27) REVENUE

The breakdown of revenue for the period, which totalled €2,665 million (€2,586 million in 2018), is shown in the following table:

(millions of €)	2018	2019
Core business revenue	2,555	2,635
Other revenue and income	31	30
	2,586	2,665

The Group generates most of its revenue in Italy. An analysis of revenue by business segment can be found in Note 34 - "Information by business segment". Revenue from related parties is illustrated in Note 35 "Related-party transactions".

Core business revenue

Core business revenue, which totalled €2,635 million (€2,555 million in 2018), is analysed in the following table:

(millions of €)	2018	2019
Natural gas transportation (*)	1,942	2,006
Igassificazione di Gas Naturale Liquefa (LNG) regasification	17	17
Storage of natural gas (*)	510	511
Corporate and other activities	86	101
	2,555	2,635

(*) 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 2018 figures have been restated accordingly.

Natural gas transportation

Core business revenue (€2,006 million) relates mainly to fees for transportation services (€2,002 million) and mainly relate to Eni S.p.A. (€1,114 million) and Enel Trade S.p.A. (€319 million). Transportation revenue includes the charge back to users of the costs of connecting the Company's network to that of other operators (€52 million)[45].
Snam provided its transportation service to 150 companies in 2019.

Liquefied Natural Gas (LNG) regasification

Core business revenue (€17 million) refers to the regasification service fees, mainly attributable to the revenue coverage factor recognised by the Authority pursuant to Resolution 653/2017/R/gas[46] (€11 million). Snam provided its regasification service to 6 companies in 2019.

45 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.
46 Article 19 "Application methods for the revenue coverage factor" of Annex A to Resolution 537/2017/R/gas set the revenue coverage factor at 64% of the revenues in question.

Natural gas storage

Core business revenue (€511 million) relates essentially to fees for modulation storage (€416 million) and strategic storage (€83 million) services. Snam provided its natural gas storage service to 90 companies in 2019.
Revenue from the Group core business is reported excluding tariff components, mainly with reference to the transportation sector, additional to the tariff and intended to cover gas system general expenses (€1,287 million, €1,162 million in 2018). The amounts that refer to the above-mentioned components are repaid by Snam to the Energy and Environmental Services Fund (CSEA).
With reference to the residual sector "Corporate and other assets" which is not subject to separate disclosure pursuant to IFRS 8 "Operating segments", the core business revenue (€101 million) mainly involve: (i) considerations for the construction of biogas and biomethane plants (€27 million); (ii) technical-specialist services to unconsolidated foreign companies (€25 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).

Other revenue and income

Other revenue and income, standing at €30 million (€31 million in 2018) mainly relates to the incentives paid to Snam Rete Gas S.p.A. for balancing services, based on technical and economic performance, regulated by resolution 554/2016/R/Gas (€16 million), income of a property nature (€4 million) and contributions for new connections to the transportation network (€2 million).

28) OPERATING COSTS

The breakdown of operating costs for the period, which totalled €461 million (€512 million in 2018), is shown in the following table:

(millions of €)	2018	2019
Purchases, services and other costs	311	**281**
Personnel cost	201	**180**
	512	**461**

The costs incurred with related parties are described in Note 35 "Related-party transactions".

Purchases, services and other costs

Purchases, services and other costs, which amounted to €281 million (€311 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Purchase costs for raw materials, consumables, supplies and goods	145	**213**
Costs for services	290	**319**
Costs for the use of third-party assets	21	**26**
Changes in Raw materials, consumables, supplies and goods	(19)	**(49)**
Net accrual to (utilisation of) provisions for risks and charges	6	**13**
Accruals to (utilisation of) provision for impairment losses on receivables	(5)	**(35)**
Other expenses	37	**29**
	475	**516**
Less:		
Increase on internal work	**(164)**	**(235)**
of which purchase costs for raw materials, consumables, supplies and goods	(69)	**(102)**
of which costs for services	(95)	**(133)**
	311	**281**

Costs for services, which amounted to €186 million (€195 million in 2018), related to:

(millions of €)	2018	2019
IT (Information Technology) services	50	**59**
Purchase of transportation capacity (interconnection)	49	**52**
Technical, legal, administrative and professional services	42	**52**
Ordinary maintenance	32	**27**
Personnel-related services	22	**23**
Construction, planning and coordination of work	27	**27**
Telecommunications services	13	**12**
Provision of utilities	16	**19**
Insurance	7	**8**
Other services	32	**40**
	290	**319**
Less:		
Increase on internal work	**(95)**	**(133)**
	195	**186**

Costs for the use of third-party assets which amounted to €26 million (€21 million in 2018) referring mainly to short-term lease agreement charges of a moderate amount, as well as IT and software licences.

