# Letter to stakeholders

**Marco Alverà**
Chief Executive Officer

**Dear Stakeholders,**

We ended 2018 looking firmly towards the future: €850 million will be invested over the period from now until 2022 in Snamtec, Tomorrow's Energy Company. The project was launched last autumn to position Snam as a leader of the low carbon energy transition, with demonstrated technological expertise and strong relationships with local communities. In this vein, we cemented the central role that our infrastructure and use of renewable natural gas will play in guaranteeing an efficient and effective decarbonisation process.

2018 saw an increasingly strong focus on the issue of climate change and its consequences, both by the public and international institutions and companies. With this in mind, we approved our new strategic plan, announced last November, which sets out a roadmap that will allow Snam to continue to grow and create value for shareholders, contributing to the reduction in greenhouses gases, improvement in air quality and cutting energy costs.

We strive to promote the development of biomethane and other forms of renewable gas, which are key to the decarbonisation process. To this end, we have launched a series of acquisitions and strategic partnerships, acquiring IES Biogas – the leading biogas and biomethane construction company in Italy - and Enersi Sicilia, a company which develops facilities for producing biomethane from urban solid waste in Sicily.

Promoting the use of natural gas for sustainable mobility is also deeply important to us. We therefore acquired M.T.M's business unit dedicated to technological solutions for natural gas refuelling stations, a Westport Fuel Systems group company, through the subsidiary Cubogas. We also have a memorandum of understanding with Eni for the construction of twenty new CNG transport refuelling stations and with API Group for around two hundred new natural gas and biomethane refuelling plants. Furthermore, we have focused on energy efficiency, acquiring TEP Energy Solution, one of the main Italian ESCOs.

Our commitment to the fight against climate change has also been demonstrated through increasingly transparent reporting. In September 2018, Snam signed up to the "Task Force on Climate Related Financial Disclosure - TCFD", a further commitment to communicating effectively on these issues.

Sustainable finance is another area that we are monitoring closely. It is not a coincidence that the first part of this document is dedicated to guidelines on this subject. To align our financing strategy with sustainability goals and expand our investor base, we have converted €3.2 billion in lines of credit into a sustainable loan: this became the third largest sustainable loan taken out in the world, as well as the first by a gas utility. In addition to that, we published the Climate Action Bond Framework, which allows for the issuing of bonds aimed at funding sustainable investments. We are the first gas infrastructure utility to approach the sustainable bond market.

We have continued to promote social responsibility and local communities, installing low gas emission turbines, implementing environmental conservation and monitoring activities and launching programmes to reduce natural gas emissions. In 2018, we reduced these emissions by 7.9% compared with 2016 levels and we set a new target to reduce them by 25% in 2025.

We launched the “Snam4Safety” project to reinforce the culture of safety for employees and contractors. Accidents fell in total from 11 in 2017 to 7 in 2018 (-36%); so you can see things are going in the right direction. Our employees are at the centre of the company's strategy. We have offered them stable and constant work with qualified and specialised activities. 93% of them are on a permanent employment contract.

To meet future challenges, we have continued to invest in training, with over 100 thousand hours involving 93% of company employees. In order to promote a healthy work/life balance, we renewed the Smart Working project and launched the Welfare Award, which allows for the Participation Award to be converted into welfare credits for employees and their family members.

The Snam Foundation entered its second year, increasingly becoming a connection point between Snam and the social sector, promoting partnerships and sharing the company’s design expertise. In line with our goal to promote economic and social development, the Company published a social supply chain policy through which it is committed to transparency and supporting social businesses in its supply chain, promoting opportunities for collaboration through networks and consortia.

To further cement our sustainable development model, we have renewed our commitment to the Global Compact principles and the SDGs defined by the UN. Our ESG performance ESG has resulted in the Company’s inclusion in some of the most prestigious sustainability indices like the Dow Jones Sustainability World Index, for the tenth consecutive year, and the FTSE4Good.

