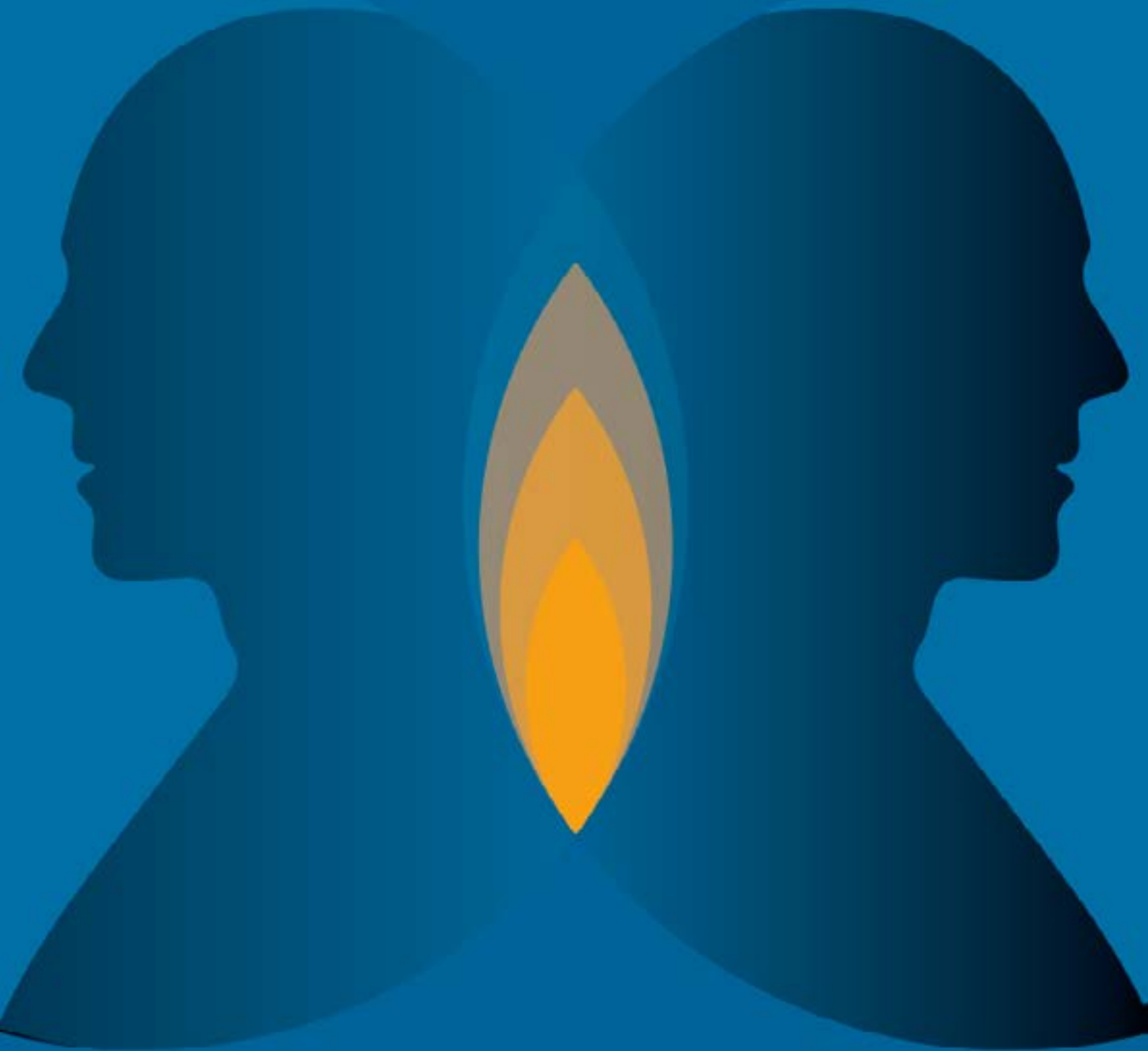


Business model and sustainable development



The global energy context: Snam's key role in decarbonisation



Intergovernmental Panel on Climate Change (IPCC):

average global
temperatures
to date of around 1°C
compared with
pre-industrial levels

The strong correlation between human activity and global warming is increasingly visible and tangible especially through the recent increase in temperature, extreme weather conditions and the weakening or destruction of entire ecosystems.

This connection was also confirmed by the latest report of the Intergovernmental Panel on Climate Change (IPCC), which revealed an increase of average global temperatures to date of around 1°C compared with pre-industrial levels (projected to be +1.5°C between 2030 and 2052) and the data and estimates of the World Meteorological Organization (WMO), from which it emerges that in 2018 global atmospheric concentrations of the major greenhouse gases reached record levels (407.8 ± 0.1 parts per million of CO₂, corresponding to a rise of 147% compared with pre-industrial levels).

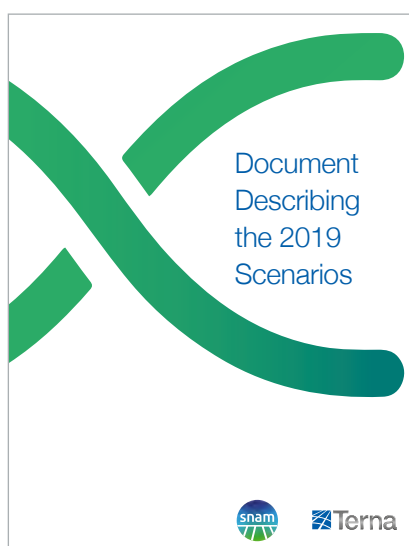
In response to this situation, legislative arrangements were made during UN conference on climate change, known as COP25, which was held in Madrid from 2 to 15 December 2019, in order to achieve the three main climate targets defined during the climate conference in Paris (COP21): to reduce emissions by 45% by 2030, to achieve climate neutrality by 2050 and to stabilise the increase in global warming to 1.5° C.

Later on, in the **European Green Deal** of December 2019, the European Commission defined a collection of measures aimed at achieving climate neutrality by 2050. Specifically, this communication requires gas system infrastructures to: i) embrace renewable gases; ii) support, jointly with the electricity industry, the energy system (sector coupling); iii) support sustainable mobility services.

In this context, Snam has developed future energy scenarios in which it has outlined its business strategy in line with the European and national decarbonisation objectives and with an ever increasing commitment to energy transition.

In conjunction with Terna, Snam has developed the **“Document Describing the 2019 Scenarios”**, a preliminary study for the preparation of transmission and transportation network development plans in the electricity and gas sectors nationally. This study develops **joint Snam-Terna energy scenarios** showing how technological development together with collaboration and synergies between the electricity and gas industries could be the key for reaching the emission reduction targets. The scenarios put forward, in a context of economic growth, highlight how the European decarbonisation objectives will lead to the increasing use of green gases, such as hydrogen, biomethane and synthetic methane, partly replacing natural gas, not only in thermoelectric power plants, but also in end uses: civil, industrial and transport.