The positive change in raw materials, ancillary materials, consumables, supplies and goods (€49 million) is mainly due to the natural gas purchases, mainly for use in transportation activities.
Net allocations to provisions for risks and charges, equal to €13 million, net of uses, mainly refers to: (i) expenses for incentives for the departure of employees (€8 million); (ii) the allocation to the accident reserve fund for the captive company Gasrule (€5 million).
For more details about the change in provisions for risks and charges, please see Note 22 “Provisions for risks and charges”.
Net uses of the provision for impairment losses (€35 million) involve the release to the income statement of the provision for impairment losses following the announcement by the Council of State on 5 March 2020 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[47].
More information on changes of the provision for impairment losses can be found in Note 9 “Trade and other receivables”.

Other expenses, which amounted to €29 million (€37 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Direct and indirect taxes	15	**12**
Capital losses on eliminations of property, plant and equipment and intangible assets	12	**8**
CO_2 emission rights	5	**1**
Other expenses	5	**8**
	37	**29**

Personnel cost

Personnel cost, which amounted to €180 million (€201 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Wages and salaries	163	**167**
Social security contributions (pensions and healthcare assistance)	46	**48**
Employee benefits	17	**(5)**
Other expenses	32	**25**
	258	**235**
Less:		
Increase on internal work	**(57)**	**(55)**
	201	**180**

The item other expense (€25 million) mainly includes the expenses for defined contribution plans (€11 million) and the expenses for redundancy packages (€8 million).
A description of employee benefits can be found in Note 23 “Provisions for employee benefits”.

47 For more details, see Note 26, “Guarantees, commitments and risks – Disputes”, of the Notes to the consolidated financial statements.

Average number of employees

The average number of payroll employees included in the scope of consolidation, broken down by status, is as follows:

Professional status	31.12.2018	31.12.2019
Executives	104	**116**
Middle Managers	464	**494**
Office workers	1,650	**1,699**
Manual workers	731	**733**
	2,949	**3,042**

The average number of employees is calculated on the basis of the monthly number of employees for each category.
The number of personnel in service at 31 December 2019 was 3,025 resources (3,016 resources at 31 December 2018), an increase of 9 resources (+0.3%) compared with 31 December 2018. The increase is mainly due to new companies joining the scope of consolidation.

Snam share-based incentive plan for senior managers

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.
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 end in 2022, when the vesting period of the last allocation in 2019 expires.
A total of 5,492,810 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 1,800,000 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. Taking into consideration the non-market conditions to which receiving the benefit is connected, the cost reflects the adjustment, throughout the vesting period, of the number of shares that will effectively be granted.
For more information on the features of the Plan, see the Directors' Report "Financial review and Other Information".

Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities[48] ("key management personnel"), in office during the year amounted (including contributions and ancillary charges) to €11 million (€9 million in 2018) and breaks down as follows:

(millions of €)	2018	2019
Wages and salaries	7	6
Post-employment benefits		1
Share-based payments	2	4
	9	11

Remuneration due to directors and statutory auditors

The remuneration due to directors amounted to €6.0 million and €4.2 million respectively for 2019 and 2018. The remuneration due to statutory auditors amounted to €0.4 million (€0.2 million in 2018). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor in Snam S.p.A. and in other companies included in the scope of consolidation, giving rise to a cost for Snam, even if not subject to personal income tax.

29) AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Amortisation, depreciation and impairment, which amounted to €752 million (€690 million in 2018), can be broken down as follows:

(millions of €)	2017	2018
Total amortisation and depreciation	**682**	**722**
Property, plant and equipment	622	656
Intangible assets	60	66
Impairment losses	**8**	**30**
Property, plant and equipment write-downs	8	30
	690	752

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 13 "Property, plant and equipment", and Note 14 "Intangible assets".
An analysis of amortisation, depreciation and impairment by business segment can be found in Note 34 "Information by business segment".