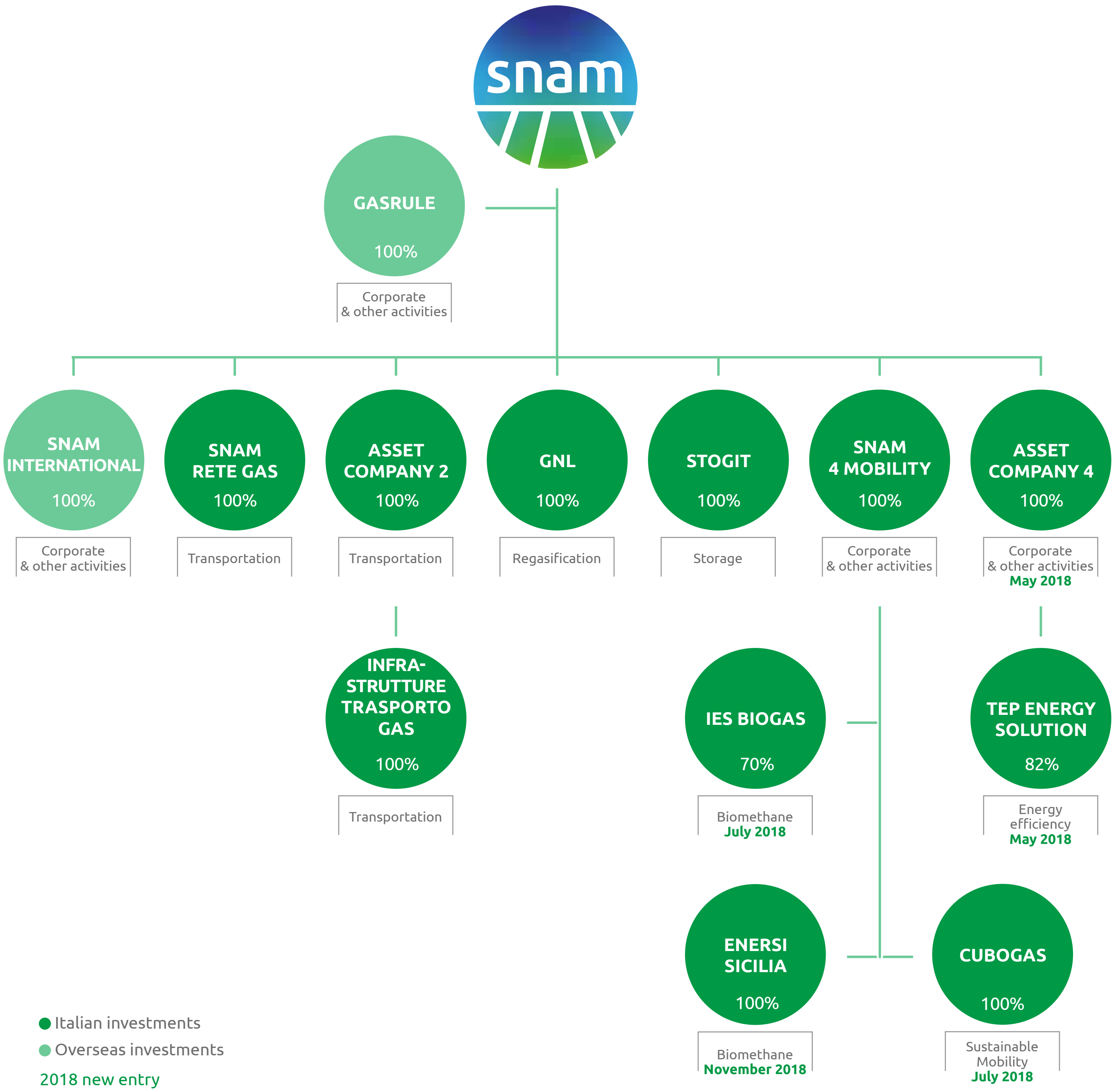
We are very proud of our achievements in the year that has just ended and we are even more confident in what Snam will achieve in coming years, with the hope that the new initiatives we have launched in 2018 will drive our country forward and contribute to solving the challenges for global energy that lie ahead.

