

# 2020

Annual  
report



energy to inspire the world





## COMPANY PROFILE

Snam is one of the world's leading energy infrastructure operators and ranks among Italy's largest listed companies, by market capitalization.

Through a sustainable and technologically advanced network, Snam guarantees the security of supply and is a key enabler in the energy transition. Through its international footprint Snam operates in Albania (AGSCo), Austria (TAG, GCA), France (Terēga), Greece (DESFA), Italy, UAE (ADNOC Gas Pipelines) and UK (Interconnector UK) and has recently started activities in China and India. Snam is also one of the leading shareholders in TAP (Trans Adriatic Pipeline).

The Group has the largest natural gas transportation network (over 41,000 km including international assets) and storage capacity (approx. 20 bcm including international assets) among its European peers and is also a leading player in regasification, through the LNG terminal in Panigaglia (GNL Italia) and its stakes in the Livorno (OLT) and Rovigo (Adriatic LNG) terminals in Italy and in the Revithoussa (DESFA) terminal in Greece.

In its 2020-2024 strategic plan, Snam plans an increase in investments to 7.4 billion euros and more focus on the energy transition businesses: biomethane (Snam 4 Environment), energy efficiency (Renovit), sustainable mobility (Snam 4 Mobility) and hydrogen. The company also operates in forestation (Arbolia) and is committed to achieving carbon neutrality (Scope 1 and Scope 2) by 2040.

The Group's business model is based on sustainable growth, transparency, the promotion of talents and diversity and the social development of local areas also through the initiatives of Fondazione Snam.

[www.snam.it](http://www.snam.it)



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# ANNUAL REPORT 2020


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## SNAM'S REPORTS



### FINANCIAL DISCLOSURE ON CLIMATE CHANGE

Describes governance, strategy and scenarios, risks and opportunities, metrics and targets to manage climate change, in line with recommendations of the *Task Force on Climate-Related Financial Disclosures (TCFD)*.



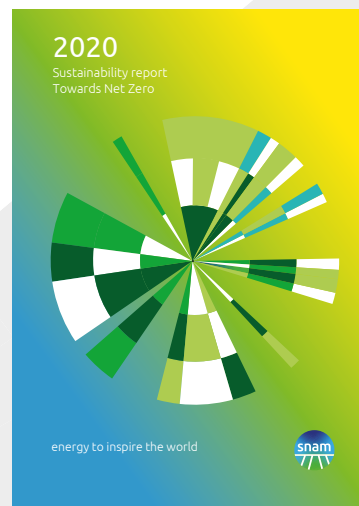
### REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

Provides detailed information about the company, its governance structure, the ownership structure, the internal control and risk management system and related topics.



### REMUNERATION REPORT

Illustrates the Policy adopted by the Company for remuneration of Directors and Executives, specifying the purposes, bodies involved, procedures used for its adoption and implementation in addition to the remuneration paid.



### SUSTAINABILITY REPORT

Presents performance and future objectives relative to environmental, social and governance issues (ESG), strengthening the relationship and cooperation with all Company stakeholders.





# ANNUAL REPORT

**“Integrated reporting means integrated thinking”**, this is the foundation behind Snam’s reporting which for several years now has been involved in integrating its reporting processes. The approach is intended to respond to all stakeholder requests through company reporting which is widespread, transparent and complete, as well as responsible. Thanks to the publication of various specific reports, Snam provides a detailed and in-depth overview of its annual activities, performance and challenges.



The **Annual Report**, which includes the **Directors' Report**, represents Snam's **Integrated Report**, prepared following the Framework guidelines proposed by IIRC (International Integrated Reporting Council), which Snam has followed since 2015. In addition to the Directors' Report, the document also contains the **Consolidated Financial Statements** and **Statutory Financial Statements**.

The purpose of the Directors' Report is to represent, in addition to annual results, Snam's model for creating sustainable value over the medium/long-term, highlighting existing connections between strategy, economic/financial performance and the social, environmental and economic situation in which the Group functions. The aspects dealt with in the Directors' Report represent the main factors which may influence its economic/financial performance and their impacts on sustainability issues which are material for the Group.

The schedules below (Consolidated Financial Statements and Statutory Financial Statements) facilitate reconciliation of the various methods of reading proposed by the IIRC Framework and the contents of the Directors' Report.

Additionally, the Directors' Report also contains the

**NFS** **Consolidated Non-Financial Statement** (“Declaration” or “NFS”), prepared in compliance with the provisions of Italian Legislative Decree 254/2016. The NFS, which constitutes a specific section of the Report, contains information on company management and organisational methods, policies used, risks and methods used to manage the same, as well as information on performance with regards to sustainability issues of relevance to the Group. When necessary or expedient, the contents of the NFS include references to information available in other sections of the Directors' Report, which can be easily identified by the blue “NFS” symbol placed next to the title of the relevant chapter/section. Additionally, given **TCFD** Snam's adhesion to the **Task Force on Climate-Related Financial Disclosure - TCFD**, sections of the document which contain information on the recommendations are identified through the light blue “TCFD” symbol found next to the title


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# CORPORATE BODIES

## BOARD OF DIRECTORS <sup>(\*)</sup>

### Chairman <sup>(\*\*)</sup>

Nicola Bedin

### Chief Executive Officer

Marco Alverà <sup>(1)</sup>

### Directors

Laura Cavatorta <sup>(2) (3)</sup>

Francesco Gori <sup>(2) (3)</sup>

Yunpeng He <sup>(1)</sup>

Antonio Marano <sup>(1) (2)</sup>

Francesca Pace <sup>(1) (2)</sup>

Rita Rolli <sup>(2) (3)</sup>

Alessandro Tonetti <sup>(1)</sup>

## BOARD OF STATUTORY AUDITORS <sup>(\*)</sup>

### Chairman

Stefano Gnocchi <sup>(5)</sup>

### Standing Statutory Auditors

Gianfranco Chinellato <sup>(4)</sup>

Donata Paola Patrini <sup>(4)</sup>

### Standing Statutory Auditors

Federica Albizzati <sup>(5)</sup>

Maria Gimigliano <sup>(4)</sup>

## CONTROL, RISK AND RELATED-PARTY TRANSACTIONS COMMITTEE

Francesco Gori - Chairman

Francesca Pace

Antonio Marano

## APPOINTMENTS COMMITTEE

Antonio Marano - Chairman

Laura Cavatorta

Alessandro Tonetti

## REMUNERATION COMMITTEE

Francesca Pace - Chairman

Rita Rolli

Alessandro Tonetti

## ENVIRONMENTAL, SOCIAL & GOVERNANCE COMMITTEE <sup>(\*\*\*)</sup>

Laura Cavatorta - Chairman

Rita Rolli

Yunpeng He

## INDEPENDENT AUDITORS <sup>(\*\*\*\*)</sup>

Deloitte & Touche S.p.A.

(\*) Appointed by the Shareholders' Meeting on 2 April 2019 and in office until the date of the Shareholders' Meeting that shall be called in 2022 to approve the financial statements at 31 December 2021.

(\*\*) Appointed by the Shareholders' Meeting of 18 June 2020 based on a proposal by the shareholder CDP Reti S.p.A. - in office until the date of the Shareholders' Meeting that shall be called in 2022 to approve the financial statements at 31 December 2021. The Chairman is independent pursuant to the CLF.

(\*\*\*) Established by the Board of Directors on 14 May 2019 in place of the Sustainability Committee.

(\*\*\*\*) Engaged by the shareholders' meeting on 23 October 2019 for FYs 2020-2028.

(1) Candidate directors on the list presented by shareholder CDP Reti S.p.A.

(2) Independent directors pursuant to the Consolidated Law on Finance and the Code of Corporate Governance.

(3) Directors that were candidates on a list submitted jointly by Institutional Investors.

(4) Candidate standing auditors on the list presented by shareholder CDP Reti S.p.A.

(5) Directors that were candidates on a list submitted jointly by Institutional Investors.


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## Disclaimer

The Annual Report contains forward-looking statements, in particular in the sections on Strategy and Outlook with reference to: developments in natural gas demand, investment plans and future operating performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. Actual results could therefore differ from those announced due to various factors, including: foreseeable trends in natural gas demand, supply and prices, general macroeconomic conditions, the impact of energy and environmental legislation, success in the development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.

Snam, the Snam Group (or the Group) means Snam S.p.A. and the companies within its scope of consolidation.

For the Glossary, please refer to the website [www.snam.it/it/utilita/glossario/](http://www.snam.it/it/utilita/glossario/).



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# DIRECTORS' REPORT INTEGRATED REPORT




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## ENERGY TO INSPIRE THE WORLD: SNAM'S PURPOSE

In a time of transformation and change, **the company must be clear about the reason for which it exists**: its purpose. To find it, it is necessary to reshape the organisation and activate a collective exercise among people of research and analysis of the **added value that can be contributed to the world**. Today, more than ever, it is necessary to have a broader outlook and range of action than in the past, aiming to create solid relationships between people, suppliers and communities, responding to the needs of sustainable development for all stakeholders.

**"Energy to inspire the world"** is the purpose of Snam, where its history and values come together.

The Group's strong engineering tradition, its sense of belonging to the energy industry and its great capacity for building infrastructure, combined with its founding values and the role that the Group aims to have in the energy transition, have been the basis of the path that Snam has taken to achieve its purpose. **Snam is much more than a company that builds and manages energy infrastructures**: with the work of its people it guarantees secure supplies, enables millions of homes to be heated, connects countries and communities, creates opportunities for development while respecting the environment and is a key player in the energy transition.

**Purpose is a daily commitment for Snam**: it is part of its culture and strategy. With the new **Towards Net Zero** Strategic Plan, the Group has set itself the goal of taking a **leading role in the energy transition**, thanks to the new businesses (biomethane, hydrogen, energy efficiency, sustainable mobility) and the innovation component, and aims of **achieving carbon neutrality by 2040**, ahead of the European target set for 2050.

To achieve the objectives outlined above, Snam adopts sustainable finance policies and tools that are consistent with its strategy and aimed at developing a transparent and efficient financial market.

Sustainability is central to the Group's strategy and this is also demonstrated by the **ESG Scorecard**, which aims to explain and report to stakeholders in a timely and transparent manner the environmental, social and governance targets that Snam has defined in line with its sustainable development strategy



### Energy transition and sustainable success in the Snam Articles of Association

"Energy to inspire the world" is the message that guides Snam's way of doing business and that, in 2021, was formally added to its Articles of Association. In fact, on 2 February 2021 the Shareholders' Meeting approved the amendment to the Articles of Association, expressly referencing energy transition business in combination with core regulated activities business, as well as including the pursuit of sustainable success among the goals which the Company's business must focus on.



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## Sustainable Development Goals

In pursuing its purpose, Snam reconciles its strategic choices with its commitment to achieving the Sustainable Development Goals (SDGs) defined by the United Nations in 2015.

The 17 SDGs and their targets represent an important reference for Snam, which focuses its efforts on those that are closest to its mission, purpose and activities.

**We build innovative energy infrastructures and offer integrated services that connect people and communities**



**We are committed to a stable supply with maximum safety and environmental protection**



**We promote the development of our people, ensuring respect for the dignity and diversity of each individual**



**We invest in tomorrow's energy sources and design infrastructure for a more sustainable future**



**We integrate with the territories and provide the communities in which we operate with skills, technologies and resources to create new opportunities and contribute to economic and social development**



**We follow an ethical and socially responsible business model, generating value for all our stakeholders**



ENERGY

FUTURE

PEOPLE


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# HIGHLIGHTS 2020

## FINANCIAL

2,770 mln €

### Total revenues

+6.3% compared to 2019,  
despite the effects of  
Covid-19 on gas demand

2,197 mln €

### Adjusted Ebitda,

+1.3% compared to 2019

1,164 mln €

### Adjusted net profit,

+6.5% compared to 2019

1,101 mln €

### Reported net profit,

+1.0% compared to 2019

1,189 mln €

### Technical investments,

+23.5% compared to 2019  
despite Covid-19

0.2495 €

### Proposed dividend per

share, +5% compared to 2019

## STRATEGY

### Energy transition

**Acquisition of 70% of Miei and Evolve** (energy efficiency) and **50% of Iniziative Biometano** (agricultural biomethane); **45 million euros in total**

### Hydrogen

Entry into the share capital of **ITM Power Plc**, a technological leader in green hydrogen

### International development

**ADNOC Gas Pipeline** - infrastructure manager in the United Arab Emirates: acquisition, through a consortium with 5 international funds, of a 49% stake



## OPERATING

69.97 bcm

**Gas injected into the national network**, -7.2% compared to 2019

71.3 bcm

**Gas demand in Italy**, -4.3% compared to 2019

17.0 bcm

**Total storage capacity**, the largest on offer in Europe

12.5 bcm

**Allocated storage capacity**, 100% of available capacity

60 unloaded

**Methane tankers unloaded**, +5.3% compared to 2019

2.52 bcm

**LNG volumes regasified**, +5.0% compared to 2019

FINANCIAL

OPERATING


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## ENVIRONMENT

**-13%**

compared to 2019  
Total GHG emissions.  
Declared carbon neutrality  
by 2040

**-11%**

compared to 2019  
Natural gas emissions 35 Mm<sup>3</sup>

**+49%**

Percentage of electricity  
produced using renewable  
sources compared to  
electricity consumption

**-11%**

compared to 2019  
Issues of NO<sub>x</sub> (403 tonnes)

Snam added to the **CDP A List** and the **A- list of CDP suppliers**

## SOCIAL

**20 mln €**

to support the Italian healthcare  
system and third sector  
allocated, in part through  
Fondazione Snam to fight the  
pandemic

**16 mln €**

spent in 2020

**Gender  
equality  
index**

Inclusion on the Bloomberg  
Gender Equality Index for the  
second year in a row

**507**

female employees: +15%  
compared to 2019

**1,832 mln €**

Procurement, +18% compared  
to 2019

**37%**

procurement spent through  
SME: +7% compared to 2019



## GOVERNANCE

**8.6**

Average score obtained for  
customer satisfaction

**Purpose,  
energy  
transition,  
gender  
parity**

added to the Company's  
Articles of Association

**7,453**

Reputation audits carried out  
on business partners

**41%**

Time dedicated to ESG issues  
by the Board of Directors in  
2020



ENVIRONMENT

GOVERNANCE

SOCIAL



# LETTER TO SHAREHOLDERS AND STAKEHOLDERS



**Nicola Bedin**  
Chairman



**Marco Alverà**  
Chief Executive  
Officer

Dear shareholders and stakeholders,

2020 was a year that created upheaval in the world, redefining our idea of normality due to the pandemic which still has not been entirely left behind us. Many of us went through difficult times and, in some cases, lost loved ones. We completely changed our way of living, working, travelling and interacting with our neighbours. Some of these changes will stay forever. The economic consequences of the pandemic were very heavy and several years will be needed to overcome them.

In this unprecedented situation, Snam has been distinctive both due to its essential role in the energy system and for its commitments relative to ESG. In fact, on one hand we continued to work without pause, both remotely and in the field, to guarantee the continuity of energy supplies even during the most severe moments of the emergency, also by introducing extraordinary measures. Despite difficulties, for the thirteenth year in a row we were able to complete our investment projects in line with forecasts. This challenge once again demonstrated the value of our people and the fundamental importance of our network for energy security in Italy and Europe.

On the other hand, we immediately took action to support the healthcare system by obtaining protective masks and ventilators and to help associations in the Third Sector, through donations of money and skills, to support the most fragile segments of the population, also through Fondazione Snam and contributions from our people.

Internally, the emergency also forced us to rethink working methods and processes so they could function remotely and with an increasing use of digital tools. We activated new forms of engagement and welfare services focussed on the health and well-being of our people and their families.

The events of 2020 demonstrated to the world how unavoidable it now is to deal with and overcome one of the main challenges of our generation: climate change. Despite the impact of the pandemic, the reduction in CO2 emissions globally in the past year was lower than expected, with an increase in the second half coinciding with the return of many economic activities. And it was in



2020 that Snam strengthened its position as a facilitator of the energy transition and was one of the first companies in its sector to announce a goal of carbon neutrality by 2040. We plan to reach this target, for Scope 1 and Scope 2 emissions (direct and indirect) through an interim goal in 2030, at which time we will have decreased our CO<sub>2</sub> equivalent emissions by 50%, capitalising on the efforts put in over the years and making our business ever more sustainable. Snam also has the objective of contributing to lower emissions in the entire economic system by enabling its infrastructure to transport increasing amounts of renewable gases. Additionally, thanks to our energy efficiency, sustainable mobility, biomethane and hydrogen initiatives, by 2024 we will enable Italy to prevent the emission of 600,000 tonnes of CO<sub>2</sub>.

The Plan we launched in 2020, calling for a total of 7.4 billion euros by 2024, establishes these environmental commitments as one of its pillars and puts ESG factors at the centre of our strategies. Sustainable success is included in our purpose, "Energy to inspire the world", which as of February 2021 became part of the Snam' Bylaws, after approval by the Shareholders' Meeting. At the side of these economic goals, for the first time we set out multi-year targets for environmental, social and governance aspects, benefiting all our stakeholders. Confirming our commitment, we once again renewed our adhesion to the principles of the Global Compact and the sustainable development goals (SDGs) identified by the UN. To report on our contribution to Agenda 2030, we prepared an ESG Scorecard to measure the company's performance in 13 areas, with material and quantitative objectives for 2023. Alignment with the SDGs can also be seen in our financial policies: by the end of the Plan, sustainable finance will represent over 60% of available fund, compared to the current 40%. With regards to ESG, this was also an important year in terms of promoting diversity and inclusion, with new objectives and initiatives relative to gender parity, including the addition of two new appendices to the Diversity & Inclusion Policy, the first on gender parity and the second on the personnel selection process, as well as the creation of the Snam Inclusive Language Manifesto. Snam's efforts were awarded by inclusion for the second year in a row on the Bloomberg Gender-Equality Index (GEI).

We continued to work together with our suppliers, acquiring goods, labour and services for 1,832 million euros (+18% compared to 2019), continuing to be one of the companies which invests the most in Italy (96% of total procurement). At the same time, we continued to strengthen international business by becoming part of the United Arab Emirates networks, through the acquisition of an equity investment in ADNOC Gas Pipelines, the first outside of Italy. This was done in combination with other investors. We also won a tender with our Greek investee DESFA to manage the Kuwait regasification plant, one of the largest of its type in the world. Simultaneously, we began work in India and continued to bring our skills to China.

We took major steps forward in initiatives for the energy transition. For hydrogen, after initial experiments, we continued to work to make our network ever more ready to host growing quantities. Thanks to our infrastructure, we can serve as a facilitator for the development of this energy vector which is destined to play a decisive role in making Europe the first continent with zero emissions by 2050, as demonstrated by the strategies adopted by the European Union and various member states during 2020. In this sector we established a technological partnership with De Nora, an Italian leader in water treatment and alkaline electrolysis technologies. The goal is to be on the cutting edge of innovation, as is also demonstrated with our agreement with the British ITM Power, which produces membrane electrolyzers.

Relative to energy efficiency we strengthened Snam's own abilities through new acquisitions (Mieci and Evolve) and established the foundation for the launching of the Renovit platform which could become one of the most important Italian companies in this sector, in which CDP Equity holds an equity investment as of January 2021. Our commitment to sustainable mobility continued, with 29 new refueling stations contractualised in 2020, for a cumulative total of 132 stations, and growth of Cubogas in the compressor sector. We also gained entrance to the agriculturally produced biomethane infrastructure through the acquisition of a 50% stake in Iniziative Biometano. As a whole, investments in energy transition business through 2024 exceed 700 million euros, almost double that in the previous Plan. Urban forestation can be added to these


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activities, with the creation of the benefit company Arbolia, the result of a joint project with the CDP Foundation to make Italian cities and communities greener.

In line with our commitment to carbon neutrality by 2040 and thanks to projects implemented to reduce various types of emissions, we reduced total GHG emissions by 13% with respect to 2019. This environmental performance allowed our Company to be included on the CDP Climate Change A List and on the CDP Supply Chain A- List, with Snam involving its strategic suppliers in the programme.

Finally, 2020 was the year the Southern Corridor was completed, a fundamental tool for European energy supplies, both now and in the future. Snam quickly constructed the connection between TAP and the national network and, as a shareholder, contributed its know-how for the success of the entire project. This is another piece that combines with the efforts made in recent years to make Italy a functional energy hub for exports as well, a goal that has been achieved thanks to our investments in reverse flow.

Despite the uncertainties caused by the pandemic, we look to the future with optimism, thanks to the knowledge and skills of our people and the strategic value of our assets. We are convinced that infrastructure will play a crucial role in the recovery of economic systems and in the energy transition, moving towards a zero future emission, with Snam in an ideal position to play a leading role in facing this challenge.

In 2020, despite the inevitable impacts of the pandemic, we obtained more than just positive results, in line with expectations. Based on the results achieved we will propose a unitary dividend of 0.2495 euros to the Shareholders' Meeting on 28 April, of which 0.0998 euros already distributed in advance, confirming a remuneration policy for shareholders that is attractive and sustainable over time.

17 March 2021

for the Board of Directors

**Chairman**

**Chief Executive Officer**



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# SNAM PROFILE




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## NFS SUMMARY

Established in 1941, as Società Nazionale Metanodotti, later known as Snam, the company is the leading operator in Italy and Europe in the creation and integrated management of natural gas infrastructure. Over the years, the Company has developed a sustainable and technologically advanced network guaranteeing supply security, facilitating the energy transition and supporting development in the areas in which it operates.

In Italy, Snam is responsible for natural gas transportation, dispatching and storage as well as regasification of liquefied natural gas (LNG). With respect to these three core business sectors, Snam is the largest in Europe in terms of the size of its transmission network (over 41,000 km, including international assets) and in terms of natural gas storage capacity (around 20 billion cubic metres, including international assets). Relative to regasification business, Snam is one of the largest continental operators through the Panigaglia terminal and its equity investments in the Livorno (OLT) and Rovigo (Adriatic LNG) systems, as well as in Revithoussa (DESFA) in Greece, for total pro quota regasification capacity of around 8.5 billion cubic metres annually.

In addition to those three areas which have characterised Snam since its establishment, the Company has begun to invest many and ever increasing resources in new businesses: biomethane, energy efficiency, sustainable mobility and hydrogen. Thanks to these, Snam contributes to the decarbonisation of the Italian system, constructing compressed (CNG and bio-CNG) and liquefied (LNG, bio-LNG and small scale LNG - SSLNG) natural gas distributors, as well as biomethane infrastructure making use of organic and agricultural and agro-industrial waste, and providing energy efficiency services to condominiums, public administrations, and industry, while creating a foundation for hydrogen-based infrastructure.

Within Europe, Snam is notable for its agreements with the leading industry players and direct equity investments in the share capital of various companies. Additionally, the Group exports its know-how, offering engineering and technical/operational services to other gas operators, both domestically and internationally.

Through its international subsidiaries it operates in Albania (AGSCo), Austria (TAG, GCA), China (Snam Gas & Energy Services Beijing), United Arab Emirates (ADNOC Gas Pipelines), France (Terēga), Greece (DESFA), and the United Kingdom (Interconnector UK). Snam is also one of the main shareholders of TAP (Trans Adriatic Pipeline), the final section of the Southern Energy Corridor for gas.

Through its subsidiary Snam Gas & Energy Services, based in Beijing, Snam is involved in the development of the gas market in China through the distinctive skills it holds in this sector.

As can be seen in the amendments made to the Articles of Association in February 2021, Snam is committed to supporting the energy transition by making use of resources and energy sources that are compatible with protecting the environment and progressive decarbonisation, pursuing sustainable success.

Snam is a capital-intensive business and 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. This means the Group is able to maintain a generally limited risk profile and remunerate shareholders sustainably, while also guaranteeing the provision of services to all operators along the chain with non-discriminatory criteria, establishing and respecting high quality and safety standards.

Snam's business model, which integrates environmental, social and governance aspects with an eye to a sustainable development model, is intended to make use of talent and ensure transparency with local communities and stakeholders, through constant dialogue and the social initiatives promoted by Fondazione Snam. In line with this view, Snam has kicked off a number of projects to promote an increasingly sustainable energy system not just in the sector in which it operates, but throughout the entire domestic system. At the same time, the Group has developed initiatives and projects for energy efficiency, compressed natural gas (CNG), liquefied natural gas (LNG), biomethane and hydrogen. Snam's approach to these



new businesses is intended to support independence, through the creation of dedicated business units with the aim of concentrating knowledge, expertise and know-how within individual projects to optimise results. 2020 saw a continuation of that begun by Snam in 2019, a year known as the “year of hydrogen”, thanks to multiple national and EU policies which, with reference to Italy, suggest 2% hydrogen on the network in 2030 and 5% in 2040. In this context, Snam signed various agreements and partnerships (including complementary ones with De Nora and ITM) with the objective of continuing to develop its own position in the hydrogen sector, serving as a leader not just in Italy, but also in international markets.

Since 2001, Snam has been listed on the Italian stock exchange and can be found on the Italian FTSE MIB and on some of the main international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities). Given the importance of sustainability in Snam's business and in its strategic decisions, the Group is also found on some of the most prestigious sustainability indices, including FTSE4Good. Turning to ESG ratings, Snam finds itself at the top of MSCI (MSCI World ESG and MSCI ACWI ESG), Sustainalytics, ECPI, Ethibel, Vigeo. In 2020, it was again included on the Gender-Equality Index (GEI) established by Bloomberg and was promoted to the CDP A List (former Carbon Disclosure Project).

An important event during the year was the presentation of the new 2020-2024 Strategic Plan, which renewed Snam's commitment to three fundamental pillars: strengthening core business, internationalisation, and contributing to the energy transition. The new plan, called “Towards Net Zero”, establishes long-term objectives, which see the Company working to achieve carbon neutrality by 2040, in advance of the targets set by the European Union. Investments are increased, dedicated to the energy transition focussing on technological development, innovation, and new business, going from 400 million euros to over 700 million euros. Objectives linked to reducing direct greenhouse gas emissions (Scope 1) and indirect ones (Scope 2) presented at the same time as the 2020-2024 Strategic Plan are challenging and ambitious. In fact, Snam plans to reduce these emissions by 50% by 2030, becoming a carbon neutral company by 2040.

Additionally, the new Strategic Plan also saw the creation of the ESG Scorecard, a tool designed to ensure disclosure of the main environmental, social and governance aspects, while evaluating the Group's performance relative to certain targets established for the next three years, confirming the fact that Snam fully integrates social, environmental and governance issues into its decisions about its business plan, working to improve both sustainability and financial performance.

Over the years, the role played by the fight against climate change and by sustainability has grown, to elements which are profoundly integrated into the Group's business strategies. These range from development of new business, directly associated with the commitment to the energy transition, to investments in regulated energy infrastructure focussed on hydrogen ready replacements, to digitalisation and decarbonisation. From integrating sustainability objectives in its financial strategy, to the growing impact of sustainable finance within available funding, Snam works constantly to operate in an environmentally respectful manner and to support decarbonisation with concrete actions, creating long-term value for stakeholders.

This commitment has been formalised and added to the Articles of Association, a significant decision which highlights Snam's positioning as a company which is not content merely to be a simple constructor and operator of energy infrastructure, but desires to contribute to society, investing today to achieve tangible results tomorrow.





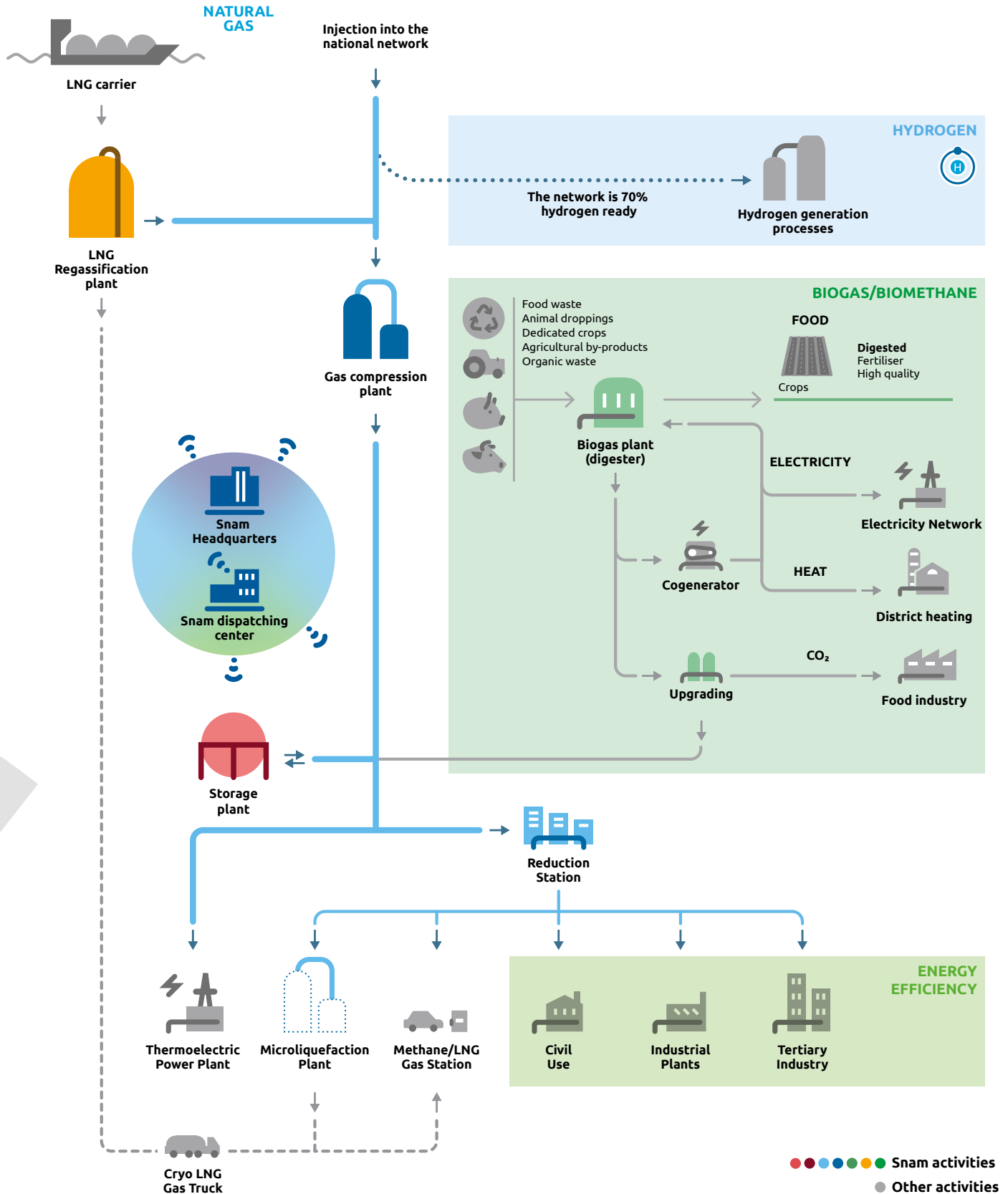
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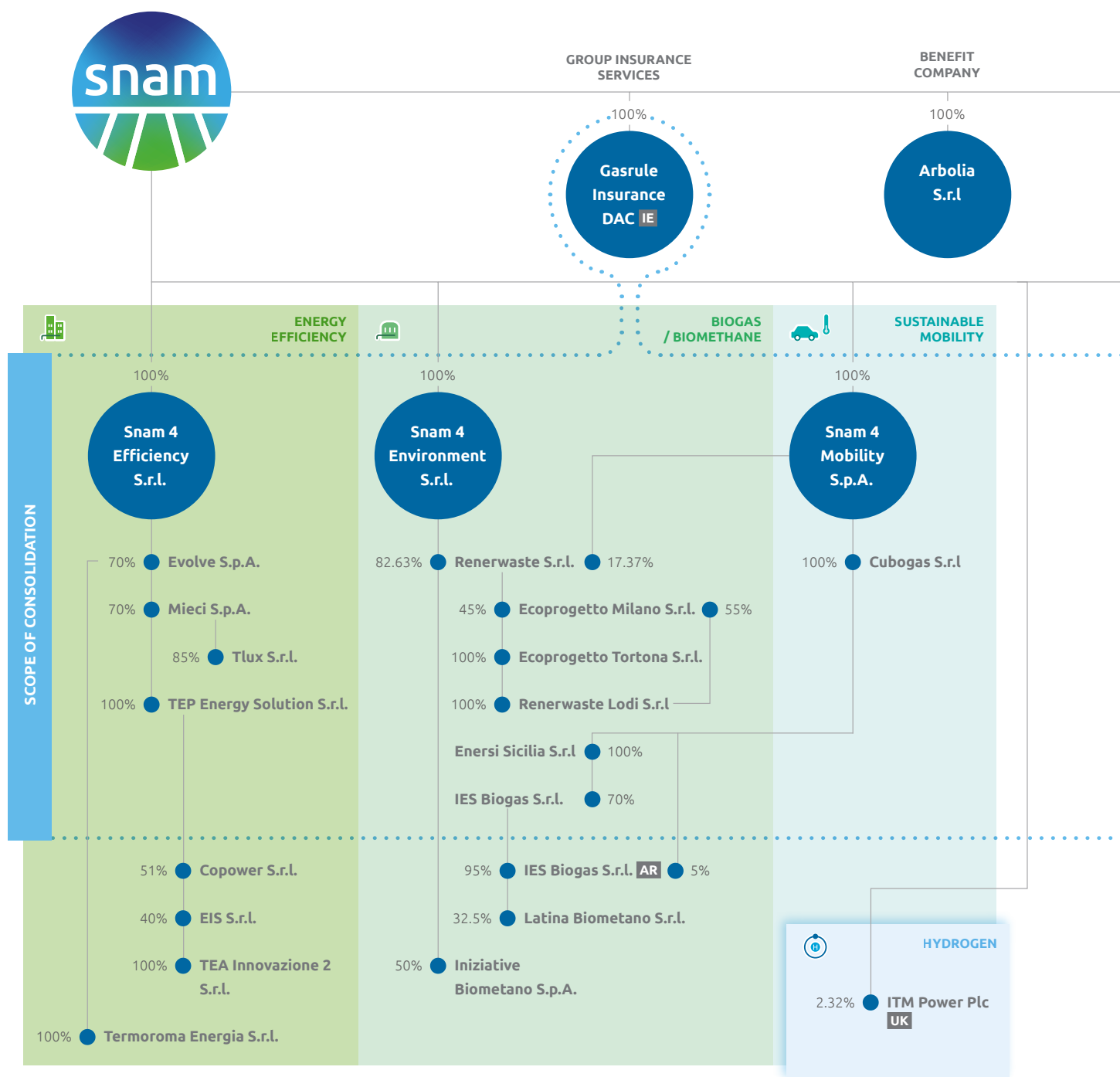
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## The world of gas





The changes in the Snam Group's scope of consolidation as of 31 December 2020, with respect to that as of 31 December 2019, involve the acquisition on 5 October 2020, through the subsidiary Snam 4 Efficiency, of 70% of two companies working in the energy efficiency sector in Italy, Mieci S.p.A. and Evolve S.p.A.

The main equity investment transactions during 2020\*, which had no impacts on the Group's scope of consolidation, involved:

- the sale, on 13 January 2020, of a 6% equity investment in the associate company Senfluga, after which Snam's stake in the company amounts 54%. This sale resulted from agreements signed by

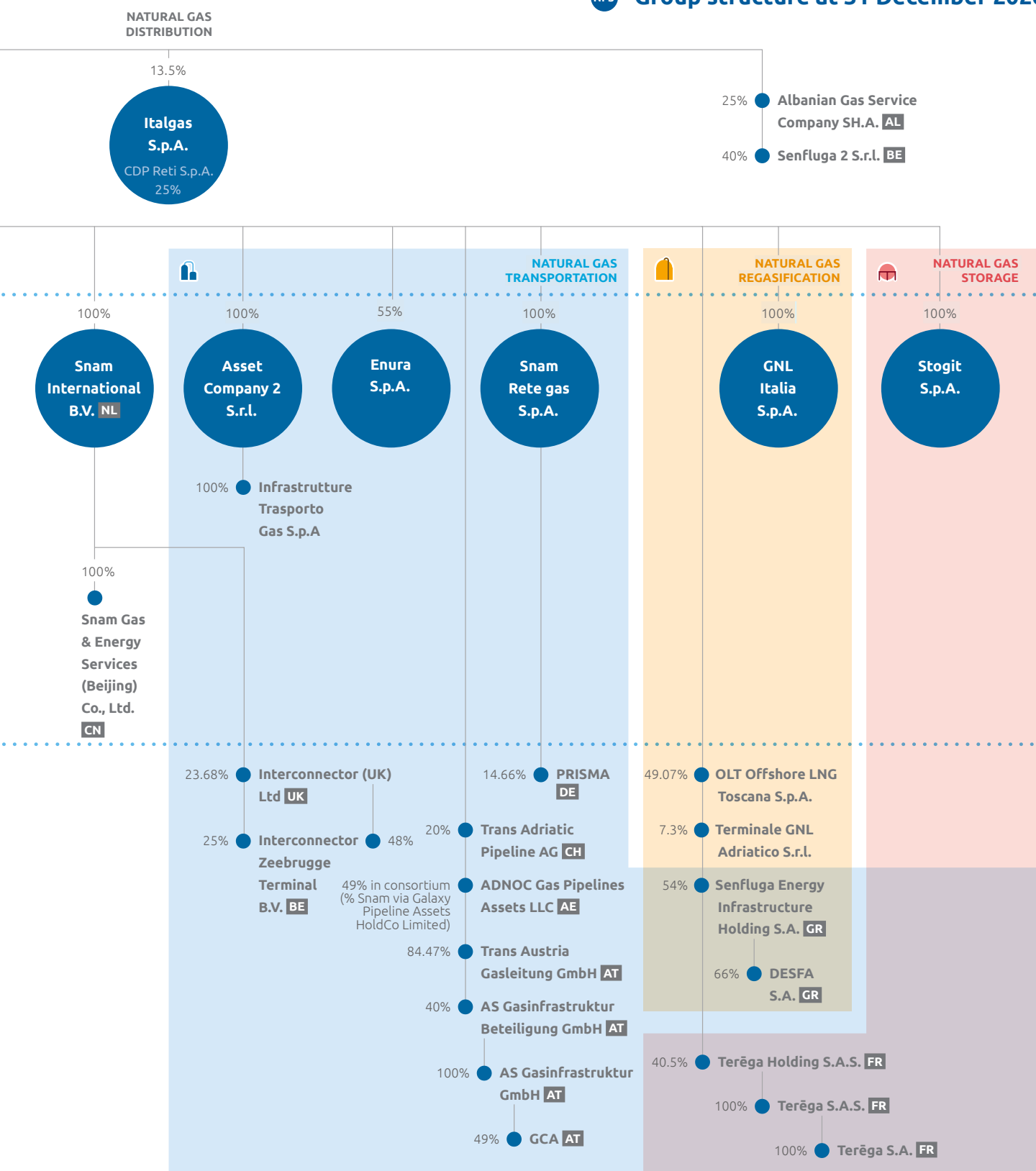
Senfluga shareholders to sell a total stake equal to 10%, in amounts proportional to the stakes held by each shareholder; the completion on 26 February 2020 of the acquisition of a 49.07% stake in OLT (Offshore LNG Toscana), based on which Snam obtained joint control over the regasification terminal with First State Investments International Ltd;

- the increase in the equity investment held in Tep Energy Solution S.r.l. (TEP) from 82% to 100% of share capital, through the exercising of a call option relative to the stakes held by minority interests (equal to 18%)\*\*, carried out on 6 March 2020;
- the acquisition on 15 July, in a consortium

with five international funds, of 49% of ADNOC Gas Pipeline LLC, a company which holds 20 year management rights for 38 gas pipelines in the United Arab Emirates; the acquisition on 30 September 2020, through the subsidiary Snam 4 Environment, of a 50% stake in the share capital of Femogas S.p.A., with joint control held with Iniziative Biometano S.p.A., a company which manages biogas and biomethane systems which use agricultural biomass obtained in Italy; entry into the share capital of ITM Power PLC in November 2020, one of the largest global producers of electrolyzers, gaining a stake of 2.318%.


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## NFS Group structure at 31 December 2020



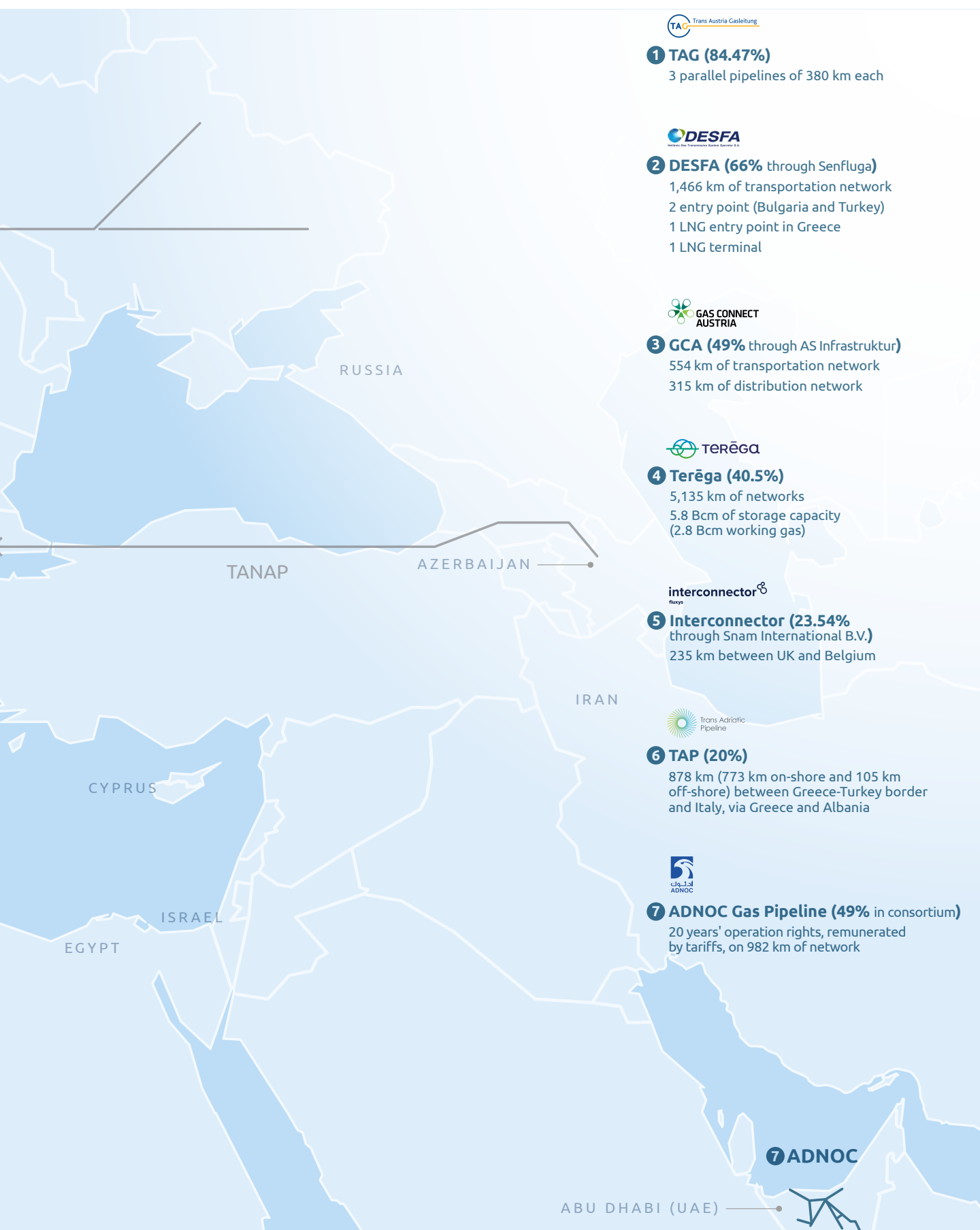
\* Additionally, on 18 November, the entry of Snam as a significant minority shareholder of Industrie De Nora was announced. The transaction was finalised on 8 January 2021.

\*\* The controlling equity investment in TEP (82%), acquired in May 2018, on the basis of the contractual terms with the exercise of the put and call cross options on the interests of third-party (equal to 18%) is regulated as if Snam had acquired 100% control of TEP, without therefore detecting the interests of third parties shareholders.


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




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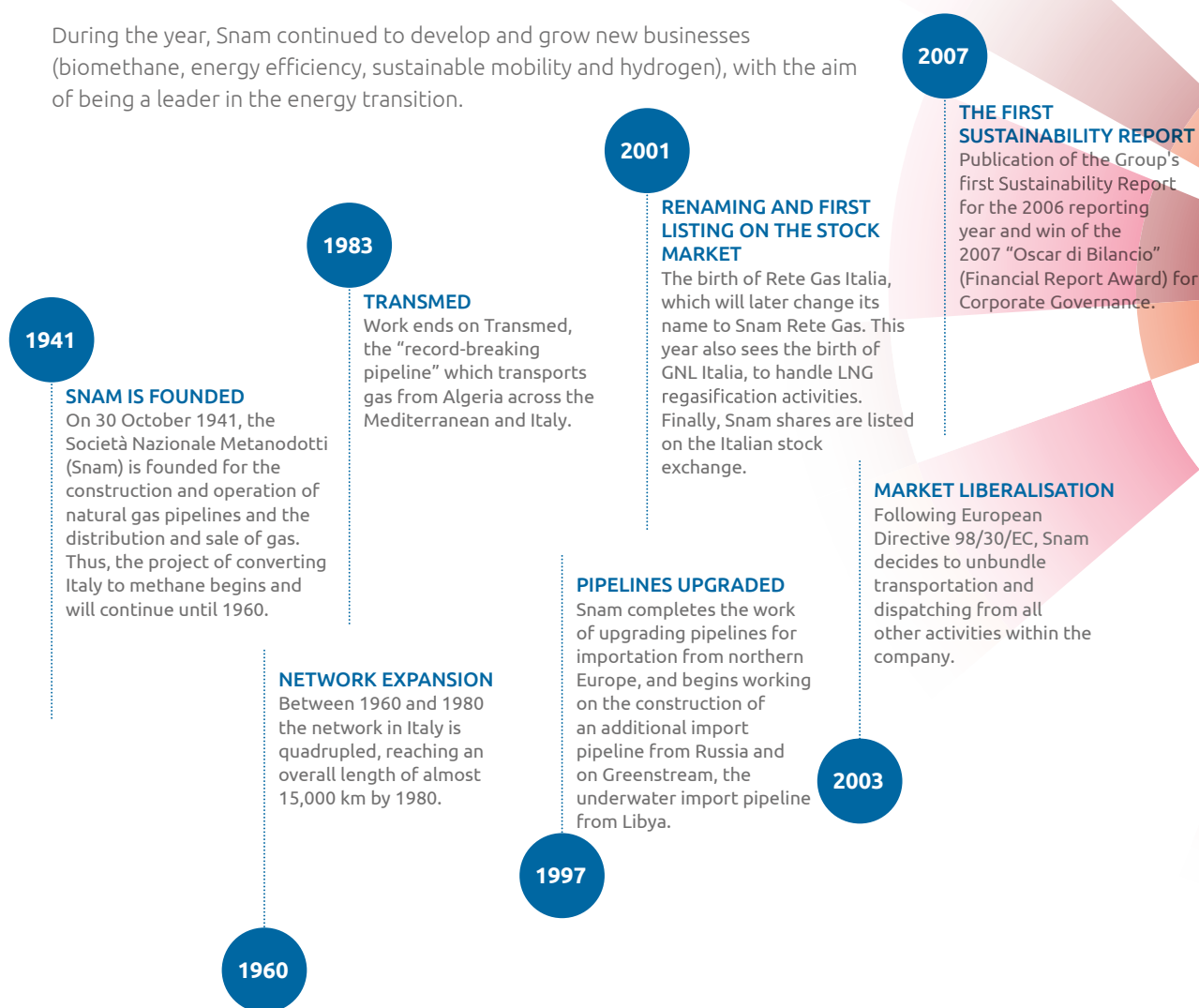


## 2020: TOWARDS DECARBONISATION

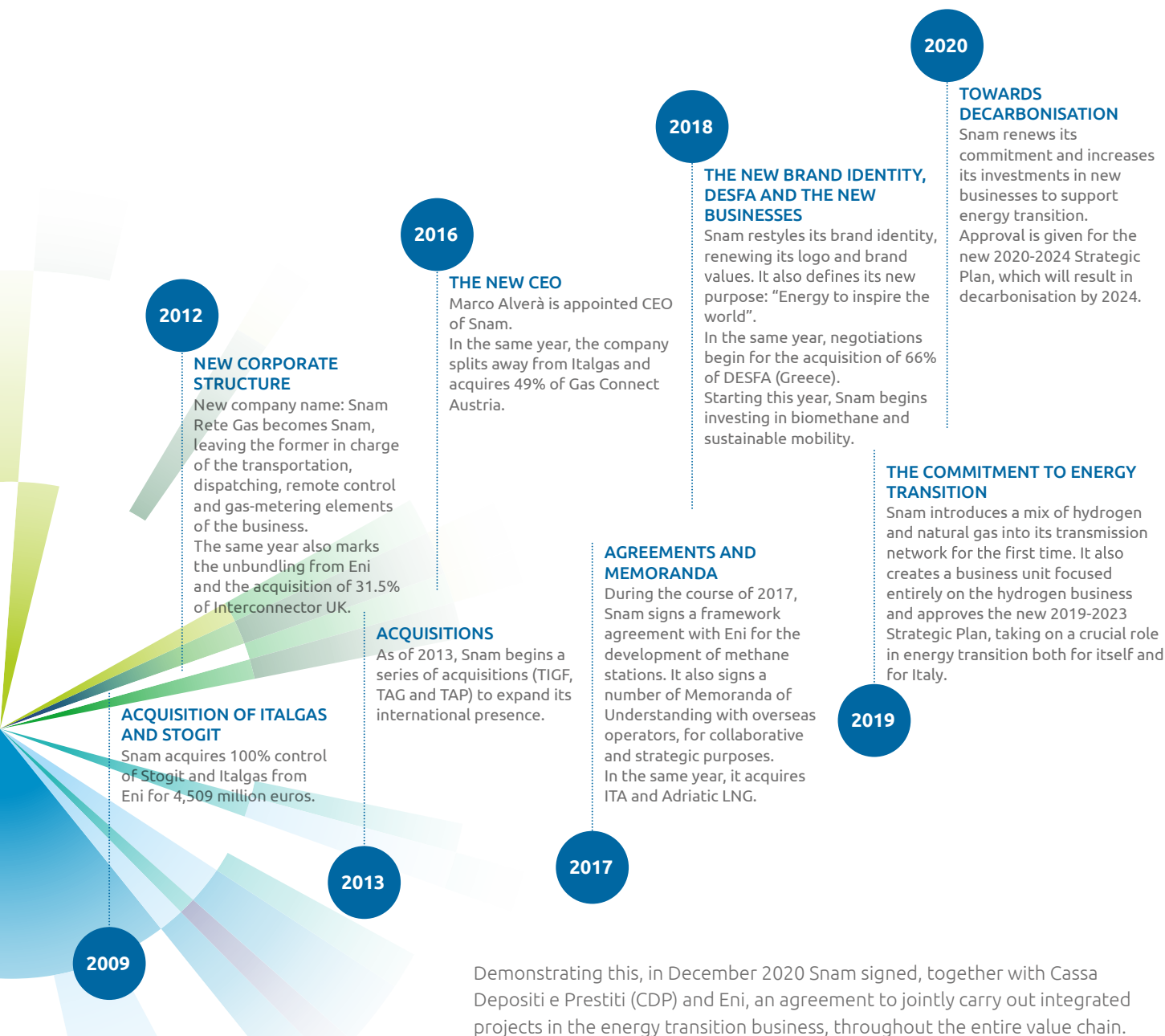
2020 was a year of opportunities and challenges for Snam, which the Group was able to take advantage of and face, strengthening the decarbonisation process.

### NEW BUSINESSES

During the year, Snam continued to develop and grow new businesses (biomethane, energy efficiency, sustainable mobility and hydrogen), with the aim of being a leader in the energy transition.






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Relative to **sustainable mobility** business, Snam continued to grow, supporting the introduction and development of CNG, LNG and SSLNG mobility in Italy. In particular, with regard to the **Panigaglia LNG terminal**, requests for authorisation to construct infrastructures used by LNG on load transportation tankers were submitted to the competent bodies and authorisation is currently underway for the construction of a **micro-liquefaction plant** in Campania, to allow loading of tankers for distribution of LNG and bio-LNG in Italy. Additionally, during the year Snam signed agreements and partnerships, continuing negotiations, and establishing contracts with over 25 counterparts, for a total of approximately **132 contractualised stations, of which 20 LNG**.



Again with reference to sustainable mobility, Snam is involved in the H2iseO project, together with FNM and Trenord, to create the first Italian "Hydrogen Valley", in Lombardy, in particular in Sebino and Valcamonica, with the objective of creating a fleet of hydrogen trains and associated infrastructure, starting in 2023.

For the **hydrogen** business, in 2020 Snam continued to develop hydrogen applications in the industrial sector for railway transportation, thanks to cooperative projects begun with Ferrovie dello Stato Italiane and Alstom, promoting its potential as a fundamental energy vector in the fight against climate change and in decarbonisation of "hard-to-abate" industries. The collaboration is intended to accomplish the **first conversions of railway sections from diesel to hydrogen**: the agreement already calls for the conversion of around 13 sections with a total length of approximately 700 km, with the installation of the first fuel cells with a capacity of 45 MW.

Additionally, in January 2020 the Group officially became part of **The Hydrogen Council**, a global coalition of leading energy sector, industrial and transportation companies committed to promoting the use of hydrogen to support the energy transition. With the intention of implementing new technological solutions for the energy transition based on green hydrogen<sup>1</sup> and the capture and reuse of CO<sub>2</sub>, Snam has developed multiple partnerships to acquire technical skills, improve its technological position and become more competitive. In this sense, in November Snam announced the acquisition of a significant minority stake in **De Nora**, which was finalised on 8 January 2021. In addition to being a global innovator in sustainable energies and technologies for water treatment and a global technological leader in alkaline electrodes, with significant knowledge in the electrochemical field, the Company also holds a 34% stake in **ThyssenKrupp Uhde Chlorine Engineers (TKUCE)**, a joint venture with ThyssenKrupp, a world leader in water electrolysis, involved in multiple major projects for green hydrogen production. Also, in November, Snam signed an agreement with **ITM Power** which, among other things, called for the acquisition of a 2.32% equity investment in the company, through participation in a capital increase successfully completed on the market.

