

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
Period end of regulation (Tariffs)	<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
Calculation of capital net invested recognised for the purpose of regulation (RAB)	Revalued historical cost	Revalued historical cost	■ Revalued historical cost ■ Deduction of restoration costs recognised
Remuneration of invested capital net recognised for regulatory purposes (pre-tax WACC) (*)	■ 5.4% years 2016 ■ 5.7% year 2019	■ 6.6% years 2016 ■ 6.8% year 2019	■ 6.5% years 2016 ■ 6.7% year 2019
Incentives on new investments	<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)
Efficiency factor (X Factor)	<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
TAG GCA Transmission	System regulated		3° Regulatory period						
Terēga Transmission	System regulated		ATRT6						
Storage	System regulated		ATS1						
IUK Transmission	System of exemption				Introduction of the regulated system				
TAP Transmission	System of exemption					Long-term contract			
DESFA Transmission/ LNG	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.

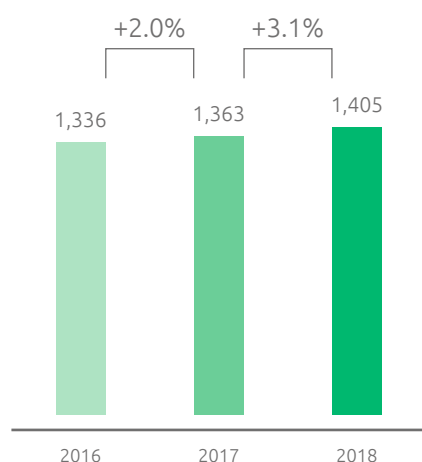
Results

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 configuration¹. 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).

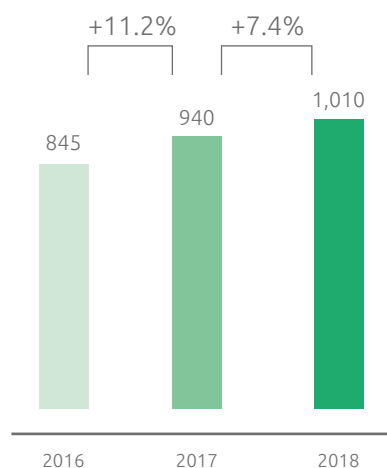
ADJUSTED RESULTS²

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 EBIT³** 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

¹ 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".

² 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).

³ 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 ^(a)

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

(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

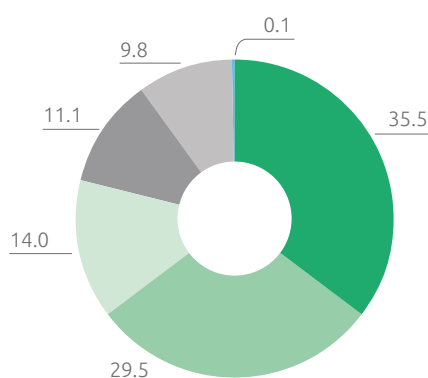
(€ million)	2016	2017	2018
Technical investments	906	1,034	882
Net invested capital at 31 December	17,553	17,738	17,533
Group shareholders' equity at 31 December	6,497	6,188	5,985
Net financial debt at 31 December	11,056	11,550	11,548
Free cash flow	1,707	423	1,161

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



- Snam Group
- Shareholders
- Public Administration
- Lenders
- Employees
- Local communities

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 CO₂ 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 CO₂ 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 Programme⁴.

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 - ISOPENSIONE

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.

⁴ 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	1,651
Network inspected by helicopter	16,218	16,274	18,462
Network subjected to geological inspection	1,478	4,080	4,209

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.

72.82

Bn m³ 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 saturation⁵ 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).

72.66

Bn m³ 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%).

