017, is analysed below according to professional status.

## Employees by professional status

31.12.2016	(no.)	31.12.2017	31.12.2018	Change	% change
	<b>Professional status</b>				
54	Executives	63	71	8	12.7
215	Managers	239	259	20	8.4
510	Office workers	517	505	(12)	(2.3)
4	Manual workers	3	3		
<b>783</b>		<b>822</b>	<b>838</b>	<b>16</b>	<b>1.9</b>

## Income tax

**Income tax** amounted to 3 million euro and is substantially in line with the same period of the previous 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 additional information for investors as it allows identification of the sources of financing (equity and third-party funds) and the application of such funds for 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 balance sheet (\*)

(€ million)	31.12.2017	31.12.2018	Change
<b>Fixed capital</b>	<b>13,125</b>	<b>11,981</b>	<b>(1,144)</b>
Property, plant and equipment	6	5	(1)
Intangible assets	16	14	(2)
Equity investments	6,327	6,534	207
Long-term financial receivables	6,780	5,431	(1,349)
Net receivables (payables) for investments	(4)	(3)	1
<b>Net working capital</b>	<b>(271)</b>	<b>(308)</b>	<b>(37)</b>
<b>Provisions for employee benefits</b>	<b>(16)</b>	<b>(19)</b>	<b>(3)</b>
<b>NET INVESTED CAPITAL</b>	<b>12,838</b>	<b>11,654</b>	<b>(1,184)</b>
<b>Shareholders' equity</b>	<b>4,861</b>	<b>4,402</b>	<b>(459)</b>
<b>Net financial debt</b>	<b>7,977</b>	<b>7,252</b>	<b>(725)</b>
<b>COVERAGE</b>	<b>12,838</b>	<b>11,654</b>	<b>(1,184)</b>

(\*) Please refer to the paragraph "Non-GAAP measures" for the methodological illustration of the reclassified statements.

**Fixed capital** (11,981 million euro) is down by 1,144 million euro on 31 December 2017, mainly due to the lesser long-term financial receivables (-1,349 million euro) following the repayment of loans disbursed to the subsidiaries and the associate TAP, partly offset by the increase in equity investments (+207 million euro).

## Equity investments

The item totals 6,534 million euro and consists of the equity investments held in the following companies:

(€ million)	% ownership	Balance at 31.12.2017	Acquisitions and subscriptions	Sales and repayments	Other changes	Balance at 31.12.2018
<b>Equity investments in subsidiaries</b>		<b>4,681</b>	<b>61</b>		<b>62</b>	<b>4,804</b>
Snam Rete Gas S.p.A.	100%	2,849			1	<b>2,850</b>
Stogit S.p.A.	100%	1,597				<b>1,597</b>
Asset company 2 S.r.l.	100%	172				<b>172</b>
Snam International B.V. (ex GasBridge 2)	100%				61	<b>61</b>
GNL Italia S.p.A.	100%	43				<b>43</b>
Snam 4 Mobility S.p.A.	100%		38			<b>38</b>
Asset company 4 S.r.l.	100%		23			<b>23</b>
Gasrule Insurance D.A.C.	100%	20				<b>20</b>
<b>Investments in joint ventures</b>		<b>1,126</b>	<b>5</b>	<b>(16)</b>	<b>(61)</b>	<b>1,054</b>
Trans Austria Gasleitung GmbH	84.47%	500				<b>500</b>
Terēga Holding S.A.S.	40.50%	452				<b>452</b>
AS Gasinfrastruktur Beteiligung GmbH	40%	118		(16)		<b>102</b>
Gasbridge 1 B.V. and Gasbridge 2 B.V.	50%	56	5		(61)	
<b>Investments in associates</b>		<b>476</b>	<b>160</b>			<b>636</b>
Trans Adriatic Pipeline AG	20%	232	39			<b>271</b>
Italgas S.p.A.	13.50%	244				<b>244</b>
Senfluga Energy Infrastructure Holding S.A.	60.00%		121			<b>121</b>
<b>Other investments</b>		<b>44</b>		<b>(5)</b>	<b>1</b>	<b>40</b>
Terminale GNL Adriatico S.r.l.	7.30%	44		(5)	1	<b>40</b>
<b>Total</b>		<b>6,327</b>	<b>226</b>	<b>(21)</b>	<b>2</b>	<b>6,534</b>

## Long-term financial receivables

**Long-term financial receivables**, including the relative short-term portions, amount to 5,431 million euro and refer to receivables for loans disbursed to the subsidiaries Snam Rete Gas (4,435 million euro) and Stogit (987million euro), and the associate TAP (10 million euro). The reduction of 1,349 million euro on 31 December 2017 is mainly due to the closure and simultaneous repayment of loans in place with Snam Rete Gas S.p.A. and Stogit S.p.A. (-972 million euro in total, of which 362 million euro consequent to the liability management operation completed in December 2018) and the repayment<sup>37</sup> by TAP, through a true-up mechanism, of 519 million euro, in exchange for 373 million euro for outstanding receivables as at 31 December 2017 and 156 million euro for receivables accrued in 2018.

37 Including interest accrued.

## Net working capital

(€ million)	31.12.2017	31.12.2018	Change
Trade receivables	94	95	1
Other assets	32	38	6
Tax receivables	44	27	(17)
Net prepaid tax assets	12	19	7
Provisions for risks and charges	(7)	(11)	(4)
Tax liabilities	(15)	(27)	(12)
Derivatives	(12)	(29)	(17)
Trade payables	(68)	(62)	6
Other liabilities	(351)	(358)	(7)
<b>Total</b>	<b>(271)</b>	<b>(308)</b>	<b>(37)</b>

**Net working capital** was down by 37 million euro on 31 December 2017. The reduction is mainly due to the reduction in the fair value of the derivative financial instruments (-17 million euro) and the lesser tax receivables (-17 million euro), mainly due to lesser Group VAT receivables.

## Shareholders' equity

(€ million)	
<b>Shareholders' equity at 31 December 2017</b>	<b>4,861</b>
Effect of the first time adoption of the provisions of IFRS 9 (*)	(3)
<b>Balance at 01 January 2018</b>	<b>4,858</b>
<i>Increases owing to:</i>	
- Comprehensive income for 2018 (**)	702
- Other changes	3
	<b>705</b>
<i>Decreases owing to:</i>	
- 2017 dividend balance	(437)
- 2018 interim dividend	(298)
- Purchase of treasury shares	(426)
	<b>(1,161)</b>
<b>Shareholders' equity at 31 December 2018</b>	<b>4,402</b>

(\*) Net of tax effect. More information is supplied in note no. 2 "Accounting standards and interpretations applicable from 2018" of the Notes to the annual financial statements.

(\*\*) For further details, please refer to the Statement of comprehensive income of the Snam SpA Financial Statement.

## Net financial debt

(€ million)	31.12.2017	31.12.2018	Change
<b>Financial and bond debt</b>	<b>12,634</b>	<b>13,462</b>	<b>828</b>
Short-term financial debt (*)	2,458	<b>3,675</b>	1,217
Long-term financial debt	10,176	<b>9,787</b>	(389)
<b>Financial receivables and cash and cash equivalents</b>	<b>(4,657)</b>	<b>(6,210)</b>	<b>(1,553)</b>
Short-term financial receivables	(3,962)	<b>(4,369)</b>	(407)
Cash and cash equivalents	(695)	<b>(1,841)</b>	(1,146)
<b>Total</b>	<b>7,977</b>	<b>7,252</b>	<b>(725)</b>

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

At 31 December 2018, net financial debt was 7,252 million euro, a reduction of 725 million euro compared with 31 December 2017.

Financial and bond debts are denominated in euros <sup>38</sup> and refer mainly to bond loans (8,446 million euro, or 62.7%) and bank loans (4,749 million euro, or 35.3%, including 1,448 million euro provided by the European Investment Bank - EIB). Long-term financial liabilities (9.787 million euros) made up approximately 73% of gross financial debt (around 81% as at 31 December 2017).

The breakdown of debt by type of interest rate at 31 December 2018 is as follows:

(€ million)	31.12.2017	%	31.12.2018	%	Change
Fixed rate	9,834	78	10,531	<b>78</b>	697
Floating rate	2,800	22	2,931	<b>22</b>	131
<b>Total</b>	<b>12,634</b>	<b>100</b>	<b>13,462</b>	<b>100</b>	<b>828</b>

Variable rate financial liabilities (2,931 million euro) rise by 131 million euro on 31 December 2017, mainly due to the greater use of uncommitted credit facilities (+393 million euro), partially offset by the early repayment of the variable-rate term loan for a nominal value of 250 million euro.

Fixed-rate financial liabilities (10,531 million euro) increased by 697 million euro, mainly due to: (i) the 22 January 2018 issue of a variable-rate private placement<sup>39</sup> worth a nominal 350 million euro; (ii) the stipulation of a variable-rate term loan<sup>40</sup> for a nominal 150 million euro; (iii) the stipulation of a variable-rate term loan<sup>41</sup> for a nominal value of 500 million euro; (iv) the 11 September 2018 issue of a fixed-rate private placement worth a nominal 600 million; (v) the stipulation of a variable-rate term loan<sup>42</sup> for a nominal 50 million euro; (vi) the 27 November 2018 issue of a fixed-rate private placement worth a nominal 300 million; (vii) the 30

38 Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative

39 The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

40 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

41 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

42 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

November 2018 issue of unsecured short-term securities (Euro Commercial Paper) on the money market and placed with institutional investors, for a nominal value of 225 million euro. This variation was partly offset: (i) by the repayment of a fixed-rate bond loan maturing on 19 March 2018, for a nominal amount of 851 million euro; (ii) by the repayment of a fixed-rate bond maturing on 10 September 2018, for a nominal amount of 70 million euro; (iii) by the repurchase on the market of fixed-rate bonds for a total nominal value of 538 million euro with an average coupon of 2.6% and a residual duration of approximately 3.7 years; (iv) by the performance of interest rates.

