

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 CO₂ 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