+5.8%

volumes moved

+44.4%

m³ regasified

⁵ 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	72.82	(1.77)	(2.4)
Transportation network (km in use)	32,508	32,584	32,625	41	0.1
Installed power in the compression stations (MW)	922	902	961	59	6.5
Liquefied natural gas (LNG) regasification (a)					
LNG regasification (billions of cubic metres)	0.21	0.63	0.91	0.28	44.4
Natural gas storage (a)					
Available storage capacity (billions of cubic metres) (c)	12.0	12.2	12.4	0.2	1.6
Natural gas moved through the storage system (billions of cubic metres)	20.00	19.92	21.07	1.15	5.8
Employees in service at period end (number) (d)	2,883	2,919	3,016	97	3.3
<i>of which business segments:</i>					
- Transportation	1,726	1,972	1,915	(57)	(2.9)
- Regasification	71	63	64	1	1.6
- Storage	301	60	59	(1)	(1.7)
- Corporate and other activities (e)	785	824	978	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.

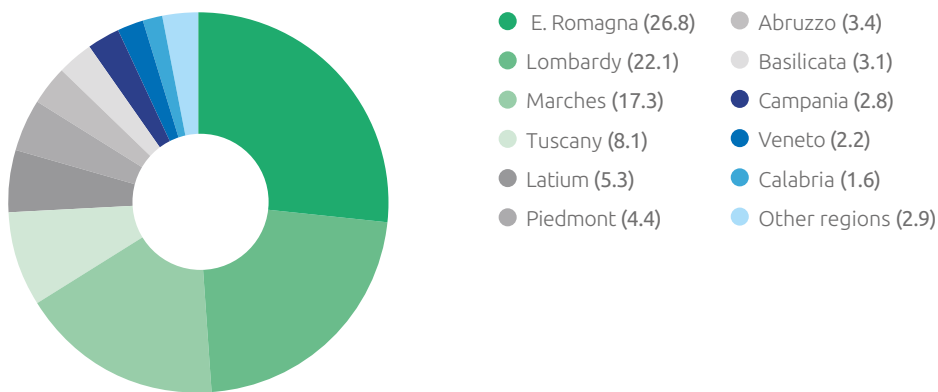
In the procurement of works, which is the most important category because it is related to core activities, the suppliers considered critical (critical levels A and B) were all in possession of quality and environment management systems certified with ISO 9001, ISO 14001 and ISO 18001 standards. The 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

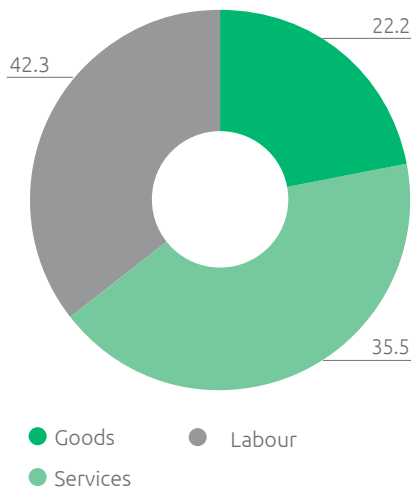
(€ million)	2016	2017	2018	2016-2018
Amount of purchases	1,359	844	1,520	3,723

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

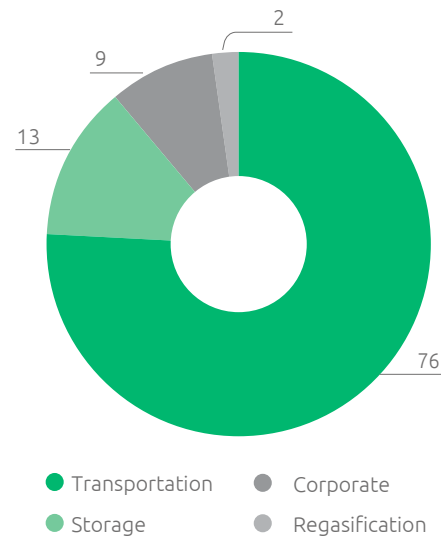


(*) Representation of the geographical distribution refers to the registered offices of suppliers.