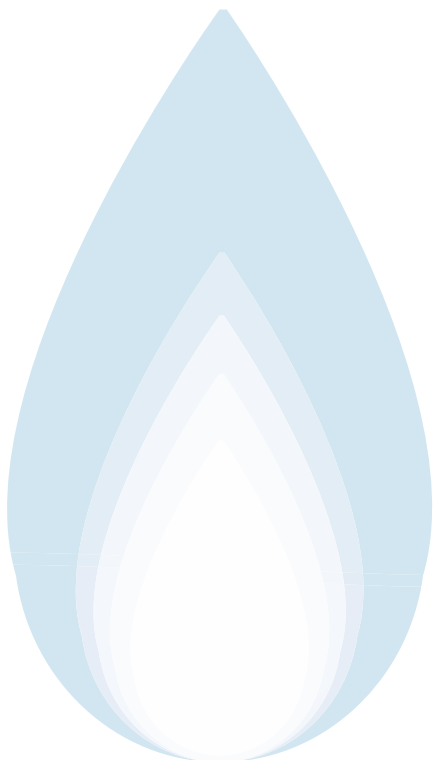
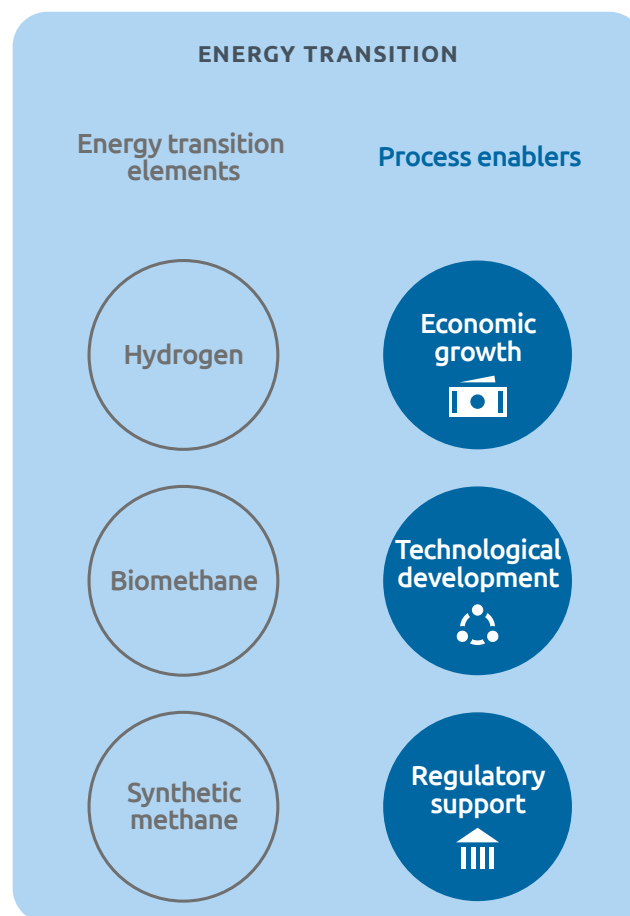
Among the various energy sources of the future, Snam is looking at the new frontier of hydrogen developing, with the analytical support of a leading consultancy firm, the **“Hydrogen potential”** scenario that evaluates the



According to this study, hydrogen will be increasingly competitive in terms of costs compared with alternative energy sources, especially in sectors such as, for example, transport, heating and high-temperature industrial processes

potential of hydrogen as a vector for energy transition in Italy highlighting a key role for achieving the decarbonisation targets. The scenario estimates that by 2050 hydrogen could satisfy 23% of total energy demand in Italy. According to this study, hydrogen will be increasingly competitive in terms of costs compared with alternative energy sources, especially in sectors such as, for example, transport, heating and high-temperature industrial processes.

In this historical period of change in global energy equilibrium, Snam recognises its leading role in achieving national and European undertakings and, in accordance with the targets set in its own **Strategic Plan** for the coming years, is supporting the country's journey for mitigating the effects of climate change.



NFS The 2019-2023 Strategic Plan

In a progressive scenario of decarbonisation for the country in which natural gas will play an increasingly more central role, Snam is reinforcing its position as a partner for Italian energy transition, striving for efficiency, innovation and the total integration of environmental, social and governance factors in the management of its activities.

At the end of November 2019, Snam published its 2019-2023 strategic plan which, through the definition of economic-financial and sustainability targets, is pursuing a model of sustainable growth, focusing on the creation of value through the following levers: the continuous **improvement of the core business**, a solid **financial structure**, the commitment to **energy transition**, the development of an **internationalisation strategy**.

Improvement of the core business

The continuous improvement of results, active participation in the regulatory context, increasing new initiatives relating to energy transition, expansion of international operations, a focus on technological innovation and strong oversight of the optimisation of the financial structure will enable the company to achieve sustainable growth for the key indicators, confirming or improving the targets in the previous plan. Specifically, there is a projected increase in EBITDA of more than 3% for the period, net profits by more than 4% per year and net earnings per share (EPS) of 5.5% per year on average.

For these reasons, in the new Plan Snam plans an increase in investments taking them to a total of €6.5 billion, approximately 14% more than the figure of €5.7 billion in the previous plan. Specifically, €5.3 billion of investments will involve the transportation network, €0.8 billion storage and regasification and €0.4 billion the new businesses linked to energy transition. A significant portion of investments for the transportation sector will be dedicated to network development initiatives such as the completion of infrastructures to connect the TAP to the national network, the completion of connections in the north-west to the local market service and cross-border flows, the network in Sardinia and the launch of the conversion of the six compression and storage plants into hybrid gas-electricity facilities.

The solid financial structure

The optimisation of the financial structure has made it possible to reduce the cost of borrowing by 1.8% in the previous plan to 1.4% and it is expected it will remain at this figure for the entire duration of the plan. For Snam's financial structure (composed of $\frac{3}{4}$ debt with an average life of more than 5 years, four financial years of liability management of €4.5 billion, placement of a dual tranche bond issue maturing in 5 and 15 years time, €3.2 billion in unused syndicated lines of credit due at the end of the plan), there are plans to buy back treasury shares with the launch of a further tranche of €150 million, expecting the debt/RAB ratio to be stable by 2023 at 53% including partners.

Snam has also defined financing for activities relating to sustainability both from banks and the capital markets, aligning them to the strategy and diversifying the investor base. The increasing commitment to **sustainable finance** has led Snam to have funding of more than €5 billion. In addition, in February 2019 it issued the first **Climate Action Bond**, used to finance projects relating to the reduction in CO₂ emissions, the development of renewables, energy efficiency and the development of green projects based on environmental criteria. Lastly, in April 2019 the Company reduced the margin of its **sustainable loan** from €3.2 billion, after reaching the targets related to social and environmental sustainability parameters.

Snam's efficiency plan surpassed expectations with projected savings for 2023 of €65 million (compared with the figure of €60 million in the previous plan and €25 million in 2016) representing an important source of value. This reduction in costs and improvement in the quality of the time to market, is due to the new technologies, simplification of the organisation processes, maintenance activities and initiatives to reduce external costs accompanied by a revision of make-or-buy decisions and supply contracts.

Investment in energy transition

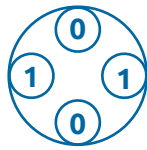
Under the scope of the investment plan, the initiatives of the SnamTec project (Tomorrow's Energy Company), the objective of which is to accelerate Snam's innovative capacity and its assets to take advantage of the new opportunities offered by the development of the energy



system, will grow by 65% making a total of more than €1.4 billion. The SnamTec project will focus, specifically, on three areas:



- **Environmental sustainability of the core business:** with around €700 million of investments to reduce methane emissions by 40% by 2025 (compared with the previous target of 25%) and total Scope 1 and Scope 2 CO₂ equivalent emissions by 40% by 2030 through the launch of the first six electricity-gas hybrid plants (€250 million of investments), an emissions measuring and elimination campaign, the technological adaptation of several gas turbines, the large-scale replacement of network components with a view to reducing methane emissions, the greater use of electricity from renewable sources and the energy efficiency of company buildings;



- **Initiatives for technological innovation and digitalisation:** with investments of around €350 million dedicated partly to the smart gas project which involves plant maintenance with new technologies, the remote inspection of 85% of assets by 2023, the use of drones and satellites for monitoring infrastructures, the development of new commercial services and gas demand forecasts through neural networking;



- **Investment in energy transition** Investments in energy transition of €400 million (double the figure of €200 million in the previous plan) dedicated to the development of biomethane infrastructures, sustainable mobility and energy efficiency and Small-scale LNG decisive the launch of the related sectors.