In December, Snam announced its participation in a global coalition of seven companies. Through the **"Green Hydrogen Catapult"** initiative, they aim to develop 25 MW in green hydrogen production capacity by 2026, halving current production costs, bringing them to less than \$2/kg. This threshold is the turning point to make green hydrogen and its derivatives (such as green ammonia) the ideal energy resource for various sectors, from the manufacturing of steel to fertilisers, from electricity generation to long haul shipping, for which there is potential short-term demand in Europe and globally.

Finally, at the end of the year a project was implemented by Snam, Tenaris and Edison to experiment with the production of steel using green hydrogen, to contribute to decarbonisation of the iron/steel sector. The project calls for the use of green hydrogen in the Tenaris steel mill in Dalmine. The initiative could

<sup>1</sup> Green hydrogen means hydrogen obtained solely through energy produced by renewable sources, such as solar, wind or recycled energy. It is obtained through electrolysis, that is by separating the hydrogen and oxygen in water, through an electrical-powered machine called an electrolyzer.


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also include the creation of a storage site for high pressure hydrogen and the use of oxygen in the smelting process. All of these activities will help to significantly reduce CO<sub>2</sub> emissions associated with the production of steel.

With respect to **energy efficiency** business, in October 2020 Snam 4 Efficiency finalised the acquisition of 70% of Miecì S.p.A. and Evolve S.p.A., for a total of around 50 million euros, expanding its portfolio of clients who can be offered integrated efficiency and technological services. During 2020, Snam, through TEP, completed 54 deep renovation projects for condominiums, leading to a reduction of CO<sub>2</sub> emissions of around 1.7 kton/year, for a total reduction of over 2.3 kton/year, when also considering the projects implemented the previous year. In the industrial sector, 4 new plants were commissioned and 6 were acquired through the merger with TEA, for a total of 17 plants operated, also considering the 7 constructed in previous years, allowing for reductions in CO<sub>2</sub> emissions of around 2.2 kton/year.

For **biomethane** business, Snam, through its subsidiary **IES Biogas**, designed and built advanced biomethane production systems, starting from waste and by-products from the food and waste industries, in particular FORSU (organic portion of municipal waste). Additionally, with an eye to internalising the skills of sector leaders and strengthening its position in the biomethane value chain, Snam completed its acquisition of **Renewwaste S.r.l.**, involved in biogas and biomethane infrastructure and continued its projects with **Enersi Sicilia S.r.l.** to create a biomethane and compost production plant. It also acquired a 50% stake in **Iniziativa Biometano**, a company which manages biogas and biomethane systems powered by agricultural biomass.

## INTERNATIONALISATION

In 2020, Snam continued to pursue its internationalisation strategy, developing relationships in key countries for the expansion of its business.

In February, Snam and SOCAR, the state energy company of the **Republic of Azerbaijan**, signed a cooperation agreement to study development of **renewable gas** and **sustainable energy**, also in terms of prospects for future use in the Southern Energy Corridor<sup>2</sup> and, therefore, the Trans Adriatic Pipeline (TAP).

In July, Snam finalised one of the most important transactions in the sector at the global level. A consortium consisting of Snam, the sole state operator, and five international funds acquired, 49% of ADNOC Gas Pipelines, a company which holds for 20 years the management rights to 38 gas pipelines in the **United Arab Emirates**.

Additionally, in August Snam and Pipechina (China Oil and Gas Piping Network Corporation, a company recently established by the Chinese government to supervise the development and management of gas infrastructure in the country) signed a Memorandum of Understanding for strategic cooperation including technical support (for transportation infrastructure, regasification and

<sup>2</sup> The Southern Energy Corridor is a 3,500 km route that travels seven countries, transporting gas from the Caspian Sea to Italy.


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storage of natural gas) and research and development for the energy transition in China (including experiments in the hydrogen sector), as well as possibilities for joint investments. Also in China, the supply of technical services to the main government energy companies continued in 2020, mainly for storage business.

Finally, in November Snam signed a series of cooperation agreements for the energy transition in the **Indian market**, in particular for hydrogen and sustainable mobility, with Adani Gas Limited, Greenko and Indian Oil.

## SUSTAINABILITY AND CSR

In January 2020, Snam was added to the 325 companies around the world included on the **Gender-Equality Index (GEI) 2020** published by **Bloomberg**, demonstrating the Company's commitment to promoting and guaranteeing gender parity, which was also recognised in 2021 with its inclusion in the GEI 2021. In December 2020, the Group was promoted to the "Climate Change A List" (from the previous A-), published by CDP (formerly the Carbon Disclosure Project), for its actions aimed at reducing emissions, mitigating climate risks and developing a low carbon economy.

The importance the fight against climate change has for the Company is also demonstrated by 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<sub>2</sub> emissions, increase the use of renewables, and support energy efficiency and the development of green projects based on environmental criteria.

In February 2020, the first Climate Action Bond Report was published, which contains significant information for investors, including the framework used by Snam and the processes adopted to assess and select projects, as well as case studies of activities selected by Snam. These activities were followed by the highly successful issuing of three **Transition bonds**, which will be used for Eligible Projects, projects for the energy transition, for which the selection criteria is indicated in the Group's Transition Bond Framework, published in June. In February 2021, the second report on the Climate Action Bond was published, including analyses carried out on the Transition Bonds issued at that date.

Additionally, in September 2020, as a founding member of the **CFO Taskforce**, established as part of the Global Compact, Snam contributed to the publication of Guidelines for Finance and Investment linked to the SDGs, containing the first guidelines supported by the United Nations for investments and finance intended to guide companies in aligning their sustainability commitments with corporate finance strategies intended to create a significant impact on the SDGs.

Finally, with reference to the "sustainable loan", in 2020 Snam obtained the confirmation of a 2.5 basis point reduction in the cost of this loan for the second year in a row, due to achieving objectives linked to social and environmental sustainability parameters.

Among other activities linked to sustainable finance, Snam carried out an initial analysis on the alignment of its corporate investment plan with respect to



SDG criteria and the European Taxonomy, analysing the delegated acts draft published in November 2020 by the European Commission to classify economic assets able to support the achievement of European environmental and climate goals. At the date of this report, the delegated acts were approved by EU co-legislators and they were subsequently implemented in the second/third quarter of 2021.

In June 2020, **Cassa Depositi e Prestiti** and Snam announced the foundation of **Arbolia** a **benefit company established to develop reforestation and CO<sub>2</sub> absorption projects** in Italian cities, to be carried out in part with the involvement of companies and private citizens who want to contribute to protecting the environment. The benefit company's goal is to plant 3 million new trees by 2030, to absorb around 200 thousand tonnes of CO<sub>2</sub>.

## THE NEW STRATEGIC PLAN

On 25 November 2020, Snam presented its **new 2020-2024 Strategic Plan, "Towards Net Zero"**. The new strategy is intended to strengthen Snam's core business, continue the Group's international expansion, and focus on innovation and new business for the energy transition, which will allow Snam to achieve carbon neutrality by 2040.

The new Plan establishes ambitious objectives: Snam intends to reduce Scope 1 and Scope 2 greenhouse gas emissions by 50% by 2030 compared to 2018 figures and reduce methane emissions by 45% by 2025 compared to 2015, in line with the United Nations Environmental Program (UNEP) framework. To achieve these objectives, the Group has planned investments totalling 7.4 billion.

The new Strategic Plan also saw the creation of the ESG Scorecard, a tool designed to ensure greater disclosure of the main environmental, social and governance aspects, while evaluating the Group's performance relative to certain targets established for coming years, confirming the fact that Snam fully integrates social, environmental and governance issues into its business decisions.

## THE COVID-19 PANDEMIC

Snam and Fondazione Snam implemented a number of projects to deal with the Covid-19 pandemic.

Starting in February 2020, at the beginning of the health emergency in Italy, Snam immediately created an **ad hoc team to manage the situation**, which maintained constant contact with Civil Protection, to guarantee the health and safety of its own personnel and continuity of its essential energy security services for the country. Additionally, the Group immediately activated smart working to limit the risks of direct contact in offices.

The company worked quickly to protect its people; to that end a health insurance policy was established for all employees relative to contagion risks and over 3,200 pulse oximeters were distributed, monitoring and prevention tools that make it possible to measure the blood oxygen levels and heartbeat,


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accompanied by professional medical assistance when necessary. Snam also offered preventive blood screening to all personnel, with access to a swab test if needed to ascertain a positive diagnosis. A number of internal initiatives were also begun to strengthen connections between people, from webinars to video messages from the CEO, as well as additional services to support remote working (delivery of smart-working kits, consisting of a monitor and a wireless keyboard and mouse) and well-being and life balance, including baby-sitting vouchers, online edutainment and study support services.

In addition to the main objective of supporting the organisation during a historic, complex and delicate situation, several important transformation and change projects were successfully completed, including digitalisation of processes and training where the internal corporate university, Snam Institute, was able to continue with training in a digital format, and despite the closure of offices during the first half of 2020 25,000 hours of training were provided, through 200 courses, involving approximately 2,500 employees.

Moving on to look at the assistance Snam offered the health and social systems, in March 2020, in cooperation with Fondazione Snam, the Group allocated **20 million euros for initiatives to support the Italian health system and non-profit sector** to deal with the emergency. In particular, Snam invested in PPE and medical material (ventilators and masks), donated to support immediate medical needs. Some of these resources were also directed to the non-profit sector, cooperating with around 150 partners including institutions, third sector entities, research organisations and schools, to support the most vulnerable sections of the population, including the elderly, young people and children, victims of domestic violence, homeless people, individuals with disabilities and people affected by non-Covid diseases. Through this assistance, which ranged throughout Italy, Snam reached more than 700,000 people.

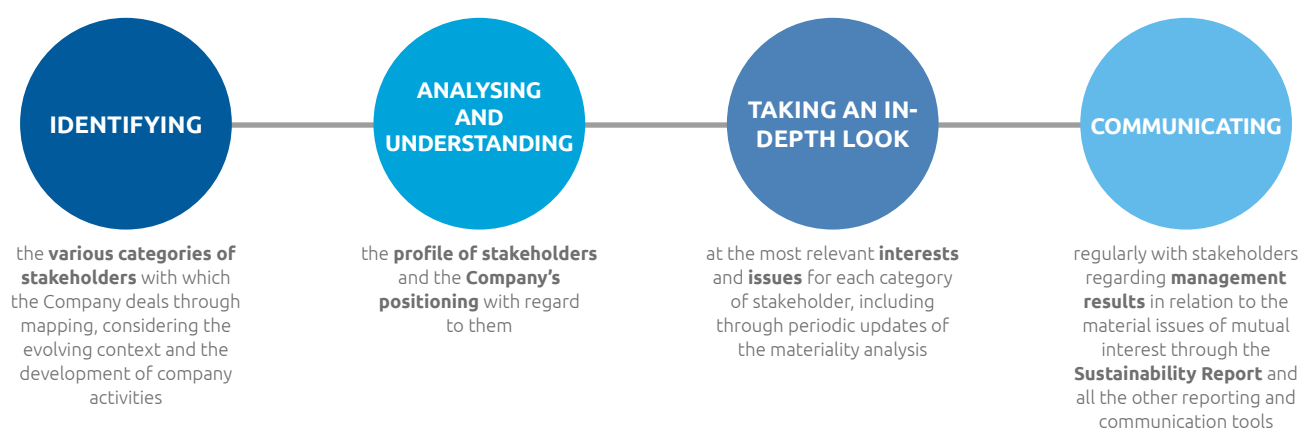
At the same time, Snam began a charity drive through Group employees, called "Diamo forma al futuro" (Let's shape the future), through a payroll giving initiative that offered the possibility of contributing through a voluntary donation. The initiative allowed Snam executives, starting with the CEO and top management, could decrease their gross remuneration from May through December 2020, to allow the company to activate charity initiatives. Additionally, all employees could contribute on a voluntary basis through cash donations or by donating one or more work hours through their individual paystub. The amounts collected were then matched by the company and transferred to entities involved in the health emergency. The campaign saw the participation of more than 1,200 employees who made a very significant impact.


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## NFS STAKEHOLDERS RELATIONS

The importance of building a transparent and cooperative relationship with all stakeholders in a situation of transformation was particularly clear during the past year, above all during a time in which the necessary measures to fight the pandemic and the requirement of maintaining interpersonal distance had heavy affects on work movements and encounters between people. Thanks to the Group's commitment and the reorganisation of its initiatives, Snam continued stakeholder engagement activities with an eye to listening to and including all, creating a continuous and transparent dialogue, increasing reciprocal trust to better serve the Group's decision-making processes.

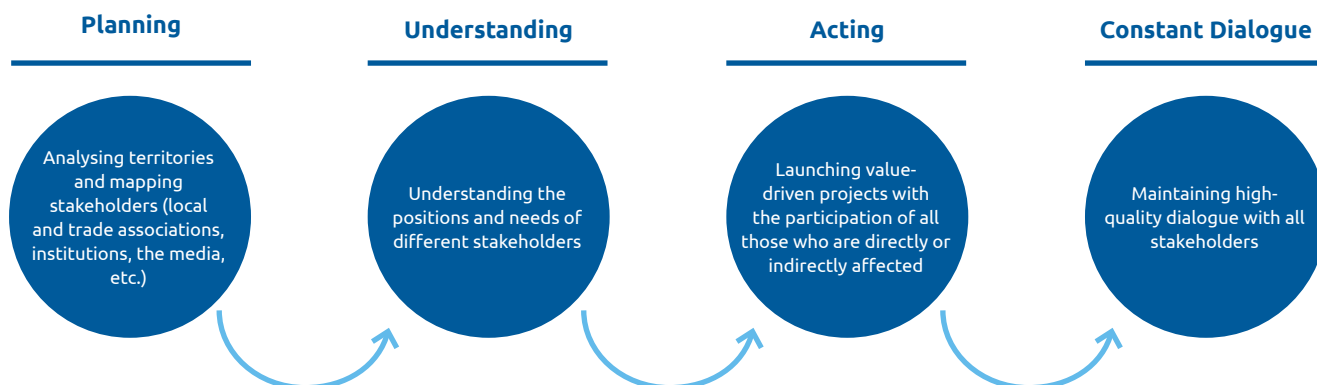
Stakeholder dialogue initiatives include all company structures, relative to their individual tasks, roles, and responsibilities. In order to guarantee a homogeneous approach to these dialogues, since 2016 the Group has followed a **Stakeholder Involvement Policy** which defines Snam's approach to this issue and establishes **four fundamental objectives**:





## STAKEHOLDER ENGAGEMENT PROCESSES AND ACTIVITIES

The stakeholder engagement process is based on **constant and proactive communication between Snam and its stakeholders** with the goal of supporting continuous and reciprocal growth.



Engagement activities focussed in particular on energy transition and new business issues, as well as the Covid-19 pandemic, with the aim of sharing guidelines, objectives and activities, as well as understanding stakeholder needs throughout the value chain. In the face of social distancing, the Company implemented solutions and alternative tools for dialogue, for example increasing its commitment to the organisation of online events.




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## Stakeholder category

### STAKEHOLDER ENGAGEMENT 2020



#### EMPLOYEES

##### Intranet Easy

Easy, the Group's intranet, is a "digital workplace" that provides information and serves as a tool to increase awareness for employees. The portal was updated thanks to the Agile re-design project and was released in July 2020: during the emergency, **Easy became a meeting place for all of Snam's people**, allowing them to exchange thoughts, receive useful information and stay constantly up to date.

##### Webinars

Webinars are tools used by Snam to provide **training and offer information**, during which employees can interact with each other. Of those with the highest attendance, worthy of special note were the medical/scientific webinar with Professor Burioni to support responsible pandemic prevention and containment actions and that held by the CEO to present the Strategic Plan.

##### Workshops

Workshops are tools that make it possible to bring working groups together to discuss specific issues in an interactive manner. For example, using this tool Snam worked with employees to assess sustainability issues significant to the Group, with the goal of updating the materiality matrix.

##### Videomessages

Videomessages **update employees** about Group initiatives and decisions, providing useful information on daily operations and **raising awareness about relevant issues**. Snam sent seven videomessages to provide updates and information about the pandemic recorded by the CEO and another message recorded by Giovanni Albano, a Humanitas doctor working in Covid-19 departments.

##### Meetings with Unions

Communication with national and local unions is constant: during the year 155 remote meetings were carried out to analyse business evolution projects, define productivity and profitability indicators for the 2020 profit-sharing premium and to establish smartworking methods that guarantee **protection of worker's rights**.

##### Other initiatives

Every year Snam organises numerous initiatives to increase employee involvement. This year these activities were fundamental in strengthening a sense of community and closeness.

- **#Distantimauniti (Separate but united)**: an internal engagement initiative carried out to strengthen listening and involvement activities during the pandemic.
- **"Diamo forma al futuro" (Let's shape the future)**: supported the design and promotion of the charity drive, in cooperation with Fondazione Snam.
- **Support initiatives for colleagues and families**: Covid-19 insurance policy, healthcare assistance services, blood/swab test campaigns, smart-working support (smart kit, data SIM cards and tethering service), Covid-response welfare offering packages.
- **Snamwood**: a reforestation and environmental project, intended to plant over 3,300 trees, dedicated to all Snam employees, in cooperation with Arbolia. An online contest allowed those participating to vote on the name of the forest to be created.



#### SUPPLIERS

##### Suppliers Portal

Active since 2013, this contains Snam's procurement policy and provides an additional **contribution to the transparency, traceability and completeness of the information provided to current and potential suppliers**. As of 31 December 2020, 2,275 suppliers were registered, with very active participation.

##### Questionnaires and workshops

Suppliers are constantly involved and kept up to date about Snam's strategies and projects through questionnaires and online workshops. In particular, the central themes of 2020 were **climate change and awareness of ESG issues**.


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## Stakeholder category

## STAKEHOLDER ENGAGEMENT 2020

 <b>CLIENTS</b>	<b>Workshops</b>	Client workshops represent an opportunity to meet and exchange opinions to learn more about <b>relevant market issues</b> , as well as to discuss innovations and operating trends for balancing and transportation, storage, and regasification. The year ended with three <b>commercial workshops</b> on the issues of transportation, balancing, storage and regasification and on Ten Year Plans, with four <b>co-design workshops for the Jarvis project</b> to ensure the design is in line with client expectations and a workshop on <b>evaluating sustainability issues</b> .
	<b>Other initiatives</b>	<b>Customer satisfaction surveys</b> sent to shippers and traders and extended to Snam's core business activities (83.6% participation rate for 2020, with an average satisfaction score of 8.6 out of 10).
 <b>BUSINESS PARTNERS</b>	<b>Partnerships, collaborations and agreements</b>	Snam works in close contact with its business partners, with which it establishes <b>partnerships, agreements and Memorandums of Understanding</b> of strategic importance for developing business. The main agreements signed during the year were related to the creation of infrastructure, research, and feasibility studies in the context of new business for the energy transition.
 <b>INVESTORS AND FINANCIERS</b>	<b>Roadshow</b>	Snam <b>continued to promote dialogue with shareholders and institutional investors thanks to 10 roadshows</b> held virtually in the largest European and North American financial centres, making it possible to meet 345 investors (of which 140 ESG), an increase of 18% with respect to the previous year.
	<b>Sector conferences</b>	Snam participated in <b>15 sector conferences aimed at investors specialising in the utilities and infrastructure sector</b> in order to create an opportunities for meetings and communications between these investors and Snam top management.
 <b>COMMUNITIES, LOCAL AREAS AND ASSOCIATIONS</b>	<b>School involvement</b>	Involvement with schools mainly occurs through ad hoc projects, such as: <ul style="list-style-type: none"> <li>▪ <b>Young Energy</b>, a project aimed at fostering student orientation and bringing them closer to the world of work through initiatives focused on corporate business.</li> <li>▪ <b>With the School</b>, a project established by Snam in cooperation with LUISS Business School and the Elis Consortium, intended to strengthen the link between schools and business, contributing to the renewal and evolution of the school as an organisation.</li> </ul>
	<b>Local community involvement</b>	Snam, also through Fondazione Snam, is committed to involving local communities through initiatives in certain priority sectors such as environmental protection, educational poverty and gender equality. Involvement of local communities also occurs through <b>employee engagement</b> , in which Snam employees dedicate their own time to Foundation activities that support local communities.
 <b>INSTITUTIONS</b>	<b>Meetings with local, regional and national institutions</b>	Snam believes it is fundamental to maintain constant relations with national, regional and local administrations to ensure required information is provided about company activities, support the acceptability of local plants and to present requests to obtain the authorisations needed to build new infrastructure. In 2020, <b>50 meetings with mayors</b> were held in municipalities involved in Group activities, as well as <b>2 meetings with local agricultural associations</b> .
 <b>AUTHORITIES</b>	<b>Meetings and task forces</b>	Snam maintains its relationship with Autorità di Regolazione per Energia Reti e Ambiente ( <b>ARERA</b> ), organising meetings and task forces, responding to consultation documents and proposals, collecting data and carrying out continuous monitoring of its actions with respect to directives issued by the Authority.


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## Stakeholder category

### STAKEHOLDER ENGAGEMENT 2020



MEDIA

#### Digital engagement

In recent years, Snam has strengthened its digital engagement by offering all stakeholders digital communication which is transparent, timely and accurate. This allowed the Group to be **included**, with a score of 91.4 out of 100, in the **Webranking awards**, a classification issued by Lundquist, in cooperation with the Swedish company Comprend.

#### Other communication initiatives

Snam has adopted an integrated communication style, using both traditional and digital channels, with modern language able to emphasise its commitment to sustainability. Among its other communication initiatives, Snam has created:

- **Snamcast – Talks to inspire the world:** an eight episode podcast that speaks to sustainability-related issues, including new energy sources, energy efficiency and savings, the circular economy and many other ideas to create a new future.
- **Snam Talks:** a six-episode video series, which presents projects and ideas for a more sustainable future through the stories of men and women coming from various paths, cultures, and professions.
- **Influencer marketing campaign** with the “Il Milanese imbruttito”, to disseminate information about the advantages offered by natural gas-based mobility.



OTHER OPERATORS

#### Sector associations

Snam works in close contact with other sector operators, above all to create an integrated European network and continue development of market-oriented services. In Europe, Snam actively participates in **task and research groups** on the role of gas in the future energy mix and on how new renewable energy vectors can help support the energy transition process. In this sense, Snam is part of the following associations, among others:

- **EU Clean Hydrogen Alliance**, an alliance begun at the European level to achieve the objectives of the Green Deal, eliminating net CO<sub>2</sub> emissions by 2050, also thanks to the support of hydrogen.
- **Oil and Gas Methane Partnership (OGMP) 2.0**, organised by the United Nations Environment Programme (UNEP).
- **CEO Action Group**, joint declaration by the World Economic Forum to support the Green Deal as a growth strategy for Europe, with an eye to post Covid-19 recovery on the path to net-zero emissions, based on circularity, renewable energy and low carbon industry.
- **Sustainability Alliance**, an ecosystem project, in cooperation with growITup (an Open Innovation platform created by Cariplo Factory in partnership with Microsoft Italia), to promote sustainable growth in Italy through digital tools.
- **European Gas Research Group (GERG)**, a European research group that develops research and innovation projects for European natural gas transporters. In 2020, Snam participated in the project to identify and measure natural gas emissions linked the gas transportation system.
- **European Pipeline Research Group (EPRG)**, a research association focussing on issues relative to pipelines, made up of the main gas transportation companies and pipeline producers in Europe. Through EPRG, in 2020 Snam studied the behaviour of steel used in existing gas pipelines after injection of hydrogen.

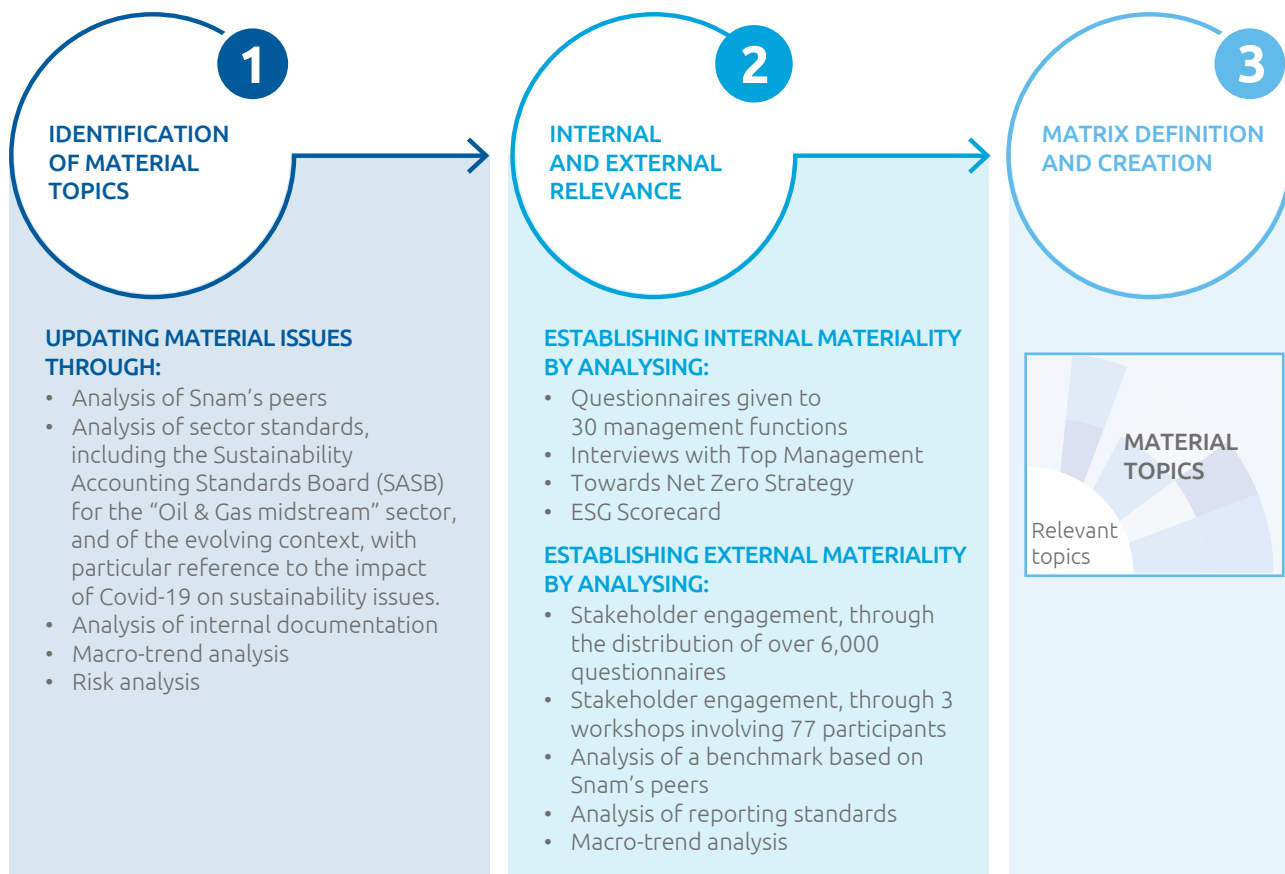


## NFS MATERIAL TOPICS IN RELATION TO THE ACTIVITIES CARRIED OUT

Through stakeholder engagement activities carried out through the year, the Group updated its materiality analysis to identify relevant sustainability issues that offer a significant indication of the organisation's economic, environmental and social impacts, or which influence stakeholder decisions.

This analysis, which is done annually, included consideration of the areas established under Italian Legislative Decree 254/2016 and the main aspects which characterise the sector in which Snam works, to the extent needed to ensure a full understanding of the Company's activities, its performance, results and the impacts generated.

The process to update material topics included the following activities:

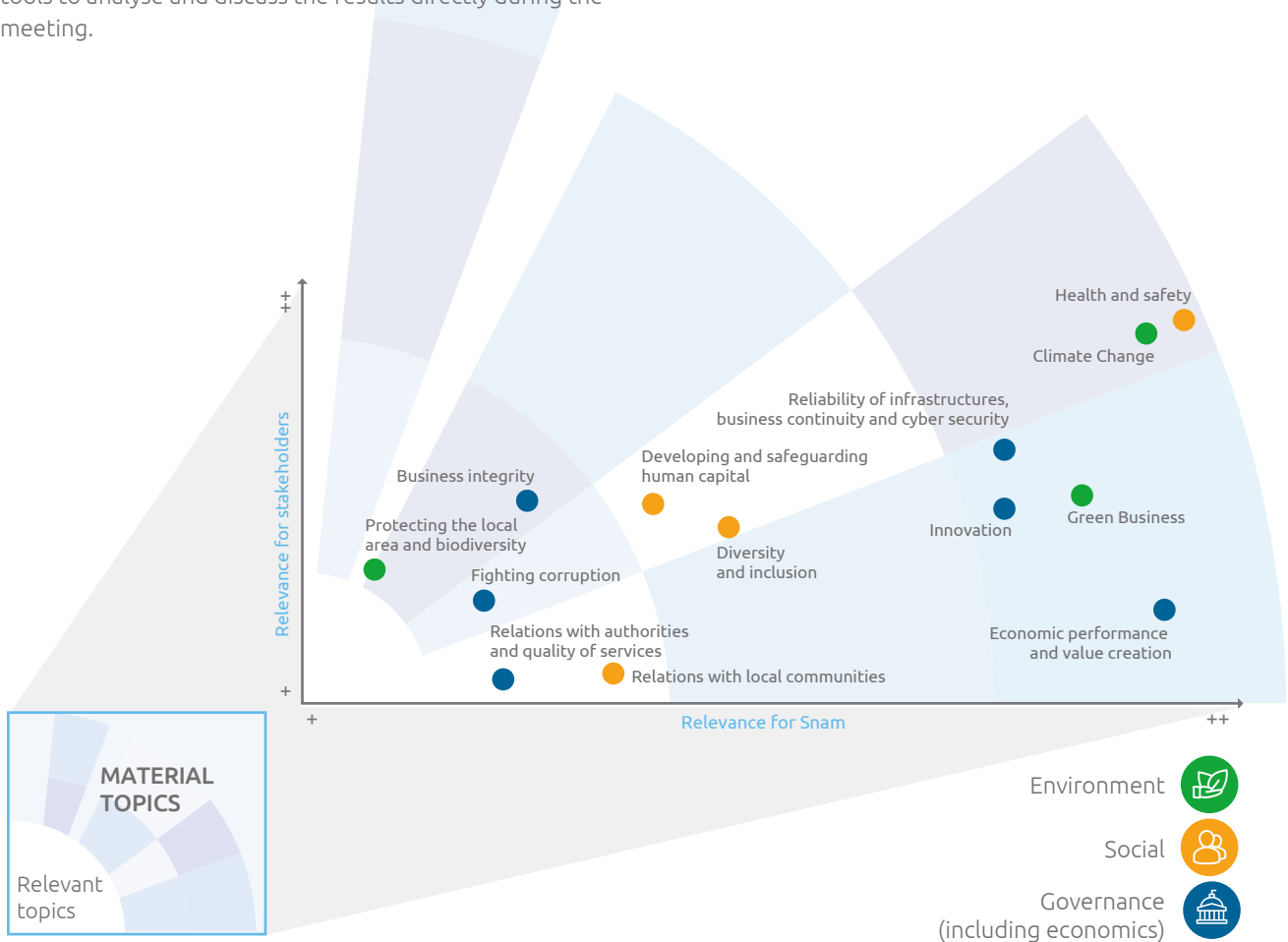



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To assess the external relevance of issues, over 6,000 stakeholders were reached through specific questionnaires (including employees), with an overall response rate of around 32%. Additionally, three insight workshops were carried out with the involvement of 77 people, including suppliers, clients, and employees. The 2020-2024 Strategic Plan was presented during these meetings, with special attention paid to sustainability issues, introduced together with all the issues to be evaluated with regards to the materiality analysis. Participants were then able to evaluate these issues in real time through the use of an interactive tools to analyse and discuss the results directly during the meeting.

To assess internal materiality, Snam managers were involved so as to obtain a holistic and shared view of the Company's priorities.

The result of this process led to the identification of material sustainability issues and definition of the materiality matrix. This materiality matrix was then validated by management and the Company's Chief Executive Officer, and then presented to the Environmental, Social and Governance (ESG) Committee and the Board of Directors.











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ISSUES	DEFINITION	SDGs
<b>Health and safety</b> 	Adopting practices and systems to safeguard the health and safety of employees and third parties involved in company activities (e.g. suppliers), including in relation to the pandemic.	 
<b>Climate Change</b> 	Promoting strategies for the control of climate change, in order to reduce greenhouse gases and environmental impact. Developing initiatives to improve energy efficiency in the Group's plants and sites, promoting a more sustainable way of doing business by using and producing energy from renewable sources.	 
<b>Reliability of infrastructures, business continuity and cyber security</b> 	Ensuring the reliability of infrastructures and services in order to prevent and/or mitigate potential situations that could compromise the business continuity (e.g. emergencies, pandemic-related issues). Managing computer security, particularly in relation to potential cyber attacks, and in the light of the ever-increasing use of IT tools (which has further accelerated in the wake of the Covid-19 pandemic).	
<b>Green business</b> 	Promoting a low-carbon, circular economy by integrating operations with new businesses that support the decarbonisation processes, such as biomethane, hydrogen, the use of gas for sustainable mobility (CNG, LNG), and new technologies capable of incorporating renewable energy from the environment.	 
<b>Business Integrity</b> 	Conducting activities with integrity and fairness, in accordance with legal standards, regulations, prescriptions and company policies which add to and improve on the former. Ensuring a responsible approach to fiscal strategy and guaranteeing the efficiency of corporate governance, with a particular focus on the issues of remuneration and balanced participation in the main corporate governance bodies.	
<b>Developing and safeguarding human capital</b> 	<p>Encouraging professional development and policies for attracting and retaining talent, strengthening the technical, managerial and organisational skills of employees.</p> <p>Embracing new technologies for the purposes of recruiting personnel, ongoing training and employee development.</p> <p>Promoting a work/life balance for personnel through welfare initiatives (e.g. smart working), including in relation to the pandemic and with a particular focus on the most vulnerable individuals.</p>	




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ISSUES	DEFINITION	SDGs
<b>Economic performance and value creation</b>  	Promoting the creation of shared value in the medium-/long-term for all categories of stakeholders, through operational and financial efficiency and committing to the development of business activities capable of generating value for all stakeholders.	8
<b>Innovation</b>  	Searching for new technologies with the aim of increasing efficiency in conducting business and reducing environmental impact, including from a circular economy perspective. Making the most of technological innovation (e.g. the cloud, AI, etc.) to increase efficiency in operations and in the services offered, to digitalise and optimise the monitoring and management of infrastructures, and to easily integrate new Green business opportunities.	9
<b>Relations with authorities and quality of services</b>  	Guaranteeing customers a safe and reliable service over time, in accordance with the principles of competition, equal treatment and access to infrastructures, and promoting constructive, transparent relations with the regulatory authorities and with institutions in order to develop services which satisfy customers while at the same time considering the needs and demands of the market.	16
<b>Diversity and inclusion</b>  	Promoting and guaranteeing equal opportunities for all employees, valuing and protecting diversity (in terms of race, religion, culture, gender, sexual orientation and age), and promoting initiatives for dialogue and collaboration in order to grasp the opportunities offered by different experiences, expertise, abilities and backgrounds.	5 10
<b>Relations with local communities</b>  	Involving local communities in order to develop projects that can effectively meet the expectations of stakeholders, and supporting local communities during times of crisis and economic/health-related uncertainty, also in order to strengthen the licence to operate.	8 11
<b>Fighting corruption</b>  	Adopting preventive arrangements and targeted policies, in addition to promoting partnerships dedicated to fighting corruption and crime in general, and fostering a culture of legality.	16
<b>Protecting local areas and biodiversity</b>  	Safeguarding the landscapes of the territories where Group plants or facilities are located and safeguarding the environment both during commissioning and ordinary management, including policies to protect the soil, subsoil and water table during operations.	14 15





Because of the pandemic, the issue of **health and safety** was again confirmed as a priority for the Group, as was **climate change**, which saw an increase with respect to 2019, confirming its commitment to decarbonisation. Additionally, **relations with authorities and quality of services** saw its position rise higher, becoming one of the material topics.

On the other hand, in contrast to 2019, the issue of **brand reputation** was not included among material topics, despite its continuing relevance, thanks to the significant brand building work done in past years that clearly strengthened the Group's approach to this issue.

The analyses described above also made it possible to identify further issues which, although not material, are, however, relevant for Snam or its stakeholders and are carefully supervised and monitored:

- **Supply chain:** the use of selection policies for suppliers, collaborators and commercial partners based on equitable and transparent processes that integrated sustainability criteria intended to promote socially responsible practices among suppliers, with the aim of establishing long-term cooperative relationships and developing innovative approaches in the context of the circular economy.
- **Waste management:** efficient management of the disposal of materials used during productive activities and when constructing Group infrastructure. The waste produced by Snam mainly derives from the maintenance and management of plants but has always been an environmental aspect of limited relevance, both in terms of the quantity and type of waste. Other waste derives from sludge, typically generated through well drilling activity.
- **Water resource management:** optimisation of the consumption and management of water resources involved in Snam activities and the adoption of policies and practices which support responsible water use. Snam uses seawater to cool the auxiliary equipment at the liquefied natural gas regasification plant, which is fully returned to the sea in the same amount but at a higher temperature (in accordance with the law). Fresh water is used for irrigation, when taken from wells, and for office and the fire extinguishing system, when taken from the aqueduct.
- **Employment:** the promotion of stable and continuous employment, guaranteeing a healthy workplace and generational turnover in line with business

development, as well as a welfare system and effective work/life balance.

- **Brand reputation:** taking advantage of and protecting the brand through constant relations with all relevant Group stakeholders, in particular the financial community and investors.
- **Respect for human rights:** promoting respect for human rights throughout the value chain (suppliers, employees, clients). Given the type and geographical placement of its business, Snam considers protection of human rights to be linked in particular to aspects of diversity and equal opportunity, in this context in particular relative to non-discrimination. Further issues may potentially arise along the supply chain, for which specific initiatives have been implemented to ensure the upholding of human rights in business relations.
- **Air quality protection:** promotion of initiatives to reduce and limit the emission of air pollutants. The only significant pollutant emissions produced by Snam are emissions of nitrogen oxide (NOx), which mainly derive from the burning of natural gas in turbines installed in the compression plants (thrust and storage).





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TOWARDS NET ZERO

HEALTH

INSTRUCTION

PARTNERS

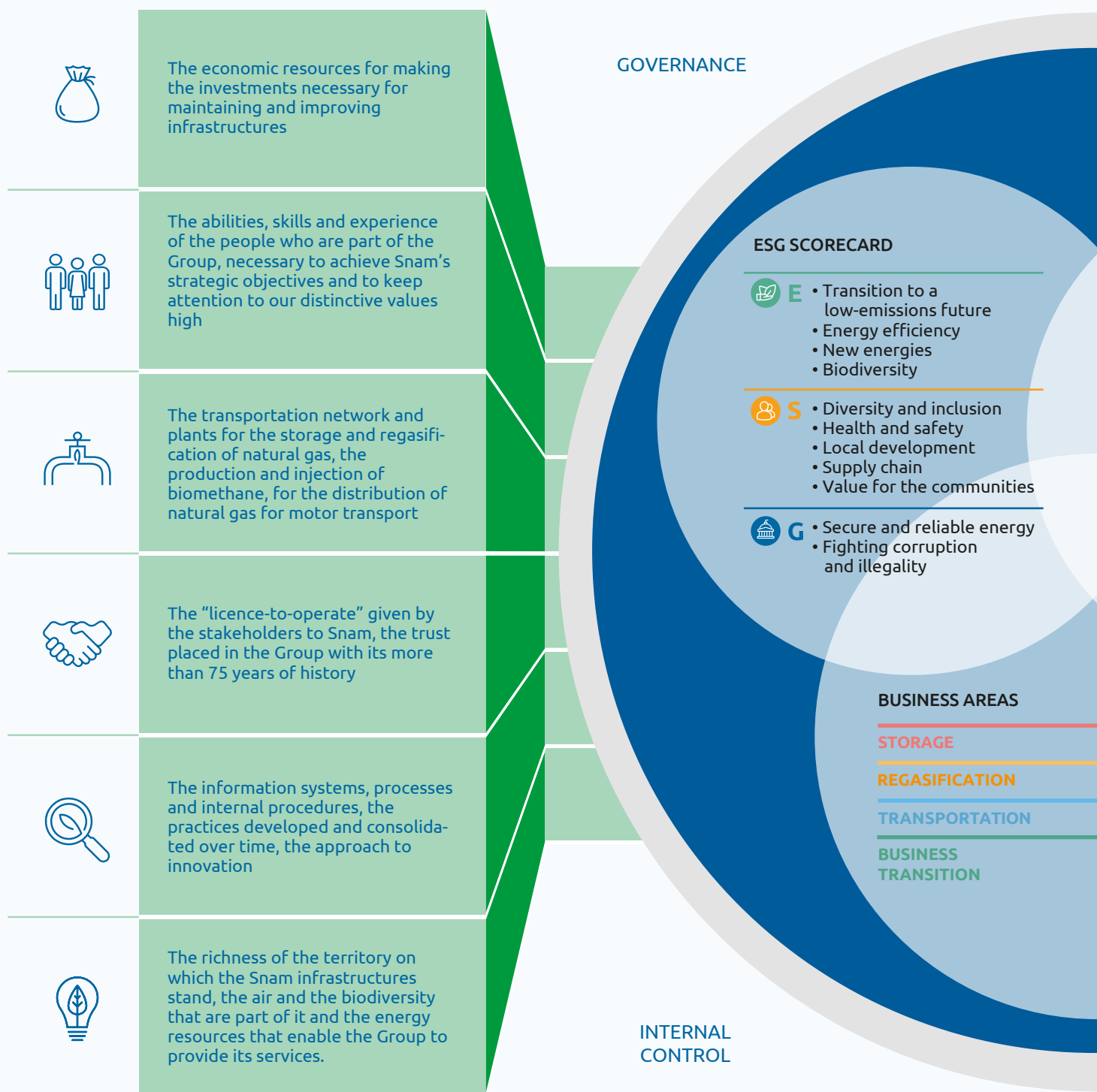
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## **SUSTAINABLE VALUE CREATION: THE SNAM BUSINESS MODEL**

Snam's business model is based on sustainable growth, transparency, the enhancement of talent and diversity, and the protection and social development of local areas, also through the work of Fondazione Snam.

The Group bases its business model on its values, integrating new commitments relative to the energy transition with its traditional core business. This model pursues sustainable success through the creation of long-term value to benefit shareholders, while simultaneously considering the interests of other relevant stakeholders. The business plan and ESG coexist and are interconnected, with the goal of providing a concrete contribution to the achievement of the United Nations Sustainable Development Goals.

The repositioning of the company in recent years and the projects called for in the new plan create the conditions for the Group to take advantage of the opportunities provided by the energy transition, in part thanks to the skills acquired by Snam personnel and the increasing digitalisation of processes.


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**WE CONNECT TO  
BUILD OPPORTUNITIES**

**WE PROMOTE  
SAFETY**

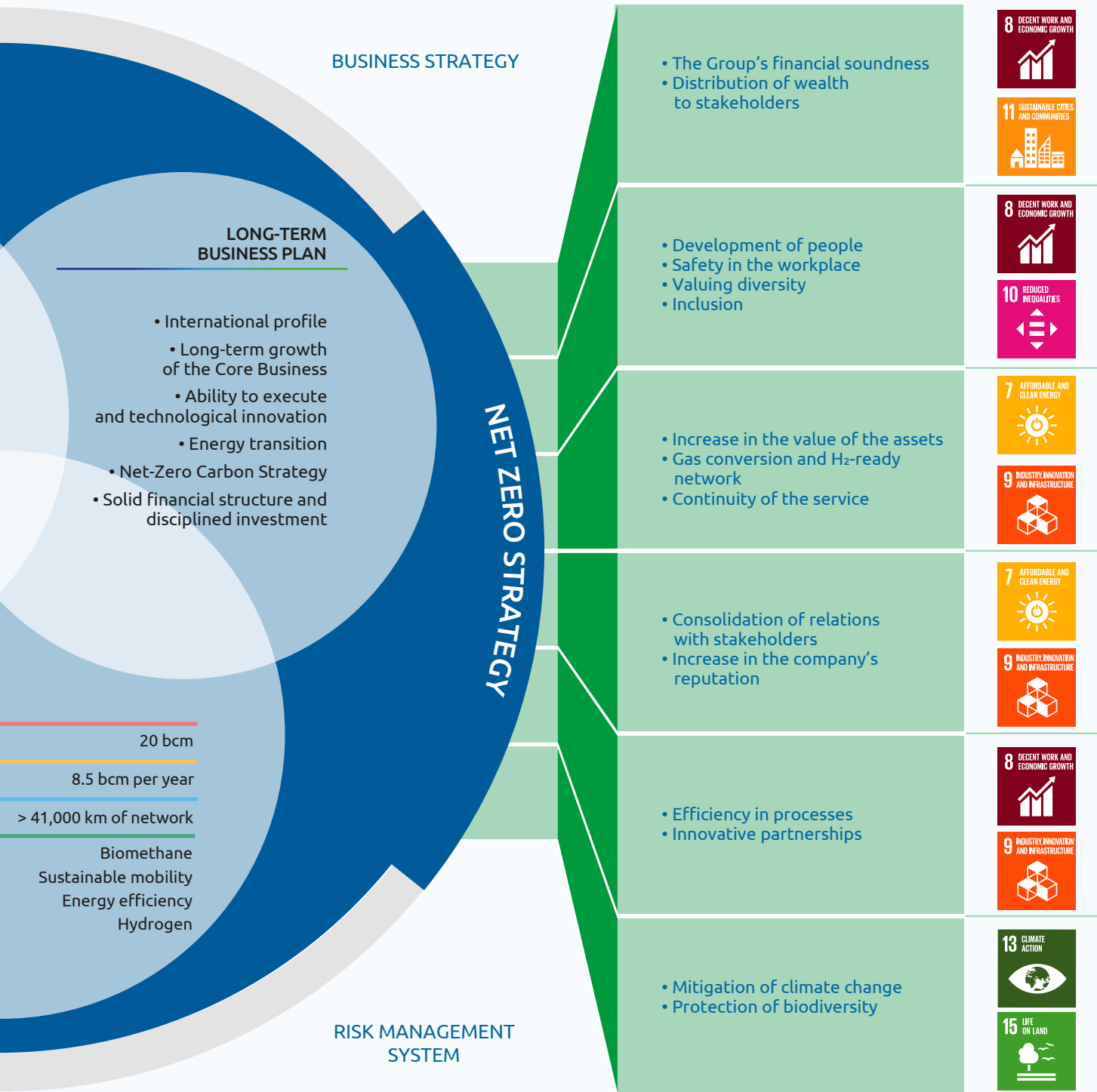


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WE SUPPORT A  
CHANGING WORLD

WE GIVE SHAPE  
TO THE FUTURE



NFS

TCFD

## 2020-2024 STRATEGIC PLAN

In November 2020 Snam issued its new strategy, Towards Net Zero, which covers the time-period from 2020-2024. Towards Net Zero combines two hearts: **climate strategy and the evolution of its business**, summarised in **six main pillars**, which are illustrated in the subsequent sections. On one hand, Snam plans to reduce its Scope 1 and Scope 2 greenhouse gas emissions, while strengthening cooperation with suppliers and associated companies to reduce Scope 3 emissions and, on the other hand, intends to position itself as a facilitator of a low-carbon economy both domestically and internationally, thanks to its strong core business and new energy transition business.

The objectives established by Snam in its new Strategic Plan represent ambitious challenges and include concrete short, medium and long-term actions that will contribute to achieving **carbon neutrality by 2040**.

The new Plan calls for investments of **7.4 billion euros by 2024**, around 1 billion euros more than the previous Plan, allocated to the various projects, in particular those intended to ensure adjustment of infrastructure to ensure it is hydrogen ready (50% of investments) and those for new energy transition business, for which investments have doubled. In addition to contributing to decarbonisation and energy transition goals, **around 40% of investments comply with the European Commission Taxonomy criteria**, which are close to being finalised.

### The six pillars of Towards Net Zero

#### Net-Zero Carbon by 2040 and ESG leader



- Scope 1 and Scope 2 GHG emissions reduction plan
- Collaboration with suppliers and associates to achieve a gradual and significant reduction in their emissions
- New ESG Scorecard

#### Long-term growth of the Core Business



- Upgrade of the network with a view to being Hydrogen ready and to inputs of growing percentages of hydrogen
- Conversion of compression stations to dual fuel to facilitate balancing of the network

#### Ability to execute and technological innovation



- Construction of the most technologically advanced gas transportation company in the world
- Acquisition of technological advantage in relation to H<sub>2</sub> and H<sub>2</sub>O
- Taking advantage of core skills in similar sectors

#### Energy transition



- Internalisation of skills and abilities
- Role of leader in growing markets
- Strengthening of core business assets

#### International profile



- Asset portfolio increasingly geographically diversified
- Asset-light approach to enter countries with high potential
- Monetisation of our skills through Snam Global Solutions

#### Solid financial structure and disciplined investments



- Maintenance of the current credit parameters
- Stable growth of revenue
- Consistency with the ESG strategy



## NET ZERO CARBON IN 2040 AND ESG LEADER

The ultimate objective of the climate strategy included in the new Strategic Plan is to achieve carbon neutrality by 2040, working above all to reduce Scope 1<sup>3</sup> and Scope 2<sup>4</sup> emissions. Secondly, the strategy calls for establishing cooperative programmes with associated companies and suppliers to take action on Scope 3<sup>5</sup> emissions as well. Further, with the aim of furthering integrating environmental, social and governance issues, Snam has reorganised the sustainability KPIs monitored with an ESG Scorecard.

For more information, please see the dedicated sections on “Net Zero Carbon” and “ESG Scorecard” in this chapter.



## LONG-TERM GROWTH OF THE CORE BUSINESS

Activities called for under the Long-term growth of the core business are mainly intended to improve the Group's core business, taking into account the fundamental role that Snam infrastructure will play in decarbonisation. These projects aim to achieve:

- **infrastructure** that is increasingly **Hydrogen-ready** (H-ready);
- conversion of **power plants to dual fuel**;
- **long-term sustainable growth**.

The Company already benefits from **infrastructure that is 70% hydrogen ready** and intends to continue projects to prepare the network to accept ever increasing percentages of hydrogen. This activity is of fundamental importance for decarbonisation objectives, given that, based on the prospects for green gas development, hydrogen could potentially reach over 25% of the global energy mix by 2050. Additionally, during 2020 specific standards were defined to acquire only H-ready components for the network. Finally, the installation of the first **hybrid turbine able to operate with 10% hydrogen volume** is planned for 2021 in the Istrana power plant (prov. Treviso).

Snam also intends to begin **conversion of compression facilities to dual fuel**, accompanying gas turbochargers with electrocompressors, which will contribute not only to reducing greenhouse gas emissions but also support sector coupling<sup>6</sup>.

To maintain and support long-term sustainable growth, activities for the **gas conversion of Sardinia** will continue, a project already begun which calls for the creation of a virtual pipeline and the first sections of the network, as well as **maintenance and development of regulated business assets** (transportation,

<sup>3</sup> Scope 1 emissions are direct GHG emissions, including carbon dioxide (CO<sub>2</sub>) and methane (CH<sub>4</sub>) and refer to emissions caused by controlled operations or those held by the Company.

<sup>4</sup> Scope 2 emissions are indirect GHG emissions deriving from electricity, heat and steam imported and consumed by the Company.

<sup>5</sup> All indirect emissions (not included under Scope 2) that derive from the Company's value chain, including upstream and downstream emissions.

<sup>6</sup> The European Commission sees sector coupling as a strategy offering greater flexibility to the energy system, to help achieve decarbonisation in the most economical manner possible (DG ENER (2018) Request for services no. ENER/B2/2018-260 - Potentials of sector coupling for the EU natural gas sector - Assessing regulatory barriers.)



storage, regasification), and increasing storage capacity, while replacing around 1,200 km of the transportation network, and **investments to support carbon neutrality**, in particular by creating 245 CNG system connections, plus 50 for biomethane plants and another 100 connections to the network.



## ABILITY TO EXECUTE AND TECHNOLOGICAL INNOVATION

The third pillar includes three main objectives linked to issues of technological development and innovation for the Group, specifically:

- becoming **the most technologically advanced gas transportation company in the world**;
- strengthening its **position in the hydrogen value chain** in part through the use of innovative technologies;
- **taking advantage of core skills in adjacent sectors.**

As demonstrated by its success in carrying out the TAP project, Snam has an excellent capacity to manage infrastructure projects and will continue to develop and make use of this ability, supported by large investments in innovation and digitalisation.

Approximately 500 million euros will be used for remote control projects, the adoption of Internet of Things (IoT)<sup>7</sup> systems, in cooperation with Microsoft, as well as for cloud and edge computing<sup>8</sup>, with the aim of becoming the **most technologically advanced** gas transportation company in the world. IoT and machine learning systems will be fundamental in transmitting, analysing and historicising data in real time, with a capacity at least 100 times greater than that currently available to the Group.

Of particular importance is the kick-off in 2021 of the first future district, the Bologna "Flagship" District, which will be provided with technology able to monitor the Group assets in terms of operating efficiency, security, integrity, and reliability. This includes an evolution from the traditional approach of leak detection and repair (LDAR) to a tool developed in house by Snam, which supports predictive maintenance for the network and offers centralised control over methane emissions. The **LDAR** will also play a fundamental role in the achievement of the Strategic Plan decarbonisation goals, because it makes it possible to manage and reduce methane leaks, consequently reducing emissions of the same.

Additionally, through the acquisition of a significant minority interest in **De Nora** (a global innovator in sustainable energies and water treatment technology, as well as a global technological leader in alkaline electrodes) and the partnership with **ITM** (specialised in membrane electrolyzers), the Group has set itself the objective of **monitoring new technologies and beginning new experiments with hydrogen**. In a wider context, to become a technological leader Snam will

<sup>7</sup> Internet of Things means extending the internet to the world of things and concrete places, allowing them to send and receive data.

<sup>8</sup> Cloud and edge computing are decentralised and distributed IT infrastructure, consisting of micro-data centres, located near the user, which provide remote internet services from smaller distances than those covered by cloud computing





also invest in **making full use of its core skills** in similar sectors, to fully take advantage as much as possible of the knowledge and professional expertise it has already acquired over the year in sectors where these can be newly applied.