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

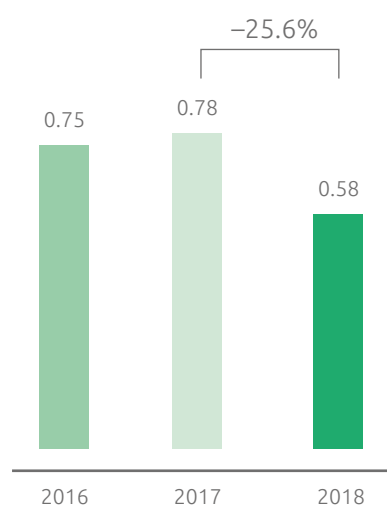
Accident indices

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

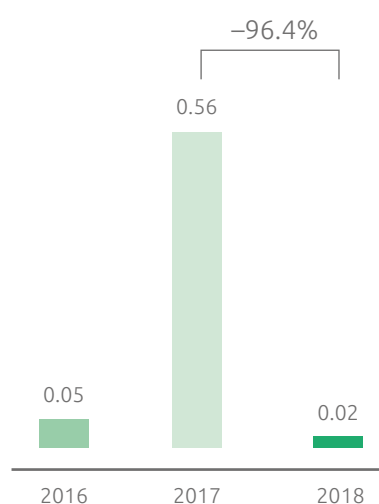
Frequency index: number of accidents at work resulting in absence of at least one day, per million hours worked.

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 (*)



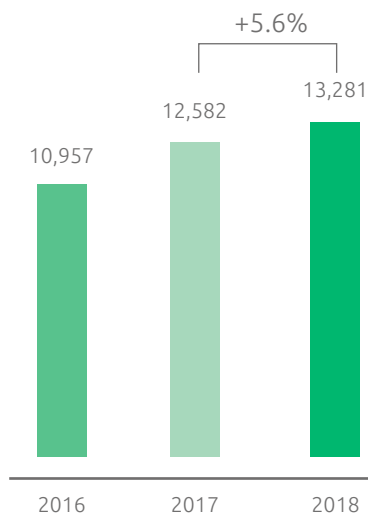
Accidents at work - Employee and contract worker severity index (*)



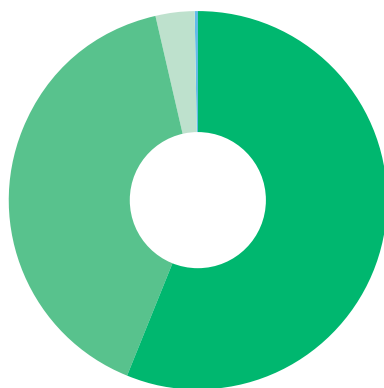
(*) Number of accidents at work resulting in an absence of at least one day, per million hours worked.

(*) 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_{2eq} 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.

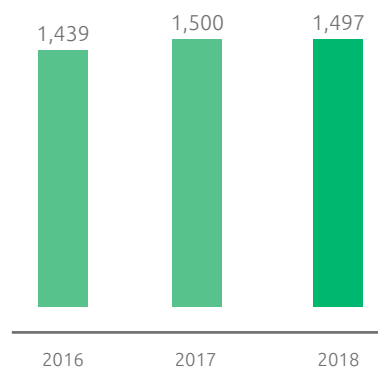
In addition to natural gas, the other energy sources are electricity (2.8%) and other fuels (diesel fuel, gasoline, LPG and heat), which together amount to 0.8% of the total consumption.

Greenhouse gas emissions

In 2018, the direct CO_{2eq} emissions amounted to approximately 1.5 million tonnes (stable on 2017). CO₂ emissions from combustion amounted to approx. 0.727 million tonnes (+5.2% compared with 2017), whereas the CO_{2eq} 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 m³, down on the 46.8 million of m³ booked for 2017. The increase in CO₂ 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_{2eq} (+99% on the 71,500 tonnes of CO_{2eq} 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_{2eq}) (*)



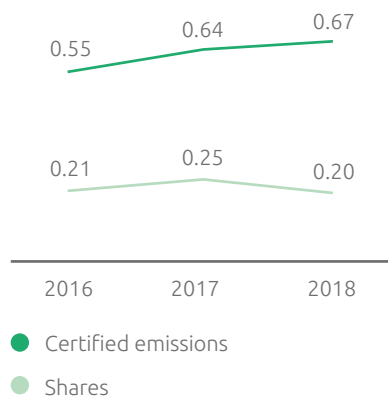
In 2018, the Snam Group's total CO₂ emissions from ETS plants, certified by an accredited body according to the provisions of the competent national authority, amounted to approximately 0.67 million tonnes, out of total annual allowances of approximately 0.20 million issued by the Ministry for the Environment, 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

CO₂ emissions from ETS plants (10⁶ 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%.

