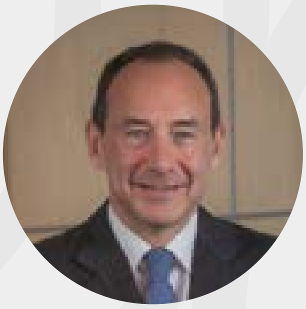
Directors' Report

Table of contents

Letter to the shareholders and stakeholders



Luca dal Fabbro
Chairman

Marco Alverà
Chief Executive Officer

Dear shareholders and stakeholders,

2019 was a particularly positive year for Snam in terms of the results achieved, as well as a year packed with events.

The demand for gas continued to grow, closing 2019 at 74 billion cubic metres, also thanks to the greater competitiveness of gas in the generation of electricity, also in terms of CO_2.emissions as well.

In a regulatory context that confirmed the main reference parameters for the next period, with the goal of improving competitiveness and the security of gas procurement, we invested over €960 million in 2019 in infrastructure in Italy, complying with the budget forecasts for the twelfth consecutive year. We invested abroad in the realisation of the TAP project in which Snam is a shareholder with 20%, where the progress of the works stands at 90% and is expected to be completed by the end of 2020.

The interventions and initiatives aimed at transforming our infrastructure network focused on methane into an "energy" infrastructure for transporting renewable gas and in combination with the electricity grids continued during the year.

The Business Unit Energy Transition, dedicated to new green activities (biomethane, sustainable mobility and energy efficiency), was established with the goal of building our future by focusing on new businesses supporting energy transition. As part of this, in November Snam completed the acquisition of a stake of around 83% in Renerwaste, one of the leading companies in Italy operating in biogas and biomethane infrastructure, which took place through the new wholly-owned company Snam 4 Environment.

Snam also signed a binding letter of intent aimed at negotiating and defining agreements to launch a strategic partnership in infrastructure for biomethane from agriculture through the entry, with a 50% stake, into Iniziative Biometano, a company operating in Italy with five biogas plants, for which there is a plan for conversion to biomethane, and with various plants in the process of authorisation or construction. Thanks to these initiatives, Snam can increase its expertise in the management and running of plants both in the agricultural biomethane chain and the FORSU chain (organic fraction of municipal solid waste), perfectly complementary to the expertise in the design, development and construction of IES Biogas, the Snam subsidiary and leader in the creation of biogas and biomethane plants in Italy and abroad.

Investments in 2019 in the biomethane sector are integrated with those planned in natural gas sustainable mobility in Italy, rail transport as well as road and maritime transport. 103 CNG/L-CNG, biomethane and bio-LNG filling stations (50 stations at 31 December 2018) were contracted at 31 December 2019 through the subsidiary Snam 4 Mobility, the leader in solutions for natural gas transport refuelling stations. Agreements were signed with Tamoil, in March 2019, and with IP, in July, for the creation, respectively of 5 stations and 26 new natural gas refuelling facilities in Italy.

We continued to invest in the energy efficiency sector by gaining control of TEA Servizi, an ESCO (Energy Service Company) active in the design of thermohydraulic and electric plants and in the offering of energy saving solutions for public and private entities.

For Snam, 2019 was "the year of hydrogen": with the creation of the Hydrogen Business Unit, dedicated to the development of the hydrogen business and the launch, in April,of the first trial in Europe of a mixture of 5% hydrogen and natural gas introduced into the Snam transportation network at Contursi Terme (Salerno), doubling the mixture to 10% in December. Internationally, Snam is part of the Hydrogen Council, a global initiative launched in 2017 at the World Economic Forum in Davos to create a coalition of leading companies in the respective sectors committed to accelerating investments in hydrogen, and Hydrogen Europe, which brings together over 100 businesses, about seventy research institutes and 13 national associations at a global level.

Snam identifies hydrogen as a clean energy source which can have a crucial role in guaranteeing that European and global decarbonisation targets are reached by 2050 and the development of which can contribute to confirming the central role of the Snam network in the long-term.

Lastly, international efforts continued in markets where gas demand continues to have double-digit growth rates. In 2019 Snam Gas & Energy Services Beijing was established to develop our presence in the Chinese market: during the year, Snam signed a strategic cooperation agreement with CNPC - Petrochina, the nation's leading energy group, and started to provide services, mainly to support the development of storage capacity.

This is the Snam of the future, a leader in energy transition, with a technological high-profile and increasingly more connected with the area. Through the SnamTec Project (Tomorrow's energy company), we will invest more than €1.4 billion during the 2019-2023 plan to reduce the environmental impact of our activities through innovation and the contribution to decarbonisation.

To evolve in a rapidly changing world and continue to be a leader, we seek to operate in an increasingly agile and efficient manner, to optimise transversal processes whilst enhancing specific skills. It is from this perspective that we have focused on a flexible organisational model which, thanks to a shorter decision-making process, guarantees faster decision-making, to support the core business and promote the growth of the new businesses.

We simplified the organisation processes as part of the efficiency plan launched in the second half of 2016, for example with the integration of transportation and storage maintenance activities. This plan made it possible to improve quality and the time to market and to cut costs by around €15 million (around €51 million at a cumulative level for the period 2016-2019). Overall, the goal of the efficiency plan was increased further to more than €65 million at 2023 compared with the €60 million target of the previous plan.

In a context of rising gas consumption and a general stability of the regulatory environment, with the extension of the fourth regulatory period up to 2019 for the transport, regasification and storage business, we have achieved very positive results that surpass our expectations. The adjusted operating profit stood at €1,417 million, an increase of €12 million (+0.9%) compared with the 2018 adjusted operating profit (+€33 million, or 2.4% compared with the 2018 reported operating profit), also thanks to the savings achieved through the Efficiency Plan which made it partly possible to absorb the increase in operating costs, coming mainly from the change in the scope of consolidation. The net adjusted profit stood at €1,093 million, an increase of €83 million (+8.2%) compared with the adjusted net profit for 2018 (+€104 million, or 11% compared with the 2018 reported net profit). The net cash flow from operations (€1,486 million) allowed us to fully cover the financial requirements associated with net investments for the period, including equity investments and investments in new companies that joined the scope of the group, generating a free cash flow of €482 million. Net financial debt, after the payment to shareholders of the 2018 dividend (€746 million, between the balance and interim) and the cash flow deriving from the purchase of treasury shares (€39 million), stood at €11,923 million (€11,548 at 31 December 2018).

With the objective of aligning it financing strategy with its sustainability targets and expanding its investor base, in February Snam successfully concluded the issuing of the first Climate Action Bond in Europe, for a sum of €500 million, the proceeds of which will be used to finance our green investments in biomethane and in energy efficiency, as well as investments aimed at improving the environmental impact of Snam's activities.

In December 2019 we successfully concluded the buy back on the market of bonds for a total nominal value of approximately €597 million, supporting the virtuous cycle of optimising the debt structure in terms of reducing the cost of capital, in line with our objectives.

In addition to this, with the goal of further optimisation and to support the overall remuneration for shareholders, in 2019 we bought back a total of 8,412,920 treasury shares, or 0.25% of the share capital, as part of the share buy back programme.

Our commitment to ESG issues, integrated for several years in the strategic decision-making process, also continues. In this regard, since the new Board of Directors took office in April, we established, as the first in Italy and among the first in Europe, a committee specifically dedicated to ESG issues. As part of this Snam adopted a corporate policy on diversity and inclusion in 2019, promoted by the ESG board committee, aimed at disseminating a culture of equal opportunities among employees and contractors and, at the Shareholders' Meeting of 23 October, approved an amendment to the by-laws aimed at making the effects of the Golfo-Mosca Law on gender equality in corporate bodies permanent. Snam's efforts were recognised: since January 2020 we have been part of the 325 companies globally included in the Bloomberg 2020 Gender-Equality Index (GEI).

In June 2019 Snam was the best Italian company for corporate governance and the integration of ESG (environmental, social and governance) issues into corporate strategies, according to the annual Integrated Governance Index. Snam's commitment will continue in 2020 with strengthening a corporate model that is sustainable for all ESG factors, starting with those that have an impact on the climate and the environment, and defining a virtuous cycle in the direction of climate neutrality by 2050.

As a testament to our constant commitment to maintaining an adequate internal risk control and management system in line with international best practices, in May 2019, Snam was also mentioned in the document produced by the Japanese Chairman of B20 presented at the Tokyo Summit as a "Tangible Example" of companies that set themselves apart through their practical commitment in combating corruption and in October 2019 it became part of the Leadership Committee permanently representing the Business at the OECD (BIAC) in the Anti-corruption Committee.

In addition, in December 2019 Snam was admitted to the cooperative compliance regime established under the scope of national tax legislation.

As confirmation of our sustainable development model, we have renewed our allegiance to the Global Compact principles and the SDGs defined by the UN. The performances achieved in terms of ESG have allowed our Company to be included in the most prestigious sustainability indices. Snam was included for the eleventh consecutive year in the Dow Jones Sustainability World Index, as well as being confirmed in the top places in both the FTSE4Good and the CDP Climate Change.

Our commitment to strengthening culture and awareness of health and safety, vital for the outcome and success of our activities, and demonstrated by the low accident indices recorded both for employees and contractors (0.59 frequency index and 0.05 severity index) is also ongoing.

As far as the social dimension is concerned, we are continuing with the Snam Foundation initiatives for the social development of the areas. In October, over 700 Snam people dedicated a working day to voluntary initiatives in over 90 non-profit organisations throughout the country. In 2016-2019 the Snam Institute training hub provided more than 389 training hours to company employees. This represents a further tool for creating and cultivating closer ties with the area and better meeting the needs of the communities that house our infrastructures.

Looking to the future, the new strategic plan, announced last November, traces a route that will allow Snam to continue to grow and create significant value for shareholders, grasping and anticipating market developments and contributing to the reduction of CO^2 emissions, improving air quality and keeping down energy costs. Specifically, we are focusing on promoting the development, not only in Italy, of biomethane and other activities for energy transition. With new investments in the network, the focus on new technologies, the development of new businesses and sustainable finance initiatives, the Snam of 2023 will always be more innovative, efficient and a protagonist of energy transition in Italy and in Europe.

On the basis of the results achieved and the Company's prospects, the Board of Directors intends to propose to the Shareholders' Meeting the distribution of a dividend of €0.2376 per share, of which €0.095 per share has already been distributed as an interim payment in January 2020, confirming Snam's commitment to ensuring an attractive and sustainable remuneration over time for shareholders.

In the first months of 2020 in Italy, as in other countries of the world, a serious health crisis started due to the pandemic spread of coronavirus. Since the news of the first contagions in our country, Snam has set up an inter-functional team to manage the difficult moment and put in place, with the extraordinary contribution of all its people, the necessary actions to guarantee the continuity of the service and to ensure the country's energy security. Employees continued their work through the tool of smart working from home, with physical safeguards limited to the minimum necessary to guarantee operations. All thanks to the support from the necessary technological and IT resources. In addition to being close to our people, we also wanted to be close to our country by allocating, also through our Snam Foundation, a contribution of €20 million to carry out initiatives for the Italian health system and the third sector which, working in a way incessant and extraordinary, they found themselves facing a situation of extreme emergency.

18 March 2020

for the Board of Directors

The Chairman **The CEO**

Highlights

Financial

Total revenue
€2,604 million
+€76 million; +3.0%

Free cash flow
+€482 million

Adjusted results
Adjusted EBIT: €1,417 million
+€12 million; +0.9%

Adjusted net profit
€1,093 million
+€83 million; +8.2%

Reported net profit
€1,090 million
+€130 million; +13.5%

Purchased in 2019
8,412,920 Snam shares
for a total cost of € 39 million

The strategy was supported with technical investments
of €963 million

Proposed dividend
€0.2376 per share

Operatives

Gas injected in the national network
75.37 billion cubic metres (+3.5%)

Gas demand
74.34 billion cubic metres (+2.3%)

Assigned storage capacity
12.5 billion cubic metres +0.1 billion
100% of the available capacity

Sustainability

Avoided
182 thousand tonnes of CO_{2eq}

Supplied
more than 114,000 hours of training in 2019

Published in 2019 the
Policy on diversity and inclusion

Snam profile

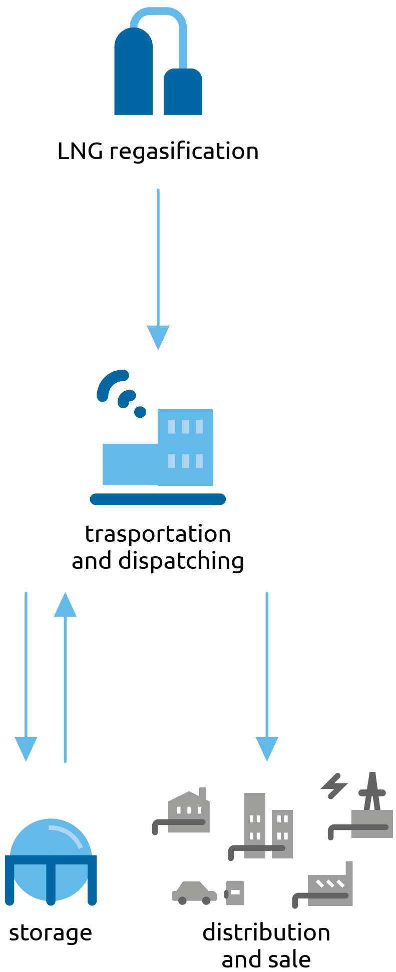
Summary

Snam is the leading operator in Italy and Europe in the creation and integrated management of natural gas infrastructure.

With around 3,000 employees and over 32,600 km of network, in Italy Snam oversees the natural gas transportation, dispatching and storage activities, as well as the regasification of liquefied natural gas (LNG). Alongside its core business, the company is also investing to an increasing extent in new businesses related to energy transition, from sustainable mobility to energy efficiency and the development of renewable gases such as biomethane and hydrogen.

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of various companies. The company also offers engineering and technical-operational services for gas operators in national and international markets.

Snam: integrated network to drive the energy sector evolution



Snam actively promotes the use of natural gas as a flexible energy source with a low environmental impact in classical industrial and residential sectors as well as in the transport sector. According to the company's vision, natural gas, which in recent years has recorded a recovery in demand thanks to various countries gradually phasing out coal-produced thermoelectricity, will be a pillar on energy systems in the long-term, also thanks to the potential development of biomethane and hydrogen, especially in sectors in which the electrification process is difficult to achieve.

Snam's, capital intensive, business, mainly focuses on regulated activities. Regulation makes provision for tariff systems that cover the costs incurred by the operator and for a fair return on invested capital. Snam is therefore able to maintain a limited risk profile and provide its shareholders with attractive and sustainable returns, at the same time ensuring the provision of services to all operators in a non-discriminatory manner and with the highest standards of quality and safety.

In line with its own sustainable development model, and alongside carrying out its own core business, in recent years Snam has launched numerous projects aimed at promoting a more sustainable energy system, developing initiatives and interventions under the scope of energy efficiency, for compressed natural gas (CNG), liquefied natural gas (LNG) and biomethane and in 2019 creating a new business unit dedicated to hydrogen, with the objective of evaluating potential pilot projects and contributing to the development of the supply chain. In 2019, for the first time in Europe, Snam trialled the introduction into the transmission network of a mixture of natural gas and hydrogen, first 5% and then 10% in volume.

The company has been listed on the Italian stock exchange since 2001. Snam stock is traded, not only on the Italian FTSE Mib, but also on the main international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and numerous sustainability indices, including the most prestigious, such as the Dow Jones Sustainability World Index and the FTSE4Good, as well as being at the top of the MSCI ESG ratings (MSCI World ESG and MSCI ACWI ESG), Sustainalytics, ECPI, Ethibel, Vigeo and Snam is included in the 2020 Bloomberg Gender-Equality Index (GEI).

In addition, Snam has been confirmed among the globally-recognised companies for their commitment to combating climate change. In 2019 the company was confirmed on the “Climate Change A- List” of the CDP (formerly the Carbon Disclosure Project), demonstrating the effectiveness of the ongoing efforts to reduce emissions and climate risks.

To reinforce the commitment to initiatives aimed at combating climate change, an important innovation was the issuing, in February 2019, of the first **Climate Action Bond** in Europe (and the second globally), a financial instrument used to allocate funds to projects for reducing CO_2 emissions, the development of renewables, energy efficiency and the development of green projects based on environmental criteria. In addition, 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.

In the current context of energy transition and Snam's increasing central role in achieving national and European commitments, at the end of November 2019 the company launched the new **Strategic Plan for the period 2019-2023**, tracing the route which in the years to come will make it possible to generate sustainable growth and value for its stakeholders, as well as taking on the challenges associated with climate change.

The targets set in the new plan, all more challenging than those in the previous plan, focus on the continued creation of value for regulated activities and take on a leading role in energy transition through the use of natural gas and biomethane and the increasing exposure to new businesses such as sustainability mobility, energy efficiency and, in the long-term, hydrogen as the clean energy source of the future. Snam's commitment to decarbonisation is confirmed by the continuous increase in the investments it makes in innovation and the acceleration of new green businesses under the scope of the SnamTec project: more than 20% (€1.4 billion) of the €6.5 billion of investments is allocated to this project, €400 million of which is dedicated to new businesses for energy transition, double the figure of €200 million in the previous plan and directed at expanding corporate know-how with regard to technologies related to decarbonisation.

The business of transporting and storing natural gas allows the development of multiple projects linked to the promotion of compressed natural gas (CNG) for motor transport and liquefied natural gas (LNG) used in heavy land and maritime transport. In this context, in future years, Snam will be committed to upgrading the existing infrastructure in order to expand the network of refilling stations.

The Company considers itself as a point of reference for the integration of the Italian energy mix of biomethane and hydrogen, sources of clean, versatile energy, which promote the existing transportation and storage structures and allow an increase in production and consequently the flexibility of national energy procurement.

Main advantages of the green hydrogen and application in the "hard-to-abate" sectors

H

Does not produce CO_2, or pollutant emissions

Can integrate non-programmable renewable sources

Can be stored reliably, securely and conveniently

Can be transported cost effectively, using existing gas transportation networks

Can decarbonise "hard-to-abate" sectors

Aviation
In the aviation industry, in place of kerosene it is possible to use a zero emissions hydrogen and reused CO2 based synfuel (i.e. captured in a CCS [carbon capture and storage] plant).

Shipping
In sea transport, hydrogen can be used to produce ammonia, which can replace oil for ship's engines to run on.

Heavy transport
Hydrogen can enable long-range buses and lorries to become competitive in terms of costs compared with the vehicles running on diesel, electricity and LNG currently in use.

Chemical production
Grey hydrogen, produced from natural gas and used as a raw material in the refining of petro-chemical products and in the production of ammonia could be replaced by green hydrogen produced from renewable sources.

Metal production
The reduction of the mineral iron with hydrogen through the Direct Reduced Iron (DRI) process, replacing the reaction of the mineral with carbon in the blast furnace, represents one of the few zero carbon emissions alternatives for steel production.

Heating
The mixture of hydrogen in the gas transportation network can become a competitive way of decarbonising gas heating systems, especially in historic city centres.

An important past, a brilliant future: Snam's history and upcoming goals

2019 - The commitment to energy transition

In 2019 Snam was the first European company to introduce a mix of hydrogen (first 5% and then 10% in volume) and natural gas into its transmission network with a direct supply to two industrial consumers. The Company strongly believes in the potential of this energy source - especially green hydrogen obtained through the electrolysis of water from renewable sources such as solar and wind-power, without CO^2 emissions - in the global context of the fight to combat climate change. The introduction test, carried out successfully in a section of the network at Contursi Terme (Salerno), confirmed the suitability of Snam's assets to receive increasing quantities of hydrogen.

A new business unit dedicated to hydrogen was also established in 2019, with the task of evaluating potential pilot projects, contributing to the development of the hydrogen supply chain and carrying out scenario analyses, including an initial study assessing the potential of hydrogen in Italy until 2050, achieved with the analytical support of a leading consulting firm.

The initiatives into hydrogen are set against the framework of Snam's commitment to energy transition, the linchpin of the **2019-2023 Strategic Plan**, presented at the end of November 2019.

Snam intends, specifically, to support the acceleration of the Italian market for biomethane from organic waste, and agricultural and agro-industrial waste, with an investment of €250 million dedicated to the creation of infrastructure and plants, in order to increase the installed capacity to 40MW. Snam can increase its expertise in the management and running of plants, both in the agricultural biomethane supply chain and in the FORSU one (organic fraction of municipal solid waste) through strategic agreements and partnerships. With this in mind, in 2019 Snam increased its acquisitions portfolio thanks to the subsidiary Snam 4 Environment, identifying **Renerwaste**, one of the leading companies active in Italy in biogas and biomethane infrastructure, which currently operates at three plants and has permission to build two additional ones. In 2019, Snam also signed a binding letter of intent aimed at launching a strategic partnership in infrastructure for biomethane from agriculture through the entry, with a 50% stake, into **Iniziative Biometano**, a company operating in Italy with five biogas plants, for which there is a plan for conversion to biomethane, and with various plants in the process of authorisation or construction. These projects are perfectly complementary to the expertise in design, development and construction of IES Biogas, the leading subsidiary in the construction of biogas and biomethane plants, nationally and internationally.

Lastly, looking abroad as well, Snam has signed a memorandum of understanding with **Infore Environmental Group**, an environmental services company listed on the Shanghai Stock Exchange, for potential joint initiatives for the development of **biogas and biomethane infrastructure in China**.

Investments in the biomethane segment create synergies with those planned for the **sustainable mobility** segment supporting the increase in the Italian network of compressed natural gas (CNG and bio-CNG) and liquefied natural gas (LNG and bio-LNG) distributors. Specifically, €50 million has been designated for the creation of around 150 natural gas and bio-methane refilling stations for cars and buses, in conjunction with Cubogas, a subsidiary of Snam4Mobility, further strengthening the Italian CNG distribution network which is already the most developed in Europe with around 1,400 facilities. A further €50 million is also planned for constructing two small liquefaction plants (SSLNG), one in the north and one in the south of Italy, and for the adaptation of the Panigaglia terminal, located in the Gulf of La Spezia, aimed at loading tankers and promoting the use of LNG for heavy transport, industry and residential, with a capacity of 250 thousand tonnes per year. In addition, a memorandum of understanding was signed in September 2019 for LNG sustainable mobility in Austria between Snam, the investee TAG and OMV.

With specific reference to **energy efficiency**, in addition to the subsidiary TEP Energy Solution, specialised in energy efficiency solutions for condominiums, businesses and public administrations, Snam bought the company TEA servizi, an Energy Service Company (ESCo) qualified in the design and construction of industrial plants, with a special focus on SMEs.

2018

The new brand identity

In March 2018 Snam relaunched its brand identity, renewing the logo and values that will accompany the group in its future challenges, from the construction of infrastructure to guarantee stable and secure energy supplies, to the development of gas as a renewable source.

"Energy to inspire the world" is the message around which Snam's strategic repositioning revolves, in an increasing global market featuring changes and innovations that are transforming energy and environmental scenarios.

Growth in the core business of regulated activities continued in 2018, which also saw the acquisition in December, through a European consortium, of **DESFA**, the national operator in the natural gas infrastructure sector in Greece. With reference to energy transition, in recent years Snam has completed investments for the on development of new businesses aimed at promoting decarbonisation and the better use of energy, specifically in the **biomethane** segment (IES Biogas and Enersi Sicilia), **sustainable mobility** (Cubogas) and **energy efficiency** (TEP Energy Solution).

Snam has concluded important agreements for the development of sustainable mobility, including through the possible development in partnership of several micro-liquefaction plants, as well as agreements in China for the provision of services and for the evaluation of potential collaborations, in biomethane, in research and development for renewable gas, in sustainable mobility as well as in storage. Specifically, at 31 December 2018, a total of 50 CNG/L-CNG, biomethane and bio-LNG refilling stations were contracted, 34 of them with Eni.

With the goal of developing Snam's consolidated experience globally, as part of the activities launched by the **Snam Global Solution** business unit, a joint venture was established with the Albanian infrastructure operator Albgaz, aimed at providing services associated with the management and maintenance (O&M) of the pipelines in Albania.

The non-recourse loan for TAP, the largest project finance operation for a European greenfield infrastructure project was concluded in 2018. Nominated as "Project Finance deal of the year" for the Oil & Gas industry by Project Finance International (PFI), this project refers to a total amount financed of €3.9 billion, in which Snam played a supporting and coordinating role together with other sponsors of the project and which involved financial institutions such as the EIB (which individually provided €700 million to fund the project), the EBRD and various export credit agencies such as SACE, BPI France and Euler Hermes, as well as 17 international commercial banks.

With reference to collaboration opportunities in China, the following were signed: (i) on August 28, 2018 with State Grid International Development (SGID), 100% controlled by State Grid Corporation of China, a Memorandum of Understanding (MOU) to evaluate a series of possible collaboration opportunities in China and internationally, in particular in relation to the use of new technologies to reduce CO_2 emissions; (ii) on October 25, 2018, an MOU with Beijing Gas, the largest distributor and supplier of natural gas in China, with a network of 22 thousand km and over 6 million customers in the Beijing area. The agreement envisages evaluating possible collaborations in China, in particular in biomethane and in the storage of natural gas.

2017
75 YEARS OF SNAM

In 2017, Snam celebrated **75 years in business**, bearing witness to how the ability to place one's commitment and skills at the service of the community, while keeping a constant dialogue with territories have been and will be its key success drivers. With the acquisition from Edison of 100% of the share capital of **Infrastrutture Trasporto Gas and a 7.3% share in Adriatic LNG**, Snam has notably strengthened its infrastructures in Italy further and managed to build further synergies in the integrated management of the entire gas system, connecting to the national transport network a strategic entry point for the Italian natural gas market.

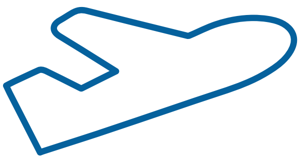
Concerning the commitment to sustainable development, in December 2017 Snam entered into the first **executive contract for the development of methane supply stations in Italy** starting the activities of Snam 4 Mobility S.p.A. (wholly-owned by Snam).

2016

In 2016 Snam completed the separation of its distribution business, acquired a new organisation and continued its path toward development

As of 7 November 2016, a corporate transaction was successfully completed that resulted in the separation of Snam from the national gas distribution business in Italy, with the principal purpose for the Snam Group being to strengthen and enhance its leadership in Europe in its core business: natural gas transportation, storage and regasification. Also in connection with the aforementioned transaction, in October Snam defined a new organisational structure, designed to be an instrument that enables focused management and control of the strategic guidelines of the plan and more efficient and effective operational management, including through the simplification of decision-making processes. Pursuant to the strategy of strengthening and enhancing leadership on the European gas market, on 16 December 2016 Snam, in a joint venture with Allianz, completed the acquisition from OMV of 49% of Gas Connect Austria GmbH (GCA), with an indirect equity investment of 19.6% in the company share capital for Snam.

2012/ 2015

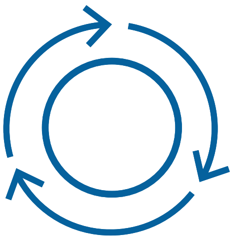


Snam separates from Eni and expands its scope of activity to cover Europe

On 1 January 2012, the Company changed its name from Snam Rete Gas to Snam and transferred the gas transportation business to a new company, which inherited the respected Snam Rete Gas name. The ownership unbundling from Eni was completed on 15 October 2012 through the sale of approximately 30% of Snam's capital to CDP Reti S.r.l., and Snam began its path toward growth in Europe. Having acquired 31.5% of Interconnector UK in 2012 as part of a joint venture with Fluxys, Snam (45%; 40.5% starting from February 2015 following the entry of Crédit Agricole Assurances (CAA) in the corporate structure of TIGF Holding), alongside the Singapore sovereign wealth fund GIC (35%) and EDF (20%), successfully completed the acquisition of TIGF (renamed Terēga), from Total in July 2013. Terēga is active in gas transportation and storage in south-west France, with a gas transportation network over 5,000 km and two storage fields. On 19 December 2014, the Company acquired from CDP Gas S.r.l. 84.47% (equivalent to 89.22% of the economic rights) of Trans Austria Gasleitung GmbH

(TAG), the company that owns the Austrian section of the gas pipeline linking Russia and Italy. The objective of those transactions was to enhance Snam's industrial capacity in the integrated management of natural gas transportation and storage infrastructure. Snam's international development continued with the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the pipeline that will run from the Turkey-Greece border to Italy along the Southern corridor, enabling gas produced in Azerbaijan to reach European markets. Our investment in the project will consolidate the primary position of Snam and Italian infrastructure in improving competition between energy sources and securing gas supplies for Europe.

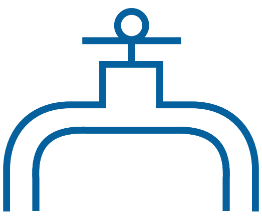
2009/ 2011



The integration of all regulated gas activities

In 2009 the Company acquired 100% of Stogit, Italy's largest natural gas storage field operator, and 100% of Italgas, the country's biggest gas distributor. This added the other two regulated gas activities in Italy to Snam's offering: storage and distribution. The June 2009 transaction turned Snam into the biggest integrated regulated gas activities operator in mainland Europe by regulatory asset base (RAB).

1941/ 2008



Methanisation in Italy and expansion of the gas infrastructure, up to listing on Borsa Italiana

Snam (Società Nazionale Metanodotti) has provided integrated natural gas procurement, transportation and sale services in Italy since 1941. It gradually put together an intricate system of methane pipelines, covering the whole of Italy, and built important pipelines that today allow the country to import from different areas: from Russia, the Netherlands, Algeria, the North Sea, and Libya. In 1971, Snam designed and built Italy's first liquefied natural gas (LNG) regasification plant at Panigaglia, in the Gulf of La Spezia. Snam Rete Gas was incorporated on 15 November 2000 to house all Snam's Italian transportation, dispatching and regasification activities. The unbundling of these activities was decided pursuant to the Letta Decree (164/2000), which transposed the European Directive on the liberalisation of the European gas market. On 6 December 2001, after the Electricity and Gas Authority (today the Energy Grid and Environment Regulation Authority - ARERA) issued a resolution establishing the criteria for defining transportation tariffs, Snam Rete Gas was listed on the stock exchange.

Snam's presence in Italy and in the international infrastructure system

NFS

2012

1 Interconnector (23.54% through Snam International BV)

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

2013

2 Terēga (40.5%)

5,080 km of network
6 compression stations

About 16% of French total gas volume

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

2014

3 TAG (84.47%)

3 parallel pipelines of about 380 km each

5 compression stations

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

2 compression stations (initial capacity of 10 bn m³/ year, which can be increased to 20 bn m³/ year)

Expected to come into service in 4Q 2020

2016

5 GCA (49% via AS Gasinfrastructure)

564 km of transportation network

322 km of distribution network

5 compression stations

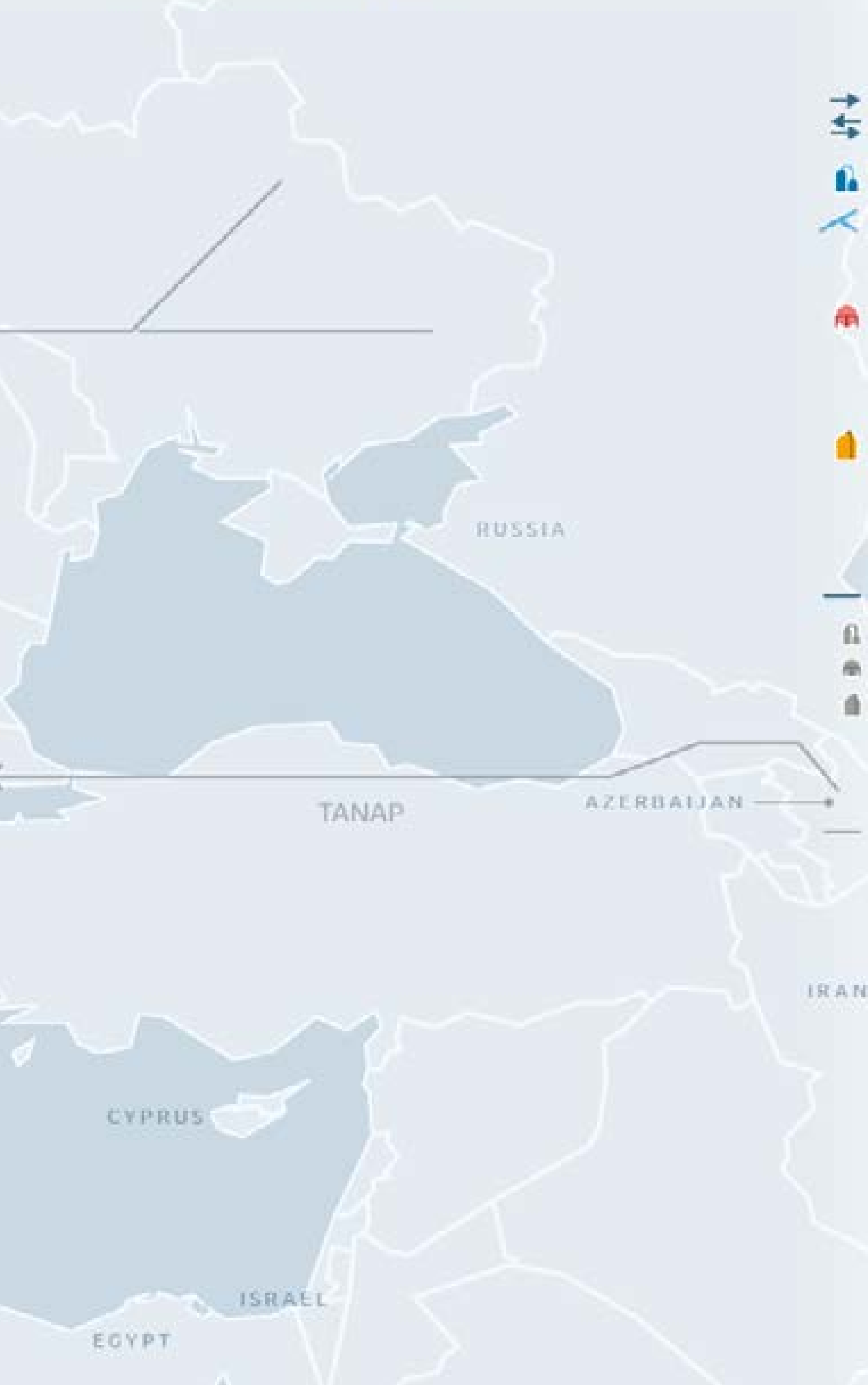
2018

6 DESFA (66% via Senfluga)

1,466 km of transportation network:
- 2 entry point (Bulgaria and Turkey)
- 1 LNG entry point (Agia Triada))

1 LNG terminal (with 6 bn m³/year regasification capacity)

1 compression station



INFRASTRUCTURE IN ITALY

NATURAL GAS TRANSPORTATION

ENTRY POINT / REVERSE FLOW	8
COMPRESSION STATION	13
PIPELINES UNDER OPERATIONS	

NATURAL GAS STORAGE

OPERATING CONCESSIONS	9

LNG REGASIFICATION

REGASIFICATION PLANT	1

INVESTMENTS OVERSEAS

INTERNATIONAL PIPELINES

COMPRESSION STATION

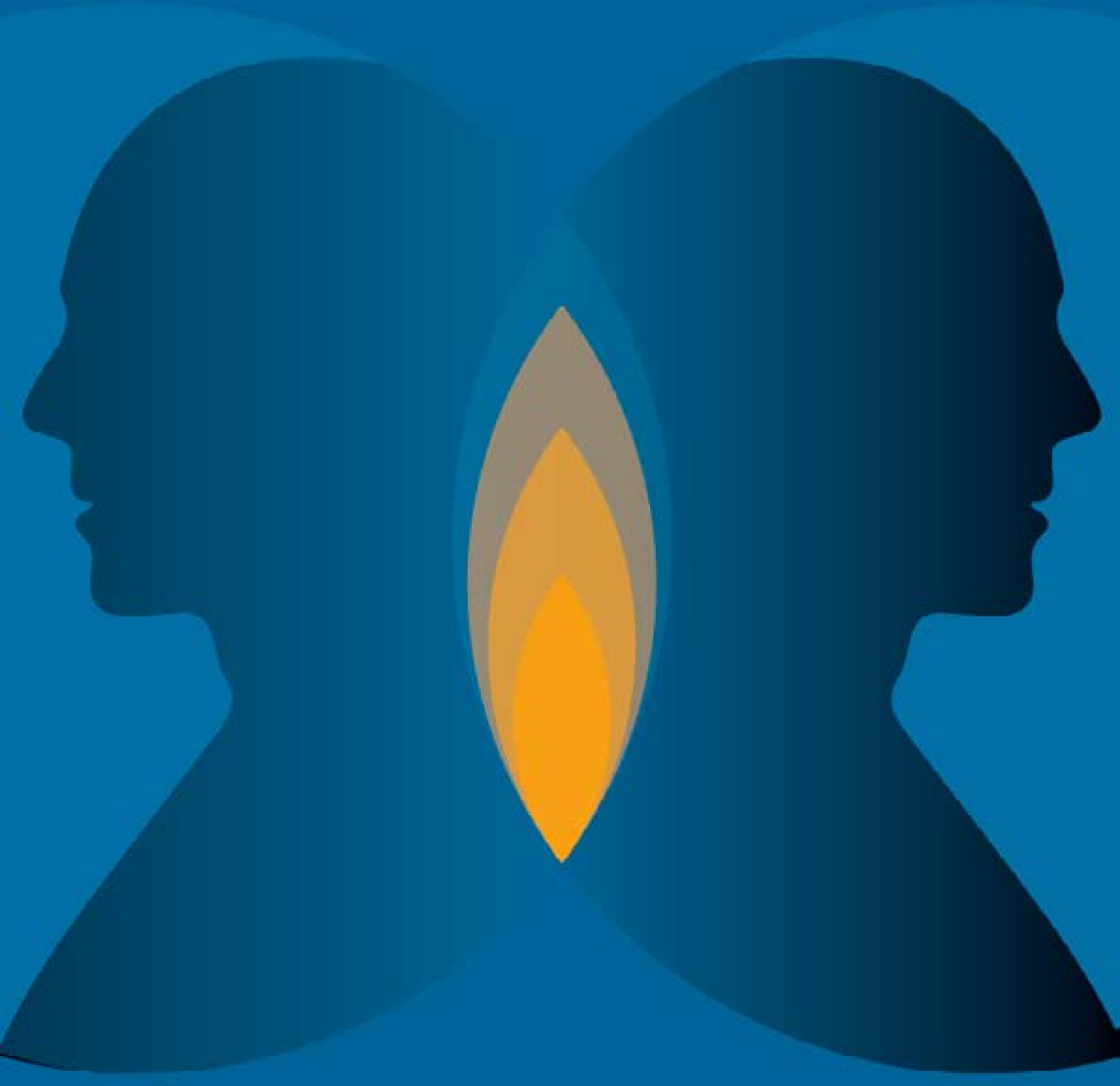
STORAGE FIELDS

REGASIFICATION PLANT

OTHER OPERATORS

INTERNATIONAL PIPELINES

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

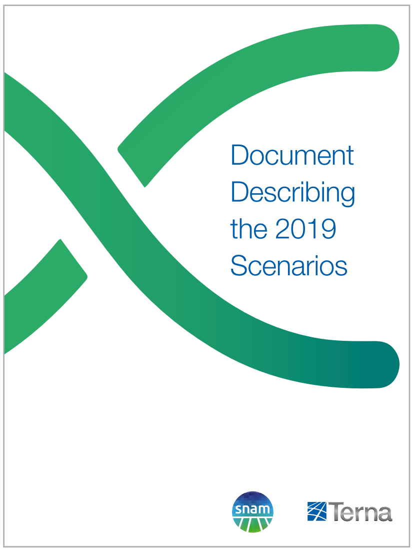
The strong correlation between human activity and global warming is increasingly visible and tangible especially through the recent increase in temperature, extreme weather conditions and the weakening or destruction of entire ecosystems.

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 CO_2, 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 require 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.

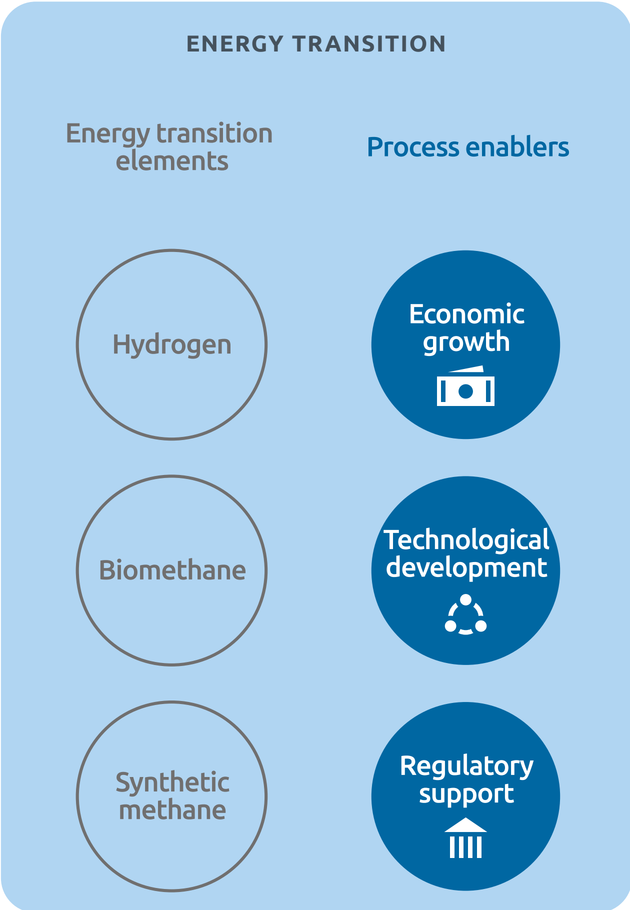


In conjunction with Terna, Snam has developed the **"Document Describing the 2019 Scenarios"**, a preliminary study for the preparation of transmission and transportation network development plans in the electricity and gas sectors nationally. This study develops **joint Snam-Terna energy scenarios** 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 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.

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



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 ¾ 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 CO_2 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 CO_2 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, Terēga 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 it 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.	■ 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.
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.	
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.	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.
b)	Declaring the Scope 1, 2 and 3 greenhouse gas effect emissions (GHG) and related risks.	
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.

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.

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.

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.

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.