As at 31 December 2018, Snam had unused committed long-term credit facilities worth 3.2 billion euro. In terms of sustainable finance, November 2018 saw the completion of the transformation of these pooled credit facilities into a sustainable loan with 19 national and international banks of primary standing, with a bonus/malus mechanism on the margins paid connected with the achievement of specific ESG (Environment, Social and Governance) KPIs: this is the third largest sustainable loan stipulated in the world and the absolute largest by a gas utility company.

Short-term financial receivables (4,369 million euro) show an increase of 407 million euro compared to 31 December 2017. The increase is mainly due to the greater net use of the intercompany current account by the subsidiaries Snam Rete Gas and Stogit (+413 million euro in total), partially offset by the lesser use of short-term liquidity, due within six months, with the counterparty being a bank of high credit standing (-350 million euro).

Cash and cash equivalents of 1,841 million euro (695 million euro as at 31 December 2017) essentially refer to a short-term liquidity facilities, with a maturity of less than three months, with a bank with a high credit standing (1,000 million euro) as counterparty, and to demand bank deposits (810 million euro).

The reduction in net financial debt of 725 million euro is mainly due: (i) to the net cash flow from operations (747 million euro); (ii) to the repayment of long-term financial receivables (1,342 million euro) by the subsidiaries Snam Rete Gas and Stogit and the associated TAP. These effects were partly offset by: (i) payment of the 2017 dividend (731 million euro, of which 294 million euro on deposit and 437 million euro as balance); (ii) equity investments (205 million euro, net of principal repayments) relative, in particular, to the share capital increase of the associate Senfluga Energy Infrastructure Holding S.A. (121 million euro) for the acquisition of DESFA.

## 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

2016	(€ million)	2017	2018
<b>761</b>	<b>Net profit</b>	<b>677</b>	<b>721</b>
	<i>Adjusted for:</i>		
30	- Amortisation, depreciation and other non-monetary components	24	<b>11</b>
(822)	- Dividends, interest and income taxes	(736)	<b>(748)</b>
6	Change in working capital due to operating activities	45	<b>9</b>
833	Dividends, interest and income taxes collected (paid)	736	<b>754</b>
<b>808</b>	<b>Net cash flow from operating activities</b>	<b>746</b>	<b>747</b>
(6)	Technical investments	(9)	<b>(5)</b>
1,335	Equity investments	(247)	<b>(205)</b>
2,353	Change in long-term financial receivables	416	<b>1,342</b>
(4)	Other changes relating to investment activities	(1)	<b>(1)</b>
<b>4,486</b>	<b>Free cash flow</b>	<b>905</b>	<b>1,878</b>
(1,197)	Change in short-term financial receivables	(853)	<b>(407)</b>
(2,300)	Change in current and non-current financial debt	1,559	<b>832</b>
(978)	Equity cash flow	(928)	<b>(1,157)</b>
<b>11</b>	<b>Net cash flow for the period</b>	<b>683</b>	<b>1,146</b>

### Change in net financial debt

2016	(€ million)	2017	2018
<b>4,486</b>	<b>Free cash flow</b>	<b>905</b>	<b>1,878</b>
	Effect of the first time adoption of the provisions of IFRS 9		<b>10</b>
(6)	Exchange rate differences on financial debt	7	<b>(6)</b>
(12)	Adjustment to fair value of financial debt	4	
424	Financial debt taken over by Italgas		
(978)	Equity cash flow	(928)	<b>(1,157)</b>
<b>3,914</b>	<b>Change in net financial debt</b>	<b>(12)</b>	<b>725</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 as at 31 December 2018 are analysed in the table below:

Period	Number of shares	Average cost (€) (*)	Total cost (€ millions)	Share capital (%) (**)
Purchases				
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
	<b>394,208,078</b>	<b>3.889</b>	<b>1,533</b>	
Less treasury shares allocated/sold/cancelled:				
- 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 resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
- cancelled in 2018 following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(31,599,715)			
<b>Treasury shares as at 31 december 2018</b>	<b>168,197,663</b>			

(\*) Calculated on the basis of historic prices.

(\*\*) Refers to the share capital in existence at the date of the last repurchase of the year

In 2018, a total of 113,881,762 Snam shares were purchased, equal to 3.28% of the share capital, for a cost of 426 million euro (56,010,436 shares, equal to 1.60% of the share capital, for a cost of 210 million euro in 2017). Purchases were made of 36,606,724 shares as part of the share buyback programme resolved by Snam's Shareholders' Meeting held on 11 April 2017 and of 77,275,038 shares as part of the new approved share buyback programme, after revocation for the part not yet executed of the previous programme, by the Snam Shareholders' Meeting of 24 April 2018<sup>43</sup>.

43 For more information, refer to the chapter "Summary data and information - Main events" of this Report.

The same Shareholders' Meeting held on 24 April 2018 in an extraordinary session, also approved the cancellation of 31,599,715 treasury shares in the portfolio, with no nominal value, without reducing the share capital.

As at 31 December 2018, Snam held 168,197,663 treasury shares, equal to 4.85% of the share capital (85,915,616 as at 31 December 2017, equal to 2.45% of its share capital), with a book value of about 625 million euro (318 million euro as at 31 December 2017) recorded on shareholders' equity. The market value of the treasury shares as at 31 December 2018 was around 642 million euro<sup>44</sup>.

The share capital as at 31 December 2018 consisted of 3,469,038,579 shares with no nominal value, with a total value of 2,736 million euro.

In addition, it is confirmed that 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 executives with Snam shares

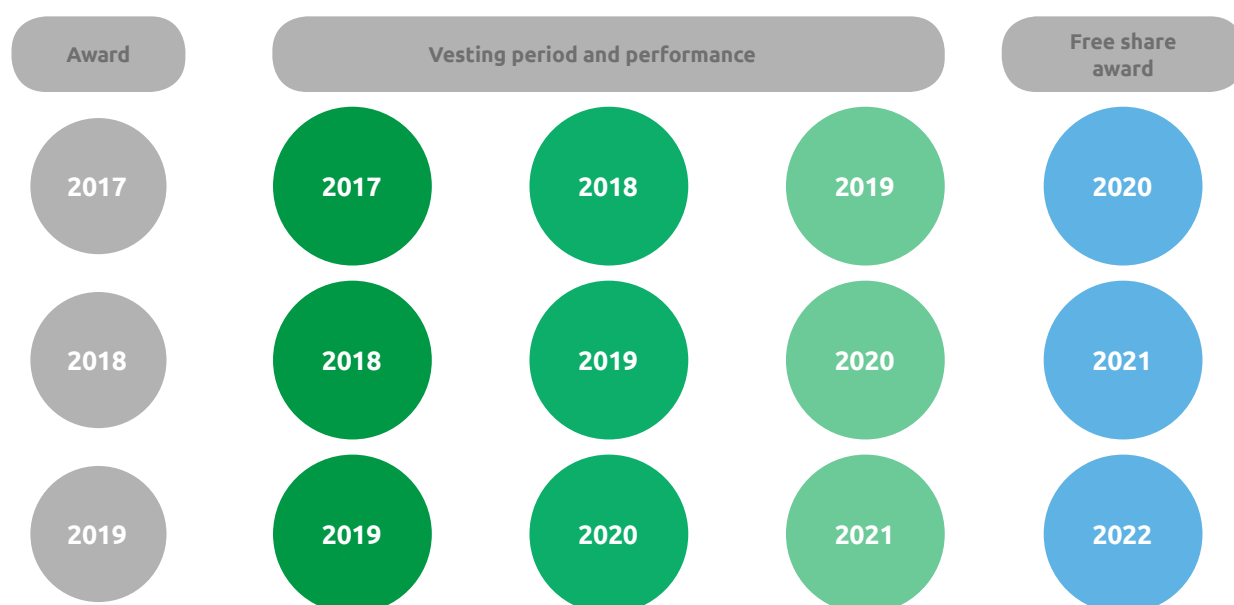
### 2017-2019 long-term stock incentive plan

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term stock incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plan.

The plan, intended for the Chief Executive Officer and managers of Snam, identified as those with positions of major impact on the business results or of strategic relevance in terms of achieving Snam's multi-year objectives, envisages three annual assignment cycles of three-year objectives (the "Rolling Plan") for the years 2017, 2018 and 2019. At the end of the three-year performance period, if the Plan conditions are met, the beneficiary will be entitled to receive Company shares free of charge.

The maximum number of shares serving the plan is 3,500,000 shares for each fiscal year of the Plan. The Plan will be concluded in 2022, upon expiration of the Vesting Period for the last attribution made in 2019.

The number of shares accrued is subject to the achievement of performance conditions, 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.



<sup>44</sup> Calculated by multiplying the number of treasury shares by the period-end official price of 3.8198 euro per share.

The Plan also provides that beneficiaries receive, at the end of the vesting period, a Dividend Equivalent, or an additional number of shares equal to the ordinary and extraordinary dividends distributed by Snam during the vesting period which would be due to the number of shares effectively assigned to beneficiaries based on the levels of performance achieved under the terms and conditions set out in the Plan. In addition, a two-year lock-up period for 20% of the beneficiaries' shares, as recommended by the Corporate Governance Code, is envisaged for the Chief Executive Officer and for the other beneficiary managers.