Internationalisation strategy

Snam's internationalisation strategy has allowed the company to strengthen its leadership position in European energy infrastructures and focuses on supporting, also courtesy of its know-how, the development of the infrastructures of European countries and emerging countries such as China and India. This expansion has made it possible to achieve an annual return of 10% that the company expects to maintain for the entire period of the plan. The contribution to the net profit of international associate companies (TAG and GCA in Austria, Terêga in France, Interconnector UK, DESFA and TAP) will be around €160 million in 2022. As far as TAP, which Snam has a 20% stake in, is concerned, the progress of the works is at around 90% and are expected to be completed by 2020.

Snam and the Task Force on Climate-related Financial Disclosure

TCFD RECOMMENDATIONS	DISCLOSURE
GOVERNANCE Declaring the governance model of the organisation in relation to the risks and opportunities related to climate change.	
a) Describing the supervision of the Board of Directors of the risks and opportunities related to climate change.	The Board of Directors (BoD) , following its appointment and for its entire mandate, is informed with regard to climate change aspects and initiatives including through board induction sessions and it periodically oversees these aspects, assisted by different committees, including: the Environmental, Social & Governance ("ESG") Committee , the Control, Risks and Related-Party Transactions Committee and the Remuneration Committee .
b) Describing the role of management in assessing and managing the risks and opportunities related to climate change.	The management functions have specific responsibilities as part of climate change and report directly to the Chief Executive Officer, developing their activities in line with the Company's climate strategy .
STRATEGY Declaring the actual or potential impacts of the risks and opportunities related to climate change on the business, strategy and financial planning of the organisation.	
a) Describing the risks and opportunities relating to climate change that the organisation has identified in the short, medium and long-term.	Snam identifies transition risks and physical risks under risks related to climate change. Specifically, the former include political and legal risks , technological risks , market risks, reputation risks , while the latter include the risks due to acute or chronic phenomena.
b) Describing the impact of the risks and opportunities related to climate change on the business, strategy and financial planning of the organisation.	For every risk related to climate change, Snam carries out an assessment of the operational impacts (industrial/business, economic, assets) and the specialist impacts (financial, legal, HSE, reputational and market) related to it and opportunities are identified that allow the associated impacts to be adequately managed.
c) Describing the resilience of the organisational strategy, taking into consideration different climate-related scenarios, including a scenario of 2°C or lower.	Snam develops different gas supply and demand scenarios that take into consideration the profound transformation of the Italian energy system, with special reference to the role of natural gas, in the light of the possible developments of the energy and climate scenario globally, in line with the European decarbonisation strategy and with the internationally-defined agreements for slowing down the rise in temperatures and limiting the effects of global warming. The scenarios defined by Snam over a time horizon to 2040 are: the Business-As-Usual (BAU) scenario, which projects current trends and features technological developments based solely on economic merit, the Centralized (CEN) and Decentralized (DEC) scenarios, which, respectively involve growth of programmable renewable energies such as green gases, using existing gas infrastructure, and an even more rapid development of electric power and non-programmable renewable energy sources. Snam develops its own strategy based on these scenarios, and particularly the development scenarios. They are applied in the new 2019-2023 Strategic Plan and they are founded on three pillars: improving the core business, internationalisation and leadership to energy transition.

TCFD RECOMMENDATIONS	DISCLOSURE
RISK MANAGEMENT Declaring how the organisation identifies, assesses and manages the risks related to climate change.	
a) Describing the processes of the organisation to identify and assess the risks related to climate change. b) Describing the processes of the organisation to manage the risks related to climate change. c) Describing how the processes of identifying, assessing and managing the risks related to climate change are integrated in the overall risk management of the organisation.	■ The actual and prospective risks and opportunities associated with Snam's corporate strategy are identified, assessed and managed through the ERM model (Enterprise Risk Management), which integrates the risks and opportunities related to climate change. This model breaks down into three different phases: ■ Identification of risky events that could affect company targets through self assessment with Staff and Business Managers responsible for the implementation of initiatives aimed at the effective oversight of risks, both through specific analysis of the operational processes of every Company and the corporate Strategic Plan. ■ Evaluation of every event through the use of prioritisation matrices in which the probability of an event occurring and its positive or negative impact. The risks and opportunities are classified on the basis of 4 priority classes: low, medium, high and critical for risks; slight, moderate, good and excellent for opportunities. ■ Management of risks/opportunities identified through specific actions which may involve mitigation, monitoring and management interventions or the transfer of the risk.
METRICS AND TARGETS Declaring the metrics and targets used by the organisation to assess and manage the significant risks and opportunities related to climate change.	
a) Declaring the metrics used by the organisation to assess the risks and opportunities related to climate change in line with its strategy and risk management process. b) Declaring the Scope 1, 2 and 3 greenhouse gas effect emissions (GHG) and related risks.	Snam demonstrates its commitment to promoting decarbonisation, through the monitoring and improvement of its performance and its targets for reducing climate-altering emissions and increasing energy efficiency. Specifically, Snam monitors the following GHG emissions: ■ (Scope 1) direct emissions: emissions resulting from direct combustion processes or regarding fuels that are burnt within the Group, or by direct emission into the atmosphere of GHG (e.g. methane leaks); ■ (Scope 2) indirect energy emissions: emissions from the consumption of electricity, heat and steam; ■ (Scope 3) other indirect emissions: all other types of emissions that do not come under the two previous classes, in particular those resulting from the supply chain and employee business travel. Snam also monitors its energy consumption and has special energy efficiency KPIs.
c) Describing the objectives used by the organisation for managing the risks and opportunities related to climate change and performances related to the objectives.	In its Strategic Plan, Snam has set a target of reducing direct (Scope 1) and indirect (Scope 2) CO_{2eq} emissions by 40% by 2030 compared with 2016, which will be achieved through strengthening the target previously set for reducing methane emissions which has changed from -25% to -40% compared with 2016 figures and the definition of a new target related to the 55% increase in green electricity by 2030.

The creation of sustainable value: the Snam business model

DESCRIPTION OF CAPITAL

Financial Capital



The financial capital available to the Group represents the vital input for realising all the necessary investments for the correct operation of the natural gas infrastructures. The financial capacity of the Snam group is composed of its equity and debt capital, obtained on the financial markets and through own operating income, as well as the issuing of the specific Climate Action Bond to fund with a sustainable footprint.

Human Capital



Snam's human capital is composed of the people that are part of the Group - employees and the extensive network of Italian and international suppliers - with their wealth of know-how and expertise. Snam supports the promotion of a business culture founded on several distinctive values: the promotion and development of people, the culture of security, maintaining and increasing the know-how necessary for continued technological updating and the modernisation of the Group's assets.

Infrastructure Capital



The transport network and facilities for natural gas storage and regasification represent the vital infrastructure capital to enable Snam to provide its services to operators and users. Pipelines, storage and regasification facilities constitute the Regulatory Asset Based (RAB) necessary for the purpose of recognising the reference revenue for the regulated business, as calculated on the basis of the rules defined by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA). In addition to this, in future years Snam's infrastructure will be enriched by plants for the production and injection of biomethane, natural gas distribution plants for motor transport, as well as modernisation to accommodate the integrated mixture from hydrogen.