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

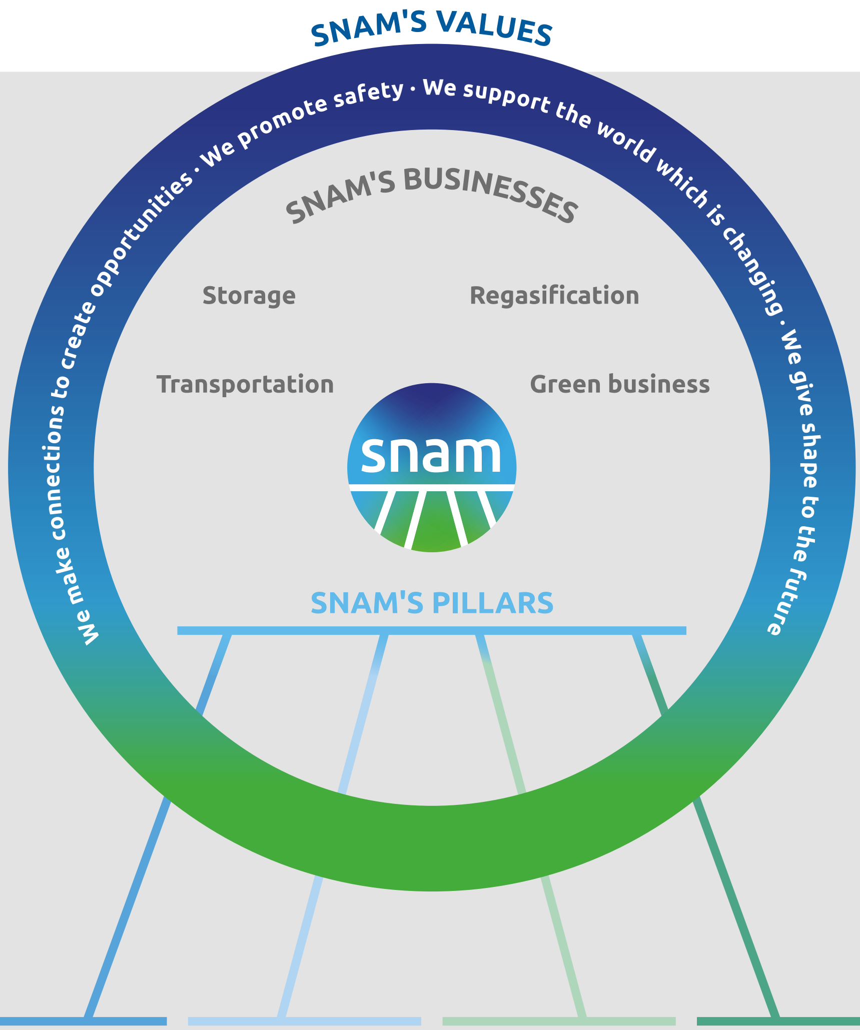
Human capital

Infrastructure capital

Relational capital

Intellectual capital

Natural capital



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

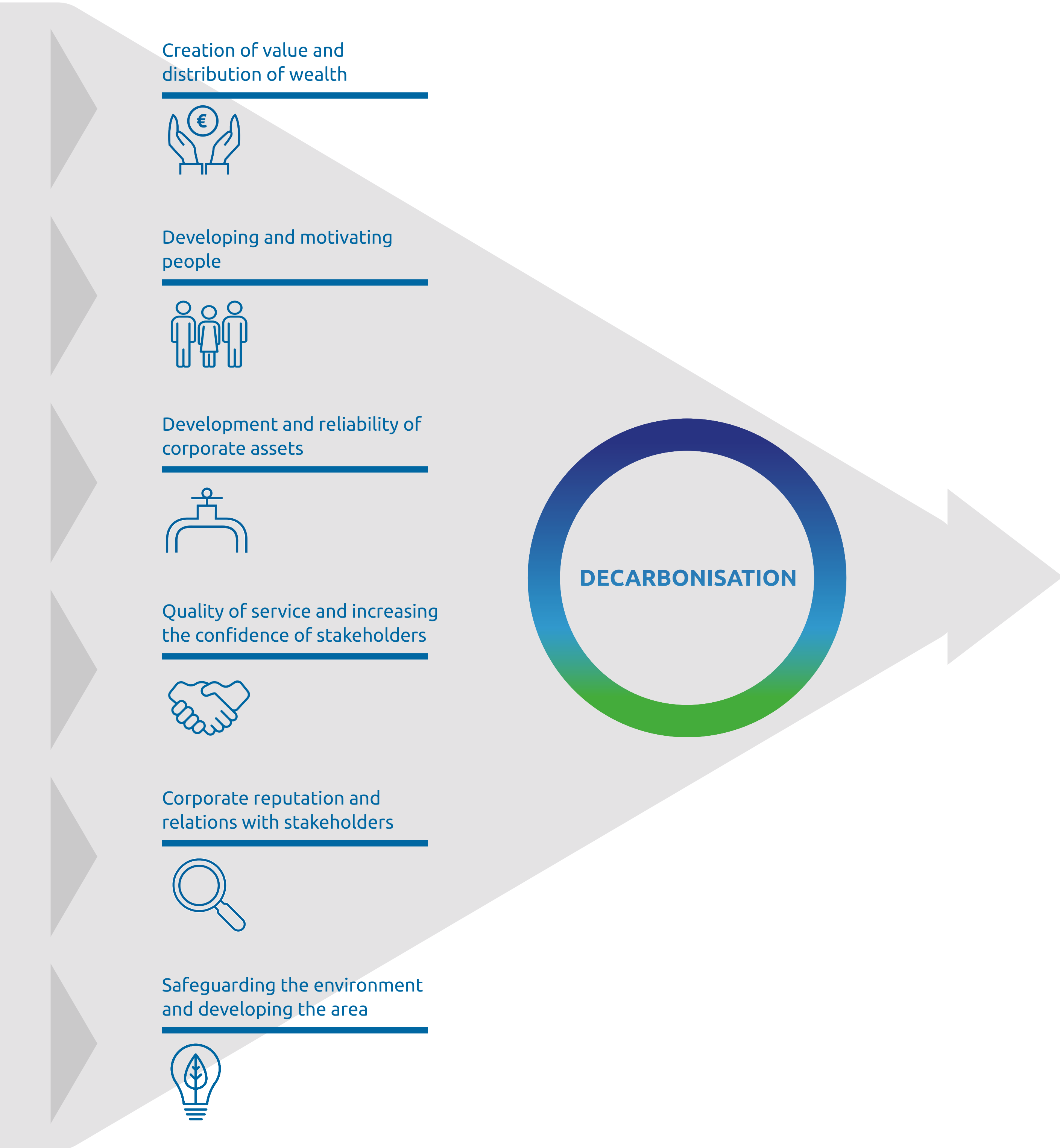
-40% scope 1 and scope 2 emissions

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



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.

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.

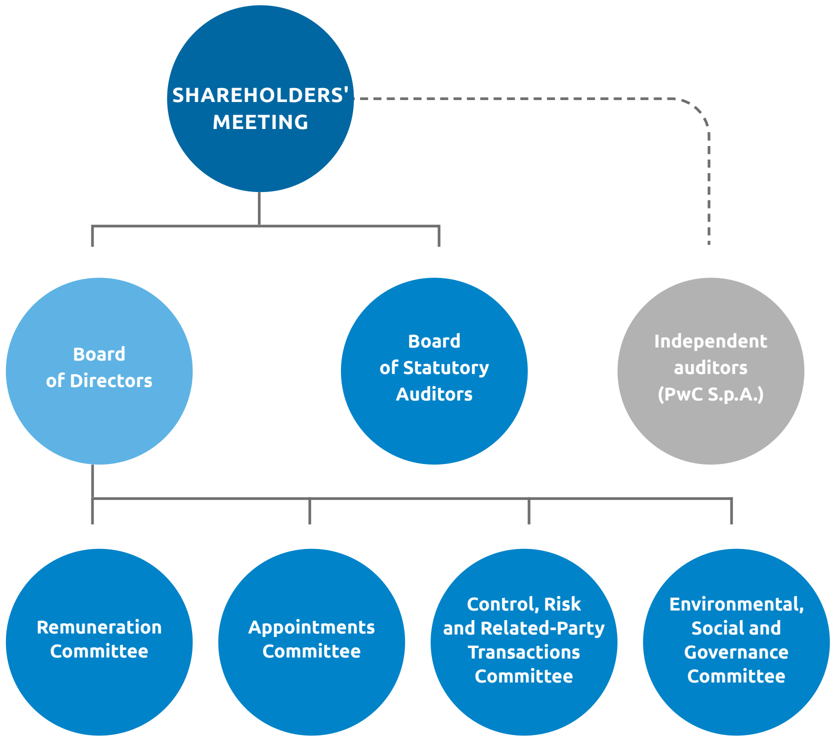
Snam's governance plays a crucial role in value creation dynamics. It helps to determine the conditions for the Company to interact **properly and adequately with its reference environment**, in particular by putting into practice the principles of **integrity, transparency and compliance with internal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

snam

Legal, Governance, Compliance Affairs, ERM & HSEQ

Human Resources, Organization & PFM

Corporate Strategy & Investor Relations

Institutional Affairs, ESG & Sustainability, Communication & Marketing

Digital Transformation & Technology

P&C, Administration, Finance and M&A

Regulatory Affairs

International Engineering & Construction

Corporate Services

Internal Audit *

International & Business Development

International Development, Foreign Equity Investments and regulated business extraordinary transactions

Asset Italy

Italian subsidiaries (Transportation, Storage and Regasification)

Energy Transition

Non-regulated Business Development (e.g. mobility, biomethane, energy efficiency) and LNG commercial development

Hydrogen

Hydrogen business development

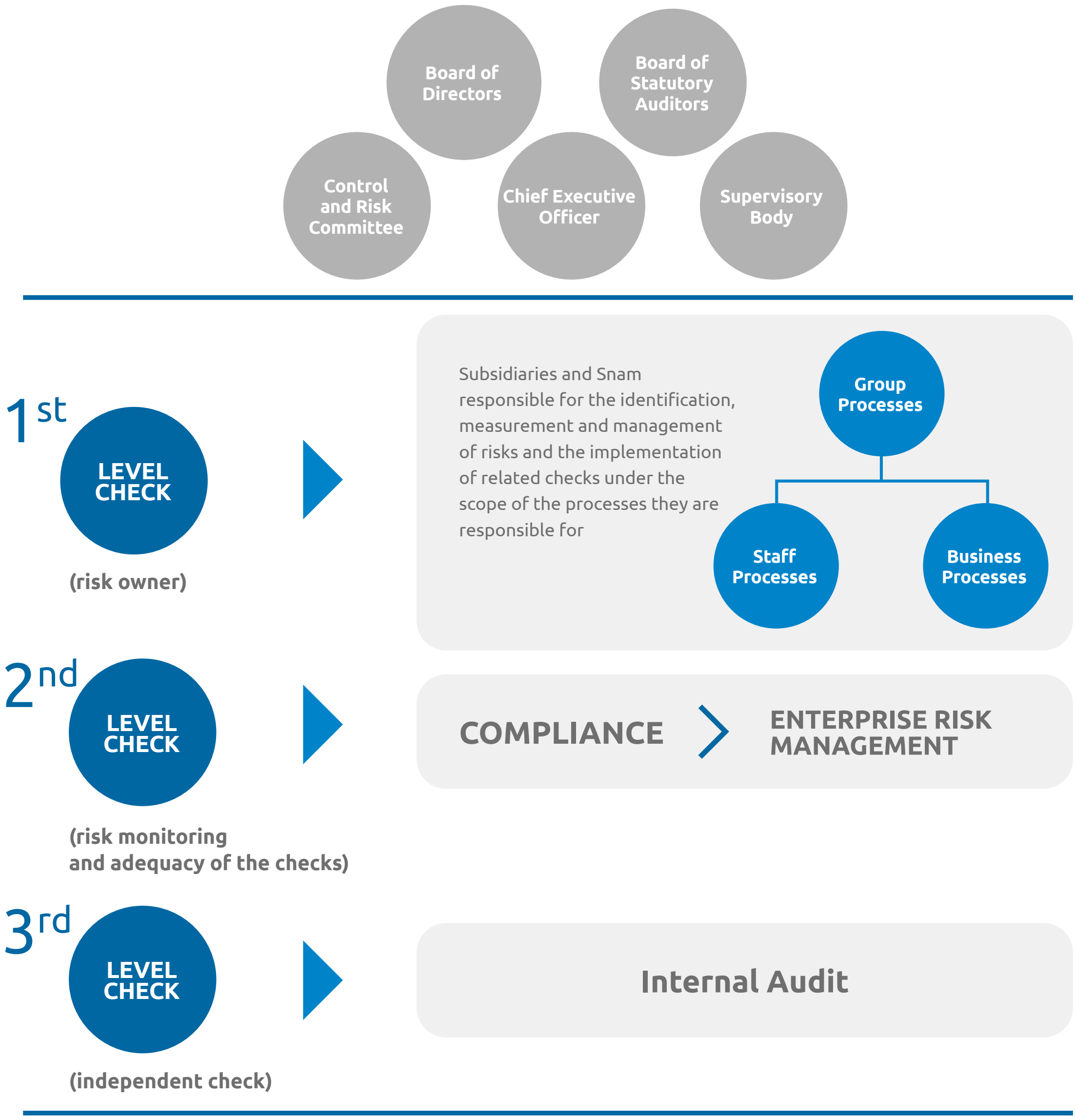
(*) The Senior Vice President Internal Audit carries out the activities fully independently according to the instructions of the Board of Directors

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.

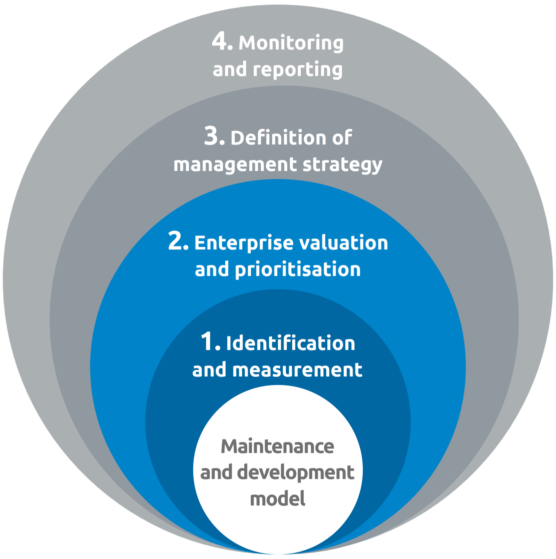
Below are the main activities carried out in terms of methodology:

- 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.

NFS 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	
	NFS **Risks related to climate change**		
	Reinforcement of the regulatory framework for greenhouse gas emissions Change of scenarios with impact on the demand for natural gas and transported volumes	■ 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 CO_2 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	
		■ 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	

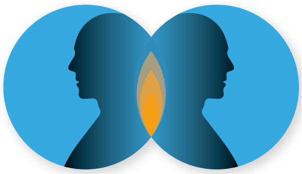
(continued)

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

Snam in 2019 – 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 Italian Regulatory Authority for Energy Networks and the Environment (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. Through subsequent resolutions 575/2017/R/gas, 653/2017/R/gas and 68/2018/R/gas the Authority defined the tariff criteria for the transition period, respectively for transportation and regasification activities (1 January 2018-31 December 2019) and for storage activities (1 January 2019-31 December 2019) concluding the fourth regulatory period.

In 2018 the Authority launched consultations for the definition of the criteria for calculating the revenue recognised for the fifth regulatory period with effect from 2020, defining these criteria in 2019.

Through subsequent resolutions 114/2019/R/gas, 474/2019/R/gas and 419/2019/R/gas the Authority defined the tariff criteria for the fifth regulatory period, respectively for transportation and regasification activities (1 January 2020-31 December 2023) and for storage activities (1 January 2020-31 December 2025) confirming the essential stability and continuity of the regulatory principles for the regulation in force.

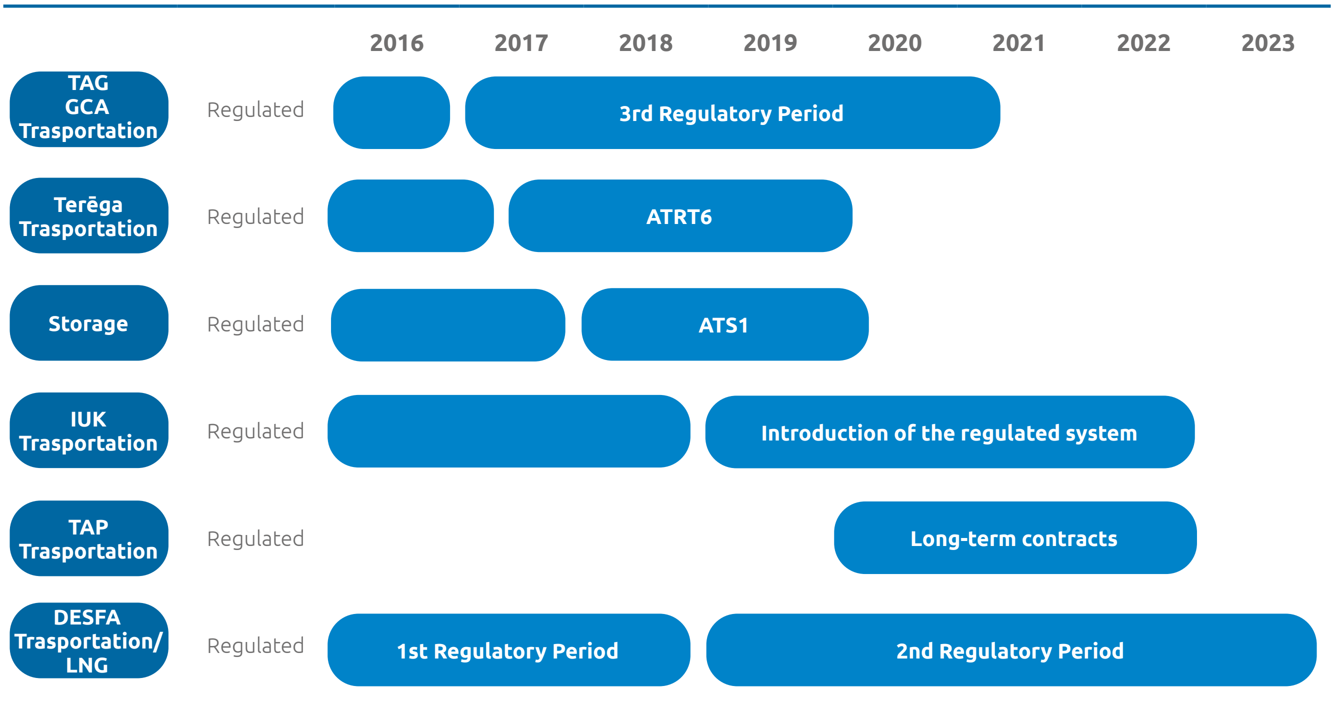
	2014-2017	2018	2019	2020-2023	2024-2025
Trasportation	4th Regulatory Period	Transitional Period		5th Regulatory Period 4 years	
Regasification	4th Regulatory Period	Transitional Period		5th Regulatory Period 4 years	
Storage	4th Regulatory Period		Transitional Period	5th Regulatory Period 6 years	

The following are 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 2019. 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 time regulatory (Tariffs)	*Transitional period:* 1 January 2018 - 31 December 2019 ***5th period:*** 1 January 2020 - 31 December 2023	*Transitional period:* 1 January 2018 - 31 December 2019 ***5th period:*** 1 January 2020 - 31 December 2023	*Transitional period:* 1 January 2018 - 31 December 2019 ***5th period:*** 1 January 2020 - 31 December 2023
Capital calculation net invested recognised for purposes regulators (RAB)	*Transitional period:* Revalued historical cost Working capital recognised 0.8% ***Confirmed for the 5th period***	*Transitional period:* Revalued historical cost Working capital recognised 0.8% ***Confirmed for the 5th period***	*Transitional period:* Revalued historical cost Working capital recognised 0.8% ***Confirmed for the 5th period***
Return of the invested capital net recognised for regulatory purposes (pre-tax WACC) (*)	*Transitional period:* 5.7% 2019 ***5th period:*** 5.7% 2020-2021 (*) LIC return with WACC 5.3%	*Transitional period:* 6.8% 2019 ***5th period:*** 6.8% 2020-2021 (*) Excluding LIC	*Transitional period:* 6.7% 2019 ***5th period:*** 6.7% 2020-2021 (*) Excluding LIC
Incentives on new investments	*Transitional period:* (investments in 2019): +1% for 12 years (investments in new capacity for transport and with cost analysis positive benefits) Return on investments t-1 to offset time-lag regulatory ***5th period:*** (investments in the period by 2022): +1.5% for 10 years (investments in new capacity for transport and with cost analysis benefits >1.5)	*Transitional period:* (investments in 2019): +1.5% for 12 years (investments in new capacity of regasification) Return on investments t-1 to offset time-lag regulatory ***5th period:*** Withholding of 40% of revenues from flexibility services (hedging revenues not subject to guarantee factor)	*Transitional period:* Withholding for 8 years of 20% of greater revenues compared with revenues recognised resulting from bids on new additional capacity Return on investments t-1 to offset time-lag regulatory ***5th period:*** Withholding of 50% of revenues from tenders short-term Possible optional upgrading of the percentage, following guarantee % reduction on revenues
Efficiency factor (X FACTOR)	*Transitional period:* 1.3% - on operating costs ***5th period:*** 0.9% on operating costs	*Transitional period:* 0% ***5th period:*** 3.1% on operating costs	*Transitional period:* 4.7% - on operating costs ***5th period:*** 1% on operating costs

(*) 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 (TIWACC) regulatory period for infrastructure regulations in the gas sector is set at six years (2016-2021), and a mechanism is provided for updating the rate at mid-period according to the prevailing situation. Through resolution 639/2018/R/COM of 6 December 2018, the Authority updated the rate of return on invested capital for infrastructure services regulated by the gas sector for 2019. The respective resolutions defined the tariff regulatory criteria for the 5th regulatory period of the above-mentioned businesses, confirmed the Beta parameter value for 2020 for all sectors, keeping the WACC for that year unchanged, in line with the TIWACC framework.

Regulation in European countries of interest to Snam: main features



TAG GCA Transportation

- Differentiated RAB between Revalued Historical Cost and Book Value. There is also different treatment of (pre-2012) old assets and new investments.
- There are differentiated remuneration rates for the share of RAB financed through Equity (Cost of Equity (*) 8.92% Actual Pre-Tax) and for the share financed through Debt (Cost of Borrowing 2.7% Pre-Tax Nominal).
- Revision in progress of regulatory parameters for the fourth period (2021-2024).

Terēga Transportation

- RAB revalued annually using inflation (Consumer Price Index) taking into account new investments and amortisation and depreciation (Current economic cost method);
- WACC return rate equal to 4.25% Actual Pre-Tax.

Terēga Storage

- Storage under regulated system from January 2018.
- WACC return rate equal to 4.75% Actual Pre-Tax; RAB around €1.2 billion.

IUK Transportation

- Exemption system until October 2018;
- Switch from an exemption regime to a regime regulated on the expiry of long-term contracts (October 2018).

TAP Transportation

- Third-Party Access exemption on the initial capacity (10 bcm/y);
- Exemption from tariff regulation on the initial and expansion capacity.

DESFA Transportation/LNG

- RAB based on historical cost, Work in Progress remunerated by WACC.
- Nominal Pre-Tax remuneration rate for the period 2019-2022: 8.22%, 7.84%, 7.52%, 7.44%.
- RAB of around €0.8 billion (Transportation + LNG).
- Socialisation of the cost of LNG in the transportation tariff (50% from 2020 – compared with 75% previously).
- Recovery of the OLD Recoverable Difference accumulated between 2006 and 2016 of around €326 million, over a time frame of 16 years from 2017 to 2032.

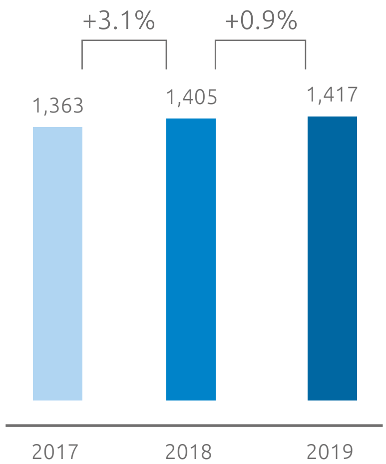
(*) This value includes a premium for the risk related to the marketing of capacity equal to 3.5%.

Results

In order to allow a better evaluation of the economic-financial performance, this Report presents the reclassified financial statements and several alternative performance indicators (Non-GAAP measures), mainly represented by the results in an adjusted configuration[5]. Specifically, adjusted EBIT and 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 legal scheme of the Income Statement.
Income entries classified as special items for 2019 refer to: (i) financial expense from the buy back on the market of bonds under the scope of the liability management operation (€29 million excluding the tax effect); (ii) the effects of the release to the income statement of the provision for impairment losses (€26 million excluding the tax effect) following the announcement by the Council of State of 5 March 2020 with regard to uncollected receivables relating to balancing activities.

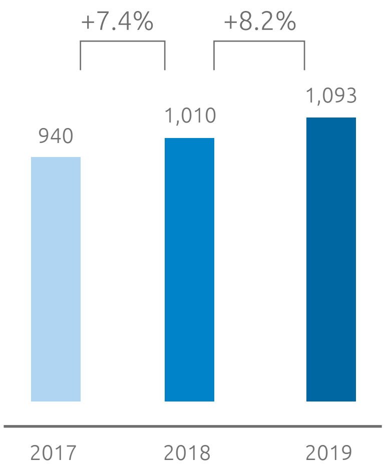
ADJUSTED RESULTS[5]

Adjusted EBIT (€ Mn)



Thanks to the solidity and efficiency of the operational management and strict financial discipline, Snam achieved positive results in line with expectations in 2019. **Adjusted EBIT**[6] totalled €1,417 million, up by €12 million (0.9%) compared with the adjusted EBIT for 2018. The greater revenue (+€76 million or 3.0%), essentially attributable to the natural gas transportation segment business, which benefits from the increase in tariff parameters and the investments of past years, and the contribution for the whole of 2019 of the businesses that joined the scope of consolidation in 2018 were partly offset by the increase in depreciation and amortisation (-€40 million, or 5.9%) and write-downs (-€22 million) referred to works in progress of past years' projects. Operating costs were essentially in line compared with the adjusted figure for 2018 (-€2 million or 0.5%). The effects of the actions of the efficiency plan implemented, around €15 million, were absorbed by the costs, for the year 2019, of the businesses that entered the scope of consolidation in 2018 and the new business initiatives and by the costs related to the continuation of activities in the energy transition.

Adjusted net EBIT (€ Mn)



Adjusted net EBIT totalled €1,093 million, up by €83 million (8.2%) compared with adjusted net EBIT for 2018. The increase, in addition to the greater EBIT (€12 million or +0.9%) is due to the lower net financial expense (+€30 million or 15.4%) thanks to the benefits of the actions for optimising the financial structure implemented, as well as the positive market conditions, as well as greater net income from equity investments (€57 million or +35.8%) mainly courtesy of contribution of Senfluga, after the acquisition timing of DESFA (December 2018) and an exceptionality of performances recorded in 2019, and Terēga. These effects were partly absorbed by higher income taxes (-€16 million;4.5%), due mainly to the greater pre-tax profit.

5 For the definition of these indicators and the reconciliation with the related reported results, in line with the guidelines of the 2015/ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 5 October 2015, please refer to the chapter "Financial review and other information - Non-GAAP measures ".
6 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, due mainly to interconnection.

Free cash flow

+ €482 million

Net financial debt was €11,923 million at 31 December 2019, compared with € 11,548 million at 31 December 2018. The net cash flow from operations (€1,486 million) allowed us to fully cover the financial requirements associated with net investments (€1,004 million) and to generate a free cash flow of €482 million. The net financial debt, after cash flows from self-owned capital deriving from the payment to shareholders of the 2018 dividend (€746 million, of which an interim dividend of €298 million and €448 million for the balance) and the acquisition of treasury shares (€39 million), recorded an increase of €375 million compared with 31 December 2018, including non-monetary components related to financial debt (€75 million), which refer mainly to the change in the scope of consolidation and the financial debt recorded through the application of IFRS 16 "Leasing".

DIVIDENDS

Dividend

€0.2376 per share

Our healthy results and solid business fundamentals allow us to propose a **dividend of €0.2376 per share**, to the Shareholders' Meeting, of which €0.095 per share was paid in January 2020 as an interim dividend (€313 million) and the balance of €0.1426 per share will be paid from 24 June 2020 with an ex-dividend date of 22 June 2020 (record date 23 June 2020). The proposed dividend, up 5% compared with 2018, in line with the dividend policy announced in the strategic plan, confirms Snam's commitment to guaranteeing shareholders an attractive remuneration that is sustainable over a period of time.

Main income statement data (a)

(millions of €)	2017	2018	2019	Change	% change
Total revenue	2,533	2,586	**2,665**	79	3.1
Total revenues net of pass-through items	2,441	2,528	**2,604**	76	3.0
Operating costs (b)	511	491	**496**	5	1.0
Operating costs net of pass-through items (b)	419	433	**435**	2	0.5
EBITDA (b)	2,022	2,095	**2,169**	74	3.5
EBIT (b)	1,363	1,405	**1,417**	12	0.9
Net profit (b) (c)	940	1,010	**1,093**	83	8.2

(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 2019 financial year compared with the financial year 2018. Percentage changes are calculated in relation to the data indicated in the related tables.
(b) The values are reported in the adjusted configuration.
(c) Entirely attributable to Snam shareholders.

Reported results

(millions of €)	2017	2018	2019	Change	% change
EBIT	1,348	1,384	**1,452**	68	4.9
Net profit (a)	897	960	**1,090**	130	13.5

(*) Entirely attributable to Snam shareholders.

Main share and income data

		2017	2018	2019	Change	% change
Net profit per share [(a)]	(€)	0.262	0.286	**0.330**	0.044	15.5
Adjusted net profit per share [(a)]	(€)	0.275	0.301	**0.331**	0.030	10.1
Group shareholders' equity per share [(a)]	(€)	1.81	1.78	**1.90**	0.12	6.5
Pay-out (Dividend for the period/Group net profit) [(b)]	%	81.61	77.71	**71.56**	(6.15)	(7.9)
Dividend yield (Dividend for the period/year-end official share price) [(b)]	%	5.3	5.9	**5.1**	(0.8)	(13.9)
Price/Book value (Average official price per share/ Group shareholders' equity per share)	(€)	2.24	2.10	**2.36**	0.26	12.4

(a) Calculated considering the average number of shares outstanding during the year.
(b) The 2019 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 27 February 2020.

Key balance sheet and cash flow figures

(millions of €)	2017	2018	2019	Change	% change
Technical investments	1,034	882	**963**	81	9.2
Net invested capital at 31 December	17,738	17,533	**18,181**	648	3.7
Group Shareholders' equity at 31 December	6,188	5,985	**6,255**	270	4.5
Net financial debt at 31 December	11,550	11,548	**11,923**	375	3.2
Free cash flow	423	1,161	**482**	(679)	(58.5)

Key share figures

		2017	2018	2019	Change	% change
Number of shares of share capital	(million)	3,501	3,469	**3,395**	(74)	(2.1)
Number of shares outstanding on 31 December	(million)	3,415	3,301	**3,292**	(9)	(0.3)
Average number of shares outstanding during the year	(million)	3,422	3,358	**3,301**	(57)	(1.7)
Year-end official share price	(€)	4.086	3.820	**4.686**	0.866	22.7
Average official share price during the period	(€)	4.043	3.747	**4.474**	0.727	19.4
Stock Exchange capitalisation	(million)	13,953	12,606	**15,428**	2,822	22.4
Dividend per share	(€ per share)	0.2155	0.2263	**0.2376**	(0.0113)	5.0
Dividends for the period (*)	(million)	731	746	**780**	(34)	4.6
Dividends paid in the period	(million)	718	731	**746**	15	2.1

(*) The 2019 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 27 February 2020.

Main events

Core business development agreements

Snam and Iren sign an agreement to acquire a stake in the OLT - Livorno regasifier

On 20 September 2019 Snam and the Iren Group signed an agreement for the acquisition by Snam of a 49.07% stake of the share capital of OLT (Offshore LNG Toscana), the company that constructed and manages the offshore regasification terminal (FSRU – Floating Storage and Regasification Unit) located off the coast of Tuscany between Livorno and Pisa. The acquisition was completed on 26 February 2020x, following the prior approval of the competent authorities (Anti-trust Authority).
The consideration paid by Snam to the Iren Group for the acquisition of the entire equity investment in OLT owned by Iren Mercato S.p.A., as well as the remaining share of a shareholders' loan from Iren S.p.A. in favour of OLT stands at around €332 million in total. The amount, paid by Snam with its equity, may be subject to possible contractually-required price adjustment mechanisms. Following the transaction, Snam took control of the regasification terminal in conjunction with First State Investments International Ltd. which, via the subsidiary FS SP S.àr.l., owns 48.24%.

International Business Development

Establishment of Snam Gas & Energy Services to monitor the Chinese market

In 2019, the Chinese company Snam Gas & Energy Services was established in Beijing, wholly owned by Snam B.V. Snam's interest in the Chinese market is linked on the one hand to the strong growth in gas consumption (190 BCM in 2015; 310 BCM in 2019) and the prospects for further growth in the medium term and on the other hand the need for new gas infrastructures (pipeline, storage and regasification capacity, biogas and biomethane plants) and the evolution of this market with the creation of a company that is solely responsible for the main infrastructure for gas and oil through the consolidation of the assets now owned by the 3 Major Oil & Gas.
Thanks to this presence, Snam has continued and started to implement the intense positioning and accreditation activities with the main stakeholders previously launched and Memorandum of Understanding with financial players have been signed (Bank of China, ICBC, Silk Road Fund - this last during the State visit to Italy of the President of the Republic of China Xi Jinping) and large companies in the energy segment (among others a strategic Memorandum of Understanding signed with CNPC - Petrochina during the CIIE in Shanghai).
During 2019, Snam, also through Snam Gas & Energy Services, signed the first service contracts and initiated the provision of the same to 3 different Chinese counterparties and to an additional company (in which a Chinese counterparty holds a stake) with a focus on storage area.

Biomethane

Renerwaste S.r.l.

In November 2019, through the subsidiary Snam 4 Environment, Snam completed the acquisition from Ladurner Ambiente and from AB Invest of a stake of 82.63% of Renerwaste S.r.l., one of the largest companies operating in Italy in biogas and biomethane infrastructures, for an outlay at the closing, including the repayment of the shareholders' loan, of around €46 million. The transaction, entirely funded through equity, includes the possibility of Snam acquiring the remaining 17.37% of the share capital owned by Ecopartner from June 2020. Renerwaste with its three plants located, respectively, in the provinces of Lodi, Milan and Tortona, generates annual revenues of more than €20 million and employs around 50 people.

Snam and Infore Environmental Group: Memorandum of Understanding (MoU)

At the end of 2019 Snam signed a Memorandum Of Understanding with the Infore Environmental Group, an environmental services company listed on the Shanghai Stock Exchange and the controlling shareholder of Ladurner Ambiente, for potential joint initiatives for the development of biogas and biomethane infrastructure in China.

Biomethane initiatives: binding letter of intent

In November 2019 Snam and Femogas also signed a binding letter of intent aimed at negotiating and defining agreements to launch a strategic partnership in infrastructure for biomethane from agriculture through the entry, with a 50% stake, into Iniziative Biometano, a company operating in Italy with five biogas plants, for which there is a plan for conversion to biomethane, and with various plants in the process of authorisation or construction.

Thanks to these two initiatives, Snam can increase its expertise in the management and running of plants both in the agricultural biomethane chain and the FORSU chain (organic fraction of municipal solid waste), perfectly complementary to the expertise in the design, development and construction of IES Biogas, a subsidiary of Snam since 2018 and leader in the creation of biogas and biomethane plants in Italy and abroad.

Sustainable mobility

Tamoil and Snam: contract for 5 new natural gas service stations

On 20 March 2019, through the subsidiary Snam4Mobility, Tamoil and Snam signed a contract for the construction of an initial batch of 5 natural gas refuelling stations in Italy, promoting the development of sustainable mobility for cars and lorries in Italy.

The agreement involves the collaboration of Tamoil and Snam4Mobility for the design, construction, maintenance and running of 4 new CNG (compressed natural gas) facilities and a new L-CNG (liquefied and compressed natural gas) facility within the national network of Tamoil distributors.

FS Italiane, Snam and Hitachi rail: Memorandum of Understanding (MoU) on methane trains

On 28 March 2019, FS Italiane, Snam and Hitachi Rail signed a Memorandum of Understanding (MoU) that aims to convert part of the current fleet of trains of the Fondazione FS Italiane from diesel to methane, as part of the promotion of sustainable mobility in public transport in Italy. The Memorandum involves the launch of a pilot project for the transformation of one or two Fondazione FS Italiane rail cars that run on diesel into more advanced models running on liquefied natural gas (LNG) or compressed natural gas (CNG). Following a feasibility study, the companies will identify a larger number of trains to extend the trial to.

EIB financing for sustainable mobility projects

To support the initiatives as part of sustainable mobility, on 6 June 2019 Snam signed the first loan with the European Investment Bank (EIB) to support investments promoted by the subsidiary Snam4Mobility, for a nominal value of €25 million. The investments that are the subject of the loan agreement involve the construction in Italy of 101 CNG (compressed natural gas) and 9 L-CNG (liquefied and compressed natural gas) refuelling stations for a total of around €50 million. The loan, according to EIB practice, will be equal to a maximum of 50% of the cost of the investments, has an amortising structure, maturity in December 2031 and a fixed rate of 0.55%. The loan complements the contribution of the European Union provided under the CEF programme (Connecting Europe Facility) of €1.3 million, which last December approved the Snam4Mobility's project for constructing 9 L-CNG stations.

Snam and IP: understanding for constructing 26 new refuelling facilities

On 26 July 2019, Snam and IP signed an agreement aimed at constructing an initial batch of 26 new natural gas refuelling facilities, which will open in the network of IP distributors from 2020 throughout Italy.
The new openings represent the first phase of the implementation of the framework agreement signed in 2018 between IP and Snam to create up to 200 new methane stations in Italy. The initiative comes under the commitment of the two companies to promote sustainable mobility.
Snam and IP have jointly identified the IP refuelling stations in the ordinary and motorway network at which to install the methane supply facilities for cars (CNG - compressed natural gas), two of which will also house LNG (liquefied natural gas) systems for heavy vehicles.

The initiatives described above are part of Snam's commitment to natural gas sustainable mobility in Italy, for rail transport as well as road and maritime transport. The company is making investments to give the CNG and L-CNG distribution network in Italy a boost, through direct investments and agreements with other sector operators, and to promote the development of a biomethane (zero CO_2 renewable gas) supply chain in Italy.
In Italy, Snam, through Snam4Mobility, has already created 9 new stations out of a total of 103 contracted stations, with the goal of creating a total of 300 in the years to come.

Snam, OMV and TAG sign a memorandum of understanding (MoU) for sustainable mobility

On 24 September 2019, Snam, its investee TAG and OMV signed a memorandum of understanding to promote LNG-based sustainable mobility in Austria.
The purpose of the agreement is to explore potential opportunities for LNG in the Austrian transportation sector, ranging from the possible construction of a small-scale LNG plant to developing procurement and the LNG market in Austria.

Energy efficiency

Agreements for the reclassification of energy for condominiums

On 10 April 2019, Snam, through its subsidiary TEP Energy Solution operating in the energy efficiency sector, and UniCredit signed an agreement to facilitate the energy reclassification of residential buildings in Italy, making them more sustainable and safe. The understanding involves the possibility of the bank providing condominiums with credit facilities on the projects proposed by TEP as part of energy efficiency and improvements against earthquakes, such as, for example, the construction of "thermal walls", the replacement of window frames and the upgrading of heating systems.
Under this scope, it was followed by the collaboration agreement signed on 5 June 2019 by TEP with Intesa Sanpaolo to promote the energy reclassification of buildings to energy to residential and service sector use.
The above-mentioned agreements include the proposal of a full service, that goes from the financial and technical consultation to the provision of the grant to the realisation of the project, in dedicated conditions and reduced times. Specifically, the condominiums can take advantage of bank loans to cover the share not included in the discounts under exiting legislation as part of the Ecobons (for a share of between 70% and 75% of the amount of the works) and Sismabonus (for a share of between 80% and 85% of the amount of the works).
TEP Energy Solution, on the other hand, will propose the CasaMia product, until now offered to around 800 condominiums throughout Italy, which is aimed at the energy reclassification of the buildings, financing the works through savings in consumption and the sale of a tax credit linked to the Ecobonus and Sismabonus system.

TEA Servizi

On 11 November 2019, through the wholly-owned company Asset Company 4 S.r.l., Snam completed the acquisition of 100% of the share capital of TEA Servizi S.r.l. (TEA), Energy Service Company (ESCo) active in the design, construction and running of thermohydraulic and electric plants for industrial customers, with a special focus on small and medium businesses. The revenues of the area acquired were around €3 million in 2018. The initiative allows Snam to integrate its range of services offered to industrial customers, adding the expertise of plant engineering design, running and maintaining the current proposal developed through TEP Energy Solution.

Financing

Bond issues

On 28 February 2019, Snam S.p.A. concluded the issuing of its first Climate Action Bond for a sum of €500 million, with an annual coupon of 1.25% maturing on 28 August 2025. Through the issuing of the first Climate Action Bond in Europe, Snam aims to consolidate its role in energy transition in Europe, promote market awareness of market investors to the company's ESG (Environmental, Social and Governance) initiatives and investments and diversify its investor base.
On 12 September 2019, Snam S.p.A. also concluded a bond issue in two tranches of a nominal equal, respectively, to €500 and €600 million, for a total of €1.1 billion, at a fixed rate maturing, respectively on 12 May 2024 and 12 September 2034. The bonds come under the pre-funding strategy of maturities relating to 2020 with a view to reducing the cost of borrowing and increasing the average maturity.
The above-mentioned bonds come under the scope of the EMTN (Euro Medium Term Note) Programme approved by the Board of Directors on 2 October 2018, later renewed by the Board of Directors as described in the paragraph "Annual renewal of the EMTN programme".

Euro Commercial Paper Programme

On 19 March 2019, the Board of Directors of Snam approved the increase of the amount of the Euro Commercial Paper programme ("ECP Programme"), approved on 2 October 2018 from €1 billion to €2 billion. The issuing of the Euro Commercial Paper may take place within a 2 year deadline from 2 October 2018 for a maximum total value of €2 billion, plus the corresponding amount of the Euro Commercial Paper repaid at any given time during the same period, to be placed with institutional investors according to the terms and conditions of the ECP Programme. The total nominal value

of the Euro Commercial Papers issued under the ECP Programme cannot, in any event, exceed the maximum limit of €2 billion.
The increase in the amount of the ECP Programme allows Snam to diversify short-term financing instruments with a view to ever increasing flexibility in the process of optimising treasury arrangements.
The Euro Commercial Papers at 31 December 2019 totalled €2 billion, equal to the maximum permitted limit of the programme.

EIB loans for infrastructure projects in the transportation and storage sectors

On 28 January 2019, Snam signed a loan agreement with the European Investment Bank (EIB) for €135 million to create infrastructure projects in the natural gas transportation and storage sectors, with a fixed rate of 1.372% to be repaid through an amortisation plan maturing in 2038.
On 31 July 2019 Snam also signed a loan agreement with the EIB for €105 million for the creation of infrastructure projects in the natural gas transportation sector, for a duration of 20 years (maturing on 30 June 2039) with a fixed rate of around 0.64%.

Annual renewal of the EMTN programme

On 2 October 2019, Snam S.p.A.'s Board of Directors approved the annual renewal of the EMTN (Euro Medium Term Note) programme launched in 2012, increasing the maximum overall value from €10 to €11 billion, one of the purposes of which is to ensure adequate flexibility during market upswings.
As a result, the Board authorised the issuing, to take place by 2 October 2020, of one or more further bond loans, 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 €11 billion.
The EMTN Programme is an effective instrument for obtaining significant financial resources on the market quickly and at competitive prices, in line with the planned development of the target financial structure of the company. The bonds issued can be listed on one or more regulated and unregulated markets (so-called multilateral trading systems).

Bond buyback

On 2 December 2019 Snam successfully concluded the buyback on the market of its bonds for a total nominal value of €597 million. The effects of this transaction on the 2019 income statement (€38 million, €29 million excluding the tax effect) are essentially represented by the charges deriving from the difference between the outlay deriving from the repurchase of part of the bonds on the market and the amortised cost valuation of the bonds themselves. Through this operation, Snam continues the process of optimising its debt structure and continuously improve the cost of capital, in line with its objectives.
The year just ended represents the last of the five years of the Liability Management which, from 2015 to the present day, has contributed to reducing Snam's cost of borrowing from 2.4% in 2016 to 1.1% in 2019.

Other

New share buyback plan and cancellation of treasury shares with no share capital reduction

On 2 April 2019 the Ordinary Shareholders' Meeting of Snam shareholders authorised, following the withdrawal of the resolution authorising the purchase of treasury shares taken by the Ordinary Shareholders' Meeting on 24 April 2018, for the remaining part not carried out, the purchase of treasury shares, to take place on one or more occasions, for a maximum of 18 months from the date of the Meeting of 2 April 2019, with a maximum outlay of €500 million and, in any event, up to a maximum of 126,664,660 shares without exceeding 6.50% of the subscribed and released share capital (with regard to treasury shares already owned by the Company).
The Extraordinary Shareholder's Meeting held on the same date also approved the cancellation of 74,197,663 treasury shares with no nominal value with no reduction in the share capital and the resulting amendment of Article 5.1 of the Articles of Association. The shares were cancelled on 17 April 2019 after the amended Articles of Association were filed with the Register of Companies. As a result of this transaction, the share capital consists of 3,394,840,916 shares with no nominal value for a total value of €2,736 million (the same as at 31 December 2018). In execution of the resolution, the new buy back programme was launched on 16 December 2019).
In December 2019 a total of 8,412,920 Snam shares (equal to 0.25% of the share capital) were acquired for a cost of €39 million. At the date of this report, Snam has 102,412,920 shares in its portfolio equal to 3.02% of the share capital (168,197,663 at 31 December 2018 equal to 4.85% of the share capital).

Appointment of statutory auditors

On 23 October 2019, the Ordinary Shareholders' Meeting of Snam S.p.A., having listened to the opinion of the Board of Statutory Auditors, approved the appointment of the independent auditors PricewaterhouseCoopers S.p.A. to conduct the audit and, at the same time, to confer, at the suggestion of the Board of Statutory Auditors, the task of the statutory audit of Snam, for the period of the financial years ended 31 December 2020 to 2028 on the independent auditors Deloitte & Touche S.p.A.

Cooperative compliance

In December 2019 Snam was admitted to the cooperative compliance regime established under the scope of national tax legislation. This regime, in line with international best

practice, requires an adequate system for measuring, managing and controlling fiscal risks and is based on a closer relationship of trust and collaboration with the Financial Administration. Belonging to the Cooperative compliance, which also involves the subsidiary Snam Rete Gas, will make it possible to always increase the level of certainty on important tax issues through a constant and preventive dialogue on situations susceptible to generating tax risks. Through the admission notified by the Revenue Agency, Snam and Snam Rete Gas were registered on the list of companies that operate in full transparency with the Italian tax authorities, published on the Agency's website.
The adoption of a clear and documented fiscal strategy represents the essential requirement for access to the cooperative compliance regime.
The “Tax Control Framework – Fiscal Strategy” guideline on the subject of the "Fiscal strategy of the Snam Group" represents a description of the principles that inform the Group's tax governance, both from a strategic profile, as far as the risk appetite and the objective pursued in the long-term with regard to the tax variable are concerned, and from an operating profile, as far as the architecture of the tax risk control system or the tax control framework is concerned.
Snam's Board of Directors exercises its governance and direction role, defining Snam's Tax Strategy included in the Tax Control Framework and evaluating the adequacy of the organisational structure under the scope of the tax management of fiscal risk.
In this area the Board of Directors exercises overall supervision on the operation of the Tax Control Framework, through a periodic analysis of the adequate reporting of fiscal risk.

Operating review

Technical investments

Technical investments totalled €963 million (€882 million in 2018) and referred mainly to the natural gas transportation (€813 million) and storage (€112 million) business segments).