Under this Plan, a total of 3,692,810 shares were assigned, of which 1,368,397 shares against the 2017 assignment and 2,324,413 shares against the 2018 assignment. The unit fair value of the share, determined by the value of the Snam security as at the grant date, is 3.8548 and 3.5463 euro per share, respectively for the 2017 and 2018 assignments. The cost relating to the long-term incentive plan, recorded as a component of the cost of labour, comes to 3 million euro (1 million euro in 2017), with an equivalent entry in the shareholders' 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**

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, 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.

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 applicable 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 2018, 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 27 "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 five 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 aspects that do not relate directly to core business processes, 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 which determine the availability of the different capitals which the business needs in order 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 in opportunities, it is necessary to become capable of enhancing know-how and meeting new challenges in the regulated and free market alike.

People are called to effectively share experiences and skills and through teamwork to reach a single objective: a decisive factor to create innovation and bring 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 continues to generate "good employment", characterised by stable and continuous work relationships for qualified and specialised activities. Moreover, through the Snam Institute, the Company sets itself the goal of enhancing the skills not only within the company but also outside.

As at 31 December 2018, out of a total of 3,016 employees, 93% were on permanent contracts of employment. Of these, 41 had a part-time contract. The average age of Snam Group employees is 44.9, while the average length of employment is around 19.5 years.

#### Breakdown of Staff as at 31 December

(no.)	2016	2017	2018
Executives	87	93	107
Middle Managers	421	456	480
Office workers	1,651	1,655	1,682
Manual workers	724	715	747
<b>Total employees</b>	<b>2,883</b>	<b>2,919</b>	<b>3,016</b>

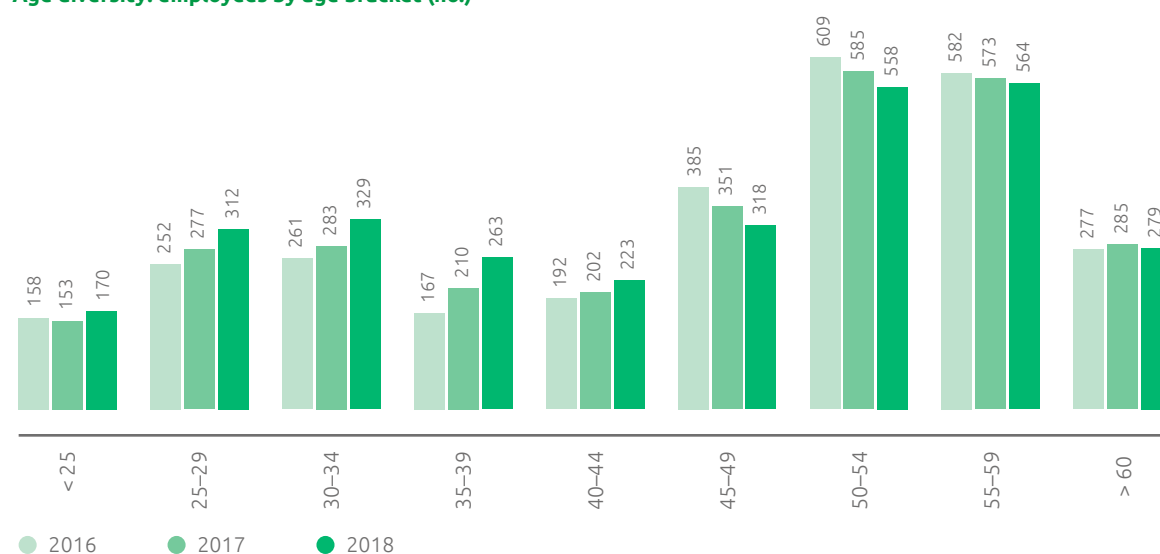
#### Personnel broken down by type of contract

(no.)	2016	2017	2018
Permanent contract	2,631	2,755	2,812
- Of whom on part-time contracts	45	42	41
Apprenticeship or internship contract	206	150	185
Fixed-term contract	1	14	19

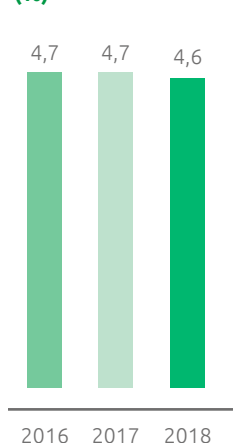
## Personnel hired during the year

(no.)	2016	2017	2018
Hired from the market (total)	141	148	195
- of which university graduates	73	100	108
- of which school graduates	66	48	86
- of whom other	2	-	1
- of which women	35	53	42
Other new employees (non-consolidated companies, tender acquisitions, etc.)	36	36	126

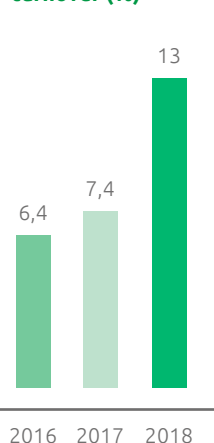
## Age diversity: employees by age bracket (no.)



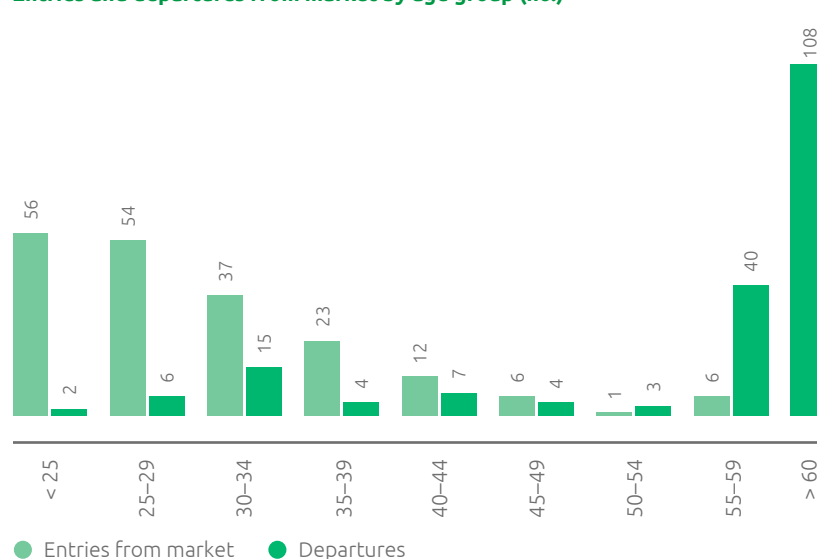
## Absenteeism rate (%)



## Personnel turnover (%)



## Entries and departures from market by age group (no.)



Under 35s (811) account for 27% of the company population and have increased by 98 units on 2017. The absenteeism rate does not include senior managers and it was calculated taking into consideration all hours not worked (paid and

not paid) excluding holidays and catch up leaves. In 2018, the female absenteeism rate was 4.8% and the male absenteeism rate was 4.6%.

## Development of roles and skills

In 2018, the development of the roles and skills of Snam focussed on improving the leadership model, on the implementation of a model of skills, on the identification and optimisation of talent throughout the organisation, on the maintenance of solid, structured succession plans guaranteeing a sustainable line of succession and the intensification of the level of engagement. In particular, 2018 saw the launch of the new Performance Management System, a decisive part of the Talent Review Discussion and the realisation of the Succession Plans. All assessment processes are formalised and include a feedback interview, which constitutes an institutional moment for exchange and communication between the manager and the employee, also in order to gather information that can be used to define new actions for the development and enhancement of people.

All jobs within Snam, Snam Rete Gas, GNL Italia and Stogit are subject to an analytical and overall evaluation of Complexity, Responsibility, Experience and Autonomy (C.R.E.A.) factors. In 2018, 198 CREA assessments were approved. Compensation systems are updated periodically based on a benchmark to the reference markets and taking into account the instructions received from the 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. In 2018, the scope of possible Long-Term Incentive Plan (ILT) beneficiaries was expanded to include all managers, with the aim of creating greater alignment of long-term variable remuneration with the primary goal of creating value for shareholders.

### Incentive systems for the various brackets of the corporate population

Executives	<p>Along with any annual adjustment to fixed remuneration for merit or progression of roles/ responsibilities, Snam provides a variable incentive system designed to enhance the value of the professional contribution in the short term (IMA), through the allocation of an annual monetary incentive, and the medium-long-term, if necessary through the allocation of a long-term stock incentive (ILT).</p> <p>Claw-back mechanisms are 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, the informational packet regarding the breakdown of individual remuneration, ensures the valorisation 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 the 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 the trade-union representatives.</p>

## Professional enhancement

The People Strategy developed by Snam focuses on three main pillars: enhancing the value of human resources, increasing productivity and the level of engagement, disseminating a culture of innovation and renewal. In this context, training plays a fundamental role in supporting management and the whole corporate population in paths to develop managerial capacity, technical skills, know how and innovation. Snam's commitment for 2018 was to increase the average number of training hours up to at least 32 per employee and to involve the 80% of the corporate population in at least one training session. The objective was achieved during the year with an average of approximately 36 hours of training per employee, whilst the involvement of the company population was 93%.

Extensive effort went into the worker training programmes, on sensitive matters such as health, safety and the environment. Numerous refresher, information and awareness-raising meetings were organised for all professional figures in relation to the implementation of safety measures.

To favour accurate information and the application of the principles set forth in the Model 231, the Code of Ethics and Anti-corruption legislation, specific training activities were carried out for specific segments of the corporate population. As regards training on business ethics and anti-corruption, a total of 321 hours of training were provided to 112 participants in 2018.