## ENERGY TRANSITION

Energy transition business represents an important lever for achieving decarbonisation objectives, not only for Snam but for the entire national system. Over the years, the Company has been able to create a **wide and diversified platform of activities** consisting of four fundamental sectors: biomethane, sustainable mobility, energy efficiency and hydrogen. Snam has invested increasing amounts in these areas, going from an initial sum of 200 million euros 2018 to 720 million euros in the 2020-2024 Plan, with an expected contribution of around 150 million euros for annual EBITDA in 2024. Further, thanks to biomethane production, energy efficiency initiatives and sustainable mobility projects, Snam **will prevent the emission of over 600,000 tonnes of CO<sub>2eq</sub>**.

The importance of these businesses in Snam's strategy translates not only economically through investments in the Plan, but can also be seen in the amendments to the Snam Articles of Association, initially proposed in December 2020 and finalised in February 2021. In fact, the Group has added **a clear reference to its purpose, "Energy to inspire the world" and to new businesses**, to reflect Snam's commitment to supporting the energy transition by making use of resources and energy sources compatible with protecting the environment and progressive decarbonisation, as well as adding the pursuit of sustainable success among the purposes of the company's business.

All energy transition business is guided by three main objectives:

- **internalising the skills and knowledge** of other leader companies through cooperation, partnership and agreements
- taking on **a leadership role in growing markets**
- **strengthening core business assets.**

### Biomethane

Since 2017, Snam has invested in biomethane as an alternative energy solution, also through **Snam 4 Environment**, which specialises in biomethane production infrastructure (from organic, agricultural, agro-industrial and animal waste) and in promoting green business, playing a fundamental role in the development of biomethane in Italy.

Snam has called for investments of around 220 million euros by 2024 for biomethane, to create infrastructure and plants with installed capacity of 64 MW, 22 MW more than in the previous plan, as well as to develop a platform to support the growth of the circular economy and industrialisation of agricultural production.

Additionally, some of the investments will be destined for companies active in biomethane production, to **internalise their skills and take advantage of further opportunities for growth**. An example here is the acquisition of 50%



of Iniziative Biometano, a company which operates in Italy managing biogas and biomethane plans powered with biomass coming from agriculture.

## Sustainable mobility

Increased use of natural gas and biomethane in the transportation sector, replacing classic fuels such as diesel and petrol, demonstrates the importance of gas relative to sustainable mobility. **Snam 4 Mobility** is the platform created by the Group to provide integrated services in the natural gas “smart green” mobility sector. The Plan calls for investments of around 150 million euros between 2020 and 2024, with the aim of **creating more than 150 new refueling stations by 2024** and extending offerings for heavy vehicles, in parts thanks to the start up of a **new micro-liquefaction plant**, combined with the adaptation of the Panigaglia terminal in Liguria to load tankers for transportation use. Additionally, Snam 4 Mobility will work to develop infrastructure to distribute hydrogen through land transportation: in coming years, **five hydrogen refueling stations will be created in Italy**. Finally, the other main task for Snam 4 Mobility will be promoting the conversion of an ever-increasing number of vehicles from UFG to LNG.

## Energy efficiency

Energy efficiency work represents another important factor in the decarbonisation strategy, to which Snam will dedicate around 200 million euros through **Snam 4 Efficiency** to support energy efficiency in residential, industrial, tertiary and public administration sectors, facilitated by national fiscal incentives, known as “ecobonus” and “sismabonus”. In 2020, Snam 4 Efficiency acquired 100% of **TEP Energy Solution**, specialised in **energy efficiency solutions and carbon footprint assessments for condominiums, companies and public administrations**. Finally, with an eye to internalising additional skills relevant to the sector, in October 2020 Snam finalised the acquisition of 70% of **Mieci S.p.A.** and **Evolve S.p.A.**, thereby establishing a platform with the goal of significantly increasing its presence and market share in the energy efficiency sector. In this sense, in January 2021 CDP acquired a 30% stake in Snam 4 Efficiency share capital, followed by a name change to **Renovit**, resulting in the development of a new platform to promote energy efficiency in condominiums, companies and public administrations and to support sustainable development and the energy transition in Italy.

## Hydrogen

For Snam, hydrogen represents a winning opportunity for decarbonisation, the reason that a large part of the investments in the new Plan are destined for infrastructure H-readiness, and around 150 million euros in 2024 for activities developed by the **Hydrogen** business unit.

The new Strategic Plan also calls for cooperation with Ferrovie dello Stato Italiane and Alstom for the **initial conversions of railway sections from diesel to hydrogen**. The agreement already calls for the conversion of around 13 sections with a total length of approximately 700 km, with the installation of the


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first fuel cells with a capacity of 45 MW. Snam will also install the fuel cells for its own activities, with a capacity of 5.2 MW.

Finally, through cooperation with other important players in the sector, Snam has been awarded three grants for *Fuel Cells and Hydrogen Joint Undertaking*, which allow access to funds and pilot projects at the European level, while creating partnerships for final implementation.



## INTERNATIONAL PROFILE

The strategic agreements signed with major sector operators throughout the main continental energy corridors and the changes made to redefine its own role within the European infrastructure system have characterised Snam's **international operations** since 2012 and have contributed to transforming the Company from a local asset operator to a strategic partner in the international gas market.

At the international level, Snam's new Strategic Plan call for:

- **growing and diversifying its geographic portfolio;**
- adopting an **asset-light approach** in countries with high growth potential;
- **monetising its know how and skills through Snam Global Solution.**

Through its investees, the Group plans to **take advantage of further opportunities for the energy transition** and to **benefit from growing gas demand in certain key geographic areas, also opting for new uses of gas to replace more polluting fuels**, such as coal and oil. In this light, the Group will not only serve as a facilitator for the energy transition, but above all will serve as an advocate and guide towards decarbonisation, taking advantage of its own know-how and that of Snam Global Solution. In fact, in non-European countries, such as **China** and **India**, where the use of fossil fuels such as coal is still widespread, gas plays a central role in the process of decarbonisation. Additionally, in countries demonstrating interest in decarbonising transportation, Snam Global Solution can offer the Group's experience in CNG and LNG together with the technological skills it has acquired thanks to the Cubogas products.

For the Indian market, in 2020 Snam signed agreements with three major operators (Adani Gas Limited, Greenko and Indian Oil) **for sustainable mobility and hydrogen** and is paying close attention to the decarbonisation process begun by the Indian government, also through additional development of gas infrastructure.

Finally, another main objective for Snam is to **develop services in areas which offer interesting growth opportunities**, for example the **United Arab Emirates**, where agreements were signed with Abu Dhabi National Oil Company (ADNOC) to invest in the country's energy infrastructure. Entry as the sole industrial operator in the consortium that obtained 49% of ADNOC will allow for the development of dialogue with regards to possible cooperative projects for hydrogen and the energy transition.



## SOLID FINANCIAL STRUCTURE AND DISCIPLINED INVESTMENTS

The sixth pillar of the Strategic Plan involves the Group's financial structure and establishes three objectives that Snam is committed to achieving by 2024:

- Maintenance of the **ratio guidelines currently implemented by the rating agencies**;
- **risk adjusted returns exceeding those for Italian regulated assets**;
- investments that are **consistent with the ESG strategy**.

Snam plans to strengthen the efficiency plan launched in the second half of 2016, with over 70 million euros in savings expected by 2022, which has already led to an approximately 20% decline in costs relative to the core area, making it possible to start energy transition business without penalising Group performance.

The plan objectives will be achieved in part thanks to a disciplined approach to the use of capital, supported by a commitment to take advantage of opportunities offered by growth in the sustainable finance market. Activities to **optimise the financial structure** implemented over the last five years have led to a reduction in the average cost of gross debt, which fell from 2.4% in 2016 to an average of 1.2% through the time horizon of the plan (compared to 1.4% in the previous plan), thanks to actions implemented to take full advantage of current favourable market conditions and improve the interest rate and credit spread scenario. Further possible savings could derive from treasury optimisation, as well as further diversifying sources and increasing sustainable finance instruments.

During the Plan, Snam also plans to maintain the ratio between net debt and RAB<sup>9</sup> below 60%; an adjusted Funds from Operation to Net Debt (FFO/Net Debt) ratio above 14% on average over the course of the plan; to maintain a mix between fixed and variable rate debt of 3/4, in line with the previous plan; 3.2 billion euros in syndicate credit facilities, not use at 31 December 2020, and maturing between 2024 and 2025.

With respect to activities associated with **sustainable finance**, Snam intends to increase the percentage of funding available from 40% to 60% over the course of the plan, mainly issuing bonds for which the proceeds are invested in projects ranging from reducing emissions, to increasing use of renewable energies and which make a concrete contribution to achieving the Sustainable Development Goals.

<sup>9</sup> "RAB" means Regulatory Asset Base, or net Capital Invested for regulatory purposes calculated on the basis of the rules defined by the Electricity, Gas and Water Authority, to determine reference revenues for regulated business.

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For some time now Snam has followed a virtuous path aimed at the continuous development of the sustainable finance market, made concrete in part through participation on dedicated Task Forces and Forums. Additionally, to map and take advantage of the alignment of its own activities with sustainability principles, Snam carried out an initial project aimed at identifying how the investments found in the 2020-2024 Plan align with the SDGs and Taxonomy criteria.

More information can be found in the subsequent section, "Sustainable finance and SDG investments".



OPPORTUNITY

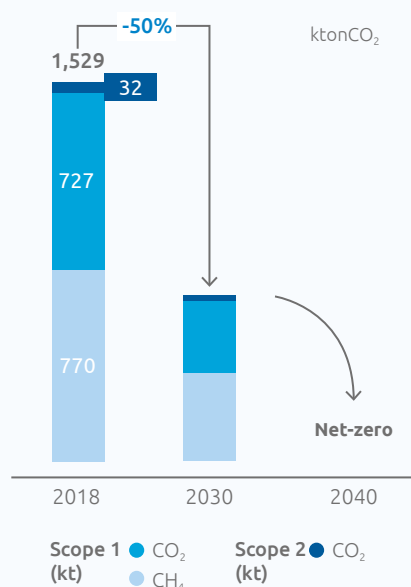
STRATEGY



# SNAM'S NET ZERO CARBON STRATEGY

NFS

TCFD



With its Towards Net Zero strategy, Snam put its commitment to decarbonisation at the centre of the 2020-2024 Plan integrating sustainability and ESG issues in an even more significant manner within its strategic choices.

Snam has established ambitious and challenging goals, which will put the Group in a leadership position in achieving carbon neutrality by 2040, in advance with respect to European and domestic objectives and in line with the targets for limiting global warming to 1.5°C, as called for in the Paris Agreement signed in 2015.

In this area, objectives are aimed at reducing:

1. **Scope 1 direct emissions** through specific actions involving CO<sub>2</sub> (carbon dioxide) and CH<sub>4</sub> (methane) emissions. More specifically, Snam intends to install electrocompressors on 8 compression units, as well as gas turbochargers, increasing the energy efficiency of its assets to reduce CO<sub>2</sub> emissions. Use of the Leak Detection and Repair (LDAR), replacing pneumatic systems and gas recompression, will be fundamental in reducing methane emissions;
2. **Scope 2 Indirect CO<sub>2</sub> emissions**, relative to which Snam plans to increase consumption of electricity derived from certified renewable sources;

Relative to **other indirect CO<sub>2</sub> emissions (Scope 3)**, Snam plans to strengthen cooperation with its suppliers and associated companies to progressively and significantly reduce emissions throughout the value chain.

## SCOPE 1 AND SCOPE 2 EMISSIONS

Snam has set itself an even more challenging target for **reducing Scope 1 and Scope 2 emissions**, going from -40% to **-50% in 2030** (with respect to 2018), to achieve **carbon neutrality by 2040**.

Over half of these reductions will be achieved through the project to convert stations to dual-fuel: by 2040, **Snam will convert 8 of its stations**, specifically Malborghetto, Messina, Poggio Renatico, Fiume Trieste, Minerbio, Settala and Sergnano by 2030, and the power station of Ripalta by 2040.

The remaining part of the Plan reductions are linked to the Group's commitment to **reduce methane emissions by 45% by 2025, compared to 2015 amounts**, a target in line with the requests made by *Oil and Gas Methane Partnership*<sup>10</sup> (OGMP) 2.0, to which it adhered in November 2020.

<sup>10</sup> The OGMP is an initiative created by the UN Environment Programme (UNEP), which encourages companies to reduce the methane emissions caused by their business.



## Snam and the Task Force on Climate-Related Financial Disclosure (TCFD)

Snam's commitment to act as a major player in the energy transition is made concrete realized through more transparent reporting focussing on the issue of fighting climate change. Since 2018, the Company has published a stand-alone document in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosure (TCFD). The recommendations indicated by the Task Force are structured around four thematic areas, representing the fundamental elements of an organisation:

- **Governance:** describes an organisation's governance model in relation to climate-related issues.
- **Strategy:** describes the actual or potential impacts of the risks and opportunities related to climate change on the business, strategy and financial planning of the organisation.
- **Risk management:** describes how the organisation identifies, measures, and manages climate-related risks.
- **Metrics and Targets:** describes the metrics and objectives used to measure and manage relevant climate-related risks and opportunities.

The Group's climate objectives are in line with the goals set to contain global warming to within 1.5°C, as established in the Paris Agreement, and call for a 45% reduction in methane emissions by 2025, compared to 2015, a target which is in line with the requests of the Oil and Gas Methane Partnership (OGMP) 2.0.

In defining the Group's objectives, Snam considered scenarios developed in cooperation with Terna

(Document Describing the 2019 Scenarios), preparatory to the creation 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 global emission reduction targets. The scenarios put forward 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 transportation.

The Group's strategic and financial planning is closely interconnected with considerations on developments in the reference sector and the role Snam will play in guiding the energy sector's decarbonisation process. More details on the Group's strategy and its resilience with respect to climate change can be found in the document "**Financial Disclosure on Climate Change 2020**", prepared in accordance with the recommendations of the Task Force on Climate-Related Financial Disclosures.

Further considerations on Group governance, its risk management process, the risks and opportunities identified, and performance can be found in the relative sections of this document.

To achieve the objective of carbon neutrality by 2040, once the necessary greenhouse gas emission reduction initiatives have been implemented, the Group will compensate for its residual greenhouse gas emissions by supporting **offsetting projects**<sup>11</sup>.

<sup>11</sup> Offsets are discrete reductions in greenhouse gases (GHG) used to compensate for GHG emissions occurring elsewhere. Offsets are calculated with respect to a baseline which represents a hypothetical situation with regards to emissions in the absence of the mitigation (offsetting) project. (The Greenhouse Gas Protocol, A Corporate Accounting and Reporting Standard – Revised Edition, 2004)



## SCOPE 3 EMISSIONS

Relative to other Scope 3 indirect emissions, that is all emissions associated with the company's activities coming from sources which the Company does not control or own, throughout the entire value chain, the Group plans to strengthen its cooperation with suppliers and associated companies, to achieve progressive and significant reductions. The Group intends to involve suppliers and them and make them more responsible through the following actions:

- mapping their greenhouse gas emissions;
- requesting that the most important suppliers in terms of procurement complete the **CDP Supply Chain Questionnaire**;
- involving them in awareness-raising projects.

For associated companies, Snam intends to serve as a guide and advocate to improve their carbon footprints through:

- workshops and training programmes to share best practices;
- awareness raising projects aimed at encouraging the reduction of methane leaks, pneumatic emissions and the adoption of electric energy from renewable sources.

### Snam and the CDP Foundation create Arbolia to create new forests in Italian cities

In addition to the emissions avoided thanks to new business projects, **Arbolia**, the new benefit company established by Snam and CDP Foundation, will guarantee absorption of CO<sub>2</sub> thanks to the planting of new trees in Italian cities.

Through Arbolia, the two companies intend to create "a greener, cleaner, healthier and more beautiful Italy", improving ecosystems, promoting biodiversity, making cities more resilient and creating occasions for social and economic development with additional positive effects on air quality and, consequently, quality of life.

The solutions proposed by Arbolia can be summarised in four main points:

- **afforestation and reforestation with trees and bushes** for businesses and citizens in urban and suburban areas, serving as public areas and made available to public administrations and private individuals;
- **care and maintenance for the trees during the first two years** mainly through irrigation, grass cutting and replacement of trees or bushes which did not take root, with respect for biodiversity;

- **carbon footprint analysis services with TEP Energy Solution** intended for companies and public administrations, for use in certification, incentives and offsetting processes associated with forestation activities and CO<sub>2</sub> absorption;
- **direct dialogue with institutional stakeholders and companies** to offer them opportunities to create roots in the local area by creating shared values and promoting virtuous sustainable behaviour.

Thanks to Arbolia, Snam will contribute to the achievement of some important **Sustainable Development Goals**, in particular **SDG 11** to make cities more liveable and sustainable, **SDG 13**, linked to climate protection and **SDG 15** to restore the earth's ecosystem.

Arbolia's first project was developed in December 2020 in Parma, where over two thousand trees were planted in an area of around 20 thousand square metres. The environmental impacts of this initial project are already significant, total absorption of CO<sub>2</sub> per year is estimated at 178 tonnes and 483 kg of fine particles per year.




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## ESG SCORECARD

The growing importance of non-financial aspects in determining company strategies, the consideration given to ESG issues by investors and the interest all stakeholders have in the company's operating methods have always driven Snam to work to measure the impact its business has on the areas in which it works. In fact, Snam monitors over 140 KPIs relative to ESG aspects, many of which supported by multi-year targets. With the aim of redefining its own priorities for the future, modelling the company culture and improving its non-financial reporting, the Company has further strengthened the process used to define its targets.

Through the **ESG Scorecard**, Snam has again strengthened its business model with an eye to achieving the sustainable development goals of Agenda 2030, creating a scorecard of objectives for 2021-2023, focussed on thirteen ESG areas of import to both the company and the stakeholders. These are three-year objectives and the scorecard will be monitored and reviewed annually. Through this tool, the Group intends to provide the utmost transparency relative to the most important environmental, social and governance aspects, with a process that involves all the relevant functions of the Company and its subsidiaries with an eye to continuous improvement and constant dialogue with stakeholders and the market.



### Environment

The holistic approach adopted by Snam with regards to the environment leads the company to commit itself, beyond the fight against climate change, to protecting habitats and biodiversity, adopting the best practices to protect and support the areas in which its infrastructure is found.

Its environmental commitments can be seen in its goal to reduce natural gas leaks, as well as in all the targets relative to energy efficiency, development of new business, green innovation and protection of biodiversity.



### Social

Employees, local communities and suppliers are stakeholders which are increasingly central to Snam's strategy, because only with their participation is it possible to achieve the challenging strategic objectives the Group has set itself for the coming years. Also in the light of the Covid-19 emergency, the Company has strengthened activities already in place for years, intended to spread a culture that defends individuals in their complexity, protecting mental and physical health and promoting diversity and development in an inclusive environment, as well as activities to improve the quality of life in local communities and to sustainably manage its supply chain. These commitments can be seen in the structure corporate welfare system that meets the needs of Snam employees and their families, in corporate volunteering and community engagement initiatives, carried out in part through cooperation with Fondazione Snam, and in the support offered to the Italian economy and small and medium enterprises (SME), through specific involvement of local suppliers.



### Governance

Legality, integrity, reliability of services and efficiency in network management are the key words that serve as the basis for the actions and projects implemented by Snam, which is committed to creating targets that make its business transparent, responsible and valuable. These objectives take the form of specific actions intended to guarantee infrastructure reliability and service quality are at high levels, to bring ESG issues to decision-making processes and induction sessions for the Board of Directors, and to carry out careful reputation checks to evaluate risks associated with the supply chain, fighting against any active or passive corruption identified.


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# ESG SCORECARD 2021-2023



Environment



Social



Governance  
(including economic aspects)

## NEW BUSINESSES - GREEN INNOVATION



Production of biomethane (MScm)

19	84	141
2021	2022	2023



Cumulated number of CNG and LNG stations

74	119	167
2021	2022	2023



Reduction of CO<sub>2eq</sub> emissions from energy efficiency interventions

16	34	43
2021	2022	2023



Available LNG capacity for SSLNG market

**250 kton**  
By 2023

## ENERGY SAVINGS OF OPERATIONAL MANAGEMENT



MWh of electricity production by photovoltaic plants

**>860 MWh**  
Annually until 2023



% of retrofit and methane fuelled cars out of total car fleet

49%	>	61%
2021		2023

## LAND PROTECTION AND BIODIVERSITY



% vegetation restoration of the natural and semi-natural areas involved in the construction of the pipeline routing

**>99%**  
Annually until 2023

## NATURAL GAS EMISSIONS



% reduction of total natural gas emissions (vs 2015)

-25.1%	>	-36%
2021		2023



% of natural gas recovered from maintenance activities

(average of the last 5 years)  
**>40%**  
Annually until 2023

## INFRASTRUCTURE RELIABILITY



Average annual customer satisfaction rate in terms of service quality

(average of the last 3 years)  
**7.8/10** > **8.1/10**  
2021 2023



% of reliability levels on gas supply

**99.9%**  
Annually until 2023


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## GENDER DIVERSITY



% of women in executive and middle-management roles

21.75% > 25%

2021 2023

% of women in succession planning (first and second line and key positions)

25% > 27%

2021 2023

## SAFETY



IpFG (Combined Frequency and Severity Index)

< AVERAGE last 5 years  
Annually until 2023



No. of HS reports / No. of total audits performed (external and internal)

< AVERAGE last 5 years  
Annually until 2023

## WELFARE



% of participation in welfare activities

50% 52% 54%

2021 2022 2023

## EMPLOYEE ENGAGEMENT



% employee engagement index

70% > 75%

2021 2023

## ENGAGEMENT OF LOCAL COMMUNITIES



% of employees hours dedicated to Fondazione Snam's initiatives supporting local communities

+10% +10% +10%

2021 2022 2023

## RESPONSIBLE SUPPLIERS



% spent on local suppliers (SMEs in Italy) on total procurement

40% 40% 50%

2021 2022 2023



Increase of third sector suppliers in Vendor List

+10% +20% +20%

2021 2022 2023

## GOVERNANCE



% of BoD time dedicated to ESG issues in meetings and induction sessions

AT LEAST 40%  
Annually until 2023

## ANTI-CORRUPTION



% of third parties on which a reputational check has been carried out

100%  
Annually until 2023



## NFS SUSTAINABLE FINANCE AND SDG INVESTMENTS

In recent years, sustainable finance and its related instruments has taken on an increasingly significant role within the global financial landscape. This has given Snam the opportunity to **enhance its own role and work as a sustainable company**, guaranteeing broad access to financial markets at competitive costs, with positive effects on its economic and statement of financial position and reputation. In addition, with the aim of aligning the financing strategy with its sustainability targets and expanding its investor base, in 2018 Snam had already finalised the transformation into syndicated credit lines of 3.2 billion euros into **Sustainable Loans**, introducing environmental, social and governance (ESG) objectives. These objectives were met in 2019 and 2020, meaning Snam could benefit from a reduced interest rate on its Sustainable Loan.

For the 2020-2024 Plan, the Group aims at **increasing the weight of sustainable finance up to 60% of the funding available within the scope of the plan**. To promote this increase, the Euro Commercial Paper programme was renewed and increased from 2 to 2.5 billion euros, involving it in the ESGs that are in line with the Sustainable Loan (obtaining, for the instrument, an ESG rating of EE, assigned by the ESG Ratings company, Standard Ethics).

In recognition of the Group efforts, Snam joined the **Nasdaq Sustainable Bond Network**, a sustainable finance platform managed by Nasdaq, that unites investors, issuers, investment banks and specialist organisations. During 2020, Snam also increased its meetings and relations with **socially responsible investors** who are becoming increasingly important within the financial market. There is a total of 245 investors classified as ESGs within Snam's shareholding, representing 34.1% of the total number of Snam's institutional shareholders at September 2020 (Nasdaq analysis), and 13.8% of the overall number.

Since 2018, Snam has been a member of the **Corporate Forum on Sustainable Finance (CFSF)**. In November 2020, the Forum confirmed the role of sustainable finance as a crucial support in projects with a positive social and environmental impact, but it also highlighted certain challenges for sustainable finance:

- 1 further integration of the sustainability policies with the company's financial strategies;
- 2 working in synergy with the investors to stimulate the development of a more sustainable economy through innovative financial instruments;
- 3 increasing the company's presence in international and Italian forums that contribute to the development of sustainable financial markets;
- 4 actively participating in the definition of regulatory standards and frameworks that govern the sustainable financial instruments;
- 5 collaborating with rating companies to more deeply incorporate the ESG criteria into the assessment of the long-term financial sustainability of companies;
- 6 building on expertise and promote best practices that realise the impact of the strategies applied.

The complementary activities and sustainable financial instruments implemented by Snam over the years contribute to a common objective: **making the Company more transparent, attracting a wider range of investors and highlighting its constant and growing involvement in ESG issues and efforts to achieve SDGs**.


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## CLIMATE ACTION AND TRANSITION BONDS ISSUED BY SNAM

In 2019, Snam was one of the first companies in the world to issue a **Climate Action Bond**, with a reference framework dating back to 2018. The aim of the Climate Action Bond was to better align its financial strategy with the Group's sustainability targets, consolidate Snam's role in energy transition within Europe, raise the awareness of investors around their own ESG initiatives and investments and diversify the investor base. The funds obtained with the Climate Action Bond were used to finance and, in part,

refinance the **Eligible Projects** defined in the Climate Action Bond Framework and reported in the table below. The projects cover a broad spectrum of initiatives aimed at reducing emissions or using renewable energy, energy efficiency and protecting the local area and biodiversity.

The bond issued was also certified by **DNV GL** that confirmed the bond's alignment with the suitable categories defined in the framework.

### Eligible Projects of the Climate Action Bond

Eligible Category	Description	SDGs
<b>Carbon &amp; Emission Reduction Projects</b>	Infrastructure, equipment, technology, systems and processes that show a reduction in the use/loss of energy and a reduction in emissions of the industrial structures.	  
<b>Renewable Energy Projects</b>	Development of new biomethane plants and updating of existing biogas plants, in Italy and abroad.	  
<b>Energy Efficiency Projects</b>	Energy efficiency projects for Snam's corporate structures or the supply chain.	  
<b>Green Construction Projects</b>	Development and maintenance of conservation areas, protection of the natural capital and development and maintenance of green areas/buildings.	

In 2020, Snam reconfirmed that it was fully committed to further integrating the Group's sustainability objectives with the company's financial strategy by implementing and issuing two **Transition Bonds**. The first was issued in June for 500 million euros, for a duration of ten years, and the second, issued in Europe, was the first to be issued by a gas transportation utility. The second Transition Bond was issued in November for 600 million euros for a duration of eight years, the longest bond issue with a coupon of 0% issued by an Italian issuer.

The **Eligible Categories** perimeter, already identified in the Climate Action Bond Framework, now includes the new category "Retrofit of gas transmission network", or any activity on the gas network aimed at improving the integration of hydrogen and other low-carbon gases, as defined in the Transition Bond Framework published in June 2020.

This last category was inserted with the intention to align Snam's initiatives with the mitigation criteria identified by the **Taxonomy of the European Commission** on sustainable finance.



In March 2021, as part of the Environmental Finance Bond Awards, Snam's Transition Bond Framework, published in June 2020, was recognised in the Award for Innovation - Use of Proceeds (Green Bond) category, demonstrating the market's recognition of the company's commitment to sustainable finance.


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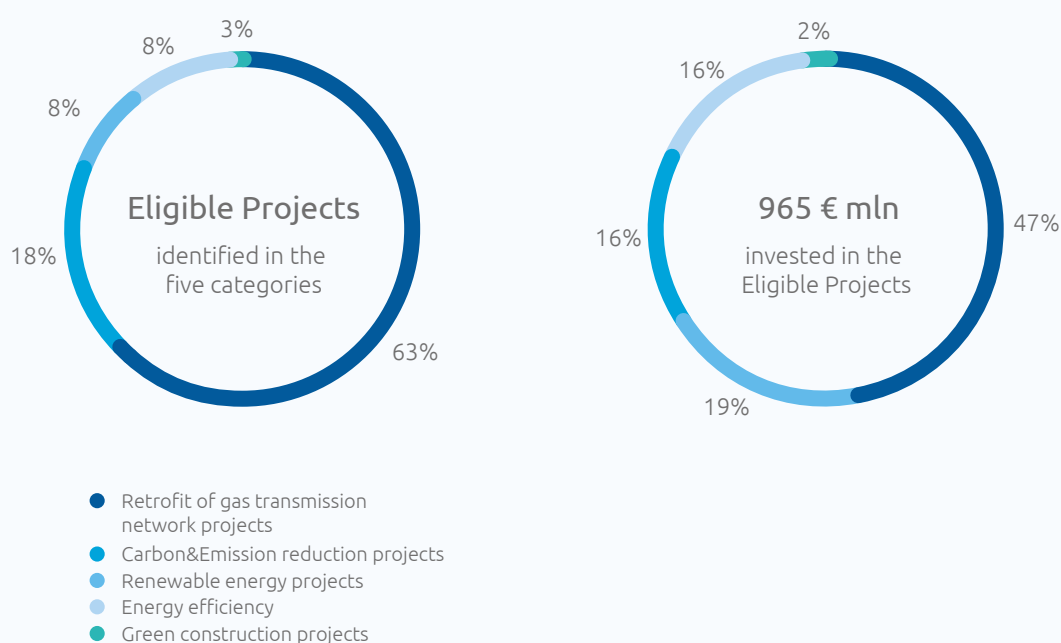
The Transition Bond further expands Snam's investor base and also establishes the rules around the issue of bond loans aimed at financing environmental sustainability investments, in line with the key role, attributed to renewable gases, of achieving the long-term decarbonisation goals, and with the role that can be assumed by the existing infrastructure facilitating this transition.

The table below reports the list of **Eligible Projects** envisaged by Snam's Transition Bond.

### Eligible Projects of the Transition Bond

Eligible Category	Description	SDGs
<b>Carbon &amp; Emission Reduction Projects</b>	Infrastructure, equipment, technology, systems and processes that show a reduction in the use/loss of energy and a reduction in emissions of the industrial structures.	
<b>Renewable Energy Projects</b>	Acquisition and development of new biomethane plants and updating of existing biogas plants, in Italy and abroad.	
<b>Energy Efficiency Projects</b>	Energy efficiency projects for Snam's corporate structures or the supply chain.	
<b>Green Construction Projects</b>	Development and maintenance of conservation areas, protection of the natural capital and development and maintenance of green areas/buildings.	
<b>Retrofit of gas transmission network</b>	Activities and projects carried out for the purpose of adapting Snam's gas network and making it ready to transport a growing percentage of hydrogen and/or other low-carbon gases, in keeping with what is indicated in the <b>European Taxonomy</b> .	

At 31 December 2020, Snam financed eligible projects worth approximately 965 million euros<sup>12</sup> (vs 235 million euros in 2019), equal to approximately 60% of the bond issues concluded by 2020. As shown in the two graphs below, around 47% of the total amount financed was allocated to the fifth category of the current Framework (i.e., Retrofit of gas transmission network), which included more than 60% of all the eligible projects.



<sup>12</sup> For more details, you can refer to the "Climate Action and Transition bonds Report" available at the following link:  
[www.snam.it/export/sites/snam-rp/it/investor-relations/debito\\_credit\\_rating/file/Snam\\_Climate\\_Action\\_and\\_Transition\\_bonds\\_Report\\_2021.pdf](http://www.snam.it/export/sites/snam-rp/it/investor-relations/debito_credit_rating/file/Snam_Climate_Action_and_Transition_bonds_Report_2021.pdf)


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## TEP Energy Solutions and the Nearly Zero Energy buildings

In 2020, TEP Energy Solution implemented the complete restructuring of two residential buildings in Ponte di Legno (BS), hence developing its first “Nearly Zero-Energy Buildings”: buildings that consume very little energy and that are able to generate the amount of energy required directly on-site from renewable sources thanks to the sustainable technologies and materials used to build them.

The intervention is part of a TEP commitment to support the requalification of urban centres and the economic and social development of territories, with the help of local businesses. The project, involving 80 residential units and worth a total of 15 million euros, will allow for the recovery of a structurally compromised area in Valcamonica, a winter and summer tourist destination. The buildings, dating back to the first half of the 1970s, will be rebuilt in compliance with the new seismic

regulations and will undergo further improvements, including: acoustic isolation, eliminating architectural barriers to improve accessibility, renovating surrounding areas and reducing impact on the landscape.

Post-intervention, the buildings will be classified under energy class A4, the highest according to the current regulations in force. For energy saving, external thermal insulation and integrated photovoltaic plants will be installed and the buildings will be connected to the city's district heating network. The interventions will benefit from Sismabonus and Ecobonus tax incentives that will considerably reduce investment costs.

This project was made possible thanks to the CasaMia programme created by TEP to promote the energy efficiency of residential buildings and help protect them from seismic events through tax incentives.


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## THE CFO TASKFORCE AND INVESTMENTS IN SUPPORT OF SDGs





In 2009, Snam had already made it clear that it was committed to a sustainable business development model, to observing and protecting human and working rights and to protecting the environment by complying with the UN Global Compact, the largest-scale worldwide voluntary initiative on sustainability issues.

For Snam, this commitment also involves the integration and alignment of financial planning procedures with the SDGs, an objective further strengthened through active participation in the **UN Global Compact CFO Taskforce**, of which Snam is a founding member. The initiative involves different actors in the business sector: investors, banks, financial institutions and credit rating agencies to make the

market more efficient, broader and fluid and to promote the flow of capital to activities that contribute significantly to these goals.

In September 2020, the Taskforce launched **the first principles integrated and supported by the United Nations for investment and finance**, developed to guide companies to align their sustainability commitments with corporate financial strategies to generate a significant impact on SDGs. As a member of the CFO Taskforce, Snam is committed to adopting these guidelines, implementing specific KPIs and sharing experiences to help create a transparent and efficient SDG financial market.

### Snam's actions for the SDGs

Description	SDGs
Increasing the production of energy from renewable resources, including biomethane, and improving the energy efficiency of Snam's operations, avoiding or reducing the impact on the environment, the landscape and the cultural heritage. Snam will achieve this goal through <b>Snam 4 Environment</b> and <b>Snam 4 Efficiency</b> : the former is specialised in the biomethane production infrastructure and in the promotion of green activities, while the second is one the main Italian operator in energy efficiency services for the residential, industrial, and public administration sectors. Both leverage on the technical competencies acquired thanks to businesses which are leaders in the sector, in particular Renerwaste and Iniziative Biometano for the biomethane business and TEP, Mieci, and Evolve for the energy efficiency business.	
Building a more resilient and sustainable infrastructure through investments aimed at making the infrastructure Hydrogen ready and at converting the compression stations into dual fuel, and at digitalising the business, allowing Snam to become the most technologically advanced gas transport company in the world and to guarantee ever increasing security and sustainability of its operational activities.	
Snam has created <b>Snam 4 Mobility</b> , a company dedicated to promoting sustainable mobility using CNG, LNG and renewable gases (bio-CNG and bio-LNG), which has the objective of strengthening the infrastructure for sustainable mobility (CNG/LNG refuelling stations), of expanding the offering for heavy vehicles and of creating the first hydrogen stations in the national territory.	
With the goals of playing a crucial role in the energy transition and with a long-term vision aligned to the purpose "Energy to inspire the world" and to the European objectives, Snam will be one of the first businesses in the Oil & Gas sector to achieve the carbon neutrality by 2040, giving a concrete contribute to decarbonisation of the system through the development of green gas and, in particular, of hydrogen. Snam has created the business unit <b>Hydrogen</b> with the goal of acting in the forefront in a sector with great growth opportunities, the hydrogen one, through collaborations, strategic partnerships, and the launch of new pilot projects.	

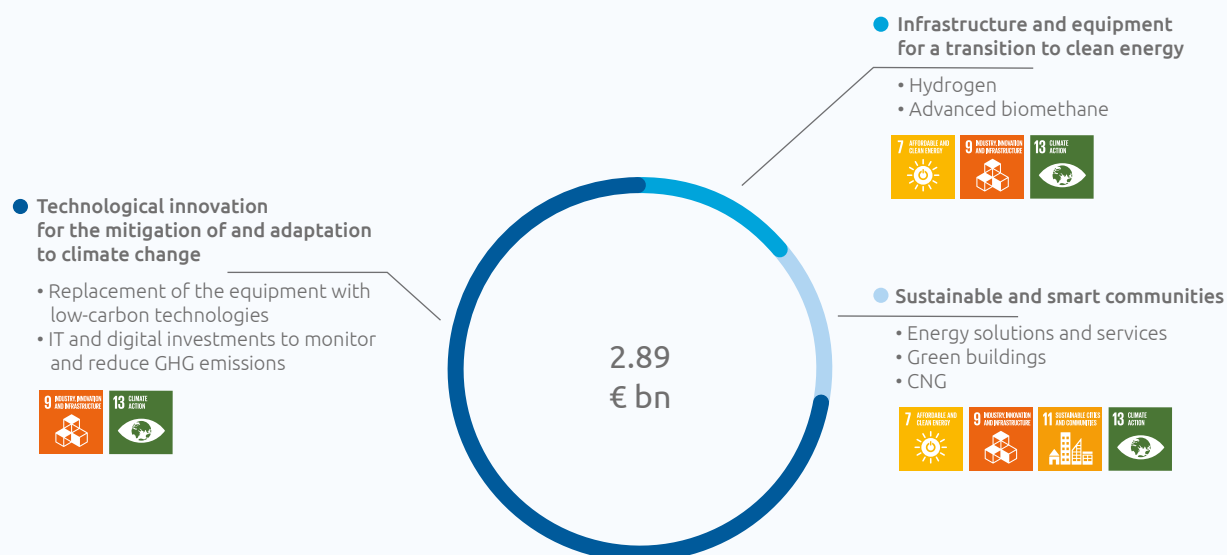
In the table, there is a reference to Snam 4 Efficiency, which has been substituted by Renovit in 2021.

At the same time as approving the 2020-2024 Plan, the Group carried out an analysis to confirm the **alignment** between the **SDGs** and the **investments included in the strategic Plan**. This analysis highlighted the SDGs that the Plan would impact most significantly, showing alignment between the investments and the Group's priority ESGs. In particular, while contributing transversally to many of the United Nations SDGs, the 2020-2024 Plan will have an **effective and significant impact on SDGs 7, 13, 9 and 11** (in order of priority).




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## Breakdown of the investments aligned with the SDGs in the 2020-2024 Plan



## Snam's strategies to align with the European Taxonomy system

The EU Taxonomy is a classification system integrated throughout Europe and aimed at creating a common language that investors and businesses can use when investing in economic activities with a **substantial positive impact on the climate and the environment**. The Taxonomy links the Paris Agreement with investment practices, clearly defining the types of activities that are consistent with the transition towards a low-emissions economy and adapting to climate change, as well as other environmental targets. This instrument aims to drive the flow of capital to activities able to contribute to a zero greenhouse gas emissions economy by 2050.

The implementation process is still underway: by 2021, we can expect the approval of Delegated Acts that define the technical criteria relative to the first two of six environmental targets established in the Taxonomy - "climate change adaptation" and "climate change mitigation".

To demonstrate its commitment to align with the EU Taxonomy, when defining its investment choices in its strategic Plan, Snam analysed the sum of the investments envisaged (approx. total of 7.4 billion euros in the period 2020-2024) that demonstrated **around 40% alignment** with the technical criteria of the most recent version of the Delegated Acts.

The importance of a growing alignment with the EU Taxonomy is also relevant to Snam's use of sustainable financial instruments under conditions that benefit its investments, with the intention to expand its green investor base at the same time.

Snam is actively monitoring the Taxonomy evolution process with the aim to implement the disclosure indications envisaged.


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## INNOVATION FOR BUSINESS DEVELOPMENT

Snam's short, medium and long-term goals require huge efforts and investments in innovations, to ensure it always finds the best technical and management solution. To this end, the Group will invest around **2 billion euros** with the aim to enhance its innovative capacity to transform and manage its assets and seize opportunities offered by energy system developments.

These resources will contribute to the evolution of research and development initiatives, digitalisation and innovation to increase the Group's ability to transmit and analyse data in real time. The most important experiment that highlights the benefits of digitalisation on the energy system will be represented by the first "future" district in 2021, also known as the **Bologna 'Flagship' District**. The experiment will make use of the most advanced technologies to measure results in relation to its operational effectiveness, security, integrity and the reliability of assets, to highlight the benefits of digitalisation on the energy system.

Snam's innovation efforts are most prominent in three strategic areas:

- **energy efficiency and reducing emissions within the core business;**
- **digitalisation of the core business;**
- **investment in energy transition.**

### ENERGY EFFICIENCY AND REDUCING EMISSIONS WITHIN THE CORE BUSINESS

Snam invests in activities aimed at energy efficiency and reducing emissions within its core business to maintain a high performance levels and, at the same time, contribute to the fight against climate change. In 2020, Snam:

- implemented an **Asset Control Room** project to improve and innovate asset management and operating;
- continued the experiment on the **Leak Detection and Repair (LDAR)** system, and also completed a related pilot project, aimed at identifying and localising gas leaks along the gas transportation network;
- completed the new **Supervisory Control and Data Acquisition (SCADA)** for the network area (monitored and remote) and the Snam Rete Gas plants.

### DIGITALISATION OF THE CORE BUSINESS

The new Plan includes technological innovation and digital transformation investments worth 500 million euros. To this end, in 2020, Snam:

- introduced a **Digital Asset Model** aimed at representing a digital version of Snam's assets, providing the opportunity to interpret data identified by sensors on-site, in a similar context to the real one. This model will allow for



## Alliance for Sustainability: for the promotion of sustainable and digital growth throughout Italy

In 2020, Snam adopted the **Alliance for Sustainability** initiative, a project carried out in collaboration with **growITup**, an Open Innovation platform created by Cariplo Factory in partnership with Microsoft Italia, with the aim to promote sustainable growth of Italy through digital platforms, in line with the European plans to relaunch the economy.

Alliance for Sustainability involves **strategic collaboration with large corporations, the world of academia and start-ups** to develop new projects, through **open innovation**, able to address climate change and the most pressing environmental challenges and spread green culture, leveraging on **new technological trends** and contributing to the **sustainable development of Italy**.

The Alliance work plan involves meetings with each of the participating companies where environmental requirements are mapped out using **Design Thinking** methods. During a round table discussion, the areas identified will be outlined along with common objectives and synergies between the different companies, in collaboration with start-ups based on environmental issues that will present their solutions. Finally, the **Digital Hackathon** will be carried out, where the ideas proposed, and requirements identified will be brought together through definitive solutions.

new asset management logic to be adopted, including remote management, network alignment simulations, operator support in augmented and virtual reality, as well as reduce the risk of accidents and optimise on-site activities, resulting in reduced emissions;

- an agreement protocol was signed with the aim to integrate and seize opportunities offered by **Cloud and Edge Computing, Artificial Intelligence and Internet of Things (IoT)**. The **Cloud Foundation Programme** will lead to the transformation of Snam's technical architectures through an hybrid and integrated model known as **Hybrid Cloud**, bringing benefits including an increased resilience of services and business continuity, flexibility, quicker activation of new services, scalability of technological infrastructures and innovation acceleration;
- the **videoconference systems renewal process** was completed for all the meeting rooms on the Campus and at Italian regional sites, ensuring full coverage of all the meeting rooms across Italy to date, with nearly 200 areas equipped with the latest generation videoconferencing systems. After **digitalising corporate spaces**, **Surface HUB2** systems, also known as interactive Microsoft white boards, were installed in around 100 management offices in the first months of 2021;
- continued the **Gas Transportation Network Asset Maintenance System (Smart Gas)** project, a corporate initiative aimed at improving the effectiveness of technical and operational processes related to asset maintenance activities, was continued. In October 2020, the Smart LNG go live was implemented for the maintenance unit, while the project for the prevention and protection implementation and service unit is still being developed. The dematerialisation of the archives in the regional units continued through the eDoc document system, which will be fully integrated into SMART GAS;
- the **Smartness Matrix** was continued, originally initiated as a means to analyse, in a structured way, the requirements of the acquisition processes and the management of data relating to the control and operation of the transportation, storage, and regasification assets, to increase their effectiveness levels and identify the best supporting technologies of the whole remote-controlled process;
- research into plant system solutions were continued for the creation of the **SmartPipeline**, with the identification and installation of new digital functional and diagnostic instruments used to make the gas transportation network even smarter. This project was also extended to the **SmartPlant** initiative launched in 2020;
- the **IoT Foundation** programme was continued with the aim to modernise technological components to support systems that monitor and control, in real time, the Group's network and plants;
- an initial project to support the control room was developed, based on the use of **Artificial Intelligence (AI) algorithms**.



## MANAGING CYBERSECURITY TO GUARANTEE IT SECURITY

Business development, investments in digitalisation and the implementation of innovative solutions all require constant maintenance of cybernetic security systems, also known as **cybersecurity**. Snam's approach to cybersecurity is **integrated** and based on a defined framework that complies with the standard principles on the subject: constant attention to the regulatory obligations and reference standards ensure that the Company complies with **ISO/IEC 27001** provisions (Information Security Management Systems) and **ISO 22301** (Business Continuity Management Systems).

In the cybersecurity system, all the domains are managed under the same operations system, through a **Cybersecurity Incident Management** model applied by the **Security Incident Response Team** that prevents, monitors and addresses remediation interventions and timely escalation plans to mitigate the most modern cyber threats that could compromise the confidentiality, integrity and availability of information.

In 2020, despite the changes to normal work practices due to the Covid-19 pandemic, the Security Incident Response Team was able to operate without interruptions, guaranteeing high levels of cyber security. All of this was possible thanks to the experience gained during recent years in relation to remote working, leading to risk analyses and the adoption of security solutions suitable for safeguarding corporate interests, also while implementing this way of working.

The **human factor** is also an important element which contributes to cybersecurity: therefore, Snam promotes employee awareness raising actions through, for example, "White Phishing" campaigns or simulating fraudulent emails, aimed at identifying the company's most vulnerable areas.

Cybersecurity is not only an internal issue, it also involves customers and the entire supply chain. Snam established an **Ethics and Integrity Agreement** with the latter that includes cybersecurity issues, with particular focus on the transparency of incidents and defence procedures in case of problems.

## ENERGY TRANSITION INVESTMENTS

In 2020, with the view to use corporate infrastructure to promote and facilitate energy transition, Snam continued and initiated various research aimed at adapting its **network for the transportation of mixed natural gas and hydrogen (H2)**. In particular, the Group:

- initiated **tests**, in collaboration with suppliers, **on gas turbines for compression plants** to validate the supply with mixed natural gas and hydrogen with 10% variable hydrogen;
- issued **internal regulations** to create a hydrogen-ready infrastructure by building new pipelines and adjusting the existing ones;
- joined **research groups**, specifically the European Gas Research Group, and collaborated with other European natural gas transportation companies to


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detect and measure the natural gas emissions from the gas transportation system, evaluating the state of the art and, consequently, selecting the most useful instruments in defining a testing programme for carrying out measurements on-site;

- participated in **Joint Industry Projects** to research the effects of hydrogen on gas measurement systems, also through specific tests carried out;
- continued the **Power 2 Gas** initiative, a 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 or used for the production of synthetic methane (SINGAS). To this end, a feasibility study was carried out and basic engineering activities were instituted for the creation of a P2H pilot plant;
- the **Absorbed Natural Gas (ANG)** initiative was continued for the storage of natural gas in tanks containing a porous sorbent, allowing for larger quantities of natural gas to be stored than would be stored in an empty tank of the same volume;
- the Group joined the **European Pipeline Research Group (EPRG)**, an association that carries out research on pipelines used by the most important companies in the European gas transportation and pipeline manufacturing sectors. EPRG manages projects, divided into **Design, Material and Corrosion**, aimed at constantly improving the knowledge and management of the integrity of gas pipelines during their life cycle (pipe manufacturing, pipeline construction and operation). During 2020, EPRG initiated a series of projects to research the behaviour of **steel**, used in existing pipelines, **when introduced to hydrogen blends**.

## Digital management of the pandemic

To address the pandemic, Snam implemented a series of interventions to expand, on large scale, and consolidate the new ways of working that were already used, for some time, by the company, such as smart working.

Smart working involves connecting to company resources remotely and adopting secure technological solutions that guarantee this connection, and using platforms to carry out calls, message exchanges and, most importantly, virtual meetings that involve multiple users. Of all these aspects, the most complicated was the mass distribution of the required technological equipment to users. A total of **889 smart working kits** (monitor and keyboard) and **147 headsets**, **300 smartphones** and **605 data SIM cards** were distributed, **178 Pcs** were assigned/replaced and **479 tokens** were provided for remote access to the Snam network.



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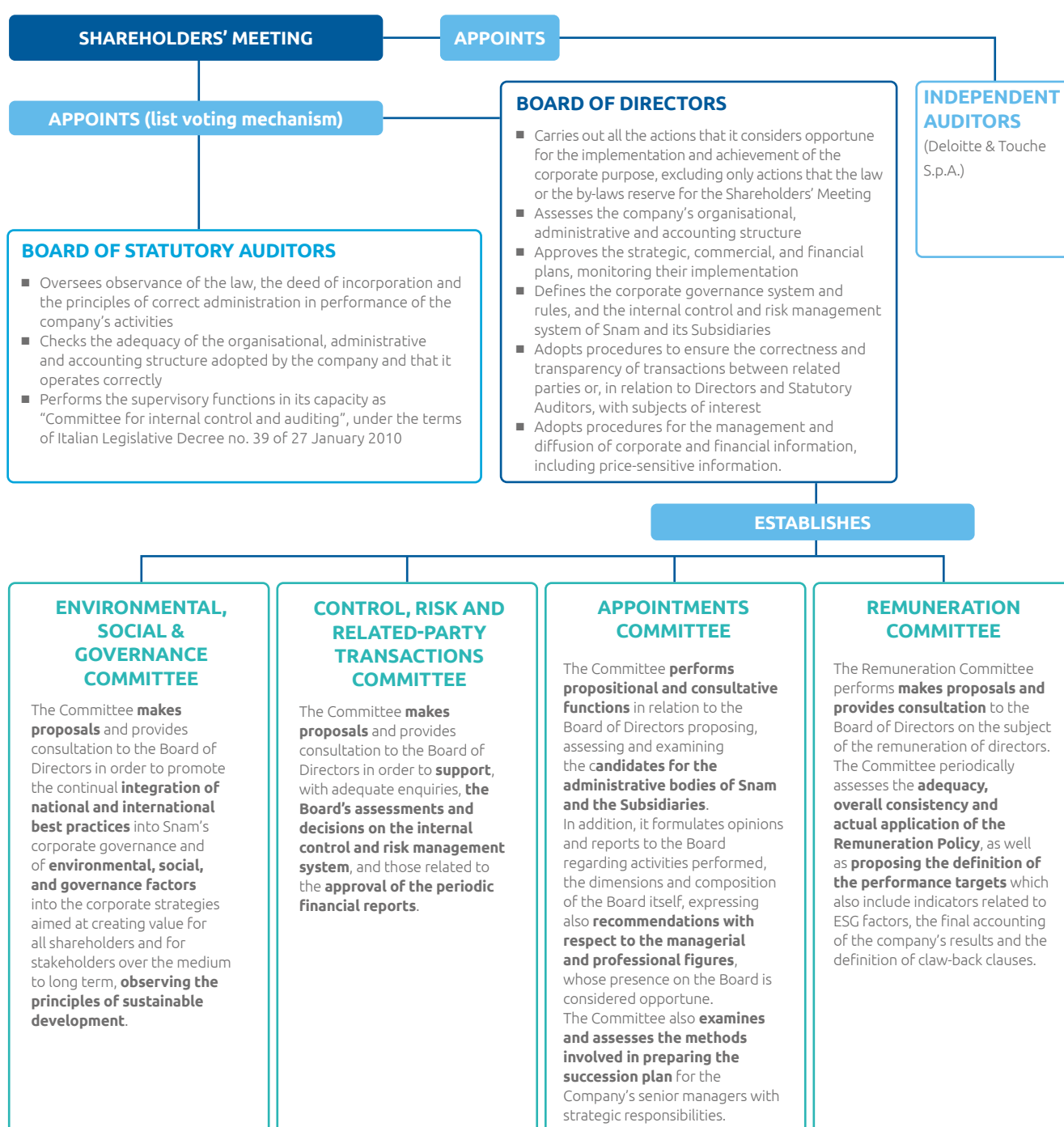
# GOVERNANCE

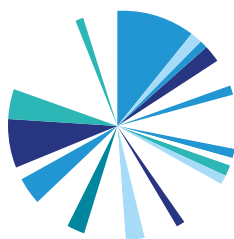


## NFS TCFD GOVERNANCE AND ORGANISATION

Snam's governance system fosters dynamics that create value and facilitate the conditions for the **proper and adequate interaction between the company and the context of reference**. These objectives are pursued on the basis of Snam's *modus operandi* principles: **integrity, transparency and compliance with regulations**, both internally and externally, to guarantee a clear and sustainable growth strategy that satisfies the interests

of all the stakeholders. The **governance system** reflects this traditional model and is developed in compliance with the regulations in force and applicable across the sector (regulations for listed companies and unbundling regulations), in consideration of **Italian and international best practices and the principles of the Group's Code of Ethics**.




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All BoD committees  
are chaired by

**INDEPENDENT  
DIRECTORS**

Furthermore, Snam adheres to the UN Global Compact, the most important international sustainable development initiative, aimed at promoting and spreading the ten global ethical principles concerning human rights, environmental protection, workers' rights and anti-corruption.

As specified in the Company by-laws, following the approved amendment by the extraordinary shareholders' Meeting of 2 February 2021, the Group aims to pursue successful sustainable practices through the creation of long-term values which benefit the shareholders, taking into consideration the interests of other stakeholders that are significant to the Company. Snam also operates under the frameworks of OECD **Guidelines for Multinational Businesses**, the **UN Declaration of Human Rights** the **fundamental Conventions** of the ILO guidelines and its own **Code of Ethics**, that is also an integral part of the Organisational Model of Legislative Decree 231/2001.

Snam already complies with a substantial proportion of the recommendations contained in the Corporate Governance Code published by the Corporate Governance Committee in January 2020 and which officially entered into force from 2021. Snam's efforts and commitment lead to its classification, in 2020, as one of the best Italian Companies for corporate governance and integration of ESG factors (environmental, social and governance) in corporate strategies, according to the annual Integrated Governance Index survey carried out by ETicaNews and TopLegal.

The Meeting of 2 April 2019 established nine directors for a term of three years in office, due to expire at the date of the 2022 Meeting for the approval of the balance sheet at 31 December 2021.

## BOD COMPOSITION

Snam's Board of Directors instituted the following four Committees: the Remuneration Committee, the Appointments Committee, the Control, Risk and Related-Party Transactions Committee, the Environmental, Social & Governance Committee. The composition, roles and function of the Committees are governed by the Board and set out in specific regulations. The Board assigns Committee members. The Committees are composed of three non-executive directors, the majority of which are independent, except the Control, Risk and Related-Party Transactions Committee that is composed of independent directors only.