48 This includes managers who have the power and the responsibility, both directly and indirectly, for the planning, direction and supervision of Snam. Snam managers with strategic responsibility, unlike directors and statutory auditors, are identified with reference to the following positions: (i) Chief Industrial Assets Officer; (ii) Chief Commercial Regulation and Development Officer; (iii) Chief International Assets Officer; (iv) Chief Global Solution Officer; (v) Chief Financial Officer; (vi) General Counsel; (vii) Executive Vice President Human Resources and Organization.

30) FINANCIAL EXPENSE (INCOME)

Financial expense (income), which amounted to €203 million (€242 million in 2018), can be broken down as follows:

(millions of €)	2018	2019
Financial expense (income)	**234**	**191**
Financial expense	237	**200**
Financial income	(3)	**(9)**
Other financial expense (income)	**6**	**11**
Other financial expense	15	**13**
Other financial income	(9)	**(2)**
Losses (Gains) on hedging derivatives – ineffective portion	**2**	**1**
Losses from derivative contracts	2	**1**
	242	**203**

(millions of €)	2018	2019
Financial expense (income)	**234**	**191**
Expense on financial debt:	**249**	**211**
Interest and other expenses on bond loans	232	**193**
Fees on loans and bank credit lines	7	**7**
Interest expense on credit lines and loans due to banks and other lenders	10	**11**
Financial expense capitalised	**(12)**	**(11)**
Income from financial receivables:	**(3)**	**(9)**
Interest and other income on short- and long-term financial assets	(3)	**(9)**
Other financial expense (income):	**6**	**11**
Accretion discount (*)	11	**8**
Other expenses	4	**5**
Interest income on long-term financial receivables	(8)	
Other income	(1)	**(2)**
Losses (Gains) on hedging derivatives – ineffective portion	2	**1**
	242	**203**

(*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note 20 “Provisions for risks and charges”, and Note 21 “Provisions for employee benefits”.

Expense on financial debt (€211 million) related to: (i) interest expense and other expense on bond loans (€193 million), referring essentially to interest on 20 bond loans (€145 million) and expenses from the liability management operation (€38 million) which led to the buy back on the market of bonds with a total nominal value of €597 million and an average coupon of approximately 1.3% and residual duration of approximately 3.9 years; (ii) interest expense to the banks relating to revolving lines of credit and loans totalling €11 million; (iii) the portion attributable to the period of upfront fees on revolving credit lines (€4 million) and credit line non-usage fees (€3 million).

Financial expense capitalised (€11 million) related to the portion of financial expense capitalised pursuant to investment activities.
Other net financial expense (€11 million) mainly involved expenses connected to the time relating to the storage and transportation sector site dismantling and restoration provision (€7 million in total).

31) INCOME (EXPENSE) FROM EQUITY INVESTMENTS

Income and expense from equity investments, which amounted to €216 million (€159 million in 2018), can be broken down as follows:

(millions of €)	**2018**	**2019**
Effect of valuation using the equity method		
Capital gains from valuation using the equity method	165	**225**
Capital losses from valuation using the equity method	(8)	**(7)**
Dividends	2	**2**
Other expense from equity investments		**(4)**
	159	**216**

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 15 “Equity-accounted investments”. Dividends (€2 million) relating to the minority interest of the company Terminale GNL Adriatico S.r.l., valued on a fair value basis with an opposing entry in shareholders’ equity “Fair Value Through Other Comprehensive Income - FVTOCI”.

32) INCOME TAX

Income taxes for the year, which amounted to €375 million (€341 million in 2018), can be broken down as follows:

	2018			**2019**		
(millions of €)	**IRES**	**IRAP**	**Total**	**IRES**	**IRAP**	**Total**
Current taxes	**313**	**60**	**373**	**339**	**62**	**401**
Current taxes for the year	314	60	374	**339**	**62**	**401**
Adjustments for current taxes relating to previous years	(1)		(1)			
Deferred and prepaid taxes	**(32)**		**(32)**	**(25)**	**(1)**	**(26)**
Deferred taxes	(16)		(16)	**(14)**		**(14)**
Deferred tax assets (prepaid taxes)	(16)		(16)	**(11)**	**(1)**	**(12)**
	281	**60**	**341**	**314**	**61**	**375**