# Snam's profile

Snam is the European leader in the construction and integrated management of natural gas infrastructure. On a European level, Snam is one of the main operators in terms of invested capital for regulatory purposes and operates in major markets through agreements with major players in the industry and direct equity holdings in companies.

Snam, with liquefied natural gas transportation, dispatching, storage and regasification activities, provides the market with a safe energy source at fair prices, playing a fundamental role in the Country's energy system.

**Scope of consolidation**



## THE NEW CORPORATE STRUCTURE

The main changes in the structure of the Snam Group at 31 December 2018 compared with 31 December 2017 involved the entry into the scope of consolidation of the following companies: (i) Snam International B.V. (Gasbridge 2 B.V. until 31 July 2018); (ii) Asset Company 4 S.r.l, a newly established company wholly-owned by Snam S.p.A. ; (iii) Tep Energy Solution S.r.l., owned by Asset Company 4 S.r.l. through the acquisition of 82% of the share capital of the company from 30 May 2018; (iv) IES Biogas through the acquisition of 70% of the share capital of the company from 5 July 2018; (v) Cubogas S.r.l., a newly established company following the acquisition on 25 July 2018; (vi) Enersi Sicilia S.r.l., (FORSU) through the acquisition of 100% of the share capital of the company from 29 November 2018.

## SNAM'S PRESENCE IN THE NATIONAL AND INTERNATIONAL GAS INFRASTRUCTURE SYSTEM

Snam's international growth aims to consolidate the European infrastructure system facilitating the alignment between the consumer and producer interests, promoting a greater liquidity in the South-European gas market also through the development of new routes, and preserving the connection between the United Kingdom and continental Europe.
On 20 December 2018, the European consortium composed of Snam (60%), Enagás (20%) and Fluxys (20%) concluded the purchase, through the newly established Senfluga Energy Infrastructure Holding, of a 66% stake in DESFA, the greek national operator in the sector of natural gas infrastructure. Greece, an important crossroads for the diversification of procurement and the opening of new natural gas routes in Europe, has further development potential as a south-east European hub. The consortium, in addition to promoting innovation in the natural gas sector in Greece, will also encourage the introduction of renewable gases like biomethane to create a sustainable energy solution and actively contribute to the reduction of greenhouses gases and pollutant emissions in the country.

## THE NATIONAL INFRASTRUCTURE

Snam is the leading Italian natural gas transportation and dispatching operator, and owns almost all of the transportation infrastructure in Italy, with 32,625 km of high- and medium-pressure gas pipelines (approximately 93% of the entire transportation system).

# SNAM'S PRESENCE IN THE NATIONAL AND INTERNATIONAL INFRASTRUCTURE SYSTEM

Interconnector

2012

**1 Interconnector (23.54%)**

235 km undersea pipeline between Bacton (UK) and Zeebrugge (Belgium)

1 terminal and 1 compression station at Bacton, and 1 terminal and 1 compression station at Zeebrugge (totalling 260 MW)

Terēga

2013

**2 Terēga (40.5%)**

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

About 15% of French totale gas volume

5.8 bn m³ of storage capacity (2.8 bn m³ working gas): around 25% of national capacity

TAG Trans Austria Gasleitung

2014

**3 TAG (84.47%)**

3 parallel pipelines of about 380 km each

5 compression stations (421 MW)

## 2015

**4 TAP (20%)**

Assets under development: final section of the South gas Corridor from Azerbaijan to Europe.

878 km long (773 km on-shore and 105 km off-shore) through Greece, Albania, Adriatic sea and Italy.

Initial capacity of 10 bn $m^3$/ year, which can be increased to 20 bn $m^3$/ year.