With the aim to optimise corporate processes, including the functioning, efficiency and effectiveness of the BoD, a **Board Evaluation** process has been implemented since 2019, aimed at assessing the Board and internal Committee operations by passing judgement on the activities carried out and identifying elements that could improve their performance. The Board Evaluation process has been entrusted to an independent advisor.

Considering the key principles of transparency and integrity, comprising the foundation of the corporate structure, Snam is committed to identifying the information flows between corporate bodies and effectively defining the

More detailed information on governance and remuneration can be found in the document "2020 Report on corporate governance and ownership structure" and the "2021 Remuneration Report", published online at [www.snam.it](http://www.snam.it) at the same time as the Annual Report.







BoD Composition

**67%**  
OF THE BoD ARE INDEPENDENT DIRECTORS\*

\*  
5 of 9 directors are qualified as independent pursuant to the Consolidated Law on Finance (TUF) and the Code of Corporate Governance and the Chairman is qualified as independent pursuant to the TUF.

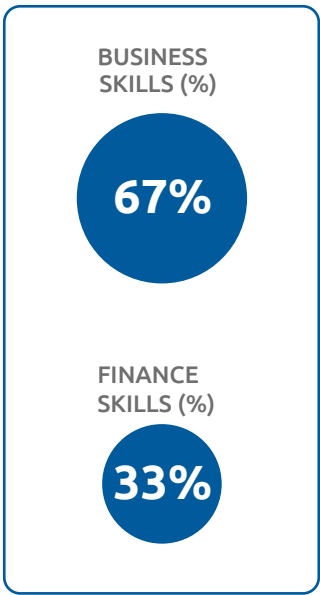


WOMEN  
**33%**

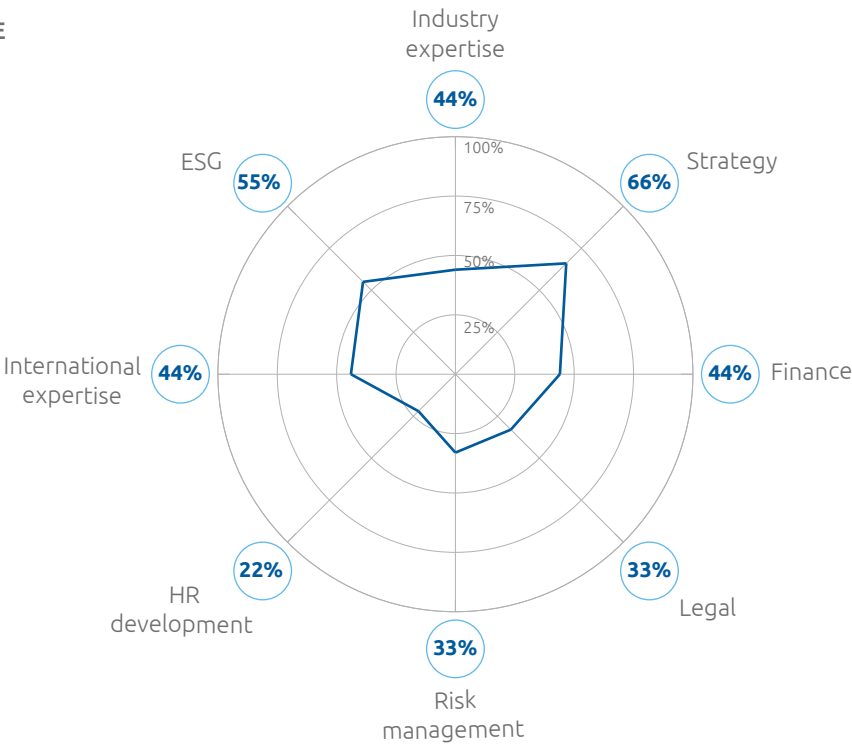


MEN  
**67%**

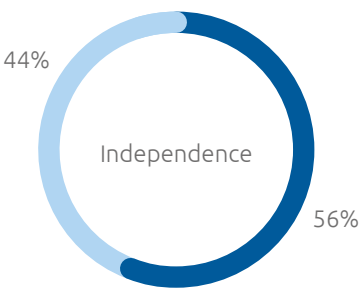
IN 2020, **12** BOD MEETINGS WERE CARRIED OUT WITH A **100%** PARTICIPATION RATE



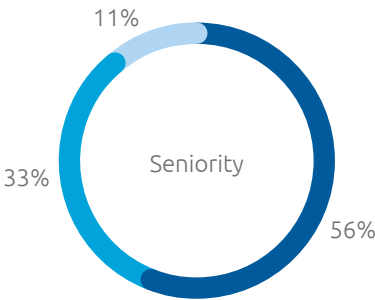
Diversity and skills matrix



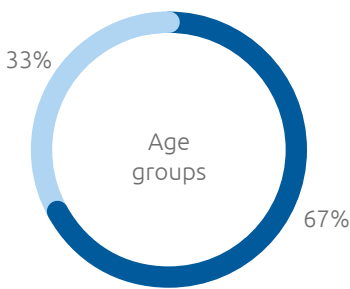
BoD Composition



● Independent  
● Non Independent



● 1-3 years  
● 4-6 years  
● 6-9 years



● 30-50 years  
● >50 years



internal Control and Risk Management System. Snam exercises management and coordination activities through the implementation of **Guidelines on Corporate Governance** which define the principles, contents, instruments and operating methods of strategic activities carried out by Snam in line with its own corporate

governance system and the characteristics of its organisational structure while, at the same time, taking into account the legal autonomy and the principles of the correct corporate and business management of the subsidiaries.

## SUSTAINABILITY GOVERNANCE

The Board of Directors plays a central role in overseeing the company's commitment to sustainable development along the value chain. Sustainability issues are always a central focus of the Board of Directors that dedicated 41% of its meetings to ESG issues in 2020.

Since 2016, the Board of Directors has been assisted with these tasks by the Sustainability Committee, replaced in May 2019 by the ESG Committee, that makes proposals and provides advice and is made up of three non-executive directors, two of which are independent, including the Chairman. The Committee is responsible for the promotion

and integration of environmental, social and governance factors in corporate strategies in compliance with sustainable development, as well as the coordination of the preparation of non-financial information. In 2020, the ESG Committee met 18 times, with a participation rate of 98%, and addressed issues relating to climate change on various occasions, analysing, in particular, the Group's results and Snam's strategies with regards to reaching the established decarbonisation targets.

### Climate change governance

In compliance with the TCFD recommendations, Snam is committed to maintaining and strengthening its governance system with the aim to support the Company initiatives in the fight against climate change.

To this end, activities have been implemented to ensure the comprehensive monitoring by the Board of Directors of climate change risks and opportunities, and opportunities aimed at ensuring the correct management of these issues by the management department when running its activities.

Based on the proposal of the CEO, the Board of Directors plays a fundamental role in spreading and integrating a culture aimed at reversing climate change. As such, the Board regularly assesses and approves:

- climate change and energy transition targets, an integral part of corporate strategies, included in the annually approved strategic Plan;
- Snam's strategic risks, including annually assessed climate change risks;
- the share-based long-term incentive plan with goals relating to reducing gas emissions, consistent with the Strategic Plan guidelines for the CEO and managers, with a greater impact on annually

approved company results;

- the annual sustainability results and the HSE reassessment, including their impacts on climate change;
- institutional reporting that comprises the half-year and annual Report (including the Consolidated Non-Financial Statement - NFS), the Sustainability Report and the Financial Disclosure on Climate Change;
- the information provided by the Committees and, specifically by the ESG Committee, pursuant to the relative Regulation on information disclosed to the Board after every Committee meeting.

As one of the initiatives aimed at making climate change a priority for management bodies, the new Plan envisages the continuation of board induction sessions for the BoD, as a means to keep its members informed about climate change issues and initiatives. In particular, according to the ESG Scorecard, it was foreseen that the BoD dedicates at least 40% of its time on ESG matters during meetings or board induction sessions.



## SNAM'S ORGANISATIONAL MODEL

We manage our business in accordance with the Corporate System Framework, the organisational and procedural system applied across all Group companies in Italy and abroad, created to ensure that the system of rules governing the business is clear, simple and organic. The system is inspired by the **Code of Ethics**<sup>13</sup> and is based on management policies, described in the following chapters, based on the principles enunciated by the **United Nations Universal Declaration of Human Rights**, the **Fundamental ILO Conventions** and the **OECD Guidelines for Multinational Enterprises**.

In order to successfully implement this system, managerial actions need to be based on the allocation of specific objectives to each position of responsibility and on the transparent assessment of results, thereby enabling continual improvements in the effectiveness and efficiency of corporate processes.

The organisational structure of Snam features four business units and staff functions, designed with a view to simplifying processes, efficiency and continuous improvement. The business units focus on four key Snam activities: (i) international development, (ii) management of Italian subsidiaries and development of technical services based on specialist skills and know-how for gas operators, (iii) energy transition business development, and (iv) hydrogen business development.

Reorganisation of the corporate structure in 2019 was required to facilitate the integration and optimisation of corporate processes, especially in the context of energy transition and decarbonisation. All business units linked to biomethane, hydrogen, sustainable mobility and energy efficiency and international activities were implemented in 2019. In 2020, also in consideration of the impact that such activities will have on the 2020-2024 Strategic Plan, the role of these business units was further strengthened.

## SNAM'S REMUNERATION AND INCENTIVE SYSTEM

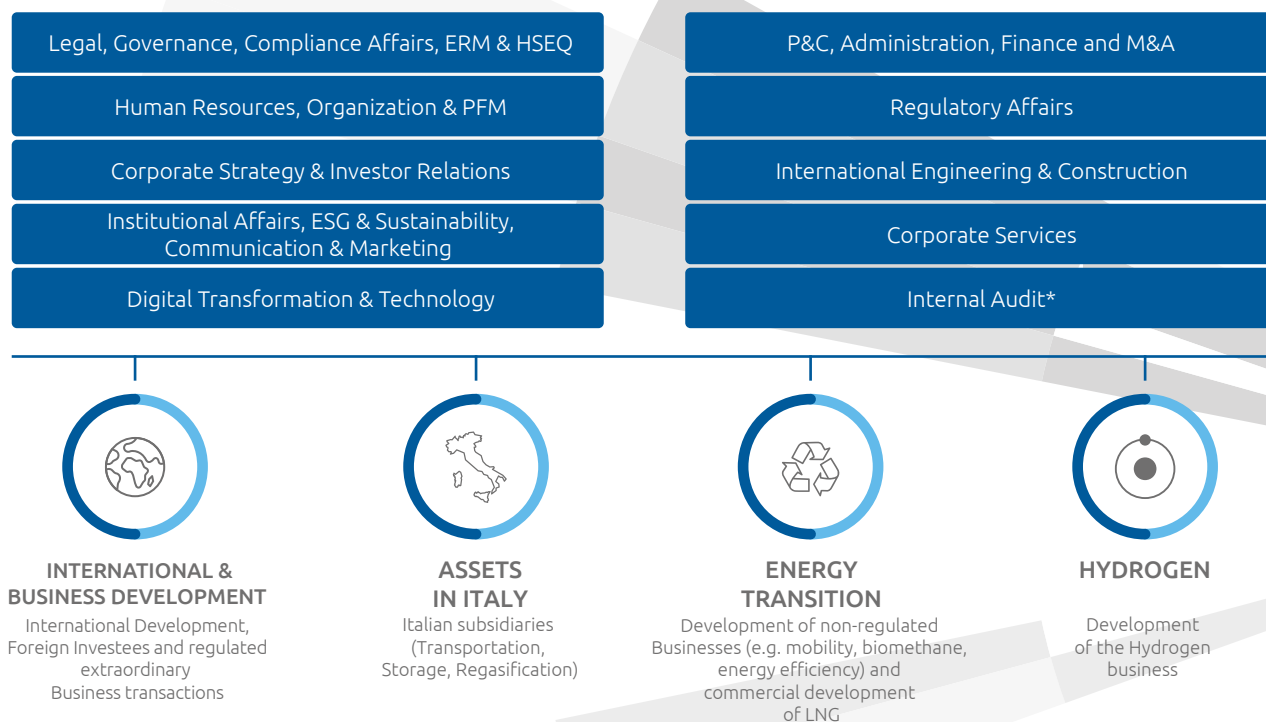
Snam is committed to providing a remuneration system that always aligns with international best practices, compliant with European and Italian regulations, and which supports and fosters the development of the Company consistently with its Strategic Plan.

Snam's remuneration system, guided by the Remuneration Committee, is aimed at recognising the responsibilities assigned to it, the results it achieves and the quality of the professional contribution provided by the Company management department and complies with the principles of people promotion and equal opportunities, established in the Code of Ethics and present, for some time, in Snam's organisational culture.

<sup>13</sup> Snam's Code of Ethics can be viewed on the Company's website at the following link [www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice\\_etico.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice_etico.pdf).


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## BUSINESS UNIT



(\*) On behalf of the Board of Directors, the Chairman coordinates and makes use of the Head of Internal Audit, who reports hierarchically to the Board.

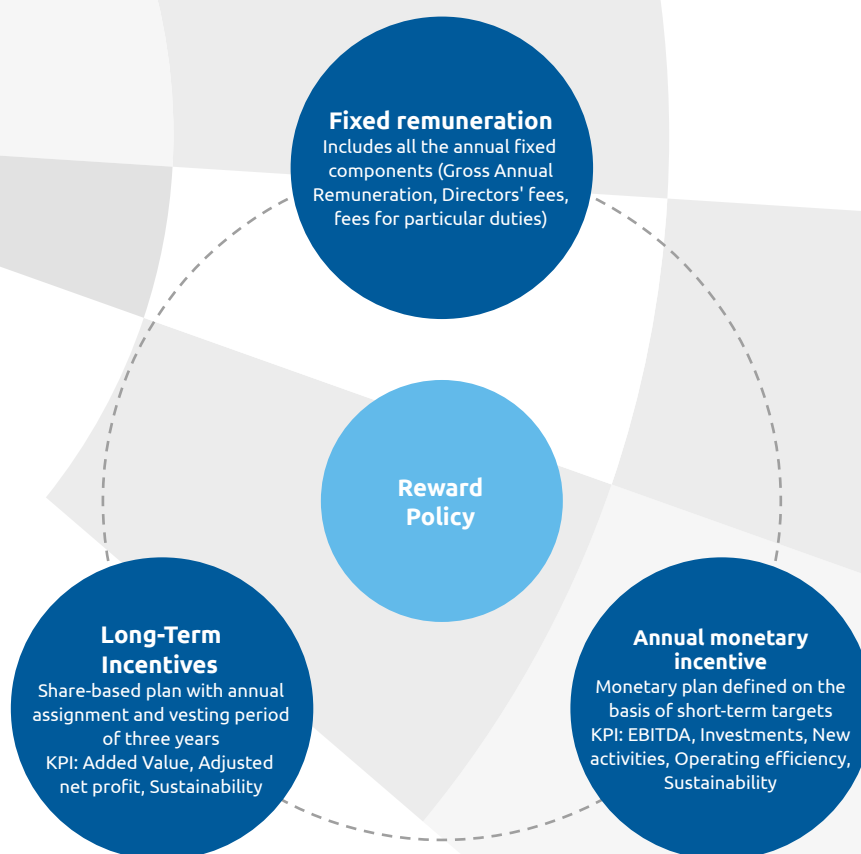
The remuneration system represents a fundamental instrument aimed at attracting, retaining and motivating team of high-quality management personnel who are able to run the company successfully, while aligning its actions with shareholders' interests and promoting the creation of value in the medium-long term.

For **managers**, 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). Also, managers are subject to claw-back mechanisms, aimed at recovering the variable portion if the resulting compensation is not due if 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. Finally, the **Total Reward Statement** is an information package on the breakdown of individual remuneration that guarantees the promotion and transparency of the remuneration system for managers.



For **the rest of the corporate 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 implemented 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.

**The Snam 2020 Remuneration Policy**<sup>14</sup> for Directors, Auditors and Managers with strategic responsibilities<sup>15</sup> was approved in 2020. The document defines the new 2020-2022 long-term share-based incentive plan that prescribes the assignment of Snam ordinary shares after achieving performance goals measured over a three-year period. Sustainability plays an increasingly important role in the new Remuneration Policy which includes: the frequency index and the accident severity index, inclusion in the DJSI, FTSE4GOOD and CDP indices, and the Forestation Project.



<sup>14</sup> The Snam 2021 Remuneration Policy for Directors, Auditors and Managers with strategic responsibilities will be approved during the shareholders' Meeting of 28 April 2021.

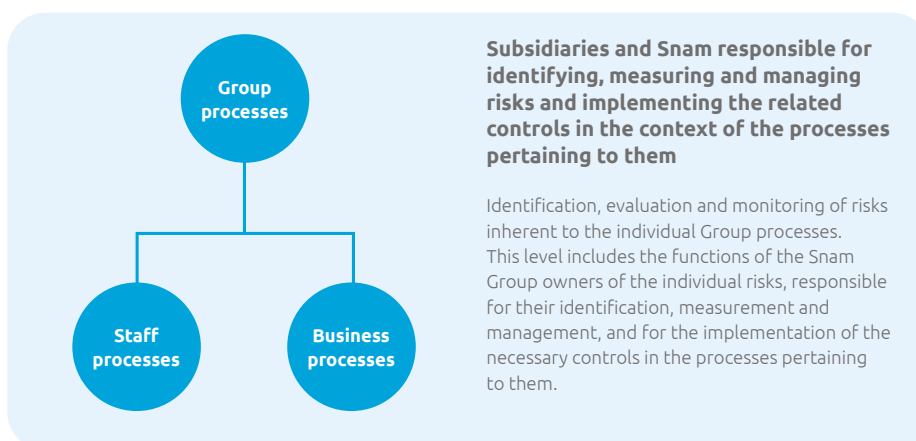
<sup>15</sup> At Snam, managers with strategic responsibilities differ from Directors and Auditors, and have the following roles: Chief Financial Officer; Chief International & Business Development Officer; General Counsel; Executive Vice President Human Resources & Organization & PFM.


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## NFS INTERNAL CONTROL SYSTEM



### 1<sup>st</sup>



### 2<sup>nd</sup>



#### COMPLIANCE → ENTERPRISE RISK MANAGEMENT

Monitoring the main risks to ensure they are effectively and efficiently managed and processed, and monitoring the adequacy and functioning of the controls in place to protect against these risks; support for Level One in defining and implementing adequate management systems for the main risks and

related controls. This level includes the functions of the Group staff in charge of the coordination and management of the main control systems (e.g. Corporate Administrative Liability, Corporate Reporting, Anti-corruption; Antitrust).

### 3<sup>rd</sup>



#### Internal Audit

Independent and objective verification of the operating effectiveness and adequacy of Levels One and Two, and, in general, of the overall risk management methods. Internal Audit operates on the basis of the "Guidelines on internal audit activities".



## INTERNAL CONTROL AND RISK MANAGEMENT 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.

Snam's **Internal Control and Risk Management System** is one of the Group's key elements and constitutes all the guidelines, regulations and organisational structures that allow for the **identification, measuring, management and monitoring of the most significant risks**, including those established under Art. 3, paragraph 1, of Legislative Decree 254/2016 (in relation to environmental, social and personnel-related issues, respect for human rights, and the fight against active and passive corruption), and the **monitoring of managerial processes**. This system is integrated into the organisational, management and accounting structure and, in general, into the corporate governance of Snam and is based on the Corporate Governance Code which Snam complies with, taking as references the national and international models and best practices.

The control system is divided into 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.

The Internal Control and Risk Management System is based on guiding principles contained in the **Code of Ethics**:

- the segregation of the activities of the persons in charge of the authorisation, execution, or control procedures;
- the existence of company regulations that can provide general benchmark principles for governing corporate processes and activities;
- the existence of formal rules for the exercise of signatory powers and internal authorisation powers;
- traceability (guaranteed through the adoption of information systems that can identify and reconstruct sources, information and checks carried out in support of the formation and implementation of the Company's decisions and financial resources management procedures).

The Internal Control and Risk Management System is audited and updated to ensure it is suited and appropriate to overseeing the main areas of corporate risk. In this context, and also in order to execute the provisions of the Code of Corporate Governance, Snam has adopted an ERM (Enterprise Risk Management) Model, considered in more detail in the "Risk Management" chapter of this document.

The corporate bodies, institutions and functions involved in the internal control system are the Board of Directors, the CEO who, employed by the BoD, is responsible for the structure that maintains the entire system, the Control, Risk and Related-Party Transactions Committee, the Board of Statutory Auditors, the Supervisory Body and the Guarantor of the Code of Ethics, the Officer responsible for the preparation of financial reports, and the Internal Audit Officer. In particular, the role carried out by the Internal Audit department is crucial in that it verifies the functionality and adequacy of the system, preparing periodic reports containing appropriate information regarding its own activities, the risk management procedures, and compliance with the plans defined to contain said information, as well as assuring the reliability of the information systems.



## RISK ASSURANCE & INTEGRATED COMPLIANCE

Under the scope of the Internal Control and Risk Management System, Snam has approved **"Risk Assurance & Integrated Compliance" Guideline** with the aim to merge the second control level models and promote and facilitate compliance with the reference regulations and the prevention of offences. This is specifically achieved through the **Compliance Programme for the Prevention of Offences (CPPI)** that fully complies with the Code of Ethics and that is implemented and rendered operational through:

- the regulatory system;
- the corporate governance provisions adopted in conformity with applicable legislation and international best practices;
- the provisions, methodologies and activities of the models applied by the dedicated functions;
- an integrated Risk Assurance & Compliance process.

Under the scope of the CPPI, the elements significant for its implementation are the Risk Assurance & Integrated Compliance model, the reporting<sup>16</sup>, rewarding and penalty systems and training and communication.

The integrated Risk Assurance & Compliance model is intended to improve the perception of the checks by the various owners involved and to make the SCIGR even more efficient through better coordination and integration of the flows and interaction between the three lines of control, valuing the respective contributions.

Like in 2019, in 2020 Snam used the **Risk Assurance & Integrated Compliance (RACI)** information platform to coordinate and integrate the second level control information flows, maintaining the specific characteristics of the methodologies of each model<sup>17</sup>, with a synergistic approach, aimed at maximum rationalisation and overall efficiency. The RACI helped create an integrated data base (Risk & Control Register), where the models involved in the Risk Assurance & Integrated Compliance process share a single risk and control catalogue.

This repository makes it possible collect consistent and complete information and data in an integrated fashion to support the **decision-making processes of the top management and corporate bodies which receive dedicated reports**.

<sup>16</sup> The CPPI is also effective thanks to the contribution made by the adoption of a whistleblowing system. The Guideline "Anonymous reports received by Snam and subsidiaries" regulates the process of receiving, analysing and dealing with the reports from anyone, anonymously or confidentially [www.snam.it/export/sites/snamrp/repository/file/Governance/procedure/procedure\\_segnaizoni/snam\\_segnaizoni\\_anche\\_anonime\\_04.pdf](http://www.snam.it/export/sites/snamrp/repository/file/Governance/procedure/procedure_segnaizoni/snam_segnaizoni_anche_anonime_04.pdf).

<sup>17</sup> The prerogatives of the Chief Financial Officer in particular are preserved as a result of Article 154-bis of the TUF, with reference, among other things, to the preparation of adequate administrative and accounting procedures for preparing the financial statements and the consolidated financial statements as well as any other financial reports.





## ORGANISATIONAL, MANAGEMENT AND CONTROL MODEL PURSUANT TO LEGISLATIVE DECREE 231/2001 (MODEL 231)

The **organisational, management and control model** pursuant to Legislative Decree 231/2001 (Model 231) constitutes an organic set of principles, rules and provisions concerning the control of each corporate process. The 231 Model plays a fundamental role in protecting the company from any conduct that may incur its administrative responsibility, pursuant to Legislative Decree 231/2001, in relation to offences committed or attempted in the interest or the benefit of the company by parties in so-called top management positions in the structure or by parties subject to their supervision and control.

Snam and subsidiaries adopted their own 231 Models<sup>18</sup> to prevent the offences referred to in the legislation on corporate administrative liability for the offences committed in the interests or for the benefit of the company, and they identified and appointed a **Supervisory Body**, for each of them, with autonomous initiative and control powers, in compliance with the laws and regulations.

The **CoSO Framework** (most recently published in May 2013) provides a basis for the analysis of corporate processes and the comparative analysis of the existing control environment and of the control systems. The Framework is the international reference model for the establishment, updating, analysis and assessment of the internal control system.

At the end of 2019, risk assessment and gap analysis activities were carried out through the "Risk Assurance & Integrated Compliance" model, created with the intention of uniting the entire risk and control detection and management system supporting business operations, aimed at updating the 231 Model of Snam and the subsidiaries.

This update also involved the offences introduced by Law 39/2019 (Fraud in sporting competitions, illegal gambling or betting and the use illegal gambling devices)

and by Legislative Decree 105/2019 (violation of national cybersecurity regulations).

According to the logic of the Risk Assurance & Integrated Compliance model, the scope of 231 was revised from an integrated logic which, starting from the specific nature of the original Sensitive Activities pursuant to the special part of the 231 Models, has made it possible to develop and apply an integrated analysis method for "Crime Risk" in line with the reference best practices.

The outcomes of these activities will make it possible to adapt the Special Part documents known as the "Processes, Sensitive Activities and Specific Control Standards of the 231 Model" for Group companies, giving evidence of the new 231 methodology applied.

Considering the importance of the principles of ethics and integrity, Snam dedicated a specific **training programme to spreading the principles and content of Model 231 and Legislative Decree 231/2001**. A Compliance Route was created and made available in the second half of 2019, aimed at the entire corporate population and arranged in 5 modules on the following themes: Model 231, Privacy, Market Abuse, Antitrust and Anti-corruption. Lastly, for some time Snam has been preparing, as part of the reporting management process (so-called whistleblowing)<sup>19</sup>, specific communication channels that the subsidiaries also refer to in addition to Snam.

Finally, under the scope of reporting management, the Group has, for some time, adopted specific communication channels, available to both Snam and subsidiaries. The management of the communication channels is entrusted to an external subject (Ombudsman), who ensures the receipt and analysis of each report received, applying criteria of maximum confidentiality suitable, among other things, for the protection of the integrity of the persons reported and the effectiveness of the investigations

<sup>18</sup> The 231 Model is available on the Company's website at [www.snam.it/export/sites/snamrp/repository/file/Governance/responsabilita\\_amministrativa\\_231/Modello-231\\_snam\\_finale\\_2019.pdf](http://www.snam.it/export/sites/snamrp/repository/file/Governance/responsabilita_amministrativa_231/Modello-231_snam_finale_2019.pdf).

<sup>19</sup> Detailed information on the topics discussed in this section can be found in the "Report on Corporate Governance and Ownership Structure 2019", available on the Company's website at [www.snam.it/it/etica-governance/relazioni-documenti/](http://www.snam.it/it/etica-governance/relazioni-documenti/).



## INTERNAL AUDIT ACTIVITIES

In 2020 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.

The Internal Audit regularly carried out scheduled activities involving:

1. preparation of the proposed Audit Plan based on the measurement and prioritisation of the main corporate risks carried out by the ERM unit;
2. execution of the Audit Plan, composed of 14 measures, approved by the Snam Board of Directors on 18 March 2020, following the favourable opinion of the Control, Risk and Related-Party Transactions Committee and after carrying out three further audits not scheduled in the plan (spot audits);
3. monitoring of the implementation of corrective actions based on the recommendations that were provided during the audit;
4. development of the independent monitoring programme defined with the Chief Financial Officer under the scope of Snam's Corporate Reporting Control System;
5. confirmations of reports, including anonymous ones, of problems relating to the internal control and risk management system, the company's administrative responsibility, whistleblowing and
6. activities involving relations with Independent Auditors, also following the identification of the new single auditor for the Group for the years 2020-2028, following the tender launched by the Group CDP S.p.A., and those relating to monitoring activities for conferring additional tasks.

Regarding point 5), in 2020, Snam received 10 reports, 4 of which were anonymous. The Internal Audit department was appointed by the Supervisory Body to verify nine of these, while the other one was assigned to the Human Resources department.

The main issues reported in 2020 were in relation to alleged irregularities in the administrative management of purchase contracts; potential conflicts of interest between employees and personnel from companies providing services to Snam and subsidiaries and alleged

infringements of the Code of Ethics and corporate procedures. From the results of the analyses carried out on the 9 archived reports, and only with regards to substantiated and verifiable allegations, 7 of these were unfounded, according to the information reported, 1 was founded, and 1 was only partially founded. Moreover, actions to improve the Internal Control and Risk Management System were recommended for 6 reports (e.g., updating procedures, disciplinary provisions, communication and training).

Significant further actions carried out include:

- the implementation of the an external quality review, in compliance with International standards for the professional practice of Internal Auditing (so-called External Quality Review), to be carried out at least once every five years by an independent subject;
- the update of the relative Operating Manual to ensure it to be coherent with the amendments to the organisational structure of the unit and the new practices, also linked to the full operation of the IT tool for the management of audit activities;
- the update of the "audit universe" of audit objects, also in order to consider the organisational changes to the Snam Group that took place during 2020 and to include the new processes resulting from the acquisition of companies in relation to the new businesses;
- the adoption, with reference to the prevention of the Covid-19 emergency, of the necessary organisational and operational procedures to facilitate audit activities in the context of remote working, respecting the timeframes established and only implementing restrictions for on-site checks carried out during audits on operational processes;
- the management of specific requests came up during periodic meetings with Snam's control bodies.


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In 2020, audit activities were performed by a dedicated team of 11 auditors (average annual headcount):

### Internal Audit activities

(no.)	2018	2019	2020
<b>Total audits performed (planned and/or spot)</b>	14	15	<b>16</b>
<b>Report for independent monitoring activities (Law 262/05)</b>	8	19	<b>21</b>
<b>Reports received and processed</b>	4	11	<b>10</b>
- those involving the Internal Control System	-	1	<b>5</b>
- those involving accounts, audits, fraud, etc.	-	-	-
- those involving administrative liability pursuant to Legislative Decree 231/2001	-	-	-
- those involving violations of anticorruption law	-	-	-
- those involving other subjects (Code of Ethics, mobbing, theft, security, etc. (*))	4	10	<b>5</b>
<b>Reports archived due to a lack of elements or untruthfulness (**)</b>	2	6	<b>3</b>
<b>Reports concluded with disciplinary procedures/managerial action (***) and/or subject to Court Authorities</b>	2	5	<b>6</b>

(\*) The data for 2019 comprises the management of 4 integrations referring to 3 reports received during the year, one of which is currently under examination.

(\*\*) The data for 2019 was updated following the Archiving, in 2020, of a 2019 report.

(\*\*\*) The term "managerial" also refers to organisational/procedural interventions relative to actions aimed at improving the Internal Control and Risk Management System.



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# RISK MANAGEMENT





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# MANAGEMENT OF RISKS AND OPPORTUNITIES

As outlined in the previous section, Snam places the Enterprise Risk Management (ERM) function at the second level of the SCIGR, which corresponds to monitoring risks and the adequacy of controls. ERM reporting directly to the General Counsel, which performs a fundamental function in the context of integrated corporate risk management for all Group companies. The main objective of the ERM model, which works in line with the recommendations of the CoSO framework and the new 2020 Corporate Governance Code, as well as international best practices, is to identify risks using standardised, group-wide policies, so as to identify priority events and ensure their consolidation and reporting. The risk is defined as an effect of the uncertainty on the targets of the Strategic Plan and can be negative or positive in scope. The results of the risk and opportunity assessment and monitoring activities and the related mitigation measures are presented regularly to the Control,

Risk and Related-Party Transactions Committee, the Board of Statutory Auditors, the Supervisory Body and the Board of Directors of Snam. In this context, the ERM unit also carries out awareness-raising and training activities for executive and non-executive directors with regard to the applied risk management methodologies and the evolution of Snam's ERM model.

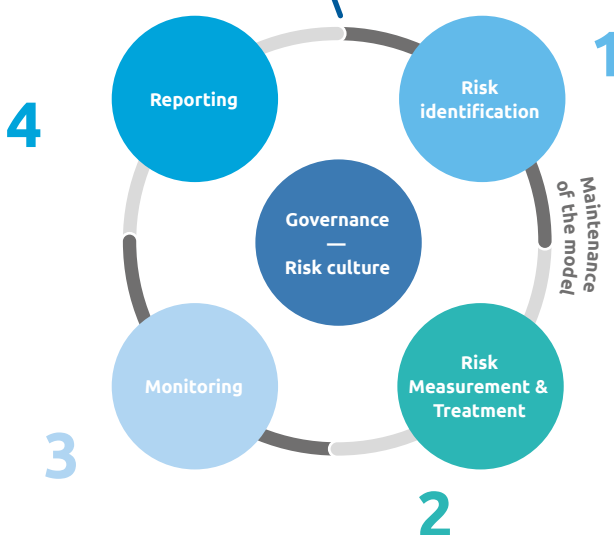
The results are also shared with: the Internal Audit department, which uses them when preparing audit plans; the Strategic Planning department, which assesses coherence with the risk assessments and analyses of the Strategic Plan; the Sustainability department, to support planning activities and to define strategies for managing ESG themes that are relevant to the Group.

**Periodic reporting** on the results of the risk identification, assessment and monitoring activities. The purpose of periodic reporting is to **report to the company's Top Management, the Control bodies and any other significant stakeholders** the information collected in the previous stages, namely: **main risks** to which the Company is exposed, **measures** identified, monitoring **indicators**, changes that may impact the business in the future, main **opportunities**.

**Monitoring activity on the evolution of the single risks and opportunities** (and/or of the entire risk register) on the basis of the **stage of progress of the management interventions/actions** associated with the risks/opportunities and the **trend of the risk indicators**.

**Towards Net Zero strategy**

**Business plan**



**Assessment and prioritisation** of each event in terms of probability of occurrence and impact, negative (risks) or positive (opportunities). The **probability** is determined on the basis of a scale from 1 (remote) to 4 (highly probable); the **impact**, measured on a scale from 1 (low) to 4 (significant), is assessed according to **qualitative**

(industrial/business, asset, reputational, legal, market, health and safety and environment) or **quantitative** (economic, financial) dimensions. The **prioritisation** of the risks, a combination of the assessment of probability and impact expressed by risk owners (first reports of the CEO) and risk specialists, is represented on

**Identification** of risk events related to business processes and external risk factors that could affect the achievement of company targets by **Staff** and **Business Managers**, responsible for the implementation of initiatives aimed at the effective oversight of risks, and **specific analyses of the operational processes of every Company and of the corporate Strategic Plan**. The events are periodically reviewed, also in the light of the growing significance of **new business development areas**, in order to ensure correct oversight of risks and opportunities related to them.

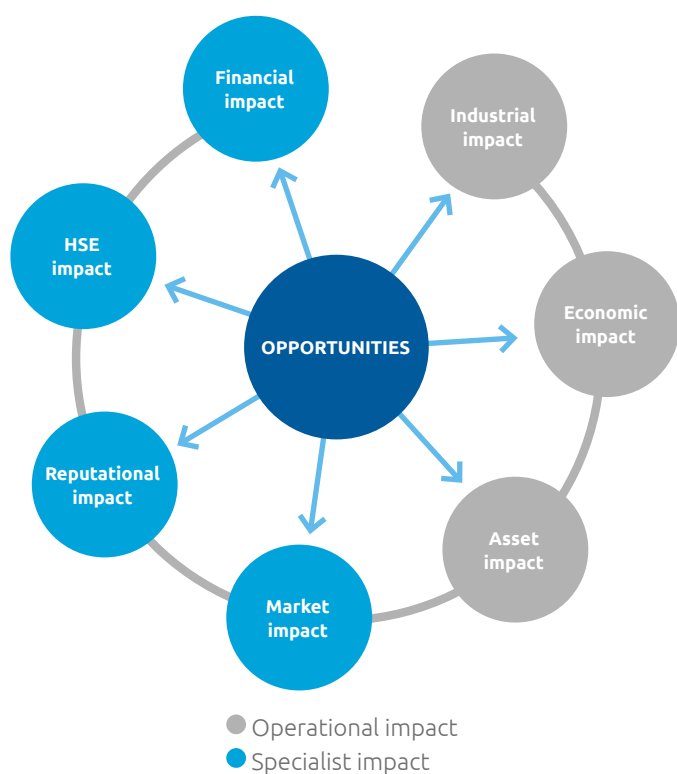
4 levels (low, medium, high and critical, for risks; light, moderate, good and excellent, for opportunities). Furthermore, the event management strategy (monitoring and management, mitigation, transfer) is defined and the actions or specific interventions are identified.



The wide-ranging nature of its impact measurement is a distinctive feature of Snam's ERM model. Indeed, every event is assessed in relation to eight types of impact, some of which are determined by risk owners (operational impacts: Economic, Industrial/Business, Asset), others by specialist departments (impacts: Financial, Legal/ Compliance/Governance, Reputational, HS/Environment, Market). Lastly, in addition to the Governance and Environment impacts, the Social impact has been defined in connection with the continuous and increasing integration of ESG aspects within the ERM framework and will be incorporated into the model in 2021. Thus, risk is assessed from different perspectives and risk prioritisation is defined by combining the measurement of the impacts and the probability related to them. The opportunities are identified in a similar way to risks, that is operational impacts are determined by risk owners and the other impacts by specialist departments. With particular reference to the specialised impact in terms of health, safety and the environment (HSE), the environment component makes it possible to incorporate aspects related to the environment and climate change associated with the identified risks and opportunities and, therefore, to determine their materiality based on the significance of their - positive or negative - contribution to managing climate change and environmental aspects related to the area in which Snam operates.

Risks identified via the ERM process are classified as financial, operational, legal and non-compliance, and strategic, including risks related to ESG issues that these may contain.

In 2020, the mapping of risks/ opportunities was updated through the RACI IT platform under the scope of the Integrated Risk Assurance and Compliance model, aimed at coordinating and integrating second-level control information flows with a synergistic approach, intended to achieve the maximum rationalisation and overall efficiency of the SCIGR. At the end of 2020, approximately 141 enterprise risks were mapped, 31 of them distributed across all corporate processes.





## ELEMENTS OF RISK AND UNCERTAINTY

This paragraph illustrates the main elements of uncertainty featured in the ordinary management of Snam's operations. The risks identified are broken down into financial and non-financial risks. The latter are classified in the following categories:

- Strategic
- Legal and non-compliance
- Operating

Moreover, the disclosure below takes into account the impacts of Covid-19, set out in a specific paragraph of this section. Financial risks are illustrated in Note 26, "Financial risk management", of the Notes to the consolidated financial statements.

### RISKS AND UNCERTAINTIES ARISING FROM THE COVID-19 EMERGENCY

The evolution of the pandemic linked to the spread of SARS-CoV-19, if not adequately contained, may continue to have significant health, social and economic consequences worldwide.

Even with the lockdown measures in place, considerable risks remain, both from an economic and financial point of view and for people's health. In addition to the worsening global macroeconomic scenario and the risk of deterioration in the credit profile of a considerable number of countries (including Italy), the risk of slowdowns in many commercial activities persists due to negative impacts on supply chains, commodity prices, flows and capital demand.

There is also significant uncertainty in financial markets both nationally and internationally with potential impacts on the business environment.

Snam, which has taken protective measures since February 2020, has taken all the necessary initiatives to protect the safety of its people, both in compliance with the lock-down measures and by taking further precautions. In particular, the company has set up an inter-functional team to manage the situation, in constant contact with the Civil Protection, with two fundamental objectives: the health and safety of its people and the continuity of the essential energy security service for the country.

As early as February 2020, Snam already ordered, as a precautionary measure, smart-working for workers whose activities did not require physical presence in the workplace, without prejudice to the necessary supervision

of operational activities in the area and those relating to the dispatching of San Donato Milanese, the heart of Snam's infrastructure.

With the gradual resumption of Snam's activities, in line with the indications and provisions of the competent authorities, criteria and measures aimed at protecting the health and safety of workers in the workplace have been defined as a priority. These criteria and measures are updated according to the indications that are progressively communicated by the Institutions and Health Authorities, as well as according to the results of the monitoring of the measures adopted and the health status of the workers carried out by the competent figures. Starting from April, on-site work gradually resumed, with all the appropriate precautionary measures being adopted, and almost all the work fronts were gradually reinstated.

After a slow-down in the summer months, the infection curve began to rise again in various countries, particularly in Europe.

Therefore, at present the company is not able to reliably calculate the impact of Covid-19 on the targets for 2021 and future years.

However, based on the information available today, the company expects a limited impact relative to its targets in 2021. Any additional further impacts on economic/financial performance and on the Group's equity situation, as well as on business development plans, will be evaluated in the light of the evolution and duration of the pandemic.



The same considerations apply in respect of any potential effects on the development initiatives and suppliers or customers deriving from the slow-down to business and the current macroeconomic context consequent to the international reach of the pandemic, that cannot yet be

assessed. The same for the assets held by the Snam Group outside Italy, in particular in France, Austria, Greece, Albania and the United Kingdom.

## RISKS AND UNCERTAINTIES ARISING FROM SNAM'S ORDINARY OPERATIONS

The descriptions of the risk categories are provided below. For each risk category, events related to the ESG (Environmental, Social and Governance) areas that are relevant to Snam are illustrated in table form, with an indication of the main management methods adopted by the Group.

### 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.

The indication of the capital assets on which the identified risks may have an impact also provides a better understanding of how the risks may impact the Group's ability to preserve and create value over time.

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 regarding the 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 to 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, 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

## Risk of climate change

The achievement of global climate objectives will lead to significant investments in decarbonisation of the energy sector over the next thirty years. In recent years, Snam has repositioned itself to benefit from new mega-trends of the energy transition, thanks to infrastructure that will be crucial for achieving decarbonisation targets, to its presence in energy transition business, to international growth and thanks to a disciplined approach to investments.

Thus Snam is committed to achieving carbon neutrality by 2040, with an intermediate target of reducing Scope 1 and 2 emissions by 50% by 2030 compared to 2018, in line with the target of containing global warming to within 1.5°C set by the Paris Agreement adopted during the Climate Change Conference (COP 21). This objective is also consistent with the UNEP (UN Environment Programme) objectives of reducing CO<sub>2</sub> emissions, with which a protocol has been signed.

With regard to the **risks associated with the emissions market**, in field of the application of the European Union directives concerning the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants, with the start of the fourth regulatory period (2021-2030) of the European Emissions Trading System (EU - ETS), the updating of the sector regulations has confirmed 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, so they will no longer be constant, and will also depend on the actual functionality of the plants. The allowances assigned free of charge to Group plants no longer suffice to comply with the regulatory conformity obligations relative to ETS mechanisms, hence Snam will procure the additional allowances required on the market.

By Resolution 114/2019/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, providing, among other things, for

could have an impact on liquidity and access to financial markets.

the recognition of costs related to the Emission Trading System (ETS). Resolutions No. 419/2019/R/gas and No. 474/2019/R/gas also introduced the recognition of ETS-related costs for the storage service (regulatory period 2020-2025) and the regasification service (2020-2023).

The climate change scenarios could cause a change in the choice of energy mixes in various European countries and in the behaviour of the population and could have an impact on the demand for natural gas (and volumes transported), which, on the one hand, could benefit from its greater sustainability compared with other fossil fuels in the short/medium and represent a bridge toward the complete decarbonisation of certain sectors, while on the other policies and individual choices could lead to a gradual decrease in consumption with a resulting impact on the use of infrastructure. Additionally, the tightening of decarbonisation targets could influence the development of the use of alternatives to gas, thereby favouring a greater penetration of low-carbon renewable gases (green hydrogen, blue hydrogen, biomethane, synthetic methane) and the growth 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 next paragraph "Market risk".

Lastly, Snam has signed the Methane Guiding Principles, which commit the company to further reducing methane emissions deriving from its activities in natural gas infrastructure. In adhering to these principles, Snam has also committed to encouraging other players across the entire gas supply chain – from the producer to end consumer – to pursue the same objective.

## Commodity risk associated with changes in the price of gas

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 Unaccounted For Gas (UFG) were also defined. On the basis of these criteria, from 2020, the recognition of quantities of fuel 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 fuel gas, network leaks and UFG volumes and the effective procurement price. With reference to the quantities recognised, said resolution confirmed the current criterion relative to fuel gas and network leaks, whereas for UFG, the level admitted will be updated once a year and will equal the average of the quantities effectively recorded in the last four years available.

In July 2020, with resolution no. 291/2020/R/gas, it concluded its investigation, recognising an additional volume of UFG for the years 2018-2019 totalling 182 million cubic metres, equal to a total value of about 42 million euros, which will be recognised, net of the amount already received on account for the year 2018, by the CSEA. In addition, it started a procedure, which concluded at the end of 2020 with the publication on 22 December

## Market risk

With reference to the **risk associated with gas demand**, based on the tariff system currently applied by ARERA to natural gas transportation activities, Snam's revenue, via the directly controlled transport companies, is partly correlated to volumes withdrawn. The ARERA, however, confirmed for the fifth regulatory period (2020-2023), with resolution no. 114/2019/R/gas, the guarantee mechanism with respect to the share of revenues related to volumes withdrawn already introduced in the fourth regulatory period on transported volumes. This mechanism provides for the reconciliation of major or minor revenues, exceeding  $\pm 4\%$  of the reference revenues related to the volumes withdrawn. Under this mechanism, approximately 99.5% of total revenues from transportation activities are guaranteed.

Based on the tariff system currently applied by the ARERA to natural gas storage activities, Snam's revenues, via Stogit, related to infrastructure usage. However, the ARERA has introduced a mechanism to guarantee reference revenue that allows companies to cover a significant portion of revenues recorded. Until the fourth regulatory period (2015-2019), the minimum guaranteed

2020 of the 569/2020/R/gas resolution, to refine the UFG recognition criteria for the fifth regulatory period (2020-2023), aimed at strengthening the consistency of the mechanism's operation and its stability, providing that the incentive of the mechanism is in any case determined on the basis of predefined unit fees proportionate to the remuneration of the metering service, rather than the price of gas. This change results in a substantial reduction risk compared to the potential impacts of the original provision.

Specifically, the Authority, while keeping the current criterion for recognising and valuing UFG quantities for tariff purposes and the functioning of the neutrality mechanism set forth in the IBT (Integrated Balance Text), which regulate the balance of gas systems within the Nation grid, in terms of recognised value, introduced an incentive mechanism based on the difference between the recognised UFG and the actual amount for the same year.

Generally speaking, the change in the regulatory framework with regard to the recognition of natural gas quantities to cover fuel gas, network leaks and UFG could have negative effects on the Snam Group's operations, result balance sheet and cash flow.

level of recognised revenues was approximately 97%, while for the fifth regulatory period (2020-2025) resolution no. 419/2019/R/gas extended the level of guarantee to all recognised revenues (100%). The same resolution also introduced an enhanced incentive mechanism (defined by subsequent resolution no. 232/2020/R/gas) with voluntary participation that provides for an increase in profit-sharing of revenues from short-term services from 50% to 75% against a reduction in the portion of recognised revenue subject to a hedging factor.

Finally, with reference to the tariff regulation criteria for the LNG regasification service for the fifth regulatory period (2020-2023), resolution no. 474/2019/R/gas confirmed the mechanism to cover reference revenues at a guaranteed minimum 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 and Greek regulatory authorities (Terēga') and


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(DESFA), from the TAP and Austria long-term contracts (different expiry dates for TAG and Gas Connect from 2023) and for the ADNOC Gas Pipeline (20 years tariff-based). In Austria and the United Kingdom (Interconnector UK) regulation does not guarantee hedging for the volume risk.

## Strategic Risks

Description	Related material topics	Mitigation actions	Impact on capital
<b>REGULATORY AND LEGISLATIVE RISK</b>			
Regulatory framework in Italy and in the countries of interest with penalising parameters, specifically as regards the criteria for determining tariffs	■ Relations with authorities and quality of services	<p>Maintaining a continuous and constructive dialogue with the regulator that contributes to the definition of a clear, transparent and stable framework to encourage the sustainable development of the gas system</p> <p>Monitoring consultation processes in a direct and/or indirect manner</p> <p>Preparation and transmission of documents containing company positions and/or proposals regarding the definition of the regulatory framework</p>	 
Significant change in legislation and/or case law		<p>Continuous regulatory oversight with monitoring of the evolution of laws and rulings, analysis of new developments, and the dissemination of information and insights to business and commercial departments</p>	
<b>MACROECONOMIC AND GEOPOLITICAL RISK</b>			
Political, social and economic instability in natural gas supply countries	■ Relations with authorities and quality of services	<p>Continuous monitoring of the political, social and macroeconomic framework</p> <p>Maintaining relationships with the Authorities and Institutions responsible for managing crises in high-risk markets</p> <p>Monitoring consultation processes in a direct and/or indirect manner</p>	 
Significant change in legislation and/or case law		<p>Preparation and transmission of documents containing company positions and/or proposals regarding the definition of the regulatory framework</p> <p>Continuous regulatory oversight with monitoring of the evolution of laws and rulings, analysis of new developments, and the dissemination of information and insights to business and commercial departments</p>	






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## Strategic Risks

Description	Related material topics	Mitigation actions	Impact on capital
<b>TCFD CLIMATE CHANGE RISKS - TRANSITION RISKS</b>			
<b>Political and legal risks</b> Tightening of the emerging regulatory framework	<ul style="list-style-type: none"> <li>Green Business</li> <li>Innovation</li> <li>Relations with authorities and quality of services</li> </ul>	Regular monitoring of energy consumption and updating consumption forecasts for plants subject to ETS Transfer of quotas between Snam companies to increase the energy efficiency of plants Identification of ambitious emission reduction targets (-50% by 2030 vs 2018 per CO <sub>2</sub> and -45% by 2025 vs 2015 for CH <sub>4</sub> ), culminating in the achievement of carbon neutrality by 2040 Development and improvement of the efficiency of gas infrastructures, in order to foster the use of natural gas and biomethane to replace more polluting fossil fuels and promote renewable gases, such as hydrogen, to support the energy transition	  
<b>Technological risks</b> Diffusion of new technologies favouring the use of intermittent energy sources and failure to adapt to new technological standards	<ul style="list-style-type: none"> <li>Green Business</li> <li>Innovation</li> <li>Development of human capital</li> </ul>	Development of new business related to the energy transition (biomethane, hydrogen, sustainable mobility and energy efficiency) Development and bringing in-house competencies in alternative technologies to gas, through acquisitions also Development of partnerships to favour the development of operators along the hydrogen value chain and promote hydrogen as a fundamental energy source for decarbonisation, via advocacy and awareness-raising activities, both in Italy and abroad	  
<b>Market risks</b> Reduction in demand for natural gas	<ul style="list-style-type: none"> <li>Climate change</li> <li>Green Business</li> <li>Innovation</li> </ul>	Development of new business related to the energy transition (biomethane, hydrogen, sustainable mobility and energy efficiency) Support to the diffusion of more efficient gas technologies (gas heat pumps and high-efficiency cogeneration heating pumps) Participation in Italian and European working tables in the field of energy transition and climate neutrality Awareness-raising activities around public opinion on natural gas as a key source to ensure energy security and enable the phasing out of coal in electricity generation Monitoring of European and national legislative initiatives within the natural gas field and representation for the company's interests with regards to the various institutional stakeholders Monitoring of international, European and national public financing programmes in the infrastructure, energy and sustainable transportation fields	       


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## Strategic Risks

Description	Related material topics	Mitigation actions	Impact on capital
<b>Reputational risks</b> Negative public perception of companies working in the fossil fuel sector	<ul style="list-style-type: none"> <li>Climate Change</li> </ul>	<p>Representation with institutional stakeholders in order to promote gas infrastructure as a tool for the development of renewable gas</p> <p>Interaction and promotion/advocacy with industry stakeholders and the financial world in coordination with other gas chain operators and associations also</p> <p>Participation in European working tables in the field of energy transition and climate neutrality</p> <p>Participation in national, European and international initiatives aimed at strengthening the commitment to reduce methane emissions</p> <p>Identification of ambitious emission reduction targets (-50% by 2030 vs 2018 per CO<sub>2</sub> and -45% by 2025 vs 2015 for CH<sub>4</sub>), culminating in the achievement of carbon neutrality by 2040</p> <p>Participation in the TCFD, the publication of an ad hoc document and the publication of the Sustainability Report</p>	 
<b>TCFD CLIMATE CHANGE RISKS - PHYSICAL RISKS</b>			
<b>Acute risks</b> Increase in the severity of extreme weather events, impacting service continuity and quality	<ul style="list-style-type: none"> <li>Reliability of infrastructures, business continuity and cyber security</li> <li>Innovation</li> </ul>	<p>Bringing the recovery plan business continuity management system in line with international best practices</p> <p>Technologically-advanced tools for monitoring/controlling the state of the infrastructure/plants and the territories concerned</p> <p>Systematic and continuous maintenance and control</p> <p>Timely implementation of Emergency Response Procedures</p> <p>Design and construction of infrastructure based on the most recent technical and safety regulations and the carrying out of dedicated studies (geomorphological, hydraulic, environmental risk, etc.) during the design phase</p>	 
<b>Chronic risks</b> Temperature increase resulting in lower gas demand	<ul style="list-style-type: none"> <li>Innovation</li> </ul>	<p>Development of new business related to the energy transition (biomethane, hydrogen, sustainable mobility and energy efficiency)</p>	



Human capital



Relational capital



Intellectual capital



Financial capital








Infrastructure capital










Natural capital


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The table below provides a focused look at the main categories of climate change-related opportunities identified by the Group, which are represented in line with TCFD recommendations.