Relational Capital



The Group's relational capital is represented by the licence-to-operate that stakeholders acknowledge to Snam. The confident response of stakeholders in the ability of the Group to create value is the direct consequence of more than 75 years of history that connect Snam's activities to its stakeholders and to the companies in the areas that house the infrastructures. Also, taking into consideration the expansion of Snam's business in the non-regulated market, in coming years the contribution to increasing the Group's relational capital will become increasingly more important through participation in national and international working parties and ratified agreements and understandings with the objective of developing collaborations and partnerships with businesses operating in international and non-European energy markets.

Intellectual Capital



Intellectual capital represents Snam's distinctive heritage and includes information systems, processes and internal procedures for the efficient management of business activities. It involves practices developed and consolidated over a period of time, based on corporate know-how and aimed at guaranteeing the security of the networks and infrastructures for employees, suppliers and users.

Natural Capital



The area in which the infrastructures rise up, the air and biodiversity represent Snam's natural capital, along with the energy resources (natural gas, biomethane and hydrogen) necessary to allow Snam to provide its services to operators and users in the energy transition scenario.

SNAM'S CAPITAL

Financial capital



Human capital



Infrastructure capital



Relational capital



Intellectual capital



Natural capital



SNAM'S VALUES

SNAM'S BUSINESSES

Storage Regasification

Transportation Green business



SNAM'S PILLARS

GROWTH OF THE CORE BUSINESS

€65 million in savings by 2023

Replace of 1000 km of network

Completion of connections in the north-west

Installation of electric compressors and digitalisation of the network

FINANCIAL STRUCTURE

Cost of borrowing equal to 1.4%

Debt/RAB ratio stable at 53%

Climate Action Bond
€3.2 billion reduction in the sustainable loan margin

INTERNATIONAL EXPANSION

Average annual return above 10% for international subsidiaries

€160 million in net contributions from subsidiaries to 2022
Completion of TAP by 2020

ENERGY TRANSITION

€6.5 billion of total investments

-40% scope 1 and scope 2 emissions

Construction of biogas plants with an installed capacity of more than 40 MW
Injection of hydrogen into the network

Snam business model

THE CREATION OF VALUE

Creation of value and distribution of wealth



Developing and motivating people



Development and reliability of corporate assets



Quality of service and increasing the confidence of stakeholders



Corporate reputation and relations with stakeholders



Safeguarding the environment and developing the area



THE CREATION OF VALUE

Financial Capital

Creation of value and distribution of wealth



Snam is a solid and healthy company from a financial perspective that produces wealth for its stakeholders contributing to the economic growth of the social and environmental framework that it operates in. The **investment** programme, which includes a total of €6.5 billion for the upgrading and modernisation of the existing network and for the development of the new businesses related the production of biomethane, bio-LNG and hydrogen, and, energy transition in general, will have a positive impact on Snam's financial **capital**.

Infrastructure Capital

Development and reliability of corporate assets



Thanks to the continuous diversification and innovation of infrastructures, Snam ensures an increase in the value of its assets and constant security and reliability of natural gas procurement and the provision of its services. Snam constantly works towards the development of **infrastructure capital**; specifically, in future years the greatest focus will be on the completion of the new north-west connections of the **pipeline network**, the gas conversion projects, the TAP interconnection, upgrading the storage facilities and the replacement of 1000 km of network.

Intellectual Capital

Quality of service and increasing the confidence of stakeholders



Internal policies and procedures, the management systems implemented and the certifications obtained allow Snam to maintain a high quality in the provision of its services which translates into growing and steady confidence of its stakeholders with whom, over time, it has created productive and lasting relations and partnerships. Compliance with standards and the execution of activities in accordance with well-defined, structure methodologies, makes it possible to provide a higher quality service and achieve **greater efficiency for processes** and control throughout the entire creation of value chain leading to an increase in the **quality** of service, which constitutes one of the key points in obtaining the **licence-to-operate**.

Human Capital

Promoting and motivating people



Thanks to the development of courses for professional development and advancing technical, managerial and organisational skills, as well as the dissemination of a culture of health and safety in the workplace, Snam guarantees value for its people, leading to personal and professional growth. As a result of the **satisfaction** and **recognition** of the work of its employees, there is an improvement in the performance of the organisation and a general increase in **motivation**. Operating in this context, the Group's people contribute to the results, carrying out the activities assigned in a positive manner, increasing productivity, reaching the set targets and achieving the best results.

Relational Capital

Corporate reputation and relations with stakeholders



Maintaining a good corporate reputation, in line with the corporate vision, values and mission enables Snam to build productive and lasting relations with the main stakeholders and with the industry regulatory bodies. The **constant presence in national and international tables**, the extensive presence in the area and energy procurement security play a key role in consolidating relations with all stakeholders involved.

Natural Capital

Safeguarding the environment and developing the area



Safeguarding the environment is an integral part in the definition of corporate policies and investment decisions for all of Snam's activities, which is fully recognised in an approach that lets the environment and economic development coexist, without neglecting the protection and development of the area. Specifically, Snam demonstrates an increasing commitment to the **fight against climate change** and **reducing energy consumption**, in **safeguarding nature** and **biodiversity**, protecting the air, managing waste and optimising water resources, issues which, each in their own way, contribute to the creation of a more habitable area. The activities in the TEC project will allow Snam to enrich its own natural capital, implementing network monitoring actions and real-time measurement of regional development, the gas consumption and energy efficiency of the infrastructures, with the dual goal of optimising the operating costs and **minimising the environmental impact** of its activities. As confirmation of the attention that the company devotes to climate protection, the Strategic Plan contains a target to **reduce** Scope 1 and Scope 2 **emissions** by 40% by 2030.

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

IMPACTS ON THE GAS SYSTEM

Market Facilitation

From October 2016, the balancing service operated in accordance with joint, harmonised European rules aimed at promoting market trading and liquidity (Network Balancing Code). Under the new system, users are the primary parties responsible for system equilibrium and they can balance their own trading positions (injections and withdrawals from the system) through an hourly reprogramming of their own requirements, and/or by executing gas transactions on both the organised and over-the-counter markets. Snam also performs the role of Default Transportation Supplier, namely supplies gas to Sales Companies and Final Customers for which the Balancing User responsible for the related withdrawals is not identifiable. The same service is also carried out for the sales companies and final customers at third-party transporters who explicitly requested it.

Impact of the Default Transport Service

The service in the 2018-2019 thermal year involved 112 parties amongst Final Customers and Sales Companies, for a total volume of approximately 323,000 MWh.

New transport capacity products

Already in 2018 new flexibility services were introduced, such as intra-day storage auctions that consist of offering additional supply capacity to the originally contracted amount, which is allocated to customer based on an auction during the gas day in progress. In 2019, allocations for storage capacities, similar to the transportation business, were incorporated in the European PRISMA platform. This helps customers book the transportation and storage capacity on a single platform and makes Snam's storage capacity more visible on a European level. In 2019, new solutions to increase the flexibility of the services offered by Snam were being looked into to meet customers' requirements.

Creation of a European Gas Market

Snam is one of the founders of PRISMA, the international project established in 2013 to promote the harmonisation of rules for accessing and providing services in implementation of the European Codes, by offering services through a single shared digital platform. Approximately 41 European operators active in the transport and storage of gas from 17 countries participate in the development of PRISMA.