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year can be broken down as follows:

	2018		2019	
(millions of €)	**Tax rate**	**Balance**	**Tax rate**	**Balance**
IRES				
Pre-tax profit		1,301		**1,465**
IRES due, calculated based on the theoretical tax rate	**24.0%**	**312**	**24.0%**	**352**
Changes to the theoretical rate:				
- Income from equity investments	(2.9%)	(38)	**(3.5%)**	**(51)**
- Tax on dividends	1.1%	14	**1.1%**	**16**
- Other permanent differences	(0.5%)	(7)	**(0.2%)**	**(3)**
IRES due for the year recorded on the income statement	**21.6%**	**281**	**21.4%**	**314**

	2018		2019	
(millions of €)	**Tax rate**	**Balance**	**Tax rate**	**Balance**
IRAP				
Difference between value and production costs		1,399		**1,431**
IRAP due, calculated based on the theoretical tax rate	**3.9%**	**55**	**3.9%**	**56**
Changes to the theoretical rate				
Regional IRAP rates delta	0.2%	3	**0.3%**	**4**
Other permanent differences	0.1%	2	**0.1%**	**1**
IRAP due for the year recorded in the income statement	**4.3%**	**60**	**4.2%**	**61**

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 23 “Deferred tax liabilities”.

Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

	2018			2019		
(millions of €)	**Pre-tax value**	**Tax effect**	**Post-tax value**	**Pre-tax value**	**Tax effect**	**Post-tax value**
Remeasurement of defined-benefit plans for employees						
Portion of equity-accounted investments pertaining to "other components of comprehensive income"	(1)		(1)	**(18)**		**(18)**
Change in fair value of minority investments valued at the FVTOCI				**4**		**4**
Change in fair value of cash flow hedge derivatives	(26)	6	(20)	**(44)**	**10**	**(34)**
Other components of comprehensive income	**(27)**	**6**	**(21)**	**(58)**	**10**	**(48)**
Deferred/prepaid taxes		**6**			**10**	

33) EARNINGS PER SHARE

Basic earnings per share, at €0.330 per share (€0.286 per share in 2018), are calculated by dividing the net profit attributable to Snam (€1,090 million; €960 million in 2018) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,300,593,207 shares; 3,357,806,084 shares in 2018).

Diluted earnings per share are calculated by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be added to the outstanding shares. For 2019, the diluted earnings per share take into account the potential effects from the allocation of the treasury shares in the portfolio against the issuing of the convertible bond loan into Snam ordinary shares and those from the long-term share-based incentive plan, with reference to the grants in 2017, 2018 and 2019.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,386,571,782 and 3,441,622,458 for 2019 and 2018, respectively.

Reconciliation of basic and diluted earnings per share

The reconciliation of the weighted average number of outstanding shares used to determine basic and diluted earnings per share is set out below:

	2018	2019
Weighted average number of outstanding shares used to calculate basic earnings per share	**3,357,806,084**	**3,300,593,207**
Number of potential shares for the long-term incentive plans	1,262,145	**3,424,347**
Number of potential shares against the issuing of the convertible bond.	82,554,228	**82,554,228**
Weighted average number of outstanding shares used to calculate diluted earnings per share	**3,441,622,458**	**3,386,571,782**
Group net profit (€ millions) (a)	**960**	**1,090**
Dilution effect of the convertible bond	3	**3**
Group diluted net profit for diluted earnings (€ millions) (a)	**963**	**1,093**
Basic earnings per share (€ per share) (a)	0.286	**0.330**
Diluted earnings per share (€ per share) (a)	0.280	**0.323**

(a) Entirely held by Snam shareholders.

34) INFORMATION BY BUSINESS SEGMENT

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used for 2019 by the Company's management for allocating resources to the different segments and for analysing the respective performances.

The business segments for which information is provided are natural gas transportation ("Transportation"), LNG regasification ("Regasification") and natural gas storage ("Storage"). They relate to activities carried out predominantly by Snam Rete Gas, ITG and Enura, GNL Italia and Stogit respectively.

The information by business segment as at 31 December 2019 and 31 December 2018 is listed below.