Description	Actions and strategies to capitalise on opportunity	Impact on capital
TCFD Resource efficiency		
Reduction of internal energy consumption	Identification of ambitious emission reduction targets (-50% by 2030 vs 2018 per CO <sub>2</sub> and -45% by 2025 vs 2015 for CH <sub>4</sub> ), culminating in the achievement of carbon neutrality by 2040	 
	Increased activity and investment to meet decarbonisation targets	
	Conversion of 8 compressor stations to dual fuel plants by replacing gas turbochargers with electric compressors	
TCFD Energy sources		
Use of energy sources and/or technologies with low GHG emissions	Identification of objectives for increasing the production of renewable energy (e.g. installation photovoltaic systems), for purchasing green electricity and for installing low-emission technologies (e.g. new high-efficiency heat generators, trigeneration plants, etc.)	 
	Identification of a new target for the use of at least 55% green electricity by 2030	
Development or expansion of business serving the energy transition	Planned investments for 720 million euros in business serving the energy transition (biomethane, hydrogen, sustainable mobility and energy efficiency)	
	Acquisition of new companies in the field of energy transition (energy efficiency, biomethane) and the development of existing business (sustainable mobility)	
	Strategic partnerships with technological companies to support the hydrogen business (e.g. De Nora)	
	Other hydrogen partnerships (e.g. ITM Power)	
	Promotion of Snam's business related to the energy transition	
	Support for the coal phasing-out process and promoting the use of gas as an alternative fuel to the most polluting fossil sources	
	Increase in the Investment Plan for the gas conversion of new regions in which subsidiaries related to the phasing out of coal/oil (e.g. DESFA and Terēga) operate	
	Development of the gas conversion project in Sardinia, aimed at replacing fuels that have a greater impact on the climate	
	"LNG Offshore OLT terminal" Project located between Livorno and Pisa, in Tuscany, via an acquisition agreement with the Iren Group	


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Description	Actions and strategies to capitalise on opportunity	Impact on capital
<div>TCFD Markets</div>		
Access to new foreign markets	Analysis and possible pursuit of extraordinary investment transactions in companies operating in Snam's core business (transportation, storage and regasification) in emerging markets where the demand for natural gas is bolstered by the need to replace the use of coal and other more polluting fossil sources (China and India)	 
	Pursuit of service sales activities through Snam Global Solution, leveraging the expertise gained in the various Group companies, also on the issue of the energy transition too (India, China, the Middle East, North Africa, the Balkans, and Central and North America)	
	Signing strategic agreements with important sector operators within the main continental energy corridors	
	Requalification of Snam's role within the European infrastructure system (acquisition of DESFA in Greece)	
	Project in the United Arab Emirates in collaboration with some of the most important international investment funds launched in agreement with ADNOC (Abu Dhabi National Oil Company) to invest in the energy infrastructure of the United Arab Emirates	
	Participation in working groups in order to take a leading role in advocacy and awareness-raising activities for decarbonisation in Italy and abroad, using our expertise	
Attracting new investors	Participation in the assessment of the main international sustainability rating agencies and in the assessments of the main ESG indices, thereby increasing the company's visibility among SRI investors and, more generally, among the entire financial community	 
	Issuance of bonds linked to emission reduction and climate change resilience projects (Transition Bonds)	
	Snam's regular participation in roadshows with the aim of meeting institutional investors around the world, including SRI investors	
	Sustainable finance activities: development of market standards/regulations (e.g. alignment with Taxonomy); constant interaction with investors through participation in seminars/roadshows; preparation of a framework to distribute Transition Bonds	
<div>TCFD Resilience</div>		
Business diversification	Development of new business related to renewable gases (biomethane and hydrogen), to the implementation of the use of gas to support energy transition (Small-scale LNG, CNG) and to the efficient use of energy (energy efficiency), in Italy and abroad	  
	Participation in working groups in order to take a leading role in advocacy and awareness-raising activities to promote the use of hydrogen at national and international levels	
	Actions and investments aimed at developing hydrogen as an additional source to support the energy transition (e.g. creation of dedicated business units, the inclusion of a 10% hydrogen blend in a section of the national grid, position papers, dedicated studies and strategic positioning)	
	Modernisation of infrastructure in a H-ready perspective, already 70% ready, and the definition of standards for the acquisition of only H-ready components for the grid	



## LEGAL AND NON-COMPLIANCE RISK

The **legal and non-compliance risk** concerns the failure to comply, in full or in part, with the European, national, regional and local laws 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). Snam has, therefore, adopted and undertakes to promote and maintain an adequate internal control and risk management system aimed at allowing for the identification, measurement, management and monitoring of the main risks related to the activities carried out. 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 as well as 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 is a member of the United Nations "Global Compact" and operates within the framework of the principles set forth by this global initiative, which are an integral part of its strategies, policies and rules, including the tenth principle of "zero tolerance" towards all forms of corruption, which is the foundation for a consolidated culture of integrity and business ethics.

Since 2014, Snam has collaborated with Transparency International Italia, as a member of the Business Integrity Forum (BIF), and in 2018 Snam signed a Memorandum of Understanding with the Berlin Secretariat of Transparency International.

In 2017, Snam began a collaboration with the OECD, becoming part of the Business at the OECD Committee (BIAC), and in October 2019 - as the first Italian company - joined the Leadership team as Vice-Chair of the Anti-corruption Committee.

In September 2019, Snam was also involved in the Partnering Against Corruption (PACI) initiatives of the World Economic Forum. Furthermore, thanks to its commitment to the issues of Business Ethics and Anti-Corruption, Snam was referenced in the document presented at the B20 Summit under the Japanese Presidency held in Tokyo (2019) as a "*tangible example*" of a company that has distinguished itself in the fight against corruption with its concrete actions.

In 2020, in addition to its role as Vice-Chair of the Anti-corruption Committee mentioned above, for the purposes of the progressive enhancement of ESG issues at a multilateral level also, Snam was also selected as a permanent member of the BIAC Corporate Governance Committee and, to the same end, the company's efforts were also increased in the working tables promoted by the World Economic Forum in the area of "ESG and Corporate Governance".




Within the OECD, Snam has participated in several events, among which we should mention the "*Safeguards for a resilient Covid-19 response and recovery*", the first event of the year organised by the organisation since the beginning of the international health emergency, which replaced the annual Global Integrity Forum.

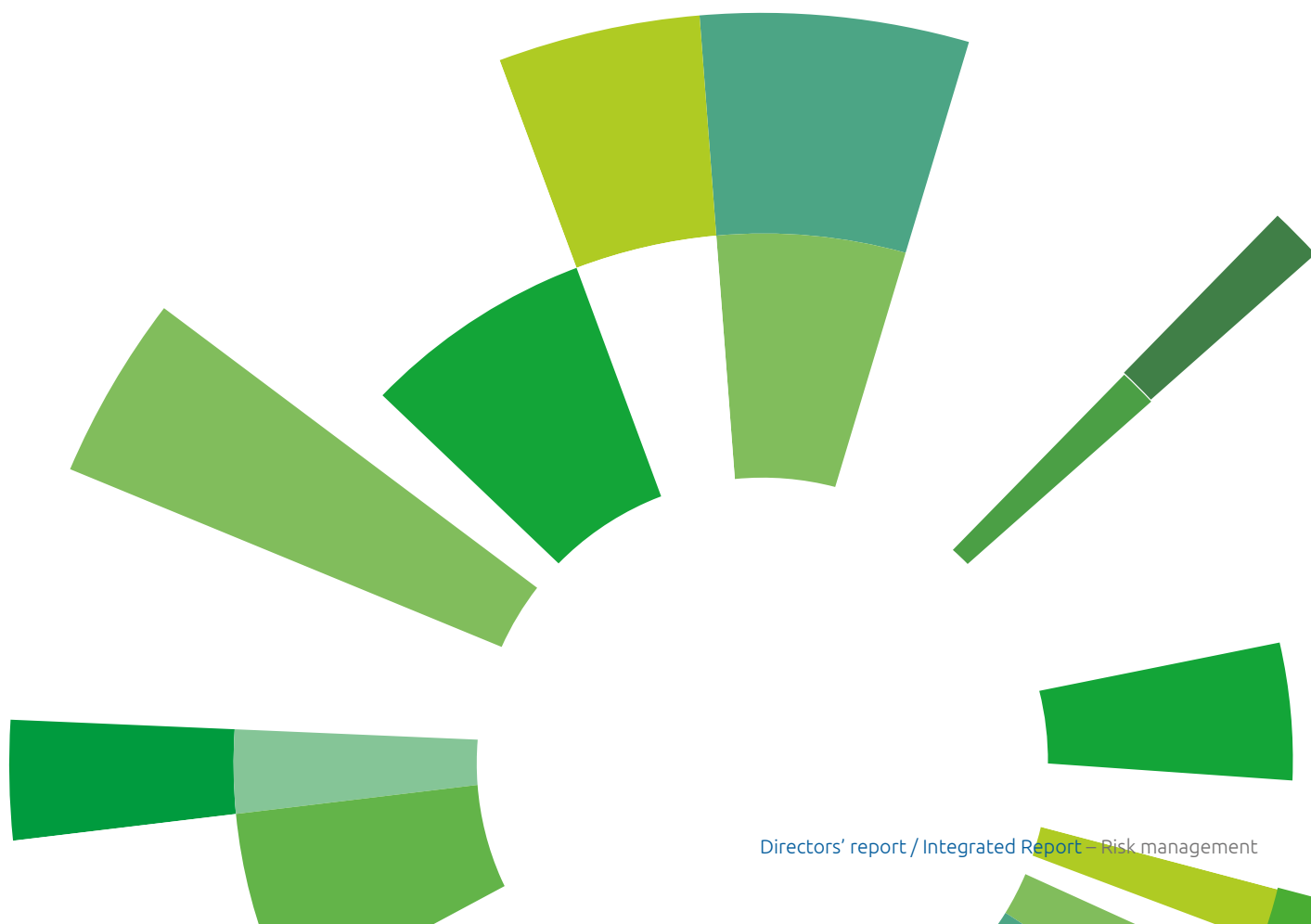
Lastly, during the B20 Saudi Presidency (2020), Snam was also one of the very few Italian companies to take an active part in the work of the Integrity & Compliance Taskforce, whose contributions were incorporated within the Policy Paper that was distributed to G20 members in view of the handover to the Italian Presidency (2021).




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## Legal and non-compliance risk

Description	Related material topics	Mitigation actions	Impact on capital
Possible violation of rules and regulations, with particular reference to Legislative Decree 231/2001	<ul style="list-style-type: none"> <li>Health and safety</li> <li>Business integrity</li> <li>Anti-corruption</li> </ul>	<p>Updating and monitoring of Model 231 protocols</p> <p>Awareness-raising and training initiatives on corruption and accident prevention for the entire company and its contractors</p> <p>Analysis and evaluation of the reports received via the channels provided in the reporting procedure</p> <p>Adoption and maintenance of Health, Safety and Environment management systems certified in accordance with the ISO14001 and OSHAS18001 or ISO45001 standards</p>	  
Maintaining an adequate reputation profile for suppliers and sub-contractors	<ul style="list-style-type: none"> <li>Business integrity</li> <li>Anti-corruption</li> </ul>	<p>Introduction of additional measures to prevent corruption and criminal infiltration</p> <p>Obligation for suppliers and contractors to sign the Ethics and Integrity Agreement</p> <p>Reputation checks on suppliers and sub-contractors</p>	
Failure to align Corporate Governance and/or the internal control and risk system with regulations and/or best practices	<ul style="list-style-type: none"> <li>Business integrity</li> <li>Anti-corruption</li> </ul>	<p>Regular review of employer's model</p> <p>Updating of Model 231 and Code of Ethics</p> <p>Analysis of compliance with the latest version (June 2020) of the Italian Stock Exchange's Corporate Governance Code and with corporate governance best practices</p>	




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## 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 has submitted – within the statutory terms – the extension request to the Ministry of Economic Development. The extensions of the concessions in Brugherio, Ripalta, Sergnano, Settala and Sabbioncello were granted until the end of 2020. For Alfonsine, Cortemaggiore and Minerbio, the related proceedings are still pending before the aforementioned Ministry. For the pending extensions, the Company's

activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures that are in progress, as 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 an application was submitted for the second extension on 18 May 2020. Lastly, another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years<sup>20</sup>. 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.

### Malfunction and unexpected service interruption

The risk of the **malfunctioning and unforeseen interruption of the service** is determined by accidental events, including accidents or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, landslides or other similar events, third-party interference and corrosion, outside of Snam's control. Such events could

result in a reduction in revenue and could also cause significant damage to people and property, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks according to industry best practices, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

### Delays in the progress of infrastructure implementation programs

There is also the 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 or health emergency situations, regardless of its intentions. Snam is therefore unable to guarantee in absolute terms that the projects for upgrading, maintaining and extending 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 time frames than those originally planned, affecting Snam's financial position and economic 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.

20 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.


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## Environmental risks

Snam and the sites in which it operates are subject to laws and regulation relating to pollution, environmental protection, the use of hazardous substances and waste disposal. These laws and regulations expose Snam to potential costs and liabilities related to the operation and its assets. The costs of possible environmental remediation obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility 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. Although Snam has also taken out specific insurance contracts to cover some of the environmental risks, according to industry best practices, substantial increases in costs relating to environmental compliance and other related aspects and the costs of possible sanctions could have a negative impact on 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.

The events related to this risk category may also refer to the theme of Diversity and Inclusion.

## 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. Improper management or supervision of the investment made may adversely affect the business, operating results and financial aspects.


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## Operational risks

Description	Related material topics	Mitigation actions	Impact on capital
Maintaining gas storage concessions	<ul style="list-style-type: none"> <li>Economic performance and value creation</li> </ul>	Development of storage in accordance with the most current technical and economic criteria and science and technology best practices	
Delays in the progress of infrastructure implementation programs	<ul style="list-style-type: none"> <li>Protecting the local area and biodiversity</li> <li>Relations with local communities</li> </ul>	<p>Application of the strictest national and international environmental and safety standards during the design process with particular attention to protecting the natural value of the territories and biodiversity</p> <p>Communication policy concerning the work to be carried out in order to share projects with the territory and stakeholders from the beginning</p> <p>Structured and meticulous performance qualification and monitoring system for contractors</p>	 
Breakage or damage to pipelines/plants, also as a result of extraordinary events, which could cause malfunction and unexpected service interruption	<ul style="list-style-type: none"> <li>Health and safety</li> <li>Reliability of infrastructures, business continuity and cyber security</li> </ul>	<p>Application of management systems and procedures that take the specific nature of Snam's activities into account</p> <p>Implementation of a recovery plan and business continuity management system</p> <p>Communication initiatives aimed at providing information regarding the presence of infrastructure and the behaviours to be avoided/implemented by third parties in order to prevent damage occurring to them</p> <p>Technologically-advanced tools for monitoring/controlling the state of the infrastructure/plants and the territories concerned</p> <p>Continuous verification of insurance coverage in relation to the type of business and related risks</p> <p>Systematic and continuous maintenance and control</p>	  
Acquisition of equity investments	<ul style="list-style-type: none"> <li>Economic performance and value creation</li> </ul>	<p>Due diligence for investment assessment, also with the support of external advisers</p> <p>Overall planning in terms of the time, actions and resources required to ensure efficiency/effectiveness in the management of activities</p> <p>Elaboration and continuous monitoring of the acquisition business plan</p>	
Asset Management	<ul style="list-style-type: none"> <li>Economic performance and value creation</li> </ul>	Support for affiliates, as a business partner, in the regulatory, operational and financial structure optimisation fields	
Cyber threats (Cyber security)	<ul style="list-style-type: none"> <li>Reliability of infrastructures, business continuity and cyber security</li> </ul>	<p>Adaptation of IT and business continuity systems to the ISO/IEC 27001 and ISO22013 standards respectively, with the provision of the relative certifications</p> <p>Definition of a security incident management team model to promptly respond to events that could potentially damage the integrity of information and computer systems used</p>	


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## FINANCIAL RISKS

Financial risks are illustrated in Note 26, “Financial risk management”, of the Notes to the consolidated financial statements.

### Financial risks

Description	Related material topics	Mitigation actions	Impact on capital
Interest rate changes	<ul style="list-style-type: none"> <li>Economic performance and value creation</li> </ul>	Cash Flow at Risk monitoring through an Asset & Liability Management (ALM) model	
Liquidity: inability to meet payment commitments		Minimising opportunity cost and maintaining a balance in terms of debt composition and maturity	
		Monitoring contractual protection clauses in loan agreements (e.g. negative pledge and pari passu clauses)	
		Constant monitoring of Snam's rating indicators and the availability of long-term credit lines	
Receivables		Regular monitoring of the credit situation and systematic management of reminders and possible recovery actions for overdue debts at certain intervals	
		Check of the authenticity and validity of financial guarantees received	
		Reporting of any critical issues in the regulatory system that could lead to opportunistic/fraudulent behaviour by operators	


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## EMERGING RISKS

Within the Group's Enterprise Risk Management model, particular attention is paid to identifying changes in the reference context in order to seize upon events or macro-trends coming from outside the organisation that could have a significant medium-long term impact (3-5 years and beyond) on Snam's business or on the sector.

These changes may, on the one hand, cause new risks to emerge in the long term, but also have consequences for the company today, changing the nature and extent

of potential impacts and the probability of occurring of already identified risks.

The purpose of the process of identifying emerging risks is to succeed in assessing their impact in good time and putting in place the necessary strategies and related mitigation actions, both in terms of prevention and control. In this area, some of the emerging risks identified by Snam are cyber security and risks related to the energy transition.

### Cyber security

#### Materiality and potential impacts on Snam

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 a constant focus and an ability to continuously adapt to the changing needs to protect it. The Group's new Business Plan provides for approximately 500 million euros of investments in digitalisation - from the remote control of activities to the implementation of articulated infrastructures enabling the Internet of Things via which Snam aims to become the most technologically-advanced gas transportation operator in the world, as well as to guarantee increasingly greater security and sustainability in its business processes.

Global experts project and the company believes that cyber security threats will evolve in the future, in terms of both number and complexity. The digital channel is increasingly used illicitly by various types of actors with different purposes and modes of action: cyber criminals, cyber hackers, and state-sponsored action groups. Similarly, technological evolution makes increasingly sophisticated

tools available to these categories, through which consolidated attack techniques can be made more effective and new ones can be developed. In addition to this, the increasing digitalisation of the network with the use of new technologies (e.g. Internet of Things) poses significant challenges for the Group in these regards, extending the potential attack surface exposed by both internal and external threats.

In this scenario, cyber security plays an extremely important role as it deals with preventing or tackling very diverse events that can range from the compromise of individual workstations to the degradation of entire business processes in the field of transportation, storage and regasification, with potential effects on the normal capacity to provide the service.

A correct approach to cyber security management also makes it necessary to ensure full compliance with the increasingly stringent sector regulations issued at both European and national level, in order to improve the management and control oversight of companies that provide essential services to the country.

#### Mitigation actions

Snam has developed its own cyber security strategy based on a framework defined in accordance with standard principles on the subject and has had a dedicated department for a few years now which, comprehensively, deals with addressing and implementing what has been planned at the strategic level, ranging from

governance aspects to those that are more predominately technological.

First and foremost, we should note the adaptation of internal processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and



ISO 22301 (Business Continuity Management Systems), as well as the formal certification of conformity to the listed standards of an independent third party. Secondly, on the basis of multiple activities, out of which Risk Analysis and Technical Verification activities stand out, the protection needs arising from technological evolution, from changing business processes or from the identification of previously unknown vulnerabilities, are assessed and, where appropriate, solutions to replace or integrate those already in place are implemented. More specifically, in order to adequately counter the most modern cyber threats, Snam has defined a cyber security incident management model intended to prevent, monitor and, when necessary, implement 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 solutions 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 containment and remediation actions via the involvement of the technical and business structures concerned. Even in 2020, the Security Incident Response Team was able to work without interruption and guarantee its support activities 24 hours a day, seven days a week.

The change that has become necessary in operational processes and, in particular, the massive recourse to remote working methods has not had an impact on overall security posture to date; this is mainly due to the fact that the adoption of smartworking, which has occurred in recent years as an alternative solution to working in the office, had already led to risk analysis activities and the adoption of security solutions suitable to preserve the company's interests, even in the presence of a potential attack surface that is larger than in the past. As part of the cyber incident management activities (preventive and reactive) and in respect of formal agreements signed between the various parties, information-sharing with national and European institutions and peers is used in order to improve the capacity and speed of response when

faced with the possible negative events for which exposure may be a reality. This practice will also become increasingly necessary in the future given the cyber threat notification requirements that national security regulations impose and will impose.

With regard to technological development, as mentioned previously, Snam has set in motion an ambitious digitalisation programme that will radically change business processes in the years to come and within which a strong focus on cyber security will always be guaranteed. During 2020, the foundations were laid for the safe development of all the nascent Internet of Things initiatives. Firstly, a precise Security by Design process has been defined, which puts in place compliance for precise requirements and checks for each application and infrastructural development. Additionally, more appropriate security technologies have been defined to support the new capabilities that Snam will acquire in the years to come. Lastly, the security processes to be developed have been identified in order to take due account of the new security requirements that arise from a business context in which work methods, the technologies adopted and the surface area exposed to digitalisation will change considerably over the course of just a few years.

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. Therefore, regular initiatives of various kinds are organised in this area, for which recourse is made to the teaching methods deemed most appropriate at any given time: frontal instruction, the creation of multimedia, exercises and tests, newsletters, etc.

With reference to the management of information supporting business processes, it is worth highlighting that the company owns assets used for data transmission to and from the country (fibre); 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.



## Energy transition and development of the hydrogen technologies market

### Materiality and potential impacts on Snam

While the climate change demonstrates the real effects of rising temperatures, the energy sector is facing a momentous transformation. Without any change to the company's commitment to its core business of regulated activities for natural gas transportation, storage and regasification, Snam is building a wide-ranging and diversified platform of activities related to energy transportation (in particular, renewable energy transport and management, the construction and management of plants related to sustainable mobility and energy efficiency) to seize upon the opportunity of being a "system integrator" able to offer green solutions and contribute to the development of renewable gases.

The business diversification can reinforce Snam's position as an enabler of the energy transition towards forms of using resources and energy sources that are compatible with environmental protection and gradual decarbonisation, with a long-term vision that is in keeping with its purpose and European objectives.

Furthermore, Snam has been working to make its infrastructure suitable for transporting increasing quantities of renewable gas with the prospect of

transporting fully decarbonised gas by 2050.

In this context, and with particular reference to the Group's strategy, the main risk factors include the risks posed by technological innovation in favour of switching to the use of electric technologies, and/or delays in the development of new technologies for the production, transportation and storage of green hydrogen at competitive costs; the delay or failure to make investments (infrastructures, projects, new acquisitions) as a result of uncertainties related to operational, economic, regulatory, authorisation, competitive and social factors; the failure to develop the hydrogen market with to the value chain that should fuel the infrastructure. Lastly, consideration must be given to the possible evolution of the regulatory framework in favour of intermittent energy sources and which would, at the same time, penalise the development of the renewable gas market.

Indeed, these factors may penalise the achievement of the development objectives of the aforementioned activities and, more generally, the opportunity for Snam to benefit from the new mega-trends in the energy transition.

### Mitigation actions

The development and introduction of new technologies that would enable the achievement of the development objectives for energy transition activities pose a number of challenges for the Group. In this context, specific initiatives have been identified and developed, in order to respond to the urgent need to address climate change. With particular reference to the hydrogen value chain, the study of the necessary technological developments connected to the chemical and physical processes for the relative production requires particular skills and expertise, in order to support research and development both within the company and the national system. The processes commonly used for the commercial production of hydrogen are: the reforming of hydrocarbons and biogas (95%), a thermochemical conversion process, which requires conversion temperatures between 150° and 500°C with the production of CO<sub>2</sub> equivalent to the hydrocarbon used, and the electrolysis of water (4-5%). Specifically, the lack of skills in the alternative technologies to natural gas is a risk that could potentially be exacerbated by rapid changes in

the external environment. That is why the Group is always committed to the development of internal competencies, to bringing skills in-house via acquisitions and to the participation and encouragement of governmental and industry working groups dedicated to hydrogen at national and international level. At the European level, it is also a member of Hydrogen Europe, while in Italy it is represented in the H2IT trade association - the Italian Hydrogen and Fuel Cell Association.

The Group's facilities and assets will also need to be ready to seize upon the opportunities arising from the development of alternative gases to natural gas. In April 2019, first in Europe, Snam experimented with feeding a mix of 5% hydrogen and natural gas into its transmission network, an experiment that was also repeated in December 2019, doubling the percentage of hydrogen by volume to 10%. The company is currently committed to verifying the full compatibility of its infrastructure with increasing quantities of hydrogen mixed with natural gas,




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as well as to supporting the development of the Italian supply chain, in order to promote the use of hydrogen in many sectors, from industry to transportation. Currently, around 70% of Snam's methane pipelines are compatible with hydrogen and standards have been defined for the purchase of only hydrogen-ready components for the network. The Group's infrastructure development is therefore aimed, on the one hand, at the more efficient use of programmable and low-impact fossil fuels, while, at the same time, promoting the biomethane alternative and guaranteeing the necessary conditions for accommodating hydrogen also.

Italy can use hydrogen to its advantage both to achieve decarbonisation targets and to create new forms of industrial competitiveness, leveraging its manufacturing potential and its expertise in the natural gas chain: that is why it is crucial to develop partnerships to foster the development of operators along the hydrogen value chain,

also participating in working groups so that Snam may take on a leading role in role in advocacy and awareness-raising activities for the use of hydrogen as a fundamental energy source for decarbonisation both in Italy and abroad.

To date, the Group has reached agreements with various entities in order to promote the growth of all phases of the hydrogen value chain, with a focus on conducting pilot projects to increase the production and use of hydrogen, via strategic partnerships in hard-to-abate industries (e.g. steel plants, refineries, other energy-intensive industries, mobility, etc.) and scouting for investment opportunities in innovative technologies (fuel cells, hydrogen production and storage).



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## 2020 PERFORMANCE





# RESULTS

In order to allow for a better assessment of the performance of economic-financial operations, this Report includes the reclassified financial statements and some alternative performance indicators (non-GAAP measures), mainly represented by the results in the adjusted configuration<sup>21</sup>. Specifically, adjusted EBIT and adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the reported EBIT and the reported net profit, as per the Income Statement.

Income components classified as special items in 2020 are represented: (i) by financial expenses deriving from the repurchase of bonds on the market in the context of the liability management transaction (32 million euros, 24 million euros, net of the relative tax effect); (ii) by the costs incurred as a result of the Covid-19 pandemic-related emergency (27 million euros; 22 million euros net of the relative tax effect), mainly related to donations of medical supplies and cash to the Italian health system and the third sector (16 million euros), purchases of personal protective equipment for internal use and costs for services (11 million euros); (iii) by funds allocated to provisions for risks and charges (17 million euros) regarding the estimation of probable fiscal and financial charges in relation to circumstances and/or events already existing as at 31 December 2020.

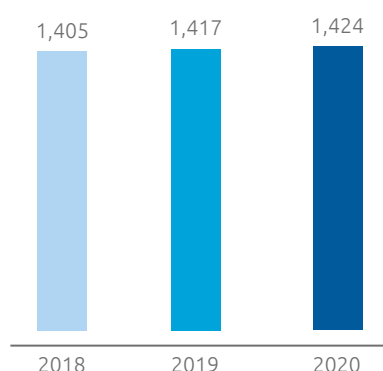
<sup>21</sup> For the definition of these indicators and the reconciliation with the related reported results, in line with the guidelines of the 2015/ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 5 October 2015, please refer to the chapter "Financial review and other information - Non-GAAP measures".



## ADJUSTED RESULTS

Thanks to the solidity and efficiency of the operational management and strict financial discipline, Snam achieved positive results in line with expectations in 2020, notwithstanding the effects of the Covid-19 pandemic.

**Adjusted EBIT**  
(million €)

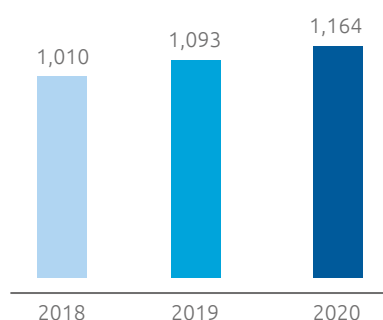


**Adjusted EBITDA** for 2020 amounts to 2,197 million euros, an increase of 28 million euros or 1.3% with respect to the adjusted EBITDA recognised in 2019. The positive contribution made by new energy transition businesses and Snam Global Solution (for approximately +13 million euros overall) and the greater regulated revenues deriving from the increase in the RAB base (+16 million euros), together with the continuation of actions under the Efficiency Plan (63 million euros of cost efficiencies compared to 2016) and the containment of costs following lockdown measures, have more than offset the reduction in regulated revenues deriving from the lower volumes transported following the Covid-19 health emergency, notwithstanding the fact that climate trends are in line with 2019.

**Adjusted EBIT** for 2020 totalled 1,424 million euros, up by 7 million euros (0.5%) compared with adjusted pro-forma EBIT for 2019. The aforementioned increase in EBITDA was partially absorbed by the natural increase in amortisation/depreciation (-40 million euros, 5.5%), essentially due to the entry of new assets to operations, partially compensated for by lower writedowns (+19 million euros, 63.3%).

With regard to business segments, thanks to higher regulated revenues linked to the increase in the RAB base, which more than absorbed the effects of a reduction in the volumes transported, the positive performance of the natural gas transportation sector was partially absorbed by a fall recorded in the storage sector, mainly attributable to tariff adjustment mechanisms and, in particular, lower incentives for new investments paid out for the fifth regulatory period.

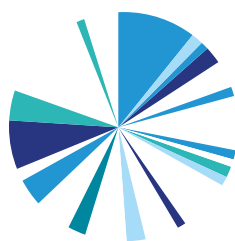
**Adjusted net profit**  
(million €)



**Adjusted net EBIT** for 2020 totalled 1,164 million euros, up by 71 million euros (6.5%) compared with adjusted net profit for 2019. The increase is due to the greater EBIT, as well as: (i) the sharp decline in net financial expenses (+39 million euros; equivalent to 23.6%), thanks mainly to the actions to optimise the financial structure and management of the treasury, with the cost of gross debt coming to 0.9%, notwithstanding the greater average debt for the period, influenced by investments in equity investments as well as the payment of dividends to shareholders and the share buyback activity; (ii) greater revenue from equity investments (+33 million euros; +15.3%), including one-offs or temporary effects, attributable to investees TAP and TAG, which benefit from non-recurrent income components, as well as ADNOC Gas Pipelines, an equity investment acquired in July 2020.

Income taxes recorded an increase (8 million euros; equivalent to 2.1%) following the greater pre-tax profit, partly offset by the effects of the reintroduction of the ACE - Aid to Economic Growth benefit.

**Net financial debt** was 12,887 million euros at 31 December 2020 (11,923 million euros at 31 December 2019). Cash flow from operations (1,597 million


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Proposed dividend

**0.2495 €**

per share

euros) made it possible to fully cover net technical investment requirements (-1,110 million euros). Taking into account net outflows associated with the acquisition of equity investments (-522 million euros, including the shareholders loan to OLT acquired by Snam with the purchase of the equity investment), free cash flow stood negative at 35 million euros. The net financial debt, after equity cash flow deriving from the payment to shareholders of the 2019 dividend (779 million euros, of which an interim dividend of 313 million euros and 466 million euros for the balance) and the acquisition of treasury shares (114 million euros), recorded an increase of 964 million euros compared with 31 December 2019, including non-monetary components related to financial debt (36 million euros), which refer mainly to the change in the scope of consolidation and the financial debt recorded through the application of IFRS 16 "Leasing".

## DIVIDENDS

Our healthy results and solid business fundamentals allow us to propose **a dividend of 0.2495 euros per share**, to the Shareholders' Meeting, of which 0.0998 euros per share was paid in January 2021 as an interim dividend (326 million euros) and the balance of 0,1497 euros per share will be paid from 23 June 2021 with an ex-dividend date of 21 June 2021 (record date 22 June 2021). The proposed dividend, up 5% compared with 2019, 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)

(million euros)	2018	2019	2020	Change	% change
Regulated revenue (b)	2,429	2,491	<b>2,548</b>	57	2.3
Total revenue (b)	2,530	2,606	<b>2,770</b>	164	6.3
Operating costs (b)	435	437	<b>573</b>	136	31.1
EBITDA	2,095	2,169	<b>2,197</b>	28	1.3
EBIT	1,405	1,417	<b>1,424</b>	7	0.5
Net profit (c)	1,010	1,093	<b>1,164</b>	71	6.5

(a) Figures are stated in the adjusted configuration.

(b) Starting 1 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (53 million euros in 2020). Similarly, the relative values from previous years (59 and 56 million euros respectively for 2019 and 2018) have been restated.

(c) Entirely attributable to parent company shareholders.

### Reported results

(million euros)	2018	2019	2020	Change	% change
EBIT	1,384	1,452	<b>1,380</b>	(72)	(5.0)
Net profit (a)	960	1,090	<b>1,101</b>	11	1.0

(a) Entirely attributable to parent company shareholders.


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## Key share and income figures

		2018	2019	2020	Change	% change
Net profit per share (a)	(€)	0.286	0.330	<b>0.336</b>	0.006	1.9
Adjusted net profit per share (a)	(€)	0.301	0.331	<b>0.356</b>	0.025	7.4
Group shareholders' equity per share (a)	(€)	1.78	1.90	<b>1.98</b>	0.08	4.3
Pay-out (Relevant dividend/Group net profit) (b)	%	77.71	71.56	<b>74.11</b>	2.55	3.6
Dividend yield (Relevant dividend/Year-end official share price) (b)	%	5.9	5.1	<b>5.1</b>	0.0	0.0
Price/Book value (Official average price per share/ Group shareholders' equity per share)	(€)	2.10	2.36	<b>2.23</b>	(0.13)	(5.4)

(a) Calculated considering the average number of shares outstanding during the year.

(b) The 2020 amount (relative to the relevant dividend) is estimated on the basis of the number of shares outstanding as at 27 February 2021.

## Key shareholder figures

		2018	2019	2020	Change	% change
Number of shares of share capital	(million)	3,469	3,395	<b>3,361</b>	(34)	(1.0)
Number of shares outstanding at 31 December	(million)	3,301	3,292	<b>3,270</b>	(22)	(0.7)
Average number of shares outstanding during the year	(million)	3,358	3,301	<b>3,272</b>	(29)	(0.9)
Year-end official share price	(€)	3.820	4.686	<b>4.601</b>	(0.085)	(1.8)
Official average price per share for the year	(€)	3.747	4.474	<b>4.417</b>	(0.057)	(1.3)
Stock Market Capitalisation	(million)	12,606	15,428	<b>15,046</b>	(382)	(2.5)
Dividend per share	(€ per share)	0.2263	0.2376	<b>0.2495</b>	0.0119	5.0
Dividends for the year in question (*)	(million)	746	780	<b>816</b>	36	4.6
Dividends paid in the financial year	(million)	731	746	<b>779</b>	33	4.4

(\*) The 2020 amount (relative to the relevant dividend) is estimated on the basis of the number of shares outstanding as at 27 February 2021.



# OPERATING REVIEW AND SUSTAINABILITY IMPACTS



## TECHNICAL INVESTMENTS



### Plant security and quality levels

Technical investments for 2020, totalling 1,189 million euros<sup>22</sup>, up on 2019 (+226 million euros; +23.5%) and in line with forecasts, despite the difficulties deriving from the restrictions that characterised the first part of the year due to Covid-19, and related mainly to the transportation (981 million euros) and storage (134 million euros) business segments.

Investments in projects aimed at maintaining plant security and quality totalled 529 million euros for transportation (336 million euros in 2019) and 101 million euros for storage (57 million euros in 2019).

Snam guarantees **360° degree monitoring of its assets**, committing to the study and development of technologies which make it possible to have full control over infrastructure. In order to detect potentially critical situations on the network and act in a timely manner in the event of unforeseen external phenomena, the methane pipelines are regularly inspected by qualified personnel, including through the use of motor vehicles, helicopter or drone overflights, or technology.

To control and check the pipelines, Snam uses an intelligent device equipped with sensors, called “pig”, which, by travelling inside the gas pipelines, allows to detect any defects or anomalies in terms of the material or minimum pipe movements.

Moreover, Snam has implemented a pipe inspection method through a detection system able to identify any methane leaks (**Leak Detection**); this activity responds to the ARERA directives which require the entire network to be monitored every 3 years.

The Company has always **constantly monitored the technological evolution**, in order to identify solutions that are potentially applicable to its own business and capable of improving the quantity and quality of checks on all its assets, for the purpose of increasing reliability and safety over time. Ever since their invention, Snam has trialled and, where deemed effective and applicable, subsequently adopted various **in line inspection** solutions, which have evolved from the use of simple internal pipeline cleaning devices to advanced devices equipped with complex systems of sensors capable of identifying deformations in the pipe section, any construction defects or corrosion, as well as any movements in the pipeline's axis over time.

<sup>22</sup> An analysis of the technical investments made by each business segment is provided in the “Business segment operating performance” section of this Report.


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Experimental activities are currently in an advanced state of implementation, involving the use of **satellite survey technologies** in order to assess the possibility of improving the ability to intercept potential activities that interfere with and could damage or jeopardise the integrity of the pipelines, and to identify geographical areas characterised by land movements of a particularly slow nature that cannot be identified with the conventional monitoring methods currently employed (periodic geological surveying by qualified geologists), which potentially pose a danger to the maintenance of the pipeline's integrity over time.

Lastly, Snam carries out continuous monitoring and control activity on its storage facilities through detection systems which activate when needed to immediately ensure the safety of the facilities. The most commonly used systems related to fire, smoke, pressure and gas leak detection.

### Control and inspection of transportation business

(km)	2018	2019	2020
Network inspected using smart pigs	1,651	1,651	1,487
Network inspected using helicopter overflights	18,462	20,178	20,662
Network inspected with Leak Detection technology			10,535
Network subject to geological inspection	4,209	5,163	4,438

## INTERCONNECTED TRANSPORTATION-STORAGE CAPACITY AND NETWORK UTILISATION

The average transportation capacity provided in 2020 was 363.1 million cubic metres/day on average, which was in line with 2019, while transferred capacity totalled 207.2 million cubic metres/day on average. Network saturation<sup>23</sup> was 57.1%, a decrease compared with 2019 (63.8%).

The number of active transportation users in 2020 was 213, compared with 150 active users in 2019. In 2020, 103 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, 19 contracts for the injection of biomethane and 35 relating to CNG service areas.

The total storage capacity at the end of 2020, on a like-for-like basis with strategic storage, came to 17.0 billion cubic metres, thanks to the Bordolano field gradually coming into operation, confirming the most extensive capacity at the European level for 2020 too.

There were 91 active storage customers (unchanged from 2019).

## BUSINESS VOLUMES

In 2020, a total of 69.97 billion cubic metres of gas was injected into the network, a decrease of 5.40 billion cubic metres (-7.2%) compared with 2019.

<sup>23</sup> Ratio of capacity transferred to available capacity.




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# 71.30 bcm

**Gas demand**

(-4.3% compared with 2019)

# 71.60 bcm

**Normalised gas demand**

(-4.4% compared with 2019)

# 60 methane tankers unloaded

(+39 compared with 2018)

# 19.60 bcm

**Gas moved through  
the storage system**

The reduction is due to the significant decline in gas demand, which comes to 71.30 billion cubic metres (-3.18 billion cubic metres; -4.3%), due to the decrease in withdrawals in all consumption sectors. More specifically, the drop in gas demand is attributable: (i) to lower consumption in the thermoelectric sector (-1.47 billion cubic metres; -5.5%), following the decrease in electricity demand due to the lockdown measures implemented to contain Covid-19, in particular during the months from March to June, as well as the increase in photovoltaic production, partially offset by a significant drop in imports of electricity and a reduction in hydroelectric and wind production; (ii) to lower consumption in the industrial sector (-0.91 billion cubic metres; -5.3%), due to a 12% reduction in industrial production with respect to 2019, intensified by the closure of various productive activities during the lockdown (March/April), followed by a slow recovery in industrial production which has not yet returned to pre-Covid levels. Additionally, the reduction in gas demand was affected by lower consumption in the residential and tertiary sector (-0.72 billion cubic metres; -2.6%), essentially due to a progressive increase in energy efficiency measures and modernisation of heating systems with higher efficiency hot water heaters, relative to similar climate conditions in the two periods.

Total storage capacity as at 31 December 2020, including strategic storage, was 17.0 billion cubic metres (unchanged with respect to 2019), of which 12.5 billion cubic metres related to available capacity fully allocated for the thermal year 2020-2021 and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2019-2020, as established by the Ministry of Economic Development by means of the notice dated 17 January 2020).

Volumes of gas moved through the storage system in 2020 amounted to 19.60 billion cubic metres, an increase of 0.27 billion cubic metres, or 1.40%, compared with 2019. Greater disbursements to deal with the reduction in injections to the national network were partially compensated for by lower injections in storage.

During 2020, the Panigaglia (La Spezia) terminal regasified 2.52 billion m<sup>3</sup> LNG (2.40 billion m<sup>3</sup> in 2019; +5%).

The continued increase in volumes of activities compared with 2018 (0.91 billion m<sup>3</sup> in 2018, more than doubled in 2020) 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 2020, 60 methane tankers were unloaded (+3 with respect to 2019; +39 with respect to 2018).


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## KEY OPERATING FIGURES

In accordance with IFRS 8 "Operating Segments," the operating segments that are reported separately were not changed and refer to regulated activities related to the transportation, regasification and storage of natural gas. Therefore, the new companies which head activities relating to the Energy Transition (sustainable mobility, energy efficiency and biogas/biomethane) are included in the "Corporate and other activities" segment, not operating under the terms of IFRS 8. An analysis of EBIT by business segment is provided in the "Business segment operating performance" section.

### Key operating figures

	2018	2019	2020	Var. ass.	Var. %
<b>Natural gas transportation (a)</b>					
Natural gas injected into the National Gas Transportation Network (billion cubic metres) (b)	72.82	75.37	<b>69.97</b>	(5.40)	(7.2)
Gas transportation network (kilometres in use)	32,625	32,727	<b>32,647</b>	(80)	(0.2)
<b>Liquefied Natural Gas (LNG) regasification (a)</b>					
LNG regasification (billion cubic metres)	0.91	2.40	<b>2.52</b>	0.12	5.0
<b>Natural gas storage (a)</b>					
Available storage capacity (billion cubic metres) (c)	12.4	12.5	<b>12.5</b>		
Natural gas moved through the storage system (billion cubic metres)	21.07	19.33	<b>19.60</b>	0.27	1.4
<b>Employees in service at year end (number) (d)</b>	3,016	3,025	<b>3,249</b>	224	7.4
<i>of which business segment:</i>					
- Transportation	1,915	1,945	<b>1,910</b>	(35)	(1.8)
- Regasification	64	65	<b>67</b>	2	3.1
- Storage	59	61	<b>62</b>	1	1.6
- Corporate and other activities (e)	978	954	<b>1,210</b>	256	26.8

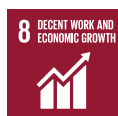
(a) With regard to 2020, gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 MJ/SCM (10,572 kWh/SCM) for transportation and regasification activities and 39.23 MJ/SCM (10.895 kWh/SCM) natural gas storage for the 2019-2020 thermal year.

(b) The data for 2020 were updated at 14 January 2021. 2019 figures were definitively updated.

(c) Working gas capacity for modulation, mining and balancing services, allocated in full for the 2020-2021 thermal year.

(d) Fully consolidated companies.

(e) The figures for 2020 include resources coming from the entry of Mieci and Evolve into the scope of consolidation (137 resources overall).


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## Staff employment and development

The number of employees in service at 31 December 2020 was 3,249, an increase of 224 (+7.4%) over 2019. Over the year, the following were recorded:

- the entry of 376 resources, of which 137 were due to the entry of Miei and Evolve into the scope of consolidation, and 226 were appointed from the market, including to strengthen new energy transition businesses, particularly in the field of biomethane.
- the exit of 152 resources, principally due to termination of employment relationships (143), 47 of which were unilateral.

With respect to the Group's distribution country-wide, 2,495 people are employed in the northern regions of Italy, 246 in the central regions and 498 in the south and Sicily. Moreover, 10 resources are permanently in service abroad.

During 2020, 66,385 hours of training were delivered with 17,277 participants, involving 90% of the company workforce (95% of women participated in at least one training course). On average, 20.4 hours of training took place per employee (20.8 hours on average for male staff and 18.5 for female staff).



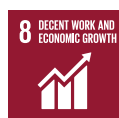
## Industrial relations

During 2020, Snam maintained a constant relationship with Trade Unions at the national and local level through 155 teleconferencing meetings, in line with government provisions and specific business policies aimed at containing the spread of Covid-19.

The Parties discussed several plans for the evolution of consolidated and recently created businesses, as well as issues of organisational importance triggered by the crisis situation that had emerged over the year.

In particular, pathways deriving from the integration of commercial and physical dispatches were discussed and established, in order to optimise transportation and storage activities.

As regards 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 Parties met to establish productivity and profitability indicators for the 2020 Participation Bonus for Group companies and the benefits related to the 2019 bonus were booked. Moreover, a series of trade union discussions on smart working was set up, to extend that way of working to the business's entire office-based population, including operational units in the territory in response to the pandemic.


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## Supply chain management<sup>24</sup>

Snam adopts an 'extended' management model aimed at going beyond the boundaries of its company perimeter in order to empower supply chain operators (suppliers and subcontractors). In this framework, everyone is encouraged to achieve increasingly sustainable performance in terms of risk mitigation, innovation of management processes, increasing in operational efficiency and the promotion of responsible governance procedures. Moreover, in consideration of the new objectives linked to the reduction of Scope 3 emissions included in the new Towards Net Zero Strategic Plan, it is even more necessary and important to establish collaboration and a mutual commitment from Snam and its suppliers and subcontractors in order to tackle climate change.

In 2020, there were 541 suppliers under contract, of which 377 belong to the small-medium business (SME) sector (69% of the total), concluding 1,338 procurement contracts worth a total of approximately 1,832 million euros (+18% compared with 2019). From the geographical point of view, more than 96% of assets, works and services were acquired in Italy, involving suppliers located throughout almost all of the national territory (19 regions). Among the goods purchased, the most important material is steel (piping, connectors, etc.) which, in 2020, amounted to a supply of approximately 84,000 tonnes.

As regards the companies TEP, IES Biogas, Cubogas and Snam 4 Environment, together with their subsidiaries, 189 million euros worth of goods and services were procured from more than one thousand suppliers belonging to the new businesses sector (mobility, biomethane and hydrogen).

### Supply

(million euros)	2018	2019	2020
Value of procurement	1,520	1,550	<b>1,832</b>

Snam also incurred expenses of approximately 11 million euros for the supply of goods and services to ensure the safety of its own employees and deal with the Covid-19 pandemic in the best possible way.

To ensure the adequacy of suppliers in relation to current and future procurement requirements, Snam is constantly conducting market intelligence analyses and scouting activities for new suppliers. Thus, the correct balancing of the number of supplier companies on the Vendor List is ensured, according to criteria that follow the evolution of the need to acquire goods, works and services over time.

In 2020, the number of suppliers on the Vendor list and the related product groups were rationalised (-12% and -7%, respectively, compared to 2019), researching new and efficient synergies between the supplier companies already

<sup>24</sup> The figures in this paragraph relate to the following companies only: Snam, SRG, GNL Italia, Stogit, Enura, Snam 4 Mobility, Cubogas.



available, and, at the same time, the population of suppliers linked to energy transition activities and Snam's new businesses was increased, together with critical activities connected to the management of the health emergency.

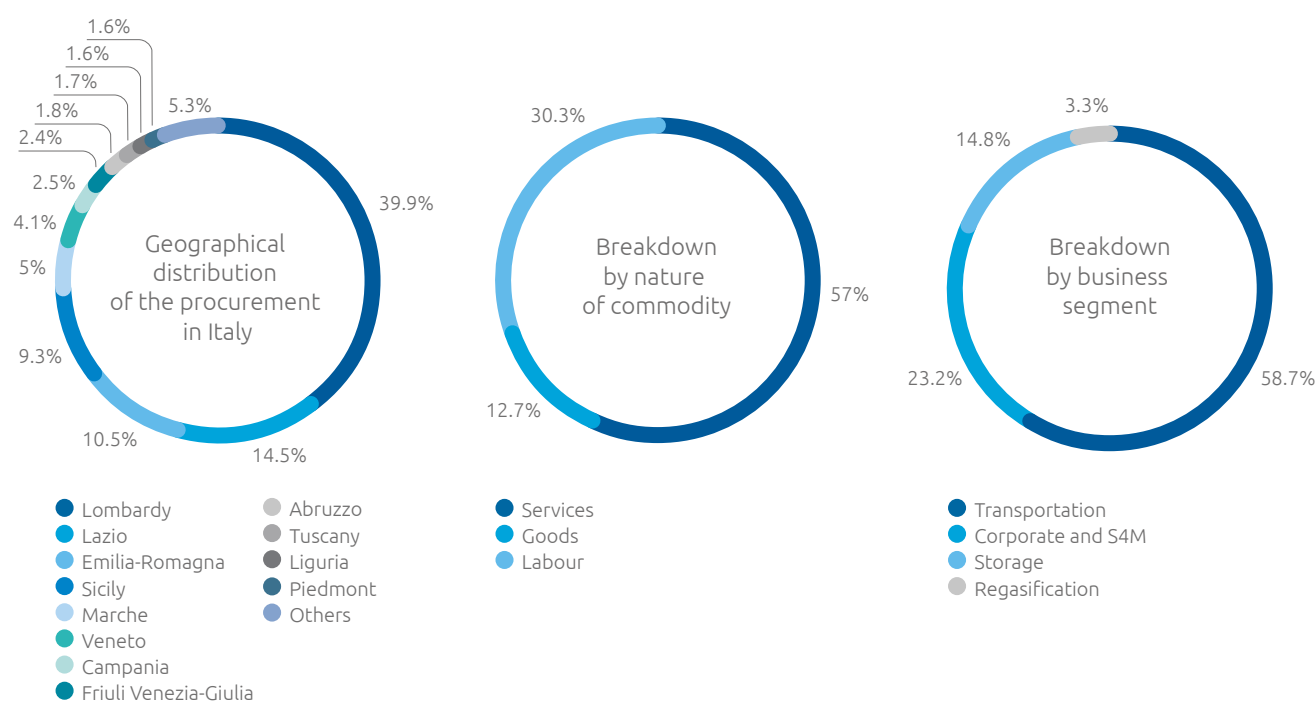
In 2020, over 700 businesses were contacted and more than 1,000 new candidates were activated for accreditation/qualification. The number of spontaneous candidatures increased by 2.7% compared to 2019, coming to 1,007.

As at 31 December 2020, the total number of qualified suppliers was 1,855, of which 221 belonged to the most important and strategic product categories (A and B). 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 course of the year, 877 feedback reports were collected, relating to the services of 166 suppliers (+41% compared to 2019), 371 contracts were analysed and, in line with the promotion of sustainable behaviours along the supply chain, 3,815 audits on the tax compliance of 1,768 suppliers and subcontractors were also carried out, detecting irregularities in 2.28% of cases (+1.3% compared with 2019).

Moreover, 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 2020 2,758 reputational checks were conducted on suppliers and contractors. Moreover, since July 2020, Snam has been introducing a new category of checks carried out on its own suppliers, called "**Compliance Checks**", which also entail the analysis of the financial solidity of suppliers (or aspiring suppliers), as well as their suitability and fitness both from a technical point of view and in terms of HSEQ.

In procurement of works related to Snam's core activities, the suppliers considered critical (critical levels A and B) must be in possession of quality and environment management systems certified with ISO 9001, ISO 14001, OHSAS 18001 and ISO 45001 standards.

To evaluate the performance of its own suppliers over time, 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). Snam may restrict, suspend or even revoke the qualification of a supplier who fails to meet the agreed standards. In 2020, 13 provisions were issued in this area.

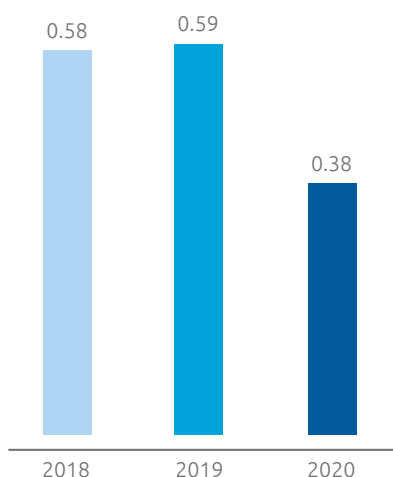



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## Health and safety

### Frequency index

Employees and contractors



The frequency index was calculated as days of absence for injury / total hours worked.

Although the issues of health and safety at work have become even more important during the course of 2020, due to the Covid-19 pandemic, 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 2020 a total of 5 accidents took place (7 in 2019), 3 of which involved Snam Group employees (2 in 2019). All of them took place in companies in the unregulated sector (2 Cubogas and 1 Mieci), and 2 involved contractors (5 in 2019), with one sadly resulting in a fatality.

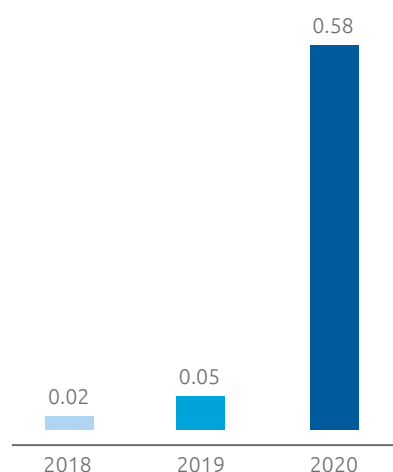
In 2020, the accident frequency index for employees was 0.59, a slight increase compared to 2019 (0.41), while for contractors it was 0.25, a reduction compared to 2019 (0.71).

The accident severity index for employees was 0.01, a reduction compared to 2019 (0.03), while for contractors it was 0.93, a marked increase compared to 2019 (0.07) due to the fatal accident<sup>25</sup>.

Overall, for employees and contractors, the frequency index was 0.38 while the severity index was 0.58.

### Severity index

(including fatalities) Employees and contractors

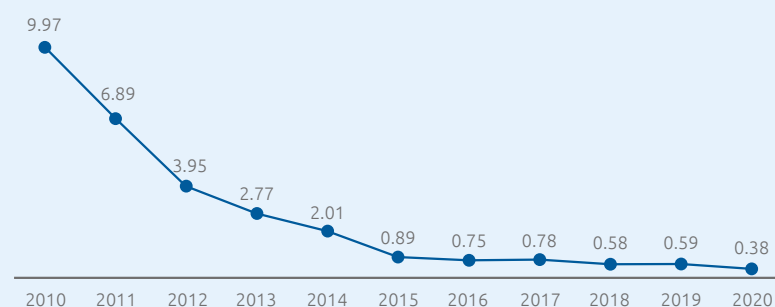


The severity index was calculated as number of injuries / total hours worked.

### Frequency index

Employees and contractors

**In the past 10 years, Snam has disseminated a culture based on protecting health, preventing injuries and safety at all levels of the Company, involving the whole corporate population and contractors. This approach enabled a constant reduction of injuries.**



\* The frequency index was calculated as days of absence for injury / total hours worked.