Infrastructure development and integration

The main investments for the development of new infrastructure mainly involved work for the of reversal of physical transportation flows at interconnection points with northern Europe (€32 million), the upgrade of the transportation network from entry points in southern Italy through, specifically, the interconnection with TAP (€95 million) and the upgrade of the network and connection of new regional and national redelivery points (€107 million). A total of €35 million was invested in 2019 for the development of new storage fields and upgrading capacity. As a result of the work completed and disposals carried out during the year, the pipeline network in operation grew by a total of 102 km compared with 31 December 2018), while the installed capacity in compression stations stood at 961 megawatts, in line with the previous year. Available storage capacity rose by 0.1 billion cubic metres, made available by the gradual entry into operation of the new Bordolano deposit, to a level of 12.5 billion cubic metres.

NFS Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled €424 million for transportation and €60 million 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 pipeline layout is then inspected regularly on foot, by vehicle, and using helicopters to detect potentially hazardous situations caused, for example, by the works of third parties in proximity to 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)	2017	2018	2019
Network inspected using smart pigs	1,632	1,651	**1,651**
Network inspected by helicopter	16,274	18,462	**20,178**
Network subjected to geological inspection	4,080	4,209	**5,163**

The security of storage plants is guaranteed by various detection systems connected to automatic security systems: explosive mixture detectors, fire detectors, smoke detectors, high or low pressure switches, pressure transmitters, fuse plug systems and heat sensitive cables, sound-level meters for detecting gas leaks and extinguisher systems. The intervention of these systems activates the security systems of the plants, monitored 24/7 by the San Donato Milanese dispatch service.
All pressure vessels and lines are periodically checked by outside bodies, while the connecting flow lines between the compression and treatment systems and the clusters are monitored through the regular inspection of the section, carried out on foot or in vehicles. Periodically, a smart device fitted with sensors is passed inside these ducts, a so-called smart pig, that makes it possible to detect the presence of any defects or irregularities in the material and even the slightest movement of the duct. In addition, microseismic monitoring is taking place, offering guarantees on the secure management of storage activities and the monitoring of soil movements with data from an interferometric satellite SAR and continuous acquisitions in real time obtained through CGPS stations.

Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2019 was 362.9 million cubic metres/day on average, which was in line with 2018 (+0.6%), while transferred capacity totalled 231.4 million cubic metres/day on average. Network

saturation[7] was 63.8%, a decrease compared with 2018 (79.5%).
The number of active transport users in 2019 was 150, compared with 136 active users in 2018. During the year, 123 connection agreements were entered into for the creation of new delivery/redelivery points, including 26 for the injection of biomethane and 61 relating to CNG service areas.
Overall storage capacity, including strategic storage, was 17.0 billion cubic metres at 31 December 2019, an increase of 0.1 billion cubic metres over 2018 following the Bordolano site's gradual entry into service, of which 12.5 was available capacity that was fully transferred for the 2019-2020 thermal year and the remaining 4.5 billion cubic metres was for strategic storage.
There were 90 active storage customers (91 in 2018).

75.37

Billion m³ of gas injected into the network (+3,5%)

74.34

Billion m³ gas demand (+2.3%)

100%

of available capacity conferred

57

methane tankers unloaded (+36 compared with 2018)

Business volumes

In 2019 a total of 75.37 billion cubic metres of gas was injected into the network, an increase of 2.55 billion cubic metres (+3.5%) compared with 2018. The increase was mainly as a result of higher consumption in the thermoelectric power generation sector (+2.45 billion cubic metres; +10.1%) following greater use of natural gas in the generation of electricity, the reduction in electricity imports and the smaller production from renewable sources, particularly hydroelectric production, as well as the rise in wind and solar power.

The available storage capacity at 31 December 2019 of 12.5 billion cubic metres (+0.1 billion cubic metres compared with 2018, made available by the gradual entry into operation of the new Bordolano deposit), represents the greatest capacity offered at a European level, and was conferred in full for the 2019-2020 thermal year.

Volumes of gas moved through the storage system in 2019 amounted to 19.33 billion cubic metres, a fall of 1.74 billion cubic metres, or 8.3%, compared with 2018. The reduction was mainly attributable to lower withdrawals from storage (-1.26 billion cubic metres; -12.1%) mainly as a result of weather conditions.

During 2019, the Panigaglia (SP) LNG terminal regasified 2.40 billion cubic metres of LNG (0.91 billion cubic metres in 2018, +1.49 billion cubic metres). In 2019 57 methane tankers were unloaded (+36 compared with 2018).

The significant increase in volumes of activities compared with last year, is mainly due to the greater competitiveness of the cost of LNG compared with natural gas, as well as the new regasification capacity allocation mechanisms through dedicated auctions.

7 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. For this purpose, the companies entering the scope of consolidation in 2019 were consolidated within the "Corporate and other activities" sector, with the exception of Enura, consolidated within the "Natural gas transportation" operating sector”.

Key operating figures

	2017	2018	2019	Change	% change
Natural gas transportation (a)					
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	74.59	72.82	**75.37**	2.55	3.5
Transportation network (kilometres in use)	32,584	32,625	**32,727**	102	0.3
Installed power in the compression stations (MW)	902	961	**961**		
Liquefied Natural Gas (LNG) regasification (a)					
LNG regasification (billions of cubic metres)	0.63	0.91	**2.40**	1.49	
Natural gas storage (a)					
Available storage capacity (billions of cubic metres) (c)	12.2	12.4	**12.5**	0.1	0.8
Natural gas moved through the storage system (billions of cubic metres)	19.92	21.07	**19.33**	(1.74)	(8.3)
Employees in service at the year-end (number) (d)	2,919	3,016	**3,025**	9	0.3
by business segment:					
- Transportation	1,972	1,915	**1,945**	30	1.6
- Regasification	63	64	**65**	1	1.6
- Storage	60	59	**61**	2	3.4
- Corporate and other activities (e)	824	978	**954**	(24)	(2.5)

(a) With reference to the 2019 financial year, gas volumes are expressed in Standard cubic metres (Smc) with an Average Calorific Value (ACV) of 38.1 MJ/Smc (10,572 kWh/Smc) for transport and regasification and 39.23 MJ/Smc (10.895 kWh/Smc) for the storage of natural gas for the thermal year 2019-2020.
(b) The data for 2019 were updated at 27 January 2020. The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.
(c) Working gas capacity for modulation, mining and balancing services, allocated in full for the thermal year 2019-2020.
(d) Fully consolidated companies.
(e) The figure for 2019 includes the resources coming, respectively, from Renerwaste joining the scope of consolidation (47 resources) and TEA Servizi (8 resources).

Personnel

The number of employees in service at 31 December 2019 was 3,025 (3,016 employees at 31 December 2018), an increase of 9 (+0.3%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation at 31 December 2019 was 3,042 (2,949 employees in 2018).
The following dynamics were recorded during 2019:

- the entry of 231 resources, 172 of whom were recruited from the market, 59 others who entered as a result of the change in the scope of consolidation following the acquisition of TEA Servizi S.r.l. (8 resources) and the Renerwaste Group (47 resources in total with reference to Renerwaste S.r.l. and Renerwaste Lodi S.r.l.), and the return of 4 employees from leave;
- 222 employees left the company, including 68 as a result of the termination of employment, 45 were terminated unilaterally (including, among other things, resigning and being fired) and 77 took early retirement. In addition, there were another 12 exits going on leave and 12 transfers to non consolidated companies.

With respect to the Group's distribution country-wide, 2,295 people are employed in the northern regions of Italy, 241 in the central regions and 477 in the south. Furthermore, 13 individuals are permanently employed abroad.

Industrial relations

In 2019 relations with trade unions nationally and locally featured numerous meetings dedicated to analysing business development projects and new organisational arrangements also following the acquisition of Cubogas.
As regards transportation and storage, the integration process resulting from the Integra project, which calls for integrating side activities of the operational companies to develop and exploit the specific skills, was followed.
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. In addition, a technical commission was launched for the Smart Gas System project designed to analyse the technical issues relating to this further organisational technical development.
For the regasification business, meetings were held with the Trade Unions, nationally and locally, in order to share and discuss topics intrinsic to the business evolution.
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 Law 92/2012 for an early exit of an additional 110 workers who meet the requirements prescribed by the law.
An electronic ticket was introduced at group level through a trade union agreement for all organisations operating in the area.

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 2019 Snam directly provided work for around 600 companies (+11% compared with 2018) 424 of which belong to the small-medium business sector (SME), concluding over 896 procurement contracts worth a total of approximately €1,550 million (+2% compared with 2018). Among the goods purchased the most important material is steel (piping, connectors, etc.) which, in 2019, amounted to a supply of approximately 86,000 tonnes.

Procurement

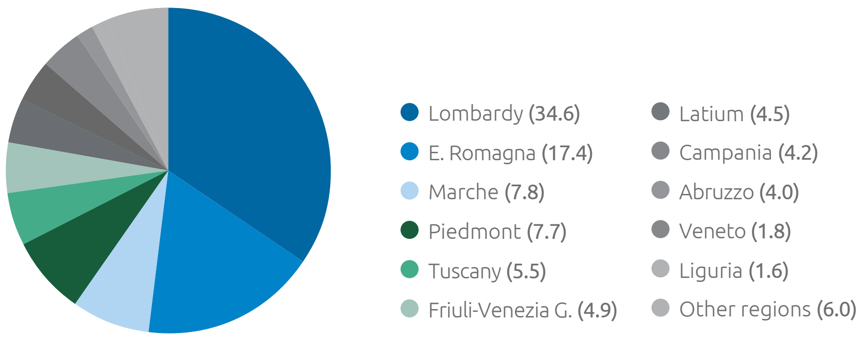
(millions of €)	2017	2018	2019	2017-2019
Amount of purchases	844	1,520	**1,550**	3,914

Around 1,300 million procured involve Italy (distributed in all Italian regions in line with the Company's strong roots in the area), while as far as activities abroad are concerned, in 2019 Snam signed 23 contracts, worth a total of more than €3 million, and continued exporting its know-how, especially in England, for the management of gas turbines, and in China for the management and maintenance of gas storage facilities.
To guarantee the adequacy of suppliers in relation to procurement requirements, Snam is constantly conducting intense market intelligence activities and scouting activities for new suppliers: in 2019 around 260 companies were contacted, relating to about 70 different product categories and the classification of 110 new candidates was begun. The number of spontaneous applications received from prospective suppliers was 980. This activity is particularly important to support Snam's strategy to energy transition expanding the pool of suppliers for product categories involving the new businesses (biomethane, hydrogen, CNG, SSLNG).
At 31 December 2019, the vendor list included 2,085 qualified suppliers, and 722 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, 937 feedback reports were collected (+14% compared with 2018) on the services rendered by 117 suppliers.
Additionally, 1,913 suppliers and sub-contractors were checked with regard to the regularity of contributions, through 3,959 inspections which led to the interception of 2.25% 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. In 2019 2,490 reputational checks were conducted on suppliers and contractors.
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.
To evaluate their performance, Snam uses a rating index (IR) that takes into consideration compliance with technical contractual requirements (Quality), health-safety-environment (HSE), agreed delivery times (Level of service), establishing a good relationship with the customer for the entire duration of the

contract (Behaviour). The assessment is periodically forwarded to suppliers in the form of an analytical opinion.

Snam may restrict, suspend or even revoke the qualification of a supplier who fails to meet the agreed standards. The possible cases could include, failing to meet technical-organisational requirements, negative performance evaluation for it or its subcontractors, non-compliance with the provisions relating to contributory regularity and the rules in the Snam Code of Ethics. In 2019 41 provisions were issued in this area (+17% compared with 2018).

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

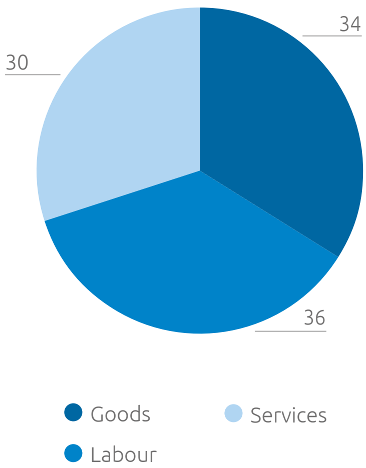


(*) Representation of the geographical distribution refers to the registered officers of supplies.

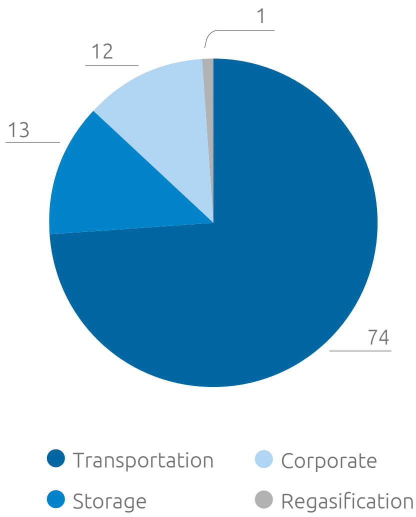
In 2019 as far as IES Biogas, TEP Energy Solutions and CUBOGAS were concerned a total of 1012 suppliers were qualified, 918 of which with at least one contract and 891 which can be qualified as small and medium-sized businesses (SMEs) making a total of 1,031 contracts issued.

The total procurement was €108.8 million with 96.3% procured in Italy.

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 gradual promotion not only within the company, but also vis-à-vis suppliers, to extend and improve collaboration so as to achieve the best performance.

In 2019 a total of 7 accidents took place (the same as in 2018) 2 of which involved Snam Group employees (4 in 2018), both of which were in companies acquired last year (IES-Biogas and Cubogas) and 5 involved suppliers/contractors (3 in 2018).

Accidents at work

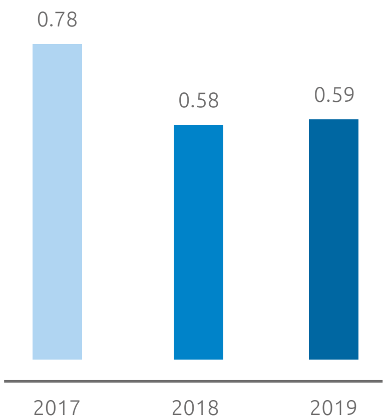
(no.)	2017	2018	2019
Total employee accidents	6	4	**2**
Total contract worker accidents	5	3	**5**

Accident indices

	2017	2018	2019
Employees and contract workers			
Frequency index	0.78	0.58	**0.59**
Severity index	0.56	0.02	**0.05**
Employees			
Frequency index	1.24	0.84	**0.41**
Severity index	0.05	0.02	**0.03**
Contract workers			
Frequency index	0.54	0.41	**0.71**
Severity index	0.83	0.03	**0.07**

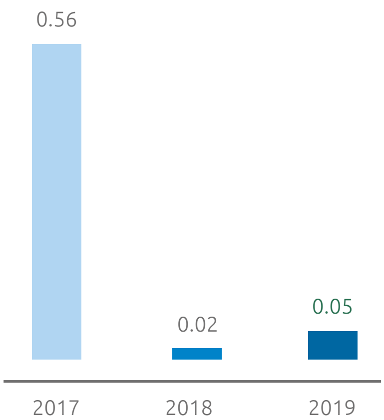
Frequency index: number of accidents at work resulting in absence of at least one day, per million hours worked.
Severity index: number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

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



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

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

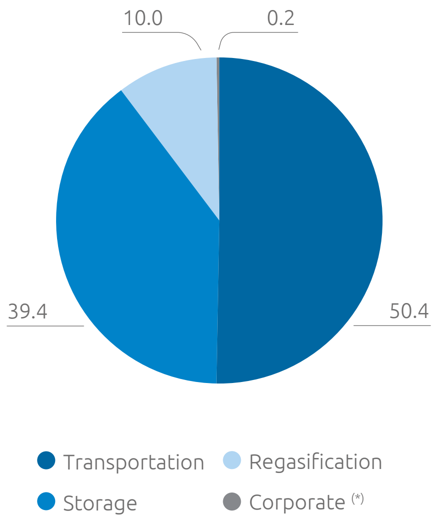


(*) number of working days lost in relation to accidents at work resulting in absence of at least one day, per thousand hours worked. Data includes fatal accidents.

Energy consumption

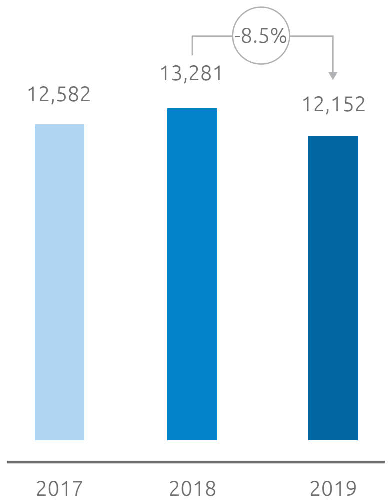
Snam's main energy consumption is attributable to the gas turbines used in the compression plants which provide the pressure necessary for transporting the gas (thrust consumption) and in the storage facilities (storage consumption) which, globally, represents 81% of total consumption, down compared with 2018 (88%) as a result of the increase in the energy consumption of the LNG Italia regasification facility which represented 10% of the Group's total consumption (3.5% in 2018). The increase is in line with the increase in the quantity of regasified gas (+170%). In 2019 total energy consumption stood at around 12,152 TJ (-8,5% compared with 2018) in spite of an overall increase in the gas injected into the network (+3.5%). This result was promoted by the difference provenance of the gas from import points (less use of the back-up network from north Africa more energy-intensive than the other ones). In addition to natural gas, the other energy sources are electricity (3.5%) and other fuels (diesel fuel, gasoline, LPG and heat), which together amount to 0.8% of the total consumption. The Company, which is committed to combating climate change, has declared that it will use 55% green electricity by 2030.

Energy consumption by business segment (%)



(*) in Corporate the consumption of Snam4Mobility, TEP, TEA, Cubogas, IESBiogas is counted, in Transportation the consumption of ITG is also counted.

Energy consumption (TJ)



Greenhouse gas emissions

In 2019 direct CO_{2eq} emissions amounted to approximately 1.35 million tonnes (a distinct reduction of 10% compared with 2018).

The reduction in direct emissions is partly due to the reduction in energy consumption, assisted by the different provenance of gas from import points (less use of the back-up network from north Africa which is more energy-intensive compared with the other import lines), but especially as a result of the initiatives implemented to reduce natural gas emissions, a demonstration of the effectiveness of the decarbonisation strategy adopted by Snam at the time.

Specifically, in 2019 Snam reduced its emissions into the atmosphere thanks to the adoption of various initiatives:

- reduction of natural gas emissions (down by 11.5% compared with the 2018 value and 19% compared with 2016 thanks to the adoption of different best practices);
- the production of electricity from photovoltaic plants and the purchase of green electricity (the consumption of green electricity increased, going from 37% in 2018 to 44% in 2019);
- installation of plants with LED lighting replacing other lighting equipment with greater consumption;
- savings resulting from the renovation of buildings;
- smart working.

These actions made it possible for the company not to release around 182 thousand tonnes of CO_{2eq} into the atmosphere, the maximum value in recent years, an increase of 17% compared with 2018 as a result of the company's ever increasing commitment to combating climate change.

The CO_2 emissions from combustion amounted to approx 0.656 million tonnes (-9.7% compared with 2018), whereas the CO_{2eq} emissions deriving from the methane emissions amounted to approximately 0.69 million tonnes (-10.4% compared with 2018). Natural gas emissions stood at 39.2 million m³, down compared with 44.4 million m³ in 2018.

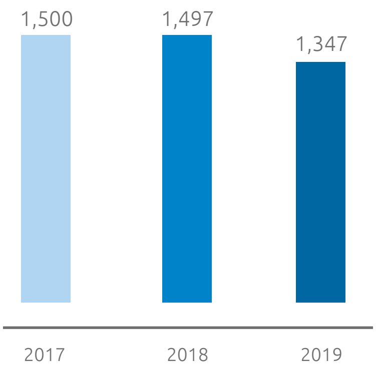
The Company, committed to tackling climate altering emissions, set new targets:.

- a 40% reduction by 2030 of all direct CO_{2eq} emissions (Scope 1) and indirect (Scope 2), from base year 2016;
- a 40% reduction in natural gas emissions by 2025 from base year 2016 (target increased by 15 percentage points compared with last year).

In 2019 the emission into the atmosphere of 9.4 million cubic metres of natural gas was prevented, equal to around 165,000 tonnes of CO_{2eq} (+16 % compared with the approximate figure of 142,000 tonnes of CO_{2eq} in 2018). These performances were made possible by the on-line gas compression interventions and the interventions with tapping machines, technology that makes it possible to disconnect pipelines in operation for new connections without an interruption to the service.

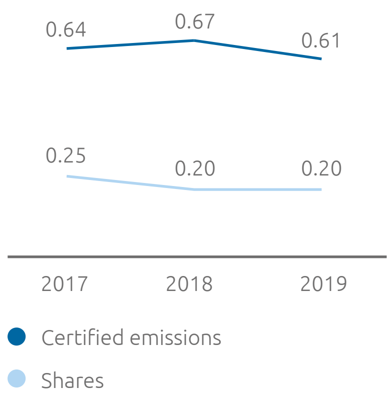
In 2019, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. In view of around 0.609 million tonnes of carbon dioxide emitted into the atmosphere, around 0.202 million tonnes were allocated free of charge, resulting in a 0.407 million tonne deficit. The allowances allocated also include those intended for the new entrants, the gas compression plants of Minerbio and Sergnano for 2018 and 2019. The allocation of free allowances by the competent national authority each year is gradually reduced each year as set out from the third regulatory period in Article 10 bis of Directive 2009/29/EC.

Total direct GHG emissions - Scope 1 (kt CO_{2eq}) (*)



* 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".

CO_2 emissions from ETS plants (10^6 t)



Snam Emission Trading plants

Intangible	No. of plants	Plants' name
Transportation	13	Gas compression stations in Enna, Gallese, Istrana, Malborghetto, Masera, Melizzano, Messina, Montesano, Poggio Renatico, Tarsia, Terranuova Bracciolini, Minerbio, Segnano
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

Snam and the financial markets

Snam share performance

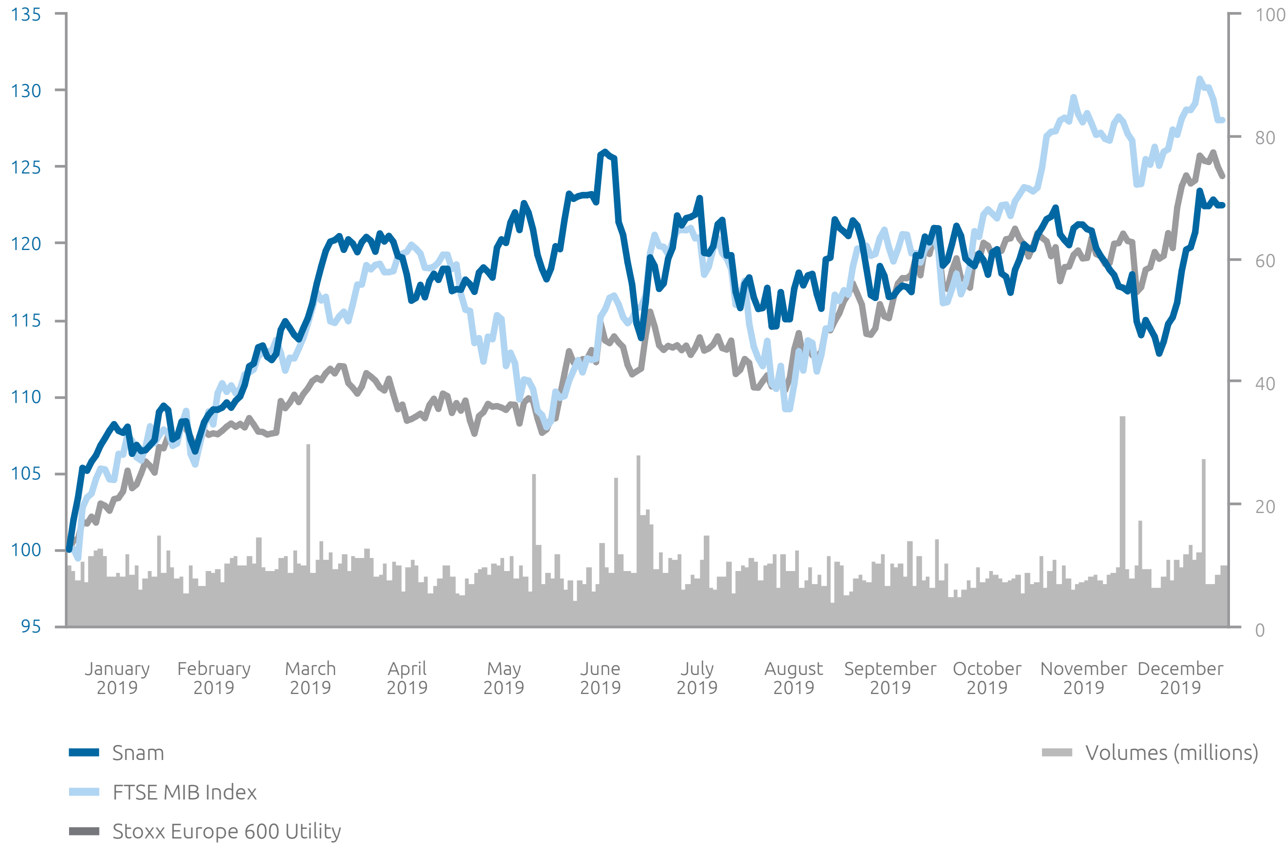
The Snam stock ended 2019 at an official price of €4.6860, up 22.68% compared with the price of €3.8198 recorded at the end of the previous year.

The average share value during the year was €4.4711, reaching a maximum of €4.8200 in mid June.

The stock continued to benefit from both growth prospects in all the economic and financial indicators presented to the market in the strategic plan at the end of 2018 and confirmed in the 2019 plan and the greater visibility and clarity of the regulatory framework. It recorded a slight fall at the end of June at the same time as the payment of the dividend balance and at the end of the year as the result of a slight rise in market rates.

The Company has continued its usual investing activities with the aim of improving the competitiveness and security of gas supplies, which is central to the energy transition to a low-emissions economy, and the country's commitment to guaranteeing profitable growth to shareholders.

Snam share performance vs FTSE MIB and STOXX Europe 600 Utilities (1 January 2019 - 31 December 2019)



Snam shareholding at 31 December 2019

Consolidating company	Shareholders	% ownership
Snam S.p.A.	CDP Reti S.p.A. [a]	31.04
	Romano Minozzi	7.38
	Snam S.p.A.	3.02
	Other shareholders	58.56
		100.00

(a) CDP S.p.A. owns 59.10% of CDP Reti S.p.A.

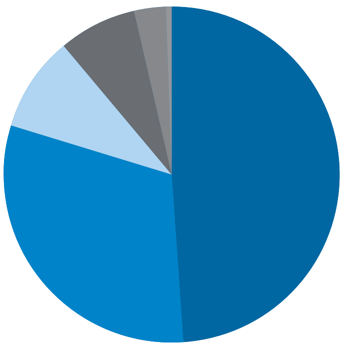
Cassa Depositi e Prestiti (CDP), a financial institution controlled by the Ministry of Economy and Finance, whose mission is to promote the growth and development of the Italian economic and industrial system, is a major shareholder in Snam S.p.A.

At the end of 2019, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 31.04% of share capital, Snam S.p.A. held 3.02% in the form of treasury shares, and the remaining 65.94% was in the hands of other shareholders.

The share capital at 31 December 2019 was composed of 3,394,840,916 shares with no par value (3,469,038,579 shares at 31 December 2018), following a total value of €2,735,670,475.56 (the same as at 31 December 2018).

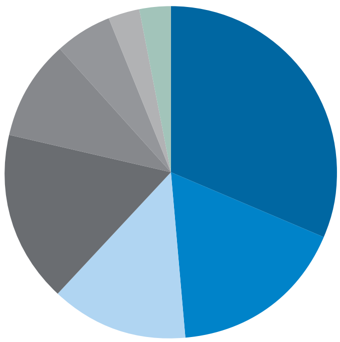
As at 31 December 2019, Snam held 102,412,920 treasury shares (168,197,663 as at 31 December 2018), equal to 3.02% of its share capital, with a book value of about €388 million (4.85% at 31 December 2018 for a book value of around €626 million). More information with regard to the changes in treasury shares in the portfolio in 2019 can be found in the chapter "Other information - Treasury shares" of this Report.

Composition of Snam shareholders



- 48.9% Institutional investors
- 31.0% CDP Reti
- 9.2% Retail investors
- 7.4% Mr. Minozzi
- 3.0% 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 - Retail (**)
- 9.0% UK & Irlanda
- 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 (7.4%).

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.

2019 Engagement Activity

In addition to the normal activities in presenting the Strategic Plan and conference calls upon the publication of the Company's results (annual, half-year and quarterly) during 2019, the following were carried out:

- 11 roadshows and 6 reverse roadshows to meet shareholders and institutional investors in the major financial centres of Europe and North America;
- 15 industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet senior management;
- meetings with more than 210 institutional investors during the year, corresponding to more than 40% of shares owned by active managers.

Inclusion of Snam stock in sustainability indices and ESG recognition

The number of investors who also include intangible elements in their investment decisions, such as environmental, social and governance issues, is increasing significantly year on year. With it the disclosure requirement of companies is therefore also increasing with them called upon to make increasingly clearer and more complete financial data and information available to their stakeholders so they can make their investment decisions. In 2019 too, the Snam stock was included in the main international SRI stock exchange indices, an essential tool in terms of transparency towards the market and comparability with peers. This result increases the visibility of the company with regard to investors, and the entire financial market.
The overall share of Snam's institutional investors that include Corporate Social Responsibility criteria in their investment decisions stood at 13.3% of all institutional investors at the end of 2019.

ESG indices and ratings

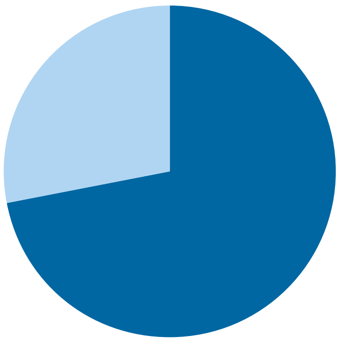
Snam's presence in sustainability indices

Dow Jones Sustainability Indices	For the eleventh 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.
FTSE4Good	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.
ETHIBEL	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.
MSCI 2015 Constituent MSCI Global Sustainability Indexes	Snam's listing has been confirmed for the fifth 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 includes companies having high sustainability ratings in their affiliated sectors.
STOXX	For the tenth consecutive year Snam stock came to form part of the STOXX Global ESG Leaders Indices, a group of indices based on a transparent process of selection of the performance, in terms of sustainability, of 1,800 companies listed worldwide.
ECPI	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
EURONEXT vigeo eiris	Snam is confirmed to be included in 2019 as well 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.
100 Sustainability Stock Index	Snam was also listed, in 2019, 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 anticorruption issues.

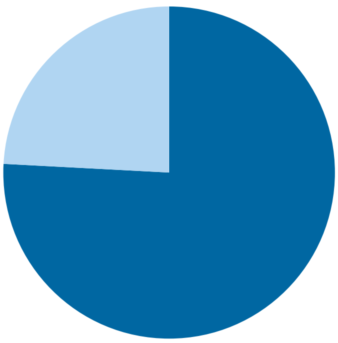
ESG Rating

CDP	It was included for the seventh consecutive year among the highest scorers of CDP, a non-profit organisation which is one of the most important internationally for climate change, and was also included on the A List.
CDP Supply Chain Member	Snam joined the CDP supply chain programme for the first time, the CDP programme aimed at the involvement of its supply chain in the climate change questionnaire. Snam got a score of A-, demonstrating the commitment of its suppliers in engagement activities involving issues related to the reduction of emissions and the development of sustainable strategies.
Corporate Responsibility Prime rated by oekom research	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.
SUSTAINALYTICS	Snam was also confirmed again in 2019 in the Sustainalytics index, a leading ratings agency that evaluates companies from an ESG perspective, which the company has been part of since 2013.

Breakdown by duration (%)



Breakdown by 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.

The Group's net financial position at 31 December 2019 was €11,923 million, the result of a gross financial debt of €14,774 million and cash and cash equivalents of €2,851 million.

With reference to the capital market, in February 2019 Snam concluded the issue of its first Climate Action Bond for a sum of €500 million, with an annual coupon of 1.25% maturing on 28 August 2025. In June 2019 Snam issued a Private Placement for a nominal amount of €250 million, at a fixed rate maturing on 7 January 2030 with a coupon of 1.625%. In September Snam issued a dual tranche bond for €1.1 billion maturing, respectively, in around 5 year and 15 years (with the longest maturity ever issued by Snam to date), a coupon of 0% (the third zero-coupon issued by Snam) and 1% equal to €500 million and €600 million. In December 2019, Snam successfully completed a buyback on the bond market of bonds with a total nominal value of around €597 million, with an average coupon of approximately 1.3% and a remaining maturity of approximately 3.8 years. The buyback price, including the commission paid to the intermediaries and the interest accrued (€7 million), of €633 million in total, was partly financed through a €200 million reopening transaction of the bond issue at around 5 years at a fixed rate in September, with the same maturity and coupon as the original issue.

With reference to the banking market, in July Snam extended the duration of the bilateral banking lines for a total of €700 million, at the same time improving the margins.

At 31 December 2019, Snam has unused committed long-term credit facilities for an amount of approximately €3.2 billion. During the year, as part of the process to optimise the financial structure of Group, their duration was extended without an increase in margins. In April, as a result of the achievement of the targets defined in the KPIs from an ESG perspective (Environment, Social, Governance) defined in the contractual conditions of the sustainable loan, Snam achieved a reduction in margins.

Following the renegotiation, the two syndicated lines, amounting to €2.0 billion and €1.2 billion, they will expire in July 2023 and December 2024, respectively, with an extension of one year compared with the previous term. Moreover, on that same date, Snam had an active Euro Medium Term Notes (EMTN) programme with a total nominal maximum value of €11 billion[8], of which it has used approximately €8.7 billion[9].

Snam also has a Euro Commercial Paper Programme (ECP), for a maximum total nominal value of €2 billion. At 31 December 2019 the entire amount of the ECP programme was used as part of the company's short-/medium-term funding strategy.

8 On 2 October 2019, the Board of Directors of Snam resolved to renew the EMTN programme increasing the maximum total value from €10 billion to €11 billion. The renewal of the programme allows for the issue, by 2 October 2020, of bonds worth up to a maximum of around €1.9 billion at the resolution date, to be placed with institutional investors operating mainly in Europe.

9 It should be noted that the convertible bond issued in March 2017, for a value of €400 million, is not part of the EMTN programme.

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.

Snam also has a Euro Commercial Paper Programme (ECP), for a maximum total nominal value of €2 billion. At 31 December 2019 the entire amount of the ECP programme was used 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.

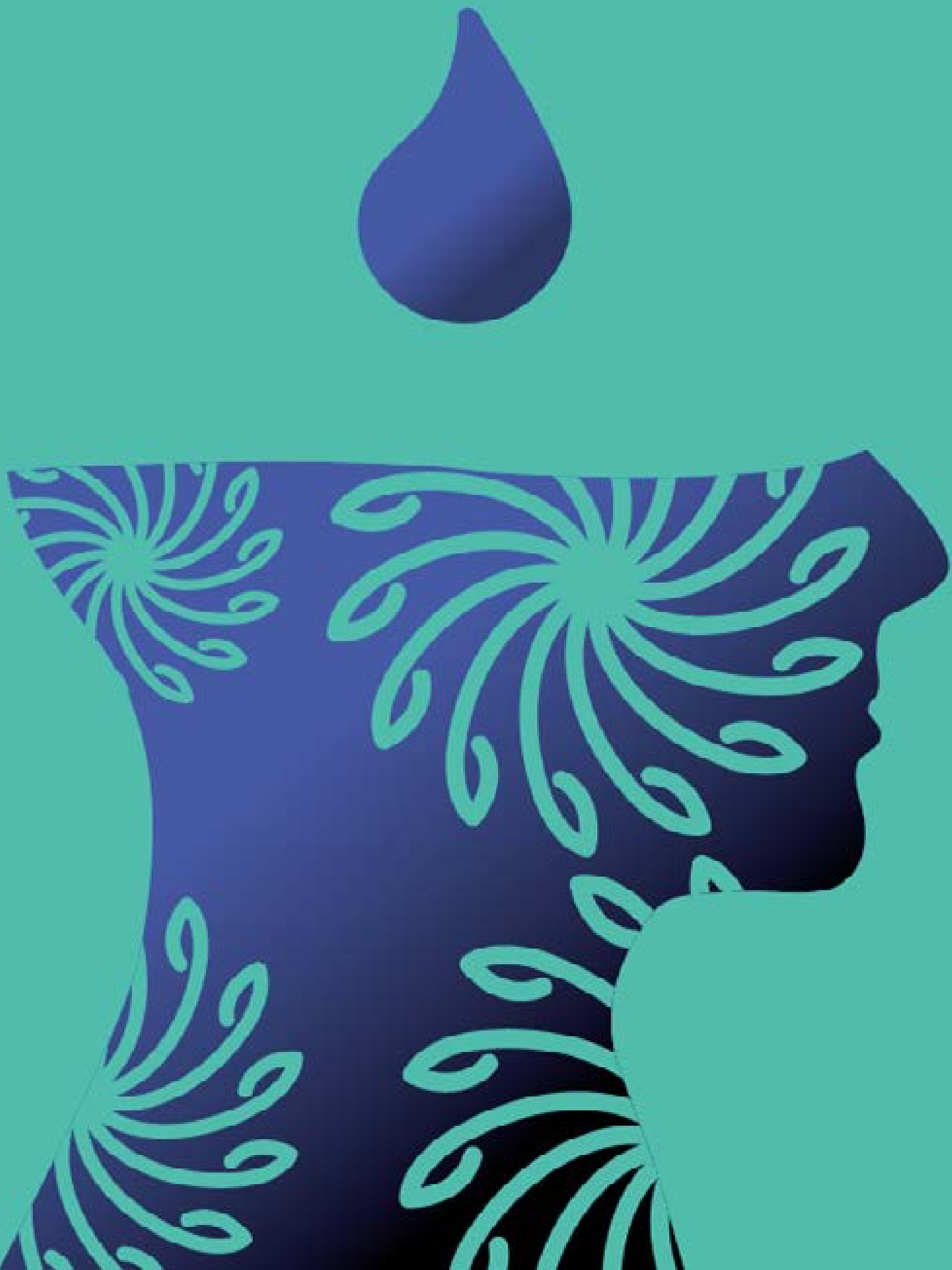
At the same time, the communication activity continued with the rating agencies Moody's, Fitch and Standard & Poor's, with the maintenance of the creditworthiness rating at the solid investment grade level by Moody's (Baa2 with a stable outlook), Fitch (BBB + with stable outlook), and Standard & Poor's (BBB + with a negative outlook).

In addition, when the Commercial Paper programme was renewed by Snam, the agencies confirmed the short-term rating of the company at P-2 for Moody's, A-2 for S&P and F2 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	Fitch Ratings
Last update	27 September 2019	17 January 2020	19 December 2019
Rating on long-term debt	Baa2	BBB +	BBB +
Rating on short-term debt	P2	A-2	F2
Outlook	Stable	Negative	Stable

Business segment operating performance



Snam Infrastructures in Italy

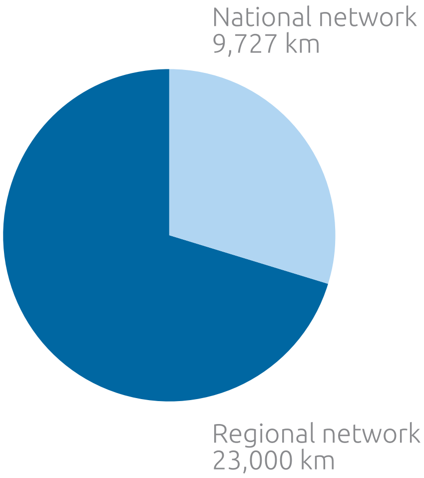
NATURAL GAS TRANSPORTATION	
ENTRY POINTS / REVERSE FLOW	8
COMPRESSION STATIONS	13
PIPELINES UNDER OPERATIONS	

NATURAL GAS STORAGE	
OPERATING CONCESSIONS	9

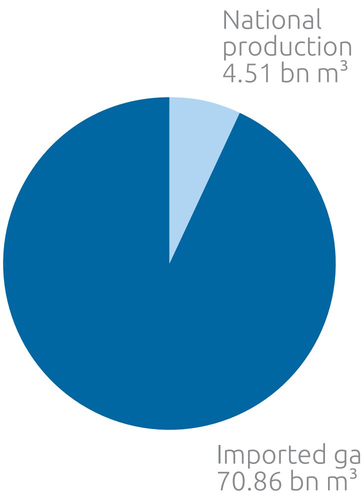
LNG REGASIFICATION	
REGASIFICATION PLANT	1

Natural gas transportation

32,727 km
Operating gas pipeline network



75.37 bn m^3
Gas injected in the national network



Snam, through its subsidiaries Snam Rete Gas S.p.A. and Infrastutture Trasporto Gas, is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy, with over 32,727 kilometres of high- and medium-pressure gas pipelines (approximately 94% of the entire transportation system). Snam manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 13 compression stations, including the two new Minerbio and Sergnano plants that came into operation in 2018, and a new dispatching unit that has recently been renovated in terms of structure and technology. The gas coming from abroad is fed into the network in the seven import channels, corresponding to the interconnections with the import pipelines and LNG regasification terminals. Once it has been imported or regasified, the gas is transported to the local distribution networks, the regional network redelivery points or large end users such as thermoelectric power stations or manufacturing plants.

Snam awards transportation capacity to shippers who apply. In this way, users acquire the right to inject or withdraw a quantity of gas not exceeding the daily rate allocated on any day of the thermal year. The conditions for access to the service are contained in the Network Code. Shippers have the possibility of making gas sales and trades at a Virtual Trading Point (PSV) of the National Network, thanks to the dedicated IT platform.

The transportation capacity of the network again covered all user demand in 2019. In addition to the average transport capacity offered at entry points connected with foreign countries and with LNG terminals equal to 362.9 million cubic metres/day; Snam has made further transport capacities available at entry points interconnected with national producers for a total of 20.7 million cubic metres average/day and with the production of biomethane for a total of 0.3 million of cubic metres average/day.

Over the last 16 years transport operators have been constantly increasing, going from around 30 operators in 2003 to around 210 operators in 2019 (including shippers and traders).

In 2019, 123 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, including 26 contracts for the injection of biomethane and 61 relating to CNG service areas.

KEY PERFORMANCE INDICATORS

The natural gas transportation sector information includes figures for Snam Rete Gas, Infrastrutture Trasporto and Enura.

(millions of €)	2017	2018	2019	Change	% change %
Total revenue (a)	2,039	2,118	**2,168**	50	2.4
- of which regulated revenues (a)	*1.981*	*2.041*	***2.106***	*65*	*3,2*
Total revenues net of pass-through items (a)	1,874	1,984	**2,031**	47	2.4
Operating costs (a)	452	479	**383**	(96)	(20.0)
Adjusted operating costs (a)	441	462	**418**	(44)	(9.5)
Adjusted operating costs net of pass-through items (*) (a)	276	328	**281**	(47)	(14.3)
EBIT	1,037	1,064	**1,122**	58	5.5
Adjusted EBIT(*)	1,048	1,081	**1,157**	76	7.0
Technical investments	917	764	**813**	49	6.4
- of which with a greater return	*383*	*280*	***249***	*(31)*	*(11,1)*
- of which with basic remuneration (b)	*534*	*485*	***564***	*79*	*16,3*
Net invested capital at 31 December	12,542	12,551	**12,932**	381	3.0
Natural gas injected into the national gas transportation network (billions of cubic metres) (c)	**74.59**	**72.82**	**75.37**	**2.55**	**3.5**
Transportation network (kilometres in use) (d)	32,584	32,625	**32,727**	102	0.3
- of which national network (d)	9,704	9,697	**9,727**	30	0.3
- of which regional network	*22.880*	*22.928*	***23.000***	*72*	*0,3*
Installed power in the compression stations (MW)	902	961	**961**		
Employees in service at year end (number)	1,972	1,915	**1,945**	30	1.6

(*) The figures reported in the adjusted configuration exclude the costs relating to the early retirement costs of €11 million and €17 million for 2017 and 2018, respectively. With reference to 2019, the value exclude the effects of the release to the income statement of the provision for impairment losses following the receivables related to balancing activities (€35 million). More information concerning the adjusted result measures and related special items that are recognised at the consolidated level are provided in the chapter "Comment on the financial results - Non-GAAP measures".
(a) Before consolidation adjustments.
(b) To a pre-tax actual basic WAAC of 5.4% for 2018 an 5.7% for 2019.
(c) The data for 2019 were updated at 27 January 2020. The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development. With reference to 2019, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10,572 kWh/SCM).
(d) The figure includes 84 Km of network that refers to Infrastrutture Trasporto Gas.

RESULTS

Total revenue amounted to €2,168 million, up by €50 million, or 2.4%, compared with 2018 (€ 2,118 million). Net of components offset in costs[10], total revenue amounted to €2,031 million, up by €47 million, or 2.4%, compared with the previous year.

Revenue from regulated activities (€2,106 million, largely related to fees for the natural gas transportation service (€2,087 million) and incentives recognised to the Balancing Manager (€16 million) as set forth in Resolution 554/2016/R/gas. Regulated revenue, net of components that are offset in costs, amounted to € 1,969 million, up by €62 million, or 3.3%, compared with 2018. The increase is essentially due to greater transport revenues (+€61 million) main attributable to the tariff updating mechanisms (+€69

10 The main revenue items offset in costs relate to modulation and interconnection.

million) which refer, specifically, to the increase in the WAAC, which rose from 5.4% in 2018 to 5.7% in 2019.