## Staff training broken down by position

(no hours.)	2016	2017	2018
Executives	2,940	1,908	4,392
Middle Managers	10,021	8,600	19,072
Office workers	31,072	39,316	49,650
Manual workers	38,151	35,522	34,657
<b>Total</b>	<b>82,184</b>	<b>85,346</b>	<b>107,771</b>

## Key training initiatives

Description	Hours provided (no.)	Participants (no.)
Technical training	58,120	4,454
Health, safety, environment and quality	28,345	4,953
Managerial training	19,257	3,822

## NFS Corporate welfare and work-life balance

Corporate welfare is a powerful tool that is integrated with the public welfare system and which attempts to protect people from new social risks. Corporate welfare refers to a multiplicity of interventions, both monetary and in the form of services, which on the one hand generate benefits for employees who see increasing social protection and purchasing power, on the other they become a lever fundamental for companies, which benefit from a better working and productive climate.

With the aim of fostering a positive working environment, over the years, Snam has created a welfare system based on a long tradition of attention to people, that can grow and modify over time and meet with the emerging needs and demands of the various categories of employees. The in-depth analysis of the company population, different needs and sensitivities, periodically updated, allows Snam to develop a shared, functional and effective welfare system.

Digital culture and personal well-being are the drivers of the new 2018 Welfare Plan, reorganised into five areas of intervention: Family, Education, Life-work balance, Well-being and free time, Health. The five areas are then further divided up into 28 services (company and contractual), which allow Snam to meet the most current needs of the society in which we live. Some of the most innovative activities include the dediCARE service (Family area), created to help Snam employees solve minor and major family issues like assistance to the elderly, help with schooling and babysitting. In a time that is dominated by digital communication, the Education area prepares children, teenagers and adults to a correct use of the web and social media, with coding generation

courses and digital education. Within the projects of the Well-being and free time area, the workshops have been planned dedicated to food education, financial education and mindfulness, i.e. self-awareness and of the context in which we live. Alongside the services for health, home-work mobility and the concession of micro loans, the agreements have been renewed with the trade unions, with the "Welfare Premium" and Smart Working projects, designed to better meet the needs to conciliate life and work, striking an appropriate balance. Thanks to the "Welfare Premium", the choice can be made voluntarily as to whether or not to convert a percentage of the Participation Premium into Welfare Credits that can be used to purchase services for themselves or their families. All the news and active projects are available for consultation on the website [snammy.it](http://snammy.it), which has been reorganised and given a new look to be even more user-friendly for ease of browsing.

## NFS Diversity

Snam respects the dignity of everyone, and offers equal opportunities in every step and aspect of the employment relationship, avoiding all forms of discrimination based on sex, age, health, nationality, political opinion or religious views.

For Snam, diversity is a value and, in particular, gender diversity and equal opportunities: this is proven by the fact that the female component in 2018 grew compared with the previous year (+6.6%) notwithstanding a large portion of the business activities, in particular the operational ones, requires a technical training which on the market is owned by candidates which are mostly male.

The company's female population, at the end of the year, numbered 419 resources, 13.9% of the total number of employees (13.5% in 2017). 37 women have part-time contracts, out of the 41 working in the company. In order to make the most of diversity, in 2018 Snam continued to collaborate with Valore D, which Snam has supported since 2017, the first association of companies promoting diversity, talent and female leadership for the growth of companies and the country. This collaboration

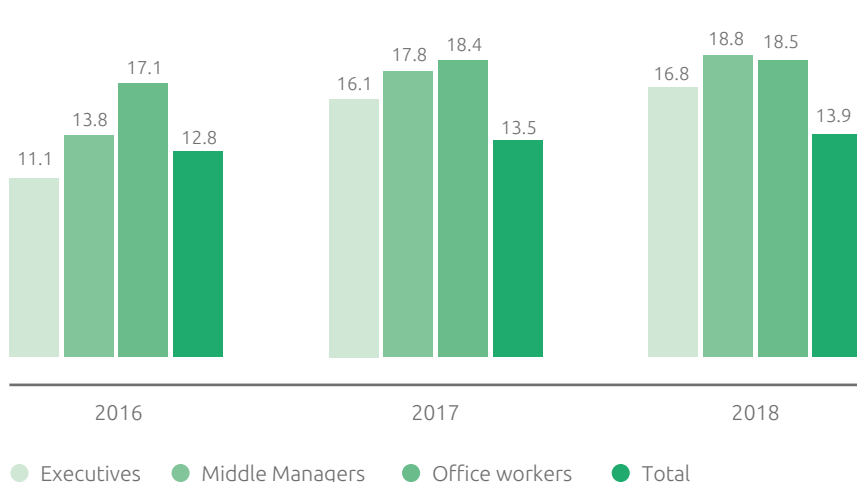
provided the employees with the chance to attend classes to enhance gender diversity, the differences that characterise different generations and cultures, for the development of an inclusive culture, a factor of innovation, competitiveness and growth for people and businesses.

125 people with disabilities work at Snam and their career path promotes inclusion and integration in company processes.

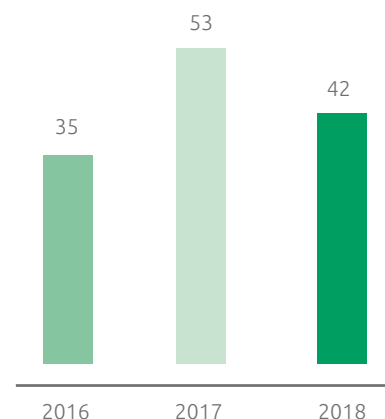
#### Staff training broken down by position (no. hours)

	2016	2017	2018
Average hours of training provided to men (hours/year)	30.2	31.3	36.9
Average hours of training provided to women (hours/year)	17.0	15.8	28.7

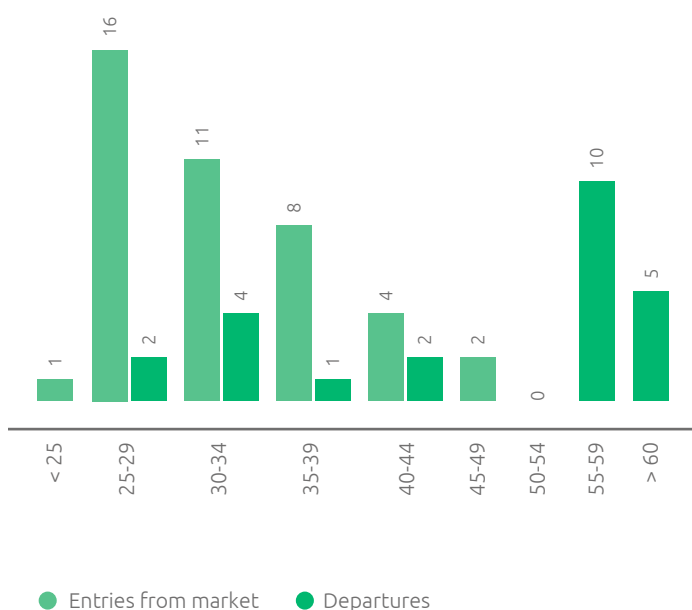
#### Total female presence and by qualification (%)



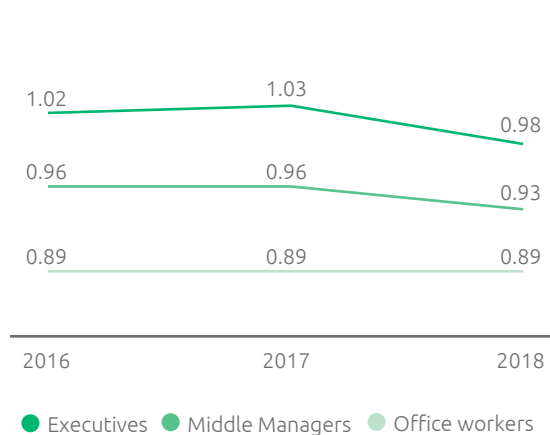
#### Women hired by the market (no.)



#### Entries from the market and exits by female



#### Gender and the pay gap (women/men)



The decrease in the pay gap between men and women in 2018 is mainly due to new hiring of executives and managers in entry level, which had a greater impact on the average AGR of women.

# Stakeholders and relationship capital

In Snam's business model, the stakeholders "interpret" the industry environment and can influence, sometimes decisively, the conditions which determine the availability of the different capitals which the business needs in order 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.

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 relationship 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.

As evidence of this, again in 2018, Snam met with its stakeholders at the Partners' Day, held late November at Officine del Volo in Milan, witnessed by more than 500 suppliers, clients, employees, institutions, financial communities and media. The initiative was characterised by the attendance of the Chairman of the Board, Giuseppe Conte, and numerous speakers from the company's senior management and representatives of institutions. For the occasion, three new initiatives were presented on matters of innovation and the energy transition and social business: the Snamtec project, under the scope of which the company will invest 850 million euro by 2022 to construct the energy business of the future, the "Social Supply Chain", a policy that will facilitate the direct involvement of social businesses in the supply chain and foster the inclusion, also as subcontractors, and the new open innovation platform, "Snam Up". During the course of the day, discussions were held on the territories' social development policies, on the role played by companies as a driver of sustainable growth and on the future of energy, as well as on themed tables dedicated to matters of interest to the business,

ranging from innovations in the supply chain to the digital transformation, network and site safety to open innovation and energy efficiency to the new lean working methods adopted in the company. A strategic agreement has also been stipulated with SEAT for natural gas and renewable gas sustainable mobility in Europe.

## 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.

The 2018 internal communication plan focussed on the enriching of contents and the increase in the frequency of update of all channels currently in place, as well as on the introduction of new initiatives, activities and information formats and the involvement of people, also thanks to the collaboration with the Snam Foundation and Snam Institute. The collaboration with the Snam Foundation has made it possible to launch two initiatives in support of the company's social commitment and foster the strengthening of team-building and relations between people: in addition to the Snam Volunteer Day, which was held throughout Italy, this year eleven sites of the company also organised the Christmas with the Family initiative, involving employees, their children and local charities. As regards the information format, the dissemination of streaming methods and events webinars has enabled the Snam Institute to finalise a plan of training initiatives accessible via the company intranet. This will make it possible to expand participation by the company population in courses organised with a view to spreading new working philosophies and the digital culture (such as lean speech and digital journeys).