25 One fatal accident is computed as 7,500 days of absence.


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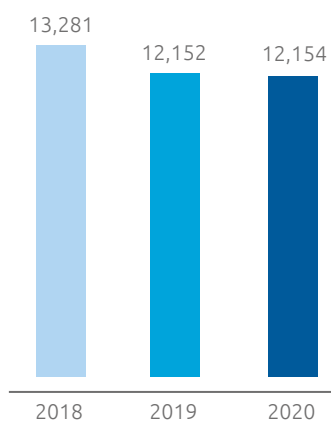

## Energy consumption

The main sources of Snam's energy consumption are the gas turbines used in compression facilities, which in 2020 represented 82% of total consumption. Moreover, 2020 saw an increase in the consumption of the regasification plant (+4% compared to 2019), in line with the increase in quantities of gas being regasified and a simultaneous reduction in consumption for storage (-6% compared to 2019), in line with the reduction in stored gas.

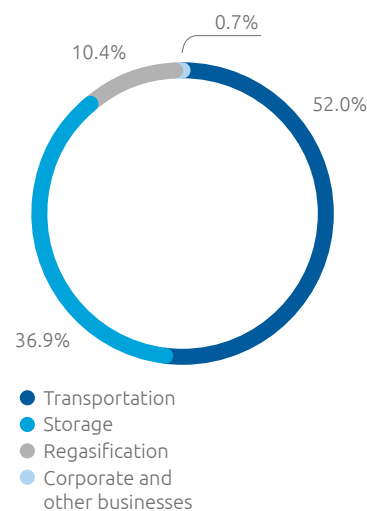
In 2020 total energy consumption was 12,154 TJ (similar to in 2019, +0.02%), influenced principally by the use of backbone pipelines for importation. In fact, during the course of the year, a 7% reduction in gas injected into the network compared to 2019 was recorded; the gas was transported by the North Africa backbone route, which is more energy-intensive than the northern Europe and Russia backbones.

The Company's energy mix is almost entirely made up of natural gas (95.4%); the other sources of which it is composed are electricity (increased from 3.5% in 2019 to 3.8% in 2020) and other fuels (diesel fuel, gasoline, LPG and heat), which together amount to 0.8% of the total consumption.

Energy consumption (TJ)



Energy consumption by business segment





## GREENHOUSE GAS EMISSIONS

Total GHG emission were approximately 1.74 million tonnes of CO<sub>2eq</sub> (-13% compared with 2019). The total reduction in emissions was principally due to various concurrent causes, including:

- recovery of natural gas emissions through gas recompression, hot tapping<sup>26</sup> and Leak Detection and Repair (LDAR);
- production and/or purchase of electricity from renewable sources;
- installation of facilities with LED lighting;
- installation of more energy-efficient heat generators;
- restructuring and improvements to the energy-efficiency of buildings;
- increase in smart working.

Direct emissions of CO<sub>2eq</sub> came to 1.27 million tonnes. Of these, 0.66 million tonnes were attributable to fuel emissions, while CO<sub>2eq</sub> emissions deriving from methane and HFC emissions amounted to approximately 0.62 million tonnes and 0.001 million tonnes (-11% compared with 2019 and -20% compared with 2018, respectively). Natural gas emissions stood at 35 million m<sup>3</sup>, down compared with 39.2 million m<sup>3</sup> in 2019.

Indirect CO<sub>2eq</sub> emissions from energy consumption derived from the procurement of electricity and heat generated by third parties, which the Company uses for its own activities. Electricity consumption, which came approximately 128,750 MWh, increased by 10% compared to 2019, principally caused by the Renerwaste sites (not accounted for in 2019). Notwithstanding the increase, emissions did not increase for those sites, as almost 60% of the electricity consumed was generated by renewable sources.

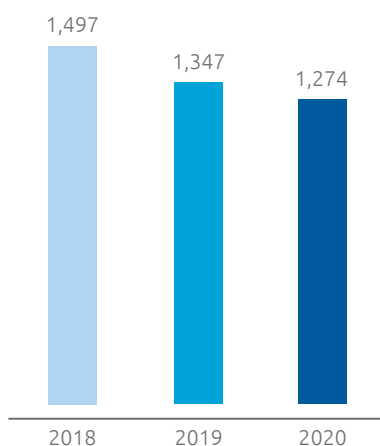
CO<sub>2eq</sub> emissions, calculated according to the market based approach, came to 31.3 thousand tonnes, down compared to 2019 (-3.4%), thanks precisely to the growing use of renewable energy sources, thus avoiding the atmospheric emission of approximately 18,600 tonnes of CO<sub>2eq</sub>, an increase compared to the 16,100 tonnes avoided in 2019. As regards Scope 3 emissions, in 2020 the Group implemented a number of measures to calculate and subsequently reduce such emissions. Of these measures, Snam intends to continue to request its suppliers to complete the CDP Supply Chain questionnaire, promote working groups for the establishment of a common strategy for reducing emissions, hold thematic meetings on problems related to climate change and introduce stricter sustainability criteria in the choice of suppliers.

with regard to Scope 3 emissions, in 2020 some 8 different categories pertaining to such emissions were accounted for, therefore recalculating the emissions of previous years. In 2020, Scope 3 emissions came to approximately 433 thousand tonnes, a 31% reduction on the recalculated 2019 figure, following a decline in procurement and the different nature of the supplies. The 433 thousand tonnes of CO<sub>2eq</sub> relating to scope 3 emissions does not include the category linked to investments (which historically represents approximately 50% of total scope 3 emissions), due to the timing of data validation by investee companies.

<sup>26</sup> Advanced technique for the attachment of branches from pipelines in operation that make it possible not to interrupt the flow of gas or discharge the gas contained in the pipeline from which the branch leads.

**In 2020, Snam reduced its atmospheric emissions by more than 200 thousand tonnes of CO<sub>2eq</sub>, a much higher figure than for 2019 (+12%), and it also avoided the emission of more than 10 million m<sup>3</sup> of natural gas, equivalent to 183 thousand tonnes of CO<sub>2eq</sub> (+11% compared to 2019).**

**Direct GHG emissions  
– Scope 1 (kt CO<sub>2eq</sub>)\***

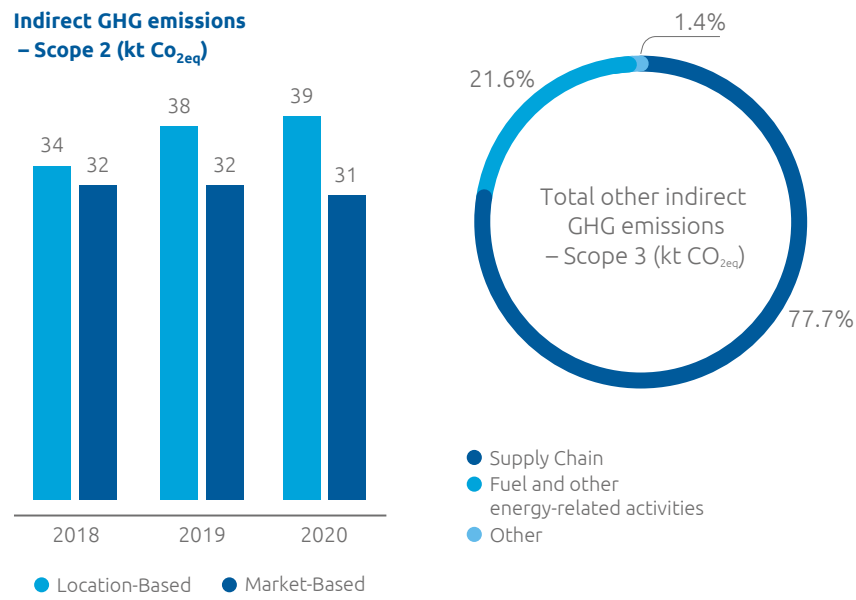


\* The emissions of CO<sub>2eq</sub> were consolidated according to the operational control approach. The GHG gases included in the calculation are CO<sub>2</sub> and CH<sub>4</sub> and the emissions are calculated with a GWP of methane equal to 28, as indicated in the scientific study by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC"





Lastly, as regards carbon dioxide emissions from the Snam Group facilities covered by the ETS, overall they were greater than the allocated emission allowances. 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, which ended in 2020. In view of around 0.615 million tonnes of carbon dioxide emitted into the atmosphere, around 0.120 million tonnes were allocated free of charge, resulting in a 0.495 million tonne deficit.




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# SNAM AND THE FINANCIAL MARKETS

## SNAM SHARE PERFORMANCE

The Snam share price ended 2020 at an official price of 4.601, down 1.81% on the price recorded at the end of 2019, which was 4.686.

The average value of the share during the period was 4.417 euros, peaking at 5.1 euros in the second half of February.

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 2019 and confirmed in the 2020 plan, and clarity of the regulatory framework.

Since the beginning of March, the effects of the Covid-19 pandemic and lock-down measures have triggered strong tensions and volatility in financial markets and global equity indices have fallen sharply. The Snam share also fell in relation to the intensification of restrictive measures. Despite the restrictions imposed by the authorities on the mobility of people, the company has

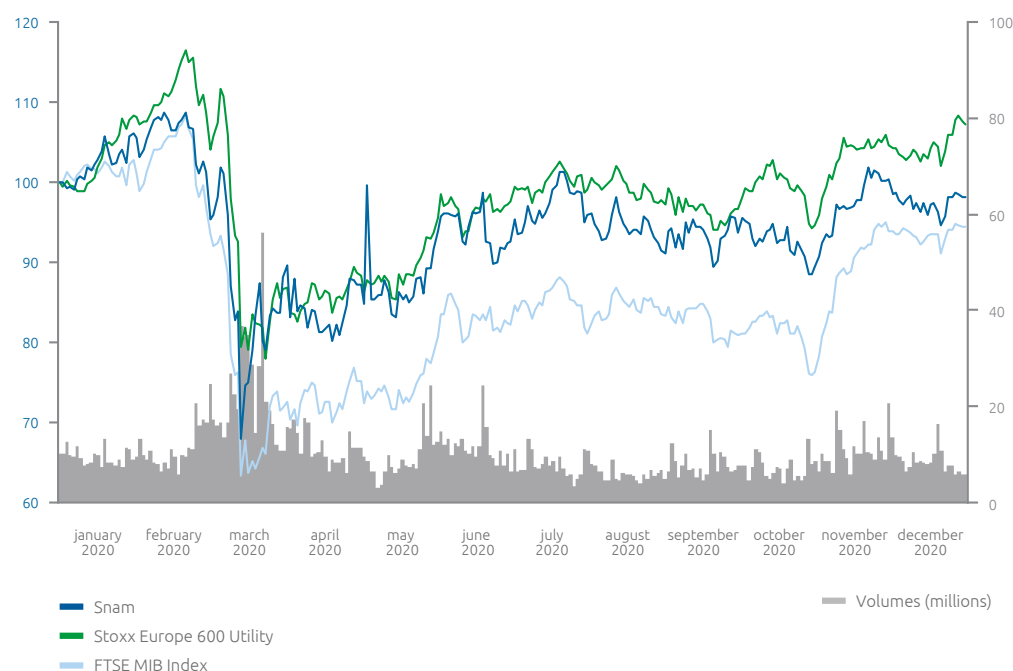
worked with great commitment and extraordinary measures to guarantee its essential energy security service.

The success of the issue of the first Transition Bond in June 2020, followed by two further issues in December 2020 and February 2021, whose funds will be used to finance projects in the energy transition sector, the agreement with ADNOC to join the networks of the Arab Emirates, the partnerships with the British ITM Power, one of the largest global producers of electrolyzers, and through the partnership with De Nora, a global leader in alkaline electrodes, are factors that contributed to the recovery of the share in the last months of the year.

During the course of the year, the Company continued its investing activities both in its own regulated infrastructure, which is confirmed to be central to the energy transition to a low-emissions economy, and in the new energy transition activities in order to guarantee sustainable and profitable growth for shareholders.

### SNAM – Comparison of Snam, FTSE MIB and STOXX Europe 600 Utilities listings

(1 January 2020 – 31 December 2020)




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## Snam shareholder composition at 31 December 2020

CONSOLIDATING COMPANY	SHAREHOLDERS	% OWNERSHIP
Snam S.p.A.	CDP Reti S.p.A. (a)	31.35
	Mr. Romano Minozzi	7.46
	Snam S.p.A.	2.70
	Other shareholders	58.49

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

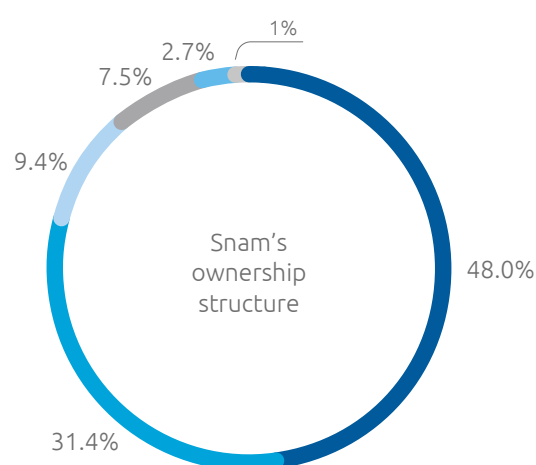
Cassa Depositi e Prestiti (CDP), a financial institution controlled by the Ministry of Economy and Finance, whose mission is to promote the growth and development of the Italian economic and industrial system, is a major shareholder in Snam S.p.A.

At the end of 2020, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 31.35% of share capital, Snam S.p.A. held 2.70% in the form of treasury shares, and the remaining 65.95% was in the hands of other shareholders.

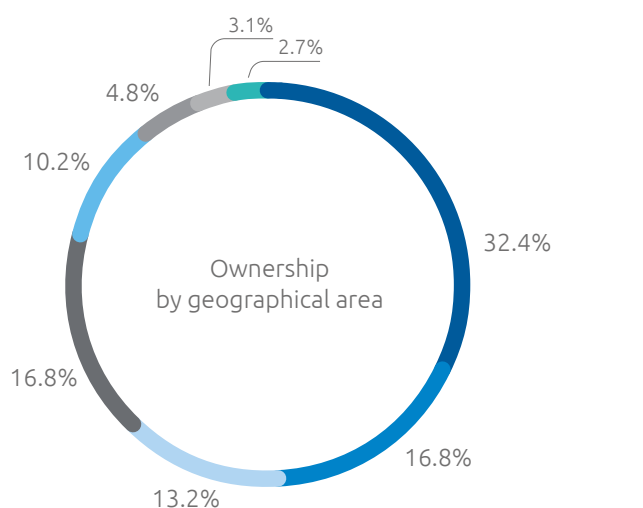
The share capital at 31 December 2020 consisted of 3,360,857,809 shares without indication of nominal value

(3,394,840,916 at 31 December 2019), with a total value of 2,735,670,475.56 euros (unchanged from 31 December 2019).

As at 31 December 2020, Snam's portfolio contains 90,642,115 treasury shares (102,412,920 as at 31 December 2019), equal to 2.70% of its share capital, with a book value of about 361 million euros (3.02% for a book value of around 388 million euros at 31 December 2019). More information with regard to the changes in treasury shares in the portfolio in 2020 can be found in the chapter "Other information - Treasury shares" of this Report.



- Institutional investors
- CDP Reti
- Retail investors
- Mr. Minozzi
- Treasury shares
- Bank of Italy



- Italy - Strategic Investors (\*)
- USA and Canada
- Continental Europe
- Italy - Retail (\*\*)
- Rest of the world
- Italy - Institutional
- Treasury shares

(\*) Italy's strategic investors include the Bank of Italy and CDP Reti.

(\*\*) Italy's retail investors include the shares held by Romano Minozzi (7.6%).



## 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.

### 2020 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 2020, and notwithstanding the restrictions on movement that emerged following the onset of the Covid-19 pandemic, Snam has virtually participated in:

- 10 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.

## INCLUSION OF SNAM STOCK IN SUSTAINABILITY INDICES AND ESG RECOGNITION

As in previous years, Snam stock was included in the main international SRI (sustainable and responsible investment) stock market indices, an instrument that guarantees transparency in relation to the market and comparability in relation to the Group's peers, in addition to making the Company visible to other investors and the financial market as a whole.

There are 245 investors within Snam's shareholder composition that are classified as ESG, representing 34.1% of all institutional shareholdings in Snam and 13.8% of the total as of September 2020 (Nasdaq analysis).


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## Sustainability indices



FTSE4Good

Snam is once again present in the FTSE4Good index, 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 an important point of reference to establish benchmarks and ethical portfolios.



Snam's 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



Snam's listing has been confirmed for the fourth 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.



For the ninth consecutive year Snam stock has been included into 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.



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



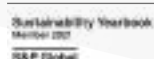
Snam is confirmed to be included in 2020 as well in the (Europe, Eurozone, World) NYSE Euronext Vigeo 120 indices, managed by Vigeo, a leading company on a European level in rating companies with regard to CSR issues.



Snam was also listed, in 2020, 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 anti-corruption issues.



Snam is for the second consecutive year among the companies included at the global level in Bloomberg's Gender-Equality Index (GEI). The index includes this year 380 businesses, of which 18 belonging to the energy sector. The company, one of the leading operators of energy infrastructures in the world, obtained a total score of 71.21% improving the GEI score by 2.1 percent compared to the previous year.



In the context of the CSA assessment 2020, Snam was included in the **Sustainability Yearbook 2021** which rewards companies included in the top 15% of their industry.

## ESG ratings



Snam has been included again among the top-scoring companies of CDP, a non-profit organisation among the most important at the international level on the subject of climate change. In 2020, Snam came back to the global top, obtaining inclusion in the A List which comprises only 273 companies at the world level (8 in Italy), testifying to the strong commitment put into action on subjects related to climate change and the energy transition.



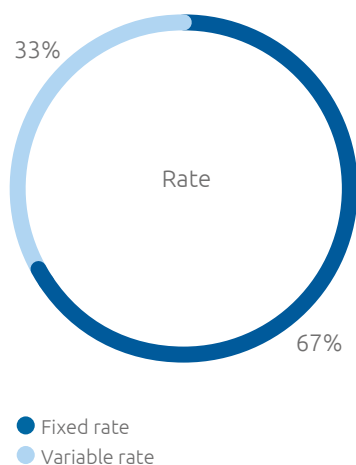
Snam joined for the second year the CDP supply chain programme, the CDP programme aimed at the involvement of its supply chain in the climate change questionnaire. Snam got a score of A-, demonstrating the commitment of its suppliers in engagement activities involving issues related to the reduction of emissions and the development of sustainable strategies. In 2020 the company widened the perimeter of analysis, involving a higher number of suppliers and obtaining from these a higher level of response compared to 2019 (60% of respondents vs. 56%). The quality of the responses of suppliers also improved.



In 2020, Snam was confirmed at "PRIME" level (with rating B-) by ISS ESG, which recently acquired the service Oekom Research, a leading international agency rating socially responsible investments, which operates on behalf of institutional investors and financial services companies.



Snam was also confirmed in 2020 in the Sustainalytics index, a leading ratings agency that evaluates companies from an ESG perspective and which the company has been part of since 2013. The score of 19.8 indicates a low level of risk of the company in the ESG field, compared to an average risk level in 2019.

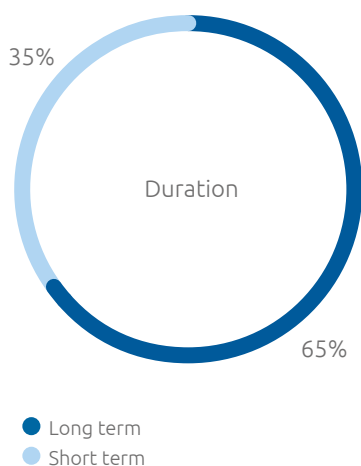


## DEBT MANAGEMENT AND CREDIT RATING

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 2020 was 12,887 million euros, the result of a gross financial debt of 15,937 million euros and cash and cash equivalents of 3,050 million euros.

With reference to the capital market, in June 2020 Snam concluded the issue of its first Transition Bond, which followed the first Climate Action Bond, issued in 2019, for a sum of 500 million euros, with an annual coupon of 0.75% maturing on 17 June 2030. Moreover, in November 2020, Snam issued a second Transition Bond for a sum of 600 million euros, with an annual coupon of 0%, a re-offer of 99.728%, maturing on 7 December 2028. That issue was structured as the longest bond loan with a coupon equal to 0% to have ever been issued by an Italian issuer, when it was issued.



In December 2020, Snam successfully completed a buyback on the bond market of bonds (Liberty Management) with a total nominal value of around 629 million euros, with an average coupon of approximately 0.62% and a remaining maturity of approximately 2.80 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction stood at 651 million euros, including the fees paid to intermediaries and accrued interest (4 million euros in total).

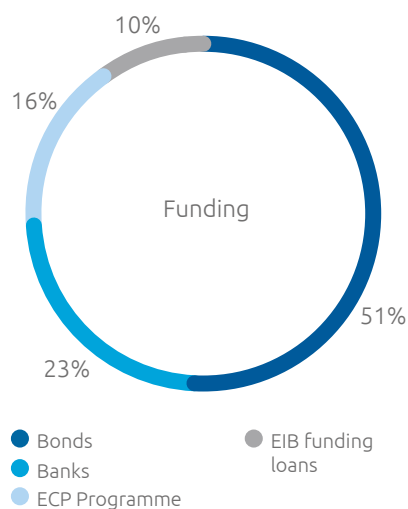
At 31 December 2020, Snam has unused committed long-term credit facilities ("Sustainable Loan") for an amount of approximately 3.2 billion euros. During the year, as part of the process to optimise the financial structure of Group, their duration was extended without an increase in margins. Moreover, in May 2020 Snam maintained the reduction of the margin for the "Sustainable Loan" that had been obtained previously in April 2019 following the achievement of the objectives linked to social and environmental sustainability parameters.

In order to increase the proportion of total available funding represented by sustainable finance, the Euro Commercial Paper programme was renewed, rising from 2 billion to 2.5 billion euros, linking it to environmental and social sustainability targets in line with the Sustainable Loan and with the instrument obtaining an ESG rating of EE assigned by the ESG rating company Standard Ethics.

As at 31 December 2020, Snam had an active Euro Medium Term Notes (EMTN) programme with a total nominal maximum value of 11 billion euros, of which it has used approximately 7.8 billion euros.

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 2020.

As at 31 December 2020, sustainable sources of financing stood at around 7 billion and represented approximately 40% of Snam's committed funding. This


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percentage is in line with the company's ambition to increase the proportion of available funding represented by sustainable finance from the current 40% to 60%, over the life of the plan.

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 stable 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 and Standard & Poor's is a notch higher than that of Italian sovereign debt, while the rating assigned by Fitch is two notches higher.

	MOODY'S	STANDARD & POOR'S	FitchRatings
Latest update	11 <sup>th</sup> January 2021	22 <sup>nd</sup> February 2021	22 <sup>nd</sup> January 2021
Rating on long-term debt	Baa2	BBB +	BBB +
Rating on short-term debt	P-2	A-2	F2
Outlook	Stable	Stable	Stable



## KEY EVENTS

### CORE BUSINESS DEVELOPMENT

#### Snam and Iren sign: acquisition of a stake in the OLT - Livorno regasifier

Completed on 26 February 2020, Snam's acquisition of 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.

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 euros 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.à r.l., owns 48.24%.

### INTERNATIONAL BUSINESS DEVELOPMENT

#### Snam - in consortium with five international funds - signs agreement with ADNOC to join the networks of the Arab Emirates

On 15 July 2020, the consortium consisting of Snam and the investment funds Global Infrastructure Partners (GIP), Brookfield Asset Management, GIC (the Singapore sovereign fund), Ontario Teachers' Pension Plan and NH Investment & Securities, following the fulfilment of all conditions precedent, completed the acquisition of 49% of ADNOC Gas Pipeline Assets LLC (ADNOC Gas Pipelines) from The Abu Dhabi National Oil Company (ADNOC), as had been announced on 23 June.

The transaction values 49% of ADNOC Gas Pipelines, a company that holds for 20 years the management rights

to 38 pipelines in the United Arab Emirates, at about 10.1 billion dollars.

The consortium has obtained approximately 8 billion dollars in funding from a pool of international banks. The equity contribution is distributed proportionally among the consortium members, all of whom hold equal shares with the exception of the GIP leader. For Snam, in particular, the disbursement from own resources amounted to approximately 250 million dollars. As at the date of this document, the bank debt obtained upon entry was entirely refinanced on the market through five bond issues which took place in October 2020 and February 2021, respectively, for around Usd 8 billion at a weighted average cost of around 2.6% and an average effective duration of more than 10 years.

The transaction represents for Snam, the consortium's only industrial operator, an important investment opportunity in a strategic infrastructure, also in the framework of possible future collaborations in the energy transition in the Gulf area.

### BIOMETHANE

#### Entry into the agricultural biomethane sector: agreement signed for the acquisition of a 50% stake in Iniziative Biometano

On 30 September 2020, through its subsidiary Snam 4 Environment, Snam completed its acquisition, from Femogas S.p.A., of a 50% stake, with joint control rights, in the share capital of Iniziative Biometano S.p.A., a company operating in Italy in the management of biogas and biomethane plants fed with biomass of agricultural origin.

The equivalent value of the transaction, announced 7 May last upon the presentation of results for the first quarter of 2020, following the signing of a binding letter of a binding letter of intent reported on 21 November 2019, is around 10 million euros.

The acquisition allows Snam to enter into the agricultural biomethane sector, the development of which is expected to give rise to the largest contribution as biomethane





establishes itself as a strategic source for the purposes of the energy transition and circular economy in Italy.

Iniziativa Biometano, through its subsidiaries, currently owns six operational biogas plants, which will be converted into biomethane plants thanks to IES Biogas (controlled by Snam), with an overall production potential of around 39 megawatts when fully operational. It is also one of the principal shareholders of an additional biomethane plant which entered into operation in October.

Iniziativa Biometano will be the platform with which Snam and Femogas will develop further projects in the national territory to give a decisive boost to the availability of biomethane in increasingly significant quantities within the national energy mix.

## ENERGY EFFICIENCY

### Crédit Agricole Italia and TEP Energy Solution for energy reclassification in Italy

In January 2020, Crédit Agricole Italia and TEP Energy Solution, a subsidiary of Snam, signed an agreement to encourage energy reclassification work on residential and tertiary-sector buildings in Italy, with a particular focus on condominiums, in order to make these solutions accessible to the largest possible number of users.

In the agreement, TEP will offer clients the energy efficiency solutions included in the Casa Mia programme, while Crédit Agricole Italia will offer them "Flexcondominio" financing and other financial services to support the technical offer from TEP.

The actions provided for in the **Casa Mia** programme, from the construction of thermal walls to insulate buildings to the reclassification of boilers and structural consolidation, provide the means to reduce the energy costs of properties by as much as half, while also providing concrete improvements to habitability and increasing market value by up to 10-15%.

The proposed formula finances the works through the saving achieved from lower consumption and the assignment of the tax credit linked to the Ecobonus and Sismabonus mechanisms.

### Snam strengthens itself in energy efficiency: acquisition of 70% of Miecì and Evolve

On 5 October 2020 Snam, through its subsidiary Snam 4 Efficiency, acquired, in cash, 70% of two companies active in the energy efficiency sector in Italy, Miecì S.p.A. and Evolve S.r.l. (renamed Evolve S.p.A., at the same time as the operation), for a total value of approximately 50 million euros, in execution of agreements signed on 10 June 2020.

The transaction enables Snam to achieve structural development of its portfolio of activities and a consequent substantial improvement in its competitive positioning in this business by acquiring, through its partnership with Gemma and Fen Energia, one of the leading national operators in energy and technology services for public bodies and private customers, new skills in energy efficiency in the public and residential sectors. In particular, in the residential sector, the synergies between Evolve and the ESCo (Energy Service Company) TEP Energy Solution, already controlled, will allow Snam to increase its market position and play a leading role in the spread of energy efficiency in Italian condominiums, also in the context of the new "ecobonus".

As part of the transaction, options are envisaged to allow Snam 4 Efficiency to acquire 100% of both companies in the long term and, for the seller, to invest in Snam 4 Efficiency.

## SUSTAINABLE MOBILITY

### Awarded third order for public transportation in Paris

Cubogas, controlled by Snam 4 Mobility and specialized in technological solutions for CNG (compressed natural gas) refuelling stations, was awarded the tender for the construction of a new natural gas distributor for buses launched by RATP, the Parisian public transportation company active in the entire Île-de-France region.

The order, worth approximately 1.4 million euros, provides for the supply of three compressors, two additional storages of 45 cylinders each and further accessories for the new Nanterre refuelling station, which will be able to supply CNG to about 200 buses that run in the Paris metropolitan area. The Nanterre site, which is already set to supply an increasing number of buses in the future, follows the orders assigned by RATP to Cubogas over the past months for two other locations close to the French


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capital.

These tenders will allow Snam to contribute to the decarbonisation of Paris' public transportation through a greater diffusion of natural gas to replace traditional fuels; as well as helping to demonstrate the international breadth of Cubogas' activities.

### The Indian market and opportunities for sustainable mobility

In November 2020, Snam officially entered India, concluding a number of cooperation agreements relating to the sustainable mobility sector.

The company involved is **Adani Gas Limited** (a joint venture between the Adani Group and Total SE), with which it will create an equitable joint venture aimed at promoting the production of compressors that will support the adoption and diffusion of sustainable mobility in India, favouring the use of natural gas. The objective will be to create a compressor factory using technology developed by Cubogas, a Snam 4 Mobility company, for the provision of natural gas for motor vehicles, to be installed at existing refuelling stations, as well as those in development.

## HYDROGEN

### Snam enters "The Hydrogen Council"

On 15 January 2020, Snam officially became part of **The Hydrogen Council**, a global coalition of leading companies in the energy, industrial and transportation sectors committed to promoting the use of hydrogen to encourage the energy transition.

### Snam and ITM Power, a partnership for green hydrogen

The agreement between Snam and ITM, signed on 22 October 2020, concluded with a 33 million euros investment in ITM Power Plc. Following its subscription of the capital increase, Snam possesses a 2.318% shareholding.

Snam will acquire technical competence for the development of green hydrogen, and at the same time ITM Power can take advantage of Snam's position in the value chain in order to develop its own business and joint projects.

ITM Power Plc is engaged in the production of electrolyzers, essential components for obtaining hydrogen from renewable sources through the electrolysis of water. Therefore, Snam will involve ITM Power in the development of green hydrogen with "membrane" technology (PEM – Proton Exchange Membrane) hydrolysers of up to 100 MW power.

### Partnership with De Nora

On 18 November, Snam's arrival as a significant minority shareholder in Industrie De Nora was announced (a transaction finalised on 8 January 2021), replacing Blackstone's 33% share in the company, based on an enterprise value of 100% of its value of approximately 1.2 billion.

This highly strategic partnership allows Snam to increase its exposure to the mega-trends of the energy transition, particularly with regard to the production of green hydrogen and water treatment, taking advantage of De Nora's leadership and technical competence in the field of alkaline electrodes – essential components for the production of alkaline electrolyzers.

Moreover, De Nora possesses a 34% shareholding in **ThyssenKrupp Uhde Chlorine Engineers (TKUCE)**, one of the global leaders in the development, assembly and installation of alkaline electrolyzers and the production of chlorine and caustic soda, whose alkaline electrolyser technology is used in several major global hydrogen-based projects.

### The Indian market for the hydrogen business

In November 2020, in addition to the agreement for sustainable mobility with Adani Gas Limited, Snam signed another agreement for the hydrogen business with Greenko. Snam will start a collaborative project to support the development of the hydrogen supply chain in India, specifically studying methods for producing hydrogen from renewable sources, designing hydrogen-ready infrastructure and applying those solutions to both industry and transportation, including fuel cell mobility.

### Alstom and Snam: agreement for the development of hydrogen trains in Italy

Snam and Alstom, a global leader in integrated solutions for sustainable mobility, have signed a five-year agreement to develop hydrogen trains in Italy.


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The aim of the agreement is to implement, including in 2021, rail mobility projects including both hydrogen-powered trains and the technological infrastructure necessary for the supply, as well as vehicle management and maintenance services.

Under the agreement, Alstom will be responsible for the supply and maintenance of hydrogen trains, whether newly built or converted, while Snam will work on developing the infrastructure for production, transportation and refuelling.

The collaborative project arose from the two companies' common commitment to hydrogen: Alstom launched the Coradia iLint in Germany, the world's first fuel cell train, already in service for a year and a half on a regional route, while Snam was among the first companies in the world to experiment with the injection of 10% hydrogen into the natural gas transportation network.

## SNAM FOR THE ENERGY TRANSITION: AGREEMENTS AND COLLABORATION

### Snam and Milan Polytechnic University for the energy transition

In October 2020, Snam and Milan Polytechnic University started a collaborative project to develop joint research activities into the role of the gas system in the energy transition, with a particular focus on hydrogen and other green gases as the principal assets in the fight against climate change.

The agreement envisages joint studies on hydrogen, sustainable mobility, biomethane, liquefaction and SSLNG, as well as the development of projects for the capture, transportation, storage and reuse of carbon dioxide. Other research activities will concern the digital transformation applied to the gas transportation networks, sustainable finance, staff training and talent attraction.

Lastly, in collaboration with Fondazione Snam, Snam will contribute to Milan Polytechnic University's Equal Polytechnic Opportunities (Pari Opportunità Politecniche / POP) programme with the "Girls@Polimi" initiative, with the donation of three three-year study bursaries to encourage girls to study STEM subjects (science, technology, engineering, mathematics).

### Snam and Indian Oil, collaboration to implement the energy transition in India

In November 2020, Snam signed a Memorandum of Understanding with **Indian Oil**, a government-owned company and one of the country's largest integrated energy operators, aimed at possible joint projects for the energy transition and the gas infrastructure supply chain, with a particular focus on initiatives in the natural gas storage and liquefaction sectors.

### CDP, Eni and Snam for the decarbonisation of the energy system

In December 2020, Casa Depositi e Prestiti, Eni and Snam signed a letter of intent to initiate strategic collaboration in energy transition that will lead to the joint creation of integrated projects in key sectors for the energy transition, such as the hydrogen supply chain, the circular economy and sustainable mobility.

Eni and Snam will offer their own complementary technical and industrial competence, upstream downstream and midstream, respectively, while CDP will leverage its own economic-financial and relationship management competence with the institutions involved in the initiatives.

The letter of intent also envisages collaborative projects in the decarbonisation of those industrial sectors in which the reduction of CO<sub>2</sub> emissions is more difficult, both through the development of Carbon Capture and Storage (CCS) to promote the production of blue hydrogen in the transition phase, and progressively through green hydrogen. Moreover, the three companies plan to build infrastructure and carry out research and development activities for the storage and transportation of hydrogen and CO<sub>2</sub>.

## OTHER

### New share buyback and cancellation plan treasury shares without reduction of share capital

On 18 June 2020, the Snam Ordinary Shareholders' Meeting, after revoking the resolution of the Ordinary Shareholders' Meeting of 2 April 2019 to authorise the purchase of treasury shares, for the part that remained unexecuted, authorised the purchase of treasury shares, to be carried out on one or more occasions through one or more top-level intermediaries appointed by the Company, for a maximum duration of 18 months from the date of the



resolution, with a maximum disbursement of 500 million euros, and in any case up to the maximum limit of shares in portfolio equal to 6.50% of the subscribed and paid-up share capital (taking into account treasury shares already held by the Company).

The shareholders' resolution also specifies the terms and conditions of the price for the purchase of treasury shares and provides that acts of disposal may be carried out on one or more occasions, without time limits and even before the purchases have been exhausted, in relation to all or part of the Company's treasury shares purchased on the basis of the same resolution, as well as those already held. The Extraordinary Shareholder's Meeting held on the same date also approved the cancellation of 33,983,107 treasury shares with no nominal value with no change to the share capital and the resulting amendment of art. 5.1 of the company Bylaws. The shares were cancelled on 6 July 2020 following the deposit with Companies House of the amended company Bylaws.

As a result of this transaction, the share capital consists of 3,360,857,809 shares with no nominal value for a total value of 2,736 million euros (unchanged from 31 December 2019). At the date of this report, Snam has 90,642,115 shares in its portfolio, equal to 2.70% of the share capital.

### Renewal of EMTN and ECP programmes

On 12 October 2020, Snam's Board of Directors approved the annual renewal of the EMTN (Euro Medium Term Notes) Programme launched in 2012, to be executed by 12 October 2021, for a maximum overall equivalent value of 11 billion. In the context of the EMTN Programme, as at the date of this document, around 8.2 billion worth of bond loans have been issued<sup>27</sup>, net of the bond redeemed on 29 January 2021 and considering the issue of the dual tranche in February 2021 worth 750 million euros.

The same Board also approved the renewal of the Euro Commercial Paper Programme (ECP Programme), which started in 2018, and the issuance of one or more Euro Commercial Papers within a period of 3 years from 12 October 2020, which may be associated with ESG indicators defined as part of the November 2020 Strategic Plan. Moreover, the Board approved the extension of the maximum value of the ECP Programme from 2 billion up to a maximum equivalent value of 2.5 billion, to be placed with institutional investors in accordance with the terms

and procedures established in the ECP Programme. To date, in the context of the ECP Programme, the value of commercial papers issued stands at 2 billion.

### Bond buyback

On 7 December 2020 Snam successfully concluded the buyback on the market of its bonds for a total nominal value of 629 million euros. The effects of this transaction on the 2020 income statement (32 million euros, 24 million euros 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 proposes to continue the process of optimising its debt structure and continuously improving the cost of capital, in line with its objectives.

The year just ended represents the last of the six years of liability management which, from 2015 to the present day, has contributed to reducing Snam's cost of borrowing from 2.4% in 2016 to 0.9% in 2020.

<sup>27</sup> The convertible bond, for a nominal value of 400 million euros, is not part of the EMTN Programme.



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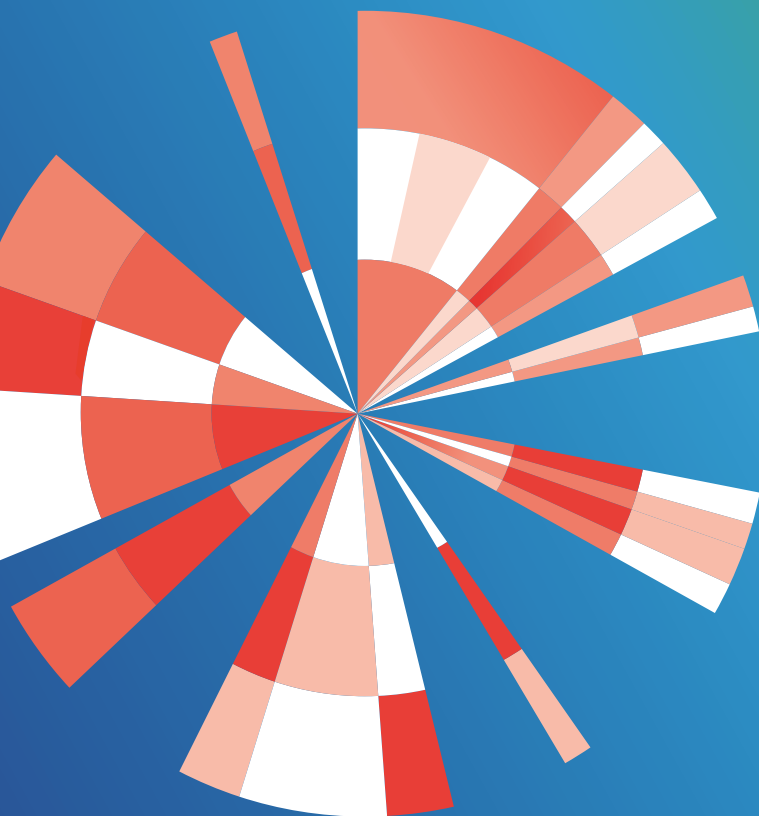
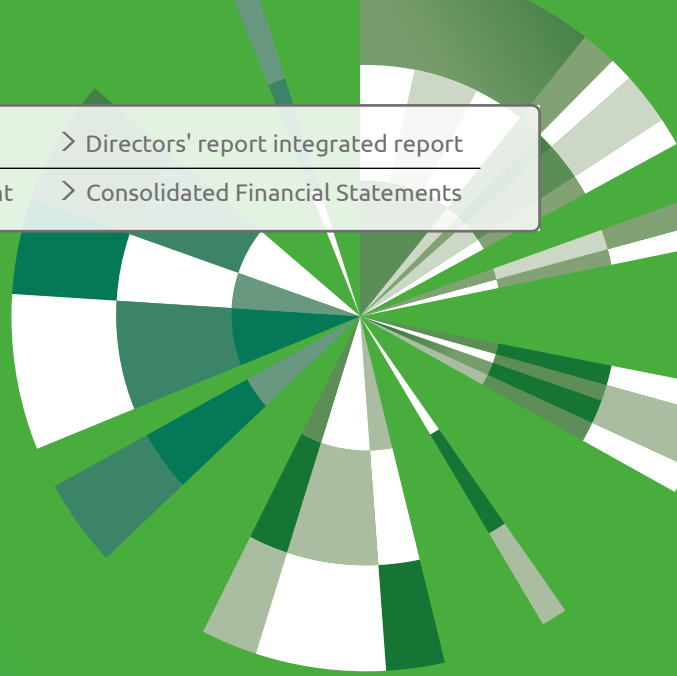
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# FINANCIAL REVIEW




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# FINANCIAL REVIEW

Revenue and operating costs are represented in the “core business” and “new business” views. These include the values of companies that are responsible for Energy Transition activities (sustainable mobility, energy efficiency and biogas/biomethane), as well as the activities of Snam Global Solutions. Consistently, the figures for the comparison periods have been restated.

In accordance with IFRS 8 “Operating Segments,” the operating segments that are reported separately were not changed and refer to regulated activities related to the transportation, regasification and storage of natural gas. Therefore, the new companies of the Energy Transition, are included within the “Corporate and other activities” segment, which is not operational in accordance with IFRS 8. An analysis of EBIT by business segment is provided in the “Business segment operating performance” section.

## Income statement

2018		2019		2020		2020 adjusted vs 2019 adjusted	
Adjusted (*)	(million of €)	Reported	Adjusted (*)	Reported	Adjusted (*)	Change	% change
2,429	Regulated revenues (**)	2,491	2,491	2,548	2,548	57	2.3
51	Non-regulated revenues	30	30	30	30	0	0.0
<b>2,480</b>	<b>Core business revenues</b>	<b>2,521</b>	<b>2,521</b>	<b>2,578</b>	<b>2,578</b>	<b>57</b>	<b>2.3</b>
<b>50</b>	<b>New business revenues</b>	<b>85</b>	<b>85</b>	<b>192</b>	<b>192</b>	<b>107</b>	
<b>2,530</b>	<b>TOTAL REVENUES (**)</b>	<b>2,606</b>	<b>2,606</b>	<b>2,770</b>	<b>2,770</b>	<b>164</b>	<b>6.3</b>
(385)	Core business operating costs (**)	(316)	(351)	(437)	(393)	(42)	12.0
(50)	New business operating costs	(86)	(86)	(180)	(180)	(94)	
<b>(435)</b>	<b>TOTAL OPERATING COSTS (**)</b>	<b>(402)</b>	<b>(437)</b>	<b>(617)</b>	<b>(573)</b>	<b>(136)</b>	<b>31.1</b>
<b>2,095</b>	<b>EBITDA</b>	<b>2,204</b>	<b>2,169</b>	<b>2,153</b>	<b>2,197</b>	<b>28</b>	<b>1.3</b>
(690)	Amortisation, depreciation and impairment losses	(752)	(752)	(773)	(773)	(21)	2.8
<b>1,405</b>	<b>EBIT</b>	<b>1,452</b>	<b>1,417</b>	<b>1,380</b>	<b>1,424</b>	<b>7</b>	<b>0.5</b>
(195)	Net financial expense	(203)	(165)	(158)	(126)	39	(23.6)
159	Net income from equity investments	216	216	249	249	33	15.3
<b>1,369</b>	<b>Pre-tax profit</b>	<b>1,465</b>	<b>1,468</b>	<b>1,471</b>	<b>1,547</b>	<b>79</b>	<b>5.4</b>
(359)	Income tax	(375)	(375)	(370)	(383)	(8)	2.1
<b>1,010</b>	<b>Net profit</b>	<b>1,090</b>	<b>1,093</b>	<b>1,101</b>	<b>1,164</b>	<b>71</b>	<b>6.5</b>
<b>1,010</b>	- Attributable to parent company shareholders	<b>1,090</b>	<b>1,093</b>	<b>1,101</b>	<b>1,164</b>	<b>71</b>	<b>6.5</b>
	- Minority interests						

(\*) The values exclude special items.

(\*\*) Starting 1 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (53 million euros in 2020). Similarly, the relative values from previous years (59 and 56 million euros respectively for 2019 and 2018) have been restated.




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## Reconciled summary of adjusted results <sup>(\*)</sup>

2018	(million of €)	2019	2020	Change	% change
<b>1,384</b>	<b>EBIT</b>	<b>1,452</b>	<b>1,380</b>	<b>(72)</b>	<b>(5.0)</b>
21	Exclusion of special items	(35)	<b>44</b>	79	
<b>1,405</b>	<b>Adjusted EBIT</b>	<b>1,417</b>	<b>1,424</b>	<b>7</b>	<b>0.5</b>
<b>960</b>	<b>Net profit</b>	<b>1,090</b>	<b>1,101</b>	<b>11</b>	<b>1.0</b>
960	- Attributable to parent company shareholders	<b>1,090</b>	<b>1,101</b>	<b>11</b>	<b>1.0</b>
	- Minority interests				
50	Exclusion of special items	3	<b>63</b>	<b>60</b>	
<b>1,010</b>	<b>Adjusted net profit</b>	<b>1,093</b>	<b>1,164</b>	<b>71</b>	<b>6.5</b>

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

**Adjusted EBITDA** for 2020 amounts to 2,197 million euros, an increase of 28 million euros or 1.3% with respect to the adjusted EBITDA recognised in 2019. The positive contribution made by new energy transition businesses and Snam Global Solution (for approximately 13 million euros overall) and the greater regulated revenues deriving from the increase in the RAB base (+16 million euros), together with the continuation of actions under the Efficiency Plan and the containment of costs following lockdown measures, have more than offset the reduction in regulated revenues deriving from the lower volumes transported following the Covid-19 health emergency, notwithstanding the fact that climate trends are in line with 2019.

**Adjusted EBIT** for 2020 totalled 1,424 million euros, up by 7 million euros (0.5%) compared with adjusted pro-forma EBIT for 2019. The aforementioned increase in EBITDA was partially absorbed by the natural increase in amortisation/depreciation for the period (-40 million euros, 5.5%), essentially due to the entry of new assets to operations, partially compensated for by lower writedowns (+19 million euros, 63.3%).

**Adjusted net profit** for 2020 totalled 1,164 million euros, up by 71 million euros (6.5%) compared with adjusted net profit for 2019. The increase is due to the greater EBIT, as well as: (i) the sharp decline in net financial expenses (+39 million euros; equivalent to 23.6%), thanks mainly to the actions to optimise the financial structure and management of the treasury, with the cost of gross debt coming to 0.9%, notwithstanding the greater average debt for the period, influenced by investments in equity

investments as well as the payment of dividends to shareholders and the share buyback activity; (ii) greater revenue from equity investments (+33 million euros; +15.3%) thanks to the positive contribution, which includes some one-off or temporary effects, from the investees TAP (+22 million euros), following the entry into operation of the methane pipeline as of 15 November 2020 and non-current items that have led to higher than expected results, and TAG (+10 million euros), following the recognition of tariff components linked to the termination of the regulatory period, as well as the positive result for ADNOC Gas Pipeline (+20 million euros), an equity investment acquired in July 2020. These effects were partially offset for the tariff updating by the smaller contribution from Terēga (-9 million euros), which in 2019 benefited from non-recurring items, and from Interconnector UK (-7 million euros), due to lower capacity commitments in 2020 with respect to the previous year.

Income taxes recorded an increase (8 million euros; equivalent to 2.1%) following the greater pre-tax profit, partly offset by the effects of the reintroduction of the ACE<sup>28</sup>.

<sup>28</sup> The ACE - Aid to Economic Growth benefit, introduced by Decree-Law no. 201 of 6 December 2011 converted into Law no. 214 of 22 December 2011 and subsequent additions and amendments, was repealed by the 2019 Budget Law and subsequently reinstated by the 2020 Budget Law with a reduced rate from 1.5% to 1.3%.




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## ANALYSIS OF THE ENTRIES ON THE ADJUSTED FINANCIAL STATEMENT

### Total revenues

2018	(million of €)	2019	2020	Change	% change
<b>Business segments</b>					
2,069	Transportation	2,116	<b>2,156</b>	40	1.9
596	Storage	591	<b>689</b>	98	16.6
24	Regasification	32	<b>31</b>	(1)	(3.1)
268	Corporate and other activities	311	<b>443</b>	132	42.4
(427)	Consolidation eliminations	(444)	<b>(549)</b>	(105)	23.6
<b>2,530</b>		<b>2,606</b>	<b>2,770</b>	<b>164</b>	<b>6.3</b>

### Revenues - Core and new business revenues

2018	(million of €)	2019	2020	Change	% change
<b>2,480</b>	<b>Core business revenues</b>	<b>2,521</b>	<b>2,578</b>	<b>57</b>	<b>2.3</b>
<b>2,429</b>	<b>Regulated revenues</b>	<b>2,491</b>	<b>2,548</b>	<b>57</b>	<b>2.3</b>
1,907	Transportation	1,969	<b>2,028</b>	59	3.0
505	Storage	505	<b>499</b>	(6)	(1.2)
17	Regasification	17	<b>21</b>	4	23.5
<b>51</b>	<b>Non-regulated revenues</b>	<b>30</b>	<b>30</b>	<b>0</b>	<b>0.0</b>
<b>50</b>	<b>New business revenues</b>	<b>85</b>	<b>192</b>	<b>107</b>	
<b>2,530</b>	<b>Total revenues</b>	<b>2,606</b>	<b>2,770</b>	<b>164</b>	<b>6.3</b>

**Total revenues** for 2020 financial year amounted to 2,770 million euros, up by 164 million euros or 6.3% with respect to 2019 financial year.

**Core business revenues** (2,578 million euros, net of consolidation eliminations) rose by 57 million euros, up 2.3% compared with 2019), essentially due to higher regulated revenues, thanks in particular to the contribution from the transportation business segment. Net of the effects of the recognition of energy costs, regulated revenues amounted to 2,488 million euros, down slightly with respect to 2019 (-3 million euros or 0.1%). The higher revenues mainly attributable to tariff updating mechanisms, more specifically attributable to the increase in RAB (+16 million euros), were offset by the reduction in volumes transported as a result of the Covid-19 health emergency (-17 million euros). The variation in regulated revenues was also affected by the lower revenues for gas sales linked to the "default" service in the transportation segment.

With reference to energy costs, and particularly costs for the purchase of fuel gas, previously contributed in kind by shippers, and costs for the purchase of CO<sub>2</sub> emission rights, it is noted that, on the basis of what is established by the regulatory framework in force for the fifth regulatory period, as of 1 January 2020, those costs are covered by revenue through the variable fee applied to users.

**Non-regulated revenues** (30 million euros), essentially in line with that of 2019, principally refers to income from the leasing and maintenance of fibre optic telecommunications cables (14 million euros) and contributions for connections to infrastructure.

**Revenues from new businesses** (192 million euros, net of consolidation eliminations), increased by 107 million euros compared to 2019, thanks to the growth in biogas and biomethane facility orders from the subsidiary IES Biogas, the start of energy efficiency activities in the


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residential context, and sales of compressors for sustainable mobility, as well as the development of Snam Global Solutions activities, principally connected to the EPMS contract with TAP. The increase in revenues from new businesses was also affected by the revenues from companies that entered the scope of consolidation at the end of 2019 in the biomethane segment (Renewaste group) and in 2020 in the energy efficiency segment (Mieci, Evolve).

### Operating costs <sup>(\*)</sup>

2018	(million of €)	2019	2020	Change	% change
<b>Business segments</b>					
413	Transportation	366	<b>380</b>	14	3.8
161	Storage	149	<b>263</b>	114	76.5
17	Regasification	26	<b>24</b>	(2)	(7.7)
271	Corporate and other activities	340	<b>452</b>	112	32.9
(427)	Consolidation eliminations	(444)	<b>(546)</b>	(102)	23.0
<b>435</b>		<b>437</b>	<b>573</b>	<b>136</b>	<b>31.1</b>

### Operating costs - Core and new business costs <sup>(\*)</sup>

2018	(million of €)	2019	2020	Change	% change
<b>385</b>	<b>Core business costs</b>	<b>351</b>	<b>393</b>	<b>42</b>	<b>12.0</b>
385	Fixed costs	288	<b>280</b>	(8)	(2.8)
	Variable costs	11	<b>46</b>	35	
	Other costs	52	<b>67</b>	15	28.8
<b>50</b>	<b>New business costs</b>	<b>86</b>	<b>180</b>	<b>94</b>	
<b>435</b>	<b>Total operating costs</b>	<b>437</b>	<b>573</b>	<b>136</b>	<b>31.1</b>

(\*) Net of special items.

Operating costs in 2020 stood at 573 million euros, an increase of 136 million euros, up 31.1% compared with 2019.

**Core business operating costs** (393 million euros, net of consolidation eliminations) rose by 42 million euros, up 12.0% on 2019, principally due to the increase in energy costs, attributable in particular to the costs for fuel gas purchases, previously subject to contribution in kind by shippers. These costs are covered by revenues, based on the current regulatory framework for the fifth regulatory period. Net of this effect, core business operating costs recorded a reduction of 17 million euros, equivalent to 4.8%, principally due to the continuation of actions under the Efficiency Plan (63 million euros of cost efficiencies compared to 2016; +12 million euros compared to 2019), lower costs linked to the development of new business initiatives and specific projects, in addition to the containment of costs following the lockdown measures.


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**New business operating costs** (180 million euros, net of consolidation eliminations) rose by 94 million euros compared with on 2019. The increase is attributable to growth in the volume of activities, as well as the costs arising from the entry and integration of companies active in the biomethane business that entered the scope of consolidation at the end of 2019, and the energy efficiency segment at the end of 2020.

The number of employees as at 31 December 2020 (no. 3,249 resources) is analysed below by professional status:

2018	(no.)	2019	2020	Change	% change
<b>Professional status</b>					
107	Senior Managers	111	<b>131</b>	20	18.0
480	Middle Managers	493	<b>549</b>	56	11.4
1,682	Office workers	1,683	<b>1,764</b>	81	4.8
747	Manual workers	738	<b>805</b>	67	9.1
<b>3,016</b>		<b>3,025</b>	<b>3,249</b>	<b>224</b>	<b>7.4</b>

The increase of 224 people compared with 2019 is mainly due to the resources coming from the acquisition of Mieci and Evolve (137 resources) and the new hires from the job market, net of the relative personnel leaving, mainly to support the development of new businesses (more than 50 people).