Revenue from non-regulated activities (€62 million) fell by €15 million or 19.5% compared with the 2018, due mainly to few charge backs for technical services provided to other group companies (-€17 million). The reduction corresponds to the lower costs incurred for the provision of related services, with no impact on the operating profit.

Adjusted EBIT amounted to €1,122 million, up by €41 million, or 3.8% compared with the adjusted EBIT for 2018 (€1,081 million). The greater revenue from regulated activities (+€62 million net of components offset in costs) together with the reduction in operating costs (+€32 million compared with the adjusted operating costs in 2018, net of components offset in revenues and service costs subject to recharging within the group), were partly absorbed by the greater depreciation and amortisation (-€30 million) due to new infrastructures coming into service and the greater impairment of works in progress relating to projects in previous years (-€23 million).
Specifically, the reduction in operating costs is mainly due to the lower costs related to the use of gas (+€20 million), also thanks to the recognition, in 2019, by the regulatory authority, of several expenses relating to 2018[11], as well as lower costs for services recharged by the subsidiary Snam S.p.A., also thanks to the management optimisation actions that were implemented for the IT infrastructures.

Technical investments

		2017			2018	2019
Type of investment	Greater remuneration (%) (*)	millions of €	Type of investment	Greater remuneration (%) (**)	millions of €	millions of €
Development of new import capacity	2.0%	276	Development	1.0%	**279**	**249**
Development of the national network	1.0%	10				
Development of the regional network	1.0%	97				
Replacement and other		534	Replacement and other		**485**	**564**
		917			**764**	**813**

(*) Compared with a pre-tax actual basic WAAC of 5.4%.
(**) Compared with a pre-tax actual basic WAAC of 5.4% for 2018 an 5.7% for 2019, applied to investments in a new transport capacity and with a cost/benefit analysis of more than 1.5 pursuant to the ARERA resolution 575/2017/R/Gas.

Technical investments in 2019 amounted to €813 million, an increase of €49 million, or 6.4%, compared with 2018 (€764 million).
The investments were classified in accordance with Resolution 575/2017/R/gas with reference to 2018 and 2019 and 514/2013/R/gas for investments in 2017 whereby the Energy, Networks and Environment Regulatory Authority (hereinafter ARERA or the Authority) identified different categories of projects with different rates of return.

The main investments in new transport capacity **Development** (€249 million), for which a **greater return of 1%** is planned, mainly involve:

- investments in the **development of new transport capacity in the National Network function to the import and export capacity** (€142 million) under the scope of transport network upgrading projects in southern Italy including, specifically, connection with TAP (€95 million) and the ongoing construction works for connection to the Massafra-Biccari pipeline (€13 million), the initiative supporting the market in the north-eastern part of the country and to allow the reversal of physical transport flows at the connection points with northern Europe in the area of the Po Valley (€32 million) due to the continuation of the complementary construction works for the Cervignano-Mortara pipeline and the Sergnano and Minerbio compression plants that came into service from October 2018;
- Investments in the **development of new transportation capacity in the Regional Network and the National Network** (€107 million), including: (i) the works relating to the connection of Italgas Storage S.r.l. of Cornegliano Laudense; (ii) the continuation of the construction and connection works related to the gas conversion of the Calabria Region, including, specifically, the construction activity of the S. Andrea

11 The costs associated with the use of gas are reported excluding the amounts recognised by the Authority following the greater costs for the purchase of gas for the years 2018 and 2019. Taking into account the calculation mechanism used by the Authority for recognising the costs relating to 2018, in July 2019, the company quantified the amount recognised for 2019.

Apostolo-Caulonia pipeline; (iii) the continuation of the construction activities for certain biomethane and CNG connections; (iv) the completion of the complementary construction activities relating to the upgrading of the Gavi-Pietralavezzara pipeline;

Replacement investments and other investments with a **basic rate of return**[12] (€564 million) relate mainly to: (i) works aimed at maintaining the security and quality levels of the plants (€418 million), some of the main ones being the "pipeline replacement" initiative (€126 million), including the ongoing delivery of materials and the start of construction activities for the reconstruction of the Ravenna-Recanati section of the Ravenna-Chieti pipeline (€49 million); (ii) projects relating to the development of new information systems, as well as the implementation of existing ones (€100 million); (iii) works recharged to third-parties (€19 million); (iv) the purchase of key operating assets (€18 million); (v) redelivery facilities upgrading projects (€6 million).

NFS Progress of work to obtain permits

To develop new sites, in addition to the technical-economic feasibility criteria, Snam adopts procedures that respond to stringent environmental and safety compatibility assessments.
The assessments of environmental effects involve all phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure and the procedures of the Integrated Environment Authority (AIA), at the end of which the central and local administrations issue the permits required under current law.

EIA decrees obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of decree
Pipelines				
San Salvo-Biccari pipeline overhauling	87.000	Apulia	Ministry of the Environment and Protection of Land and Sea	08/11/2019
Overhauling of Mestre-Gonas pipeline and downgrading	80.200	Veneto-Friuli Venezia Giulia	Ministry of the Environment and Protection of Land and Sea	05/11/2019
Overhauling of the Ravenna Mare-Ravenna Terra pipeline	25.980	Emilia-Romagna	Ministry of the Environment and Protection of Land and Sea	29/10/2019
Overhauling of the Campodarsego-Castelfranco Veneto pipeline	23.360	Veneto	Ministry of the Environment and Protection of Land and Sea	26/09/2019
Overhauling of the Pieve di Soligo-San Polo di Piave-Salgareda pipeline	34.700	Veneto	Ministry of the Environment and Protection of Land and Sea	05/09/2019
Gagliano Termini Imerese pipeline	38.340	Sicily	Ministry of the Environment and Protection of Land and Sea	06/03/2019
Overhauling of the Rimini San Sepolcro pipeline and associated works	91.915	Emilia-Romagna and Tuscany	Emilia-Romagna Region	25/03/2019

12 For the investments of 2019, the basic rate of return includes the rate of return on net invested capital (real pre-tax WACC) of 5.7%.

Integrated Environmental Authorisation decrees obtained during the year

Name	Length (km)	Regions involved	Competent agencies	Date of order
Pipelines				
Variant crossing the Trigno River By-pass for Trivento-Agnone	0.977	Molise	Ministry of the Environment and Protection of Land and Sea	21/11/2019
By-pass for Altino 2nd Tronco Variant construction Secco River hydraulic works	0.07	Abruzzo	Ministry of the Environment and Protection of Land and Sea	02/04/2019
Tortona-Alessandria-Asti-Turin Overhaul FR 39.1	3.68	Piedmont	Ministry of the Environment and Protection of Land and Sea	06/03/2019
Variant for PIDI insertion no. 18.2 at Chieti-San Salvo (CH)	1.132	Abruzzo	Ministry of the Environment and Protection of Land and Sea	26/02/2019
Variants S. Eufemia-Crotone Overhaul of Anna River crossing (KR)	0.64	Calabria	Ministry of the Environment and Protection of Land and Sea	15/02/2019
Plants				
HPRS IS64/24 bar Castellana Grotte system on Castellaneta-Castellana Grotte pipeline		Apulia	Ministry of the Environment and Protection of Land and Sea	16/01/2019

EIA applications submitted to Ministry of the Environment and Ministry of Cultural Heritage

	Length (km)	Regions involved	Date of submission
Pipelines			
Variants S. Eufemia-Crotone Overhaul of Anna River crossing (KR)	0.64	Calabria	25/10/2019
All. BIO ECOAGRIM S.r.l. of Lucera	1.052	Apulia	13/06/2019
Sestri Levante-Recco pipeline	47.8	Liguria	23/05/2019

Applications submitted to the Ministry of the Environment to check EIA requirements

Name	Length (km)	Regions – Provinces involved	Date of submission
Pipelines			
By-pass for Matera in the Municipality of Lauria	21.8	Basilicata	**02/12/2019**
Optimisation of the Recanati-Foligno Frazione Colfiorito layout	16.96	Marche-Umbria	**28/10/2019**
Benevento-Cisterna lowering variants	2.097	Campania	**03/10/2019**
Pessano-Calolziocorte variants	5.185	Lombardy	**25/06/2019**
Plants			
Alessandria-Cairo Montenotte-Savona Trappole		Piedmont-Liguria	**19/12/2019**

OPERATING REVIEW

Gas balance on the National Transportation Network

Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10,572 kWh/SCM). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

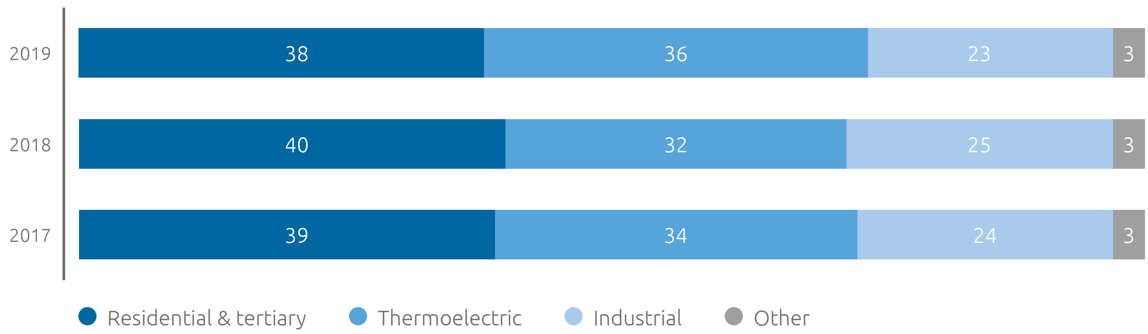
Demand for gas in Italy

(billions of m³)	2017	2018 (a)	2019	Change	% change % (b)
Residential and tertiary	29.48	28.76	**28.15**	(0.61)	(2.1)
Thermoelectric	25.36	24.19	**26.64**	2.45	10.1
Industrial (c)	17.8	17.39	**17.14**	(0.25)	(1.4)
Other (d)	2.51	2.33	**2.41**	0.08	3.4
Total	**75.15**	**72.67**	**74.34**	**1.67**	**2.3**

(a) The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.
(b) The percentage change is calculated with reference to the figures in cubic metres.
(c) Includes the consumption of the Industrial, Agricultural and Fishing, Chemical Synthesis and Automotive sectors.
(d) Consumption and losses relating mainly to the natural gas transportation system, the energy system, the upstream sector, storage and LNG plants.

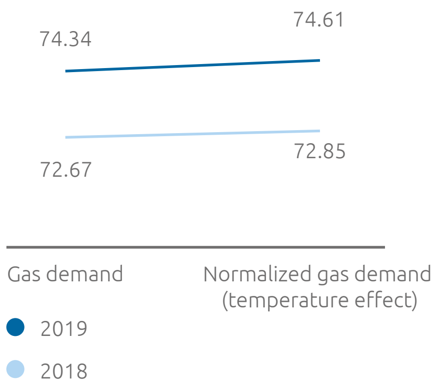
Gas demand in Italy in 2019 was **74.34 billion cubic metres**, up 1.67 billion cubic metres (2.3%) compared with 2018. The increase is mainly attributable to the higher consumption in the thermoelectric power generation sector (+2.45 billion cubic metres; +10.1%) and benefited from the greater use of natural gas in the generation of electricity, the reduction in electricity imports and the smaller production from renewable sources as hydroelectric power generation has decreased, despite the growth in wind and solar power. Greater recourse to natural gas in the generation of electricity is also attributable, as well as to the greater competitiveness of the price of natural gas at the virtual exchange point, down by around 37% compared with 2018, to an increase in the costs of the emission of CO_2 (+50% compared with 2018) that penalises generation from coal.
The increase in consumption recorded in the thermoelectric sector was partly offset by lower consumption in the residential and tertiary sector (-0.61 billion cubic metres or -2.1%) attributable to the weather and, to a lesser extent, the industrial sector (-0.25 billion cubic metres or -1.4%).

Gas demand by sector (% of total gas demand)



Adjusted for the weather effect, gas demand came to 74.61 billion cubic metres, up 1.76 billion cubic metres (+2.4%) compared with the same figure in 2018 (72.85 billion cubic metres), also following the greater use of energy efficiency enhancing measures by the residential and tertiary sector.

Gas demand (Bcm)



Availability of natural gas

(billions of m³)	2017	2018 (*)	2019	Change	% change % (b)
From gas injected into the network by entry point	69.35	67.70	**70.86**	3.16	4.7
From domestic output	5.24	5.12	**4.51**	(0.61)	(11.9)
Total gas injected into the network	**74.59**	**72.82**	**75.37**	**2.55**	**3.5**
Net balance of withdrawal/injection into storage (**)	0.23	(0.43)	**(1.39)**	(0.96)	
Total availability of natural gas	**74.82**	**72.39**	**73.98**	**1.59**	**2.2**

(*) The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.
(**) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption per injection/withdrawal.

The **availability of natural gas** in Italy (73.98 billion cubic metres) is equal to the sum of gas injected into the National Transportation Network and the net balance of withdrawals from and injections into the storage system, and was up by 1.59 billion cubic metres (+2.2%) compared with 2018. The increase is due to greater volumes of gas injected into the network per point of entry (+3.16 billion cubic metres or +4.7%), in spite of the reduction in domestic production (-0.61 billion cubic metres or -11.9%), partly offset by the greater net injections into storage compared with the previous year (-0.96 billion cubic metres).

Gas injected into the network (*)

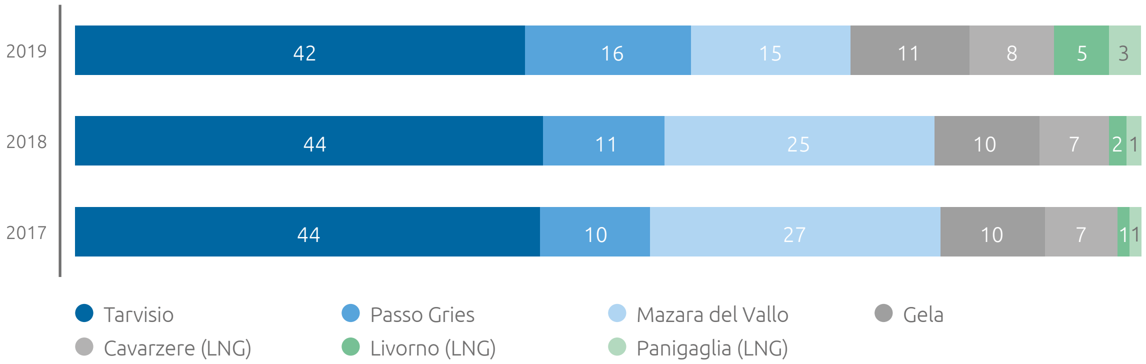
(billions of m³)	2017	2018	2019	Change	% change %
Domestic output	5.24	5.12	**4.51**	(0.61)	(11.9)
Entry points (**)	69.35	67.70	**70.86**	3.16	4.7
Tarvisio	30.18	29.69	**29.85**	0.16	0.5
Gries Pass	7.25	7.76	**11.13**	3.37	43.4
Mazara del Vallo	18.88	17.09	**10.21**	(6.88)	(40.3)
Cavarzere (LNG)	6.85	6.71	**7.91**	1.20	17.9
Gela	4.64	4.47	**5.70**	1.23	27.5
Livorno (LNG)	0.91	1.07	**3.62**	2.55	
Panigaglia (LNG)	0.62	0.88	**2.42**	1.54	
Gorizia	0.02	0.03	**0.02**	(0.01)	(33.3)
	74.59	**72.82**	**75.37**	**2.55**	**3.5**

(*) The data for 2019 were updated at 27 January 2020. The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.
(**) Entry points connected with other countries or with LNG regasification plants.

Injections and withdrawals of gas in the transportation network

In 2019, a total of 75.37 billion cubic metres of gas was injected into the network, an increase of 2.55 billion cubic metres (+3.5%) compared with 2018.
Injections into the network from domestic production fields or their collection and treatment centres totalled 4.51 billion cubic metres, down by 0.61 billion cubic metres (-11.9%) compared with 2018.
Volumes injected at entry points connected with other countries and with regasification plants, overall equal to 70.86 billion cubic metres, rose by 3.16 billion cubic metres (+4.7%) compared with 2018.
The greater volumes injected by the LNG regasification terminals (+5.29 billion cubic metres or +61.1%), also thanks to the new auction-based capacity allocation mechanisms, as well as the entry points of Passo Gries (+3.37 billion cubic metres or +43.4%) and Gela (+1.23 billion cubic metres or +27.5%), partly offset by lower volumes injected by the entry point Mazara del Vallo (-6.88 billion cubic metres or -40.3%).

Natural gas injected into the import point (% of total gas injected)



Withdrawals of natural gas

(billions of m³)	2017	2018	2019	Change	% change %
Redelivery to the domestic market	73.97	71.48	**73.03**	1.55	2.2
Exports and transit (*)	0.33	0.45	**0.38**	(0.07)	(15.6)
Consumption and emissions attributable to Snam Rete Gas	0.28	0.27	**0.23**	(0.04)	(14.8)
Gas not accounted for and other changes (**)	0.24	0.19	**0.34**	0.15	78.9
Total withdrawals of natural gas	**74.82**	**72.39**	**73.98**	**1.59**	**2.2**

(*) Includes exports to the Republic of San Marino.
(**) Includes variations in network capacity. In the energy report compiled by Snam Rete Gas, the natural difference between the quantity of gas metered at the entrance to the network and the quantity of gas metered at the exit, due to the technical tolerance of the metering devices, is traditionally defined as unaccounted-for gas (UFG).

The natural gas withdrawn from the National Transportation Network in 2019 (73.98 billion cubic metres) is mainly: (i) redelivery to users at network exit points (73.03 billion cubic metres; +2.2%); (ii) exports and transit (0.38 billion cubic metres or -15.6%); and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.23 billion cubic metres or -14.8%).

Reconciliation of the gas withdrawn from the network and Italian demand

(billions of m³)	2017	2018 (a)	2019	Change	% change % (b)
Total gas injected into the network	**74.59**	**72.82**	**75.37**	**2.55**	**3.5**
Net balance of withdrawal/injection into storage (c)	0.23	**(0.43)**	**(1.39)**	(0.96)	
Total withdrawals of natural gas	**74.82**	**72.39**	**73.98**	**1.59**	**2.2**
Exports (-) (d)	(0.33)	**(0.45)**	**(0.38)**	0.07	(15.6)
Gas injected into the regional networks of other operators	0.03	**0.03**	**0.03**		
Other consumption (e)	0.63	**0.69**	**0.71**	0.02	2.9
Total Italian demand	**75.15**	**72.66**	**74.34**	**1.68**	**2.3**

(a) The 2018 figures have been definitively updated and are consistent with those published by the Ministry of Economic Development.
(b) The percentage change is calculated with reference to the figures in cubic metres.
(c) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption per injection/withdrawal.
(d) Includes transit and exports to the Republic of San Marino.
(e) Includes the consumption of the LNG regasification terminals, the consumption of the compression stations for storage and the production treatment stations.

Transportation capacity

(millions of m³/day)	Calendar year 2017			Calendar year 2018			Calendar year 2019		
Entry points	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)	Transportation capacity	Allocated capacity	Saturation (%)
Tarvisio (**)	111.4	94.6	84.9	111.1	107.4	96.7	**110.6**	**98.3**	**88.9**
Mazara del Vallo (*) (**)	84.4	78.3	92.8	82.0	81.2	99.0	**86.7**	**36.1**	**41.6**
Passo Gries	64.4	22.4	34.7	64.4	34.8	54.0	**64.4**	**31.3**	**48.6**
Cavarzere (LNG)	26.4	24.4	92.5	26.4	24.4	92.4	**26.4**	**24.9**	**94.3**
Gela (*)	23.8	22.0	92.4	20.3	20.1	99.0	**22.9**	**19.0**	**83.0**
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	**15.0**	**14.3**	**95.3**
Panigaglia (LNG)	13.0	2.0	15.5	13.0	4.0	30.8	**13.0**	**7.4**	**56.9**
Gorizia	4.6	0.1		4.2	0.1	2.4	**4.0**	**0.1**	**2.5**
Competing capacity (*)	21.2			24.4			**19.9**		
	364.2	**258.8**	**71.0**	**360.8**	**287.0**	**79.5**	**362.9**	**231.4**	**63.8**

(*) The capacities at the Mazara del Vallo and Gela entry points do not include competing capacity. This capacity, pursuant to Regulation (EU) No 984/2013 in force as of 1 November 2015, represents the transportation capacity available at one point, the allocation of which fully or partly reduces the capacity available for allocation at another point in the transportation system.
(**) The capacity values at the Marzara del Vallo and Tarvisio entry points include the capacity shares pursuant to ARERA Resolution 666/2017/R/GAS.

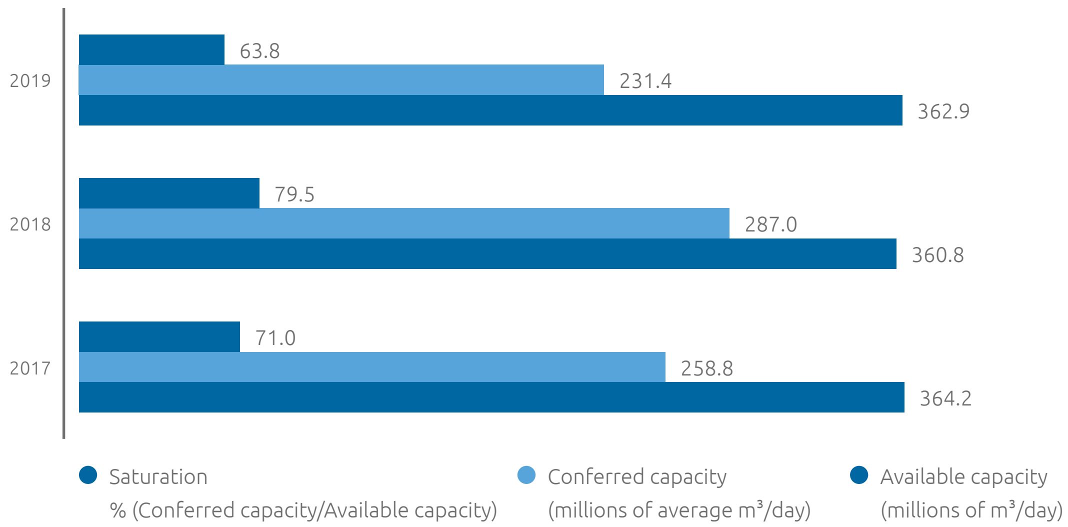
The transportation capacity of the network again covered all user demand in 2019. Average transportation capacity provided in 2019 at the entry points connected with foreign pipes and at regasification facilities was 362.9 million cubic metres on average per day, 19.9 of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities which concern the entry points interconnected with foreign countries and the LNG terminals, a transportation capacity is available at the domestic production entry points:

- national production at a total of 20.7 million cubic metres/day;
- the production of biomethane at a total of 0.3 million cubic metres/day.

Snam Rete Gas has prepared a long-term plan for available transportation capacity, which was sent to the Ministry of

Economic Development on 28 June 2019 and published on the Snam website at www.snam.it/it/trasporto in the online services/capacity section.
The document shows data about capacity at all entry points interconnected with foreign countries and with LNG terminals for the thermal year 2019-2020 and subsequent years up to 30 September 2034.
Also shown for the thermal year 2019-2020 are the transport capacities of the interconnected exit points with the foreign countries of Passo Gries, Gorizia, Bizzarone and San Marino at a total of 46 million cubic metres/day.
As a result of all the infrastructures of the "Supporting the north-west market and two-way cross-border flows" project coming into service, a total capacity of 40 million cubic metres/day became available simultaneously at the Passo Gries and Tarvisio exit points. The maximum capacity of the Passo Gries exit point is 40 million cubic metres/day, while the maximum capacity of the Tarvisio exit point is 18 million cubic metres/day, therefore there is a "competing capacity" pursuant to chapter 5, paragraph 3 of the Network Code available at the two points.
Over the last 16 years transport operators have been constantly increasing, going from around 30 operators in 2003 to around 210 operators in 2019 (including shippers and traders), with the number of customers (shippers) standing at 150 (136 in 2018).
In 2019 there was an increase in the number of Traders at PSV (Virtual Trading Points), which went from 52 Traders operating at the end of the 2017-2018 thermal year to 69 Traders operating at the end of the 2018 – 2019 thermal year.
In 2019, 123 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, including 26 contracts for the injection of biomethane and 61 relating to CNG service areas.

Transportation capacity and saturation



Provision and development of transportation services

	2017	2018	2019
Active customers (shippers)	128	136	**150**
New connection agreements for delivery/redelivery points	78	88	**123**

Thanks to the development of Snam services over the last 15 years, the Italian gas market has seen constant growth in transportation operators, passing from 30 in 2003 to around 210 in 2019, with 150 shippers.
In 2019, 123 connection contracts were signed for the construction of new delivery/redelivery points (of which 26 were for biomethane injection and 61 for the CNG Service areas) or the upgrading of existing points.
In 2019, the integration process through which the commercial management activities of the 3 businesses - transportation, storage and regasification - merged into a single organisation continued, allowing the optimisation of the processes within Snam. The creation of a single commercial control room for the management of daily gas deliveries and movements, the balancing of the network (activities that define Snam's responsibilities to the market), integrating the know-how of the 3 businesses managed by Snam, has led to an improvement in performance in this area.
From the point of view of services, on 22 May 2019 Snam opened the new Jarvis commercial platform of integrated

services to its customers, implemented in 2018 and developed in conjunction with market operators. The platform, which actively involves customers, is designed to adopt a process for the renewal of services and technologies to support all commercial transportation, storage and regasification processes based on the feedback received from customers and also proposes to promote the range of integrated services offered on the Italian market possibly also enabling services for the foreign market. The platform provides customers with the possibility of:

- viewing its active contracts and having access to the documentation;
- accessing the transactions, in detail, for calculating the balancing credit limit;
- independently managing their user profiles.

To facilitate the transition to the new platform, from July 2019, Snam made a simulator of the new functionalities featured available to the market operators.
In September 2019, with the release of the Trading PSV system for gas trading activities, the new Jarvis platform came into force, at the same time as the progressive shutting down of the functionalities in the PSV system used previously.
Network codes list a number of indicators for monitoring the quality of service offered by the companies. When compared against these indicators, the Snam companies maintained a high level of performance in 2019 as well.
One part of these indicators, which refer to specific levels of commercial quality, gives rise to the automatic indemnification of customers in the event of failure to comply with the service quality standard.

(%)	2017	2018	2019
Contracted transport capacity/Available transport capacity (foreign entry/interconnection points)	71	79	**64**
Compliance with deadlines for issuing offers for connection	100	100	**100**
Compliance with time frames for providing services subject to specific commercial quality standards	100	100	**100**

Organisational changes

During the course of 2019, the recorded number of personnel in servic 018 to 1,945 resources at 31 December 2019.
The organisational structure of group companies operating in the transportation and dispatching business was redesigned with a view to greater consistency with the Snam guidelines of streamlining the organisation and processes, aimed specifically at reducing duplications with Snam units dedicated to commercial and technical activities, and integration of transportation and storage activities.
Specifically, with reference to the transportation sector, note:

- the redesigning of the structure of the plant area with a view to increasing integration between transportation and storage activities, strengthening of the oversight of the area (creation of a Northern Facilities Area and Central-Southern Facilities Area) and a more comprehensive structuring of the centralised support service, in close conjunction with the Snam Technologies & Industrial Innovation unit BUAIT (creation of the Facilities Support unit and the BUAIT Technical Facilities unit);
- the redefinition of part of the organisation dedicated to Engineering and Construction activities with the definition of structures dedicated to the creation of Facilities and the establishment of integrated oversight support dedicated to engineering and authorisation activities;
- the move to Snam Rete Gas of all commercial activities, previously monitored by Snam, with a view to the full integration of all activities in the regulated sector and simplification of the organisational model, with the creation, at the same time, of a Commercial and Dispatching unit, in which all physical dispatching and gas measurement activities have been incorporated, previously the responsibility of the gas operations unit.

In relation to the opportunity to pursue economies of experience and scope that develop Group best practices, and to the specific requirements of other operating companies, several Snam Rete Gas structures provide technical services (for example, with regard to engineering and project management activities aimed at large investments). In addition, in relation to the organisational changes listed above, Snam Rete Gas also guarantees the supply to Stogit and LNG Italia of the commercial services previously delivery by Snam.

Accidents

In 2019 the number of accidents was 0 for employees and 5 for contractors (compared with 4 and 3 in 2018).

Accidents at work (no)

	2017	2018	2019
Total employee accidents	2	4	**0**
Total contract worker accidents	4	3	**5**

Accident indices

	2017	2018	2019
Employees			
Frequency index (*)	0.66	1.29	**0**
Severity index (**)	0.03	0.03	**0**
Contract workers			
Frequency index (*)	0.47	0.46	**0.83**
Severity index (**)	0.90	0.03	**0.08**

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

Energy consumption and emissions

The company, in accordance with its sustainable growth model, updated and set new voluntary targets, valid objectives for all Snam businesses (transportation, storage, regasification):

- to reduce its natural gas emissions by 2022 and 2025, respectively by 15% an 40%, excluding emergencies, compared with the 2016 figures;
- to reduce its scope 1 and scope 2 emissions by 2030 by 40%, excluding emergencies, compared with the 2016 figures;
- to increase the ratio between green electricity bought and the total to reach 55% by 2030.

In 2019 the emission into the atmosphere of 9.4 million cubic metres of natural gas was prevented, equal to around 165,000 tonnes of CO_{2eq} (16% compared with 142,000 tonnes of CO_{2eq} in 2018). These performances were made possible by the on-line gas compression interventions and the interventions with tapping machines, technology that makes it possible to disconnect pipelines in operation for new connections without an interruption to the service. These results led to a reduction in natural gas emissions of 11.7% compared with 2018, a trend completely in line with the general targets.

Total emissions of CO_{2eq} avoided in 2019 resulting from the various initiatives adopted by the company (missing natural gas emissions, production of electricity from photovoltaic plants, purchase of green electricity, installation of LED bulbs to replace other tradition bulbs, smart working) have globally made it possible to prevent the emission into the atmosphere of 181,800 tonnes of CO_{2eq}.

Energy consumption for transport, equal to 6,123 Terajoule (TJ), decreased by around 18% compared with 2018 in spite of an overall increase in gas injected into the network (+3.5%). This result was promoted by the difference provenance of the gas from import points (less use of the back-up network from North Africa more energy-intensive than the other ones).

In 2019, nitrogen oxide emissions totalled around 286 tonnes (-6.2% compared with 2018). To contain emissions, a programme that calls for modifying certain turbines already in operation and the installation of new units with low emission combustion systems (Dry Low Emissions) has been in progress for years. In 2019 the percentage of DLE turbines operating in transportation stood at around 95%.

Energy consumption

	2017	2018	2019
Energy consumption (TJ)	7,459	7,463	**6,123**
Emissions of CO_{2eq} - scope1 (ton) (*)	1,008,051	981,866	**838,326**
Emissions of natural gas (106 m^3)	34.4	32.8	**28.7**
Natural gas recovered (106 m^3)	4.1	8.2	**9.4**
NOx emissions (tonnes)	342	305	**286**

(*) The CO_{2eq} emissions were calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the Intergovernmental Panel on Climate Change (IPCC) scientific study the "Fifth Assessment Report IPCC".

REGULATIONS CONCERNING THE BUSINESS SEGMENT

Relations with the regulatory authority

Over the years Snam has established a constructive relationship and effective cooperation with the Italian Regulatory Authority for Energy, Networks and the Environment – ARERA.

Relations with the regulatory authority (no.)

	2017	2018	2019
Responses to consultation documents and service proposals	8	10	**5**
Tariff proposals	4	3	**4**
Data collections	129	143	**137**
Preliminary investigations (*)	3	2	**0**
Proposal to amend/update contractual documents and codes (**)	14	12	**6**
Proposal to amend/update contractual documents and codes (approved)	12	10	**6**

(*) Information sent to the Authority during 2019 with reference to investigations in the context of the sector. This includes exploratory investigations.
(**) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

GAS MARKET MONITORING

As part of its evaluations of the gas wholesale markets, the Authority gave Snam the mandate, as a leading transportation business, together with Gestore dei Mercati Energetici, to support it in monitoring activities through: (i) the preparation of a transportation and balancing, storage and regasification services integrated data base, made available by the Regulator and supplied daily; (ii) providing indices and reports on a regular basis under the scope of the balancing function, the balancing of the system and the flexibility of procurement sources; (iii) further specific analyses at the request of the Authority.

Relations with the regulatory authority under the scope of Gas Market Monitoring (no.)

	2019
Relations/analyses (with reference to all businesses)	6
Agreements, manuals and specific details on monitoring (with reference to all businesses)	14
Reports and data flows	13,423

Regulation transition period 2018-2019

Criteria for adjusting the tariffs for natural gas transport services for the transition period in the years 2018 and 2019

By means of Resolution 575/2017/R/gas, which was issued on 4 August 2017, the Authority approved the tariffs for the transport, dispatch and metering service for 2018 -2019. The resolution confirms the main criteria of the previous regulation, with several amendments:

- The asset β parameter was confirmed for the 2018-2019 Transition Period. The value of the WACC equal to 5.4% in pre-tax real terms was therefore confirmed for 2018 and was recalculated for 2019 through the updating of the basic parameters.
- From 2018 the investments made in the year t-1 were included in the investment capital for the purpose of determining the tariffs for year t, replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time lag was applied to investments made in the period 1 January 2014 - 31 December 2016;
- The input-based incentive scheme (1-2% for 7/10 years for regional and national networks respectively) was applied to new development investments that have entered into service by 31 December 2017;
- An input-based incentive scheme (1% for 12 years for regional and national networks) was applied to investments for the construction of new transportation capacity, launched as of 31 December 2017, which will start operating in the years 2018 and 2019. The incentive was also recognised for investments that start operating during the transition period after 1 January 2018, included in the Development Plan and with a benefit-cost ratio higher than 1.5;
- The operating costs recognised in the fourth regulatory period were updated according to inflation, and a productivity recovery factor (X-factor). The variable unit price (CV) was calculated for the years 2018 and 2019 using a reference volume of 67.2 billion cubic metres.

Tariff regulations for 2019

By means of Resolution 280/2018/R/gas, published on 10 May 2018, the Authority approved the revenue recognised for the natural gas transportation, dispatching and metering service for 2019, which totalled €1,964 million. The RAB used to calculate 2019 revenue for transportation, dispatching and metering amounts to €16.2 billion and includes estimated investments for the year 2018.
By means of Resolution 306/2018/R/gas, published on 01 June 2018, the Authority approved the proposed revenue for the natural gas transportation and dispatching service for 2019.

Updating of the remuneration rate of the capital invested for regulatory purposes (WACC) for 2019

Through resolution 639/2018/R/gas, published on 6 December 2018, the Authority carried out an interim updating of the WACC basic parameters common to all electricity and gas sector regulated infrastructure services, pursuant to the provisions of Article 5 of the TIWACC and the gearing level, according to the forecasts of Article 6 of the TIWACC.
In the resolution the Authority confirmed the level of the risk free rate parameter (rf) equal to 0.5% (the floor) as the average return rate in real terms of EU country government bonds with ratings of at least AA in the period 1 October 2017-30 September 2018 was lower than this figure.
The Authority also set the other parameters as follows:

- Country Risk Premium (CRP), at 1.4%;
- Tax shield, equal to 24% and taxation level at 31%;
- Future inflation at 1.7%.

For infrastructure services other than those of gas distribution and metering, the Authority set a D/E gearing level of 1, while the calculation of the Beta parameter was carried out during the tariff regulation of the individual businesses starting from 2020.
Based on the parameter values reported above, the Authority set the return rate on invested capital for the natural gas transportation service at 5.7% in real pre-tax terms in 2019 (5.4% for the years 2016-2018). The WACC for 2020 was calculated following the setting of the Beta parameter for the 5th regulatory period, outlined in the next section.

Regulation for the fifth regulatory period 2020-2023

Tariff adjustment criteria for the natural gas transportation and metering service for the fifth regulatory period (2020-2023)

Through resolution 114/2019/R/gas, published on 29 March 2019, the Authority defined the regulation criteria of the natural gas transportation tariffs for the fifth regulatory period (1 January 2020-31 December 2023).
The duration of the regulatory period was confirmed as 4 years. The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The net invested capital remuneration rate Beta parameter (WACC) remains fixed at 0.364, with the WACC remaining unchanged at 5.7% before tax for the years 2020-2021, in line with the TIWACC framework. Works in progress are included in the calculation of the RAB predicting a real pre-tax return of 5.3%. The inclusion in the RAB of investments made in the year t-1 for the purpose of remuneration to compensate the regulatory time-lag is also confirmed.
Limited to the interventions included in the Development Plans that will come into operation in the years 2020-2021-2022 with a cost/benefit ratio of more than 1.5, a greater WACC of +1.5% for 10 years is applied.
The revenue component relating to the return and amortisation and depreciation is updated on the basis of an annual recalculation of net invested capital (RAB) and additional revenue from the higher rate of return for investments realised in prior regulatory periods.
Amortisation and depreciation are calculated based on the useful economic and technical life of the transportation infrastructure.
Operating costs recognised for 2020 are calculated based on effective recurring costs for 2017, increased by the greater efficiency achieved in the current period (50% profit sharing), with the possibility of including any recurring costs for 2018 if adequately justified. The application of the price-cap method for the purpose of updating operating costs is confirmed, envisaging an X-factor to return the greater efficiency achieved in the fourth regulatory period to users in 4 years.
It is expected that the largest transportation business will procure quantities of gas to cover self-consumption, leaks and unaccounted for gas (GNC) under the scope of the centralised market. The quantities of gas recognised are assessed based on the weighted average price of forward products with delivery to the PSV (Virtual Trading Point) in the reference tariff year. The resolution includes the recognition of the difference between the price recognised for these volumes and the effective procurement price, deferring the definition of the detail mechanism to the next provision.
With regard to tariff structure, the current methodology for determining the capacity/commodity split was confirmed, providing for capacity revenue to cover capital costs (return and amortisation and depreciation) and commodity revenue to cover recognised operating costs. The current revenue correction factor applied to the capacity component (100% guaranteed) and to the component related to transported volumes (allowance ±4%) is confirmed. With reference to the metering service, a mechanism to cover revenues similar to that of the transportation service (100% guaranteed) was introduced.
The tariff structure based on the entry/exit model is confirmed, including not only the domestic network but also the regional network in the reference price methodology. The entry and exit capacity fees are calculated using the capacity weighted distance methodology (CWD) with the revenues distributed between the entry and exit points 28/72.
A variable fee was introduced, applied to volumes transported, intended to cover the operating costs recognised, the costs relating to the Emission Trading system, ratifying the principle of neutrality adopted by the business in relation to price risk and incentivising virtuous behaviour aimed at reducing CO^2 emissions, and the costs of procurement of quantities to cover self-consumption, leaks and CNG. This fee is applied to the transportation network entry points and is calculated annually based on the volumes effectively withdrawn in the year t-2.
Lastly, there are plans for the definition of the regulation criteria for the quality of the natural gas transportation service for the fifth regulatory period to be deferred, trialling the innovative use of transportation networks, as well as the restructuring of the metering service, following specific consultations carried out in 2019. In this regard, through resolution 554/2019/R/gas, published on 23 December 2019, the Authority approved the new Consolidated Act for the regulation of the quality of the gas transportation service which contains provisions on the continuity of the service, security and commercial quality, valid for the fifth regulatory period 2020-2023
.

Approval of 2020 revenues

By means of Resolution 201/2019/R/gas, published on 28 May 2019, the Authority approved the revenue recognised and fees for the natural gas transportation and dispatching service for 2020. Revenue recognised for the natural gas storage service for 2020 amounted to € 2,096 million. The RAB used to calculate 2020 revenue for transportation, dispatching and metering amounts to €16.4 billion and includes estimated investments for the year 2019.

Settlement and balancing

Approval of the Snam Rete Gas S.p.A. proposal relating to the improvement and efficiency improvement targets subject to the incentive, pursuant to point 5 of the Authority resolution 480/2018/R/gas

Through resolution 57/2019/R/gas, published on 22 February 2019, the Authority approved the proposal of further improvement and efficiency objectives for settlement and balancing presented by Snam Rete Gas pursuant to resolution 480/2018/R/gas, point 5, functional to the recognition of the incentive of around €2.5 million set out in this resolution. Specifically, the objectives consist of the commitment to: (i) bringing forward the times for the completion of the activities of checking new dynamic profiling mechanisms function to the launch of the settlement reform pursuant to resolution 72/2018/R/gas of the Authority; (ii) ensuring greater transparency of these methods through disclosure and sharing with the operators involve as well as (iii) launching a trial in the period June-December 2019 to restrict the use of the storage capacity by the Balancing Manager, function to the implementation of the reform outlined by the Authority in previous consultations. The incentive is distributed equally between the objectives proposed by Snam Rete Gas and the recognition that will be modulated according to the activities concluded.

Regulation of previous corrective factors

In a letter dated 26 June 2019, the regulatory authority notified Snam Rete Gas, of the amount of the corrective factors relating to previous years to be paid to the CSEA by 31 July 2019, under the "Transport expenses account" as required by Article 4.3 of the resolution 114/2019/R/gas of the same Authority.
The amount of €180 million (€154 million net of activities compensated), calculated based on the reported revenues relating to 2018 sent to the Authority pursuant to Article 4 of resolution 114/2019/R/gas, refers to the corrective factors for 2018, net of deviation revenues and residual corrective factors for previous years (2016-2017). Snam Rete Gas made the relative payment on 30 July 2019.

Liquefied Natural Gas (LNG) regasification

17,500 m³

Daily regasification capacity maximum of LNG of the plant in Panigaglia

3.5 bn m³

Maximum annual quantity of natural gas that can be released into the network for transmission

2.,40 bn m³

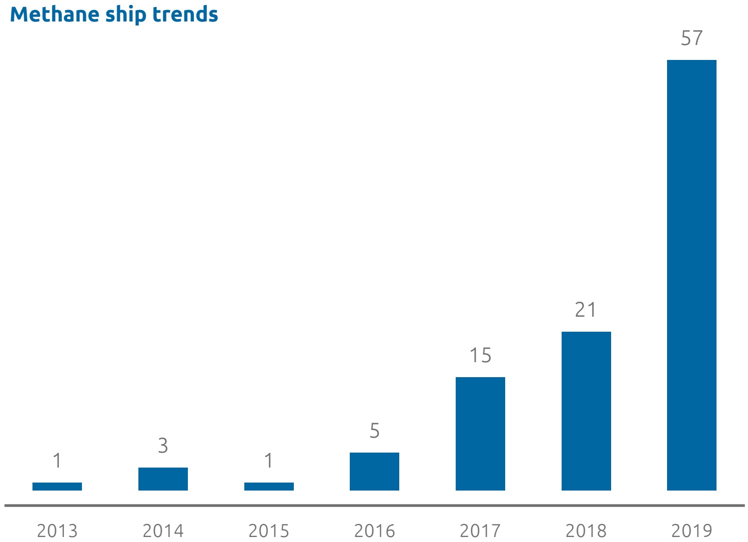
Quantity of LNG regasified in 2019 in Panigaglia (1.49 bn m³ in 2018)

57 (+36% compared with 2018) Methane tanker loads

LNG Italia plays a key role in ensuring adequate diversification and flexibility of supplies to the gas system

The Panigaglia plant, built in 1971 and owned by LNG Italia, is able to regasify 17,500 m³ of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transport network every year.
The total amount of gas regasified at the Panigaglia plant in 2019 was 2.40 billion m³ (0.91 billion m³ in 2018; +1.49 billion m³).
The significant increase in volumes of activities compared with last year, is mainly due to the greater competitiveness of the cost of LNG compared with natural gas, as well as the new regasification capacity allocation mechanisms through dedicated auctions.
In 2019 57 methane tankers were unloaded (+36 compared with 2018).
The new capacity allocation mechanisms based on auctions as well as the new businesses in the SSLNG sector, linked specifically to the possible future uses in heavy transport and maritime transport, will lead to a scenario of further growth in the consumption of LNG in future years.

Methane ship trends



The regasification service can be continuous for the entire thermal year or the spot type. Moreover, from October 2018 the regasification capacity was awarded through dedicated auctions. Lastly, the regasification service includes the ancillary service, which consists of correcting the heating power of the natural gas to comply with quality requirements for its injection into the transportation network (correction of the Wobbe index).
During the course of 2019, LNG Italia provided regasification services to 6 active customers (2 customers in 2018).

Key performance indicators

(millions of €)	2017	2018	2019	Change	% change %
Total revenue (a)	22	24	**32**	8	33.3
- of which regulated revenues (a)	*21*	*20*	***27***	*7*	*35.0*
Total revenues net of pass-through items (a)	19	21	**22**	1	4.8
Operating costs (a)	15	17	**26**	9	52.9
Operating costs net of pass-through items (a)	12	14	**16**	2	14.3
EBIT	2	2	**1**	(1)	(50.0)
Technical investments (b)	5	9	**19**	10	
Net invested capital at 31 December	89	86	**95**	9	10.5
Volumes of regasified LNG (billions of cubic metres) (c) (d)	0.63	0.91	**2.40**	1.49	
Tanker loads (number)	**15**	**21**	**57**	**36**	
Employees in service at 31 December (number)	63	64	**65**	1	1.6

(a) Before consolidation adjustments.
(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.8% for 2019, 6.6% for 2017 and for 2018.
(c) With reference to 2019, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10,572 kWh/SCM).
(d) The regasified quantities are shown gross of self-consumption and losses (QCP component), equal to 1.7% for the Panigaglia terminal.