Tools	Description
"Easy" the Intranet portal	A place for information and awareness, addressed to all the Snam employees, but also a place to share knowledge, exchange working documents and share views through the "let's collaborate" section, designed to facilitate teamwork.
Main printed tools	The "Energies" magazine represents Snam's corporate identity and is the voice that tells of the main company events. The "Energy Specials" - attached to the editorial, with a focus on specific topics. The "Observations on Gas Demand" newsletter with news, analysis and comments on gas demand, also available on mobile devices to all employees.
Management meetings	Meeting of executives and managers to deepen the corporate strategic plan, also shown via streaming. On-line webinar presenting the Strategic Plan, during which the CEO explained the pillars of the new plan, answering live the questions asked by employees of the whole organisation. During the year, around twenty roadshow stops were also held, organised by the HR and Digital Innovation Departments, to tell the local populations all about the activities included in the Strategic Plan. Event at the end of the year shown by video conference in the territorial offices, to exchange seasonal greetings.

## **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 November 2018, a new online survey was conducted, involving all Shippers and Traders with whom Snam collaborated in the recently concluded Thermal Year 2017-2018.

The analysis was extended to include transmission, storage and regasification. The survey covered customer satisfaction over the quality of services offered, customer engagement activities carried out by the Company and the additional functions and services introduced in 2018, also in view of the needs emerging from the clients themselves during previous meetings and regulatory evolutions.

The participation rate was 55% and about 93% of the results showed great satisfaction with the Customer Engagement activities which were developed by Snam to improve the services offered and consolidate a proactive collaboration with its contacts. All observations received provide a starting point from which to identify specific action to increase the efficiency of Snam's work yet further. In 2018, four workshops were held aimed at discussing the function of the balancing and market. In particular, the meetings provided an opportunity to discuss innovations and the progress of balancing and transmission, storage and regasification activities, as well as providing feedback on the process of updating IT systems.

Commercial stakeholders were also met during the Partners' Day, during which, for the matters of interest, a debate was held on the digital transformation in the gas sector, in particular with reference to the blockchain and new technologies.

### **Relations with the Supply Chain**

Snam carries out intense engagement activities with its suppliers to encourage growth and improvement of the supply chain and to create a common vision, sharing values, ideas, know-how, best practices and information.

In the context of the 2018 Partners' Day, Snam met its suppliers during a technical session divided up into ten areas connected with the business activities that strengthened the dialogue, exchange of views and experiences.

Continuous communication with suppliers takes place through the Supplier Portal, the web platform through which existing and potential suppliers come into contact with Snam. On-line since 2013, the portal contains documents, insights, best practices, and updates on processes and procedures that govern the procurement status and activities. Registered suppliers also have a special reserved area, containing information regarding them directly (commodity sectors for which they are qualified, the contracts running, and their performance in terms of

workplace safety, notifications for the invoicing of services provided). The Supplier Portal is a tool that is undergoing continuous evolution and constant growth: the new functions introduced year after year improve its efficiency and stimulate the frequency of use in interactions with Snam. Late 2018, more than 2,000 suppliers were registered with the portal (+5% on 2017), with a number of one-time users that accessed at least once during the year, of 1,410 (+38%). The more than 470 thousand pages read during the year and the contents inserted both by Snam and suppliers (1,033, +83% on 2017) show that the website is lively and frequented.

## **RELATIONS WITH LOCAL COMMUNITIES**

Snam is present, through its infrastructure, in almost all the Country's regions, in areas and communities that vary 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 the environmental effects involve all the 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. In particular, in 2018, in collaboration with the Department of Economy and Management of the University of Brescia, the method used was revised and a regional input-output model adopted. This model makes it possible to assess the impact of a project, calculating the value added generated by the investment starting from 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. At a local level, the Company cooperates with authorities and participates to the works of numerous associations and committees, offering its commitment, skills and know how to participate to the social innovation and sustainable development processes.

To that end, the Company continues to collaborate with local and national authorities to best lay out its plans for carrying out the work to both the authorities and the affected communities. During the course of the year and in the transmission sector alone, 127 meetings were held with local

government authorities and regional associations to present projects involving the construction of works. Together with the latter, 3 agreements concerning easements were stipulated.

In 2018, local communities were assigned donations and sponsorships for environmental compensations carried out in accordance with the law for a total of around 3 million euro.

## Performance of the main initiatives in the territory

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### Young Energy from Snam, to bring young people closer to work

Snam's commitment continues with the schools (through Young Energy), giving rise to the School-Work Alternation programme for the school year 2018/19. From last year's project, in 2018 we hired 13 young men and women. This year, continuing on with the 2017/18 Young Energy, it will be carried out in 6 regions and 9 schools (7 technical institutes/2 secondary schools) and will involve around 800 students.

### "Fare scuola" project

"Fare scuola" aims to contribute towards a virtuous collaboration between the companies and school system of Italy, in the field of training and beyond. The initiative is based on the intention of establishing a permanent round table of dialogue between institutions, companies and representatives of the school, through the creation of a permanent laboratory of dialogue, with the aim of delivering intervention programmes in schools. From training dedicated to school heads and teachers, through to social initiatives in infrastructure, which range from the requalification of buildings, including in energy terms, to the reorganisation of spaces as necessary. In 2018, the project was launched in a pilot phase in 30 institutes throughout Italy, intended for 30 school heads, 30 reference teachers for training and 10 class councils (approximately 70 people). In 2020, it should be extended to 100 institutes.

### The Snam Foundation is the company's volunteer work.

In 2018, the Volunteer Day was organised, during which Snam employees carried out a day's work, volunteering in charities chosen by the Snam Foundation. The day involved three hundred Snam employees (more than 10% of the company population), choosing from the alternatives proposed by the Foundation and distributing over 23 non-profit organisations, 49 different activities in 28 places throughout Italy.

### Snam Foundation, the TESORI notice

The initiative "Tesori - Terre Solidali in Reti Inclusive" was launched in 2017, in collaboration with Confagricoltura, making available to local communities some of the lands adjacent to the Snam plants, with a view to optimising the company assets, local experience and skills and reinforcing relations with the territory for the promotion, development and creation of social agriculture projects.

In 2018, two notices were published for social workers, mainly in the agricultural sector, focused on awarding projects capable of connecting aspects of inclusion, social impact on local communities, and sustainability, with innovation and experimentation. At present, also thanks to the support of Snam people in the territory, detailed planning is underway of selected interventions on the areas of Camerino, Ronco all'Adige and Messina. The ten-year free use of the land, together with economic support and the financing of the participation in the on-line masters course in social agriculture, organised by Tor Vergata University, constitute the reward for the winning projects.



## The value of brand identity

Snam re-launched its brand identity, renewing the logo and values that will accompany it in its future challenges, from the development of infrastructures to guarantee stable, secure energy supplies, through to the development of gas as a renewable source. The logo, which has been renewed and is in line with the purpose “Energy to inspire the world”, remains intrinsically linked to Snam’s tradition, stressing the characteristics of the sustainability of natural gas with the inclusion of the colour green.

At the same time as the brand restyling, the new function and look of [www.snam.it](http://www.snam.it) has also been unveiled. The website, which has evolved in a “One Company” approach, integrates the contents of the web pages of the operating companies and offers a space for information, interaction with clients and dialogue with the company’s multiple stakeholders. Snam.it does not take the form of a simple institutional website, but rather a platform filled with contents, able to offer a concrete response to the company needs. Within the website, specific tools have been developed for a better interaction with stakeholders, such as, for example, the redesigning of the areas dedicated to shippers of transmission, storage and regasification and the preparation of specific contents, such as the section dedicated to gas advocacy. During the year, the Global Solutions business unit website was developed, as well as the web areas dedicated to Snam4Mobility, Snam for Abruzzo and Snam for Minerbio. The quality of the work carried out on the web by Snam has been acknowledged a third place in the Italian and European Webranking classifications by Comprend. With 91.3 points out of 100, for the fifth year running, Snam has reached the podium of the best European companies for the care and transparency of financial and non-financial information presented on its website and the main social platforms.

In 2018, a significant increase was seen in Snam’s exposure on the main Italian and international media, with a marked increase in articles dedicated in particular to matters of sustainable mobility, decarbonisation, the social commitment and technological innovation. Press office activities also sought to present the company’s positions and its openness to dialogue in the territories. In a parallel fashion, continuous growth has been recorded in the production of both text (news) and video contents on the proprietary platforms, from the website to social media. On the digital channels, Snam has created storytelling aimed at showcasing the company, its values, its people and new businesses; this activity has made it possible to significantly increase the Company’s follower base. Through a description of the aspects of excellence of its activities not strictly linked to the business and thanks to the use of an immediate language, Snam’s social channels engage the community considerably and are a tool for the exchange of notes with its followers. Finally, they are a tool involving employees on all levels, which have become real “brand ambassadors” of the company’s values and vision. As evidence of such, Snam has been recognised by Lundquist as the best Italian company for the use of Facebook and mentioned as best practice by LinkedIn for the use of the professional platform.



# 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 through to 2022, the Snamtec (Tomorrow's Energy Company) project has been launched, which aims to speed up the innovative capacity of Snam and its assets to make the most of the opportunities offered by

the evolution of the energy system. The project is focussed on four areas:

- greater operating effectiveness;
- reduction of methane emissions;
- investments in the energy transition;
- growing attention to innovation and the strengthening of distinctive skills.

Below is a report on the research and development activities launched during previous years, which have continued or concluded during the year and the new projects with potential impact on various areas of the company's operations.