Expected to come into service in 2020

## 2016

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

554 km of transportation network

315 km of distribution network

5 compression stations (totalling 145 MW)

## 2018

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

1,450 km of transportation network:
- 2 entry point (Bulgaria and Turkey)
- 1 exit point (Bulgaria)

1 LNG terminal (5 bn $m^3$/year)

1 compression station

## INFRASTRUCTURE IN ITALY

### NATURAL GAS TRANSPORTATION

ENTRY POINT 8
REVERSE FLOW

COMPRESSION STATION 13

PIPELINES UNDER OPERATIONS

### NATURAL GAS STORAGE

OPERATING CONCESSIONS 9

### LNG REGASIFICATION

REGASIFICATION PLANT 1

## INVESTMENTS OVERSEAS

INTERNATIONAL PIPELINES

COMPRESSION STATION

STORAGE FIELDS

REGASIFICATION PLANT

Biomethane plant

**Natural Gas**
Natural gas is produced from the anaerobic decomposition of organic material. In nature it is found in fossil state on its own or together with oil and other hydrocarbons.
The main component of natural gas is methane ($CH_4$).
During combustion, most of the methane gas is converted into steam and carbon dioxide ($CO_2$).

Gas Compression Plant

Gas Compression Plant

**Compressed Natural Gas (CNG)**
Compressed Natural Gas is obtained compressing natural gas until its volume becomes less than 1% of the volume it takes at a normal atmospheric pressure. It is kept in tanks with a 200-248 bar pressure.