RESULTS

Total revenue amounted to €32 million, an increase of €8 million, or 33.3%, compared with 2018. Excluding the items offset in costs[13], total revenue amounted to €22 million, essentially in line with 2018 (+€1 million or 4.8%).

Regulated revenues, amounting to €27 million, include the fees for the regasification service (€17 million, unchanged from 2018) essentially relating to the share of the guarantee factor for the year 2018, provided for in art. 18 of Annex A to Resolution 438/2013/R/gas, and the chargeback to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€10 million +€7 million compared with 2018).[14]

EBIT totalled €1 million (€2 million in 2018). The greater revenue coming from sales of natural gas were offset by the greater operating costs following withdrawals from storage.

TECHNICAL INVESTMENTS

Technical investments for 2019 stood at €19 million, more than double the figure for the previous year (€9 million in 2018), and included investments in maintenance, aimed at the modernisation, technological adaptation and security of plant systems.

13 Revenues offset in costs refer to the costs that LNG charges back to its customers for use of the transportation service provided by Snam Rete Gas.
14 For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within LNG Italia S.p.A. in order to represent the substance of the operation.

These include: (i) engineering activities and general interventions on tanks (€6 million); (ii) revamping operations on systems (€2 million); (iii) various IT and property interventions (more than €2 million).

Operating review

In 2019, 2.40 billion cubic metres of LNG were regasified at the LNG terminal in Panigaglia (SP) (compared with 0.91 billion cubic metres in 2018, +1.49 billion cubic metres), with 57 methane tankers unloaded (+36 compared with 2018), also thanks to the new mechanisms used to allocate capacity through auctions. With reference to the number of employees, this figure stood at 65 resources, essentially in line with the previous year. Under the scope of the process of integrating Snam's Italian assets, the strengthening of the organisational oversight dedicated to operating activities continued in 2019 as well, aimed at upgrading the direct oversight of the core regasification activities, as against the staff processes where activities were provided centrally by Snam.
On 26 February 2020, Snam acquired a 49.07% stake in the share capital of OLT (Offshore LNG Toscana), the company that built and manages the offshore regasification terminal (FSRU - Floating Storage and Regasification Unit) located offshore of the Tuscan coast between Livorno and Pisa. With a maximum annual regasification capacity of 3.75 billion cubic meters, OLT is the second largest Italian liquefied natural gas (LNG) terminal.

Provision and development of regasification services

	2017	2018	2019
Active customers (shippers)	4	2	**6**
Compliance with the maximum period to accept proposals for monthly scheduling of deliveries (%)	100	100	**100**
Compliance with maximum period of interruption/reduction of capacity at the terminal due to maintance works (%)	100	100	**100**

In 2018 the Company implemented a digital platform (Jarvis) aimed at improving commercial operations.
The Jarvis platform, which actively involves customers, is designed to adopt a process for the renewal of services and technologies to support all commercial transportation, storage and regasification processes based on the feedback received from customers and also proposes to promote the range of integrated services offered on the Italian market possibly also enabling services for the foreign market.
From the point of view of services, on 22 May 2019 Snam opened the new Jarvis commercial platform of integrated services to its customers, implemented in 2018 and developed in conjunction with market operators. More information with regard to the new services introduced in 2019 are given in the section "Provision and development of services - Transportation of natural gas" in this Report, also on the basis of the implementation and integrated management of the platform for all the regulated businesses in which Snam operates.

Accidents

In 2019, there were no accidents involving either employees or contract workers.

Accidents at work (no)

	2017	2018	2019
Total employee accidents	1	0	**0**
Total contract worker accidents	0	0	**0**

Accident indices

	2017	2018	2019
Employees			
Frequency index (*)	9.31	0	**0**
Severity index (**)	0.17	0	**0**
Contract workers			
Frequency index (*)	0	0	**0**
Severity index (**)	0	0	**0**

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

Energy consumption and emissions

The company, in accordance with its sustainable growth model, updated and set new voluntary targets, valid objectives for all Snam businesses (transportation, storage, regasification):

- to reduce its natural gas emissions by 2022 and 2025, respectively by 15% an 40%, excluding emergencies, compared with the 2016 figures;
- to reduce its scope 1 and scope 2 emissions by 2030 by 40%, excluding emergencies, compared with the 2016 figures;
- to increase the ratio between green electricity bought and the total to reach 55% by 2030.

Energy consumption

	2017	2018	2019
Energy consumption (TJ)	325	462	**1.217**
Emissions of CO_{2eq} – scope1 (t) (*)	44,421	41,407	**83,452**
Natural gas emission (106 m^3)	1.7	1.2	**1.3**
NOx emissions (tonnes)	14.8	22.4	**49.8**

(*) The CO_{2eq} emissions were calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the Intergovernmental Panel on Climate Change (IPCC) scientific study the “Fifth Assessment Report IPCC”.

In 2019 energy consumption for the regasification of gas increased by around 163%, in line with the increase in the quantities of regasified gas (+170%). Total emissions of nitrogen oxide in 2019 amounted to around 50 tonnes compared with 22 in 2018, a development in line with the growth of the gas treated. Natural gas emissions were in line with those of 2018, standing at 1.3 million m³.

Regulations concerning the business segment

Relations with the regulatory authority (no.)

	2017	2018	2019
Responses to reference documents	2	1	**2**
Tariff proposals	1	2	**2**
Data collections	28	34	**24**
Proposals to amend/update contractual documents and codes (*)	0	3	**0**
Proposal to amend/update contractual documents and codes (approved)	0	3	**0**

(*) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Relations with the regulatory authority under the scope of Gas Market Monitoring (no.)

	2019
Relations/analyses (with reference to all businesses)	**6**
Agreements, manuals and specific details on monitoring (with reference to all businesses)	**14**
Reports and data flows	**234**

Regulation transition period 2018-2019

Criteria for adjusting the tariffs for the natural gas transport service for the transition period in the years 2018 and 2019

By means of Resolution 653/2017/R/gas, published on 2 October 2017, the Authority approved tariffs for the LNG regasification service for 2018-2019. The resolution confirms the main criteria of the previous regulation, with several amendments:

- The asset β parameter was confirmed for the 2018-2019 Transition Period. The value of the WACC equal to 6.6% in pre-tax real terms was therefore confirmed for 2018 and was recalculated for 2019 through the updating of the basic parameters.
- The investments made in the year t-1 were included in the invested capital recognised for the purpose of calculating the tariffs for the year t, replacing the 1% increase in the WACC covering the regulatory time lag. The 1% increase in the WACC covering the regulatory time lag was applied to investments made in the period 1 January 2014 - 31 December 2016.
- The input-based incentive scheme (2% for 16 years for the upgrading of regasification capacity) was applied to new development investments that come into service by 31 December 2017;
- An input-based incentive scheme (1.5% for 12 years) was applied to investments for constructing new regasification capacities that became operational in the years 2018 and 2019;
- The operating costs recognised in the fourth regulatory period were updated according to inflation, and a productivity recovery factor (X-factor).
- The current provisions relating to the revenue coverage factor were confirmed.

Updating of the remuneration rate of the capital invested for regulatory purposes (WACC) for 2019

Through resolution 639/2018/R/gas, published on 6 December 2018, the Authority carried out an interim update of the basic WACC parameters, shared by all regulated infrastructure services of the electricity sectors, for the three-year period 2019-2021, and for regulated

infrastructure services of the gas sector, for 2019, setting this value at 6.8% for regasification activities (6.6% for the years 2016-2018).
For infrastructure services other than those of gas distribution and metering, the Authority set a D/E gearing level of 1, while the calculation of the Beta parameter was carried out during the tariff regulation of the individual businesses starting from 2020. The WACC for 2020 was calculated following the setting of the Beta parameter for the 5th regulatory period.
For more information on the parameter values used by the Authority for calculating the value for 2019, please refer to the section "Regulation of activity sector - Natural gas transportation" of this Report.

Tariff regulations for 2019

Through resolution 695/2018/R/gas "Approval of the tariffs for the LNG regasification service for 2019 and amendments and supplements to the RTRG" published on 20 December 2018, the Authority approved the revenues recognised for the regasification service for 2019 based on the proposal submitted by LNG Italia. The tariffs were set on the basis of reference revenue of €26.7 million.
The revenue coverage factor has been set at 64% of the reference revenue. The RAB for LNG regasification activities was €108.7 million.
At the same time, the Authority published the definitive 2018 revenues based on the final 2017 balance sheet data, which stood at €26.7 million.

Regulation for the fifth regulatory period 2020-2023

Criteria for adjusting the tariffs for the liquefied natural gas regasification service for the fifth regulatory period (2020-2023)

Through resolution 474/2019/R/gas, published on 21 November 2019, the Authority defined the criteria for calculating the revenues recognised and the tariffs for the regasification service for the fifth regulatory period (1 January 2020-31 December 2023).
The duration of the regulatory period was confirmed as 4 years. The valuation of the net capital invested (RAB) is based on the revalued historical cost method.
The net invested capital remuneration rate Beta parameter (WACC) remains fixed at 0.524, with the WACC remaining unchanged at 6.8% before tax for the years 2020-2021, in line with the TIWACC framework.
Works in progress (LIC) remain excluded from the calculation of the RAB, at the same time as the recognition of financing expenses (IPCO). The operating costs recognised are calculated based on the recurring effective costs for the last available year (2018), plus the greater efficiencies achieved in the current period (50% profit sharing), with the size of the efficiency factor (X factor) designed to restore the greater efficiencies achieved in the fourth period to consumers in the fifth regulatory period. The revenue guarantee mechanism is confirmed as 64% of revenues recognised for a duration of 20 years starting from the first year in which the business offers the regasification service or, if prior to that, from the first year of ownership of the guarantee factor pursuant to resolution ARG/gas 92/08.
In order to incentivise the range of flexible services offered, there are plans that a share of 40% of revenues from the offering of these services can be retained by the regasification business to cover the revenues not subject to the revenue guarantee factor, up to the recognised revenues.
Recognition of variable electricity costs will be introduced (dependent on the unloading of ships and regasification of LNG) through a fee applied to users. Costs relating to electricity for the basic operation of the terminal continue to be recognised in the reference revenues.
There are plans to recognise the costs relating to the Emission Trading System (ETS), ratifying the neutrality principle of the business in relation to the price risk and incentivising virtuous behaviour aimed at reducing CO^2 emissions.

2020 revenue approval

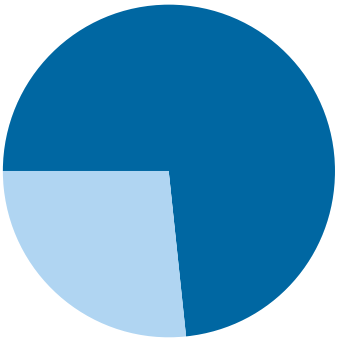
With resolution 43/2020 / R / gas "Approval of the tariffs for the LNG regasification service for 2020 and amendments and additions to the RTRG", published on 19 February 2020, the Authority approved the revenues recognized for the service of regasification for 2020 on the basis of the proposal presented by LNG Italia. The tariffs were determined on the basis of reference revenues of € 25.1 million and on energy costs of approximately € 3.1 million.
The revenue coverage factor is 64% of the reference revenue. The RAB for the LNG regasification activity is € 121.8 million.
At the same time, the Authority published the definitive 2019 revenues with a total amount of 26.8 million euros, based on the final 2018 balance sheet data.

Storage of natural gas

Total 2019 storage capacity reaches, including strategic storage, about 17.0 BCM: the European highest capacity

17.0 bn m^3

Total storage capacity



19.33 bn m^3

Gas moved through the storage system

9 operating concessions

The storage system makes it possible to compensate for the different requirements for gas supply and consumption: whilst supply has a substantially constant flow throughout the year, the demand for gas is concentrated mainly in the winter period. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system.

The storage business makes use of an integrated group of infrastructure comprising deposits, wells, gas treatment plants, compression plants and the operational dispatching system. Snam has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one). In 2015, the new Bordolano site came into operation gradually increasing the capacity offered to a total of 1,050 million SMC +10.5% compared with the end of 2018).

Stogit provides its storage services (peak modulation, uniform modulation, strategic, transporter balancing, mining, short-term allocation services and, from 2018, the new Fast Cycle[15] service, to 90 operators based on the Storage Code approved by the Italian Regulatory Authority for Energy, Networks and the Environment (hereinafter also ARERA).

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 (October 2019) was 99%, in line with the European average.

The market oriented approach adopted in 2019 allowed the Company to increase the mix of customers owing a Storage contract (not only shippers serving end users but also traders who maximise revenues from buying and selling gas to the PSV - virtual trading point) as well as attracting major European players.

Thanks to the investments made to develop new deposits and upgrade existing ones, the total storage capacity at the end of 2019, on a like-for-like basis with strategic storage, reached 17.0 billion cubic metres (+0.1 billion cubic metres compared with 2018), following the Bordolano field gradually coming into operation.

A result that attests to Stogit's ability to respond to both the needs of the national market as well as the contingent dynamics linked to international markets and policies, which can significantly modify demand by increasing the value of business with policies to support the security of supplies.

15 The storage service involves constant injection services and supply availability during the Thermal Year.

Main performance indicators

(millions of €)	2017	2018	2019	Change	% change %
Total revenue (a)	601	603	**598**	(5)	(0.8)
- of which regulated revenues (a)	*598*	*599*	***595***	*(4)*	*(0,7)*
Total revenues net of pass-through items (a)	511	507	**506**	(1)	(0.2)
Operating costs (a)	165	168	**156**	(12)	(7.1)
Operating costs net of pass-through items (a)	75	72	**64**	(8)	(11.1)
EBIT	339	335	**337**	2	0.6
Technical investments (b)	101	99	**112**	13	13.1
Net invested capital at 31 December	3,429	3,397	**3,421**	24	0.7
Concessions (number)	**10**	**10**	**10**		
- of which operational (c)	*9*	*9*	***9***		
Natural gas moved through the storage system(billions of cubic metres) (d)	19,92	21,07	**19,33**	(1,74)	(8,3)
- of which injected	*9.80*	*10.64*	***10.16***	*(0.48)*	*(4.5)*
- of which withdrawn	*10,12*	*10,43*	***9,17***	*(1,26)*	*(12,1)*
Total storage capacity (billions of cubic metres)	**16,7**	**16,9**	***17,0***	**0,1**	**0,6**
- of which available (e)	*12.2*	*12.4*	***12.5***	*0.1*	*0.8*
- of which strategic	*4,5*	*4,5*	**4,5**		
Employees in service at 31 December (number)	*60*	*59*	**61**	*2*	*3,4*

(a) Before consolidation adjustments.
(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.7% for 2019, 6.5% for 2016-2018.
(c) Working gas capacity for modulation services.
(d) The volumes of gas are expressed in Standard cubic metres (SCM) with an average higher heating value (HHV) conventionally equal to 39.23 MJ/Smc (10.895 kWh/SCM) for natural gas storage activities for the thermal year 2019-2020 (39.29 MJ/SCM, 10.914 kWh/SCM, for the thermal year 2018-2019).
(e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full for the 2019-2020 thermal year.

RESULTS

Total revenue amounted to €598 million, down by €5 million (0.8%) compared with 2018. Total revenue, excluding the items offset in costs[16], amount to €506 million, essentially in line with 2018 (-€1 million -0.2%).

Regulated revenue (€595 million) mainly comprised fees for the natural gas storage service (€508 million) and the fees charged back relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€83 million)[17], plus output-based incentives connected to the offering of new storage services (€2 million)[18]. Regulated revenue, excluding components that are offset in costs, amounted to €503 million, which was unchanged when compared to 2018. The increase in the WAAC, which increased from 6.5% in 2018 to 6.7% in 2019, was absorbed by the tariff updating mechanisms.
With reference to the considerations for the storage service, note that 2019 featured an increase in the prices of auctions which meant that the amounts billed to users made it possible to reach the level of revenue recognised without recourse to the compensation mechanisms provided by the rate regulations.
Unregulated revenues equal to €3 million (€4 million in 2018) mainly refer to income derived from insurance

16 These components refer mainly to revenue from the redebiting to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.
17 Resolution 64/2017/R/gas of 16 February 2017 established that, from 1 April 2017, almost all expenses relating to the natural gas transportation service should no longer be charged to users of the storage service, but settled directly by the CSEA.
18 Through Resolution 614/2018/R/gas of 30 November 2018, with reference to the 2018-2019 thermal year, the Authority introduced an incentive system for Stogit to offer additional storage capacity compared with the capacity planned under the scope of the "basic" storage services. The same mechanism was also confirmed for the 2019-2020 thermal year through the subsequent resolution 153/2019/R/gas of 16 April 2019.

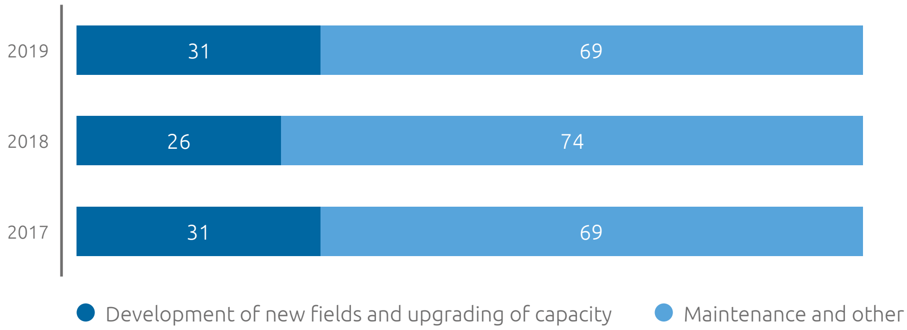
reimbursements.
Operating profit in 2018 stood at €337 million, an increase of €2 million or 0.6% compared with 2018, thanks to the stability of revenues and the reduction in operating costs (+€7 million excluding the components that have a matching entry in revenues), partly offset by greater depreciation and amortisation (-€5 million or 5.0%) due to the new infrastructures coming into operation, specifically the Bordolano site. With reference to operating costs, the reduction is mainly due to the lower costs for CO_2 emission rights, bought on the market to hedge the requirements for 2019, as well as lower costs for redundancy packages.

TECHNICAL INVESTMENTS

Technical investments made by the Company in 2019 totalled €112 million, an increase of €13 million (approximately +13%) compared with the previous year and refer to the development of new fields and upgrading of capacity (€35 million) and maintenance and other investments (€77 million).
The main investments in the **development of new fields and upgrading of capacity** (€35 million) primarily concerned the following initiatives:

- Cortemaggiore (€19 million), for well drilling activities and for the upgrading of storage activities (peak services);
- Minerbio (€13 million), mainly for the completion of the activities related to the finalisation of the installation and start-up of the new TC7 compression unit;
- Sabbioncello (€1 million), for activities related to the installation of the new ESD system (Emergency Shut Down).

Investment proportions by type (% of total investments)



Maintenance and other investments (€77 million) mainly relate to the provision of materials for operations at the Cortemaggiore plants, including commissioning and start-up (€11 million), risk analysis of the wells (€4 million), security at the Minerbio plant (€3 million) and Sergnano plant (€1 million), as well as IT and property activities (€16 million in total).
Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity.
Total storage capacity as at 31 December 2019, including strategic storage, was 17.0 billion cubic metres (+0.1 billion cubic metres compared with 2018, made available by the gradual entry into operation of the new Bordolano deposit), of which 12.5 billion cubic metres related to available capacity fully allocated for the thermal year 2019-2020 and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2018-2019, as established by the Ministry of Economic Development by means of the notice dated 8 January 2019)[19].

19 By means of the circular of 8 January 2019, the Ministry of Economic Development confirmed that the strategic gas storage volume for thermal storage year 2019-2020 (1 April 2019-31 March 2020) would remain at 4.62 billion standard cubic metres, 4.5 billion standard cubic metres of which was allocated to Stogit. By means of the announcement of 17 January 2020, the Ministry confirmed the strategic gas storage volume for the thermal year 2020-2021 (1 April 2020-31 March 2021) as 4.62 billion cubic metres, 4.5 billion cubic metres of which was allocated to Stogit

Progress of work to obtain permits

To develop new settlements, in addition to the technical-economic feasibility criteria, Snam adopts procedures that respond to stringent environmental and safety compatibility assessments.
The assessments of environmental effects involve all phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure and the procedures of the Integrated Environment Authority (AIA), at the end of which the central and local administrations issue the permits required under current law.

Applications submitted to the Ministry of the Environment to check EIA requirements)

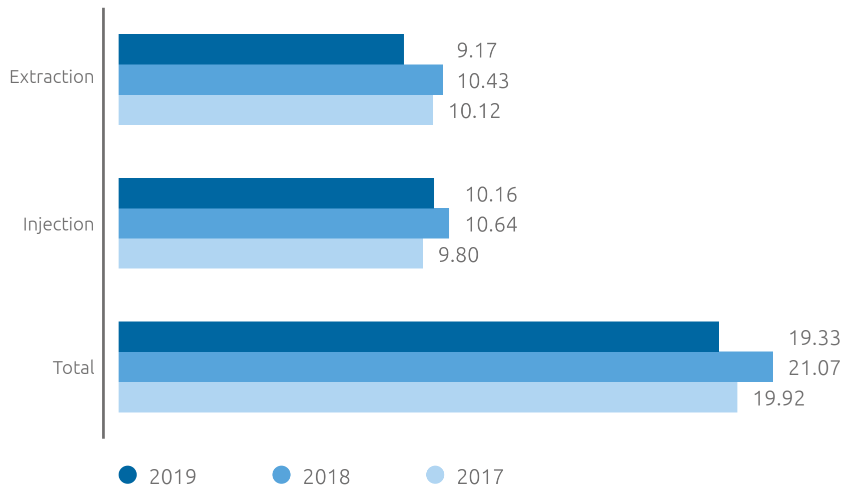
Name	Capacity (MW)	Regions – Provinces involved	Date of submission
"Sergnano Storage" concession Installation TC1	25 (mechanical capacity) 66,9 (thermal capacity)"	Lombardy	03/07/19

OPERATING REVIEW

Gas moved through the storage system

Volumes of gas moved through the storage system in 2019 amounted to 19.33 billion cubic metres, a fall of 1.74 billion cubic metres, or 8.3%, compared with 2018.
The reduction was mainly attributable to lower withdrawals from storage (-1.26 billion cubic metres; -12.1%), mainly as a result of weather conditions.

Natural gas moved through the storage system (billions of cubic metres)



Provision and development of storage services

	2017	2018	2019
Active customers (shippers)	89	91	**90**

In 2018 the Company implemented a digital platform (Jarvis) aimed at improving commercial operations.
The Jarvis platform, which actively involves customers, is designed to adopt a process for the renewal of services and technologies to support all commercial transportation, storage and regasification processes based on the feedback received from customers and also proposes to promote the range of integrated services offered on the Italian market possibly also enabling services for the foreign market.
From the point of view of services, on 22 May 2019 Snam opened the new Jarvis commercial platform of integrated services to its customers, implemented in 2018 and developed in conjunction with market operators. More information with regard to the new services introduced in 2019 are given in the section "Provision and development of services - Transportation of natural gas" in this Report, also on the basis of the implementation and integrated management of the platform for all the regulated businesses in which Snam operates.

(%)	2017	2018	2019
Contracted storage capacity/Available storage capacity	99.9	99.7	**100**
Compliance with time frames for providing services subject to specific commercial quality standards	100	100	**100**
Connection flow lines subject to supervision	100	100	**100**
Total capacity not made available following interruptions/reductions to the service	0	0	**0**

Organisational changes

At the end of 2019, the number of personnel in service totalled 61, essentially in line compared with 31 December 2018 (59).
Following the conclusion of the integration project, transportation-storage dispatching operations are managed through an integrated procedure.
Under the project for the rationalisation and simplification of the current Snam regulatory framework the process for issuing rules to simplify and standardise operating processes was completed, including the document for the management of the availability and traceability of operating personnel.
Lastly, the project for the activation of the centres dedicated to the well and deposits area was finalised in 2019.

Accidents

In 2019, there were no accidents involving either employees or contract workers.

Accidents at work (no)

	2017	2018	2019
Total employee accidents	2	0	**0**
Total contract worker accidents	0	0	**0**

Accident indices

	2017	2018	2019
Employees			
Frequency index (*)	6.71	0	**0**
Severity index (**)	0.43	0	**0**
Contract workers			
Frequency index (*)	0	0	**0**
Severity index (**)	0	0	**0**

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

Energy consumption and emissions

The company, in accordance with its sustainable growth model, updated and set new voluntary targets, valid objectives for all Snam businesses (transportation, storage, regasification):

- to reduce its natural gas emissions by 2022 and 2025, respectively by 15% an 40%, excluding emergencies, compared with the 2016 figures;
- to reduce its scope 1 and scope 2 emissions by 2030 by 40%, excluding emergencies, compared with the 2016 figures;
- to increase the ratio between green electricity bought and the total to reach 55% by 2030.

In 2019 energy consumption for gas storage fell by 10% compared with 2018, also thanks to the reduction in gas injected into the deposits (-4.5%). In 2019, nitrogen oxide emissions totalled around 116 tonnes (-51% compared with 2018). This decrease is mainly attributable to the reduction in consumption and use of DLE dry low emission turbines. Specifically, with the DLE turbine coming into operation in 2019 in the Minerbio storage plant as well, all the storage sites were operating with low emission units for 100% of operating hours.

Energy consumption

	2017	2018	2019
Energy consumption (TJ)	4,787	5,337	**4,784**
Emissions of CO_{2eq} – scope1 (t) (*)	447,662	473,206	**423,630**
Emissions of natural gas (106 m^3)	10.7	10.5	**9.2**
NOx emissions (t)	175	236	**115.9**

(*) The CO_{2eq} emissions were calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the Intergovernmental Panel on Climate Change (IPCC) scientific study the "Fifth Assessment Report IPCC".

REGULATIONS CONCERNING THE BUSINESS SEGMENT

Relations with the regulatory authority

Over the years Snam has established a constructive relationship and effective cooperation with the Italian Regulatory Authority for Energy, Networks and the Environment – ARERA.

Relations with the regulatory authority (no.)

	2017	2018	2019
Responses to reference documents	0	1	**2**
Tariff proposals	5	3	**3**
Data collections	91	122	**45**
Preliminary investigations (*)	2	0	**0**
Proposals to amend/update contractual documents and codes (**)	4	3	**4**
Proposal to amend/update contractual documents and codes (approved)	2	2	**4**

(*) Information sent to the Authority during 2019 with reference to investigations in the context of the sector. This includes exploratory investigations.
(**) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Relations with the regulatory authority under the scope of Gas Market Monitoring (no.)

	2019
Relations/analyses (with reference to all businesses)	**6**
Agreements, manuals and specific details on monitoring (with reference to all businesses)	**14**
Reports and data flows	**1,975**

Temporary period regulations for 2019

Through resolution 68/208/R/gas "Start of the procedure for the definition of provisions elated to the tariffs and quality of natural gas storage service for the fifth regulatory period (5PRS) and extension of the current provisions to the year 2019", published on 9 February 2018" the Authority extended the tariff criteria for the Storage service in force in the period 2015-2018 to cover 2019 confirming the value of the asset β parameter. The process was also launched for the revision of the criteria for the 5th regulatory period, which runs from 2020, similar to the transportation and regasification businesses, during which the opportunity of implementing a "totex" type regulatory approach will be evaluated.
The Authority also extended the regulation on the subject of the quality of the natural gas storage service for the period 2015-2018 to cover 2019.

Updating of the remuneration rate of the capital invested for regulatory purposes (WACC) for 2019

Through resolution 639/2018/R/gas, published on 6 December 2018, the Authority carried out an interim update of the basic WACC parameters, shared by all regulated infrastructure services of the electricity sectors, for the three-year period 2019-2021, and for regulated infrastructure services of the gas sector, for 2019, setting this value at 6.7% for storage activities compared with the previous figure of 6.5% (6.5% for the years 2016-2018). For infrastructure services other than those of gas distribution and metering, the Authority set a D/E gearing level of 1, while the calculation of the Beta parameter was carried out during the tariff regulation of the individual businesses starting from 2020. The WACC for 2020 was calculated following the setting of the Beta parameter for the 5th regulatory period.
For more information on the parameter values used by the Authority for calculating the value indicated above, please

refer to the section "Regulation of activity sector - Natural gas transportation" of this Report.

Tariff regulations for 2019

By means of Resolution 696/2018/R/gas, published on 20 December 2018, the Authority provisionally approved the corporate base revenue for the storage service for 2019, as per the tariff proposal presented by Stogit. This revenue of €499.5 million was later updated using the total annual increases in assets relating to 2018. Specifically, through resolution 297/2019/R/gas - the definitive calculation of the business revenues for the storage service for 2019, published on 10 July 2019, the Authority approved the revenues recognised definitively for the storage service for 2019. The recognised revenues amounted to €499 million. The RAB for storage activities was €4.0 billion.

Regulation for the fifth regulatory period 2020-2023

Through resolution 419/2019/R/gas, published on 23 October 2019, the Authority defined the criteria for calculating the revenues recognised for the storage service for the fifth regulatory period (1 January 2020-31 December 2025).
The duration of the regulatory period will be extended from 4 to 6 years. The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The net invested capital remuneration rate Beta parameter (WACC) remains fixed at 0.506, with the WACC remaining unchanged at 6.7% before tax for the years 2020-2021, in line with the TIWACC framework.
Works in progress (LIC) remain excluded from the calculation of the RAV, at the same time as the recognition of financing expenses (IPCO). The operating costs recognised are calculated based on the recurring effective costs for the last available year (2018), plus the greater efficiencies achieved in the current period (50% profit sharing), with the size of the efficiency factor (X factor) designed to restore the greater efficiencies achieved in the fourth period to consumers in the fifth regulatory period. The mechanism for hedging revenues will be extended to cover 100% of the reference revenues, also predicting the storage businesses can optionally access an updated incentive system following the remodelling of the share of revenue recognised subject to the hedge factor. The methods for recognising renewal costs are confirmed.
There are plans to recognise the costs relating to the Emission Trading System (ETS), ratifying the neutrality principle of the business in relation to the price risk and incentivising virtuous behaviour aimed at reducing CO_2 emissions.
Lastly the resolution approves the regulatory provisions for the quality of the storage service for the period 2020-2025.

Approval of 2020 revenues

By means of Resolution 535/2019/R/gas, published on 19 December 2019, the Authority approved the revenue recognised for the storage service for 2020. The recognised revenues amounted to €491 million. The RAB for storage activities was €4.0 billion.

Other provisions

Resolution 67/2019/R/gas - Regulation of access to storage services and their provision. Provisions for the allocation of storage capacities for the thermal year 2019/2020

Through this resolution, published on 27 February 2019, the Authority rationalised and integrated the provisions related to access to and the provision of storage services in a Consolidated Act (RAST). With specific reference to the methods for calculating the regulated fees, the RAST involves the sterilisation of the effects resulting from the allocation of capacities with market mechanisms at fees lower than the tariff as well as incentivisation criteria for maximising the range of storage services offers.
Specifically, the resolution involves the compensation via the CSEA of the difference in price between the storage tariff and the allocation price at auction applied to the allocated capacity, as well as the compensation of the costs for the purchase of the transportation capacity incurred by the storage businesses.

Comments on financial review and other information

Financial review

Income Statement

2017		2018		2019		2019 adjusted vs 2018 adjusted	
Adjusted (*)	**(million of €)**	**Reported**	**Adjusted (*)**	**Reported**	**Adjusted (*)**	**Change**	**% change**
2,434	Regulated revenue	2,485	2,485	2,550	**2,550**	65	2.6
99	Non-regulated revenue	101	101	115	**115**	14	13.9
2,533	**Total revenue**	**2,586**	**2,586**	**2,665**	**2,665**	**79**	**3.1**
2,441	- *Total revenue net of pass-through items*	*2,528*	*2,528*	*2,604*	***2,604***	*76*	*3.0*
(511)	Operating costs	(512)	(491)	(461)	**(496)**	(5)	1.0
(419)	- *Operating costs net of pass-through items*	*(454)*	*(433)*	*(400)*	***(435)***	*(2)*	*0.5*
2,022	**EBITDA**	**2,074**	**2,095**	**2,204**	**2,169**	**74**	**3.5**
(659)	Amortisation, depreciation and impairment losses	(690)	(690)	(752)	**(752)**	(62)	9.0
1,363	**EBIT**	**1,384**	**1,405**	**1,452**	**1,417**	**12**	**0.9**
(227)	Net financial expense	(242)	(195)	(203)	**(165)**	30	(15.4)
150	Net income from equity investments	159	159	216	**216**	57	35.8
1,286	**Pre-tax profit**	**1,301**	**1,369**	**1,465**	**1,468**	**99**	**7.2**
(346)	Income tax	(341)	(359)	(375)	**(375)**	(16)	4.5
940	**Net profit**	**960**	**1,010**	**1,090**	**1,093**	**83**	**8.2**
940	- Attributable to Snam shareholders	960	1,010	1,090	1,093	83	8.2
	- Minority interests	960	1,010	1,090	1,093	83	8.2

(*) The figures exclude special items.

Summary reconciliation of adjusted results (*)

2017	(million of €)	2018	2019	Change	% change
1,348	**EBIT**	**1,384**	**1,452**	**68**	**4.9**
15	Excluding special items	21	**(35)**	(56)	
1,363	**Adjusted EBIT**	**1,405**	**1,417**	**12**	**0.9**
897	**Net profit**	**960**	**1,090**	**130**	**13.5**
897	- Attributable to Snam shareholders	960	**1,090**	130	13.5
	- Minority interests				
43	Excluding special items	50	**3**	(47)	(94.0)
940	**Adjusted net profit**	**1,010**	**1,093**	**83**	**8.2**

(*) For nature and detailed reconciliation of the individual adjustments, read the paragraph: "Non-GAAP measures" of this Report.

Adjusted EBIT[20] **for 2019** totalled €1,417 million, up by €12 million (0.9%) compared with adjusted pro-forma EBIT for 2018. The greater revenue (+€76 million or 3.0%), essentially attributable to the natural gas transportation segment business and the contribution for the whole of 2019 of the businesses that joined the scope of consolidation in 2018 were partly offset by the increase in depreciation, amortisation and write-downs (-€62 million or 9.0%). Operating costs were essentially in line compared with the adjusted figure for 2018 (-€2 million or 0.5%). The effects of the actions of the efficiency plan implemented, amounting to approximately € 15 million, were absorbed by the costs, recognized for the entire 2019 financial year, of the companies that entered the consolidation area during 2018, as well as by the costs related to the continuation of activities in the energy transition.

Adjusted net EBIT for 2019 totalled €1,093 million, up by €83 million (8.2%) compared with adjusted net EBIT for 2018. In addition to greater EBIT (€12 million; +0.9%), the increase was due to: (i) lower net financial expense (+€30 million; 15.4%) which benefit from a reduction in the average cost of gross borrowing, also following the optimisation actions implemented in period 2016-2019, as well as the positive market conditions; (ii) the greater net proceeds from equity investments (€57 million; +35.8%), also thanks to the contribution mainly from Senfluga, following the timing of the acquisition of Desfa (December 2018) and extraordinarily favourable volumes of gas, and from Terēga. These effects were partly absorbed by higher income taxes (-€16 million;4.5%), due mainly to the greater pre-tax profit.

20 EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas segment tariff regulations generates revenue components that are offset in costs. These items refer essentially to interconnection.

ANALYSIS OF THE ENTRIES ON THE ADJUSTED FINANCIAL STATEMENT

The segment "Corporate and other activities" includes the newly acquired companies involved in Energy Transition activities.

Total revenue

2017	(million of €)	2018	2019	Change	% change
	Business segments				
2,039	Transportation	2,118	**2,168**	50	2.4
22	Regasification	24	**32**	8	33.3
601	Storage	603	**598**	(5)	(0.8)
233	Corporate and other activities	268	**311**	43	16.0
(362)	*Consolidation eliminations*	*(427)*	***(444)***	*(17)*	*4.0*
2,533		**2,586**	**2,665**	**79**	**3.1**

Regulated and non-regulated revenue

2017	(million of €)	2018	2019	Change	% change
2,434	**Regulated revenue**	**2,485**	**2,550**	**65**	**2.6**
	Business segments				
1,816	Transportation (*)	1,907	1,969	62	3.3
18	Regasification	17	17		
508	Storage (*)	503	503		
92	**Revenue items offset in costs (**)**	**58**	**61**	**3**	**5.2**
99	**Non-regulated revenue**	**101**	**115**	**14**	**13.9**
2,533		**2,586**	**2,665**	**79**	**3.1**

(*) In the consolidated financial statements, the considerations for the modulation service, an integral part of transportation revenue, are eliminated under the transportation companies, along with the costs of the service purchased from the storage company, in order to reflect the substance of the transaction. The comparative 2017 and 2018 figures have been restated accordingly.
(**) The main revenue components that are offset in costs are those relating to interconnection.

Regulated revenue (€2,550 million) increased by €65 million or 2.6% compared with 2018. Excluding items that are offset in costs, regulated revenues stood at €2,489 million, up €62 million or 2.6% thanks to the contribution of the transportation segment, which benefits from the increase from the increase of tariffs and investments of past years.
Non-regulated revenue (€115 million) increased by €14 million or 13.9% compared with 2018. The greater revenue from the contribution of the businesses that entered the scope of consolidation (+€28 million) and for services rendered by the Business Unit Global Solution (+€7 million), were, to a great extent, absorbed by the lower proceeds for services rendered, regulated through several contracts concluded at 31 December 2018 [21] (-€14 million).
Non-regulated revenues mainly involve: (i) considerations for the construction of biogas and biomethane plants (€27 million); (ii) technical-specialist services to unconsolidated foreign companies (€23 million); (iii) the provision of services relating to energy efficiency projects (€24 million); (iv) income from the rental and maintenance of fibre optic telecommunication cables (€13 million); (v) the sale of CNG compressors for motor transport (€11 million).

21 This revenue is offset in costs incurred for the provision of the relative services.

Operating costs

2017	(million of €)	2018	2019	Change	% change
	Business segments				
441	Transportation (*)	462	**418**	(44)	(9.5)
15	Regasification	17	**26**	9	52.9
165	Storage	168	**156**	(12)	(7.1)
252	Corporate and other activities (*)	271	**340**	69	25.5
(362)	*Consolidation eliminations*	*(427)*	***(444)***	*(17)*	*4.0*
511		**491**	**496**	**5**	**1.0**

(*) The values for 2017 and 2018 are reported excluding special items.

Operating costs - Regulated and non-regulated activities

2017 (*)	(million of €)	2018	2019	Change	% change
404	**Costs of regulated activities**	**397**	**352**	**(45)**	**(11.3)**
267	Controllable fixed costs	274	**251**	(23)	(8.4)
7	Variable costs	6	**6**		
38	Other costs (*)	59	**34**	(25)	(42.4)
92	Cost items offset in revenue (**)	58	**61**	3	5.2
107	**Costs of non-regulated activities**	**94**	**144**	**50**	**53.2**
511		**491**	**496**	**5**	**1.0**

(*) Net special items.
(**) The main cost components that are offset in revenues are those relating to interconnection.

Operating costs totalled €496 million (€491 million in 2018). Net of components offset in revenue, operating costs totalled €435 million, essentially in line with the corresponding adjusted value in 2018 (+€2 million or +0.5%).

Regulated business operating costs

Operating costs of regulated activities (€352 million) decreased by €45 million, or 11.3% compared with 2018. Net of components that are offset in revenues, the operating costs of regulated activities were down by €48 million or 14.2% compared with 2018.
The fixed controllable costs (€251 million) composed of the total of the cost of personnel and external costs of a recurrent nature, recorded a fall of €23 million or 8.4% compared with 2018. The reduction is mainly due to the effects of the actions of the Efficiency Plan implemented from 2016, which made it possible tin 2019 to reduce costs by around €15 million (€51 million at a cumulative level for the period 2016-2019).
Other costs (€34 million) decreased by €25 million, or 42.4%, compared with the corresponding adjusted value for 2018. The reduction is mainly due to the lower costs associated with the use of gas; -€20 million [22], and lower capital losses from the elimination of assets (-€4 million).

22 The costs associated with the use of gas are reported excluding the amounts recognised by the Authority following the greater costs for the purchase of gas to cover GNC for the years 2018 and 2019. Taking into account the calculation mechanism used by the Authority for recognising the costs relating to 2018, in July 2019, the company quantified the amount recognised for 2019.

Non-regulated business operating costs

Operating costs of non-regulated activities (€144 million) increased by €50 million or 53.2% compared with 2018. The increase is essentially attributable to the costs, recorded for the whole of 2019, of businesses that entered the scope of consolidation in 2018, relating mainly to the construction of biomethane plants and compressors for motor transport refuelling stations as well as relating to the implementation of energy efficiency projects, partly offset by lower costs for services rendered, related to contracts ended at 31 December 2018. The increase in operating costs for non-regulated businesses was not impacted by the dynamics of the provision for risks and charges and the provision for impairment losses and the greater costs connected with the development of new businesses and specific projects.
Net of components offset in revenue, operating costs totalled €435 million, essentially in line with the corresponding adjusted value in 2018 (+€2 million or +0.5%).

The number of employees at 31 December 2019 (3,025 resources) is broken down below by professional status:

2017	(no.)	2018	2019	Change	% change
	Professional status				
93	Executives	107	**111**	4	3.7
456	Middle Managers	480	**493**	13	2.7
1,655	Office workers	1,682	**1,683**	1	0.1
715	Manual workers	747	**738**	(9)	(1.2)
2,919		**3,016**	**3,025**	**9**	**0.3**

The increase of 9 people compared with 2018 is mainly due to the resources coming from the acquisition of Renerwaste (47 resources) and TEA Servizi (8 resources) and the new hires from the job market, partly offset by the personnel leaving who took early retirement (77 resources).

Amortisation, depreciation and impairment losses

2017	(million of €)	2018	2019	Change	% change
646	**Total amortisation and depreciation**	**682**	**722**	**40**	**5.9**
	Business segments				
539	Transportation	567	**598**	31	5.5
5	Regasification	5	**5**		
95	Storage	100	**105**	5	5.0
7	Corporate and other activities	10	**14**	4	40.0
13	**Impairment losses (Recovery of value)**	**8**	**30**	**22**	
659		**690**	**752**	**62**	**9.0**

Depreciation, amortisation and write-downs (€752 million) increased by €62 million or 9.0% compared with 2018. The increase is mainly due to the greater depreciation and amortisation (+€40 million or +5.9%), essentially following the new infrastructure coming into operation and the businesses that joined the scope of consolidation, as well as the greater write-down of works in progress related to projects in the transportation segment in the past years (+€22 million).

Below is a breakdown of EBIT by business segment:

EBIT

2017	(million of €)	2018	2019	Change	% change
	Business segments				
1,048	Transportation (*)	1,081	**1,122**	41	3.8
2	Regasification	2	**1**	(1)	(50.0)
339	Storage	335	**337**	2	0.6
(26)	Corporate and other activities (*)	(13)	**(43)**	(30)	
1,363		1,405	**1,417**	12	0.9

(*) The values are reported excluding special items.

Net financial expense

2017	(million of €)	2018	2019	Change	% change
235	**Financial expense related to net financial debt**	**199**	**164**	**(35)**	**(17.6)**
236	Interest and other expense on short- and long-term financial debt (*)	202	**173**	(29)	(14.4)
(1)	Bank interest income	(3)	**(9)**	(6)	
4	**Other net financial expense (income)**	**6**	**11**	**5**	**83.3**
11	Accretion discount	11	**8**	(3)	(27.3)
(7)	Other net financial expense (income)	(5)	**3**	8	
1	**Gains on hedging derivatives – ineffective portion**	**2**	**1**	**(1)**	**(50.0)**
(13)	**Financial expense capitalised**	**(12)**	**(11)**	**1**	**(8.3)**
227		**195**	**165**	**(30)**	**(15.4)**

(*) Excluding special items relating to liability management operations.

Net financial charges (€165 million excluding the special items related to the liability management operation implemented in December 2019) showed a reduction of €30 million, or 15.4%, compared with 2018. The reduction is mainly due to the lower costs related to the net financial gross debt (-€35 million or -17.6%) mainly connected to the lower average cost of borrowing, also following the benefits resulting from the actions to optimise the financial structure of the group implemented by Snam in the period 2016-2019, specifically the liability management operations, as well as the positive market conditions.
Capitalised financial costs in 2019 amounted to €11 million, broadly in line with the previous year.

Income from equity investments

2017	(million of €)	2018	2019	Change	% change
150	Effect of valuation using the equity method	157	**218**	61	38.9
	Dividends	2	**2**		
	Other income (expense) from equity investments		**(4)**	**(4)**	
150		**159**	**216**	**57**	**35.8**

Net income from equity investments (€216 million, +€57 million or 35.8%) essentially involve the contribution of the businesses valued using the equity method (€214 million) main attributable to the companies under joint control joint TAG (€74 million), Terēga (€44 million) and the subsidiaries Italgas (€56 million) and Senfluga (29 million).
The increase of €57 million compared with 2018 is mainly attributable to the contribution for the entire year of Senfluga (+€33 million), a company which, on 20 December 2018, gained control of DESFA with a share of 66% of the share capital, which benefited from extraordinarily favourable gas volumes and to the contribution of Terēga (+€16 million), also following the release of a fund for tax disputes and of non-current effect.