Gas metering	<p><b>Alternative tools</b> – During the course of 2018 the gradual introduction to the transmission network of instruments to measure the quality of gas alternative to the gas chromatograph, in order to measure the higher calorific value, relative density and carbon dioxide content of natural gas, was continued. In particular, as part of this initiative, a project for the technological adaptation of the fuel gas measurement at the storage plants was started, which involves the installation of quality analysers and the automation and remote reading of the main measurement and reserve measurement. In 2018, activities continued on the adjustment of the measures used for the quality parameters of the gas installed on the network, with the aim of guaranteeing the monitoring and remote management of the devices.</p> <p><b>Forecast demand</b> – With the start of the thermal year (01 October 2018), new models have begun applying for forecasting the gas demand, based on the use of machine learning methods that, by improving the neural network algorithms used previously, allow for the suitable management of the large quantity of information available. The objective is to improve the quality of the forecast, subject to an incentive scheme by the ARERA.</p> <p><b>Estimation of natural gas emissions</b> – Collaboration continued within the European research group GERG (European Gas Research Group, <a href="http://www.gerg.eu">www.gerg.eu</a>), involving other European natural gas transporters and distributors, with particular reference to the project for the evaluation of two methods for estimating the natural gas emissions expected at an international level and to the project for the study of potential impacts, along the entire gas supply chain, of the trace chemical components in the biomethane in order to create the conditions for the safe development of biomethane as a source of gas in the transport network. In 2018, a study was launched dedicated to the analysis of potential impacts, on the whole of the gas chain, of the chemical components present in traces in biomethane, with the aim of verifying and effectively coping with any operative problems for all operators involved.</p>
Governance and monitoring of the network and plants	<p><b>Remote control</b> – In 2018, the study of the Smart Tel project 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> – In gas storage, following a trial conducted on site, in 2018, installation was completed of phonometric systems to record any accidental leaks at plants and to enable quick and effective blocking measures.</p> <p>During the year, initiatives were taken for fire protection of the control rooms, panels rooms and technical rooms of the plants, so as to install suitable fire detection and extinguishing systems. The project will be completed in 2019.</p> <p>The project has also been launched to replace the plant safety management systems and new SIL (Safety Integrity Level) certified electronic systems that will involve the installation of the new systems at the compression plants of Brugherio and Settala in 2019.</p> <p><b>Monitoring of the compression units</b> – A system has been developed for the acquisition and display of the main operating and monitoring data of the compression units. This interface will enable various operators to better manage activities, so as to improve the reliability of plants and reduce the consumption of fuel gas and gas emissions into the atmosphere.</p> <p><b>Electrocompressors</b> – In 2018, a preliminary feasibility study was started for the introduction of electrocompressors into the storage sites, with the aim of improving plant management, guaranteeing greater flexibility and reducing greenhouse gas emissions.</p> <p><b>Cogeneration</b> – During the year, works were started for the installation of a trigeneration plant in the Gallese plant. The innovative system will allow for the production of heat, electricity and cooling for internal use.</p>

Physical integrity of infrastructures	<p><b>Collaboration with EPRG</b> – Collaboration continued with the EPRG (European Pipeline Research Group, <a href="http://www.eprg.net">www.eprg.net</a>). The EPRG is an association which researches 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> – In 2018, the project for innovating the electrical protection system continued, 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 micro seismic 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 micro seismic monitoring prototypes.</p> <p>In 2018, Stogit focused its attention on activities aimed at monitoring microseismicity, by upgrading its networks to standards of technological excellence. Among the operations aimed at guaranteeing high-quality performance, the development of a new automatic data management and processing system, active since October 2017, is worthy of mention; in 2018, this will be rolled out to six concessions. The automatic analysis system has also been integrated with the national seismic network, reducing uncertainty in events location. In addition to these, in the concessions of Settala and Ripalta, two surface micro seismic networks have been developed, to integrate the works for the installation of micro seismic detection equipment completed in 2011.</p>
Maintenance and checking of networks	<p><b>Revision of maintenance processes</b> – The execution phase of the “Gas Transportation Network Asset Maintenance System” was continued, which is aimed specifically at completely overhauling work processes and regulations related to the transportation network, compression stations, metering and remote control plants. This through identifying of the needs for the evolution of the professional model of the resources and of the technological and ICT tools used to carry out the maintenance activities. In particular, in 2017 the Roll Out of the Asset Implementation and Management systems for the network was completed and in 2018, the Pilot of the Asset Implementation and Management Systems of the compression plants continued.</p> <p><b>Experimentation with leak detection</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>Experimentation on 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 were begun 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> – In 2018, a working party was launched dedicated to the sharing of information and experience on the matter of the innovative use of existing infrastructures in connection with their capacity to transport (and potentially store) gases other than natural gas, with the ultimate aim of assessing the impacts in the various business areas and identifying practical solutions to the problems encountered.</p> <p>The Hydrogen working party was structured into various task forces, including the metering task force, for which, amongst others, the following specific areas of investigation/competence have been identified:</p> <ul style="list-style-type: none"> <li>■ identification of the impacts of hydrogen on the equipment used to measure volume (meters) and quality of gas (gas chromatographs, quality analysers);</li> <li>■ verification of the conformity of the natural gas and hydrogen mixture with the technical specifications of the quality of gas, where the source of natural gas considered and the percentage of hydrogen mixed vary.</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 which have the biggest impacts, linked to the fight against climate change, the reduction of energy consumption and the protection of nature and biodiversity.

With regard to the environmental protection, Snam spent approximately 105.7 million euro (92.1 million euro for investments and 13.6 million euro for operating costs).

On the health and safety of workers, Snam spent approximately 31.6 million euro.

## 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. To this end, in 2018, the new HSEQ Integrated Management System Manual was published, which, in line with the previous versions, defines the function and application of the HSEQ Management System and applies to all Group companies. In addition to this, as part of the "Lean Simplify" project, all the company HSEQ procedures have been updated and revised.

Snam took all steps necessary to maintain its existing certifications and extend the scope to new companies, including the audits performed in-house and by external personnel. 27 auditors, also qualified for external audits also, work within Snam. 237 audits were conducted in 2018 (95 of which by an external team). In order to verify the effectiveness of the management systems adopted, 54 health, safety and environment audits were also carried out on contractors working on sites. Please note that during the year, the certifications ISO 9001, ISO 14001 and OHSAS 18001 were extended to cover the companies Snam4Mobility and Cubogas.

## Management systems

Company	Certification scope	Type of certification and accreditation	Year of first certification
Snam	Business continuity management for the design, development, centralised management of process systems and remote control for the dispatch of natural gas transmission	ISO 22301	2018
	Processes overseen by the Snam units for both the transmission of natural gas via methane pipelines, auxiliary and central compression plants (Administration, Business Development, Service Marketing, Asset Development, Asset Management, HSEQ, Planning and control, Supply Chain) and storage in geological units of natural gas (Service marketing)	ISO 9001	2016
	Company	ISO 14001	2015
	Information security management for the design, development, centralised management of process systems and remote control for the dispatch of natural gas transmission	ISO 27001	2014
	Company	BS OHSAS 18001	2012
Snam Rete Gas	Company	ISO 9001	2016
	Natural gas transmission dispatching 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
		ISO 14001	2018
TEP	Company	UNI 11352:2014	2013
		ISO 9001:2015	2010
Cubogas	Company	BS OHSAS 18001	2018
		ISO 9001	2018
		ISO 14001	2018
IES Biogas	Company	ISO 9001:2015	2018

## 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 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.

Accident prevention, the main Snam health and safety objective, is carried out through the adoption of targeted actions aimed at eliminating or reducing risk factors inherent in work.

In-depth analysis of the causes of accidents aims to identify any measures that can be taken to eliminate, mitigate or 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.

With a view to assuring the continuous improvement of performance, during the first few months of 2018, Snam launched the new "Snam4Safety" project aimed at further strengthening the culture of awareness of all employees and contractors regarding matters of health and safety.

The initial results of the analysis have revealed, on the one hand confirmation that Snam's accident rates are amongst the world's best, and on the other a cultural maturity gap, essentially due to a more scrupulous observation of rules and procedures than real awareness. Over the next few months, initiatives will therefore be taken to remedy this gap.

In order to raise awareness among employees on the safety issue, in 2011, the initiative called the "Zero Accident Award" was established, which rewards employees who go 365 consecutive days without an accident in the workplace. Staff taking part in the initiative was divided up into homogeneous teams identified by the employer line/safety officer. In 2018, 13 homogeneous teams were rewarded, for a total of 1,550 employees.

An awareness-raising initiative, the "Contractor Safety Trophy" is dedicated to contractors with the aim of increasing suppliers' attention to such matters. In particular, the performance of the companies is assessed through the collection and analysis of specific indicators (such as accident rates and negative feedback on the relevant topics). In 2018, the trophy, for the 2017 results, was awarded for the second year running to Max Streicher, a company specialised in the building of energy infrastructure and construction of gas pipelines.

### Health and safety training

(hours)	2016	2017	2018
Hours provided	19,288	8,193	25,219
Equity investments	3,484	1,508	4,515

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 Competent Physician 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 for contracting occupational diseases (no cases have been recorded in the last three years). Personnel exposed to specific risk factors undergo a periodic medical health surveillance by the Company Physicians. These employees come under specific health protocols defined according to the risk, in addition to any supplementary specialised visits. Personnel 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.

## Health monitoring

(no.)	2016	2017	2018
Medical visits	1,561	1,914	1,350
Periodical medical visits	1,337	1,688	1,061
Environmental surveys	172	279	247



## Climate change and energy efficiency

Snam contributes towards the fight against climate change starting from its energy choices: in 2018, 96.4% of the Company's energy needs were covered by the use of natural gas.