The numbers of the PRISMA platform

In 2019, the PRISMA platform increased the number of auctions for the sale of capacity products further, going from 6,5 million in 2018 to 9,1 million in 2019. The registered number of shippers and users was, respectively 2,500 and 3,000.

Gas Access And Cost

The cost of transport, distribution and metering (meter reading) services, which allow the delivery of gas to end users, is one of the three main items of the gas bill.

Impact of transportation service on gas cost

The cost of the transportation service in 2019 was estimated at around 5,6% of the total expenses of domestic customer (family with individual heating and annual consumption of 1,400 Smc) compared with 19% of the total cost of infrastructure services.

New connections

In 2019, 123 connection contracts were signed for the construction of the new delivery/redelivery points (26 of which were for biomethane and 61 of CNG Service Areas) or the upgrading of existing points, with a total increase of around 40% compared with 2018.

(continued)

IMPACTS ON THE ENERGY SCENARIO

Security of Supplies

In 2019, Italy recorded a rise in thermal production with cumulative increase of 6 TWh compared with the same period in 2018 (+4.5%). In the third quarter of 2019, net imports actually fell by more than 15% compared with the same period of the previous year, while electricity production from renewable sources (FER) increased which, however, from the start of 2019, fell by 1% due to the 10% decrease in production in the 2nd quarter. This reduction, of around 0.8 TWh, is due to the increase of around 3.3 TWh of generation from non-programmable sources and the decrease of around 4 TWh in hydroelectric production (source ENEA).

Diversification of sources

Thanks to the interconnection of Snam's network, Italy is the current European country that can rely on the greatest number of supply sources. Besides domestic production, the Italian system can receive gas through four methane import pipelines (Algeria, Libya, Russia and Norway) and 3 regasification terminals. It is also planned in the future to add the importation of gas from the Caspian Sea by constructing the TAP methane pipeline. In the instance of Italy, if any of the supply sources should be absent, the remaining sources of supply are capable of satisfying more than 120% of the area's total gas demand, calculated during a day of particularly high gas demand. The development of bidirectional capacity in the north of our country along the North-South corridor (reverse-flow) may also make Italian supply sources accessible to other European countries.

Storage capacity utilisation

In 2019 Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign was 99% compared with a European average of 98% proof of Snam's efficiency in energy procurement.

Contribution to Decarbonisation

Gas in its various forms guarantees lower carbon dioxide emissions, with a reduction of between 25% and 40% compared to other fossil fuels, as well as reduced nitrogen oxides and fine particle levels.

Gas in the national energy mix

The quarterly analysis of the Italian energy system in the first nine months of 2019 by ENEA highlighted an increase in primary energy sources, such as natural gas, oil and renewables of around 1,2 Mtep due to the rise in imports of electricity and solid fuels such as coal, biomass and waste intended for electricity generation. Specifically, there was a 1% fall in the consumption of oil and renewable energy sources in the first nine months of 2019 compared with the same period in 2018, while in the third quarter gas consumption rose by 7% compared with the 3rd quarter of 2018.



NFS Governance and organisation

Snam operates within the framework of the **Universal Declaration of Human Rights**, the fundamental conventions of the ILO and the OECD Guidelines for Multinational Enterprises, and in compliance with its own Code of Ethics, which is also a key element of the Organisational Model of Legislative Decree 231/2001.

Snam's governance plays a crucial role in value creation dynamics. It helps to determine the conditions for the Company to interact **properly and adequately with its reference environment**, in particular by putting into practice the principles of **integrity, transparency and compliance with internal and external rules**, with the ultimate aim of reconciling the interests of our various stakeholders.

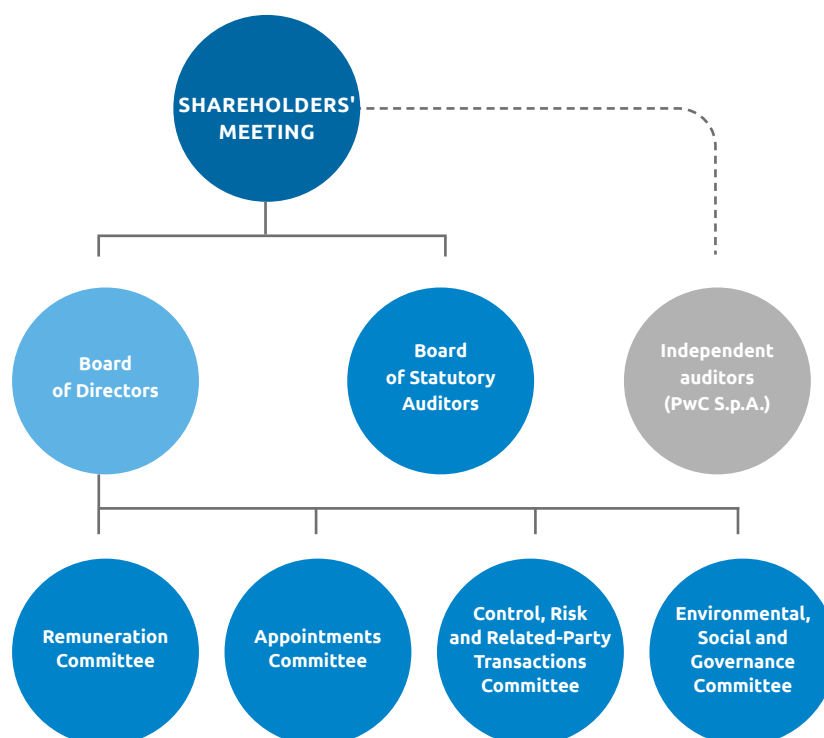
The **governance system** reflects the 'traditional' model and is developed in accordance with the applicable industry regulations (laws governing unbundling and listed companies), while also taking into account **national and international best practice**.

Snam's Board of Directors

67% of the BoD are independent directors*

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

33% of the BoD are women



The acceleration of energy transition and the development of new solutions as part of renewable energy are significant challenges for the Snam Group. As an advocate of change, in line with the strategic plan, the San Group has launched the development of new businesses and continues with the optimisation of processes and the development of its corporate structure.

* 5 directors out of 9 who are classified as independent pursuant to the TUF and Code of Corporate Governance and a Chairman classified as independent pursuant to the TUF.



(More detailed information on governance can be found in the document "2019 Report on corporate governance and ownership structure", which was published online at www.snam.it at the same time as the Annual Report).
(More detailed information on remuneration can be found in the document "2020 Remuneration Report", published at www.snam.it).



According to the Business Plan, Snam aims to be a pioneer company in **energy transition**. At the same time, the Company continues to consolidate and makes its organizational and governance systems more efficient in order to support the consolidation of its core business and the growth of new activities.