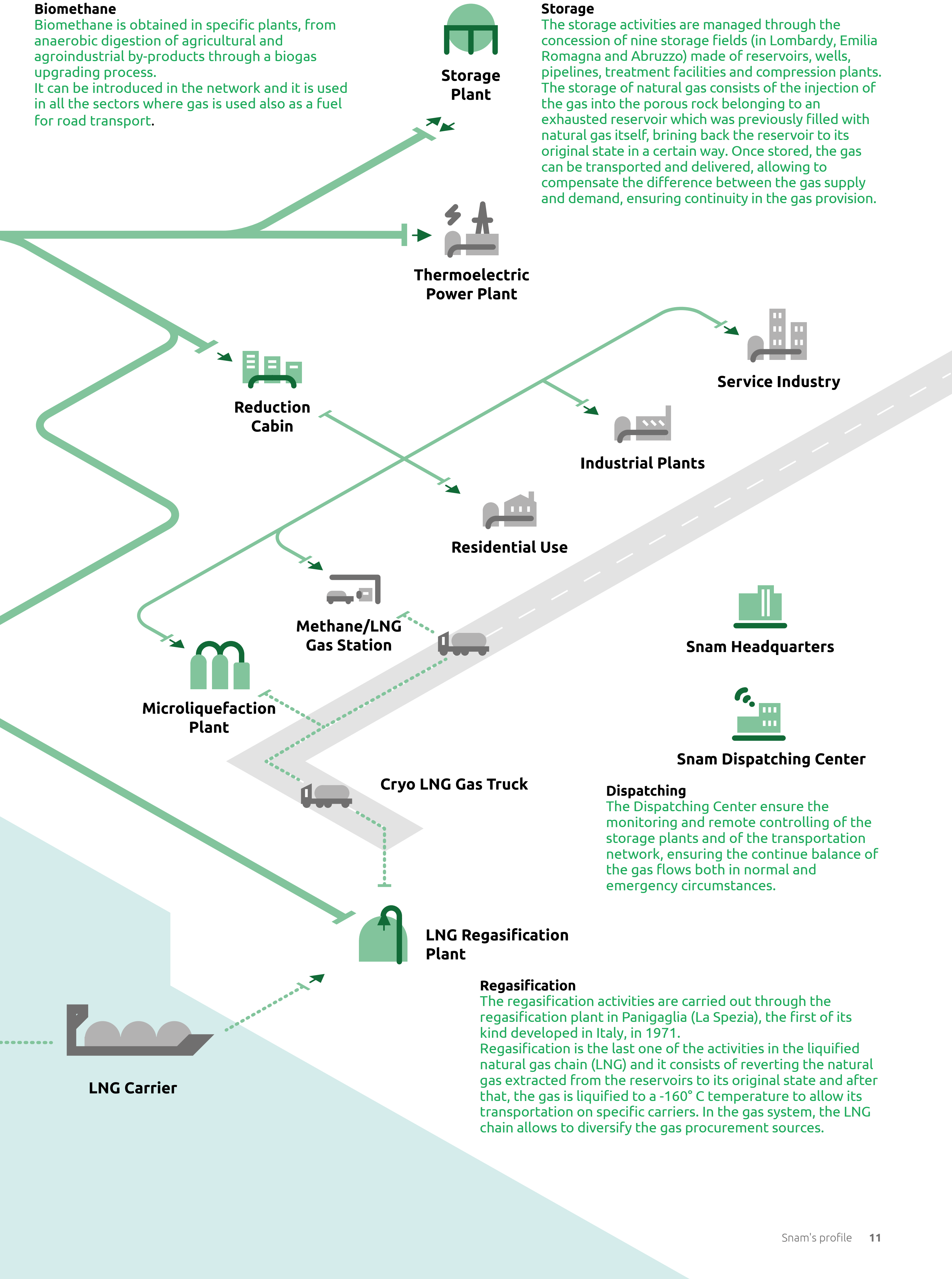
LNG liquefaction plant

**Transportation**
Natural gas is taken over at the delivery points, located on the importation lines (Russia, Northern Europe and Northern Africa), at the regassification plants and at the production and storage centers located in Italy. Gas is therefore transported and delivered at the redelivery points connected to the distribution networks and to the main industrial and power generators plants.

Snam Activities
Other Activities

**Biomethane**
Biomethane is obtained in specific plants, from anaerobic digestion of agricultural and agroindustrial by-products through a biogas upgrading process.
It can be introduced in the network and it is used in all the sectors where gas is used also as a fuel for road transport.

**Storage**
The storage activities are managed through the concession of nine storage fields (in Lombardy, Emilia Romagna and Abruzzo) made of reservoirs, wells, pipelines, treatment facilities and compression plants. The storage of natural gas consists of the injection of the gas into the porous rock belonging to an exhausted reservoir which was previously filled with natural gas itself, brining back the reservoir to its original state in a certain way. Once stored, the gas can be transported and delivered, allowing to compensate the difference between the gas supply and demand, ensuring continuity in the gas provision.



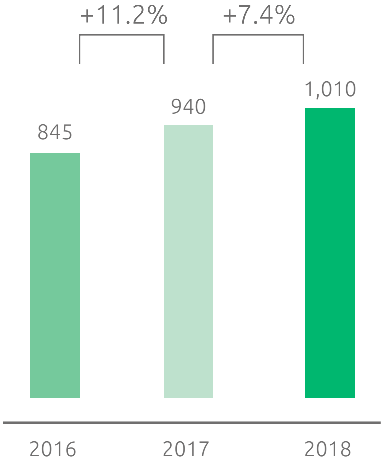

**Dispatching**
The Dispatching Center ensure the monitoring and remote controlling of the storage plants and of the transportation network, ensuring the continue balance of the gas flows both in normal and emergency circumstances.

**Regasification**
The regasification activities are carried out through the regasification plant in Panigaglia (La Spezia), the first of its kind developed in Italy, in 1971.
Regasification is the last one of the activities in the liquified natural gas chain (LNG) and it consists of reverting the natural gas extracted from the reservoirs to its original state and after that, the gas is liquified to a -160° C temperature to allow its transportation on specific carriers. In the gas system, the LNG chain allows to diversify the gas procurement sources.