Income tax

2017	(million of €)	2018	2019	Change	% change
373	**Current taxes (*)**	**385**	**410**	**25**	**6.5**
	(Deferred) prepaid taxes (*)				
(16)	Deferred taxes	(16)	**(14)**	2	(12.5)
(11)	Deferred tax assets (prepaid taxes)	(10)	**(21)**	(11)	110.0
(27)		**(26)**	**(35)**	**(9)**	**34.6**
346		**359**	**375**	**16**	**4.5**

(*) Net special items.

Income taxes totalled €375 million, an increase of €16 million or 4.5% compared with 2018. The increase is mainly attributable to the greater pre-tax profit.

NON-GAAP MEASURES

Snam presents in the management report, in addition to the financial results envisaged by the IFRS, certain variables deriving from the latter, even if not envisaged by the IFRS or by other standard setters (Non-GAAP measures).
Snam's management believes that these measures facilitate the analysis of the Group's performance and of the business segments, ensuring better comparability of results over time. Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS.
In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from reclassifications or algebraic sums of conventional indicators[23] and compliant with international accounting standards[24].

Adjusted EBIT and net profit

Adjusted EBIT and 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 legal scheme of the Income Statement.
Income entries classified as special items for 2019 refer to: (i) financial expense resulting from the buy back on the market of bonds under the scope of the liability management operation implemented by Snam in December 2019 (€38 million, €29 million excluding the tax effect, €47 million in 2018, €35 million excluding the tax effect). The expenses are essentially attributable to the difference between the outlay for the buy back of the bonds on the market and the valuation at amortised cost of the actual bonds; (ii) the release to the income statement of the provision for impairment losses (€35 million) following the announcement by the Council of State on 5 March 2020 which, confirming the ruling of the Milan Regional Administrative Court of 2017, ratified the recognition, by the Authority to the company, of part of the receivables not collected relating to the balancing activities for the period 1 December 2011-23 October 2012[25].

23 According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are conventional indicators or in the commentary notes.
24 For the definition of these quantities refer to the Glossary.
25 For more details, see Note 26, "Guarantees, commitments and risks — Disputes", of the Notes to the consolidated financial statements.

Special item

Income statement items are classified as special items, if they are material and when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.
The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion.
Any income components deriving from non-recurring transactions in accordance with Consob Resolution no. 15519 of 27 July 2006 are also shown separately in the IFRS financial report.

Free cash flow

Free cash flow is the measure that allows the connection between the obligatory financial statement, which expresses the change in liquidity between the beginning and end of the period, and the change in net financial debt between the beginning and end of the reclassified cash flow statement. The free cash flow represents the surplus or cash deficit remaining after the investment financing and close alternatively: (i) on the cash change for the period, after the cash flows related to the financial payables/assets (credit/debit repayments/financial payables) have been added/subtracted, to the equity capital (payment of dividends/net acquisition of own shares/capital injections), as well as the effects on cash and cash equivalents of changes in the scope of consolidation and exchange differences arising from conversion; (ii) on the change in net financial debt for the period, after the flows relating to own capital have been added/subtracted, as well as the effects on net financial debt of changes in the scope of consolidation and exchange differences arising on conversion.

NET FINANCIAL DEBT

Net financial debt is calculated as the financial debt net of cash and cash equivalents, securities available for sale and to be kept until maturity and short-term financial receivables.

The tables below show the reconciliation between the reported Income Statement and the adjusted Income Statement, as well as a table summarizing the special items:

	2018			2019		
(million of €)	**Reported**	**Special item**	**Adjusted**	**Reported**	**Special item**	**Adjusted**
Regulated revenue	2,485		2,485	**2,550**		**2,550**
Non-regulated revenue	101		101	**115**		**115**
Total revenue	**2,586**		**2,586**	**2,665**		**2,665**
- *Total revenue net of pass-through items*	*2,528*		*2,528*	***2,604***		***2,604***
Operating costs	(512)	21	(491)	**(461)**	**(35)**	**(496)**
- *Operating costs net of pass-through items*	*(454)*	*21*	*(433)*	***(400)***	***(35)***	***(435)***
EBITDA	**2,074**	**21**	**2,095**	**2,204**	**(35)**	**2,169**
Amortisation, depreciation and impairment losses	(690)		(690)	**(752)**		**(752)**
EBIT	**1,384**	**21**	**1,405**	**1,452**	**(35)**	**1,417**
Net financial expense	(242)	47	(195)	**(203)**	**38**	**(165)**
Net income from equity investments	159		159	**216**		**216**
Pre-tax profit	**1,301**	**68**	**1,369**	**1,465**	**3**	**1,468**
Income tax	(341)	(18)	(359)	**(375)**		**(375)**
Net profit	**960**	**50**	**1,010**	**1,090**	**3**	**1,093**
- *Attributable to Snam shareholders*	*960*		*1,010*	***1,090***		***1,093***
- *Minority interests*						

Details of special items

(million of €)	**2018**	**2019**	**Change**	**% change**
Special item of operating profit	**21**	**(35)**	**(56)**	**(266.7)**
Charges for redundancy packages and early retirement	21		(21)	(100.0)
Release of provision for balancing impairment losses		**(35)**	(35)	
Special item Net financial charges	**47**	**38**	**(9)**	**(19.1)**
- *Liability management finance charges*	*47*	***38***	*(9)*	*(19.1)*
Special item Income taxes	**(18)**		**18**	**(100.0)**
- *Taxation on special items operating profit*	*(6)*	***9***	*15*	
- Taxation on special item net financial charges	**(12)**	**(9)**	**3**	**(25.0)**
Total special item of net profit	**50**	**3**	**(47)**	**(94.0)**

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year Report based on how the business operates, usually split into the three basic functions of investment, operations and financing.
Management believes that this format presents useful information for investors as it allows identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital.

Reclassified statement of financial position (*)

(million of €)	31.12.2018	31.12.2019	Change
Fixed capital	**18,856**	**19,311**	**455**
Property, plant and equipment	16,153	**16,439**	286
- right-of-use assets		*21*	*21*
Compulsory inventories	363	**363**	
Intangible assets	907	**990**	83
Equity investments	1,750	**1,828**	78
Non-current financial assets	11	**3**	(8)
Net payables for investments	(328)	(312)	16
Net working capital	**(1,259)**	**(1,094)**	**165**
Provisions for employee benefits	**(64)**	**(46)**	**18**
Assets held for sale		**10**	**10**
NET INVESTED CAPITAL	**17,533**	**18,181**	**648**
Shareholders' equity	**5,985**	**6,258**	**273**
- Attributable to Snam shareholders	5,985	6,255	270
- Minority interests		3	3
Net financial debt	**11,548**	**11,923**	**375**
- of which financial payables on right-of-use assets		*21*	*21*
Coverage	**17,533**	**18,181**	**648**

(*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

Fixed capital (€19,311 million) increased by €455 million compared with 31 December 2018 essentially as a result of the increase in Property, plant and machinery (+€286 million), also following the recognising of leased assets as right-of-use assets through the application of the new standard IFRS 16 "Leasing" in force from 1 January 2019 (+€21 million) and equity investments (+€78 million), following the earnings in 2019 partly absorbed by dividends collected for 2018.

The change in property, plant and equipment and in intangible assets can be broken down as follows:

(million of €)	Property, plant and equipment	Intangible assets	Total
Balance at 31 December 2018	**16,153**	**907**	**17,060**
Technical investments	861	102	**63**
Amortisation, depreciation and impairment losses	(686)	(66)	**(752)**
Transfers, eliminations and divestments	(8)		**(8)**
Change in scope of consolidation	61	47	**108**
Other changes	58		**58**
Balance at 31 December 2019	**16,439**	**990**	**17,429**

The technical investments of 2019 total €963 million[26] (€882 million in 2018) and mainly refer to the segments of transport (€813 million) and storage (€112 million).
The change in the scope of consolidation (+€108 million, of which €2 million is leased assets as right-of-use assets) refers to assets recorded following the acquisition of 83.63% of the Renerwaste group (€98 million)[27] and 100% of TEA Servizi (€10 million).
Other changes (€58 million) relate essentially to: (i) the effects resulting from the adjustment of the current value of outlays compared with the costs of dismantling and restoring sites (+€42 million)[28]; (ii) the recognition of leased assets as right-of-use assets in accordance with accounting standard IFRS 16 (€25 million); (iii) the contributions third-party interference works (compensation -€14 million).

Compulsory inventories

Compulsory inventories (€363 million, unchanged from 31 December 2018) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development[29].

Equity investments

The item equity investments (€1,828 million) includes: (i) the valuation of the equity investments through the net equity method which refers mainly to the companies Trans Austria Gasleitung GmbH - TAG (€520 million), Terēga Holding S.A.S. (€482 million), Trans Adriatic Pipeline AG - TAP (€264 million), Italgas S.p.A. (€209 million), AS Gasinfrastruktur Beteiligung GmbH (€125 million) and Senfluga (€125 million); (ii) the fair value measurement through OCI of the minority interests in the company Terminale GNL Adriatico S.r.l. (€39 million).

26 An analysis of the investments made by each business segment is provided in the "Business segment operating performance" section of this Report.
27 The business combination transaction involving the acquisition of control of Renerwaste, contractually involved an put/call option on the interests of minorrity shareholders of 17.37%. At the acquisition date, based on the terms of the contract through which the exercise of the options is regulated, the transaction will be reported as if Snam had acquired total control of the company, without recognising the interests of third-party shareholders. Greater information with regard to the impact of the business combination is illustrated in Note 25 "Business combinations" in the Notes to the consolidated financial statements.
28 Further information is provided in Note 21 "Provision for risks and charges" of the Notes to the consolidated financial statements.
29 By means of the circular of 8 January 2019, the Ministry of Economic Development confirmed that the strategic gas storage volume for thermal storage year 2019-2020 (1 April 2019-31 March 2020) would remain at 4.62 billion standard cubic metres, 4.5 billion standard cubic metres of which was allocated to Stogit. By means of the announcement of 17 January 2020, the Ministry confirmed the strategic gas storage volume for the thermal year 2020-2021 (1 April 2020-31 March 2021) as 4.62 billion cubic metres, 4.5 billion cubic metres of which was allocated to Stogit.

Net working capital

(million of €)	31.12.2018	31.12.2019	Change
Trade receivables	1,247	**1,217**	(30)
- gas balancing and settlement	*237*	***198***	*(39)*
Inventories	109	**112**	3
Tax assets	26	**35**	9
Other assets	105	**185**	80
Provisions for risks and charges	(665)	**(713)**	(48)
Trade payables	(491)	**(487)**	4
- gas balancing and settlement	*(307)*	***(253)***	*54*
Accruals and deferrals from regulated activities	(363)	**(145)**	218
Deferred tax liabilities	(134)	**(106)**	28
Derivative liabilities/(assets)	(29)	**(63)**	(34)
Tax liabilities	(23)	**(35)**	(12)
Other liabilities	(1,041)	**(1,094)**	(53)
	(1,259)	**(1,094)**	**165**

The net working capital (€1,094 million) increased by €165 million compared with 31 December 2018. This increase was mainly due to: (i) the settlement of the previous tariff entries for the transportation segment relating to the years 2015-2017 (+€180 million)[30]; (ii) the recording of the receivable from the CSEA following lower amounts invoiced in 2019 compared with the restriction established by the Regulator (+€96 million). These factors were partly offset by: (i) the lower net assets for additional tariff components invoiced to users of the transportation service (-€55 million) mainly following the reduction in the CVOS additional tariff[31]; (ii) the increase in the provision for risks and charges (-€48 million) mainly following the adjustment of the current value of costs for the dismantling and restoration of sites following a reduction in anticipated discounting rates; (iii) from the greater liabilities for hedging instruments (-€34 million).

Assets held for sale

Assets held for sale (€10 million) relate to a 6% share in the associate company Senfluga, reclassified following the agreements signed by the shareholders of Senfluga fr the sale of a 10% stake in it, proportional to the stake held by each shareholder. In conformity with the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the above-mentioned stake was recorded under assets held for sale and valued at the lower of the book value and the fair value, excluding any sales costs. The completion of the transaction, subject to the approval of the Greek regulator, took place on 13 January 2020, following a payment of €16 million (€10 million as Snam's share), pegged at the values of the transaction concluded by Snam in December 2018. Following the above-mentioned sale, the percentage of Snam's equity investment in the capital of Senfluga is 54%.

30 Pursuant to resolution 114/2019/R/gas of the ARERA, net assets/liabilities relating to under-invoicing, over-invoicing and penalties will no longer be subject to return through future tariff adjustments, but subject to settlement to the CSEA under the "Transport expenses account".
31 Pursuant to resolution 114/2019/R/gas of the ARERA, net assets/liabilities relating to under-invoicing, over-invoicing and penalties will no longer be subject to return through future tariff adjustments, but subject to settlement to the CSEA under the "Transport expenses account".

Statement of the comprehensive income

(million of €)	2018	2019
Net profit (*)	**960**	**1,090**
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedge derivatives (effective share)	(26)	**(44)**
Share of "other components of comprehensive income" of equity-accounted investments (**)	(1)	**(17)**
Tax effect	6	**10**
	(21)	**(51)**
Components that cannot be reclassified to the income statement:		
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees	(1)	
Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method	1	**(1)**
Change in the fair value of minority equity investments valued at fair value through other comprehensive income - FVTOCI	1	**4**
	1	**3**
Total other components of comprehensive income, net of tax effect	**(20)**	**(48)**
Total comprehensive income (*)	**940**	**1,042**

(*) Entirely attributable to Snam shareholders.
(**) The figure mainly refers to the change in the fair value of hedging derivatives for equity investments in associates.

Shareholders' equity

(million of €)		
Shareholders' equity at 31 December 2018 (*)		**5,985**
Increases owing to:		
- Comprehensive income for 2019	1,042	
- *Other changes*	31	
		1,073
Decreases owing to:		
- 2018 final dividend	(448)	
- 2019 interim dividend (*)	(313)	
Acquisition of treasury shares	(39)	
		(800)
Shareholders' equity as at 31 December 2019		**6,258**
- Attributable to Snam shareholders		6,255
- Minority interests		3

(*) Amount paid on 22 January 2020.

Information about the individual equity items and changes therein compared with 31 December 2019 is given in Note 24 to the consolidated financial statements, "Shareholders' Equity".

Reconciliation between the individual and consolidated net income and shareholders' equity of Snam S.p.A.

	Net income		Shareholders' equity	
(million of €)	**2018**	**2019**	**31.12.2018**	**31.12.2019**
Individual financial statements of Snam S.p.A.	**721**	**817**	**4,402**	**4,396**
Net income of companies included in the scope of consolidation	874	**972**		
Difference between the book value of the equity investments in consolidated businesses and the shareholders' equity of the financial statements, including the result for the period			1,618	**1,815**
Consolidation adjustments for:				
- Dividends	(641)	**(777)**		
- Difference between the purchase price and corresponding accounting shareholders equity		**(3)**		
- Adjustments for uniformity of accounting principles		**(1)**		
- Income from valuation of equity investments using the equity method and other income from equity investments	6	**82**	(35)	**47**
	960	**1,090**	**5,985**	**6,258**
Minority interests				**(3)**
Consolidated Financial Statements (*)	**960**	**1,090**	**5,985**	**6,255**

(*) Shareholders' equity attributable to Snam shareholders.

Net financial debt

(million of €)	**31.12.2018**	**31.12.2019**	**Change**
Financial and bond debt	**13,420**	**14,774**	**1,354**
Short-term financial debt (*)	3,633	**4,125**	492
Long-term financial debt	9,787	**10,628**	841
Lease liabilities (**)		**21**	**21**
Financial receivables and cash and cash equivalents	(1,872)	**(2,851)**	(979)
Cash and cash equivalents	(1,872)	**(2,851)**	(979)
	11,548	**11,923**	**375**

(*) Includes the current portion of non-current financial liabilities.
(**) Including non-current lease liabilities (€15 million) and the current portion of non-current lease liabilities (€6 million).

Net financial debt was €11,923 million at 31 December 2019, compared with € 11,548 million at 31 December 2018. The net cash flow from operations (€1,486 million) allowed us to fully cover the financial requirements associated with net investments (€1,004 million) and to generate a free cash flow of €482 million. The net financial debt, after cash flows from self-owned capital deriving from the payment to shareholders of the 2018 dividend (€746 million, of which an interim dividend of €298 million and €448 million for the balance) and the acquisition of treasury shares (€39 million), recorded an increase of €375 million compared with 31 December 2018, including non-monetary components related to financial debt (€75 million), which refer mainly to the change in the scope of consolidation and the financial debt recorded through the application of IFRS 16 "Leasing".

Financial and bond debts at 31 December 2019, amounting to €14,774 million (€13,420 million at 31 December 2018), break down as follows:

(million of €)	31.12.2018	31.12.2019	Change
Bonds	8,446	**9,048**	602
- *short term (*)*	*913*	***1,439***	*526*
Bank loans	4,749	**3,704**	(1,045)
- *short term (*)*	*2,495*	***685***	*(1,810)*
Euro Commercial Paper - ECP (**)	225	**2,001**	1,776
Lease liabilities (**)		**21**	21
	13,420	**14,774**	**1,354**

(*) Includes the current portion of non-current financial liabilities.
(**) Entirely short-term.

Bond loans (€9,048 million) rose by €602 million compared with 31 December 2018 following the issuing of: (i) the Climate Action Bond, for a nominal amount of €500 million, fixed rate with a maturity date of 28 August 2025; (ii) a Private Placement of a nominal amount of €250 million, fixed rate with a maturity date of 7 January 2030; (iii) a dual tranche bone with a nominal amount of, respectively, €700 and €600 million, making a total of €1.3 billion, fixed rate with maturity dates, respectively of 12 May 2024 and 12 September 2034. These changes were offset: (i) by the repayment of a fixed rate bond maturing on 18 January 2019, for a nominal amount of €519 million; (ii) the repayment of a fixed rate bond loan maturing on 24 April 2019, of a nominal amount of €225 million; (iii) the repayment of a JPY 10 billion bond maturing on 25 October 2019 of a nominal amount of €83 million; (iv the repurchase on the market of fixed-rate bonds for a total nominal value of €597 million with an average coupon of 1.3% and a residual duration of approximately 3.9 years; (v) the dynamics of accrued interest.

Bank loans (€3,704 million) fell by €1,045 million essentially following the lower net use of uncommitted lines of credit (€1,301 million). This effect was partly offset by the signing with the European Investment Bank - EIB: (i) on 28 January 2019 of a loan for projects promoted by Snam Rete Gas and Stogit, of a nominal amount of €135 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2038; (ii) on 6 June 2019 of a loan supporting investments promoted by the subsidiary Snam4Mobility for the construction of CNG and L-CNG refuelling stations, for a nominal amount of €25 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2031; (iii) on 31 July 2019 a loan for Snam Rete Gas projects, for a nominal amount of €105 million at a fixed rate to be repaid through an amortisation plan expiring in 2039.

The Euro Commercial Papers (€2,001 million) involve unsecured short-term securities issued on the money market and placed with institutional investors.

Cash and cash equivalents (€2,851 million) refer mainly to bank current and deposit accounts that can be collected quickly (€2,054 million) and short-term liquidity use transactions, due in less than three months, with banking institutions with high credit ratings (€750 million) and to cash and cash equivalents at Snam International BV (€20 million) and Gasrule Insurance DAC (€19 million).

At 31 December 2019, Snam had unused committed long-term credit lines worth €3.2 billion.

Information on financial covenants can be found in Note 18 - “Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities” of the Notes to the consolidated financial statements.

RECLASSIFIED STATEMENT OF CASH FLOWS

The reclassified statement of cash flows below summarises the legally required financial reporting format. It shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repaying financial receivables/payables) and equity (payment of dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

Reclassified statement of cash flows (*)

2017	(million of €)	2018	2019
897	Net profit	960	**1,090**
	Adjusted for:		
511	- Amortisation, depreciation and other non-monetary components	543	**527**
4	- Net capital losses (capital gains) on asset sales and eliminations	12	**8**
585	- Dividends, interest and income taxes	557	**552**
334	Change in working capital due to operating activities	185	**(264)**
(467)	Dividends, interest and income taxes collected (paid)	(431)	**(427)**
1,864	**Net cash flow from operating activities**	**1,826**	**1,486**
(1,016)	Technical investments	(849)	**(954)**
3	Technical disinvestments	2	
(166)	Companies leaving (entering) the scope of consolidation and business units	(38)	**(41)**
(75)	Equity investments	(144)	**12**
(154)	Change in long-term financial receivables (a)	371	**(5)**
(33)	Other changes relating to investing activities	(7)	**(16)**
423	**Free cash flow**	**1,161**	**482**
(350)	Change in current financial assets	350	
	Payment of lease liabilities		**(6)**
1,540	Change in current and non-current financial liabilities	799	**1,285**
(928)	Equity cash flow (b)	(1,157)	**(782)**
685	**Net cash flow for the period**	**1,153**	**979**

Change in net financial debt

2017	(million of €)	2018	2019
423	**Free cash flow**	**1,161**	**482**
	Effect of first-time application of IFRS 9	10	
	Financial payables and receivables from companies entering the scope of consolidation	(6)	**(47)**
(928)	Equity cash flow (b)	(1,157)	**(782)**
	Change in lease liabilities		**(25)**
11	**Other changes (c)**	**(6)**	**(3)**
(494)	**Change in net financial debt**	**2**	**(375)**

(*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.
(a) The value of 2018 includes the receipt related to the reimbursement by TAP of Shareholders' loan.
(b) Includes cash flow and payment to shareholders of the dividend.
(c) Include the effects of adjustment to the year-end exchange rate of financial payables in foreign currency.

RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS WITH THE COMPULSORY FORMATS

Reclassified statement of financial position

(million of €)		31.12.2018		31.12.2019	
Reclassified statement of financial position items (Where not expressly stated, the component is taken directly from the legally required format)	**Reference to notes to consolidated financial statements**	**Partial amount from legally required format**	**Amount from reclassified format**	**Partial amount from legally required format**	**Amount from reclassified format**
Fixed capital					
Property, plant and equipment			16,153		**16,439**
Compulsory inventories			363		**363**
Intangible assets			907		**990**
Equity investments composed of:			*1,750*		***1,828***
- Investments valued using the equity method		1,710		**1,787**	
- Other investments		40		**41**	
Non-current financial assets	(Note 9)		11		**3**
Net payables for investments, consisting of:			*(328)*		***(312)***
- Payables for investment activities	(Note 19)	(337)		**(320)**	
- Receivables from investment/divestment activities	(Note 9)	9		**8**	
Total fixed capital			**18,856**		**19,311**
Net working capital					
Trade receivables	(Note 9)		1,247		**1,217**
Inventories			109		**112**
Tax receivables, consisting of:			*26*		***35***
- Current income tax assets and other current tax assets		17		**26**	
- IRES receivables for national tax consolidation scheme	(Note 9)	9		**9**	
Trade payables	(Note 19)		(491)		**(487)**
Tax payables, consisting of:			*(23)*		***(35)***
- Current income tax liabilities and other current tax liabilities		(23)		**(35)**	
Deferred tax liabilities			(134)		**(106)**
Provisions for risks and charges			(665)		**(713)**
Derivative hedging instruments	(Notes 12 and 20)		(29)		**(63)**
Other assets, consisting of:			*105*		***185***

(million of €)		31.12.2018		31.12.2019	
Reclassified statement of financial position items (Where not expressly stated, the component is taken directly from the legally required format)	**Reference to notes to consolidated financial statements**	**Partial amount from legally required format**	**Amount from reclassified format**	**Partial amount from legally required format**	**Amount from reclassified format**
- Other receivables	(Note 9)	72		**142**	
- Other current and non-current assets	(Note 12)	33		**43**	
Assets and liabilities from regulated activities, consisting of:			*(363)*		***(145)***
- Regulated assets	(Note 12)	26		**2**	
- Regulated liabilities	(Note 20)	(389)		**(147)**	
Other liabilities, consisting of:			*(1,041)*		***(1,094)***
- Other payables	(Note 19)	(940)		**(994)**	
- Other current and non-current liabilities	(Note 20)	(101)		**(100)**	
Total net working capital			**(1,259)**		**(1,094)**
Provisions for employee benefits			(64)		**(46)**
Assets held for sale and directly related liabilities, consisting of:					**10**
- Assets held for sale				**10**	
NET INVESTED CAPITAL			**17,533**		**18,181**
Snam shareholders' equity			5,985		6,255
Minority interests					**3**
Net financial debt					
Financial liabilities, consisting of:			*13,420*		**14,774**
- Long-term financial liabilities		9,787		***10,643***	
- Short-term portion of long-term financial liabilities		1,657		**1,675**	
- Short-term financial liabilities		1,976		**2,456**	
Financial receivables and cash and cash equivalents, consisting of:			*(1,872)*		*(2,851)*
- Short-term financial receivables					
- Cash and cash equivalents	(Note 8)	(1,872)		(2,851)	
Total net financial debt			**11,548**		**11,923**
COVERAGE			**17,533**		**18,181**

Reclassified statement of cash flows

(million of €)	2018		2019	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	**Partial amount from legally required format**	**Amount from reclassified format**	**Partial amount from legally required format**	**Amount from reclassified format**
Net profit		**960**		**1,090**
Adjusted for:				
Amortisation, depreciation and other non-monetary components:		543		**527**
- Amortisation and depreciation	682		**722**	
- Impairment losses	8		**30**	
- Equity method valuation effect	(157)		**(218)**	
- Other expense from equity investments			**4**	
- Change in provisions for employee benefits	7		**(18)**	
- Other changes	3		**7**	
Net capital losses (capital gains) on asset sales and eliminations		12		**8**
Interest and income taxes:		557		**552**
- Dividends	(2)		**(2)**	
- Interest income	(12)		**(11)**	
- Interest expense	230		**190**	
- Income taxes	341		**375**	
Change in working capital due to operating activities:		185		**(264)**
- Inventories	(33)		**(43)**	
- Trade receivables	41		**38**	
- Trade payables	76		**(28)**	
- Change in provisions for risks and charges	9		**6**	
- Other assets and liabilities	92		**(237)**	
Dividends, interest and income taxes collected (paid):		(431)		**(427)**
- Dividends collected	151		**134**	
- Interest collected	4		**11**	
- Interest paid	(230)		**(185)**	
- Income taxes (paid) received	(356)		**(387)**	
Net cash flow from operating activities		**1,826**		**1,486**
Technical investments:		(849)		**(954)**

(million of €)	2018		2019	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	**Partial amount from legally required format**	**Amount from reclassified format**	**Partial amount from legally required format**	**Amount from reclassified format**
Property, plant and equipment	(772)		**(852)**	
- Intangible assets	(77)		**(102)**	
Technical disinvestments:		2		
Property, plant and equipment	2			
Companies leaving (entering) the scope of consolidation and business units		(38)		**(41)**
Equity investments		(144)		**12**
- Investments in shares	(165)		**(24)**	
- Disinvestments in shares	21		**36**	
Non-current financial assets		371		**(5)**
- Taking out long-term financial loans	(148)		**(5)**	
- Repayment of long-term financial loans	519			
Other changes relating to investment activities:		(7)		**(16)**
- Change in net payables relating to technical investments and equity investments	(7)		**(16)**	
Free cash flow		***1,161***		**482**
Change in current financial assets		350		
Change in financial payables:		799		**1,279**
- Taking on long-term financial debt	1,810		**2,877**	
- Repaying long-term financial debt	(1,608)		**(2,070)**	
- Increase (decrease) in short-term financial debt	597		**478**	
- Repayment of lease liabilities			**(6)**	
Equity cash flow		(1,157)		**(782)**
- Dividends paid	(731)		**(746)**	
- Capital contributions from third-parties			**3**	
- Acquisition of treasury shares	(426)		**(39)**	
Net cash flow for the period		**1,153**		**979**

Snam S.p.A. financial review

COMPANY INFORMATION

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. In Italy it operates in the regulated natural gas transportation and dispatch business, the regasification of liquefied natural gas and the storage of natural gas. It also has a presence in the energy transition business: sustainable mobility, biomethane infrastructure from organic waste and agricultural and agro-industrial waste, energy efficiency services for apartment buildings, the public administration and industry. Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players. It has a presence in Austria through its subsidiaries (TAG and GCA), France (Terēga), Greece (DESFA) and the United Kingdom (Interconnector UK) and is one of the main shareholders of TAP (Trans Adriatic Pipeline).
Snam S.p.A. is also responsible for the strategic planning, management, coordination and control of its subsidiaries.
As at 31 December 2019, the major shareholder CDP S.p.A. held, through CDP Reti S.p.A.[32], 31.04% of the share capital of Snam S.p.A. For this purpose, note that, from 1 August 2019, CDP reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF.
No management and coordination activity has been formalised or exercised by CDP over Snam.

RECLASSIFIED INCOME STATEMENT

In order to facilitate the reading of the Income Statement, taking into consideration the nature of Snam S.p.A. as an industrial holding company, the Reclassified Income Statement was prepared by presenting items relating to financial management first, because they represent the most important component of an income nature[33]. With reference to the other management costs, in addition to components of a non financial nature, the item also includes the depreciation, amortisation and write-down of assets.

32 CDP S.p.A. holds 59.10%.
33 This statement was prepared on the basis of the suggestions reported in Consob Communication no. 94001437 of 23 February 1994.

Reclassified Income Statement

2017	(million of €)	2018	2019	Change	% change
	Financial income and expense				
740	Income from equity investments	775	**898**	123	15.9
262	Interest income and other financial income	213	**159**	(54)	(25.4)
(292)	Interest expense and other financial expense	(249)	**(211)**	38	(15.3)
(1)	Losses from derivative contracts	(2)	**(1)**	1	(50.0)
709	**Total financial income and expense**	**737**	**845**	**108**	**14.7**
210	Income from services rendered	213	**227**	14	6.6
13	Other income	14	**15**	1	7.1
223	**Other operating income**	**227**	**242**	**15**	**6.6**
(81)	For personnel	(94)	**(88)**	6	(6.4)
(173)	For non-financial services and other costs	(146)	**(186)**	(40)	27.4
(254)	Other operating expenses	(240)	**(274)**	(34)	14.2
678	Pre-tax profit	724	**813**	89	12.3
(1)	Income tax	(3)	**4**	7	
677	**Net profit**	**721**	**817**	**96**	**13.3**

Net profit in 2019 stood at €817 million, an increase of €96 million or 13.3% compared with 2018. The increase is due mainly to the greater financial income and expense (+€108 million or +14.7%) essentially following the greater income from equity investments (+€123 million or +15.9%), partly offset by the increase in other management costs (-€34 million or 14.2%), mainly attributable to greater financial expense for the provision of non financial services and other costs (-€40 million or 27.4%).

Analysis of income statement items

Financial income and expense

2017	(million of €)	2018	2019	Change	% change
753	Income from equity investments	775	**898**	123	15.9
(13)	Expenses from shares				
262	Interest income and other financial income	213	**159**	(54)	(25.4)
(292)	Interest expense and other financial expense	(249)	**(211)**	38	(15.3)
(1)	Losses from derivative contracts	(2)	**(1)**	1	(50.0)
709		**737**	**845**	**108**	**14.7**

Financial income and expense in 2019 (€845 million) rose by €108 million or 14.7% compared with the previous year.
Income from equity investments (€898 million) consists mainly of the dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (€580 million) and Stogit S.p.A. (€185 million), by the company under joint control Trans Austria Gasleitung GmbH - TAG (€63 million), Terēga Holding (€13 million) and by the subsidiary Italgas S.p.A. (€26 million)[34].
Interest income and other financial income (€159 million) essentially refers to interest income from the intragroup loans granted by Snam S.p.A. to subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (€129 million in total) and the income from the direct recharging and treasury arrangements concluded between Snam S.p.A. and the companies, the expenses connected by the compulsory buy back transaction implemented by Snam in December 2019 (€20 million in total).
Interest expense and other financial expense (€211 million) refers to: (i) the expenses connected to the bond buy back transaction (€38 million), equal to the difference between the buy back price of the bonds on the market and the relative value at the amortised cost; (ii) expenses for bonds[35] (€155 million) and for loans provided by banks and other financial institutions (€18 million).

Other operating income

2017	(million of €)	2018	2019	Change	% change
210	Income from services rendered	213	**227**	14	6.6
13	Other income	14	**15**	1	7.1
223		**227**	**242**	**15**	**6.6**

Revenue for the provision of services (€227 million) mainly involve charge backs for services provided by Snam to subsidiaries (€198 million in total). The services provided by Snam S.p.A. to subsidiaries are regulated through service agreements and involve the following areas: ICT, Personnel and Organisation, Planning, Administration Finance and Control, General Services, Property, Security, Legal and Corporate Affairs and Compliance, Health, Safety and Environment, External Relations and Communication, Internal Audit, Technical, Commercial, Regulation and Procurement. The services provided also include the revenue on projects of the Global Solution Business Unit (€25 million).
The increase of €14 million compared with the previous year is due to the greater charge backs to subsidiaries (+€23 million), for services mainly of an ICT nature and to the greater revenue from Global Solution Business Unit projects (+€10 million) essentially following the design services rendered to the subsidiary TAP. This change was partly offset by the lower revenue from services rendered at 31 December 2018.
Other income (€15 million) essentially refers to income from the leasing and maintenance of fibre optic telecommunications cables for third-parties (€13 million).

34 More information is provided in the appendix to the Notes to the separate financial statements, "Notes on companies controlled through a direct equity investment of Snam S.p.A.".
35 Details of the bond issues that took place during the year and their conditions are provided in Note 17, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.

Other operating expenses

2017	(million of €)	2018	2019	Change	% change
173	For non-financial services and other costs	146	**186**	40	27.4
81	For personnel	94	**88**	(6)	(6.4)
254		**240**	**274**	**34**	**14.2**

Costs for non financial services and other costs are composed of operating costs (€175 million) and depreciation and amortisation (€11 million). The increase of €40 million is mainly due to the greater costs for IT services subject to recharging to Group companies, as well as the dynamics of the provision for impairment, which did not change in 2019 compared with the net utilisations in 2018.

Personnel costs totalled €88 million a fall compared with the corresponding period of the previous year (€6 million) mainly as a result of the effects of the reorganisation of the Group and employment policies.

The number of employees as at 31 December 2019 (742 people) is analysed below by professional status:

Employees by professional status

31.12.2017	(no.)	31.12.2018	31.12.2019	Change	% change
	Professional status				
63	Executives	71	**71**		
239	Middle Managers	259	**242**	(17)	(6.6)
517	Office workers	505	**426**	(79)	(15.6)
3	Manual workers	3	**3**		
822		**838**	**742**	**(96)**	**(11.5)**

Income tax

Income tax was positive by €4 million mainly on account of the share of non taxable dividends collected in the year.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position combines the assets and liabilities of the condensed statement based on how the business operates, conventionally split into the three basic functions: investment, operations and financing. Management believes that this format presents useful information for investors as it allows identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital.
The reclassified consolidated statement of financial position format is used by management to calculate the key leverage and profitability ratios.

Reclassified statement of financial position (*)

(million of €)	31.12.2018	31.12.2019	Change
Fixed capital	**11,981**	**11,608**	**(373)**
Property, plant and equipment	5	**20**	15
Intangible assets	14	**12**	(2)
Equity investments	6,534	**6,584**	50
Long-term financial receivables	5,431	**4,996**	(435)
Net receivables (payables) for investments	(3)	**(4)**	(1)
Net working capital	**(308)**	**(334)**	**(26)**
Provisions for employee benefits	**(19)**	**(14)**	**5**
Assets held for sale		**10**	**10**
NET INVESTED CAPITAL	**11,654**	**11,270**	**(384)**
Shareholders' equity	**4,402**	**4,396**	**(6)**
Net financial debt	**7,252**	**6,874**	**(378)**
COVERAGE	**11,654**	**11,270**	**(384)**

(*) Please refer to the paragraph "Non-GAAP measures" for the methodological illustration of the reclassified statements.

Fixed capital (€11,608 million) decreased by €373 million compared with 31 December 2018 mainly as a result of lower long-term financial receivables (-€435 million). This effect was partly offset by the increase in equity investments (€50 million) due mainly to the share capital increase in favour of Snam 4 Enviroment S.r.l. (€55 million) and the increase in property, plant and machinery (€15 million) essentially as a result of the recording of leased assets as right-of-use assets in accordance with accounting standard IFRS 16 “Leasing”, in force from 1 January 2019.

Equity investments

This item amounts of €6,584 and is composed of equity investments in the following companies:

(million of €)	% ownership	Balance at 31.12.2018	Acquisitions and subscriptions	Sales and repayments	Other changes	Balance at 31.12.2019
Investments in subsidiaries		**4,804**	**60**			**4,864**
Snam Rete Gas S.p.A.	100%	2,850				**2,850**
Stogit S.p.A.	100%	1,597				**1,597**
Asset company 2 S.r.l.	100%	172				**172**
Snam International B.V.	100%	61				**61**
GNL Italia S.p.A.	100%	43				**43**
Snam 4 Mobility S.p.A.	100%	38				**38**
Asset company 4 S.r.l.	100%	23				**23**
Gasrule Insurance D.A.C.	100%	20				**20**
Enura S.p.A.	55%		4			**4**
Snam 4 Environment S.r.l. (Formerly Asset Company 6)	100%		55			**55**
Snam 4 Efficiency S.r.l.	100%		1			**1**
Investments in companies under joint control		**1,054**		**(9)**		**1,045**
Trans Austria Gasleitung GmbH	84.47%	500				**500**
Terēga Holding S.A.S.	40.50%	452				**452**
AS Gasinfrastruktur Beteiligung GmbH	40%	102		(9)		**93**
Investments in associates		**636**	**23**	**(22)**	**(1)**	**636**
Trans Adriatic Pipeline AG	20%	271	23		9	**303**
Italgas S.p.A.	13.50%	244				**244**
Senfluga Energy Infrastructure Holding S.A.	60.00%	121		(22)	(10)	**89**
Other investments		**40**		**(5)**	**4**	**39**
Terminale GNL Adriatico S.r.l.	7.30%	40		(5)	4	**39**
Total		**6,534**	**83**	**(36)**	**3**	**6,584**

Non-current financial assets

Non-current financial assets, including the relative short-term portions, amount to €4,996 million and refer to receivables for long-term loans disbursed to the subsidiaries Snam Rete Gas (€4,181 million) and Stogit (€778 million). The reduction of €435 million compared with 31 December 2018 is mainly due to the closing and the simultaneous repayment of existing loans to Snam Rete Gas S.p.A. and Stogit S.p.A. (€455 million in total).

Net working capital

(million of €)	31.12.2018	31.12.2019	Change
Trade receivables	95	**106**	11
Tax assets	27	**45**	18
Net prepaid tax assets	19	**29**	10
Other assets	38	**58**	20
Provisions for risks and charges	(11)	**(11)**	
Tax liabilities	(27)	**(45)**	(18)
Derivatives	(29)	**(62)**	(33)
Trade payables	(62)	**(81)**	(19)
Other liabilities	(358)	**(373)**	(15)
Total	**(308)**	**(334)**	**(26)**

Net working capital (-€334 million) decreased by €26 million compared with 31 December 2018 mainly as a result of the increase in liabilities for derivative financial instruments (-€33 million) partly offset by the increase in other assets (€20 million) due to greater accrued income and prepaid expenses.

Assets held for sale

Assets held for sale (€10 million) relate to a 6% stake in the share capital associate company Senfluga, reclassified following the agreements signed by the shareholders of Senfluga fr the sale of a 10% stake in it, proportional to the stake held by each shareholder. The completion of the transaction, subject to the approval of the Greek regulator, took place on 13 January 2020, following a payment of €16 million (€10 milliion as Snam's share), pegged at the values of the transaction concluded in December 2018. Following the above-mentioned sale, the percentage of Snam's equity investment in the capital of Senfluga is 54%.

Shareholders' equity

(million of €)		
Shareholders' equity as at 31 December 2018		**4,402**
Increases owing to:		
- Comprehensive income for 2019 (*)	787	
- Other changes	7	
		794
Decreases owing to:		
- 2018 final dividend	(448)	
- 2019 interim dividend	(313)	
- Acquisition of treasury shares	(39)	
		(800)
Shareholders' equity as at 31 December 2019		**4,396**

(*) For further details, please refer to the Statement of comprehensive income of the Snam S.p.A. Financial Statements.

Net financial debt

(million of €)	31.12.2018	31.12.2019	Change
Financial and bond debt	**13,462**	**14,799**	**1,337**
Short-term financial debt (*)	3,675	**4,158**	483
Long-term financial debt	9,787	**10,627**	840
Lease liabilities (**)		**14**	14
Financial receivables and cash and cash equivalents	**(6,210)**	**(7,925)**	**(1,715)**
Short-term financial receivables	(4,369)	**(5,120)**	(751)
Cash and cash equivalents	(1,841)	**(2,805)**	(964)
Total	**7,252**	**6,874**	**(378)**

(*) Includes the current portion of non-current financial liabilities.
(**) Including non-current lease liabilities (€11 million) and the current portion of non-current lease liabilities (€3 million).

Net financial debt at 31 December 2019 was €6,874 million, a reduction of €378 million compared with 31 December 2018.
Financial and bond debts are denominated in euros and break down as follows: they refer mainly to bond loans (€9,048 million, or 61%) and bank loans (€3,672 million, or 25%, including €1,669 million provided by the European Investment Bank - EIB).
Long-term financial debt (€10,627 million) represented around 72% of gross financial debt (around 73% at 31 December 2018).

The breakdown of debt by type of interest rate at 31 December 2019 is as follows:

(million of €)	31.12.2018	%	31.12.2019	%	Change
Fixed rate	10,531	78	11,188	**76**	657
Floating rate	2,931	22	3,611	**24**	680
Total	**13,462**	**100**	**14,799**	**100**	**1,337**

Bond loans (€9,048 million) rose by €602 million compared with 31 December 2018 following the issuing of: (i) the Climate Action Bond, for a nominal amount of €500 million, fixed rate with a maturity date of 28 August 2025; (ii) a Private Placement of a nominal amount of €250 million, fixed rate with a maturity date of 7 January 2030; (iii) a dual tranche bone with a nominal amount of, respectively, €700 and €600 million, making a total of €1.3 billion, fixed rate with maturity dates, respectively of 12 May 2024 and 12 September 2034. These changes were offset: (i) by the repayment of a fixed rate bond maturing on 18 January 2019, for a nominal amount of €519 million; (ii) the repayment of a fixed rate bond loan maturing on 24 April 2019, of a nominal amount of €225 million; (iii) the repayment of a JPY 10 billion bond maturing on 25 October 2019 of a nominal amount of €83 million; (iv the repurchase on the market of fixed-rate bonds for a total nominal value of €597 million with an average coupon of 1.3% and a residual duration of approximately 3.9 years; (v) the dynamics of accrued interest.

Bank loans (€3,672 million) fell by €1,077 million essentially following the lower net use of uncommitted lines of credit (€1,301 million). This effect was partly offset by the signing with the European Investment Bank - EIB: (i) on 28 January 2019 of a loan for projects promoted by Snam Rete Gas and Stogit, of a nominal amount of €135 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2038; (ii) on 6 June 2019 of a loan supporting investments promoted by the subsidiary Snam4Mobility for the construction of CNG and L-CNG refuelling stations, for a nominal amount of €25 million, at a fixed rate, to be repaid through an amortisation plan expiring in 2031; (iii) on 31 July 2019 a loan for Snam Rete Gas projects, for a nominal amount of €105 million at a fixed rate to be repaid through an amortisation plan expiring in 2039.

The Euro Commercial Papers (€2,001 million) involve unsecured short-term securities issued on the money market and placed with institutional investors and recorded an increase of €1,776 million.

Short-term financial receivables (€5,120 million) showed an increase of €751 million compared with 31 December 2018. The increase is essentially attributable to the greater net use of current account balances of the subsidiaries Snam Rete Gas and Stogit (€678 million in total).

Cash and cash equivalents of €2,805 million (€1,841 million at 31 December 2018) mainly refer to a short-term liquidity facility, with a maturity of less than three months, with banks with a high credit standing (€750 million) and to ban current and deposit accounts that can be collected quickly (€2,055 million).

At 31 December 2019, Snam had unused committed long-term credit lines worth €3.2 billion.

RECLASSIFIED STATEMENT OF CASH FLOWS AND CHANGE IN NET FINANCIAL DEBT

The reclassified statement of cash flows below summarises the legally required financial reporting format. It shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repaying financial receivables/payables) and equity (payment of dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

Reclassified statement of cash flows

2017	(million of €)	2018	2019
677	**Net profit**	**721**	**817**
	Adjusted for:		
24	- Amortisation, depreciation and other non-monetary components	11	**13**
(736)	- Dividends, interest and income taxes	(748)	**(866)**
45	Change in working capital due to operating activities	9	**(14)**
736	Dividends, interest and income taxes collected (paid)	754	**862**
746	**Net cash flow from operating activities**	**747**	**812**
(9)	Technical investments	(5)	**(5)**
(247)	Equity investments	(205)	**(48)**
416	Change in long-term financial receivables	1,342	**425**
(1)	Other changes relating to investing activities	(1)	
905	**Free cash flow**	**1,878**	**1,184**
(853)	Change in short-term financial receivables	(407)	**(751)**
	Payment of lease liabilities		**(4)**
1,559	Change in current and non-current financial debt	832	**1,320**
(928)	Equity cash flow (*)	(1,157)	**(785)**
683	**Net cash flow for the period**	**1,146**	**964**

(*) Includes the cash flows from the purchase of treasury shares and the payment of the dividend to the shareholders.

