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.

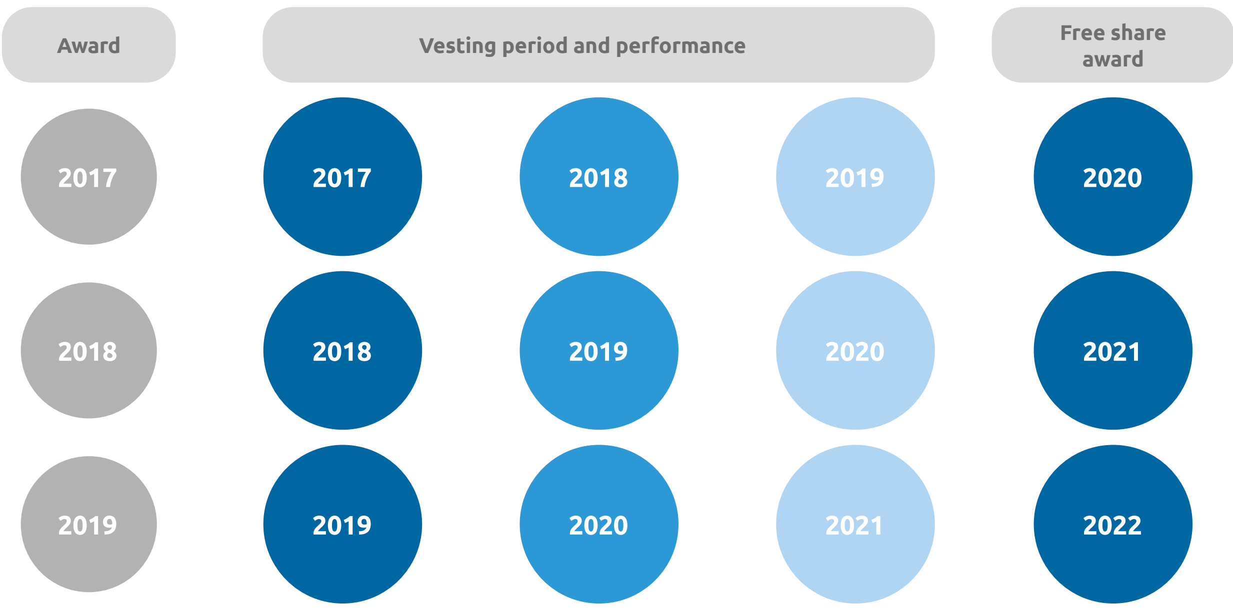
On 2 April 2019 the Ordinary Shareholders' Meeting of Snam shareholders authorised, following the withdrawal of the resolution authorising the purchase of treasury shares taken by the Ordinary Shareholders' Meeting on 24 April 2018, for the remaining part not carried out, the purchase of treasury shares, 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.