## Business activities

| | Operational Data | Unit | 2016 | 2017 | 2018 | Var. % |
|---|---|---|---|---|---|---|
| Transportation | Pipelines network | km | 32,508 | 32,584 | **32,625** | **0.1** |
| | of which national pipelines network | km | 9,590 | 9,704 | **9,697** | **(0.1)** |
| | of which regional pipelines network | km | 22,918 | 22,880 | **22,928** | **0.2** |
| | Natural gas injected in the network | Bn $m^3$ | 70.64 | 74.59 | **72.82** | **(2.4)** |
| | of which imported | Bn $m^3$ | 65.07 | 69.35 | **67.70** | **(2.4)** |
| | of which national production | Bn $m^3$ | 5.57 | 5.24 | **5.12** | **(2.3)** |
| | Power installed in the compression stations | (MW) | 922 | 902 | **961** | **4.2** |
| Storage | Gas moved in the storage reservoirs | Bn $m^3$ | 20.00 | 19.92 | **21.07** | **5.8** |
| | of which inputted in the reservoirs | Bn $m^3$ | 9.96 | 9.80 | **10.64** | **8.6** |
| | of which delivered from the resevoirs | Bn $m^3$ | 10.04 | 10.12 | **10.43** | **3.1** |
| | Total storage capacity | Bn $m^3$ | 16.5 | 16.7 | **16.9** | **0.9** |
| | of which available | Bn $m^3$ | 12.0 | 12.2 | **12.5** | **1.2** |
| | of which strategic | Bn $m^3$ | 4.5 | 4.5 | **4.5** | **--** |
| Regasification | Regasified Gas | Bn $m^3$ | 0.21 | 0.63 | **0.91** | **44.4** |
| | Number of unloaded LNG carriers | no. | 5 | 15 | **21** | **40** |
| | Maximum daily regasification capacity | $m^3$ | 17,500 | 17,500 | **17,500** | **--** |
| Employees | Employees in service at year end | no. | 2,883 | 2,919 | **3,016** | **3.3** |
| | of which Transportation | no. | 1,726 | 1,972 | **1,915** | **(2.9)** |
| | of which Storage | no. | 301 | 60 | **59** | **(1.7)** |
| | of which Regasification | no. | 71 | 63 | **64** | **1.6** |
| | of which Corporate and other activities | no. | 785 | 824 | **978** | **18.7** |

**Adjusted EBIT (€ Mn)**




## KEY INCOME STATEMENT FIGURES[1]

Due to the soundness of operational management and rigorous financial discipline, Snam achieved very positive results in 2018. Adjusted EBIT amounted to €1,405 million, up €42 million (3.1%) compared with the 2017 value. The greater revenues (+€87 million, +3.6%) were mainly due to the gas transportation activities.

Adjusted net profit reached €1,010 million, up €70 million (+7.4%) compared with the 2017 adjusted net profit. In addition to the greater EBIT (+€42 million, +3.1%), the increase was due to the lower net financial expenditures (+€32 million, equal to the 14.1%), thanks to the reduction in the average costs of borrowing, also due to the benefits from the optimisation actions implemented in 2016 and, namely, the liability management operations and the greater net income from equity investments (+€9 million, +6.0%). These were partly offset by lower income taxes (-€13 million; 3.8%), mainly due to the reduction in the pre-tax profit.

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

### Added value produced and distributed

The Company produces wealth contributing to the economic growth of the society and the environment in which it operates, and it measures this wealth in terms of added value produced and distributed to its key stakeholders.

In 2018, the gross global added value produced by Snam was €2,532 million: an increase of €85 million or 3.5% compared with 2017 (€2,447 million).