#### Amortisation, depreciation and impairment losses

2018	(million of €)	2019	2020	Change	% change
<b>682</b>	<b>Total amortisation and depreciation</b>	<b>722</b>	<b>762</b>	<b>40</b>	<b>5.5</b>
<b>Business segments</b>					
567	Transportation	598	<b>627</b>	29	4.8
5	Regasification	5	<b>7</b>	2	40.0
100	Storage	105	<b>108</b>	3	2.9
10	Corporate and other activities	14	<b>23</b>	9	64.3
	<i>Consolidation eliminations</i>		<b>(3)</b>	<b>(3)</b>	
<b>8</b>	<b>Impairment losses (Recovery of value)</b>	<b>30</b>	<b>11</b>	<b>(19)</b>	<b>(63.3)</b>
<b>690</b>		<b>752</b>	<b>773</b>	<b>21</b>	<b>2.8</b>


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**Depreciation, amortisation and impairment losses** (773 million euros) increased by 21 million euros or 2.8% compared with 2019. The increase is mainly due to the greater depreciation and amortisation (+40 million euros or +5.5%), essentially following the new infrastructure coming into operation and the businesses that joined the scope of consolidation, partially offset by lower write-downs (-19 million euros; -63.3%).

Below is a breakdown of EBIT by business segment:

## EBIT

2018	(million of €)	2019	2020	Change	% change
<b>Business segments</b>					
1,081	Transportation <sup>(*)</sup>	1,122	<b>1,142</b>	20	1.8
2	Regasification	1		(1)	(100.0)
335	Storage	337	<b>314</b>	(23)	(6.8)
(13)	Corporate and other activities <sup>(*)</sup>	(43)	<b>(32)</b>	11	(25.6)
<b>1,405</b>		<b>1,417</b>	<b>1,424</b>	<b>7</b>	<b>0.5</b>

(\*) Net of special items.

With reference to the business segments subject to separate reporting pursuant to IFRS 8, an analysis of EBIT is provided in the "Business segment operating performance" section of this Report.

## Net financial expense

2018	(million of €)	2019	2020	Change	% change
<b>199</b>	<b>Financial expense related to net financial debt</b>	<b>164</b>	<b>145</b>	<b>(19)</b>	<b>(11.6)</b>
202	Interest and other expense on short- and long-term financial debt <sup>(*)</sup>	173	<b>156</b>	(17)	(9.8)
(3)	Bank interest income	(9)	<b>(11)</b>	(2)	22.2
<b>6</b>	<b>Other net financial expense (income)</b>	<b>11</b>	<b>(7)</b>	<b>(18)</b>	
11	Accretion discount	8	<b>6</b>	(2)	(25.0)
(5)	Other net financial expense (income)	3	<b>(13)</b>	(16)	
<b>2</b>	<b>Losses on derivatives - ineffective portion <sup>(*)</sup></b>	<b>1</b>		<b>(1)</b>	
<b>(12)</b>	<b>Financial expense capitalised</b>	<b>(11)</b>	<b>(12)</b>	<b>(1)</b>	<b>9.1</b>
<b>195</b>		<b>165</b>	<b>126</b>	<b>(39)</b>	<b>(23.6)</b>

(\*) Net of special items.

**Net financial expense** in 2020 stood at 126 million euros, a reduction of 39 million euros or 23.6% compared with 2019. The reduction is principally due to: (i) lower costs related to the net financial gross debt (-19 million euros or -11.6%) 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 2016-2020, specifically the


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liability management operations, as well as the positive market conditions, notwithstanding the higher average debt for the period, influenced by equity investments, as well as the payment of dividends to shareholders and share buyback activities; (ii) benefits linked to the optimisation of treasury management in particular the use of uncommitted lines and negative-rate Commercial Papers and the use of liquid funds which made it possible to generate financial income for a total of 11 million euros (+22% compared with 2019) and (iii) greater net financial income (+18 million euros) principally in relation to interest receivable on long-term financial receivables related to the pro-rata contribution from the OTL Shareholder Loan (+13 million euros).

Capitalised financial costs in 2020 amounted to 12 million euros, broadly in line with the previous year.

### Net income from equity investments

2018	(million of €)	2019	2020	Change	% change
157	Portion of profit or loss from equity investments accounted for using the equity method	218	247	29	13.3
2	Other (expenses) and income from equity investments	(2)	2	4	(200.0)
159		216	249	33	15.3

**Net income from equity investments** (247 million euros; +33 million euros or 15.3%) essentially relates to the portion of profit from equity investments accounted for using the equity method (247 million euros) mainly attributable to the companies under joint control TAG (84 million euros), Terëga (35 million euros) as well as the subsidiaries Italgas (52 million euros), Senfluga (27 million euros), Galaxy<sup>29</sup> (20 million euros) and TAP (15 million euros).

### Income tax

2018	(million of €)	2019	2020	Change	% change
385	<b>Current taxes</b> <sup>(*)</sup>	410	409	(1)	(0.2)
(26)	<b>Deferred taxes</b> <sup>(*)</sup>	(35)	(26)	9	(25.7)
359		375	383	8	2.1

(\*) Net of special items.

**Income taxes** totalled 383 million euros, an increase of 8 million euros or 2.1% compared with 2019. The increase is mainly due to the greater pre-tax profit, partly offset by the greater ACE - Aid to economic Growth benefit, reintroduced by the 2020 Budget Law, as well as the benefits associated with the tax benefits from super-amortisation.

<sup>29</sup> Galaxy Pipeline Assets HoldCo Limited, a corporate vehicle through which Snam, in concert with 5 international funds, purchased the equity investment in ADNOC Gas Pipeline Assets LLC.



## NON-GAAP MEASURES

Snam presents in the directors' 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<sup>30</sup> and compliant with international accounting standards<sup>31</sup>.

With regard to the impact of Covid-19 on the determination of alternative performance indicators, ESMA<sup>32</sup> recommends caution in the use of separate items in the income statement with regard to the impacts of Covid-19 in order to ensure consistency in the determination of alternative performance indicators, and not to affect the intelligibility of a company's financial performance through new indicators if not adequately justified.

In accordance with these recommendations, also due to the limited impact of Covid-19 on its results, Snam has not changed the Non-GAAP financial disclosure provided previously, simply isolating emerging costs directly related to the current pandemic situation as income components classified under special items, as illustrated below.

### EBITDA, EBIT and adjusted net profit

EBITDA, EBIT and adjusted net profit are obtained by excluding the special items (gross and net of the related taxes, respectively) from the respective reported profit measures, as per the legal scheme of the Income Statement.

Income components classified among special items for financial year 2020<sup>33</sup> involve:

- 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 2020 (32 million euros, 24 million euros after the tax effect, 38 million euros in 2019, 29 million euros after the tax effect). These charges are essentially linked to the difference between the outflow deriving from the repurchase of bonds on the market and measurement at the amortised cost of the bonds themselves;
- ii) the costs suffered due to the state of emergency linked to the Covid-19 pandemic, for a total of 27 million euros (22 million euros net of tax effects), relative to:
  - (a) donations of healthcare materials (14 million euros) and cash (2 million euros), also through Fondazione Snam, to assist the Italian healthcare system and the third sector;
  - (b) purchases of personal protective equipment for internal use (6 million euros);
  - (c) costs for services (5 million euros), mainly to deep clean working environments and for security.
- iii) allocation to the provision for risks and charges (17 million euros) for the estimate of likely tax and financial charges against facts and/or events already existing as of 31 December 2020.

<sup>30</sup> 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.

<sup>31</sup> For the definition of these quantities refer to the Glossary.

<sup>32</sup> For more information see ESMA document 32-51-370 "ESMA Guidelines on Alternative Performance Measures (APMs)" of 17 April 2020, Q&A no. 18.

<sup>33</sup> With reference to 2019, in addition to the effects of the Liability Management operation referred to above, the special items excluded from the reported results concerned the release to the income statement of the provision for impairment losses (35 million euros) following the recognition by the Regulatory Authority, of part of the receivables not collected relating to the balancing activities for the period 1 December 2011 - 23 October 2012.



## Special items

Income components are classified among special items, if significant, 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 cash surplus or deficit left over after financing the investments and closes either: (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 self-owned capital (payment of dividends/net acquisition of treasury 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; or (ii) on the change in net financial debt for the period, after the flows relating to self-owned 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.


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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:

	2019			2020			2020 adjusted vs 2019 adjusted	
(million of €)	Reported	Special item	Adjusted	Reported	Special item	Adjusted	Change	% change
Regulated revenues	2,491		2,491	2,548		2,548	57	2.3
Non-regulated revenues	30		30	30		30	0	0.0
<b>Core business revenues</b>	<b>2,521</b>		<b>2,521</b>	<b>2,578</b>		<b>2,578</b>	<b>57</b>	<b>2.3</b>
<b>New business revenues</b>	<b>85</b>		<b>85</b>	<b>192</b>		<b>192</b>	<b>107</b>	<b>125.9</b>
<b>TOTAL REVENUES</b>	<b>2,606</b>		<b>2,606</b>	<b>2,770</b>		<b>2,770</b>	<b>164</b>	<b>6.3</b>
Core business operating costs	(317)	(35)	(352)	(442)	44	(398)	(46)	13.1
New business operating costs	(85)		(85)	(175)		(175)	(90)	105.9
<b>TOTAL OPERATING COSTS</b>	<b>(402)</b>	<b>(35)</b>	<b>(437)</b>	<b>(617)</b>	<b>44</b>	<b>(573)</b>	<b>(136)</b>	<b>31.1</b>
<b>EBITDA</b>	<b>2,204</b>	<b>(35)</b>	<b>2,169</b>	<b>2,153</b>	<b>44</b>	<b>2,197</b>	<b>28</b>	<b>1.3</b>
Amortisation, depreciation and impairment losses	(752)		(752)	(773)		(773)	(21)	2.8
<b>EBIT</b>	<b>1,452</b>	<b>(35)</b>	<b>1,417</b>	<b>1,380</b>	<b>44</b>	<b>1,424</b>	<b>7</b>	<b>0.5</b>
Net financial expense	(203)	38	(165)	(158)	32	(126)	39	(23.6)
Net income from equity investments	216		216	249		249	33	15.3
<b>Pre-tax profit</b>	<b>1,465</b>	<b>3</b>	<b>1,468</b>	<b>1,471</b>	<b>76</b>	<b>1,547</b>	<b>79</b>	<b>5.4</b>
Income tax	(375)		(375)	(370)	(13)	(383)	(8)	2.1
<b>Net profit</b>	<b>1,090</b>	<b>3</b>	<b>1,093</b>	<b>1,101</b>	<b>63</b>	<b>1,164</b>	<b>71</b>	<b>6.5</b>
- Attributable to Parent Company shareholders	<b>1,090</b>	<b>3</b>	<b>1,093</b>	<b>1,101</b>	<b>63</b>	<b>1,164</b>	<b>71</b>	<b>6.5</b>
- Minority interests								




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## Details of special items

(million of €)	2019	2020	Change	% change
<b>Special item of EBIT</b>	<b>(35)</b>	<b>44</b>	<b>79</b>	
Allocations to provisions for risks and charges		17	17	
Exclusion of special items for emerging Covid-19 costs:		27	27	
- of which assets donated		14	14	
- of which cash donated		2	2	
- of which healthcare material for internal use and services		11	11	
Release of provision for impairment losses for balancing receivables	(35)		35	(100.0)
<b>Special item Net financial expenses</b>	<b>38</b>	<b>32</b>	<b>(6)</b>	<b>(15.8)</b>
- Liability management finance charges	38	32	(6)	(15.8)
<b>Special item Income taxes</b>	<b>0</b>	<b>(13)</b>	<b>(13)</b>	
- Taxation on special items in EBIT	9	(5)	(14)	
- Taxation on special item net financial expense	(9)	(8)	1	(11.1)
<b>Total special item of net profit</b>	<b>3</b>	<b>63</b>	<b>60</b>	


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## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified Statement of Financial Position combines the assets and liabilities of the Statutory layout 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 <sup>(\*)</sup>

(million of €)	31.12.2019	31.12.2020	Change
<b>Fixed capital</b>	<b>19,311</b>	<b>20,260</b>	<b>935,949</b>
Property, plant and equipment	16,439	<b>16,815</b>	376
- of which right-of-use leased assets	21	<b>21</b>	
Non-current inventories - Compulsory inventories	363	<b>363</b>	
Intangible assets and goodwill	990	<b>1,125</b>	135
Equity investments accounted for using the equity method	1,787	<b>1,923</b>	136
Other financial assets	44	<b>421</b>	363377
Net payables for investments	(312)	<b>(387)</b>	(75)
Net working capital	<b>(1,094)</b>	<b>(861)</b>	<b>233</b>
<b>Provision for employee benefits</b>	<b>(46)</b>	<b>(40)</b>	<b>6</b>
<b>Non-current assets held for sale</b>	<b>10</b>		
<b>NET INVESTED CAPITAL</b>	<b>18,181</b>	<b>19,359</b>	<b>1,164178</b>
<b>Shareholders' equity</b>	<b>6,258</b>	<b>6,472</b>	<b>200214</b>
- Shareholders' equity pertaining to Parent Company shareholders	6,255	<b>6,469</b>	200214
- Minority interests	3	<b>3</b>	
<b>Net financial debt</b>	<b>11,923</b>	<b>12,887</b>	<b>964</b>
- of which financial payables for leased assets <sup>(**)</sup>	21	<b>21</b>	
<b>COVERAGE</b>	<b>18,181</b>	<b>19,359</b>	<b>1,178</b>

(\*) For a reconciliation of the reclassified statement of financial position to the compulsory statement see the paragraph below "Reconciliation of the reclassified financial statement with the legally required statements".

(\*\*) Including non-current lease liabilities (15 million euros) and the current portion of non-current lease liabilities (6 million euros).

Fixed capital (20,260 million euros) increased by 949 million euros with respect to 31 December 2019, essentially due to: (i) the rise in tangible and intangible fixed assets (+511 million euros); (ii) the growth in financial assets (+377 million euros), mainly against long-term financial receivables due from OLT, for which Snam took over when the equity investment was acquired and it became part of the ITM Power Plc shareholding structure, an equity investment measured at Fair Value Through OCI - FVTOCI; (iii) the increase in equity investments accounted


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for using the equity method (+136 million euros), against profits achieved in 2020 financial year from associate companies, net of dividends collected, as well as the acquisition of ADNOC Gas Pipeline (49% in a consortium with 5 international funds) and Iniziative Biometano S.p.A. (50% with joint control). These effects were partially compensated for by the trend in net payables for investments (-75 million euros).

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
<b>Balance at 31 December 2019</b>	<b>16,439</b>	<b>990</b>	<b>17,429</b>
Technical investments	1,024	165	<b>1,189</b>
Amortisation, depreciation and impairment losses	(692)	(81)	<b>(773)</b>
Transfers, write-offs and divestments	(14)	(1)	<b>(15)</b>
Change in scope of consolidation	2	54	<b>56</b>
Other changes	56	(2)	<b>54</b>
<b>Balance at 31 December 2020</b>	<b>16,815</b>	<b>1,125</b>	<b>17,940</b>

In 2020, technical investments amounted to 1,189 million euros<sup>34</sup>, up with respect to 2019 (+226 million euros; 23.5%), in line with forecasts, despite the impacts deriving from Covid-19. These refer mainly to the transportation (981 million euros) and storage (134 million euros) segments.

The change in the scope of consolidation (+56 million euros, of which 1 million euros is leased assets as right-of-use assets) refers to assets recorded following the acquisition of 70%<sup>35</sup> of Miec S.p.A. (45 million euros) and Evolve S.p.A. (11 million euros).

The other changes (54 million euros) mainly concern: (i) the effects resulting from the adjustment of the current value of outlays compared with the costs of dismantling and restoring sites (+73 million euros)<sup>36</sup>; (ii) the contributions to third-party interference works (compensation; -20 million euros).

<sup>34</sup> An analysis of the technical investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

<sup>35</sup> Greater information with regard to the impact of the business combination is illustrated in Note no. 24 "Business combinations" in the Notes to the consolidated financial statements.

<sup>36</sup> Further information is provided in Note 20 "Provision for risks and charges" of the Notes to the consolidated financial statements.


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## Non-current inventories - Compulsory inventories

Compulsory inventories, standing at 363 million euros (unchanged from 31 December 2019) are made up of minimum quantities of natural gas which storage companies are obliged to hold pursuant to Presidential Decree no. 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<sup>37</sup>.

## Equity investments accounted for using the equity method

The equity investments accounted for using the equity method (1,923 million euros) mainly related to the companies Trans Austria Gasleitung GmbH - TAG (521 million euros), Terēga Holding S.A.S. (338 million euros), Trans Adriatic Pipeline AG - TAP (278 million euros), Italgas S.p.A. (235 million euros), Galaxy Pipeline Assets HoldCo Limited (207 million euros), Senfluga (138 million euros) and AS Gasinfrastruktur Beteiligung GmbH (125 million euros). Detailed changes are provided in note no. 16 "Equity investments accounted for using the equity method" in the Notes to the Consolidated Financial Statements.

## Other financial assets

Other financial assets (421 million euros) mainly refer to the long-term financial receivables from OLT, originating from the taking over of the residual share of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020 (332 million euros; 303 million euros net of subsequent reimbursements) and the fair value measurement through OCI of the minority interests in the companies Terminale GNL Adriatico S.r.l. (38 million euros) and ITM Power Plc (74 million euros, against a purchase cost of approximately 34 million euros).

<sup>37</sup> By means of the announcement of 17 January 2020, the Ministry of Economic Development confirmed that the strategic gas storage volume for thermal storage year 2020-2021 (1 April 2020-31 March 2021) would remain at 4.62 billion standard cubic metres, 4.5 billion cubic metres of which was allocated to Stogit. By means of the Decree of 12 February 2021, the Ministry confirmed the strategic gas storage volume for the thermal year 2021-2022 (1 April 2021-31 March 2022) as 4.62 billion cubic metres, 4.5 billion cubic metres of which was allocated to Stogit.


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For more details, see note no. 12 "Other current and non-current financial assets" in the Notes to the Consolidated Financial Statements.

### Net working capital

(million of €)	31.12.2019	31.12.2020	Change
Trade receivables	1,217	1,551	334
Inventories	112	98	(14)
Tax assets	35	93	58
Other assets	185	187	2
Provisions for risks and charges	(713)	(798)	(85)
- of which: Provision for site dismantlement and restoration	647	710	63
Trade payables	(487)	(639)	(152)
Accruals and deferrals from regulated activities	(145)	(111)	34
Net liabilities for income taxes	(106)	(90)	16
Derivative liabilities/(assets)	(63)	(38)	25
Tax liabilities	(35)	(10)	25
Other liabilities	(1,094)	(1,104)	(10)
- of which: Payables to the Energy and Environmental Services Fund (CSEA)	597	575	(22)
- of which: Payable for interim dividend 2020	313	326	13
	<b>(1,094)</b>	<b>(861)</b>	<b>233</b>

The net working capital (861 million euros) increased by 233 million euros in respect to 31 December 2019. The increase is mainly attributable to: (i) the increase in assets related to tariff batches of the transportation segment (+158 million euros) principally following the higher receivables from the CSEA against less imports invoiced in 2020 to users, with respect to the restriction established by the Regulatory Authority (+106 million euros), as well as the greater net assets for additional tariff components invoiced to users (+21 million euros) mainly following the changes to invoicing for payments and the relative collection times; (ii) greater net tax receivables (+83 million euros) due to the changes to payments on account

made in relation to the period-end tax burden; (iii) net assets coming from companies that entered the scope of consolidation at the end of 2020 (+33 million euros); (iv) the reduction in liabilities for hedging derivatives (+25 million euros) mainly following the unwinding of forward start contracts after the issuing of the relative debt instruments. These effects were partly offset by: (i) the increase in provisions for risks and charges (-85 million euros) mainly due to the adjustment of the current value of costs for the decommissioning and restoration of sites following a reduction in the discounting rates expected; (ii) the increase in net liabilities for settlement and balancing of the gas transportation system<sup>38</sup> (-98 million euros).

38 From 2018, the Company, in its capacity as Balancing Manager (BM), has been responsible for the regulation of the physical and economic items of the balancing service related to previous years and deriving from the correction of measurement data. The regulations also stipulate that any imbalance of credit items and debit items in relation to users must be regulated by the CSEA in order to guarantee Snam Rete Gas's neutrality as a major transportation company.


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## Comprehensive income statement

(million of €)	2019	2020
<b>Net profit for the year</b>	<b>1,090</b>	<b>1,101</b>
<b>OTHER COMPONENTS IN THE COMPREHENSIVE INCOME STATEMENT</b>		
Cash flow hedge – effective portion of fair value change	(44)	(6)
Share of other comprehensive income statement of equity investments accounted for using the equity method <sup>(*)</sup>	(17)	(38)
Tax effect	10	1
<b>Total items that may be reclassified to profit or loss, net of tax effect</b>	<b>(51)</b>	<b>(43)</b>
Revaluation of employee benefit liabilities (defined-benefit plans)		(1)
Share of other comprehensive income statement of equity investments accounted for using the equity method	(1)	1
Equity investments accounted for at FVTOCI (“fair value through other comprehensive income”)	4	43
Tax effect		
<b>Total items that will not be reclassified to profit or loss, net of tax effect</b>	<b>3</b>	<b>43</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME STATEMENT, NET OF TAX</b>	<b>(48)</b>	<b>0</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>1,042</b>	<b>1,101</b>
<b>Total comprehensive income statement attributable to:</b>		
- Parent Company shareholders	1,042	1,101
- Minority interests		

(\*) The values essentially refer to the change in the fair value of derivative financial instruments used to hedge investments in associates.


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## Shareholders' equity

(million of €)	2019	2020
<b>Shareholders' equity at 31 December 2019</b>		<b>6,258</b>
<i>Increases owing to:</i>		
- Comprehensive income	1,101	
- Other changes	19	
		<b>1,120</b>
<i>Decreases owing to:</i>		
- 2019 dividend balance	(466)	
- 2020 Interim Dividend <sup>(*)</sup>	(326)	
- Acquisition of treasury shares	(114)	
		<b>(906)</b>
<b>Shareholders' equity at 31 December 2020</b>		<b>6,472</b>
- Shareholders' equity pertaining to Parent Company shareholders		<b>6,469</b>
- Minority interests		<b>3</b>

(\*) Amount paid on 20 January 2021.

Information about the individual equity items and changes therein compared with 31 December 2019 is given in Note 23 to the consolidated financial statements, "Shareholders' Equity".

## Reconciliation between Snam S.p.A.'s net profit and the shareholders' equity and those of the consolidated companies

	Net profit		Shareholders' equity	
(million of €)	2019	2020	31.12.2019	31.12.2020
<b>Statutory financial statements of Snam S.p.A.</b>	<b>817</b>	<b>1,015</b>	<b>4,396</b>	<b>4,550</b>
Net profit of the Companies included in the scope of consolidation	972	<b>971</b>		
Difference between the carrying value of the equity investments in consolidated companies and the shareholders' equity in the annual financial statements, inclusive of the profit for the period			1,815	<b>1,912</b>
<b>Adjustments made upon consolidation for:</b>				
- Dividends	(777)	<b>(868)</b>		
- Difference between purchase price and corresponding net shareholders' equity	(3)	<b>(5)</b>		
- Adjustments due to uniformity of accounting principles	(1)	<b>(2)</b>		
- Income from valuation of equity investments accounted for by the equity method and other Income from equity investments	82	<b>(10)</b>	47	<b>10</b>
	<b>1,090</b>	<b>1,101</b>	<b>6,258</b>	<b>6,472</b>
Minority interests			(3)	<b>(3)</b>
<b>Consolidated financial statements <sup>(*)</sup></b>	<b>1,090</b>	<b>1,101</b>	<b>6,255</b>	<b>6,469</b>

(\*) Shareholders' equity pertaining to Parent Company shareholders.


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## Net financial debt

(million of €)	31.12.2019	31.12.2020	Change
<b>Financial and bond debt</b>	<b>14,774</b>	<b>15,937</b>	<b>1,163</b>
Short- term financial liabilities <sup>(*)</sup>	4,125	<b>5,599</b>	1,474
Long- term financial liabilities	10,628	<b>10,317</b>	(311)
Financial payables for leased assets <sup>(**)</sup>	21	<b>21</b>	
<b>Financial receivables and cash and cash equivalents</b>	<b>(2,851)</b>	<b>(3,050)</b>	<b>(199)</b>
Cash and cash equivalents	(2,851)	<b>(3,044)</b>	(193)
Short-term financial receivables		<b>(5)</b>	(5)
Short-term securities held for sale		<b>(1)</b>	(1)
	<b>11,923</b>	<b>12,887</b>	<b>964</b>

(\*) Includes the current portion of non-current financial liabilities.

(\*\*) Including non-current lease liabilities (15 million euros) and the current portion of non-current lease liabilities (6 million euros).

Net financial debt was 12,887 million euros at 31 December 2020, compared with 11,923 million euros at 31 December 2019.

Cash flow from operations (1,597 million euros) made it possible to fully cover net technical investment requirements (-1,110 million euros). Taking into account net outflows associated with the acquisition of equity investments (-522 million euros, including the shareholders loan to OLT acquired by Snam with the purchase of the equity investment), free cash flow stood negative at 35 million euros. The net financial debt, after equity cash flow deriving from the payment to shareholders of the 2019 dividend (779 million euros, of which an interim dividend of 313 million euros and 466 million euros for the balance) and the acquisition of treasury shares (114 million euros), recorded an increase of 964 million euros compared with 31 December 2019, including non-monetary components related to financial debt (36 million euros), 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 2020 equal to 15,937 million euros (14,774 million euros at 31 December 2019) comprise the following:

(million of €)	31.12.2019	31.12.2020	Change
Bond loans	9,048	<b>8,140</b>	(908)
- of which short-term <sup>(*)</sup>	1,439	<b>308</b>	(1,131)
Bank loans	3,704	<b>5,273</b>	1,569
- of which short-term <sup>(*)</sup>	685	<b>2,788</b>	2,103
Euro Commercial Paper - ECP <sup>(**)</sup>	2,001	<b>2,503</b>	502
Financial payables for leased assets	21	<b>21</b>	
	<b>14,774</b>	<b>15,937</b>	<b>1,163</b>

(\*) Includes the current portion of non-current financial liabilities.

(\*\*) Entirely short-term.




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Bond loans (8,140 million euros) showed reduction of 908 million euros compared with 31 December 2019, mainly due to: (i) the repayment of a fixed rate bond maturing on 29 January 2020, for a nominal amount of 350 million euros; (ii) the repayment of a fixed rate bond loan maturing on 13 February 2020, of a nominal amount of 526 million euros; (iii) the repayment of a fixed rate bond maturing 25 October 2020, of a nominal amount of 500 million euros; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of 629 million euros with an average coupon of 0.62% and a residual duration of approximately 2.80 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction, concluded in December 2020 stood at 651 million euros<sup>39</sup>, including the fees paid to intermediaries and accrued interest. These variations were partially offset by the issuing: (i) a Transition Bond, for a nominal amount of 500 million euros, at a fixed rate maturing on 17 June 2030; (ii) a Transition Bond, for a nominal amount of 600 million euros, at a fixed rate maturing on 7 December 2028.

Bank loans (5,273 million euros) increased by 1,569 million euros, due mainly to higher net utilisations of uncommitted credit lines (1,047 million euros) and the subscription of new Term Loans for an incremental nominal value of 590 million euros.

The Euro Commercial Papers (2,503 million euros) involve unsecured short-term securities issued on the money market and placed with institutional investors.

Cash and cash equivalents, of 3,044 million euros (2,851 million euros as at 31 December 2019) refer mainly to current accounts and on-call bank deposits (2,991 million euros) and cash held at the company Gasrule Insurance DAC (23 million euros) and Snam International BV (22 million euros).

At 31 December 2020, Snam had unused committed long-term credit lines worth 3.2 billion euros.

Information on financial covenants is provided in note no. 17 "Current and non-current financial liabilities" in the Notes to the Consolidated Financial Statements.

<sup>39</sup> For more information on the operation, see the section titled "2020 Performance - Main events".



## 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. 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

(million of €)	2019	2020
<b>Net profit</b>	<b>1,090</b>	<b>1,101</b>
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	527	<b>523</b>
- Net capital losses (capital gains) on asset sales and write-offs	8	<b>13</b>
- Dividends, interest and income taxes	552	<b>504</b>
Change in net working capital	(264)	<b>(224)</b>
Dividends, interest and income taxes collected (paid)	(427)	<b>(320)</b>
<b>Cash inflow from operating activities</b>	<b>1,486</b>	<b>1,597</b>
Technical investments	(954)	<b>(1,166)</b>
Technical divestments	0	<b>2</b>
Acquisition of subsidiaries and businesses, net of liquidity acquired	(41)	<b>(30)</b>
Equity investments	12	<b>(193)</b>
Change in non current financial assets	(5)	<b>(298)</b>
Other changes relating to investment activities	(16)	<b>53</b>
<b>Free cash flow</b>	<b>482</b>	<b>(35)</b>
Repayment of financial payables for leased assets	(6)	<b>(7)</b>
Change in current and non-current financial liabilities	1,285	<b>1,133</b>
Change in current financial assets		<b>(5)</b>
Equity cash flow (a)	(782)	<b>(893)</b>
<b>Net cash flow for the year</b>	<b>979</b>	<b>193</b>

(a) Includes cash flow and payment to shareholders of the dividend.


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### Change in net financial debt

(million of €)	2019	2020
<b>Free cash flow</b>	<b>482</b>	<b>(35)</b>
Financial payables and receivables from companies entering the consolidation scope	(47)	(25)
Change in financial payables for leased assets	(25)	(6)
Equity cash flow	(782)	(893)
Other changes	(3)	(5)
<b>Change in net financial debt</b>	<b>(375)</b>	<b>(964)</b>


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## RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENT WITH THE LEGALLY REQUIRED STATEMENTS

### Reclassified statement of financial position

(million of €)		31.12.2019		31.12.2020	
Items (Where not expressly stated, the component is taken directly from the the Statutory layout)	Reference to notes to consolidated financial statements	Partial amount from legally required statement	Amount from reclassified format	Partial amount from legally required statement	Amount from reclassified format
<b>Fixed capital</b>					
Property, plant and equipment			16,439		16,815
Non-current inventories - Compulsory inventories			363		363
Intangible assets and goodwill			990		1,125
Equity investments accounted for using the equity method			1,787		1,923
<i>Other financial assets, consisting of:</i>			44		421
- Minority equity investments accounted for at FVTOCI	(12)	39		112	
- Non current financial assets - current portion	(12)			1	
- Non current financial assets - non-current portion	(12)	3		306	
- Other financial assets	(12)	2		2	
<i>Net payables for investments, consisting of:</i>			(312)		(387)
- Trade payables for the purchase of fixed assets	(18)	(320)		(394)	
- Receivables for private contributions	(9)	8		7	
<b>Total fixed capital</b>			19,311		20,260
<b>Net working capital</b>					
Trade receivables			1,217		1,551
Current inventories			112		98
<i>Tax receivables, consisting of:</i>			35		93
- Current income tax assets	(11)	12		34	
- Other current tax assets	(13)	14		50	
- IRES receivables for the National Tax Consolidation Scheme with former parent ENI	(9)	9		9	
Trade payables			(487)		(639)
<i>Tax payables, consisting of:</i>			(35)		(10)
- Current liabilities for income taxes	(11)	(26)		(2)	
- Other current tax liabilities	(19)	(9)		(8)	
<i>Net deferred tax liabilities, made up of:</i>			(106)		(90)
- Deferred tax assets	(22)	23		23	
- Deferred tax liabilities	(22)	(129)		(113)	
Provisions for risks and charges			(713)		(798)
Market value of derivative financial instruments	(19)		(63)		(38)


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## Reclassified statement of financial position

(million of €)		31.12.2019		31.12.2020	
Items	Reference to notes to consolidated financial statements	Partial amount from legally required statement	Amount from reclassified format	Partial amount from legally required statement	Amount from reclassified format
(Where not expressly stated, the component is taken directly from the the Statutory layout)					
<i>Other assets, consisting of:</i>			185		187
- Other receivables from the Energy and Environmental Services Fund (CSEA)	(9)	124		79	
- Advances to suppliers	(9)	6		6	
- Other	(9)	12		24	
- Other assets	(13)	43		78	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(145)		(111)
- Regulated activities	(13)	2		19	
- Regulated liabilities	(19)	(147)		(130)	
<i>Other liabilities, consisting of:</i>			(1,094)		(1,104)
- Other payables	(18)	(994)		(996)	
- Other liabilities	(19)	(100)		(108)	
<b>Total Net working capital</b>			(1,094)		(861)
Provision for employee benefits			(46)		(40)
<b>Non-current assets held for sale and directly associated liabilities consisting of:</b>			10		
- Non-current assets held for sale			10		
<b>NET INVESTED CAPITAL</b>			18,181		19,359
Shareholders equity pertaining to shareholders of the parent company			6,255		6,469
Minority interests			3		3
<b>Total shareholders' equity</b>			6,258		6,472
<b>Net financial debt</b>					
<i>Financial liabilities, consisting of:</i>			14,774		15,937
- Non-current financial liabilities		10,643		10,332	
- Current financial liabilities		4,131		5,605	
<i>Financial receivables and cash and cash equivalents, composed of:</i>			(2,851)		(3,050)
- Cash and cash equivalents		(2,851)		(3,044)	
- Current financial assets	(12)			(5)	
- Other	(12)			(1)	
<b>Total net financial debt</b>			11,923		12,887
<b>COVERAGE</b>			18,181		19,359


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### Reclassified statement of cash flows and reconciliation with the Statutory layout

(million of €)	2019		2020	
Items	Partial amount from legally required statement	Amount from reclassified format	Partial amount from legally required statement	Amount from reclassified format
<b>PROFIT FOR THE YEAR</b>		<b>1,090</b>		<b>1,101</b>
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		527		<b>523</b>
- Amortisation, depreciation and losses due to impairment of property, plant and equipment and intangible assets	752		<b>773</b>	
- Share of profit or losses of equity investments accounted for using the equity method	(218)		<b>(247)</b>	
- Other (income) expenses from equity investments	4		<b>(2)</b>	
- Change in provision for employee benefits	(18)		<b>(9)</b>	
- Other changes	7		<b>8</b>	
Net capital losses (capital gains) on asset sales, write-offs and eliminations		8		<b>13</b>
Dividend, interest and income taxes:		552		<b>504</b>
- Dividends	(2)		<b>0</b>	
- Interest income	(11)		<b>(25)</b>	
- Interest expense	190		<b>159</b>	
- Income taxes	375		<b>370</b>	
Change in net working capital:		(264)		<b>(224)</b>
- Inventories	(43)		<b>(23)</b>	
- Trade receivables	38		<b>(308)</b>	
- trade payables	(28)		<b>138</b>	
- Change in provisions for risks and charges	6		<b>13</b>	
- Other assets and liabilities	(237)		<b>(44)</b>	
Dividends, interest and income taxes collected (paid):		(427)		<b>(320)</b>
- Dividends collected	134		<b>241</b>	
- Interest collected	11		<b>22</b>	
- Interest paid	(185)		<b>(155)</b>	
- Income taxes (paid) received	(387)		<b>(428)</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>1,486</b>		<b>1,597</b>


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## Reclassified statement of cash flows and reconciliation with the Statutory layout

(million of €)	2019		2020	
Items	Partial amount from legally required statement	Amount from reclassified format	Partial amount from legally required statement	Amount from reclassified format
Technical investments:		(954)		(1,166)
- Property, plant and equipment	(852)		(1,001)	
- Intangible assets	(102)		(165)	
Technical divestments:		0		2
- Property, plant and equipment	0		2	
Acquisition of subsidiaries and businesses, net of liquidity acquired		(41)		(30)
- Acquisition of subsidiaries, net of liquidity acquired	(41)		(30)	
Equity investments		12		(193)
- Investments	(24)		(288)	
- Divestments	36		95	
Non current financial assets		(5)		(298)
- Assumption of non current financial assets	(5)		(332)	
- Repayments of non current financial assets	0		34	
Other changes relating to investment activities:		(16)		53
- Change in net payables for investments	(16)		53	
<b>FREE CASH FLOW</b>		<b>482</b>		<b>(35)</b>
Change in financial payables:		1,279		1,121
- Increase in non current financial liabilities	2,877		1,684	
- Decrease in non current financial liabilities	(2,070)		(2,091)	
- Increase/(decrease) in short-term financial liabilities	478		1,540	
- Decrease in financial payables for leased assets	(6)		(7)	
- Change in current financial receivables			(5)	
Equity cash flow		(782)		(893)
- Dividends paid	(746)		(779)	
- Acquisition of treasury shares	(39)		(114)	
- Change in minority interests in subsidiaries that do not entail a change of control	3		0	
<b>NET CASH FLOW FOR THE YEAR</b>		<b>979</b>		<b>193</b>

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# SNAM S.P.A. FINANCIAL REVIEW

## COMPANY INFORMATION

Snam S.p.A. (hereinafter also referred to as Snam) is an industrial holding company listed on the Milan stock exchange, which holds equity investments in industrial and service companies in Italy and abroad.

In its capacity as the group's parent company, it is responsible for the strategic direction, planning and control of the financial management, direction and coordination of the group's activities. It provides Group companies with business support services (mainly administrative, tax, legal, human resources, information technology and HSEQ services) in order to optimise the available resources and efficiently use the existing know-how. These services are governed by specific inter-company service contracts.

As at 31 December 2020, the major shareholder CDP S.p.A. held, through CDP Reti S.p.A., 31.4% 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<sup>40</sup>.

<sup>40</sup> This statement was prepared on the basis of the suggestions reported in Consob Communication no. 94001437 of 23 February 1994.




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## Reclassified Income Statement

2018	(million of €)	2019	2020	Var, ass	% change
<b>Income and financial expenses</b>					
775	Income from equity investments	898	<b>1,124</b>	226	25.2
213	Interest receivable and other financial income	159	<b>151</b>	(8)	(5.0)
(249)	Interest payable and other financial expenses	(211)	<b>(178)</b>	33	(15.6)
(2)	Losses from derivative contracts	(1)	<b>(10)</b>	(9)	
<b>737</b>	<b>Total financial income and expenses</b>	<b>845</b>	<b>1,087</b>	<b>242</b>	<b>28.6</b>
213	Revenues from the provision of services	227	<b>260</b>	33	14.5
14	Other income	15	<b>15</b>		
<b>227</b>	<b>Other business income</b>	<b>242</b>	<b>275</b>	<b>33</b>	<b>13.6</b>
<b>Other management costs</b>					
(94)	For personnel	(88)	<b>(90)</b>	(2)	2.3
(146)	For the provision of non-financial services and other costs	(186)	<b>(253)</b>	(67)	36.0
<b>(240)</b>	<b>Total other management costs</b>	<b>(274)</b>	<b>(343)</b>	<b>(69)</b>	<b>25.2</b>
<b>724</b>	<b>Pre-tax profit</b>	<b>813</b>	<b>1,019</b>	<b>206</b>	<b>25.3</b>
(3)	Income tax	4	<b>(4)</b>	(8)	
<b>721</b>	<b>Net profit</b>	<b>817</b>	<b>1,015</b>	<b>198</b>	<b>24.2</b>

**Net profit** in 2020 amounted to 1,015 million euros, up by 198 million euros or 24.2% compared with 2019. The increase is due mainly to the greater financial income and expense (+242 million euros or +28.6%) essentially following the greater income from equity investments (+226 million euros or +25.2%), partly offset by the increase in other management costs (-69 million euros or 25.2%), mainly attributable to greater financial expense for the provision of non financial services and other costs (-67 million euros or 36%).


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## ANALYSIS OF INCOME STATEMENT ITEMS

### Income and financial expenses

2018	(million of €)	2019	2020	Var, ass	% change
775	Income from equity investments	898	1,124	226	25.2
213	Interest receivable and other financial income	159	151	(8)	(5.0)
(249)	Interest payable and other financial expenses	(211)	(178)	33	(15.6)
(2)	Losses from derivative financial instruments – ineffective portion	(1)	(10)	(9)	
<b>737</b>		<b>845</b>	<b>1,087</b>	<b>242</b>	<b>28.6</b>

**Financial income and expense** in 2020 (1,087 million euros) rose by 242 million euros or 28.6% compared with the previous year.

Income from equity investments (1,124 million euros) consists mainly of the dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (665 million euros) and Stogit S.p.A. (197 million euros), by the companies under joint control Terëga (86 million euros) and Trans Austria Gasleitung GmbH - TAG (83 million euros), and by the related companies Italgas S.p.A. (28 million euros), Galaxy Pipeline Assets HoldCo Limited (17 million euros) and Senfluga Energy Infrastructure Holding S.A. (11 million euros). The increase of 226 million euros, up 25.2% compared with 2019, was mainly due to the greater dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (+85 million euros) and Stogit S.p.A. (+11 million euros), by the companies under joint control Terëga (+72 million euros) and Trans Austria Gasleitung GmbH - TAG (+20 million euros), and by the related companies Galaxy Pipeline Assets HoldCo Limited (+17 million euros) and Senfluga Energy Infrastructure Holding S.A. (+11 million euros).

Interest receivable and other financial income (151 million euros), principally relates to: (i) interest deriving from the intra-group loans granted by Snam S.p.A. to the subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (106 million euros overall) and to company under joint control OLT - Offshore LNG Toscana S.p.A (13 million euros); (ii) 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 2020 (18 million euros in total).

The interest payable and other financial expenses (178 million euros) relate to: (i) the expenses connected to the bond buy back transaction (22 million euros), 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 bond loans<sup>41</sup> (138 million euros) and for loans provided by banks and other financial institutions (18 million euros).

<sup>41</sup> Details of the bond issues that took place during the year and their conditions are provided in Note 16, "Current and non-current financial liabilities" in the Notes to the Separate Financial Statements.


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The losses from derivatives financial instruments (10 million euros) relate to the effects deriving from the unwinding of derivative financial contracts on bonds subject to the buyback operation.

## Other business income

2018	(million of €)	2019	2020	Var, ass	% change
213	Revenues from the provision of services	227	260	33	14.5
14	Other income	15	15		
<b>227</b>		<b>242</b>	<b>275</b>	<b>33</b>	<b>13.6</b>

**Revenue for the provision of services** (260 million euros) mainly involve charge backs for services provided by Snam to subsidiaries (229 million euros in total). The services are governed by contracts entered into with Snam S.p.A. and the subsidiaries, and concern 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 (31 million euros).

The increase of 33 million euros compared with the previous year is due to the greater charge backs to subsidiaries (+26 million euros), for services mainly of an ICT nature and to the greater revenue from Global Solution Business Unit projects (+7 million euros) essentially following the design services rendered to the subsidiary TAP.

**Other income** (15 million euros) essentially refers to income from the leasing and maintenance of fibre optic telecommunications cables for third-parties (13 million euros).

## Other management costs

2018	(million of €)	2019	2020	Var, ass	% change
146	For the provision of non-financial services and other costs	186	253	67	36.0
94	For personnel	88	90	2	2.3
<b>240</b>		<b>274</b>	<b>343</b>	<b>69</b>	<b>25.2</b>

**Costs for non financial services and other costs** are composed of operating costs (242 million euros) and depreciation and amortisation (11 million euros). The increase of 67 million euros is essentially due to: (i) higher costs for services (27 million euros), mainly attributable to ICT services charged back to Group companies; (ii) costs incurred as a result of the state of emergency related to the Covid-19 pandemic for a total amount of 24 million euros, relating mainly to donations of health equipment (14 million euros) and money (2 million euros) to


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the Italian health system and the third sector, purchases of personal protection equipment for internal use (6 million euros) and costs for services (2 million euros), mainly relating to employee support and security; (iii) the dynamics of the provision for risks and charges (17 million euros).

**Personnel costs** totalled 90 million euros, an increase of 2 million euros, essentially in line with the corresponding period of the previous year.

The number of employees as at 31 December 2020 (804 people) is analysed below by professional status:

### Employees by professional status

31.12.2018	(number)	31.12.2019	31.12.2020	Var, ass	% change
Professional status					
71	Senior Managers	71	<b>75</b>	4	5.6
259	Middle Managers	242	<b>265</b>	23	9.5
505	Office workers	426	<b>461</b>	35	8.2
3	Manual workers	3	<b>3</b>		
<b>838</b>		<b>742</b>	<b>804</b>	<b>62</b>	<b>8.4</b>

### Income tax

**Income tax** amounts to 4 million euros 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 statement of financial position format is used by management to calculate the key leverage and profitability ratios.

### Reclassified statement of financial position <sup>(\*)</sup>

(million of €)	31.12.2019	31.12.2020	Change
<b>Fixed capital</b>	<b>11,608</b>	<b>11,056</b>	<b>(552)</b>
Property, plant and equipment	20	18	(2)
- of which right-of-use leased assets	14	12	(2)
Intangible assets	12	15	3
Equity investments	6,545	6,761	216
Financial assets	5,035	4,268	(767)
Net payables for investments	(4)	(6)	(2)
<b>Net working capital</b>	<b>(334)</b>	<b>(320)</b>	<b>14</b>
<b>Provision for employee benefits</b>	<b>(14)</b>	<b>(13)</b>	<b>1</b>
<b>Assets held for sale</b>	<b>10</b>		<b>(10)</b>
<b>NET INVESTED CAPITAL</b>	<b>11,270</b>	<b>10,723</b>	<b>(547)</b>
<b>Shareholders' equity</b>	<b>4,396</b>	<b>4,550</b>	<b>154</b>
<b>Net financial debt</b>	<b>6,874</b>	<b>6,173</b>	<b>(701)</b>
- of which financial payables for leased assets <sup>(**)</sup>	14	12	(2)
<b>COVERAGE</b>	<b>11,270</b>	<b>10,723</b>	<b>(547)</b>

(\*) See the paragraph titled "Non-GAAP measures" for a methodological indication of the reclassified statements.

(\*\*) Including non-current lease liabilities (9 million euros) and the current portion of non-current lease liabilities (3 million euros).

**Fixed capital** (11,056 million euros) decreased by 552 million euros compared with 31 December 2019 mainly as a result of the reduction in financial assets (-767 million euros). This effect was partially offset by the increase in equity investments (216 million euros), mainly due to the subscription of the increase in the share capital in favour of Galaxy Pipeline Assets HoldCo Limited (221 million euros), following the purchase of ADNOC Gas Pipeline Assets LLC.


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## Equity investments

This item amounts of 6,761 million euros and is composed of equity investments in the following companies:

(million of €)	% ownership	Balance at 31.12.2019	Acquisitions and subscriptions	Assignments and reimbursements	Other changes	Balance at 31.12.2020
<b>Investments in subsidiaries</b>		<b>4,864</b>	<b>48</b>		<b>9</b>	<b>4,921</b>
Snam Rete Gas S.p.A.	100%	2,850			1	2,851
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
Snam 4 Efficiency S.r.l.	100%	23	48		8	79
Gasrule Insurance D.A.C.	100%	20				20
Enura S.p.A.	55%	4				4
Snam 4 Environment S.r.l.	100%	55				55
Asset Company 4 S.r.l.	100%	1				1
<b>Investments in joint ventures</b>						
Trans Austria Gasleitung GmbH	84.47%	500				500
Terēga Holding S.A.S.	40.50%	452		(81)		371
AS Gasinfrastruktur Beteiligung GmbH	40%	93			1	94
OLT - Offshore LNG Toscana S.p.A.	49.07%		3			3
<b>Investments in associates</b>		<b>636</b>	<b>236</b>			<b>872</b>
Trans Adriatic Pipeline AG	20%	303	15			318
Italgas S.p.A.	13.50%	244				244
Galaxy Pipeline Assets HoldCo Limited	12.32%		221		1	222
Senfluga Energy Infrastructure Holding S.A.	54.00%	89				89
		<b>6,545</b>	<b>287</b>	<b>(81)</b>	<b>10</b>	<b>6,761</b>

## Financial assets

**Financial assets** stand at 4,268 million euros and relate to: (i) receivables from long-term loans, including the relative current portions, granted mainly to the subsidiaries Snam Rete Gas (3,135 million euros) and Stogit (676 million euros), (ii) the loan granted to the company under joint control OLT (303 million euros) and (iii) fair value measurement through OCI of the minority interests in the company Terminale GNL Adriatico S.r.l. and ITM Power Plc (112 million euros overall).


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The reduction of 781 million euros compared with 31 December 2019 was mainly due to the closing and the simultaneous repayment of existing loans to Snam Rete Gas S.p.A. and Stogit S.p.A. (-1,148 million euros overall), partially offset by the taking over of the residual share of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020 (332 million euros; 303 million euros net of subsequent reimbursements).

## Net working capital

(million of €)	31.12.2019	31.12.2020	Change
Trade receivables	106	106	
Other assets	58	54	(4)
Tax receivables	45	39	(6)
Net prepaid tax assets	29	25	(4)
Inventories		3	
Provisions for risks and charges	(11)	(28)	(17)
Tax liabilities	(45)	(32)	13
Derivatives	(62)	(38)	24
Trade payables	(81)	(83)	(2)
Other liabilities	(373)	(366)	7
	<b>(334)</b>	<b>(320)</b>	<b>14</b>

**Net working capital** (-320 million euros) decreased by 14 million euros compared with 31 December 2019 mainly as a result of the reduction in liabilities for derivatives (+24 million euros) and the reduction in tax debts (+13 million euros), partly offset by changes in provisions for risks and charges (-17 million euros).

## Shareholders' equity

(million of €)	
<b>Shareholders' equity at 31 December 2019</b>	<b>4,396</b>
Increases owing to:	
- 2020 comprehensive income (*)	1,052
- Other changes	8
	<b>1,060</b>
Decreases owing to:	
- Final 2019 dividend	(466)
- 2020 interim dividend	(326)
- Acquisition of treasury shares	(114)
	<b>(906)</b>
<b>Shareholders' equity at 31 December 2020</b>	<b>4,550</b>

(\*) For further details, refer to the Comprehensive income statement of Snam S.p.A.


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## Net financial debt

(million of €)	31.12.2019	31.12.2020	Change
<b>Financial and bond debt</b>	<b>14,799</b>	<b>15,972</b>	<b>1,173</b>
Short-term financial liabilities <sup>(*)</sup>	4,158	<b>5,651</b>	1,493
Long-term financial payables	10,627	<b>10,309</b>	(318)
Financial payables for leased assets <sup>(**)</sup>	14	<b>12</b>	(2)
<b>Financial receivables and cash and cash equivalents</b>	<b>(7,925)</b>	<b>(9,799)</b>	<b>(1,874)</b>
Short-term financial receivables	(5,120)	<b>(6,808)</b>	(1,688)
Cash and cash equivalents	(2,805)	<b>(2,991)</b>	(186)
	<b>6,874</b>	<b>6,173</b>	<b>(701)</b>

(\*) Includes the current portion of non-current financial liabilities.

(\*\*) Including non-current lease liabilities (9 million euros) and the current portion of non-current lease liabilities (3 million euros).

Net financial debt at 31 December 2020 was 6,173 million euros, a reduction of 701 million euros compared with 31 December 2019.

Financial and bond debts (15,972 million euros) are denominated in euros and relate mainly to bond loans (8,140 million euros; 51%) and bank loans (5,260 million euros, 33%, of which 1,620 million euros was provided by the European Investment Bank - EIB).

Long-term financial debt (10,309 million euros) represented around 65% of gross financial debt (around 72% at 31 December 2019).

The breakdown of debt by type of interest rate at 31 December 2020 is as follows:

(million of €)	31.12.2019	%	31.12.2020	%	Change
Fixed rate	11,188	<b>76</b>	<b>10,739</b>	<b>67</b>	(449)
Variable rate	3,611	<b>24</b>	<b>5,198</b>	<b>33</b>	1,587
	<b>14,799</b>	<b>100</b>	<b>15,937</b>	<b>100</b>	<b>1,138</b>





The reduction in bond loans (908 million euros) compared to 31 December 2019, mainly relates to: (i) the repayment of a fixed rate bond maturing on 29 January 2020, for a nominal amount of 350 million euros; (ii) the repayment of a fixed rate bond loan maturing on 13 February 2020, of a nominal amount of 526 million euros; (iii) the repayment of a fixed rate bond maturing 25 October 2020, of a nominal amount of 500 million euros; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of 629 million euros with an average coupon of 0.62% and a residual duration of approximately 2.80 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction, concluded in December 2020 stood at 651 million euros<sup>42</sup>, including the fees paid to intermediaries and accrued interest. These variations were partially offset by the issuing: (i) a Transition Bond, for a nominal amount of 500 million euros, at a fixed rate maturing on 17 June 2030; (ii) a Transition Bond, for a nominal amount of 600 million euros, at a fixed rate maturing on 7 December 2028.

The increase in bank loans (1,569 million euros) relates mainly to higher net utilisations of uncommitted credit lines (1,047 million euros) and the subscription of new Term Loans for an incremental nominal value of 590 million euros.

The Euro Commercial Papers (2,503 million euros) involve unsecured short-term securities issued on the money market and placed with institutional investors and recorded an increase of 502 million euros.

Short-term financial receivables (6,808 million euros) showed an increase of 1,688 million euros compared with 31 December 2019. The increase is essentially attributable to the greater net use of current account balances of the subsidiaries Snam Rete Gas and Stogit (1,540 million euros in total).

Cash and cash equivalents, standing at 2,991 million euros (2,805 million euros as at 31 December 2019) refer to current accounts and on-call bank deposits.

At 31 December 2020, Snam had unused committed long-term credit lines worth 3.2 billion euros.

<sup>42</sup> For more information on the operation, see the section titled "2020 Performance - Main events".