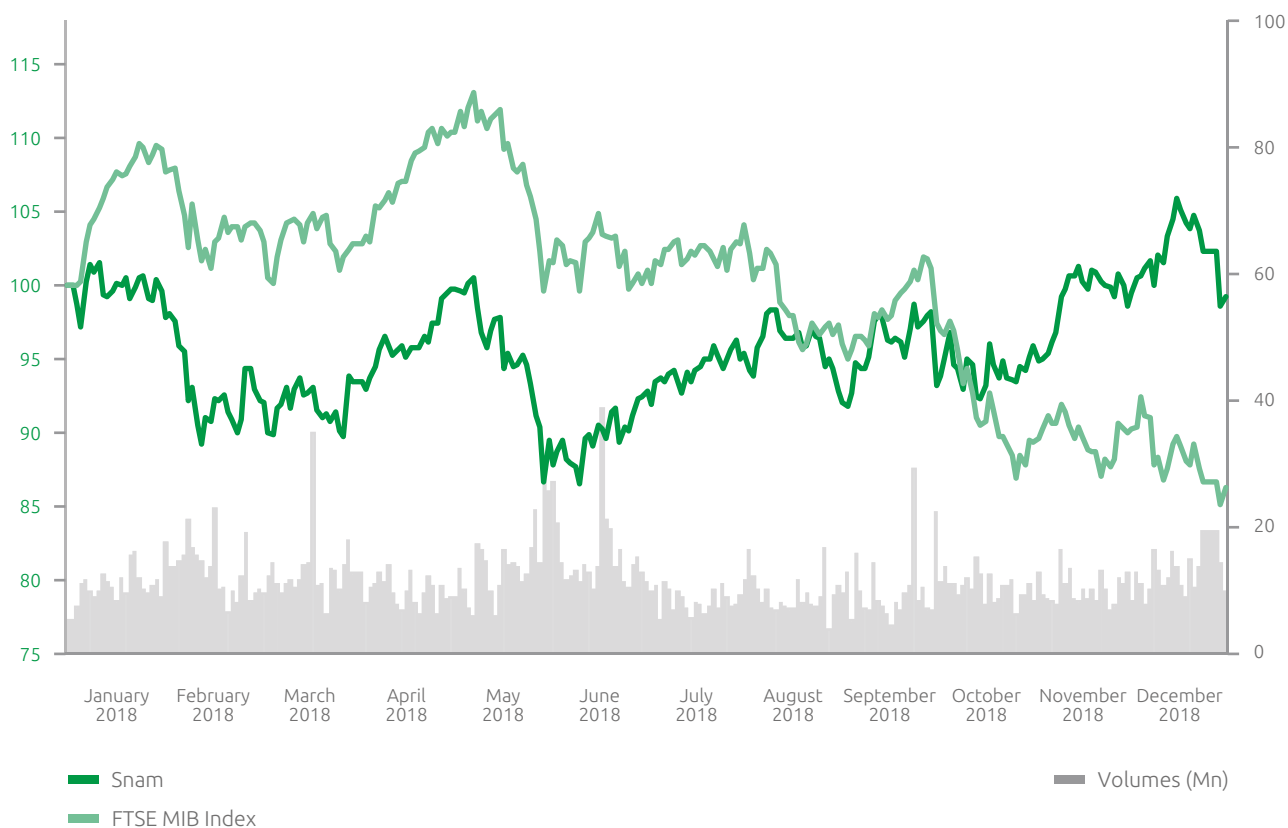
In 2018, the share suffered the rise in rates in Italy and, in particular, the spread, one of the main financial indicators used to determine the country risk, which reached 327 basis points in October, as well as the expectations for growth in interest rates and inflation.