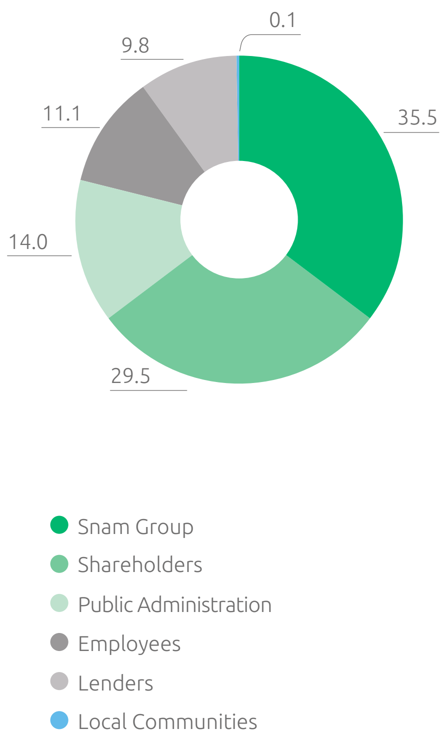
**The Added Value**

| (€ million) | 2016 | 2017 | 2018 |
|---|---|---|---|
| Added value produced (A) | 2,518 | 2,447 | **2,532** |
| Added value distributed (B) | 1,913 | 1,621 | **1,634** |
| Employees | 260 | 249 | **280** |
| Local communities: donations and sponsorships, statutory environmental compensation | 3 | 5 | **3** |
| Lenders (Bondholders and Banks) | 610 | 292 | **249** |
| Shareholders | 718 | 732 | **746** |
| Government | 323 | 343 | **356** |
| Direct taxes | 308 | 329 | **341** |
| Indirect taxes | 15 | 14 | **15** |
| Added value retained by the Company (A) - (B) | 605 | 826 | **898** |

Snam calculates the added value according to the standard prepared by the Gruppo di Studio per il Bilancio Sociale (GBS) and to the GRI Standards.

1 See Financial Report for greater details

**Distribution of added value (%)**




Referring to the main stakeholders, the Added Value was distributed as follows:

- Employees 11.1% (+0.9 percentage points compared to 2017) as direct compensation consisting of wages, salaries and severance pay and indirect compensation consisting of social security contributions and staff-related service costs (canteen services, reimbursement of travel expenses);
- Government 14.0% (percentage stable compared to 2017) – through the payment of direct and indirect taxes;
- Shareholders 29.5% (-0.4 percentage points compared to 2017) - through distributed dividends. With a rising unit dividend (+5% compared to 2017) confirming Snam's commitment to guaranteeing an attractive and sustainable remuneration for shareholders, there was a reduction in the number of outstanding shares following the buyback of shares under the scope of the share buyback programme.
- Lenders 9.8% (-2.1 percentage points compared to 2017). Reduction in response to the benefits arising from optimising activities implemented during 2016 and 2017, in particular the liability management operations, in spite of the increased average debt in the period.

A total of 35.5% of the gross global added value produced by Snam was reinvested within the Group (up compared with 2017: +1.7 percentage points), of which around 77% was intended for the amortisation and depreciation of the infrastructure used in the production process (80% in 2017).

Lastly, approximately €3 million was designated for local communities (0.1% of the generated value) through donations, sponsorship initiatives and environmental compensation pursuant to the law.

# ESG Highlights

## Environment

Natural gas emission **-7.9%** vs. 2016 (base year) new target **-25%** to **2025**

**Avoided 154,800** tonnes of $CO_{2eq}$ (+87% vs 2017)

**445 km** of environmental monitoring (**+14%** vs 2017) and **227 km** of environmental restoration (**+11%** vs. 2017)

More than **4,000 km** of network subjected to **geological** inspections and more **18,400 km** of network inspected by helicopter

## Social

Employees and contractors **accidents -36%** vs. 2017 Lowest values ever reached

**107,700 hours** of training provided (**+26%** vs. 2017)

More than **470 people** took advantage of smart working for a total of **62,930 hours**

**2,000 hours of company volunteering** with the **participation** of **300 employees**

## Governance

**2,074 reputational checks** on suppliers and sub-contractors (**+14%** vs. 2017)

**8** management systems **adopted and certified** for **new companies** that entered the **scope of consolidation**

The **social supply chain policy** for the inclusion of social enterprises in the **supply chain** was **published**

Snam stock was confirmed for the **tenth year** in a row, confirmed in **DJSI World**