To achieve these goals during the year the following initiatives, among others, were implemented:

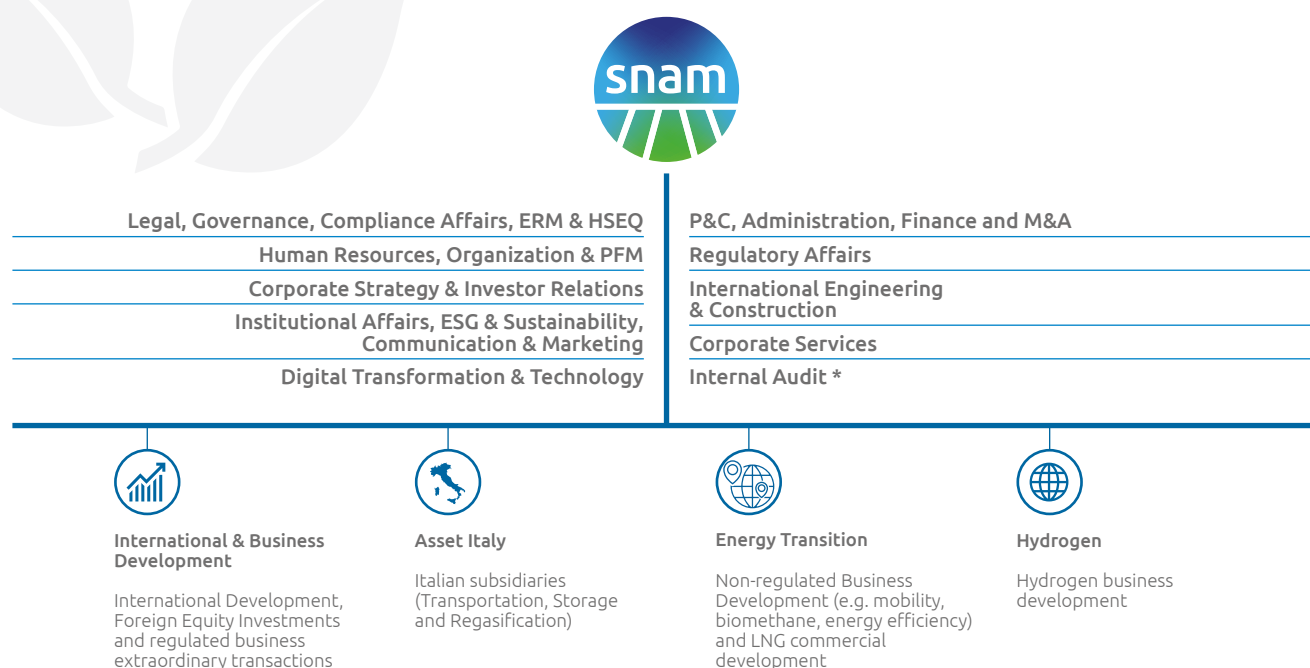
- strengthening the core business to make the infrastructures more modern, safe and sustainable;
- continuous improvement of the efficiency and re-engineering of corporate processes with the aim of both increasing the flexibility of the core business and helping the consolidation of the company in the new businesses;
- reorganisation of the corporate structure with the purpose of facilitating the integration and optimisation of corporate processes.

With regard to what was defined in the last point, the main changes envisaged by the new organisational structure can be summarised as follows:

- the creation of a business unit dedicated to new green activities (biomethane, sustainable mobility and energy efficiency) with the objective of accelerating the integration of the new businesses and energy transition;
- the creation of a business unit dedicated to the development of the hydrogen business, identified by Snam as one of the crucial energy factors for accelerating the fight against climate change and, as a result, contributing to the reduction of emissions with a view to future decarbonisation;
- the creation of a unique business unit dedicated to the development of international businesses, the management of foreign investments and research into new growth opportunities for the core business with the objective of exploiting the existing synergies between the three areas.

To accelerate energy transition and the decarbonisation process further, in 2019 the Snam Group gained control of companies that produce biomethane to invest in infrastructures and the construction of new plants. Specifically, the Snam Group, through the new subsidiary Snam 4 Environment, gained control of around 83% of Renerwaste, one of the leading companies operating in biogas and biomethane infrastructures in Italy.

Snam's organisational model



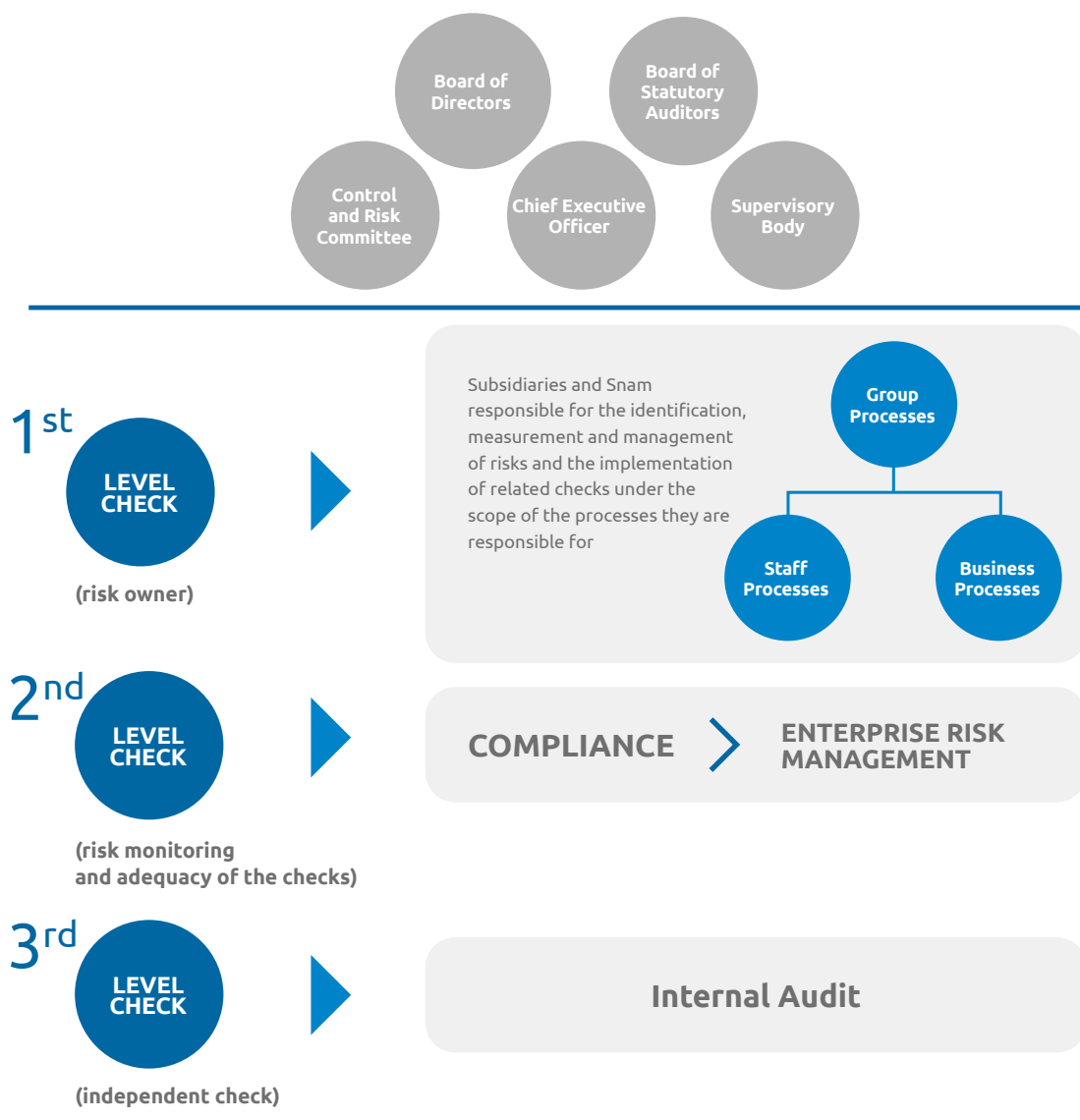
(*) The Senior Vice President Internal Audit carries out the activities fully independently according to the instructions of the Board of Directors

Management of risks and the control system

Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation.