The main greenhouse gases (GHG) emitted in the atmosphere by the 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 2018, the contribution deriving from the use of hydrofluorocarbons (HFCs) in cooling plants was also assessed.

Snam intends to develop projects to strengthen its operational excellence and thus contribute to the containment of climate-altering emissions. The company has in fact set targets to reduce its emissions of natural gas and methane from the transmission, storage and regasification of LNG. The targets set involve the reduction, as compared with 2016 values, respectively of 15% by 2022 and 25% by 2025. In order to achieve these objectives, an investment plan has been implemented that will allow the Company to maintain and develop various projects, including the 33% annual recovery programme of natural gas through to at least 2022, with respect to all potential emissions deriving from maintenance activities.

To pursue these objectives the investment plan includes:

- gas recompression interventions in the transport network and compression plants;
- replacement of pneumatic actuators powered by natural gas in transport and storage infrastructures;
- operations to improve the energy efficiency of the gas turbine and reduction cabins;
- installation of more efficient heat generators;
- installation of LED lamps for network lighting systems.

In the gas compression stations, works have begun on installing the trigeneration plant in Gallese; this system will allow for the self-production of electricity of plants with heat recovery to support the plant's heating and cooling utilities. The systems are listed as high-efficiency cogeneration plants.

A further contribution is made to reducing the carbon footprint by the use of electricity produced from renewable sources and photovoltaic plants owned by the Company, which in 2018 accounted for 37% of total electricity consumed. Snam4Mobility, again with a view to limiting emissions, only planned on using electricity produced from renewable sources for the function of the CNG plants envisaged in the development plan.

Various initiatives taken by the company in 2018, such as the reduction of natural gas emissions, the production of electricity by photovoltaic plants, the purchase of green electricity, the installation of LED lamps in lieu of other lighting bodies, smart working, have made it possible, globally, to avoid the release into the atmosphere of a total of 154,800 tonnes of CO<sub>2</sub>.

## Renewable source plants

Type	2016			2017			2018		
	(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	1,153	938.2	844,608	1,366	984.4	1,044,309	1,534 (*)	1,052.7	1,128,383
<b>Total</b>	<b>1,154</b>	<b>940</b>		<b>1,367</b>	<b>986</b>		<b>1,535 (*)</b>	<b>1,054</b>	

(\*) Including 1,497 back-up plants.

## NFS Environmental monitoring and restoration in the development of the gas pipeline network

Snam considers the protection of the natural value of the territories affected by its activities to be particularly important. This is why when developing its works, it implements the most appropriate design choices to minimise impacts on biodiversity. Once the infrastructures have been completed, the Company restores the environment and monitors as per the collaboration with the entities appointed to this end.

The objective of the 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 of habitats for the 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.

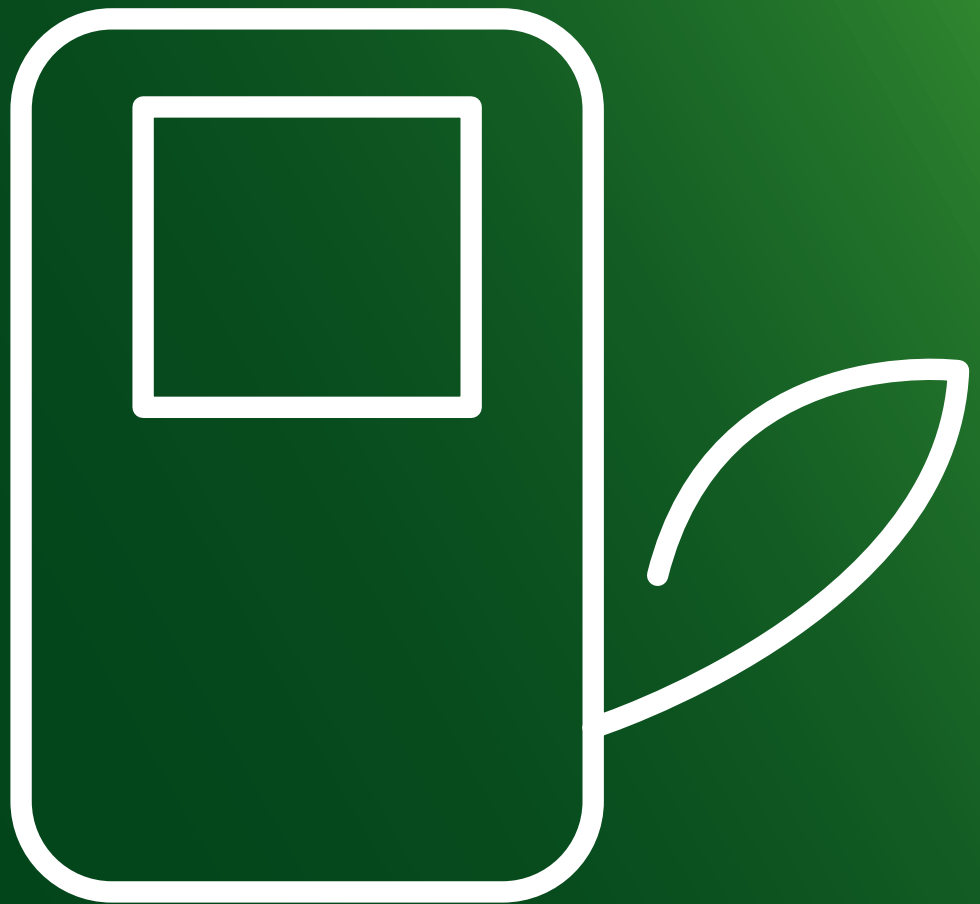
Environmental monitoring projects regard the paths of a number of pipelines that affect, albeit only marginally, natural areas of high value in terms of wildlife and ecology. These projects are intended to verify the renaturalisation process of the area affected by work, based on a comparison of the 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.

### Environmental restoration and monitoring

(network km)	2016	2017	2018
Restoration	227	203	227
New reforestation (*)	4	21	21
Plant care	98	59	74
Environmental monitoring	565	388	445

(\*) Surface area covered by new reforestation: 410,500 m<sup>2</sup>.

# Elements of risk and uncertainty



# Introduction

This chapter presents the main elements of uncertainty characterising Snam's core business.

The risks identified by Snam are divided up into financial and non-financial risks. The latter are then further classified as follows:

- strategic;
- legal and non-compliance;
- operating.

Financial risks are described 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 closely linked to the regulation of activities in the gas sector. The decisions made by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA) and National Regulatory Authority in the countries in which the foreign associates operate, the directives and regulatory provisions issued on the matter by the European Union and the Italian Government and, more generally, a change to the reference regulatory framework, may significantly impact the Company's operations, economic results and financial balance. 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 transport network is imported from or passes through countries included in the MENA area (Middle East and North Africa, in particular Algeria, Tunisia, Libya and, in TANAP-TAP perspective, Turkey together with States bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine, and in the future, Azerbaijan and Georgia), national situations which are subject to political, social and economic instability and which could constitute potential future crisis scenarios.

In particular, the importation and transit of natural gas from/through these countries are subject to a wide range of risks, including: terrorism and common crime, alteration of the political-institutional balance; armed conflicts, socio-economic and ethno-sectarian tensions; unrest and disturbances; deficient legislation on insolvency and protection of creditors; limits on investment and on the import and export of goods and services; introduction of and increases in taxes and excise duties; forced imposition of contract renegotiations; nationalisation of assets; changes in trade policies and monetary restrictions.

If a Shipper using the transportation service via Snam's networks cannot procure or transport natural gas from/through the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, or to an extent so as to make it impossible or discourage the fulfilment of contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

### 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 Fuel 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 hedges of risks are guaranteed by the regulations of countries where the foreign associates operate or by the related transmission contracts. However, in relation to transportation activities, the Autorità di Regolazione per Energia Reti e Ambiente (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 criterion also was subsequently confirmed for the years 2018 and 2019 of the transition tariff period. In view of the aforementioned mechanism for the payment in kind of UFG, there is still uncertainty about the quantities of UFG withdrawn over and above the quantities paid in kind by the users of the service.

In general, the change in the regulatory framework currently in force on the payment in kind of natural gas could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

As part of the process of reviewing the criteria for determining the revenues recognised for the natural gas transmission service for the fifth regulatory period (starting 2020), criteria will also be defined for the recognition of UFG. The resolution to approve the new regulatory criteria is expected for end February 2019.

## 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 the directly controlled transport companies, is partly correlated to volumes transported. 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 revenue from transportation activities is guaranteed. Based on the tariff system currently applied by the Authority to natural gas storage activities, Snam's revenue, via Stogit, correlates to infrastructure usage. However, the Authority has introduced a mechanism to guarantee reference revenue that allows companies to cover a significant portion of revenues recorded. For 2018 and 2019, the minimum guaranteed level of revenue recorded was approximately 97%. ARERA is reviewing an integration of such mechanisms which, for subsequent years, will result in reliance on the guaranteed minimum level of revenue, as well as the storage company's efficiency in terms of managing capacity allocation procedures and service provision procedures, following a procedure launched by ARERA. 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, market risk protection is afforded by French and Greek regulation, long-term TAP contracts and Austria (different scheduling for TAG and Gas Connect as from 2023). In Austria and the United Kingdom (in relation to Interconnector UK), the regulation does not guarantee cover of the volume risk.

## Risk of climate change

Compliance with regulations on greenhouse gas emissions may require, in the future, that Snam adapts its plants, and that it controls or limits greenhouse gas emissions or takes other action that may increase the costs for compliance with current regulations and therefore negatively impact the Snam Group business and economic, equity and financial position.

