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.) Professional status	31.12.2018	31.12.2019	Change	% change
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%.