The system used across the Group to identify, assess, manage and control risk has three levels, each with different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system. We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the prevention of fraud and corruption and health, safety, environment and quality.

These same controls form an integral part of the managerial processes. Management must therefore foster an environment that encourages controls, and must specifically manage “line controls”, consisting of all the control activities that individual operating units or companies perform over their own processes. Independent controls are performed by the Internal Audit department, which is responsible for checking that the system is functioning and adequate.



NFS In 2019, audit activities were performed by a dedicated team of 10 auditors on average.

Activities performed by Internal Audit

(no.)	2017	2018	2019
Total number of audits performed	42	22	29
- of which relating to scheduled and/or spot audits	8	14	15
- of which relating to independent monitoring activities (Law no. 262/05)	34	8	19
Notifications received	5	4	11
- of which related to the internal control system	-	-	1
- of which concerning accountancy, audit, fraud, etc.	-	-	-
- of which related to administrative responsibility pursuant to Legislative Decree 231/2001	-	-	-
- of which relating to breaches of the anti-corruption law	1	-	-
- of which related to other subjects (Code of Ethics, harassment, theft, security, etc.) (*)	4	4	10
Reports archived due to lack of proof or because untrue	1	2	5
Reports resulting in disciplinary or managerial interventions (**), and/or submitted to judicial authorities	3	2	5
Reports under examination	3	-	1

(*) The figure for 2019 includes the management of 4 supplements that refer to 3 reports received during the year, one of which is under examination.

(**) "Management" also refers to organisational/procedural interventions relating to the improvement actions of the Internal Control and Risk Management System (SCIGR)

In 2019 the Internal Audit activities are carried out by ensuring that the conditions of complete independence and autonomy are preserved, as well as the due professional diligence, objectivity, and competence, as provided for by the Mission of the Internal Audit and by the Mandatory Guidance of the Institute of Internal Auditors and by the principles contained in the Code of Ethics. Internal Audit regularly carried out scheduled activities involving: i) the preparation of the proposed Audit Plan based on the measurement and prioritisation of the main corporate risks carried out by the ERM unit; ii) the execution of the Audit Plan, composed of 14 measures, approved by the Snam Board of Directors on 18 February 2019, following the favourable opinion of the Control and Risks and Related-Party Transactions Committee and carrying out two further audits not scheduled in the plan (spot audits); iii) carrying out the independent monitoring programme defined with the Chief Financial Officer under the scope of Snam's Corporate Reporting Control System; iv) confirmations of reports, including anonymous ones, of problems relating to the internal control and risk management system, the company's administrative responsibility, whistleblowing and v) activities inherent to relations with the External Auditors and those relating to monitoring activities for conferring additional tasks, as well as support, jointly with the legal and administrative departments, in the tender launched by CDP group aimed at identifying a single auditor for the Group for the years 2020-2028.

Below are the main activities carried out in terms of methodology:

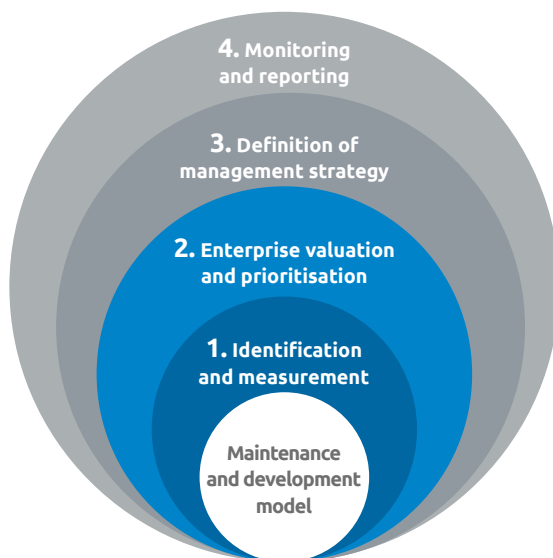
- full operation of the new tool for the management of audit activities from the planning of interventions stage to the follow up of corrective actions. In this area, for the purpose of defining the audit plan, the audit universe was updated, also in order to consider the organisational changes that took place in 2019, in particular for Snam S.p.A. and to include the new processes resulting from the acquisition of companies in relation to the new businesses;
- implementation of improvement actions highlighted following the Internal Quality Review conducted at the end of 2018, including: i) the updating of the Key Risk Indicators, as well as the implementation of new ones, as part of the continuous monitoring of the passive cycle process, preparing, from the third quarter of 2019, a report with the outcomes of the analyses for the management of the competent functions, ii) the updating of the periodic reporting introducing Key Performance Indicators (KPIs) for the activities carried out by the function as well as with reference to issues of sustainability.

ENTERPRISE RISK MANAGEMENT PROCESS (ERM)

The Snam group, in line with the indications of the Code of Corporate Governance and international best practices, has instituted, under the direct supervision of the General Counsel, the Enterprise Risk Management (ERM) unit, which operates within the wider Internal Control and Risk Management System, in order to manage the integrated management process of corporate risks for all Group companies.

The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to manage these risks and to draw up a reporting system.

The risk is defined as an effect of the uncertainty on the targets and can be negative or positive in scope.



1. Identification and measurement:

of risk events relating to corporate processes and external risk factors that could influence the achievement of corporate goals, either through direct impacts on results and corporate finances (lower revenue or higher costs) or through intangible negative effects on other types of capital, especially the licence to operate".

2. Enterprise measurement and prioritisation:

an enterprise measurement is assigned to each event, which summarises for each risk the various assessments carried out by the Risk Owners and by the centralised units with specialist skills. The prioritisation of risks is defined by combining the measurements of impact and probability.

3. Definition of the management strategy:

for all risks, management measures are identified, together with any specific interventions and the relevant implementation time frames, associated with a type of risk management from among those that have been codified. The management plans for the main risks are presented to the Control and Risk Committee.

4. Monitoring and reporting:

the risk mapping is periodically updated according to the enterprise measurement, and at least once a year, including for low-priority risks. Periodic reporting guarantees, at the various corporate levels, the availability and representation of information relating to the management and monitoring of the relevant risks.

Cross-organisational nature

One of the best features of Snam's ERM model is the wide-ranging nature of its impact measurement.

Any risk event may have 8 different types of impact, some determined by the risk owners (operational impacts) and others by specialist departments (e.g. legal and financial impacts). This means risk measurement from different perspectives and team risk prioritisation.

Operational impacts are dominated by economic and industrial impacts, consistent with the fact that identifying risks starts with the analysis of the processes and objectives of the corporate strategic plan. The most prevalent specialist impacts include reputational and legal impacts, confirming the existence of an increasingly globalised external context subject to ever more complex regulations.

Using the model described above and in accordance with the Enterprise Risk Management guideline, the risk assessment cycles were performed on the entire Snam Group in 2019. At the end of 2019 approximately 141 enterprise risks were mapped 28 of them distributed across all corporate processes.

The opportunities were identified with a similar methodology to that of the risks. In this case too, the operational impacts (industrial/business and economic) of each owner were measured, using suitable metrics, as well as the other impacts (market, reputational, environment, financial) by specialist functions.