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 period of the European Emissions Trading System (EU - ETS) and of regulation (2013-2020), 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. To date, Snam has managed to comply with regulatory obligations relative to ETS mechanisms thanks to the use of quotas assigned freely to the Group's plants. The ongoing further development of European legislation could lead to identifying new ways of managing the necessary quotas, in particular through possible reward mechanisms, to be agreed with ARERA, for the reduction of emissions from owned plants. More specifically, in consultation document no. 512/2018/R/gas on the criteria for determining the revenues recognised for the fifth regulatory period of the natural gas transmission service, ARERA expressed the value of introducing specific regulatory criteria to encourage the transporter to adopt virtuous conduct in seeking to reduce CO<sub>2</sub> emissions, which involves the recognition of a standard quantity of CO<sub>2</sub> quotas and the cover of the price risk associated with the related procurement.

Climate change scenarios could lead to a change in population behaviour and could have an impact on natural gas demand and transport volumes, just as they could affect the development of alternative uses of gas and the promotion of new business.

Climate change could also increase the severity of extreme weather events (floods, droughts, extreme temperature fluctuations) causing worsening of the natural and hydrogeological conditions of the territory with a possible impact both on the quality and continuity of the service provided by Snam, and on the demand for Italian and European gas. 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".

Matters connected with climate change may also heighten the awareness of public opinion and the various stakeholders, altering the perception of Snam with possible impacts on Group results and investor behaviour.



## 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, tax and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. With reference to specific cases, *inter alia*, infringement of regulations protecting the health and safety of workers and the environment, and violation of the laws established to fight corruption, may also lead to sanctions, even substantial, against the company based on the administrative liability of the entities (Legislative Decree no. 231 of 08 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 verification and acceptance and stipulation of the Integrity Ethical Pact are the pillars of the system of controls aimed at preventing the risks associated with illegal behaviour and criminal infiltrations concerning our suppliers and subcontractors, with the aim of ensuring transparent relations and professional morality requirements in the whole chain of enterprises and for the whole duration of the relationship.

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 Snam renewed its partnership with Transparency International, the Secretary General of Berlin, during the 18th International Anti-Corruption Conference of Transparency International held in Copenhagen. On this occasion, Snam took part in a restricted round table that saw, for the first time, the participation of 4 private companies too, including Snam as the only Italian representative.

Moreover, in 2018, in collaboration with Transparency International Italy and the OECD, Snam took part in a series of events on transparency and integrity as well as best practices in good governance and the prevention of corruption on a global level, such as the 27th Session of the Commission on Crime Prevention and Criminal Justice of the United Nations, organised by MAECI at the United Nations office of Vienna and the seminars organised by the OECD in St Petersburg and Moscow, intervening in matters of integrity and the fight against corruption.

Finally, following the 2018 International Anti-Corruption Day held in Farnesina, Snam was asked by the Ministry of Foreign Affairs and International Cooperation to take part in the assessment and review of the first draft of the G20 High-Level Principles, on the prevention of corruption and promotion of integrity in public companies or SOEs, draft circulated by the Argentinian presidency and which should be finalised in 2019, during Japan's term.

## OPERATING RISKS

### Ownership of storage concessions

The risk linked to **maintenance of the ownership of the storage concessions** is attributable by Snam to the business in which the subsidiary Stogit operates on the basis of concessions issued 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 to 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>45</sup>.

<sup>45</sup> The Stogit concessions issued before the coming into force of Italian Legislative Decree no. 164/2000 can be extended by the Ministry of Economic Development up to twice for a term of ten years each time, in accordance with Art. 1, paragraph 61 of Italian Law no. 239/2004. Pursuant to art. 34, paragraph 18 of Italian Decree Law no. 179/2012, converted by Italian Law no. 221/2012, the duration of the only Stogit concession issued after the coming into force of Italian Legislative Decree no. 164/2000 (Bordolano) is thirty years with the possibility of an extension for another ten years.

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.

### **NFS** Malfunction and unexpected service interruption

Operating risks consist mainly of the **malfunctioning and unforeseen interruption of the service** 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.

### **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 and competition 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 remediation obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility and are therefore difficult to estimate. In relation to the new global climate agreements (COP21 in Paris 2015, COP22 in Marrakech in 2017), aimed at encouraging the transition towards a more sustainable economy that favours zero emission energy sources, it may envisage regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at European and national level.

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 mechanisms 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. Loss of "key" personnel or inability to attract, train or retain qualified personnel (in particular for technical positions where the availability of appropriately qualified personnel may be limited), or situations in which the ability to implement long-term business strategy is negatively influenced due to significant disputes with employees, could have an adverse effect on the business, financial conditions and operating results.

## Risk linked to foreign holdings

The foreign companies owned by Snam may be subject to regulatory/legislative risk, under conditions of social and economic political instability, to a market risk, cyber security, credit and financial risk and other risks typical of the business of the transmission and storage of natural gas highlighted for Snam, such as to adversely affect their activities, economic results and the equity and financial situation. This can have negative impacts for Snam on the contribution towards the profits generated by such investments.

## Risks connected with future acquisitions/equity investments

Each investment made as part of joint ventures and each future investment in Italian or foreign companies may entail an increase in the complexity of Snam Group operations and there can be no guarantee that such investments will correctly integrate in terms of quality standards, policies and procedures, consistently with the rest of Snam's operations. The integration process can be costly and require additional investment.

Failure to integrate the investment made can have a negative impact on 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 cybersecurity.

For this reason Snam has developed its own cybersecurity 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 cyber threats and malware are assessed and, where deemed appropriate, implemented. More specifically, Snam has defined a model of cybersecurity incident management aimed at preventing and, when necessary, ensuring timely remediation in the event of events that could damage the confidentiality and integrity of the information processed and the IT systems used. At the base of the activity is a Security Incident Response Team which, using technologies that allow collecting and correlating all the security events recorded on the entire perimeter of the company's IT infrastructure, has the task of monitoring all the anomalous situations from which negative impacts may result for the company and to activate, where necessary, escalation plans suitable to guarantee the involvement of the various operating structures.

With reference to the management of information in support of the business processes, it is considered appropriate to stress that the company owns the asset (fibre) used for the transmission of data to and from the territory; this results in intrinsically greater security thanks to the lack of dependency on the service provided by third parties and the possibility of making exclusive use of the communication channel.

Lastly, as part of cyber incident management (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 the course of normal work activities.

# Outlook



Over the next few years, the global gas market will see a significant rise in demand, driven by the Americas and China, where the growth in the need for energy will go hand-in-hand with an increasingly important role played by renewable energies, more efficient technologies and the progressive transition away from other fossil sources and towards natural gas.

In Europe too, gas will continue to play a central role in the decarbonisation process, in line with the objectives defined (2020 Climate-Energy Package) or being defined on a European Community level (Clean Energy Package), in particular making a considerable contribution to the transmission and thermoelectric sector, in view of the progressive move away from coal production and the rise in intermittent renewable sources. Use of the latter, which are difficult to programme, will require greater support by natural gas, which is instead a programmable source. In Italy, volumes will remain basically stable. The European natural gas demand trend, supported in particular by the reduction in the use of coal, coupled with the decline in domestic production, will require the development of new import routes.

In this context, Snam envisages speeding up its investment plans (5.7 billion in the five years 2018-2022), with a confirmed focus on replacements and maintenance, so as to continue to guarantee maximum resilience, flexibility and efficiency of the existing infrastructures.

One quarter of the investments made in the next few years will also involve development initiatives, such as the strengthening of the network to the south, the connections in the north-west, the service of the local market and cross-border flows, the network in Sardinia and the strengthening of the Fiume Treste storage plant.

As part of the investments plan, 850 million euro will go towards the Snamtec (Tomorrow's Energy Company) project, the aim of which will be to speed up Snam's capacity to innovate and its assets to make the most of the opportunities offered by the evolution of the energy system. The Snamtec project will focus in particular on four areas:

- greater operating effectiveness;
- reduction of methane emissions (-25% in 2025);
- energy transition;
- innovation and strengthening of distinctive competences.

The project will also give a further boost to the programme to reduce operating costs that was launched in 2017, increasing the already ambitious **efficiency** target up to 60 million euro when fully operative.

The development of the investment plan, the consequent expansion of the RAB and the cost cutting plan, will be key elements in assuring the growth of results. Snam also believes that it can benefit from a growing contribution towards its revenues through the introduction of additional performance-based incentives envisaged for the fifth regulatory period. These, in addition to the contribution made by Italian and international associates, and that by new businesses in the energy transition, in which Snam intends to play a leading role, will, in 2022, contribute to approximately one quarter of the Group's Net Profit.

As part of the **energy transition business**, the Company plans to invest, directly and as part of a partnership with other operators, in the development of infrastructures to produce biomethane from waste or agricultural waste. Investment in the sector is in addition to that envisaged in sustainable mobility. To this end, investments are expected in the development of methane and biomethane refuelling stations for cars and buses, exploiting the technological excellence and leadership position of Cubogas, a subsidiary of Snam4Mobility, and the development of small liquefaction plants (SSLNG) for heavy goods transport, industry and residential.

Snam Global Solutions, which is the division offering services dedicated to international gas sector operators, will gradually expand its contracts portfolio, assisting its clients in the integrated management of transmission and storage networks and the regasification of LNG, offering cutting-edge technology in infrastructure management services. The activity will help foster the development of the globalisation strategy, launched with the acquisition of foreign associates and which record a growing contribution towards the economic results.

As regards the **financial structure**, the optimisation carried out in the last three years has led to a significant reduction in the average cost of debt. The action taken will also make it possible to reduce the risks connected with a potential change to the global macroeconomic scenario. The Company's management will, finally, be focussed on guaranteeing an appealing, sustainable remuneration of its shareholders, whilst maintaining a balanced financial structure.