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. ^(a)	30.37
	Romano Minozzi	5.91
	Snam S.p.A.	4.85
	Other shareholders	58.87
		100.00

(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.

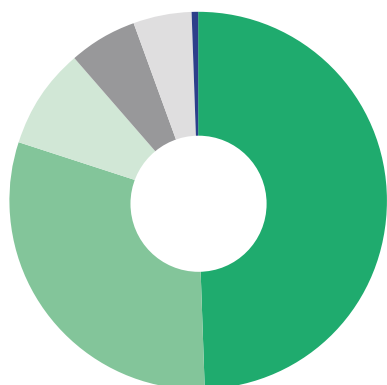
At end 2018, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 30.37% of share capital, Snam S.p.A. held 4.85% in the form of treasury shares, and the remaining 64.78% was in the hands of other shareholders.

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).

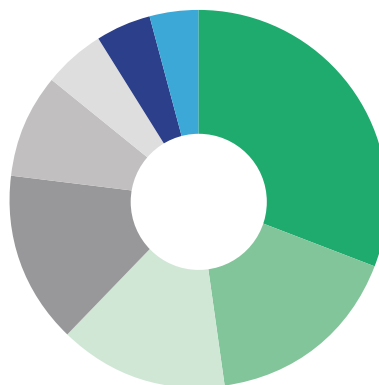
As at 31 December 2018, Snam held 168,197,663 treasury shares (85,915,616 as at 31 December 2017), equal to 4.85% of its share capital, with a book value of about 626 million euro (2.45% for a book value equal to 318 million euro as at 31 December 2017). More information on changes to treasury shares 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.

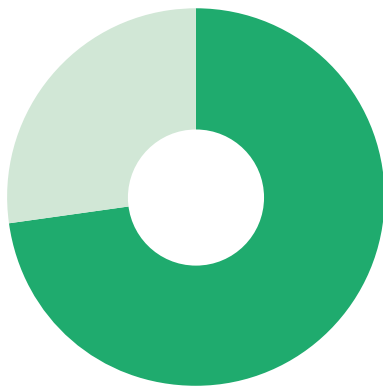


In 2018, Snam was confirmed at "PRIME" level (with rating B-) by Oekom research, a leading international agency rating socially responsible investments, which operates on behalf of institutional investors and financial services companies.



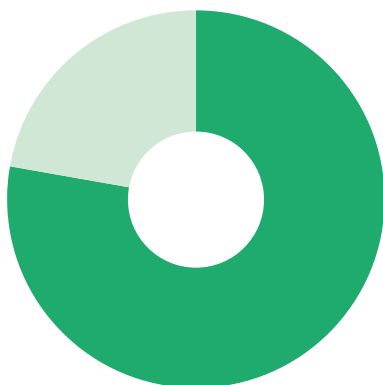
Snam is also confirmed on the Sustainalytics index, a leading ratings agency in evaluating companies in terms of ESG, to which the company has belonged since 2013.

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.

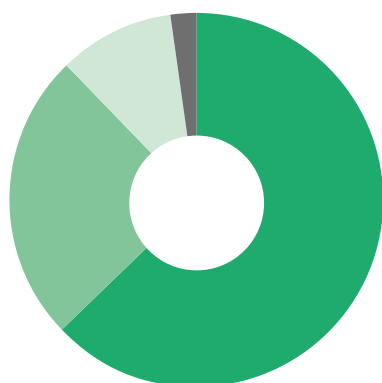
As at 31 December 2018, Snam has unused committed long-term credit facilities for an amount of approximately 3.2 billion euro. During the year, as part of the process to optimise the financial structure of group, their duration was extended, without increasing margins, and the transformation into a sustainable 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 euro⁶, of which around 8.0 billion euro are being used⁷.

⁶ 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.

⁷ 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