Change in net financial debt

2017	(million of €)	2018	2019
905	**Free cash flow**	**1,878**	***1,184***
	Effect of first-time application of IFRS 9	**10**	
7	Exchange rate differences on financial liabilities	(6)	***(3)***
4	Adjustment to fair value of financial debt		
	Change in lease liabilities		***(18)***
(928)	Equity cash flow	(1,157)	**(785)**
(12)	**Change in net financial debt**	**725**	**378**

Other information

TREASURY SHARES

In compliance with the provisions of Article 2428 of the Italian Civil Code, the treasury shares held by the Company at 31 December 2019 are analysed in the table below:

Period	No of shares	Average cost (€) (*)	Total cost (million of €)	Share capital (%) (**)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Year 2017	56,010,436	3.748	210	1.60
Year 2018	113,881,762	3.743	426	3.28
Year 2019	8,412,920	4.609	39	0.25
	402,620,998	**3.904**	**1,572**	
Less treasury shares granted/sold/cancelled:				
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(1,514,000)			
- cancelled in 2012 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
- cancelled in 2018 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(31,599,715)			
- cancelled in 2019 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(74,197,663)			
Treasury shares held by the Company at 31 December 2019	**102,412,920**			

(*) Calculated on the basis of historic prices.
(**) The share capital is the same as that of the date of the last acquisition of the year/period.

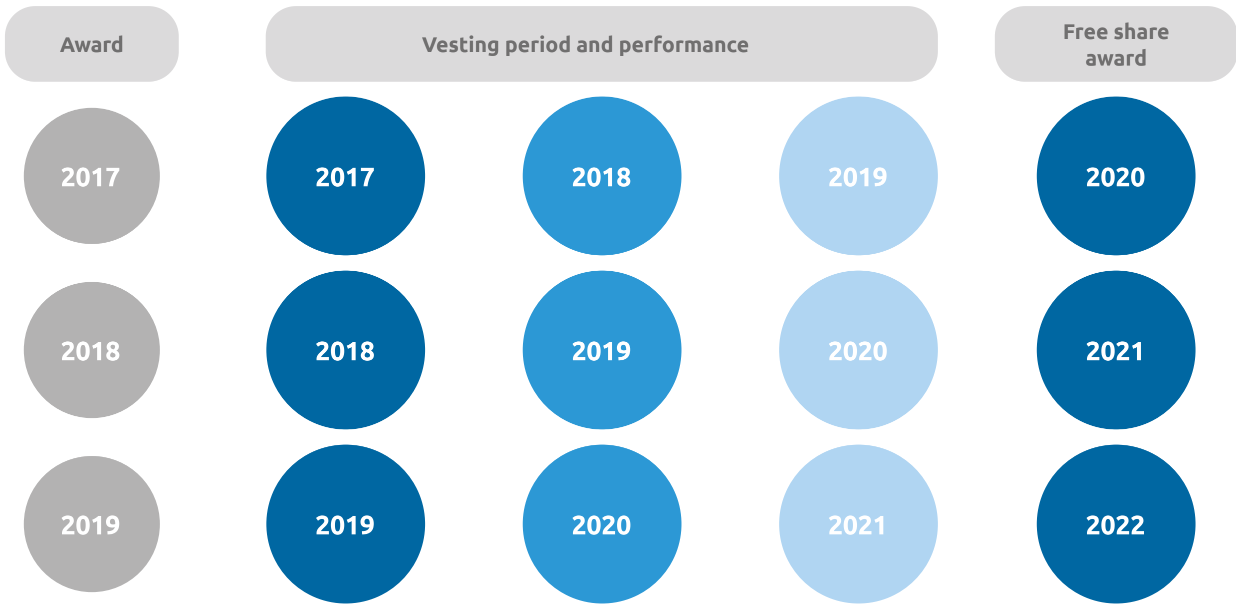
On 2 April 2019 the Ordinary Shareholders' Meeting of Snam shareholders authorised, following the withdrawal of the resolution authorising the purchase of treasury shares taken by the Ordinary Shareholders' Meeting on 24 April 2018, for the remaining part not carried out, the purchase of treasury shares, to take place on one or more occasions, for a maximum of 18 months from the date of the Meeting of 2 April 2019, with a maximum outlay of €500 million and, in any event, up to a maximum of 126,664,660 shares without exceeding 6.50% of the subscribed and released share capital (with regard to treasury shares already owned by the Company). The resolution of the meeting stated the terms and conditions of the price for the purchase of treasury shares and authorised the disposal, on one or more occasions, with no time limits and even before having completed all acquisitions, of all or part of the Company's treasury shares acquired on the basis of this shareholders' resolution as well as those already held. The Extraordinary Shareholder's Meeting held on 2 April 2019 also approved the cancellation of 74,197,663 treasury shares with no nominal value with no reduction in the share capital and the resulting amendment of Article 5.1 of the Articles of Association.

In execution of the resolution, the new buy back programme was launched on 16 December 2019.
From that date a total of 8,412,920 Snam shares were bought, equal to 0.25% of the share capital, for a cost of €39 million (113,881,762 Snam shares equal to 3.28% of the share capital for a cost of €426 million in 2018).
On 27 February 2020 buyback program was completed. From 1 January to 27 February 2020, n. 23,070,187 shares were bought, with a total cost of approximately 111 millions euros.
As at 31 December 2019, Snam therefore held 102,412,920 treasury shares, equal to 3.02% of its share capital (168,197,663 as at 31 December 2018, amounting to 4.85% of the share capital), with a total book value of around €389 million (€625 million as at 31 December 2018) and recognised as a reduction in shareholders' equity. The market value of the treasury shares at 31 December 2019 was around €480 million[36].
The share capital as at 31 December 2019 consisted of 3,394,840,916 shares with no nominal value for a total value of €2,736 million.
The subsidiaries of Snam S.p.A. do not hold, and have not been authorised by their Shareholders' Meetings to acquire, shares in Snam S.p.A.

INCENTIVE PLANS FOR SENIOR MANAGERS WITH SNAM SHARES

2017-2019 long-term share-based incentive plan

On 11 April 2017 the Shareholders Meeting approved the 2017-2019 Long-term share-based incentive plan conferring all necessary powers on the Board of Directors to implement the plan.
The plan, intended for the Snam CEO and senior managers, identified as those who hold positions with a greater impact on company results or with strategic importance for achieving Snam's multi-year targets, includes three cycles of the annual assignment of three-year targets (the so-called rolling plan) for the years 2017, 2018 and 2019. At the end of the three-year performance period, if the underlying conditions of the plan are met, the beneficiary shall have the right to receive Company shares free of charge.



36 Calculated by multiplying the number of treasury shares by the period-end official price of €4,686 per share.

A maximum number of 3,500,000 shares will service the Plan for each fiscal year that the Plan will be in effect. The Plan will be concluded in 2022, upon expiration of the Vesting Period for the last attribution made in 2019.
The number of shares that accrue is subject to the performance conditions being achieved, calculated as the average of the annual performance of the parameters identified in the three-year vesting period, which affect EBITDA, adjusted net profit and sustainability.

The Plan also involves the beneficiaries receiving, at the end of the vesting period, a Dividend Equivalent, or an additional number of shares equivalent to the ordinary and extraordinary dividends distributed by Snam during the vesting period due on the number of shares effectively granted to the beneficiaries by way of performance levels achieved under the terms and conditions of the Plan. There will also be a two-year lock-up period for the other executives who are beneficiaries on 20%[37] of the shares for the CEO and other executives, as recommended in the Code of Corporate Governance.
A total of 5,385,372 shares have been allocated in connection with the above-mentioned plan, 1,368,397 of which are for the 2017 allocation, 2,324,413 for the 2018 allocation and 1,692,562 for the 2019 allocation. The unitary fair value of the shares, calculated from the value of the Snam stock at the allocation dates (the grant date), is equal to €3.8548 and €3.5463 and €4.3522 per share, respectively for the 2017, 2018 and 2019 allocations. The cost for the Long-term incentive plan, measured as the labour cost component, amounts to €7 million (€3 million in 2018) with an opposing entry in shareholder equity reserves.

COMPENSATION PAID TO DIRECTORS AND STATUTORY AUDITORS, GENERAL MANAGERS AND MANAGERS WITH STRATEGIC RESPONSIBILITIES, AND INVESTMENTS HELD BY EACH OF THESE

Information on the compensation paid to directors and statutory auditors, general managers and managers with strategic responsibilities, and the equity investments held by each of these, can be found in the Remuneration Report, which is prepared in accordance with Article 123-*ter* of Legislative Decree 58/1998 (TUF). The Remuneration Report is available on the Snam website(www.snam.it) in the Governance section.

RELATIONSHIPS WITH RELATED PARTIES

From 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF. Considering the de facto control of CDP S.p.A. over Snam S.p.A., based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance.
Operations with these parties mainly involve the exchange of goods and the provision of regulated services in the gas sector.

37 The percentage reaches about 40% in case of sale of shares assigned to pay the relevant taxes.

These transactions are part of ordinary business operations and are generally settled at market conditions, i.e. the conditions which would be applied for two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.
Pursuant to the provisions of the relevant legislation, the company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.
Directors and auditors declare their interests affecting the Company and the Group every six months, and/or when changes in said interests occur; they also inform the CEO (or the Chairman, in the case of the CEO), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.
No management or coordination activity of CDP S.p.A. has been formalised or exercised.
As at 31 December 2019, Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.
The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in Note 34 "Relationships with related parties" of the Notes to the consolidated financial statements.
Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 28 "Operating costs" of the Notes to the consolidated financial statements.

PERFORMANCE OF SUBSIDIARIES

For performance information concerning the segments in which the Company operates wholly or in part through subsidiaries, please refer to the sections "Business segment operating performance" and "Financial review" within this Report.

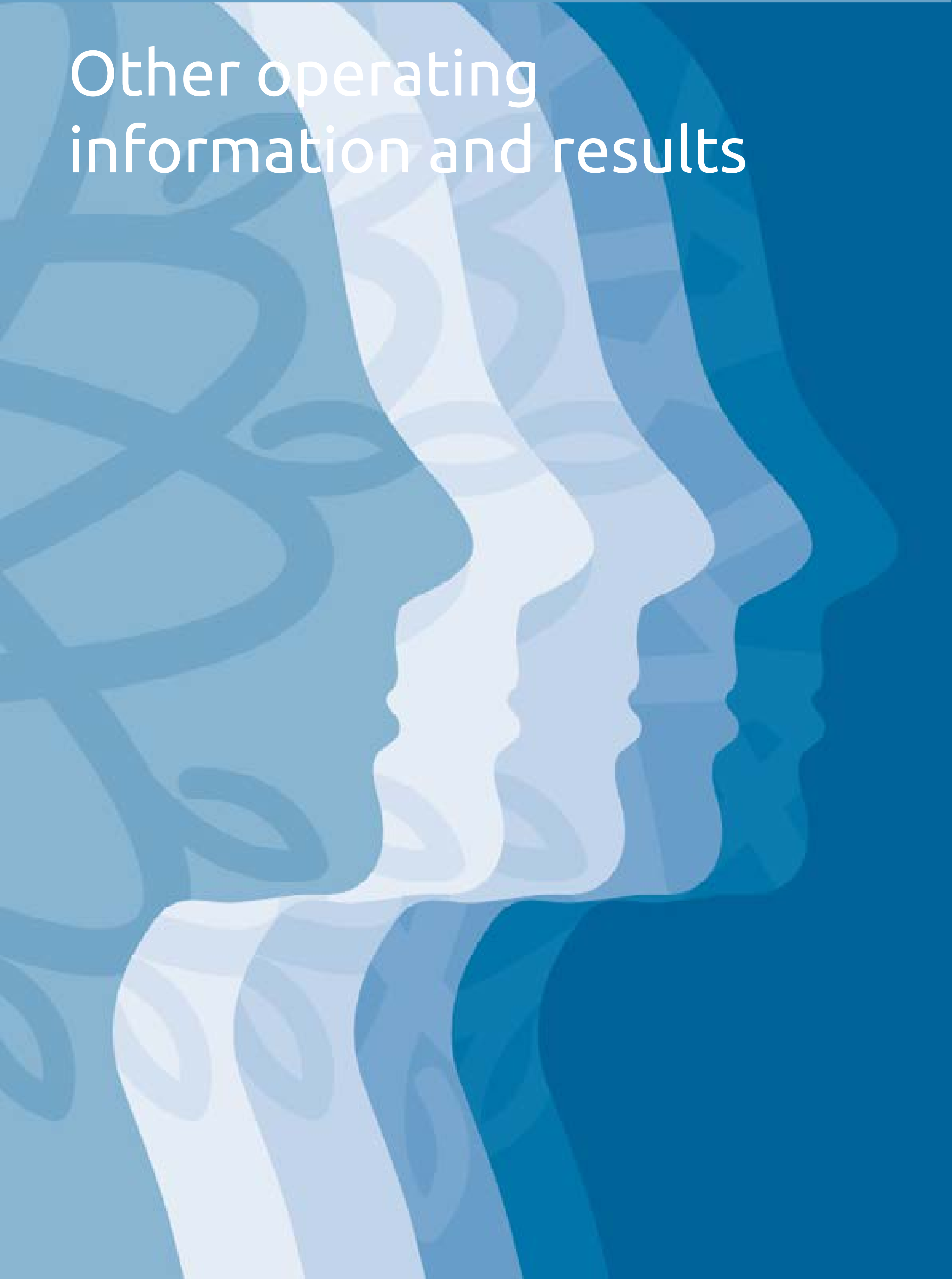
BRANCH OFFICES

As required by Article 2428, paragraph 5 of the Italian Civil Code, it is noted that Snam does not have branch offices.

RESEARCH AND DEVELOPMENT

Research and development activities performed by Snam are described in the section "Other operating information and results - Innovation for business development" of this Report.

Other operating information and results



This section of the report deals with activities and initiatives that have an impact on intangible business but contribute to the creation of value for the Company and its stakeholders. In Snam's business model, the stakeholders "interpret" the industry environment and can influence, sometimes decisively, the conditions that determine the availability of the different capitals that the business needs to be able to operate. These close ties with the capitals, which develop around material issues of mutual interest, enable the stakeholders to benefit from the value that the business creates through its activities.

Development of human, social and relationship, and intellectual capital

NFS EMPLOYMENT IN TIMES OF CHANGE

To continue to play a key role within an ever-changing environment while continuing to lead in an international market abundant with opportunities, it is to enhance know-how and know how to meet new challenges in the regulated and free market alike. People are called upon to effectively share their expertise and know-how and work as a team striving for a single objective: a decisive factor for creating innovation and bringing value to the business. The strong sense of belonging to the Group makes it possible to actively engage all employees in continuous improvement, which is increasingly driven by an entrepreneurial spirit, simplification and implementation capacity.

In this way Snam, in line with the goal of sustainable development, continues to generate "good employment" featuring stable and continuous working relationships involving qualified and specialist activities (57% of employees have a technical diploma and 27% are graduates). In addition, the Company's objective, through the Snam Institute is to develop know-how, not only within the business, but also on the outside.

As of 31 December 2019, out of a total of 3,025 employees, 93.1% have a permanent employment contract, including 38 part-time employment contracts, and 193 apprenticeships. The average age of Snam Group employees is 44.4 years, while the average length of service is around 18.6 years.

Breakdown of staff at 31 December

(no.)	2017	2018	2019
Executives	93	107	**111**
Middle Managers	456	480	**493**
Office workers	1,655	1,682	**1,683**
Manual workers	715	747	**738**
Total employee	**2,919**	**3,016**	**3,025**

Personnel broken down by type of contract

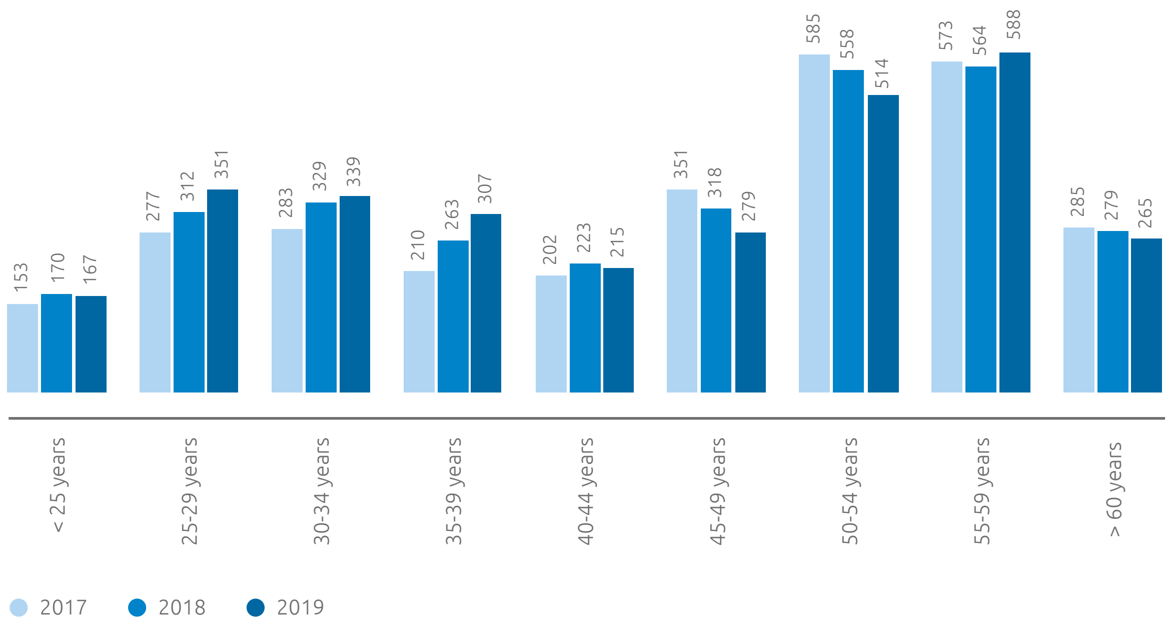
(no.)	2017	2018	2019
Permanent contract	2,755	2,812	**2,817**
- of which part time contract	*42*	*41*	*38*
Apprenticeship or internship contract	150	185	**193**
Fixed-term contract	14	19	**15**

At the end of 2019 more than 32 people were employed on a staff leasing contract (33 in 2018 and 33 in 2017).

Personnel hired during the year

(no.)	2017	2018	2019
Hired from the market (total)	148	195	**172**
- of which university graduates	100	108	**92**
- of which school graduates	48	86	**79**
- of which other another title	-	1	**1**
- of which women	53	42	**38**
Other new employees (non-consolidated companies, tender acquisitions, etc.)	36	126	**59**

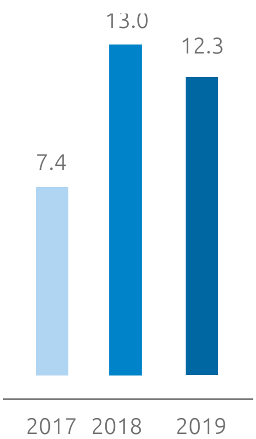
Age diversity: employees by age bracket (no.)



Absenteeism rate (%)

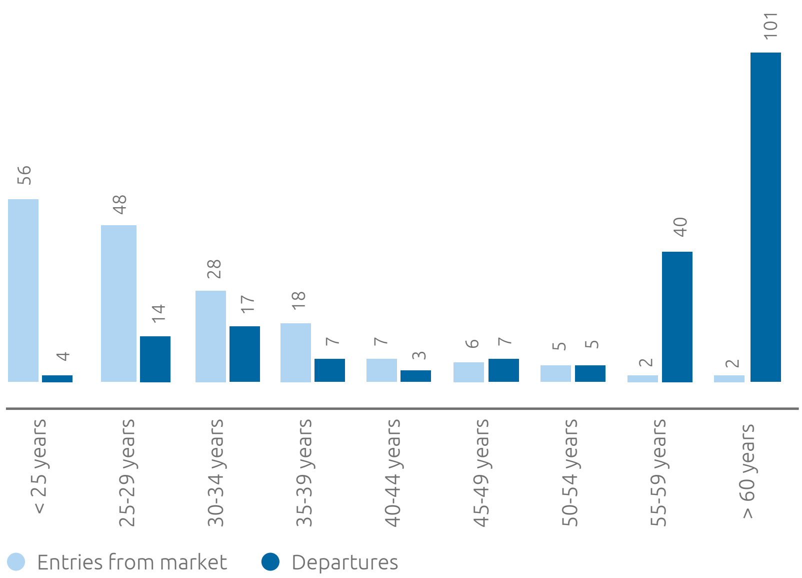
Rate of absenteeism = (h. absence/working h.) x 100

Personnel turnover (%)



Rate of turnover = (entries+departures)/ average workforce) x 100

Entrance from the market and departures for female gender (no.)



People aged under 40 (1,164) represent 38.5% of the corporate population, an increase of 90 resources compared with 2018, also thanks to the inclusion of young talent in recent years.
The absenteeism rate does not include senior managers and it was calculated taking into consideration all hours not worked (paid and unpaid) excluding holidays, leave that has to be made up and periods of mandatory and voluntary maternity leave. In 2019 the absenteeism rate stood at 4.5%, essentially in line with the figure for the previous year. There were no essential changes between the absenteeism rate for men and women, which stood at 4.4% and 5.1%, respectively.
The turnover rate for 2019, remained consistent with the 2018 figure by virtue of the hiring campaign and incentivising redundancy and early retirement.

NFS DEVELOPMENT OF ROLES AND SKILLS

In 2019 activities for the development of Snam's roles and know-how focused on improving the leadership model, consolidating the new skills model, identifying and developing talent throughout the organisation, keeping succession plans solid and structured making it possible to guarantee a sustainable succession line and intensifying the level of engagement. Specifically, the second cycle of the Performance Management system was launched, which saw the expansion of the population to include all administrative staff on site (Corporate and Operations) with 1,587 people evaluated. As planned the Performance Management system will involve the entire corporate population with the launch of the third cycle in 2020.
All work positions, with the exception of senior managers, are subjected to the analytical and overall evaluation of the factors of Complexity, Responsibility, Experience and Autonomy (CREA). In 2019, 225 CREA assessments were approved. Compensation systems are updated periodically based on a comparison with the reference markets and in consideration of instructions received from external stakeholders. In particular, these systems are meant to ensure recognition of the results achieved, the quality of the professional contribution provided and individual development potential of the person.

Incentive systems for the various brackets of the corporate population

Executives	The remuneration system breaks down into two parts: fixed remuneration, with possible annual adjustments for merit or progression of roles/responsibilities, and variable remuneration with incentives aimed at promoting professional contribution in the short-term, by assigning an annual monetary incentive (IMA), as well as in the medium-/long-term, by assigning a long-term share-based incentive (ILT). Claw-back mechanisms are also provided, aimed at recovering the variable portion if the resulting compensation is not due because it was earned based on targets that were attained as a result of malicious or grossly negligent behaviour or that were proven to be manifestly incorrect. The Total Reward Statement, an information package on the breakdown of individual remuneration, guarantees the promotion and transparency of the remuneration system.
Non-executive population	Snam adopts a short-term variable incentive plan intended to reward best performance and the young resources with potential for development. What is more, all companies in the group anticipate a "Participation Bonus", instituted by the National Collective Labour Agreement, based on the performance of profitability and productivity parameters, measured in relation to the targets agreed upon every year between the company and trade-union representatives.

NFS TRAINING

Training plays a fundamental role in supporting management and the entire company population in pathways to developing managerial capacity, technical skills, and a background of specific expertise.
Precisely in order to preserve technical know-how to develop it and transfer it to the new generations, Skill Centres were set up in 2019: groups of people across the organisational structures who possess consolidated and recognised know-how and expertise in specific areas that are important for the business. The 16 Skill Centres identified involved 110 Group people, identifying 175 experts and 145 trades people, working to create the 16 volumes that make up the Snam technical "trades" encyclopaedia.
These centres are also supported by and internal faculty composed of 80 employees who transfer their technical and business expertise to other colleagues through a by Snam to Snam logic. In 2019 the faculty provided around 1,200 teaching hours, contributing to the training of around 600 people.
In 2019 114,179 training hours were supplied (+5.9% compared with 2018) with 26,518 participants (+89% compared with 2018) involving 99% of the corporate population. The increase is also attributable to the provision of e-learning to the entire corporate population with 5 modules of around 1 hour each, on compliance. The following topics were dealt with: Market Abuse, Privacy, 231 Model, Anti-corruption and Antitrust.
A significant commitment was dedicated to worker training programmes regarding sensitive issues such as health, safety and the environment, by organising a number of meetings to provide updates and information and raise awareness amongst all professional figures.
On matters of business ethics and anti-corruption, in 2019 4,028 hours of training were provided with 3,981 participants.

Staff training broken down by position

(no. of hours)	2017	2018	2019
Executives	1,908	4,392	**5,669**
Middle Managers	8,600	19,072	**16,950**
Office workers	39,316	49,650	**58,238**
Manual workers	35,522	34,657	**33,322**
Total	**85,346**	**107,771**	**114,179**

Key training initiatives

(no.)	Hours provided	Participants
Technical training	47,705	8,023
Health, safety, environment and quality	29,755	5,580
Managerial training	19,524	4,356

NFS CORPORATE WELFARE AND WORK-LIFE BALANCE

Corporate welfare is a powerful tool that is integrated and integrated with the public welfare system and which attempts to protect people from new social risks. The definition of "corporate welfare" refers to a multiplicity of interventions, both monetary and in the form of services, capable of generating benefits for employees (who see their increasing social protection and their purchasing power) and become a lever fundamental for companies, which benefit from a better working and productive climate. With the goal of promoting a positive working environment, over the years Snam created a welfare system founded on a long tradition of attention to people, capable of growing and changing over a period of time and reaching out towards the emerging needs and requirements of the different categories of employees. The in-depth analysis of the corporate population, different needs and sensitivities, are periodically updated and allow Snam to develop shared, functional and effective services.
From 2018 the welfare offering, available on the Snammy digital platform, is organised over five areas of intervention: Family, Education, Work/Life Balance, Well-being and leisure time, Health These five areas are then broken down into 28 services (corporate and contractual) which enable Snam to respond to the most current needs and requirements of the various bands of employees. Among the innovations in 2019, in the Family area there is BE PARENTS, online training created in conjunction with Life Based Value, which accompanies first-time new parents during and after the birth of their child, developing those skills that are also useful in the workplace. 66 employees took part in the programme (45% of whom were women).
Still in the Family area, digital education courses continued involving children and parents on technological themes and the dediCARE programme is provided, the service that listens to and takes care of needs of a social, work, welfare, economic and health of employees and their families.
In the Well-being and leisure time section, in addition to the arrangements with leading health institutions and prevention programmes, SNAMMYBENE is ongoing, the project dedicated to the well-being of employees that has been rolled out to focus on three aspects: diet, cognitive-emotional and financial.

As far as flexible working is concerned, the Smart Working initiative was extended both in terms of the scope of application and the number of hours, going from a total of 62,930 hours in 2018 to 122,762 in 2019. The programme is supported by flexible working hours for arriving and leaving, and "short Fridays", where the working day on a Friday can end from 13.00 onwards.
The FLEXIBLE BENEFITS system is also continuing. It allows employees to convert a portion of the performance-related pay (a maximum of 60%) into a welfare credit that can be used to buy various types of services for themselves or their family members. The advantage of the initiative is to increase the purchasing power of employees, given that there is no tax on the amount converted and that the company recognised a further variable bonus from 8% to 16% based on the share converted.

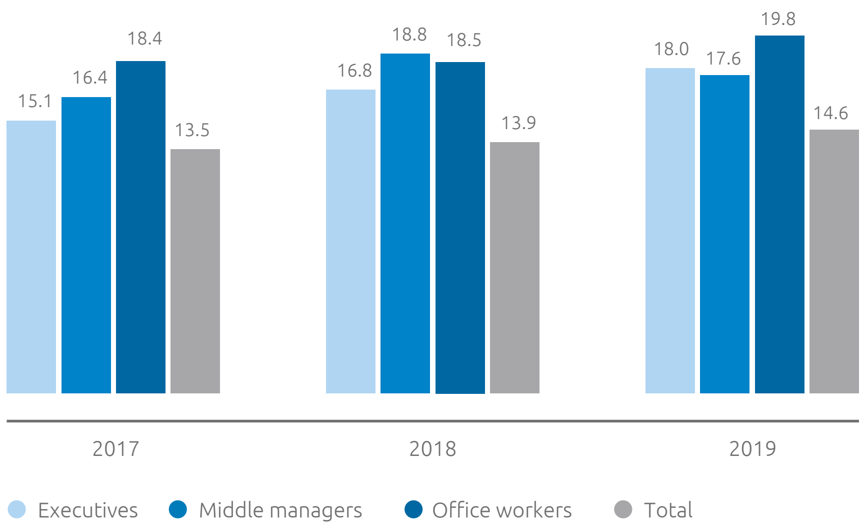
NFS DIVERSITY

For Snam diversity means guaranteeing meritocracy and creating open and inclusive working environments and it represents a value that translates into growth for the company and the country system. In effect, Snam respects everyone's dignity, and offers equal opportunities throughout all phases and for all aspects of the employment relationship, avoiding all forms of discrimination based on sex, age, health, nationality, political opinion or religious views, a commitment formalised in the publication in October, of a policy dedicated to Diversity & Inclusion.
Snam is also included among the 325 global companies on the 2020 Bloomberg Gender-Equality Index (GEI). The index is based on factors such as promoting female leadership, a commitment to reducing the gender pay gap and the culture of inclusion.
At the end of the year, the female corporate population stood at 441 resources, an increase compared with the previous year (+5.3%). Of the 38 part time contracts in the company, women account for 34 of these.
In order to make the most of diversity, Snam continued in 2019 through collaboration with Valore D, which Snam became a Contributing Member of in 2017. Valore D is the leading association of companies promoting diversity, talent and female leadership for the growth of companies and the country. In 2019 Snam took part in intercompany training and mentoring programmes offered by the association and 3 in-house workshops have been organised on the following subjects: Unconscious Bias, Happiness in the Company and Organisational Leadership. Still during the year, Snam joined InspirinGirls, the international campaign brought to Italy by Valore D which has the goal of creating awareness among young women of their talent freeing them of the gender stereotypes that hold back their ambitions.
As far as people with disabilities are concerned, 120 people with disabilities work in the Group and their career path promotes inclusion and integration in company processes.

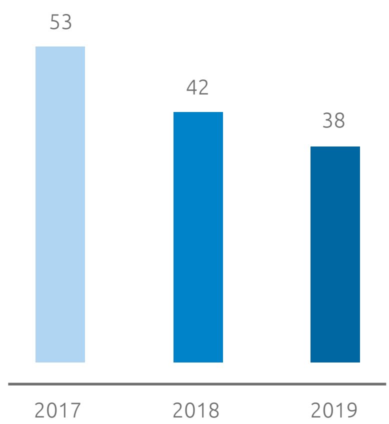
Staff training broken down by gender

(no.)	2017	2018	2019
Average hours of training provided to men (hours/year)	31.3	36.9	**38.4**
Average hours of training provided to women (hours/year)	15.8	28.7	**33.8**

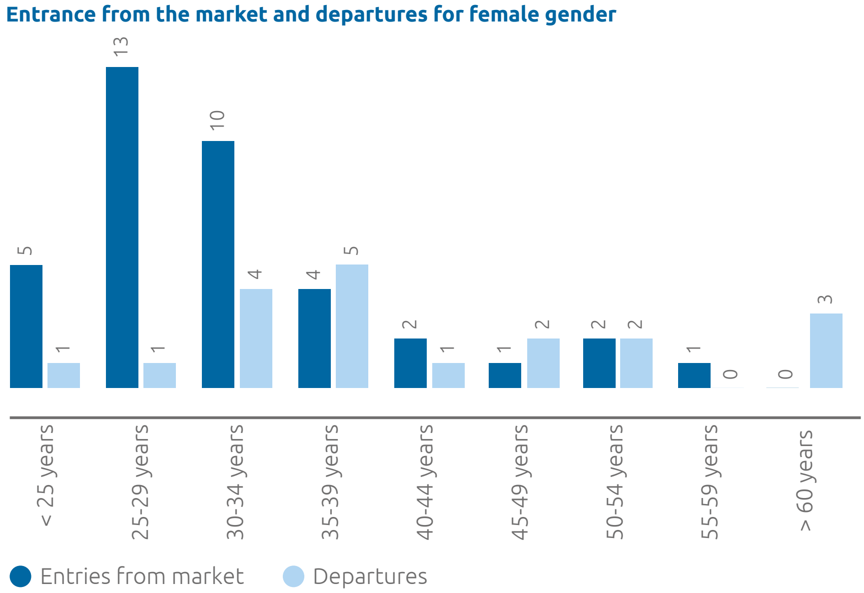
Female presence (%)



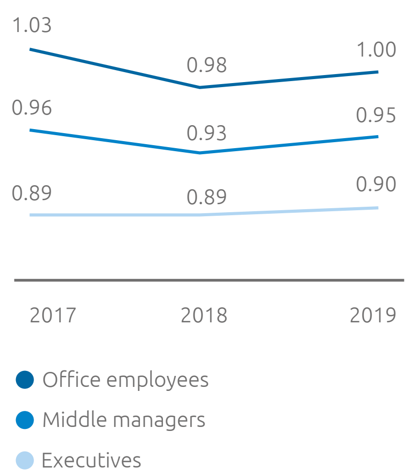
Women hired from the market (no.)



Entrance from the market and departures for female gender



Women/men compensation differential



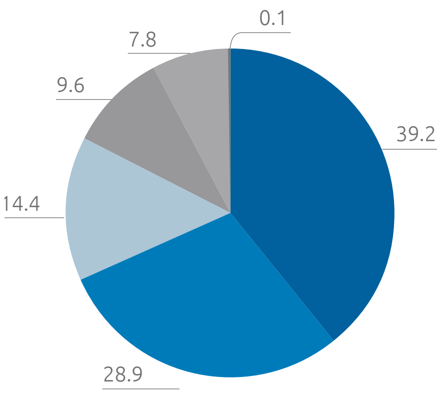
The improvement in the women-men pay gap in 2019 is due to the consolidation of the actions aimed at improving the gender balance in the company.

NFS Stakeholders and relationship capital

Snam promotes a continuous dialogue with its stakeholders through constant and proactive communication with specific tools and instruments and through involvement actions, with the goal of developing constant growth for both parties, generating and cultivating a mutual relationship of trust.
In order to develop our business activities, internal cohesion, image and reputation are also important. As a result, it is essential to manage our long-term relations with stakeholders (social and relation capital) by focusing on trust, listening, being universally open and transparent, and attempting to maintain and develop constructive dialogue both within and outside the Company. Specifically, in 2019 engagement activities were concentrated on the energy transition front, supporting new businesses, from biomethane to energy efficiency, and the positioning of the company on the hydrogen front, in response to a market that is placing increasing importance on decarbonisation processes. As a testament to this, in October 2019 Snam organised "The Hydrogen Challenge – 2019 Global ESG Conference", an event hosted by Lanterna di Fuksas in Rome. The two days 10-11 October 2019 were dedicated to the potential of hydrogen as a clean source of energy, on the horizon of the increasing importance of environmental, social and governance (ESG) factors for businesses. The conference, sponsored by the Ministry of Foreign Affairs and "Cooperazione Internazionale" and the National Research Council (CNR), was opened by the Prime Minister, Giuseppe Conte and featured numerous speeches of international relevance.

Still on the subject of energy transition, in November 2019 Snam, Cassa Depositi e Prestiti (CDP) and Terna also organised the first edition of the "Stati Generali della Transizione Energetica Italiana"(General States of Italian Energy Transition), one of the two days of meetings dedicated to the future of the Italian energy system. The event, which featured numerous institutional speeches including that of the Prime Minister Conte, was sponsored by the Prime Minister's Office and the Ministry of Economic Development in conjunction with The European House – Ambrosetti.
As well as these major events, Snam organised other meetings and conversations with stakeholders, relating to the new businesses (sustainable mobility, biomethane, energy efficiency) and to the market and it was represented at several key events for the core business (Energy Summit Sole 24 Ore, Gastech, CERA Week) for the new activities and the world of innovation (Forum Automotive, Digital Week) and for the environment (Ecomondo, the Rimini Fair on technological innovation and sustainable development).

Breakdown of valued added



- Snam Group
- Shareholders
- Public administration
- Employees
- Lenders
- Local Communities

NFS VALUE DISTRIBUTED TO STAKEHOLDERS

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 based on 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 2019, the gross global Added Value produced by Snam was €2,695 million, an increase of €163 million or 6.4% compared with 2018 (€2,532 million).
The 39.2% of the gross global Added Value produced by Snam was **reinvested within the Group** (an increase compared with 2018, +3.7 percentage points), of which around 68.4% was intended for the depreciation and amortisation of group assets (77% in 2018). With regard to the main reference stakeholders, 2019 highlighted a reduction in the value distributed to **financing** bodies (7.8% or -2.0 percentage points compared with 2018), following a reduction in financial expense attributable to the effects of the actions taken to optimise the financial structure in 2016, 2017 and 2018, specifically the liability management operations.
The value distributed to **shareholder** through the distribution of dividends was essentially stable (28.9% compared with 29.5% in 2018). With a unitary dividend that is increasing (+5% compared with 2018), confirmation of the commitment to guarantee shareholders attractive and sustainable remuneration, there was a reduction in the number of outstanding shares following Snam's buyback of treasury shares as part of the share buyback programme.
With reference to **employees**, there was a decrease in the Added Value distributed (9.6% or -1.5 percentage points compared with 2018) through direct remuneration consisting of salaries, wages and TFR (employee severance indemnity) and indirect remuneration composed of social security contributions and staff-related service costs (canteen services, reimbursement of travel expenses). The reduction is essentially due to the extraordinary items recorded in 2018 following the costs of redundancy packages, the application of early retirement pursuant to Article 4, paragraphs 1-7 Law 92/2012, the "Fornero Law".
The value allocated to the **Public Administration** through the payment of direct and indirect taxes was essentially stable (14.4% or +0.4% compared with 2018). Lastly, an amount of approximately €3 million was designated for **local communities** (0.1% of the value generated) through donations and sponsorship initiatives and environmental compensation pursuant to the law.
On environmental protection, Snam spent approximately €114 million (€101 million on investments and €13.4 million on operating costs).

ENGAGEMENT OF PEOPLE

Through internal communication, Snam promotes the involvement of people with regard to events and activities which affect the company, with the aim of stimulating participation in the processes of change, especially from a cultural point of view.
Communication in 2019 focused on the enrichment of contents and the introduction of new initiatives, information activities and formats and the involvement of people, also courtesy of the collaboration with Snam Foundation and external experts.
The collaboration with the Foundation makes it possible to marry social commitment with strengthening team building and relations between people in line with company values. Initiatives for "volunteering day" continued with employees also able to involve friends and family, for Christmas with the family, dedicated to employees with children operating in 11 areas in conjunction with non-profit organisations, and match giving was introduced, a financial solidarity activity for employees in which the Snam Foundation doubles every monetary contribution made to non-profit organisations and associations.

As far as the information format is concerned, the spread of streaming and webinars for events has allowed the Snam Institute to develop a training initiative plan that is accessible to everyone through the company intranet with the objective of disseminating the issues of sustainability, talks on climate change to the open journey on the issues of Diversity & Inclusion and take an in-depth look into important themes through comparison with other companies or experts.
An important topic, which has been the subject of an information and engagement campaign for employees, is the problem of plastic and the way it is not correctly disposed of with damaging effects in particular on biodiversity in the oceans. Snam decided to work on this by eliminating single-use plastic from dining areas in its work premises from 2020. The awareness raising and engagement campaign implemented involved giving all employees a water bottle, upgrading the drinking water fountains on the premises, circulating a set of guidelines for the responsible use of plastic at home as well and information launches at the intranet portal with evocative images and payoffs of the beauty of the oceans.

Instruments	Description
"Easy" the intranet portal	Information space for raising awareness aimed at all Snam people, but also a place for sharing and exchanging work documents. In 2019 the re-design of the instrument was launched, involving around 80 employees through focus groups for collaborative design and evaluation activities. The new version of the portal will be available from the second half of 2020.
Main hard copy and online instruments	The magazine "Energie", represents Snam's corporate identity and is the voice of the main corporate events. The "Speciali Energie" (Energy Specials) — attached to the editorial or distributed independently, with a focus on specific topics. As well as the "Osservatorio Domanda Gas" newsletter with news, analysis and comments on gas demand, a new, twice-monthly newsletter was created, "InRete" about the transportation network activities.
Meetings for sharing and engagement	Online webinar presenting the strategic plan during which the CEO illustrated the pillars of the new plan, directly answering the questions posed by employees throughout the organisation. Pulse Survey delivered to all employees for the evaluation of corporate initiatives, after which there was a webinar with the CEO to present the results and focus groups were organised with the participation of 420 people to identify an improvement action plan. Second edition of the #Storiedivalore initiative, the communication of the values and purpose of the company (a contest which led to 4 colleagues winning in Dublin at LinkedIn). "Auguri In Rete" end of year event, with video-conferencing connections with 10 Italian regional offices and 4 foreign branch headquarters (Tirana, Athens, Vienna, Beijing) with interventions focused on corporate sustainability.

MARKET REPUTATION

Though in regulated sectors Snam has a natural monopoly, when dealing with its customers it adopts an approach based on a competitive market, in which it is essential to understand how the customer perceives value.
In December 2019 a new online survey was conducted, involving all shippers and traders with whom Snam collaborated in the Thermal Year 2018-2019 just ended.
The analysis, extended to transportation, storage and regasification activities, involved surveying customer satisfaction on the quality of services offered, the customer engagement activities undertaken by the Company and on the functionality and additional services introduced in 2019 including in response to the needs of customer that emerged on previous occasions as well as regulatory developments.
The participation rate was 57% and the results demonstrated a very positive reception with regard to the customer engagement activities implemented by Snam to improve the services offered and consolidate collaboration with its stakeholders. The total average score for the quality of service was considerably improved compared with the previous year (7.4) standing at 8.4 on a scale of 1 to 10. The collection of observations received constitutes the starting point for identifying actions aimed at making Snam's operations even more efficient.
Snam also organised in-depth workshops, which were an opportunity to meet with customers and discuss important issues with them, innovation and operating performance, balancing and transportation, storage and regasification activities and provide/receive feedback on the IT system updating process.
In 2019 4 commercial workshops were organised plus a seminar entirely dedicated to settlement, the presentation of 10-year gas transportation network development plans and the cost/benefit analysis method, a workshop on biomethane, an event with customers at the Panigaglia terminal and an event in December attended by the Snam CEO.

RELATIONS WITH THE SUPPLY CHAIN

Snam carries out intense engagement activities with its suppliers to encourage growth and improvement and to create a common vision, sharing values, ideas, know-how, best practices and information. The ongoing dialogue with suppliers is intended to establish long-term relations and create an effective partnership, consolidating relations and endorsing a shared vision.
In 2019, over 2000 suppliers were involved in a survey on issues of social responsibility involving companies, relations between buyers, suppliers and customers, relations with businesses in the voluntary sector, interaction with local communities and financial reporting. The answers, received from a sample of suppliers corresponding to over 60% of the 2018/2019 acquisition, made it possible to outline a reliable snapshot of the sustainability of the Snam supply chain and assess its development potential.
Snam, having joined the CDP Supply Chain Program in 2019, involved its supply chain in climate change awareness raising actions. 35 strategic suppliers announced the figures for their greenhouse gas emissions (Scope 3 indirect emissions) and CDP, through the analysis of the data received, will award them a score, which will be an incentive in the management of future environmental impacts.

Another important initiative was the partnership launched with the supply chain is Snam Plasticless. Given that plastic has become one of the greatest dangers for the environment, specifically for the biodiversity of the oceans, Snam has decided to make its own contribution. As well as eliminating single-use plastic in the dining areas on its work premises from 2020, the Company decided to analyse the use of plastic in its core business and discovered that the most significant consumption involves the supply chain and packaging processes relating to the delivery and redistribution of goods used for operations. Awareness raising, dialogue and engagement activities were launched with suppliers which made it possible to set a challenging target for eliminating all plastics from packaging by 2023.
Continuous communication with suppliers takes place through the Supplier Portal, the web platform through which existing and potential suppliers come into contact with Snam. Activated in 2013, the portal represents the main tool through which the Company implements its procurement policy, in total transparency, with the information published being total traceable. Suppliers and candidates mainly come into contact with Snam through this means: it contains documents, best practices, details and updates on the processes and procedures that regulate the procurement qualification and activities.
In addition, all suppliers registered have a dedicated reserved area at their disposal which contains information that involves them directly (the product categories for which they are qualified, activated contracts, performance in terms of workplace safety, notifications for invoicing for services provided).
At the end of 2019, there were more than 2,000 suppliers registered at the portal, with a number of unique users who accessed it at least once during the year standing at 1,881 (+33%). Over 700,000 thousand pages read in the year (+51% compared with 2018) are evidence of a lively site with involvement.