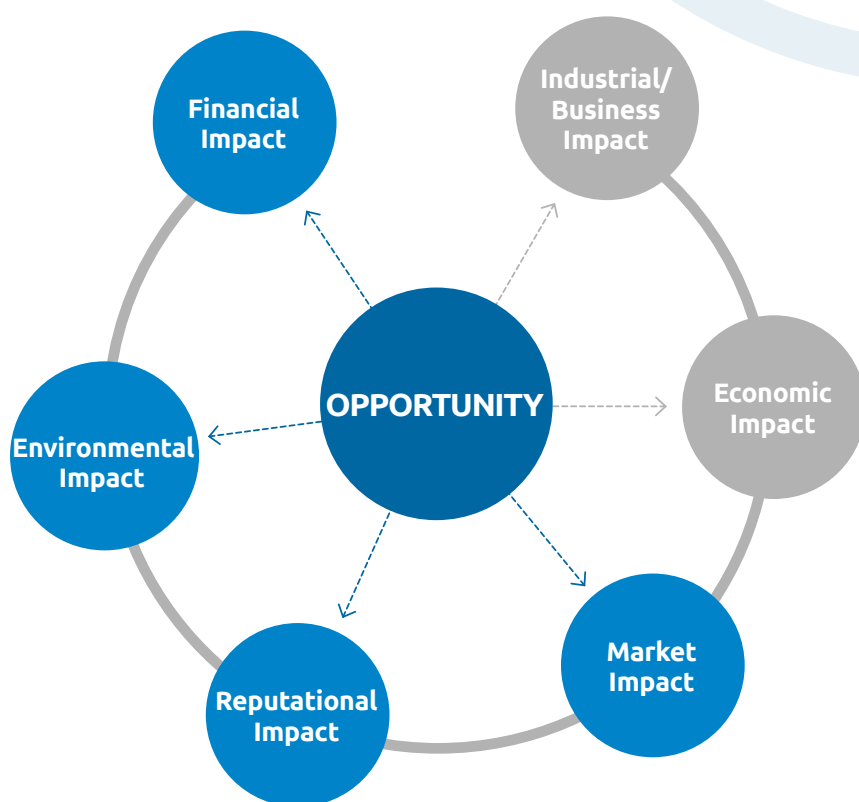
In 2019 the mapping of risks and opportunities was updated through the Integrated Risk Assurance & Compliance (RACI) platform under the scope of the Integrated Risk Assurance & Compliance model, aimed at coordinating and integrating second level control information flows with a synergistic approach, aimed at maximum rationalisation and overall efficiency

Under the scope of business risks, the main risks identified, monitored and, as specified below, were broken down into financial and non-financial risks (strategic risks, legal and non-conformity risk and operational risks).

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



(For more information on the main risk and uncertainty factors, please refer to the chapter "Risk and uncertainty factors" of this Report).



● operational impacts
 ● specialist impacts

Classification	Description	Management actions	Impact on capitals
STRATEGIC RISKS	Macroeconomic and geo-political risk		
	Risks associated with political, social and economic instability in natural gas supplier countries	- Continuous monitoring of the political, social and macroeconomic framework - Maintenance of constant relations with Authorities and Institutions responsible for managing possible crises in high-risk markets	
	Regulatory and legislative risk		
	Definition and updating of a regulatory framework in Italy and in the countries of interest that presents penalising parameters, in particular with regard to criteria for determining tariffs	Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system	
	Significant change in regulations and/or case law	Ongoing regulatory oversight through the monitoring of changes in laws and rulings, analysis of changes, and the dissemination of information and further details to business and commercial departments	
	Risks related to climate change		
	Reinforcement of the regulatory framework for greenhouse gas emissions	Ongoing regulatory supervision with monitoring of the development of the greenhouse gas emissions authorisation system	
		- Target of -15% natural gas emissions from 2016 to 2022 on a like-for-like basis - Target of -40% natural gas emissions from 2016 to 2025 on a like-for-like basis - Target of -40% Scope 1 and Scope 2 CO₂ equivalent emissions from 2016 to 2030 on a like-for-like basis"	
		Recovery of 33% of potential emissions deriving from maintenance activities, each year from 2017 to 2022	
	Change of scenarios with impact on the demand for natural gas and transported volumes	Development of new business related to alternative uses of gas and implementation of the use of gas to support the energy transition (biomethane and other renewable gases, small scale LNG, CNG, gas heat-pumps and micro-cogeneration, Bio-LNG, hydrogen)	
	Increase in the severity of extreme atmospheric phenomena, with impacts on continuity and quality of service	- Adaptation of the recovery plan and business continuity management system to international best practices - Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected - Elaboration of corporate energy scenarios consistent with the national and European decarbonisation objectives developed for the containment of temperatures increase envisaged by the Paris agreements. - Ongoing, systematic maintenance and monitoring measures	

(continued)

Classification	Description	Management actions	Impact on capitals
STRATEGIC RISKS	Negative perception of the companies that operate in the fossil fuel sector by public opinion	Raising awareness of public opinion and advocacy for natural gas	
		Participation in European round table discussions on energy transition	
		Supporting national and international initiatives aimed at strengthening the commitment to reducing methane emissions	
		Membership of the TCFD "Task Force on Climate Related Financial Disclosure"	
		Disclosure of the multi-year targets defined to fight climate change	
LEGAL AND NON-COMPLIANCE RISK	NFS Possible violation of rules and regulations, with particular reference to Legislative Decree 231/2001 which provides for the company's liability for malfeasances committed by management or by third parties in relation to certain cases (corruption, fraud, health and safety of workers, environment)	Updating and monitoring protocols of Model 231	
		Awareness-raising initiatives and training on the prevention of corruption	
		Analysis and evaluation of reports received through the channels provided for by the reporting procedure	
		Adoption and maintenance of Health, Safety and Environment management systems certified according to ISO14001 and OSHAS18001 standards	
		Awareness-raising and training initiatives on accident prevention for employees and contractors	
	NFS Maintaining an adequate reputational profile for suppliers and subcontractors	Introduction of additional measures to prevent corruption and criminal infiltration:	
		Obligation of suppliers and contractors to subscribe the Ethical and integrity Agreement	
		Reputational checks on suppliers and subcontractors	
	Non-alignment of corporate governance and/or the internal control and risk system with regulations and/or best practices	Periodic revision of employer model	
		Updating of Model 231 and the Code of Ethics	
		Analysis of updates to the latest version (January 2010) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices	

(continued)

Classification	Description	Management actions	Impact on capitals
OPERATING RISKS	Retaining gas storage concessions	Development of storage carried out in line with the most up-to-date technical and economic criteria and best practices in science and technology so as not to damage the deposit, not to cause harm to third parties or the environment and to guarantee the optimisation of capacity in compliance with the security of the national gas system	  
	NFS Delay to the progress of programmes involving the construction of large transportation and storage infrastructure	Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity	
		Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset.	
		Strict, structured system for selecting contractors and monitoring their performance	
	NFS Breakages or damages to pipelines/ installations also upon exogenous events, which can cause malfunction and unexpected service interruption	Application of management systems and procedures that take into account the specific nature of Snam's activities	
		Recovery plan system and business continuity management in line with international best practices	
		Communication initiatives aimed at providing information about the presence of infrastructure and behaviours to avoid/implement by third parties so as not to damage it	
		Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected	
		Continuous verification of insurance coverage in relation to the type of business and related risks	
		Ongoing, systematic maintenance and monitoring measures	
	Computer threats (Cybersecurity)	Adaptation of IT security and business continuity systems to the ISO / IEC 27001 and ISO22013 standards respectively, with provision for related certification	
		Definition of a model of security incident management team to respond promptly to events that may damage the integrity of the information and IT systems used	

(continued)

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



FINANCIAL



INFRASTRUCTURE



HUMAN



RELATIONAL



NATURAL



INTELLECTUAL