

# 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	2,850
Stogit S.p.A.	100%	1,597				1,597
Asset company 2 S.r.l.	100%	172				172
Snam International B.V. (ex GasBridge 2)	100%				61	61
GNL Italia S.p.A.	100%	43				43
Snam 4 Mobility S.p.A.	100%		38			38
Asset company 4 S.r.l.	100%		23			23
Gasrule Insurance D.A.C.	100%	20				20
<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				500
Terēga Holding S.A.S.	40.50%	452				452
AS Gasinfrastruktur Beteiligung GmbH	40%	118		(16)		102
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			271
Italgas S.p.A.	13.50%	244				244
Senfluga Energy Infrastructure Holding S.A.	60.00%		121			121
<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	40
<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>