NFS RELATIONS WITH LOCAL COMMUNITIES

Snam is present, through its infrastructure, in almost all the country's regions, in areas and communities that are varied in terms of culture, traditions and economic, social and environmental conditions.
In creating new infrastructure and in managing existing infrastructure, Snam takes a strict, transparent, collaborative and constructive approach to ensure the environmental compatibility of the sites and to facilitate their acceptance on the part of stakeholders.
The assessments of environmental effects involve all phases of the work life cycle, site selection, planning, construction, operation and decommissioning. These assessments are made within the purview of the Environmental Impact Assessment (EIA) procedure, at the end of which the central and local administrations issue the permits required under current law.
Snam also evaluates, in relation to the performance of the most important works (compression systems or large natural gas pipelines), the direct and indirect economic and social impact on the territory and on the local communities with "Social Impact Assessment" tools and methods. Specifically, in 2019, the collaboration project with the Department of Economics and Management of the University of Brescia, for the revision of the methodology used adopting a regionalised input-output model, was concluded. This model made it possible to evaluate the impact of a project, calculating the added value generated by the investment starting with the total value of production.
Over time Snam has built a network of relationships with regional branches of Confindustria and other local associations to discuss issues of energy, economic and environmental policy affecting the territory. On a local level, the Company collaborates with authorities and participates in the works of numerous associations and committees, offering its commitment, and skills and know how to participate in the social innovation and sustainable development processes.
In addition, the Company's collaboration with local and national authorities to best lay out its plans for carrying out the work to both the authorities and the affected communities is ongoing. During the course of the year, 99 meetings were held with local government authorities and regional associations to illustrate works projects. Together with the latter, 8 agreements were concluded involving easements, in which the easement is a lien for owners of land, remunerated by Snam, not to construct buildings and not to carry out deep excavations a certain distance from the pipeline.
In 2019, approximately €0.3 million was allocated for donations and sponsorships and about €2.6 million for environmental compensation.

Performance of the main initiatives in the territory

Young Energy from Snam, to bring young people closer to work	The programme, established to facilitate the orientation of students and bring them closer to the world of work through initiatives focused on its business, is in its third edition. In this academic year, Young Energy will be held in 5 regions and 8 technical colleges with around 800 students involved in training activities. Since the first edition, 18 young people from the organisations involved in the project have been hired.
"Thumbs Up Youth Award"	This is a project dedicated to sustainable development in which around 400 students from the third and fourth grades have taken part, under the scope of the school/work alternation project. Through this initiative, realised by the Thumbs Up association, with the support of the Cariplo Foundation and in partnership with the Università Cattolica del Sacro Cuore, Snam involved around 60 students of the Liceo Statale "G.B. Vico" (Milan) in proposing solutions for energy efficiency solutions at their school.
Snam Foundation, the Corvetto Adottami project	This is a multi-sector participatory initiative that involves the community launched by the Snam Foundation to actively contribute to the redevelopment and social redevelopment of the Corvetto district in Milan, together with the Cariplo Foundation and, specifically, through the LacittàIntorno and Qubì projects with the Municipality of Milan and a network of local associations. In 2019 laboratories were launched for social inclusion at the Candia Institute, a joint project together with a network composed of regional subjects and Snam suppliers of the "Tappeto Volante" (magic carpet), the urban regeneration that unites the Grossi Institute with the Emilio Alessandrini Park and a monitoring system for the project was launched. Snam and the Foundation organised a hackstorm during volunteering day through which corporate know-how supported the partnership that will redevelop the market covered by Piazza Ferrara.
The Snam Foundation and company volunteering	The second edition of Volunteering Day was organised in 2019, extended in length (two weeks) and scope. The initiative involved not only employees, but also their friends and family and Snam partners with the global participation of 750 people, around 150 of whom were family members, universities, start-ups, partners and suppliers. In total, more than 6,000 hours of volunteering were supplied to 70 organisations in the voluntary sector spread over 60 locations in Italy.
Snam Foundation, the TESORI ban	An initiative launched in 2017 in conjunction with Confagricoltura aimed at promoting social agriculture projects through the development of social assets, local skills and the strengthening of relations with the area. Projects in 2 areas were supported in 2019: Recanati and Ronco all'Adige. In the former, a small industrial pasta factory was created, which will house students for professional internships and educational workshops; in the latter, structures were installed for pet-therapy activities and hydroponic cultivation, aimed at improving the well-being of people with mental health problems and involving children and young people of the community.

NFS THE VALUE OF BRAND REPUTATION

Snam continued to consolidate its brand identity, strengthening the position of the company in terms of energy transition and decarbonisation in the areas, with constant activity supporting the new businesses, from biomethane and sustainable mobility to energy efficiency, with a specific focus on hydrogen and on the potential leadership position of Snam and Italy in the development of this clean energy source, always in line with the purpose of "Energy to inspire the world".
The objective is to communicate proactively and transparently with all its stakeholders, from the press to the ever increasing audience reached through social media and the company website not forgetting overseeing and conversing with the areas involved in the main projects. By virtue of this undertaking, Snam's visibility in the media increased, as well as the publication of news on proprietary platforms. Specifically, Snam recorded a more obvious presence in international media particularly on issues of global interest, first and foremost energy transition.
Snam was confirmed, for the sixth year running, on the podium of leading Italian companies in the field of digital communication. For the last 15 years the company has been in the top 10 of the Italian webranking classification by Lundquist in conjunction with the Swedish company Comprend, standing out for its digital transparency. The 2019 survey involved 112 companies: among the listed companies Snam took second place with a score of 91.3 out of 100, establishing itself as one of only two firms that scored over 90 points in the band of excellence.
Future international research, dedicated to the digital communication of sustainability, placed Snam among the "Gold" companies.
As far as social activities are concerned, in 2019 Snam won the "Best employer brand su LinkedIn" award, recognition that confirms how digital platforms, specifically LinkedIn, represent a strategic tool for the company to make themselves known by possible candidates and get in touch with them. The growth in Snam's reputation is also proved by the result of the international "Top Employers" classification by Forbes and Statista: according to the analysis, the company is one of only two Italian organisations among the best 150 in the world to work in. The research is based on 1.4 million interviews conducted globally and regionally.

Innovation for business development

The Group's strategic evolution in an increasingly complex and challenging context will require it to rely more heavily on developing innovation and on the good use of technological assets to ensure that it makes the most of what has already been achieved, as well as developing innovative solutions, as a support for and source of business development.
As part of the Strategic Plan to 2023, the Snamtec (Tomorrow's Energy Company) project continued with the objective of accelerating Snam's innovative capacity and its assets to take advantage of the opportunities offered for the development of the energy system. The project focused on three areas:

- energy efficiency in the core business and emissions reduction;
- innovation and technology;
- investment in energy transition.

The research and development activities launched in previous years that have been continuing or which concluded in the year and the new projects with potential repercussions in different areas of company operations are listed below.

Gas metering	**Alternative instruments and quality measurement** – Activities continued under the scope of gas quality measurement to adapt the quality meters installed in the network in order to make it possible to remotely monitor and manage equipment. With regard to controlling the quality of the gas injected into the transportation network, a project for the installation of H_2O dew point meters and hydrogen sulphide analysers has been launched and is in the process of being implemented. **Natural gas emissions estimation** – The evaluation of methods for estimating natural gas emissions and research into the potential impacts, throughout the gas supply chain, of chemical components present in traces in biomethane is continuing in order to create the conditions for its safe development in conjunction with the European research group GERG (Groupe Européen de Recherches Gazières, www.gerg.eu).
Governance and monitoring of the network and plants	**Remote control** – In 2019 activities continued with the aim of analysing the requirements of the acquisition processes and the management of data relating to the control and operation of the network, of increasing its effectiveness levels and identifying the best supporting technologies of the whole remote-controlled process. **Safety** – Initiatives continued for the protection against fire, through vacuum technology, of the plant control rooms. A project was later launched to install similar fire detection/extinguishing systems in the technical rooms of the compression stations. In the second half of 2019, tests on the surveillance cameras capable of detecting the escape of methanol from the tanks are being conducted at the Ripalta facility. If the results of these tests are positive, this technology will be extended to all facilities where this substance is present. The replacement of the security management systems was completed in 2019 by installing electronic systems with SIL certification (Safety Integrity Level) at the Brugherio and Settala facilities and the same actions will be carried out in 2020 at the Fiume Treste plant). **Monitoring compression units** – In 2019 a project was launched for the modernisation of a telediagnostic system for the compression units through the acquisition of thermodynamic and functional parameters for the future development of predictive analysis aimed at improving performance. In addition, in 2019 a project was completed for the development of a dashboard that collects the main important parameters needed for dispatch for the improved management of the turbochargers. **Electrocompressors** – Research for the introduction of electrocompressors at the compression and thrust systems at storage sites continues, with the goal of improving the management of the systems, guaranteeing greater flexibility and reducing greenhouse gas emissions. **Trigeneration** – In 2019 work was completed for commissioning high efficiency trigeneration plants at the Gallese and Istrana compression stations These systems allow the self-production of electricity with internal combustion engines and the recovery of heat and the refrigeration necessary for the users of the stations. The start up of the system at the Gallese station took place in the last quarter of 2019 achieving an energy saving of more than 65% with further improvement margins following the tuning in 2020. **Treatment systems** – Installation of latest generation, high performance equipment with a low environmental impact. The first installation of the new generators at the Fiume Trieste facility is expected from 2020.

Physical integrity of infrastructures

Collaboration with EPRG – The collaboration with EPRG (European Pipeline Research Group, www.eprg.net) continued. It is an association that conducts research into pipeline-related topics and counts Europe's biggest gas transportation and pipeline manufacturing companies among its members, and of which Snam is a member. This group manages projects (broken down into three major areas: Design, Material and Corrosion) with the aim of constantly improving the knowledge and management of the integrity of gas pipelines throughout their life cycle (pipe manufacturing, pipeline construction and operation).

Electrical protection – The pilot project for innovating the electrical protection system continues. It is aimed at experimenting in the field of equipment and operational solutions based on the results of the study conducted in 2016.

Geochemical and microsimical monitoring – As regards storage, with regard to the new projects for the operation of deposits in conditions of overpressure and the strengthening of monitoring systems, work continues on the construction and installation of geochemical and microseismic monitoring prototypes. In 2018, Stogit focused its attention on activities aimed at monitoring microseismicity, by upgrading its networks to standards of technological excellence. The experiments, protocols and guidelines for monitoring seismicity, soil deformation and pore pressure were successfully concluded in 2019 at the Minerbio facility.

Maintenance and checking of networks

Revision of maintenance processes – The "Sistema Manutenzione Asset Rete Trasporto Gas" Project (SMART GAS) continued. It is a corporate initiative aimed at improving the effectiveness of technical-operational processes, for the purpose of an overall overhaul of the working processes and regulations relating to the maintenance of company assets, through the identification of the need to develop the professional model of resources and technological tools used for carrying out maintenance operations. Specifically, the Smart LNG design and realisation phase was launched in 2019 for operations at the Panigaglia LNG terminal. The dematerialisation of the archives in the regional units continued through the eDoc document system which will be fully integrated in Smart gas.

Leak detection trialling – The trial of a system aimed at identifying and locating gas leaks along the transport network, based on the analysis of the pressure waves and the detection of possible perturbations and their propagation time, continued.

Reduction of natural gas emissions into the atmosphere – The initiatives aimed at reducing emissions continued, with the definition, specifically, of all preparatory activities for the implementation of an LDAR programme (Leak Detection & Repair) for measuring and repairing leaks in Snam plants.

Experimentation with air flyover checks – For the purpose of evaluating the existence of technologies which are useful for the improvement of air flyover controls, trial operations continued on two themes: assessment of the current satellite detection technologies available and participation in the trial operations carried out by ENAV and ENAC on the development of the flight infrastructure in the BVLOS mode of drones.

New businesses

Innovative use of existing infrastructures – The work of the Working Party dedicated to sharing information and experience on the issue of the innovative use of existing infrastructures in relation to their capacity to transport (and potentially store) different gases other than natural gas continues, with the ultimate purpose of evaluating the impacts in different areas of the business and identifying practical solutions to the problems encountered.

The following initiatives were also examined under the scope of European associations (Marcogaz):

- **Power 2 Gas:** the process through which the electricity produced by renewable sources that is surplus to immediate consumption is transformed into hydrogen to be injected directly into the network (limited to the technically-acceptable quantities) or used for the production of synthetic methane (SINGAS) also to be injected into the network and possibly stored later;
- **Adsorbed Natural Gas (ANG):** this is one of the latest technological developments for the storage of natural gas in tanks. The adsorption of natural gas in a porous sorbent injected into a recipient (tank/canister) takes place at ambient temperature and low pressure (25 - 35 bar).

Mitigation of environmental and health and safety effects

Accident prevention and environmental protection are areas of management in which the creation of value is linked to the ability to mitigate the most significant impacts caused by the Company's business activities. Safeguarding the physical integrity of staff and natural capital is an integral part of the definition of Snam's corporate policies and investment decisions.
On these issues, Snam adopts specific certified management systems, with the aim of overseeing the corporate processes and activities that have the biggest impacts, linked to the fight against climate change, the reduction of energy consumption and the protection of nature and biodiversity.

NFS MANAGEMENT SYSTEMS

Snam also continued its commitment to expanding and maintaining management systems that cover certain specific issues such as health and safety at work, the environment and the quality of services provided.
In 2019, Snam implemented all the necessary activities to extend the certification of the management systems to the new companies that entered the scope of consolidation and to maintain and update other existing certifications in accordance with the new (ISO 14001:15 e, ISO 9001:15) standards.
To this end, 227 audits were conducted (92 of which by an external team) and 38 audits on health, safety and the environment at contractors working on site. The latter and the internal audits were partly carried out by the Snam internal team, composed of 47 auditors.

Management systems

Company	Certification scope	Type of certification and accreditation	Year of first certification
Snam	Management of the operational continuity for the design, development and centralised management of process and remote control systems for the dispatch of natural gas transportation.	ISO 22301	2018
	Processes presided over by the Snam units for both the transportation of natural gas through pipelines, auxiliary systems and compression systems (Administration, Business Development, Marketing of services, Realisation of assets, Asset Management, HSEQ, Planning and control, Supply chain) and for storage in natural gas geological units (Marketing of services).	ISO 9001	2016
	Company	ISO 14001	2015
	Management of the security of information for the design, development and centralised management of process and remote control systems for the dispatch of natural gas transportation.	ISO 27001	2014
	Company	BS OHSAS 18001	2012
Snam Rete Gas	Company	ISO 9001	2016
	Natural gas dispatch and transportation activities	ISO 22301	2015
	Company	ISO 14001	2013
	Company	BS OHSAS 18001	2010
	Testing laboratory (LAB 764 Piped gaseous flows)	ISO 17025	2007
	Calibration laboratory (LAT 155 Natural gas mixtures)	ISO 17025	2002
GNL Italia	Company	BS OHSAS 18001	2012
		ISO 14001	2000
Stogit	Company	BS OHSAS 18001	2012
	Design and delivery of natural gas metering and accounting	ISO 9001	2008
	Company	ISO 14001	2002
ITG	Company	ISO 9001	2018
		ISO 14001	2010
		BS OHSAS 18001	2009
Snam 4 Mobility	Company	BS OHSAS 18001	2018
		ISO 9001	2018
		ISO 14001	2018
TEP	Company	UNI 11352:2014	2013
		ISO 9001:2015	2010
Cubogas	Company	BS OHSAS 18001	2018
		ISO 9001	2018
		ISO 14001	2018
IES Biogas	Company	ISO 9001:2015	2018
TEA Servizi	Company	UNI 11352:2014	2019
		ISO 9001	2014
		ISO 14001	2014

PREVENTION OF ACCIDENTS AND PROTECTION OF HEALTH

The Snam Group has a long-term commitment to developing and promoting the protection of health and safety at its workplaces, as part of an ongoing process to improve its HSE performance in accordance with its Health, Safety, Environment and Quality Policy.
When managing health and safety issues, it is essential to implement standardised management systems developed and maintained in accordance with the BS OHSAS 18001 standard. Specifically, Snam's Worker Health and Safety Management System aims to carry out strategic guidance, coordination and monitoring for the Group's operating companies.

NFS Accident prevention, Snam's main health and safety objective, is carried out through the adoption of targeted actions aimed at eliminating or reducing risk factors inherent in employees' work.
The in-depth analysis of the causes of accidents aims to identify any measures necessary to eliminate, mitigate and correct risk factors, implementing organisational, technical and managerial solutions on equipment, plants and workplaces, as well as evaluating operational and behavioural procedures of employees and suppliers.
In a logic of the continuous improvement of its performance, in the early months of 2018 Snam launched the "Snam4Safety" project, with the goal of further strengthening the culture and awareness of all employees and contractors on the issue of health and safety. Specifically, in 2019 the organisational and IT instruments were completed and implemented to make the new behavioural models in the project operational.
In order to raise awareness among employees on the issue of safety, in 2011 Snam established an initiative called the "Zero Accident Award", which rewards employees who go 365 consecutive days without an accident in the workplace. Personnel taking part in the initiative are divided into homogeneous teams according to employment/safety manager. In 2019 8 teams out of a total of 810 employees were rewarded.
An awareness raising initiative, the "Trofeo Sicurezza Appaltatori" (Contractor's Safety Prize), is also dedicated to contractors with the aim of focusing the attention of suppliers on these issues. Specifically, the performance of businesses is evaluated by collecting and analysing specific indicators (such as, for example, accident indices and negative feedback on subject of interest). In 2019, the Contractor Safety Prize (for results achieved in 2018) was awarded for the third year in a row to Max Streicher, a company specialised in the building of energy infrastructure, more specifically gas pipelines.

Health and safety training

(no. of hours)	2017	2018	2019
Hours provided	8,193	25,219	**20,291**
Equity investments	1,508	4,515	**2,916**

As far as health and safety training is concerned, in addition to the hours counted in the table, in 2019, 6,685 hours of HSEQ integrated training that cannot be broken down was provided for 1,505 participants.

The protection of workers' health is based on ongoing monitoring of risk elements analysed in corporate processes and the implementation of adequate prevention and protection measures. Work environment inspections are periodically carried out by the Duty Doctor and the Prevention and Protection department, in order to evaluate adequate and appropriate working and environmental conditions and to identify possible measures for prevention or improvement.
Snam's workers are not exposed to a high risk of contracting occupational diseases (no cases have been recorded in the last three years). Personnel exposed to specific risk factors undergo periodic medical health surveillance by the appropriate medical staff. These employees can under the specific healthcare protocols defined according to risk, plus any supplementary specialist visits. Employees whose work requires them to travel to non-European countries receive specific preventive care.
The various initiatives run by Snam to promote workers' health include: a flu vaccine campaign, an early-diagnosis plan to prevent cancer, agreements with specialist institutions, a ban on smoking in the workplace (which also includes e-cigarettes), and a ban on drinking alcohol in company canteens. After a year in which no reports of any kind were received, one case of an occupational illness was reported in 2019 which is being investigated.

Health monitoring

(no.)	2017	2018	2019
Medical visits	1,914	1,350	**1,984**
Periodical medical visits	1,688	1,061	**1,747**
Environmental surveys	279	247	**243**

NFS CLIMATE CHANGE AND ENERGY EFFICIENCY

Snam contributes to the fight against climate change starting with its energy decisions: in 2019, 95.7% of the Company's energy requirements were covered through the use of natural gas.
The main greenhouse gases (GHG) emitted into the atmosphere due to Snam's activities are methane (CH_4), the main component of natural gas and carbon dioxide (CO_2). Methane emissions arise from the release of natural gas into the atmosphere and are generated by the normal plant operation, by operations to connect new gas pipelines and the maintenance thereof, or by accidental events occurring on infrastructure, whereas the CO_2 produced is directly correlated with fuel consumption. In 2019, like last year, the contribution from the use of hydroflurocarbons (HFC) in refrigeration systems was included in the evaluation of direct emissions (equal to approximately 1.48 kt CO_{2eq}).
Snam intends to develop projects to strengthen its operational excellence and thus contribute to the containment of climate-altering emissions. Lastly, the Company set new targets for reducing its Scope 1 and Scope 2 natural gas and CO_{2eq} emissions:

- a 40% reduction by 2030 of all direct CO_{2eq} emissions (Scope 1) and indirect (Scope 2), from base year 2016;
- a 40% reduction in natural gas emissions by 2025 from base year 2016 (target increased by 15 percentage points compared with last year).

Various initiatives were adopted to achieve these targets including the recompression of gas in the transportation network and compression systems, the production of electricity from photovoltaic plants, the purchase of green electricity, the installation of LED lighting systems to replace other lighting equipment with greater consumption, the savings from the redevelopment of buildings, the continuation of the smart working project. All of these interventions made it possible, globally, to prevent the emission into the atmosphere of **181,800 tonnes of CO_{2eq}**, the highest value recorded in recent years (+17% compared with 2018).

As far as the use of electricity produced from renewable sources and from photovoltaic plants owned by the Company is concerned, in 2019 it represented 44% of total electricity consumed: from this year the Enna compression plant (transportation) will also procure green electricity. This plant joins those of Messina and Terranuova B. (SRG), Brugherio (STG), the Panigaglia LNG Plant and several areas of Snam4 Mobility.
In addition, in February 2019 Snam issued the first Climate Action Bond, used to finance projects relating to the reduction of CO_2 emissions, the development of renewables, energy efficiency and the development of green projects based on environmental criteria.

Renewable source plants

Type	2017			2018			2019		
	(no.)	Total capacity (kW)	Energy produced (kWh)	(no.)	Total capacity (kW)	Energy produced (kWh)	(no.)	Total capacity (kW)	Energy produced (kWh)
Wind generators	1	1.7		1	1.7		**1**	**1.7**	
Photovoltaic plants	1,366	984.4	1,044,309	1,534	1,052.7	1,128,383	**1,793(*)**	**1,127.3**	**829,459**
Total	**1,367**	**986**		**1,535**	**1,054.4**		**1,794 (*)**	**1,129**	

(*) Including 1,497 back-up plants.

Snam installed photovoltaic plants in several of the buildings it owns (territorial headquarters and maintenance centres) and at certain gas storage facilities. In 2019 the total number of plants reached 1,794 units (+17% compared to 2018) and the installed power increased by 75 kW compared to 2018, passing from 1,054 kW to 1,129 kW (+7%).
This increase mainly involves the installation of 258 new back-up systems and a new photovoltaic system connected to the electricity grid. The reduction in the energy produced was caused by the non-availability of several systems adversely affecting the forecast annual production.

ENVIRONMENTAL MONITORING AND RESTORATION IN THE DEVELOPMENT OF THE GAS PIPELINE NETWORK

Snam considers safeguarding nature in the areas where it operates to be of particular importance. For this reason during the realisation phase of its works it is implementing the most appropriate project decisions to keep the impacts on biodiversity to a minimum. Once the infrastructures have been completed, the Company will put in place environmental restoration and monitoring projects in agreement and in collaboration with the responsible bodies.

The objective of vegetation restoration, in particular reforestation, is not merely to reconstitute forest areas but to reconstitute the landscape in general and to revive the biological functionality of vegetated areas, understood especially in their role as habitats for fauna with specific biodiversity characteristics. Restoration and reforestation is followed by the implementation of "cultivation treatments", i.e. the care and maintenance, for a period of at least five years, of the plants which have been planted.

The monitoring projects involve sections of several pipelines that interfere, even only marginally, with natural areas high in fauna and ecological value. These programmes are aimed at checking the renaturalisation process of the areas affected by the works, based on the comparison between the conditions after the restoration (“post-operam”) and the original conditions (“ante-operam”). Monitoring is normally performed for the most significant habitats identified in the design phase. The km of pipelines subject to replanting depends on the km of lines laid in the year and the environments they have passed through.

Environmental restoration and monitoring

(network km)	2017	2018	2019
Restoration	203	227	**63**
New reforestation (*)	21	21	**8**
Plant care	59	74	**73**
Environmental monitoring	388	445	**747**

(*) Surface area covered by new reforestation: 157,000 m^2.

Elements of risk and uncertainty

Introduction

This chapter illustrates the main elements of uncertainty featured in the ordinary management of Snam's operations.

The risks identified by Snam are broken down into financial and non financial risks. The latter are classified in the following categories:

- strategic;
- legal and non-compliance;
- operating.

Financial risks are illustrated in Note 25. "Guarantees, commitments and risks – financial risk management", of the Notes to the consolidated financial statements.

STRATEGIC RISKS

Regulatory and legislative risk

Regulatory and legislative risk for Snam is linked to the regulation of activities in the gas sector. The decisions of the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) and the National Regulatory Authorities of the countries in which the foreign subsidiaries operate, European and national regulations and, more generally, the change in the regulatory reference framework, could have a significant impact on the operations, results and financial stability of the Company.
It is not possible to foresee the effect that future changes in legislative and fiscal policies could have on Snam's business and on the industrial sector in which it operates.
Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Macroeconomic and geo-political risk

Because of the specific nature of the business in which Snam operates, there are also **risks associated with political, social and economic instability in natural gas supplier countries**, mainly related to the gas transportation sector. A large part of the natural gas transported in the Italian national transportation network is imported or moved through countries in the MENA area (Middle East and North Africa, particularly Algeria, Tunisia, Libya and, in terms of the TANAP-TAP, Turkey along with the states bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine and in the future, Azerbaijan and Georgia), nations subject to political, social and economic instability which could evolve into potential crisis scenarios in the future.
In particular, the import and transit of natural gas from/and through these countries are subject to an extensive set of risks, including: terrorism and common crime, changes in political-institutional balances; armed conflict, socio-political and ethno-sectarian tensions; disorder and unrest; inadequate legislation on insolvency and creditor protection; limits on investment and the import and export of goods and services; introduction of and increases in taxes and excises; forced renegotiation of contracts; nationalisation of assets; changes in trade policies and monetary restrictions.
If a Shipper using the transportation service via Snam's networks cannot procure the transportation of natural gas from/or through the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, to an extent such so as to determine or incentivise the consequential inability to fulfil contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.
In addition, Snam is exposed to macro-economic risks deriving from relocation or tension on financial markets or situations deriving from exogenous phenomena, which could have an impact on liquidity and access to financial markets.

Commodity risk linked to changes in the price of gas

With reference to the **risk connected with changes in the price of natural gas**, however, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover own gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind. Similar coverages of risk are guaranteed by the regulations of countries in which the foreign affiliates operate or the relative transportation contracts. However, in relation to transportation activities, the Energy, Networks and Environment Regulatory Authority (ARERA) has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by users of the service to the leading transportation company, of quantities of gas to cover unaccounted-for gas (UFG), due as a percentage of the quantities respectively injected into and withdrawn from the transportation network. Specifically, the Authority, by means of Resolution 514/2013/R/gas, defined the permitted level of the UFG given the average value registered over the last two years, and decided to keep

this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. This approach was subsequently confirmed for the years 2018 and 2019 of the transition period as well.
Through resolution no. 114/2019/R/gas, under the scope of the process for revising the criteria for calculating the revenues recognised for the natural gas transportation and metering service for the fifth regulatory period (2020-2023), the criteria for recognising UFG were also defined. On the basis of these criteria, from 2020, the recognition of quantities of own gas, network leaks and UFG will take place in monetary terms instead of recognition in kind by shippers. However, the change in the price of natural gas will continue not to represent a significant risk factor for Snam, since there is a hedging mechanism for the risk associated with differences between the price recognised for own gas, network leaks and UFG volumes and the effective procurement price.
With reference to the quantities recognised, the above-mentioned resolution confirmed the current criterion relating to own gas and leaks, while for UFG the permitted level will be updated annually and will therefore be equal to the average of the quantities effectively recorded in the last four years available.
Taking the above-mentioned unaccounted for gas mechanisms into consideration, with reference to the transition period, concluded on 31 December 2019, the uncertainty with reference to any UFG quantities recorded in excess of the quantities recognised remains. In this regard note that, under the scope of the dialogue established with the ARERA, in 2019, it recognised part of the higher charges incurred in 2018 and early recognition for the same phenomena on any quantities in excess of the quotas recognised in 2019. Generally speaking, the change in the regulatory framework with regard to the recognition of natural gas quantities to cover own gas, network leaks and UFG could have negative effects on the Snam Group's operations, result balance sheet and cash flow.

Market risk

With reference to the **risk connected with demand for gas**, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via its directly controlled transportation companies, is partly related to volumes transported. The ARERA, however, introduced a guarantee mechanism with respect to the share of revenues related to the volumes transported.
This mechanism provides for the reconciliation of major or minor revenues, exceeding ± 4% of the reference revenues related to the volumes transported. Under this mechanism, approximately 99.5% of total revenues from transportation activities are guaranteed. This mechanism was also confirmed, through resolution 114/2019/R/gas for the fifth regulatory period.
Based on the tariff system currently applied by the ARERA to natural gas storage activities, Snam's revenues, via Stogit, relate to infrastructure usage. However, the ARERA has introduced a mechanism to guarantee reference revenues that allows companies to cover a significant portion of revenues recorded. Until the fourth regulatory period (2015-2019), the minimum guaranteed level of revenues recognised was around 97%, while for the fifth regulatory period (2020-2025) resolution 419/2019/R/gas extended the level of guarantee to all recognised revenues (100%). This resolution also introduced an upgraded incentive mechanism following a reduction in the share of revenue recognised subject to the hedge factor. This mechanism will be defined by the ARERA with subsequent provisions.
Lastly, with reference to the tariff regulation criteria for the LNG regasification service for the fifth regulatory period (2020-2023), resolution 474/2019/R/gas confirmed the reference revenue hedging mechanism at a minimum guaranteed level of 64%.
In general, the change to the regulatory framework in force could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.
Abroad, protection from market risk is offered by the French regulatory authority (Terēga') and Greek (Desfa), from the TAP and Austria long-term contracts (different expiry dates for TAG and Gas Connect from 2023). In Austria and the United Kingdom (Interconnector UK) regulation does not guarantee hedging volume risk.

Risk of climate change

Over the last few years, significant climatic phenomena have occurred with increasing frequency, which, together with the ever-increasing data on CO_2 emissions, have led to the introduction of regulations that have introduced increasing CO_2 reduction targets, with particular reference to European operators. The evolution of these phenomena and the introduction of these regulations could represent a growing risk against which, however, companies have the opportunity to act, mitigating it, both by implementing increasingly stringent and demanding policies to reduce greenhouse gas emissions (possibly also by taking actions that could increase the cost of compliance with current regulations), and by continuing to position themselves in the energy transition, thus seizing the opportunities. In this sense, Snam will continue its commitment to strengthen a sustainable business model on all ESG factors, starting with those that have an impact on the climate and the environment, and define a virtuous path towards climate neutrality by 2050.

The **risks connected with the emissions market** fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. With the start of the third regulatory period (2013-2020) of the European Emissions Trading System (EU - ETS), the updating of the sector regulations has had as its main objective the authorisations for emitting greenhouse gases and a constant reduction of the quotas on emissions released free of charge. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant, and will also depend on the actual functionality of the plants. The shares assigned free of charge to Group plants are no longer sufficient to comply with the regulatory obligations relating to ETS mechanisms, therefore Snam will procure the missing shares on the market. The further development in progress of the European regulation could lead to identifying new methods for the management of the necessary shares.

Through resolution 114/209/R/gas of 28 March 2019 the ARERA defined the regulatory criteria for the fifth regulatory period (2020-2023) of the natural gas transportation and metering service, including, among other things, the recognition of costs relating to the Emission Trading System (ETS). Resolutions 419/2019/R/gas and 474/2019/R/gas introduced the recognition of costs relating to the ETS mechanism for the storage system as well (regulatory period 2020-2025) and for the regasification service (2020-2023).

The climate change scenarios could cause a change in the choice of energy mixes of various European countries and in the behaviour of the population and could have an impact on the demand for natural gas and volumes transported, and could also influence the development of the use of alternatives to gas, promote greater penetration of renewable bases (biomethane, synthetic methane and hydrogen) and the promotion of new businesses.

Climate change could also increase the severity of extreme weather events (floods, droughts, extreme temperature fluctuations), worsening natural and hydro-geological conditions in some areas with a possible impact on the quality and continuity of the service provided by Snam as well as on Italian and European gas demand. With reference to the effects of the change in the gas demand on the balance sheet, income statement and financial position of the Snam Group, see the previous paragraph “Market risk”.

With regard to the new climate agreements in force globally (including the Paris Agreement adopted at COP 21 in 2015 in which governments agreed to maintain the average increase in global temperature to below 2°C compared with pre-industrial levels as the long-term objective) aimed at promoting the transition to a more sustainable economy that promotes zero-emission energy sources, can anticipate a regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at a European and national level, which could also have an impact on the development and financing of energy infrastructure globally.

Legal and non-compliance risk

Legal and non-compliance risk concerns the failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. As regards specific cases, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, inter alia, may also result in (possibly significant) sanctions on the Company based on the administrative responsibility of entities (Legislative Decree 231 of 8 June 2001). With regard to the **Risk of Fraud and Corruption**, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations.

Reputational checks and also accepting and signing the Ethics and Integrity Agreement are pillars of the control system designed to prevent the risks associated with illegal behaviour and criminal infiltration of our suppliers and sub-contractors, with the goal of guaranteeing transparent relations and professional morality requirements throughout the supply chain and for the entire duration of the association.

Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the Global Corporate Supporter Partnership. As part of this collaboration, in October 2018 Snam renewed its partnership with the Transparency International, General Secretariat in Berlin, on the eighteenth International Anti-Corruption Conference of Transparency International held in Copenhagen. On this occasion Snam took part in a select round table discussion which, for the first time, included the participation of 4 companies from the private sector as well, including Snam as the only Italian company.

In 2019, Snam also strengthened its collaboration with other important bodies active in the fight against corruption. Specifically, in October Snam became part of the Partnering Against Corruption Initiative (PACI) of the World Economic Forum, an initiative with the intention of bringing together the main Compliance & Anti-corruption Officers of several of the most important companies in the world at least twice a year to share and reinforce best practices and preventive arrangements; in November it joined the Integrity & Compliance Taskforce of the B20 under the Presidency of Saudi Arabia, whose work began in January 2020 with an inception event and will continue for the entire year until the summit in October in which the results of the works and the proposals to submit to the G20 will be presented.

In addition to new collaborations, in 2019 Snam also participated in a series of events dedicated to the issues of transparency, integrity, business ethics, as well as best practices and good governance for the prevention of corruption. Among the most significant events that Snam took part in 2019, first and foremost those held at the OECD should be mentioned, namely the Global Anti-Corruption & Integrity Forum in March on "Tech for Trust: risks and opportunities of new technologies for anti-corruption & integrity", the Trust in Business Forum and the Working Party on State Ownership and Privatisation Practices in October at the OECD and, lastly, Snam also participated in the Working Group on Bribery in December 2019, an annual consultation which was preceded by a select meeting of permanent members of the business at the OECE (BIAC). In addition, in October, Snam's General Counsel was also appointed as Vice Chairman of BIAC's Anti-corruption Committee, an extremely important recognition, which will see Snam — the only Italian company in the BIAC leadership — even more committed and involved in the activities of the OECD on the issues of integrity and anti-corruption.

Lastly, in December Snam took part in the Italian Business Integrity Day — an initiative under the patronage of the Anti-corruption Coordination of the Ministry of Foreign Affairs — which took place at the 8th Conference of the Member States of the United Nations Convention Against Corruption in Abu Dhabi. In that setting, Snam reported the challenges that it faces daily in the fight against corruption and the best practices implemented to manage various complex issues In this context, Snam also participated in a round table discussion organised by the United Nations Office on Drugs and Crime called "Private sector as a Partner in Anti-Corruption Education", in which it reported on its experience and its commitment to education, aimed not only at its personnel but also to the outside.

OPERATIONAL RISKS

Ownership of storage concessions

The risk linked to **maintaining storage concessions** is associated for Snam to the business in which the subsidiary Stogit operates on the basis of concessions provided by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted — within the statutory terms — the extension request at the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion. One concession (Fiume Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years[38]. Following the appeals in 2011 submitted by the Municipalities of Azzanello, Verolavecchia and another seven parties also representing environmental associations, the Council of State, with the opinion included in the Presidential Decree of 16 September 2019 cancelled the evaluation of the environmental impact with regard to the Bordolano storage facility. From the perspective of the risk of business continuity for the storage activities at Bordolano, note that: (i) the Council of State's decision is without prejudice to the contents of the 2009 VIA Decree and with reference to the subsequent provisions with illegality confirming the lasting validity of the provisions contained therein, protecting security and public safety; (ii) Article 29, paragraph 3 of the environment act requires that in the case of the cancellation of the VIA provision in a judicial setting relating to a project already realised, the competent authority can allow the works or activities to continue. Through Note U.0025890 of 22 November 2019, the Ministry of Economic Development issued a provision pursuant to Article 29, paragraph 3 of Legislative Decree 152/2006 relating to the continuation of operations for the Bordolano storage facility. The note of the Ministry of the Environment DVA - U.28389 of 29 October 2019, reopened the VIA proceedings with the participation of the Municipalities of Azzanello and Verolavecchia; the proceedings are in progress and are being followed by Stogit.

If Snam is unable to retain ownership of one or more of its concessions or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on the Company's operations, results, balance sheet and cash flow.

NFS MALFUNCTION AND UNEXPECTED SERVICE INTERRUPTION

The risk of the **malfunctioning and unforeseen interruption of the service** is determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

38 The Stogit concessions issued prior to the entry into force of Legislative Decree 164/2000 can be extended by the Ministry of Economic Development a maximum of twice, for ten years at a time, pursuant to Article 1, paragraph 61 of Law 239/2004. Pursuant to Article 34, paragraph 18 of Decree-Law 179/2012, converted by Law 221/2012, the duration of the single Stogit concession issued after the entry into force of Legislative Decree 164/2000 (Bordolano) is for thirty years with the possibility of extension for a further ten years.

DELAYS IN THE PROGRESS OF INFRASTRUCTURE IMPLEMENTATION PROGRAMS

There is also the concrete possibility that Snam could incur **delays in the progress of infrastructure construction** programmes as a result of several unknowns linked to operating, economic, regulatory, authorisation, competition and social factors, regardless of its intentions. Snam is therefore unable to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting Snam's financial position and results.
Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.
In addition, changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results.

ENVIRONMENTAL RISKS

Snam and the sites in which it operates are subject to laws and regulations relating to pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential costs and liabilities related to the operation and its assets. The costs of possible environmental restoration obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility and are therefore difficult to estimate.
Snam cannot predict if and how environmental regulations and laws may over time become more binding and cannot provide assurance that future costs to ensure compliance with environmental legislation will not increase or that these costs can be recovered within the mechanism's tariffs or the applicable regulation. Substantial increases in costs related to environmental compliance and other aspects related to it and the costs of possible sanctions could negatively impact the business, operating results and financial and reputational aspects.

EMPLOYEES AND STAFF IN KEY ROLES

Snam's ability to operate its business effectively depends on the skills and performance of its personnel. The loss of "key" personnel or the inability to attract, train or retain qualified personnel (particularly for technical positions in which the availability of appropriately qualified personnel may be limited) or situations in which the capacity to implement the long-term business strategy is influenced negatively due to significant disputes with employees could trigger an adverse effect on the business, financial conditions and operating results.

Risk linked to foreign equity investments

Snam's investee companies abroad may be subject to regulatory/legislative risk, conditions of political, social and economic instability, market risks, and the cyber security, credit and financial and other risks typical of the natural gas transportation and storage segments identified for Snam such to negatively influence their operations, economic results, balance sheet and cash flows. For Snam, this could have negative impacts on the contribution to profit generated by such investments.

Risks associated with future acquisitions/ equity investments

Every investment made under the scope of joint venture agreements and any future investment in Italian or foreign companies could involve an increase in the complexity of the Snam Group's operations and it may not be possible to ensure that these investments generate the anticipated income under the scope of the acquisition or investment decision and are correctly integrated in terms of quality standards, policies and procedures consistent with the rest of Snam's operations. The integration process could require additional costs and investments. The failed integration of the investment made could have a negative impact on the business, operating results and financial aspects.

NFS CYBER SECURITY

Snam carries out its activities through a complex technological architecture relying on an integrated model of processes and solutions capable of promoting the efficient management of the entire country's gas system. The development of the business and recourse to innovative solutions capable of continuous improvement, however, requires increasing attention to be focused on aspects of cyber security. For this reason, Snam has developed its own cyber security strategy based on a framework defined in accordance with standard principles on the subject and focusing constant attention on Italian and European regulatory developments, especially as far as the world of critical infrastructures and essential services is concerned. First and foremost, this strategy involves adapting one's own processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and ISO 22301 (Business Continuity Management Systems) and the formal certification of conformity to the listed standards. Alongside this and in accordance with technological developments, solutions aimed at protecting the Company from the cyber threats and malware are assessed and, where deemed appropriate, implemented.
More specifically, Snam has defined a cyber security incident management model intended to prevent and, when necessary, guarantee prompt remediation against events potentially capable of harming the confidentiality, integrity and availability of information processed and the IT systems used. At the basis of these activities is a Security Incident Response Team which, by relying on technologies that make it possible to collect and correlate all security events recorded throughout the company's IT infrastructure, has the task of monitoring all anomalous situations that could have negative impacts for the company and activate, when necessary, suitable escalation plans to guarantee the involvement of the various operating structures.
With reference to the management of information supporting business processes, it is worth highlighting that the company owns (fibre) assets used for data transmission to and from the country; this gives greater intrinsic security thanks to not being dependent on the service provided by third-parties and the possibility of using the communication channel exclusively. Lastly, as part of the cyber incident management activities (preventive and reactive) information-sharing with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events. A great deal of attention is also paid to increasing awareness and specialist training of personnel, in order to facilitate the identification of weak signals and raising consciousness about risks of a cyber nature that could occur during normal work activities.

Outlook

Natural gas is establishing itself globally as an increasingly plentiful and competitive energy source as well as an immediate and economical solution to decarbonisation, with a significant growing forecast for **gas demand** in future years, particularly in the Americas and China.
This central role will be reinforced thanks to both the rapid development of renewable gases, specifically within the biomethane chain, which will be able to grow solidly in Italy also due to Snam's investments and the numerous initiatives in progress worldwide to produce hydrogen from renewable sources at increasingly competitive costs.
In Europe and in Italy there has been a recovery in demand in recent years, associated with the growing need for imports from diversified routes in the light of the decline in domestic production and in view of various countries gradually abandoning thermoelectric production from coal. In Europe, import requirements grew by 30% since 2014 and is expected to rise further in the medium-term, while in Italy, according to joint Snam-Terna scenario published on 30 September 2019, gas consumption to 2040 is expectedly to be essentially in line with current consumption, with renewable gases (biomethane and hydrogen green) playing an increasing part.
Snam has forecast an increase in **investments** for 2019-2023, bringing them to €6.5 billion, around 14% higher than in the 2018-2022 plan, thanks to the greater contribution of new energy transition businesses and the increase in investments in replacements (1,000 km of network replacements are scheduled over the time frame of the plan) in order to continue to guarantee the maximum resilience, flexibility and efficiency of the existing infrastructures.
Investments in the **SnamTec** project (Tomorrow's Energy Company) are projected to be €1.4 billion, with the goal of accelerating Snam's innovative capacity and its assets for taking advantage of the opportunities offered by the development of the energy system.
Through the new plan to 2023 Snam intends to strengthen its role in **energy transition** increasing its presence in the biomethane sector, which will play a strategic role in the decarbonisation journey and confirming its commitment to sustainable mobility and energy efficiency. In addition, it wants to be among the pioneers in the use of **hydrogen** as the clean energy source of the future in energy transition, establishing a business unit with the task of evaluating potential pilot projects and contributing to the development of the supply chain.
Environmental, social and governance factors (**ESG**) are increasingly integrated in the Company's management and strategies. From an environmental perspective, methane emissions are expected to fall by 40% to 2025 (with 2016 as the base) compared with the 25% target of the previous plan. There is projected to be a 40% reduction in CO_2 emissions to 2030 thanks to the launch of the conversion of six gas-electric hybrid power plants which will also contribute to the flexibility of the electric system and to energy efficiency actions at buildings. There is also projected to be a 40% reduction in CO_2 to 2030 from electricity consumption thanks to greater recourse to solar power.
At the level of governance, the Shareholders' Meeting approved the permanent inclusion in the by-laws of provisions that guarantee the minimum representation of one third in corporate bodies of the less represented gender and a new policy was adopted to promote diversity and inclusion within the company. On the issue of combating corruption, Snam is one of the four companies (the only Italian one) to have forged a global partnership with Transparency International and, since the beginning of 2019, it has already carried out 5,000 reputational checks at suppliers and third-parties.
Snam expected to reinforce the **efficiency plan** launched in the second half of 2016, with an additional €65 million of anticipated savings to 2023, with 2016 as the base, compared with the €60 million in the previous plan. At a cumulative level, €51 million has already been recorded for the period 2016-2019, the target previously planned for 2021.
The **optimisation of the financial structure** over the last three years led to a reduction in the average cost of borrowing from 2.4% in 2016 to around 1.3% in 2019, including the effects of non-recurring items. The actions implemented also make it possible to reduce the volatility of the cost of borrowing, which is estimated to remain stable at an average value of 1.4% over the time frame of the plan.
In addition, with the objective of aligning the financing strategy with its sustainability targets and expanding its investor base, the first Climate Action Bond has been issued which sets the rules for the issuing of bond loans aimed at financing investments under the scope of environmental sustainability and to April 2019 the margin of the sustainable loan was reduced by €3.2 billion.
As regards the impact on costs, including potential and forecast cash flows, of COVID-19, identified by China on 31 December 2019 in the city of Wuhan, capital of the province of Hubei, to date the company is unable to reliably determine any repercussions on the 2020 results or any implications for subsequent years. Based on the current and latest information available, also due to the nature of the business carried out by Snam, the company expects limited impact linked to the above circumstances.
Snam immediately implemented all the necessary measures to ensure the continuity of normal business operations and the energy security of the country.
At present, Snam is unable to fully assess and quantify any effects on development initiatives and suppliers or customers resulting from the pandemic and the uncertain macroeconomic context.
This also applies to assets held by the Snam Group outside Italy, specifically in France, Austria, Greece, Albania and the United Kingdom.