## 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. 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

(million of €)	2019	2020
<b>Net profit</b>	<b>817</b>	<b>1,015</b>
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	13	<b>17</b>
- Dividends, interest and income taxes	(866)	(1,101)
Change in working capital due to operating activities	(14)	<b>(30)</b>
Dividends, interest and income taxes collected (paid)	862	<b>1,111</b>
<b>Net Cash inflow from operating activities</b>	<b>812</b>	<b>1,012</b>
Technical investments	(5)	<b>(9)</b>
Equity investments	(48)	<b>(226)</b>
Change in non current financial receivables	425	<b>832</b>
Free cash flow	1,184	1,609
<b>Change in current financial assets</b>	<b>(751)</b>	<b>(1,697)</b>
Repayment of financial payables for leased assets	(4)	<b>(4)</b>
Change in current and non-current financial liabilities	1,320	<b>1,171</b>
Equity cash flow (a)	(785)	<b>(893)</b>
<b>Net cash flow for the year</b>	<b>964</b>	<b>186</b>

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


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## Change in net financial debt

(million of €)	2019	2020
<b>Free cash flow</b>	<b>1,184</b>	<b>1,609</b>
Exchange rate differences on financial debt	(3)	
Change in financial payables for leased assets	(18)	(2)
Equity cash flow (a)	(785)	<b>(893)</b>
Other non-monetary changes		<b>(13)</b>
<b>Change in net financial debt</b>	<b>378</b>	<b>701</b>

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


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## 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 2020 are analysed in the table below:

Period	No of shares	Average cost (€) <sup>(*)</sup>	Total cost (million of €)	Share capital (%) <sup>(**)</sup>
<b>Repurchases</b>				
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	1.6
Year 2018	113,881,762	3.743	426	3.28
Year 2019	8,412,920	4.622	39	0.25
Year 2020	23,723,763	4.816	114	0.71
	<b>426,344,761</b>	<b>3.955</b>	<b>1,686</b>	
<b>Less treasury shares granted/sold/cancelled:</b>				
- granted free of charge 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)			
- cancelled in 2020 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(33,983,107)			
- granted free of charge under the 2017 stock incentivisation plan	(1,511,461)			
<b>Treasury shares held by the Company at 31 December 2020</b>	<b>90,642,115</b>			

(\*) Calculated on the basis of historical prices.

(\*\*) The share capital is that which exists at the date of the last purchase in the year/period.


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As at 31 December 2020, Snam held 90,642,115 treasury shares, (102,412,920 treasury shares, equal to 3.02% of the share capital at 31 December 2019), equal to 2.70% of the share capital, with an overall book value of 361 million euros. The market value of the treasury shares at 31 December 2020 was around 417 million euros<sup>43</sup>. The reduction in the number of treasury shares compared with 31 December 2019 is principally attributable to: (i) the cancellation of 33,983,107 shares with no nominal value, with no reduction in the share capital, and the resulting amendment of Article 5.1 of the company Bylaws approved by Snam's Shareholders' Meeting, held on an extraordinary basis on 18 June 2020; (ii) the allocation of 1,511,461 shares to Snam managers as part of the 2017 Stock Incentivisation Plan, the vesting period of which reached maturity in July 2020. These effects were partly offset by the purchase of 23,723,763 shares for an overall cost of approximately 114 at an average price of 4.82 per share (an overall disbursement of 890 million euros since 2016 Snam, for the purchase of approximately 230 million shares at an average price of 3.86 per share), essentially carried out in the context of the buyback programme approved by the Shareholders' Meeting of 2 April 2019, subsequently extended with a resolution of the same Shareholders' Meeting of 18 June 2020, following the revocation of the resolution of 2 April 2019, in relation to the part that remained unexercised<sup>44</sup>.

The share capital as at 31 December 2020 consisted of 3,360,857,809 shares (3,394,840,916 shares as at 31 December 2019) with no nominal value for a total equivalent value of 2,736 million euros.

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.

<sup>43</sup> Calculated by multiplying the number of treasury shares by the period-end official price of 4.601 euros per share.

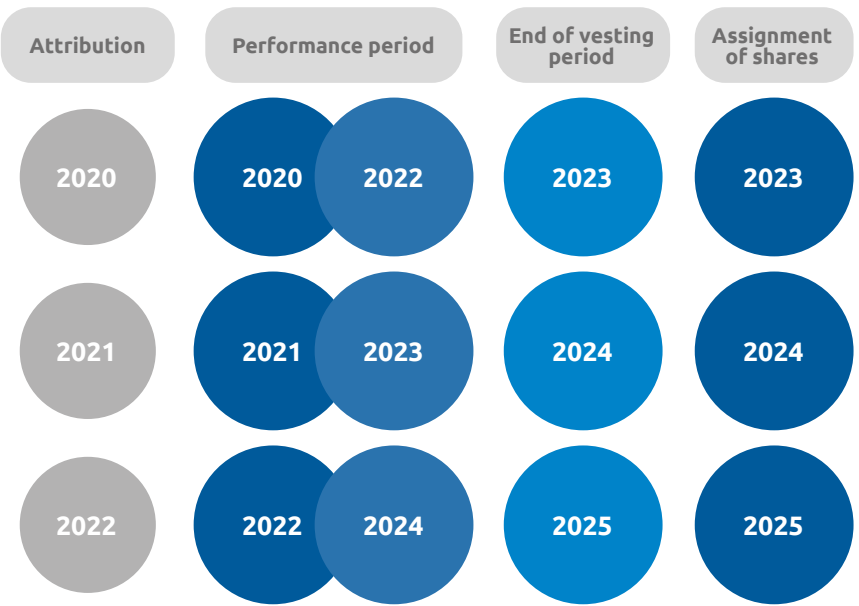
<sup>44</sup> For more details on the aforementioned resolution, see the chapter titled "Key events of 2020" in this Report.



## SNAM SHARE-BASED INCENTIVE PLANS FOR SENIOR MANAGERS

### 2020-2022 Long-Term Share-Based Incentive Plan

The Shareholders' Meeting of Snam, held on 18 June 2020 in ordinary session, approved the 2020-2022 long-term share-based incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plan.



The plan is intended for Snam’s Chief Executive Officer and managers, identified among those holding positions with the greatest impact on company results or with strategic importance for the achievement of Snam’s long-term objectives, as well as any other positions identified in relation to performance achieved, skills possessed or with a view to retention, up to a maximum of 100 beneficiaries.

The Plan calls for three annual attributions for the period 2020-2022. Each attribution is subject to a three-year vesting period and consequently any effective assignment of shares takes place between 2023 and 2025, as shown below:

The Board of Directors has determined that a maximum of 3,500,000 Shares will be used for each three-year cycle of the Plan. The Plan will be concluded in 2025, upon expiry of the vesting period for the last attribution envisaged in 2022.

The Plan envisages the free assignment of a variable number of Shares, depending on the individual attribution and the degree to which the Plan performance conditions are achieved. The number of shares accrued is subject to the achievement of performance conditions, verified for all Beneficiaries at the end of each three-year implementation period following a detailed process of



verification of the results actually achieved by the Remuneration Committee.

The performance conditions of the Plan, calculated according to a linear interpolation criterion between minimum, target and maximum values, are linked to the following parameters:

- Adjusted net profit cumulated in the three-year period corresponding to the Performance Period, with a weight of 50%;
- Added Value which reflects the generation of the value of the regulated business, calculated as the change in the RAB over the three-year period corresponding to the Performance Period, added to the dividends distributed, the treasury shares repurchased and reduced by the change in net debt<sup>45</sup>;
- ESG metric, with a weight of 20%, measured through the results achieved with respect to 2 indicators, aiming at:
  1. reducing natural gas emissions (weight 10%) in the three-year period corresponding to the Performance Period;
  2. guaranteeing a fair representation of the less present gender in Snam's management team (weighing for 10%) in terms of the % of the less represented gender in executives and middle managers and out of all Group executives and middle managers.

It is also envisaged that an additional number of shares will be assigned - defined as "dividend equivalents" - according to the shares effectively assigned at the end of the vesting period. The number of additional shares to be allocated is determined by dividing the sum of the dividends distributed in the vesting period by the average price of the share recorded in the month prior to the assignment. For the Chief Executive Officer and the other Plan Beneficiaries, it is envisaged that 20% of the shares assigned, gross of those required to fulfil tax requirements, shall be subject to a lock-Up period.

For further information, see the "Information Document on the 2020-2022 Long-Term Share-Based Incentive Plan" prepared pursuant to Article 84-bis of the Issuers' Regulations, available on Snam's website.

In connection with the above-mentioned plan, 1,277,996 shares have been allocated, for 2020. The unitary fair value of the shares, calculated from the value of the stock-market listing of the Snam stock at the respective allocation dates (grant dates), is equal to 4.441 euros per share and 4.559 per share (at 14 October 2020 and 16 December 2020 for the CEO and members of the Leadership Team, and for the other beneficiaries, respectively).

The expenses, relating to the period 1 July - 31 December 2020, equal to the product of the number of shares expected to mature at maturity and their fair value at the grant date, were reported as a component of the personnel cost against a corresponding shareholders' equity reserve, and came to around 2 million euros.

<sup>45</sup> The change in net debt is calculated excluding changes to working capital connected with regulatory dynamics and considering changes to commercial working capital.


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### 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.

Attribution	Performance period		End of vesting period	Assignment of shares
2017	2017	2019	2020	2020
2018	2018	2020	2021	2021
2019	2019	2021	2022	2022

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 three-year period 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%<sup>46</sup> of the shares for the CEO

<sup>46</sup> The percentage reaches about 40% in case of sale of shares assigned to pay the relevant taxes.




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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 euros per share, respectively for the 2017, 2018 and 2019 allocations. Expenses, reported as a labour cost component, with an opposing entry in shareholder equity provision, amount to 6 million euros (7 million euros in 2019).

In July 2020, 1,511,461 shares were assigned to Snam managers in connection with the 2017 Stock Incentivisation Plan, the vesting period of which came to a natural end, with the consequent release of the relative shareholders' equity provision, established during the three-year vesting period.

## 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](http://www.snam.it)) in the Governance section.

## RELATED-PARTY TRANSACTIONS

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, as well as subsidiaries, associates and companies under joint control (directly or indirectly) with the Ministry of Economy and Finance (MEF).

Operations with these parties mainly involve the exchange of goods and the provision of regulated services in the gas sector.

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 statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn 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 2020, Snam manages and coordinates its significant 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 statement of financial position, income statement and cash flows, are provided in Note 36 "Related-party transactions" of the Notes to the consolidated financial statements.

Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 29 "Operating costs and expenses" of the Notes to the consolidated financial statements.

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## 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 “The Toward Net Zero strategy - Innovation for business development” of this Report.

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# BUSINESS SEGMENT OPERATING PERFORMANCE




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## Snam regulated infrastructure in Italy

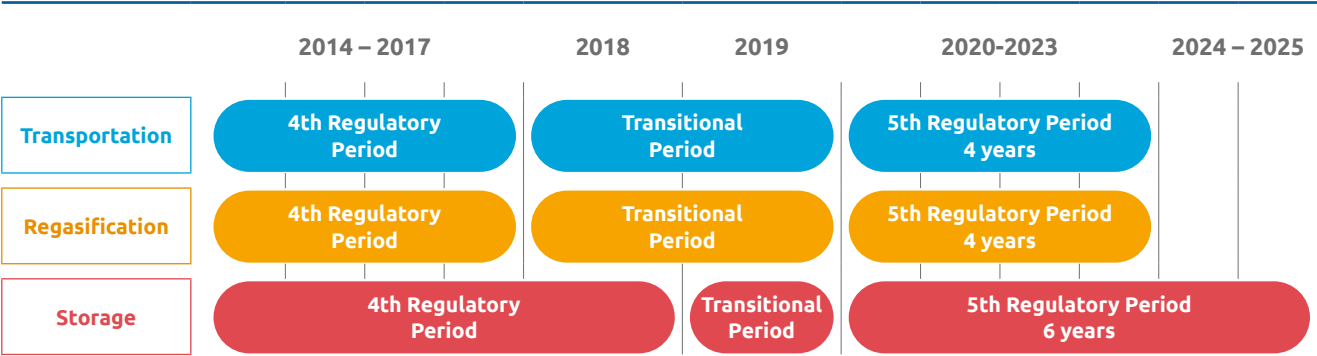




# APPLICABLE REGULATORY FRAMEWORK AND PRINCIPAL DEVELOPMENTS

## Tariff Regulation in Italy

With 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 through 31 December 2019, or during the transition period at the end of the fourth regulatory period.




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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 2020 and in the comparison period. More information about the main rate changes with respect to each business segment can be found in the section below, "Main rate changes with respect to each business segment".

	TRANSPORTATION	REGASIFICATION	STORAGE
<b>End of period of regulation (TARIFF)</b>	Transition period: 1 January 2018 – 31 December 2019  <b>5th period:</b> 1 January 2020 – 31 December 2023	Transition period: 1 January 2018 – 31 December 2019  <b>5th period:</b> 1 January 2020 – 31 December 2023	Transition period: 1 January 2019 – 31 December 2019  <b>5th period:</b> 1 January 2020 – 31 December 2025
<b>Calculation of net capital invested recognised for regulatory purposes (RAB)</b>	Transition period: Historic cost revalued Working capital recognised 0.8%  <b>Confirmed for 5th period</b>	Transition period: Historic cost revalued Working capital recognised 0.8%  <b>Confirmed for 5th period</b>	Transition period: Historic cost revalued Working capital recognised 0.8%  <b>Confirmed for 5th period</b>
<b>Return on net capital invested recognised for regulatory purposes (WACC pre-tax)</b>	Transition period: 5.7% Year 2019  <b>5th period:</b> 5.7% Years 2020-2021 LIC return with WACC 5.33%	Transition period: 6.8% Year 2019  <b>5th period:</b> 6.8% Years 2020-2021 LIC excluded	Transition period: 6.7 Year 2019  <b>5th period:</b> 6.7% Years 2020-2021 LIC excluded
<b>Incentives for new Investments</b>	Transition period: (investments in financial year 2019): +1% for 12 years (investments in new capacity for transportation and with cost analysis-positive benefits)	Transition period: (investments in financial year 2019): +1.5% for 12 years (investments in new capacity regasification)	Transition period: Withholding for 8 years of 20% of greater revenues with respect to revenues recognised deriving from auctions on new additional capacity
	Remuneration of investments t-1 offsetting time-lag regulatory	Remuneration of investments t-1 offsetting time-lag regulatory	Remuneration of investments t-1 offsetting time-lag regulatory
	<b>5th period:</b> (investments during financial year by 2022): +1.5% for 10 years (investments in new capacity of transportation and with cost analysis-benefits >1.5)	<b>5th period:</b> Withholding 40% of revenues flexibility services (covering revenues not subject to guarantee factors)	<b>5th period:</b> Withholding 50% of revenues from auctions short-term Possible optional strengthening of the percentage, against % reduction, revenue guarantees
<b>Efficiency factor (X FACTOR)</b>	Transition period: 1.3% - on operating costs  <b>5th period:</b> 0.7% on operating costs (*)	Transition period: 0%  <b>5th period:</b> 3.1% on operating costs	Transition period: 4.7% - on operating costs  <b>5th period:</b> 1% on operating costs

(\*) Referring to the largest transportation company.

The **remuneration rate for net invested capital (WACC)** as of 1 January 2016 was set by the Authority with resolution 583/2015/R/com of 2 December 2015 "Remuneration rate for capital invested in infrastructural services for the electric and gas sectors: criteria for determination and update". The duration of the regulatory period for the WACC (TIWACC) for infrastructural regulations for the gas sector was set at six years (2016-2021) and a mechanism was established to adjust the rate halfway through the period, based on current trends. With resolution 639/2018/R/COM of 6 December 2018, the Authority updated the remuneration rate for capital invested in regulated infrastructural services for

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the gas sector for the year 2019. The respective resolutions defined the tariff adjustment criteria for the 5th regulatory period for this type of business, confirmed the value of the Beta parameter for all sectors for the year 2020, keeping the WACC unchanged for that year, in line with the TIWACC regulations.

With Resolution 380/2020/R/gas, published on 15 October 2020, the Authority began proceedings to determine the remuneration rate for capital invested (WACC) in the electricity and gas sectors for the second regulatory period, starting on 1 January 2022 (II PWACC). The document provides some general guidelines, which include:

- the duration of the II PWACC shall be no less than 4 years;
- an infra-period revision to allow adjustments to the WACC based on current trends;
- confirmation of the current general methodology (weighted average of  $K_e$  and  $K_d$ , use of CAPM and confirmation of the use of the Country Risk Premium as an addendum, which reflects the Country Risk Premium);
- identification of as detailed as possible criteria for estimating the Beta, to improve the predictability of the model and reduce the level of discretion;
- as part of preparatory activities to develop regulations for spending and service objectives, the start of a process to align regulations for electricity and gas infrastructure, in relation to criteria for recognition of capital invested and operating costs, to make the regulations as homogeneous as possible and avoid imbalances on returns on capital invested linked to differences in the regulatory treatment of specific operating cost items and capital.

The resolution establishes that documents will be made available for consultation containing the Authority's guidelines, as well as the possibility to call for hearings to consult with interested entities and associations.




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## 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 in the various sectors in which Snam works:

### Natural Gas Transportation

#### Relations with the Regulatory Authority

(no.)	2018	2019	2020
Responses to consultation documents and service proposals	10	5	4
Tariff proposals	3	4	6
Data collection	143	137	97
Investigations (*)	2	0	0
Proposals to amend/update codes and contractual documents (**)	12	6	9
Proposals to amend/update codes and contractual documents (approved)	10	6	8

(\*) Information sent to the Authority during 2020 relative to investigations in the sector. Includes exploratory investigations.

(\*\*) Also includes proposals still being evaluated by ARERA, including agreements and contractual documents involving operators in the regulated services sector.

### Liquefied Natural Gas (LNG) Regasification

#### Relations with the Regulatory Authority

(no.)	2018	2019	2020
Responses to consultation documents	1	2	0
Tariff proposals	2	2	1
Data collection	34	24	22
Proposals to amend/update codes and contractual documents (*)	3	0	1
Proposals to amend/update codes and contractual documents (approved)	3	0	

(\*) Also includes proposals still being evaluated by ARERA, including agreements and contractual documents involving operators in the regulated services sector.


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## Natural Gas Storage

### Relations with the Regulatory Authority

(no.)	2018	2019	2020
Responses to consultation documents	1	2	0
Tariff proposals	3	3	2
Data collection	122	45	33
Proposals to amend/update codes and contractual documents (*)	3	4	1
Proposals to amend/update codes and contractual documents (approved)	2	4	1

(\*) Also includes proposals still being evaluated by ARERA, including agreements and contractual documents involving operators in the regulated services sector.

## Gas Market Monitoring

In the context of its evaluations of wholesale gas markets, the Authority appointed Snam, as the leading transportation company, together with the Energy Markets Operator, to assist it in monitoring activities by:

(i) preparing an integrated database of transportation, balancing, storage and regasification services, made

available to the Regulator and updated daily; (ii) making available scheduled indexes and reports in the context of the balancing function, system equilibrium and flexibility of supply sources, (iii) providing additional specific analysis when requested by the Authority.

### Relations with the Regulatory authority relative to Gas Market Monitoring in 2020

(no.)	Transportation	Regasification	Storage
Reports/analysis (with reference to all business)	5	1	1
Monitoring conventions, manuals and specifications (with reference to all business)	5	5	5
Reports and data flows	13,709	820	2,339



## MAIN CHANGES IN THE TARIFF STRUCTURE FOR THE BUSINESS SEGMENTS

### Natural Gas Transportation

#### 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 (UFG) 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. For more details, please see the section below, "UFG - Unaccounted for gas".

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  $\pm 4\%$ ) 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<sub>2</sub> emissions, and the costs of procurement of quantities to cover self-consumption, leaks and UFG. 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.


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### 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 transportation service for 2020 amounted to € 2,096 million euros. 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.

### Approval of revenues for the year 2021

By means of Resolution 180/2020/R/gas, published on 26 May 2020, the Authority approved the revenue recognised and fees for the natural gas transportation and dispatching service for 2021. Revenue recognised for the natural gas transportation service for 2021 amounted to 2,121 million euros. The RAB used to calculate 2021 revenue for the transportation, dispatching and measurement business was 16.8 billion, and included the investments estimated for 2020.

### 10-Year Gas Transportation Network Plan

With Resolution No. 539/2020/R/gas, published on 15 December 2020, the Authority expressed its evaluations on the 10-Year Gas Transportation Network Plan for the years 2019 and 2020. The Authority also made some adjustments to Resolution No. 468/2018/R/gas regarding the minimum requirements of the Plans applicable from 2021. In order to guarantee coordination between sectors, Snam and Terna will publish, by 31 January 2021, a joint document containing descriptions of the scenarios to be used as a basis for the 2021 Plans. The submission deadline applicable to the 2021 Plans was postponed until 31 March 2021.

### Provision on metering fees for the transportation service for 2020 and 2021

With resolution 597/2020/R/gas, published on 29 December 2020, the Authority clarified the criteria for determining and applying the fees for the metering service, establishing that the Cmcfe fee applies to redelivery points supplying end users for which ownership of the metering system is held by the transportation company, regardless of whether this ownership has been constant or is acquired. Therefore, the Authority redetermined the CMT and Cmcfe fees for the year 2021, and established that the fees for 2020 would not be redetermined (including specific company ones), also in consideration of the negligible impact - it being expected that any changes would be covered through the corrective factor for metering revenues.

### UFG - Unaccounted For Gas

#### Determination of charges for the purchase of gas to cover unaccounted-for gas

With Resolution 291/2020/R/gas, published on 29 July 2020, the Authority concluded its investigation, recognising an additional volume of UFG for the years 2018-2019 totalling 182 million cubic metres, equal to a total value of about 42 million euros, which will be recognised by the CSEA, net of the amount already received on account for the year 2018. In addition, it has initiated a procedure, to be completed by the end of 2020, to refine the UFG recognition criteria for the 5th regulatory period (2020-2023), aimed at strengthening the consistency of the mechanism's operation and its stability, providing that the incentive force of the mechanism is in any case determined on the basis of predefined unit fees proportionate to the remuneration of the metering service, rather than the price of gas.

#### Revision of criteria for recognising Unaccounted For Gas on transportation networks

With resolution 569/2020/R/gas, published on 22 December 2020, the Authority introduced an incentive mechanism relative to the difference between the UFG recognised in one year and the effective one for the same year. In particular, the incentive is calculated by applying a unit fee, of 3.3 €/MWh (3.5 c€/SCM), to the difference between the effective and recognised UFG, with a cap equal to the value of the remuneration of the metering service.

### Balancing and Gas Settlement

#### Amendments to the Integrated Text on Balancing (TIB)

By Resolution No. 45/2020/R/gas, the AEEG approved several amendments to the Integrated Text for balancing and the Integrated Text for monitoring the wholesale natural gas market, which are functional to the definition of the parameters for the incentive system of the Balancing Manager for the fourth incentive period from 20 February 2020 to 31 December 2021.

The measure confirmed the incentive scheme in place, based on three performance indicators (p1, p2, p3) that measure respectively the goodness of the System's forecasts of requirements (p1) and the efficiency of the Balancing Manager's balancing actions (p2 linked to the intervention prices of the Balancing Manager and p3 on the residual balance sheet), providing for profit sharing with the System of part of the annual bonus. Two new performance indicators have also been introduced (p4



already defined with Res. 208/2019/R/gas and p5), linked to the start of the new Settlement regime, which measure Snam Rete Gas's efficiency in supplying the quantities of gas needed to operate the network.

In addition, the Authority refers to further evaluations and to the examination of the performance results for 2020, the introduction of a new incentive based on the forecast by the person in charge of Balancing withdrawals during the gas day.

## Liquefied Natural Gas (LNG) Regasification

### 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 costs relative to the Emission Trading System (ETS), ratifying the neutrality principle for the business in relation to price risk and incentivising virtuous behaviour aimed at CO<sub>2</sub> emissions.

#### Approval of 2020 Revenues

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 GNL Italia. The tariffs were determined on the basis of reference revenues of 25.1 million euros and on energy costs of approximately 3.1 million euros. The revenue coverage factor has been set at 64% of the reference revenue. The RAB for LNG regasification activity is 121.8 million euros.

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.

#### Approval of revenues for the year 2021

By means of Resolution no. 229/2020/R/gas "Approval of tariffs for the LNG regasification service for the year 2021 and provisions relating to the revenue coverage factor for 2019", published on 26 June 2020, the Authority approved the revenues recognised for the regasification service for the year 2021 based on the proposal submitted by GNL Italia. The tariffs were determined on the basis of reference revenues of 26.6 million euros and energy costs of approximately 4.3 million euros. The revenue coverage factor has been set at 64% of the reference revenue. The RAB for LNG regasification activities was 129 million euros. At the same time, the Authority gave the go-ahead for the payment by the CSEA of the amounts due in relation to the revenue coverage factor for the year 2019 for an amount of approximately 11 million euros.


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## Natural Gas Storage

### Regulation For The Fifth Regulatory Period 2020-2023

#### Criteria for adjusting the tariffs for the natural gas storage service 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 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 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<sub>2</sub> 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 euros. The RAB for storage activities was 4.0 billion.

#### Approval of 2021 Revenues

By means of Resolution 275/2020/R/gas, published on 23 July 2020, the Authority approved the revenue recognised for the natural gas storage service for 2021. The recognised revenues amounted to 486 million euros. The RAB used for the calculation of revenues 2021 is 3.95 billion and includes the estimated investments for the year 2020.

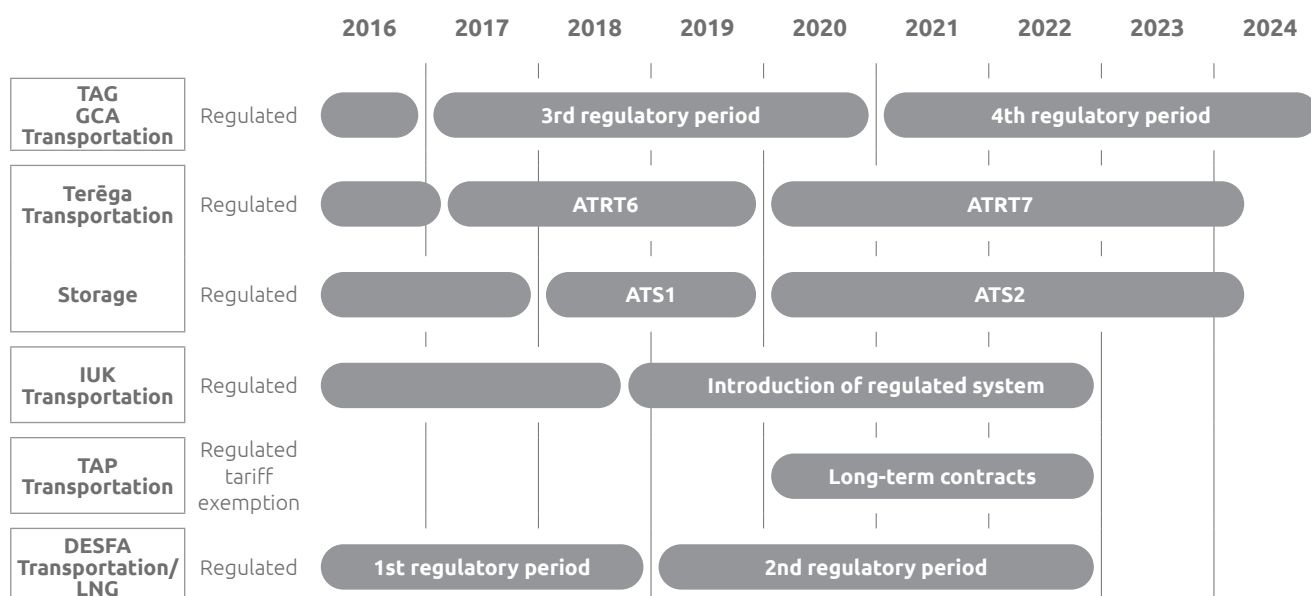
#### Resolution 232/2020/R/Gas - Amendments to the RAST and definition of incentive parameters for the year 2020 for Stogit S.p.A.

With Resolution no. 232/2020/R/Gas, the Authority extends to 31 December 2020 the incentive scheme that provides for (i) a 50% profit sharing on the sale of short-term storage services and for the remodulation of the injection profile and (ii) the withholding of 100% of the revenues deriving from the sale of the remodulation services. The resolution requires storage companies to submit an incentive proposal for the following calendar year by 30 November each year. The Authority also envisages that storage companies can access on a voluntary basis an enhanced incentive mechanism that increases the level of profit sharing applied to revenues from the sale of short-term services against a reduction in guaranteed revenues. Storage companies may apply for access to the enhanced incentive mechanism for 2021-2022 by 30 November 2020.


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## Regulation in European Countries of Interest to Snam: Main Features

Snam constantly monitors developments in the regulations within the various European countries in which it has a presence through international equity investments. Below is a summary of the main drivers with regards to the regulatory structures of reference:



### Transportation

- Regulatory revision for the fourth period (2021 - 2024) completed in June 2020
- RAB differentiated between equity financed portion (Revalued Historical Cost) and debt financed portion (Book Value). Additionally, different treatments are established for old assets (prior to 2012) and new investments;
- Different remuneration rates are established for the portion of RAB financed with equity (Cost of Equity<sup>(\*)</sup> 8.94 Real Pre Tax) and the portion financed with debt (Cost of Debt 1.61 Nominal Pre Tax).

### Transportation

- RAB annually revalued using inflation (Consumer Price Index), taking new investments and amortisation/depreciation into account (Current economic cost method);
- WACC remuneration rate of 4.25% Real Pre-Tax.

### Storage

- Storage under regulated regime from January 2018;
- WACC remuneration rate of 4.75% Real Pre-Tax; RAB of around 1.3 billion.

### Transportation

- Under an exemption regime until October 2018;
- Switch from an exemption regime to a regulated regime without volume risk protection, upon maturity of long-term contracts (October 2018).



### Transportation

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

### Transportation/LNG

- RAB based on historic cost, Work in Progress remunerated by WACC;
- Nominal Pre-Tax Remuneration rate 2019-2022 period: 8.22%, 7.84%, 7.52%, 7.44%
- RAB approximately 0.8 billion euros (Transportation + LNG)
- Socialisation of the cost of LNG in the transportation tariff (50% from 2020 vs. previous 75%)
- Recovery of the old Recoverable Difference accumulated between 2006 - 2016, around 326 million euros, distributed over 16 years, from 2017 - 2032

(\*) This value includes a 3.5% risk premium linked to commercialisation of capacity.



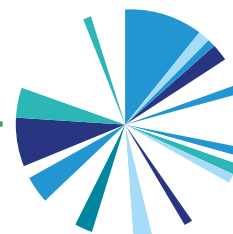
## DELIVERY AND DEVELOPMENT OF REGULATED SERVICES

In 2020, the integration process through which the commercial management activities of the three businesses - transportation, storage and regasification - merged into a single organisation continued, allowing the optimisation of the processes within Snam. In particular, the creation of a single Commercial Control Room to manage daily movements and deliveries of gas and network balancing has led to improved performance, by integrating know-how from various sectors.

### Clients and service quality according to the Network Code

	2018	2019	2020
<b>Transportation</b>			
Active clients (shippers)	136	150	145
New connection agreements for delivery/redelivery points	88	123	103
Contractualised transportation capacity/Available transportation capacity (entry points interconnected w/foreign countries) (%)	79	64	57
Compliance with connection demand emission times (%)	100	100	100
Compliance with execution times for services subject to specific commercial quality standards (%)	100	100	100
Interruptions with adequate notification (%)	97	97	95
<b>Regasification</b>			
Active clients (shippers)	2	6	5
Compliance with maximum time for accepting monthly delivery scheduling proposals (%)	100	100	100
Compliance with maximum Terminal capacity interruption/reduction time for maintenance (%)	100	100	100
<b>Storage</b>			
Active clients (shippers)	91	83	91
Contractualised storage capacity/Available storage capacity (%)	100	100	100
Compliance with execution times for services subject to specific commercial quality standards (%)	100	100	100
Connection flow line subject to monitoring (%)	100	100	100
Total capacity not made available due to service interruptions/reductions (%)	0	0	0




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## Commercial Control Room: integrating client services

One of the main responsibilities of the Control Room, which works 24/7 to monitor the Italian gas system, is balancing the system, with a dual valence: physical and commercial.

Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages customers to maintain a balance between the volumes they inject into and withdraw from the network. Every day, Snam receives transportation and storage capacity requests from its clients. In confirming the requests, **the Control Room complies with, among other things, the specific informational requirements established under the Balancing Network Code** (Regulation EU 312/2014), specifically hourly publication on the Snam website of information on system balancing status, as well as the publication of information on withdrawals measured during the gas day, twice per day for each shipper. This means clients receive information able to allow them to evaluate their own status and, if necessary, implement actions to balance their position.

On the other hand, the physical balancing of the system consists of the set of operations through which the Dispatching department of Snam controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times.

As occurred for the entire commercial area, the activities carried out by the Control Room have been reorganised to allow for remote management, thereby ensuring necessary business continuity and the fundamental safety of people in the face of the Covid-19 emergency.

Similarly, Dispatching, which represents the central hub of the national gas transportation network, unable to stop for any reason, worked in isolation during the emergency, providing an example of resilience and becoming an international best practice adopted by the National Grid, ALNG and Transitgas.

## Flexibility and Default Services

To support improved operational flexibility in the Italian gas system, the possibility of reserving transportation capacity on a monthly and daily basis was introduced, in addition to an annual basis, through redelivery points which supply gas directly to thermoelectric power stations, paying solely for the amounts reserved and not for an entire thermal year of the service. This access method creates more flexible allocation methods to promptly and efficiently deal with new operating conditions on the electric system.

**Again for thermal year 2020-21, Snam Rete Gas serves as the Default Transportation Supplier for the Sales Companies and End Users** under their network for which the balancing user responsible for the relative withdrawals cannot be identified. The same service is also carried out for the sales companies


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and final customers at third-party transporters who explicitly requested it. **The service in the 2019-2020 thermal year involved 270 parties amongst Final Customers and Sales Companies, for volumes of approximately 240,000 MWh.**

**In 2020, allocations for storage capacities, similar to the transportation business, were incorporated in the European PRISMA platform.** This synergy assists clients who make use of a single platform to reserve transportation and storage capacity, making Snam's storage capacity more transparent at the European level. Thanks to Snam's continued commitment to meeting the various needs of clients, flexibility of the services offered is guaranteed and constant and accurate information is provided, thanks to dedicated studies.

### Informational Systems Serving Clients

The Company makes an information channel available to its clients, to support prompt and flexible communication, making it possible to obtain "smart" information based on individual requirements, as well as offering direct and informal "chat" communication. Further, the portal offers clients a system of widgets and notifications which can be personalised.

In particular, as of 22 May 2019 Snam has offered its clients **the Jarvis commercial platform, with a new user experience co-designed with market operators and intended to establish a new service model offered to clients by the company, with integrated business processes.** This project, which saw the addition of new functions in 2020, was created using the Agile development methodology, based on streamlined business processes integrated into a single multi-language system using innovative architecture that covers processes currently distributed among 17 systems.

These activities led to a definitive switch to the new Jarvis platform (for the functions released), with progressive elimination of functions previously found on other various systems. In particular, in December 2020 the applications PSV and Portale M were definitively shut down.

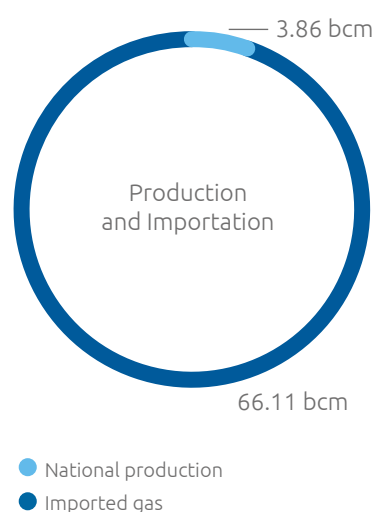
**Additionally, in 2020 a Customer Relationship Management system was added to the Jarvis Project** to support the transition from operational excellence to commercial excellence, with the aim of improving the quality of services offered and customer relations, ever more important in company strategies.



## NATURAL GAS TRANSPORTATION



Snam, through its subsidiaries Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas, is the leading Italian natural gas transportation and dispatching operator, and owns almost all the transportation infrastructures in Italy, with over 32,600 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 plants in Minerbio and Sergnano that came into operation in 2018, and a new dispatching unit that has recently been renovated in terms of structure and technology. Gas coming from abroad is injected into the network at nine entry points, in correspondence with the 6 methane pipeline interconnection points (including the TAP pipeline which began operating in November 2020) and the three interconnection points for the 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 2020. In addition to the average transportation capacity offered at entry points connected with foreign countries and with LNG terminals equal to 363.1 million cubic metres/day; Snam has made further transport capacities available at entry points interconnected with national producers for a total of 22.0 million cubic metres average/day and with the production of biomethane for a total of 0.6 million of cubic metres average/day.

Over the last 17 years transportation operators have been constantly increasing, going from around 30 operators in 2003 to around 213 operators in 2020 (including shippers and traders).

In 2020, 103 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, 19 contracts for the injection of biomethane and 35 relating to CNG service areas.


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

### Key performance indicators

(million euros)	2018	2019	2020	Change	% change
Total revenues (a) (b)	2,069	2,116	<b>2,156</b>	40	1.9
Total revenues net of pass-through items (a) (b)	1,984	2,031	<b>2,093</b>	62	3.1
- of which regulated revenue (a) (b)	1,907	1,969	<b>2,028</b>	59	3.0
Operating costs (a) (b)	430	331	<b>383</b>	52	15.7
Adjusted operating costs (*) (a) (b)	413	366	<b>380</b>	14	3.8
Adjusted operating costs net of pass-through items (*) (a) (b)	328	281	<b>317</b>	36	12.8
EBIT	1,064	1,157	<b>1,139</b>	(18)	(1.6)
Adjusted EBIT(*)	1,081	1,122	<b>1,142</b>	20	1.8
Technical investments	764	813	<b>981</b>	168	20.7
- of which with a greater return	280	249	<b>265</b>	16	6.4
- of which with a basic return (c)	485	564	<b>716</b>	152	27.0
Net invested capital at 31 December	12,551	12,959	<b>13,411</b>	452	3.5
Natural gas injected in the National Gas Transportation Network (billion cubic metres) (d)	72.82	75.37	<b>69.97</b>	(5.40)	(7.2)
Gas transportation network (km in use) (e)	32,625	32,727	<b>32,647</b>	(80)	(0.2)
- of which National Network (e)	9,697	9,727	<b>9,649</b>	(78)	(0.8)
- of which regional network	22,928	23,000	<b>22,998</b>	(2)	(0.0)
Employees in service at the period end (number)	1,915	1,945	<b>1,910</b>	(35)	(1.8)

(\*) The values shown in the adjusted configuration respectively exclude: charges for the early retirement fund for financial year 2018 (17 million euros) and the effects of the release of the provision for impairment losses in the income statement relative to balancing activities for financial year 2019 (35 million euros). With reference to 2020, the amounts exclude costs suffered following the state of emergency linked to the Covid-19 pandemic, essentially relative to personal protective equipment for internal use and for deep cleaning of work areas (3 million euros total). More information on adjusted results measures and the relative special items relevant at the consolidated level can be found in the chapter "Financial review – Non-GAAP measures".

(a) Before consolidation adjustments.

(b) The revenue components that are offset by costs ("pass-through" items) relate to modulation. As from 1 January 2020, the pass-through component attributable to interconnection with other transportation operators is recognised as a direct reduction in the corresponding revenue (47 million euros in 2020). Similarly, the corresponding figures for 2019 and 2018 (52 and 49 million euros, respectively) have been restated.

(c) At a real pre-tax base WACC of 5.7% for 2019 and 2020 (5.4% in 2018).

(d) The data for 2020 were updated at 29 January 2021. 2019 figures were definitively updated. With reference to 2020, gas volumes are expressed in standard cubic metres (Scm) with a conventional average Higher Heating Value (HHV) of 38.1 MJ/Scm (10.575 KWh/Scm).

(e) The amount includes 84 km of network relative to Infrastrutture Trasporto Gas.



## RESULTS

**Total revenues** amounted to 2,156 million euros, up by 40 million euros or 1.9%, compared to financial year 2019 (2,116 million euros). Net of components offset in costs<sup>47</sup>, total revenues amounted to 2,093 million euros, up by 62 million euros, or 3.1%, compared with the previous year, mainly in view of the higher regulated revenues.

**Regulated revenues**, net of the components that are offset by costs and the effects deriving from the coverage of energy costs, amounted to 1,976 million euros, up by 7 million euros or 0.4% with respect to 2019. Higher revenues, mainly attributable to tariff adjustment mechanisms, in particular the increase in RAB (+25 million euros), were absorbed by the reduction in volumes transported as a result of the Covid-19 emergency, despite climate trends in line with 2019 (-17 million euros).

**Non-regulated revenues** of 65 million euros, up by 3 million euros with respect to 2019, refers essentially to charge backs for technical services provided to other Group companies, which are reflected in the costs incurred to provide the related services.

**Adjusted EBIT** amounted to 1,142 million euros, up by 20 million euros or 1.8% compared with the adjusted EBIT for 2019 (1,122 million euros). The increase is due to greater revenues (+10 million euros) and the reduction in operating costs (+19 million euros, net of components offset by revenues and sterilisation of energy costs) following cost containment measures following the lockdown measures, the trend in provisions for risks and charges and minor costs for redundancy packages. These effects were partially absorbed by greater amortisation/depreciation (-29 million euros), due to new infrastructure entering the system, offset by lower writedowns (+23 million euros).

With reference to energy costs, specifically those to acquire fuel gas, previously transferred in kind by shippers, and charges to acquire CO<sub>2</sub>, emission rights, it should be noted that on the basis of that established for the fifth regulatory period, as of 1 January 2020 these costs are covered in revenues through the variable fee.

<sup>47</sup> The main revenue components offset by costs relate to modulation.


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## OPERATING REVIEW

### Technical investments

Type of investment	Higher return (%) (*)	2018	2019	Higher return (%) (*)	2020
		Million euros	Million euros		Million euros
Development	1.0%	279	249	1.5%	265
Replacement and other		485	564		716
		<b>764</b>	<b>813</b>		<b>981</b>

(\*) With respect to a real pre-tax base WACC respectively at 5.4% for 2018 and 5.7% for 2019 and 2020, applied to investments in new transportation capacity and with cost-benefit analysis exceeding 1.5, pursuant to resolution ARERA 575/2017/R/Gas..

**Technical investments** in 2020 amounted to 981 million euros, an increase of 168 million euros, or 20.7%, compared with 2019 (813 million euros).

The investments were classified respectively in accordance with Resolution 575/2017/R/gas with reference to 2018 and 2019 and 114/2019/R/gas for 2020 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 transportation capacity **Development** (265 million euros), for which a **greater return of 1.5%** is planned, mainly involve:

- investments in **development of new transport capacity on the National Network to serve import and export capacity** (182 million euros) in the context of TAP Interconnection methane pipeline construction (156 million euros; 95 million euros in 2019), market supportive initiatives in the north-east of the country and physical inversion of transportation flows in interconnection points with northern Europe in the Po Valley (13 million euros), as well as to strengthen the transportation network at entry points in southern Italy (12 million euros) to continue construction of the Massafra-Biccari methane pipeline reconnections;
- investments to **develop new transportation on the Regional and National Networks** (83 million euros) including: (i) continuation of work to construct methane pipelines and connections associated with the gas conversion initiative in the Calabria Region (21 million euros); (ii) continuation of construction of biomethane connections (13 million euros) and CNG connections (11 million euros); (iii) construction of the methane pipelines Mornico al Serio-Travagliato (8

million euros) and improvement of Boltiere-Bergamo (4 million euros); (iv) completion of complementary construction activities relative to the methane connection of Pietravairano - Pignataro M. (6 million euros); (v) engineering and permit activities to develop the backbone in Sardinia.

Investments for **replacements and other investments with base remuneration** (716 million euros), mainly involve: (i) works intended to maintain safety and quality levels for systems (529 million euros), including the "methane pipeline replacement" initiative (238 million euros), especially continuation of materials delivery, construction and partial start up of the Rimini - S. Sepolcro methane pipeline reconstruction; (ii) projects to develop new information systems, as well as to implement existing ones (154 million euros), including the Consumption Cloud - Azure project, development of storage software, adjustment of applications supporting network management and cartography systems; (iii) works charged back to third parties (16 million euros); (iv) acquisitions of key operating assets (16 million euros).


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## NFS Progress of activities related to obtaining 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,

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.

### Decrees and measures obtained during the year (MATTM competence)

- EIA Decrees
- Measures of verification of compliance



### VIA requests presented to the Ministry of Environment and Ministry of Cultural Assets

Name	Length (km)	Regions involved	Decree Date
<b>Methane Pipelines</b>			
Foligno reconstruction (Colfiorito) - Gallese and associated work	109.00	Marche, Umbria and Lazio	06.03.2020
Recanati - Foligno extension of VIA decree	78.00	Marche and Umbria	19.03.2020
Chieti - Rieti reconstruction	134.52	Abruzzo and Lazio	07.04.2020
Gagliano-Termini Imerese reconstruction	60.45	Sicily	09.04.2020
Sansepolcro-Terranuova Bracciolini reconstruction	45.62	Tuscany	27.07.2020


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## Requests to verify VIA jurisdiction presented to the Ministry of Environment (MATTM)

Name	Length (km)	Regions involved	Date presented
<b>Methane pipeline</b>			
Pisticci - Sant'Eufemia	5.18	Calabria	18.03.2020
IVI Petrolifera S.p.A. connection	4.19	Sardinia	10.04.2020
<b>Systems</b>			
Adjustment of the Gas Compression Station in Malborghetto	/	Friuli Venezia-Giulia	15.04.2020
Reduction system HPRS10 and pipeline variant Melizzano - Afragola	/	Campania	01.06.2020
Variants for pipeline inspection Castelcampagnano - Caserta	/	Campania	22.07.2020

## Gas Distribution On The National Transportation Network

Gas volumes are stated in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10.575 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.

### Gas demand in Italy

(billions of m <sup>3</sup> )	2018	2019	2020	Change	% change
Residential and tertiary	28.76	28.13	27.41	(0.72)	(2.6)
Thermoelectric	24.19	26.65	25.18	(1.47)	(5.5)
Industrial (c)	17.39	17.30	16.39	(0.91)	(5.3)
Other (d)	2.33	2.4	2.32	(0.08)	(3.3)
	<b>72.67</b>	<b>74.48</b>	<b>71.30</b>	<b>(3.18)</b>	<b>(4.3)</b>

(a) 2019 figures were definitively updated.

(b) The percentage change is calculated with reference to the figures in cubic metres.

(c) Includes consumption from Industry, Agriculture and Fishing, Chemical Synthesis and Motor Transport sectors.

(d) Consumption and loss mainly relative to the natural gas transportation system, the energy system, up-stream sector, storage and LNG systems.

**Gas demand in Italy** in 2020 came to **71.30 billion cubic metres**, showing a significant drop with respect to 2019 (of 3.18 billion cubic metres; -4.3%), due a decline in withdrawals in all consumption sectors. More specifically, the drop in gas demand is attributable: (i) to lower consumption in the thermoelectric sector (-1.47 billion cubic metres; -5.5%), following the decrease in electricity demand due to the lockdown measures implemented to contain Covid-19, in particular during the months from May to June, as well as the increase in photovoltaic production, partially compensated for by a significant drop

in imports of electricity and a reduction in hydroelectric and wind production; (ii) to lower consumption in the industrial sector (-0.91 billion cubic metres; -5.3%), due to a 12% reduction in industrial production with respect to 2019, intensified by the closure of various productive activities during the lockdown (March/April), followed by a slow recovery in industrial production which has not yet returned to pre-Covid levels.

Additionally, the reduction in gas demand was affected by lower consumption in the residential and tertiary sector



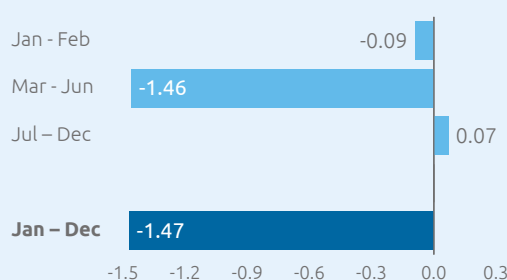


## Impacts of Covid-19 on gas demand

### Thermoelectric sector

The decrease in natural gas demand in the thermoelectric sector peaked from March-June 2020, during the closures implemented for Covid-19.

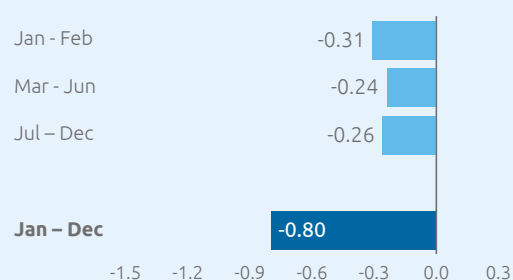
#### Thermoelectric sector - Consumption change (bcm)



### Residential sector

Changes in civil sector consumption after normalisation for January - December is mainly linked to the progressive increase in energy efficiency measures to which can be added, for the months of March and April, the effects of the lockdown on the tertiary sector, which contributed to a reduction in gas demand of approximately 150 million cubic metres.

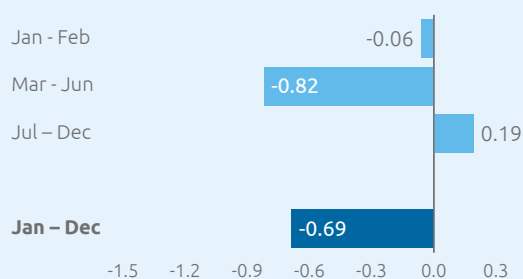
#### Residential sector - Consumption change (bcm)



### Industrial sector

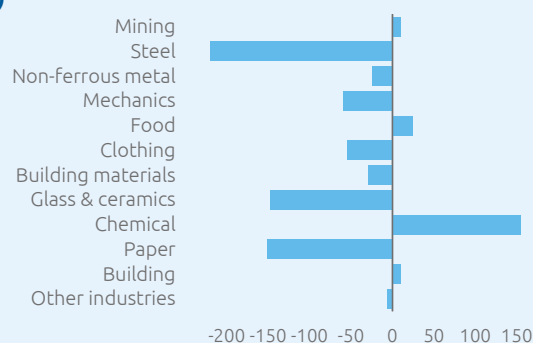
The decrease in natural gas demand in the industrial sector peaked from March-June 2020, during the closures implemented for Covid-19. On the other hand, the period from July - December 2020 saw a positive change, demonstrating a gradual recovery in activities.

#### Industrial sector - Consumption change (bcm)



The sub-sectors most heavily impacted by the effects of Covid-19 were the glass/ceramics, iron/steel and paper sectors, which account for the entire drop in the industrial sector. The chemicals sector was positive.

#### Industrial sector - Consumption change by segment (bcm)

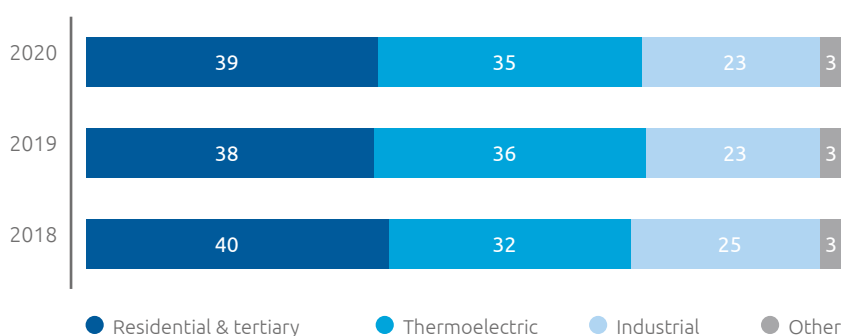



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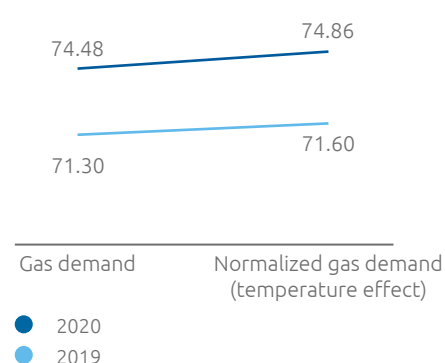
(-0.72 billion cubic metres; -2.6%), essentially due to a progressive increase in energy efficiency measures and modernisation of heating systems with higher efficiency hot water heaters, relative to similar climate conditions in the two periods.

Gas demand adjusted for weather effects, estimated at 71.60 billion cubic metres, fell by 3.26 billion cubic metres (-4.4%) with respect to the corresponding amount in 2019 (74.86 billion cubic metres).

### Gas demand by sector (% of total gas demand)



### Gas demand (Bcm)



The **availability of natural gas in Italy** (70.90 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 down by 3.07 billion cubic metres (-4.2%) compared with 2019. The reduction is in line with the

decrease in volumes of gas injected into the network (-4.75 billion cubic metres; -6.7%), as well as the reduction in domestic output (-0.65 billion cubic metres; -14.4%), combined with greater use of supplies from storage (0.93 billion cubic metres, with reference to net provisions).

### Availability of natural gas

(billions of m <sup>3</sup> )	2018	2019	2020	Change	% change
From gas injected into the network by entry point	67.70	70.86	66.11	(4.75)	(6.7)
From domestic output	5.12	4.51	3.86	(0.65)	(14.4)
<b>Total gas injected into the network</b>	<b>72.82</b>	<b>75.37</b>	<b>69.97</b>	<b>(5.40)</b>	<b>(7.2)</b>
Net balance storage withdrawals/injections (**)	(0.43)	(1.40)	0.93	2.33	
<b>Total availability of natural gas</b>	<b>72.39</b>	<b>73.97</b>	<b>70.90</b>	<b>(3.07)</b>	<b>(4.2)</b>

(\*) 2019 figures were definitively updated.

(\*\*) Understood as the balance between withdrawals from storage (+) and injections into storage (-), expressed after consumption through injection/provision.


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## Injections and gas withdrawals in the transportation network

### Gas injected into the network (\*)

(billions of m <sup>3</sup> )	2018	2019	2020	Change	% change
Domestic output	5.12	4.51	<b>3.86</b>	(0.65)	(14.4)
Entry points (**)	67.70	70.86	<b>66.11</b>	(4.75)	(6.7)
Tarvisio	29.69	29.85	<b>28.43</b>	(1.42)	(4.8)
Mazara del Vallo	17.09	10.21	<b>12.02</b>	1.81	17.7
Gries Pass	7.76	11.13	<b>8.60</b>	(2.53)	(22.7)
Cavarzere (LNG)	6.71	7.91	<b>6.81</b>	(1.10)	(13.9)
Gela	4.47	5.70	<b>4.46</b>	(1.24)	(21.8)
Livorno (LNG)	1.07	3.62	<b>3.27</b>	(0.35)	(9.7)
Panigaglia (LNG)	0.88	2.42	<b>2.51</b>	0.09	3.7
Melendugno			<b>0.01</b>	0.01	
Gorizia	0.03	0.02		(0.02)	(100.0)
	72.82	75.37	<b>69.97</b>	(5.40)	(7.2)

(\*) The data for 2020 were updated at 14 January 2021. 2019 figures were definitively updated.

(\*\*) Entry points connected with other countries or with LNG regasification plants.

In 2020, a total of 69.97 billion cubic metres of gas was injected into the network, an decrease of 5.40 billion cubic metres (-7.2%) compared with 2019.

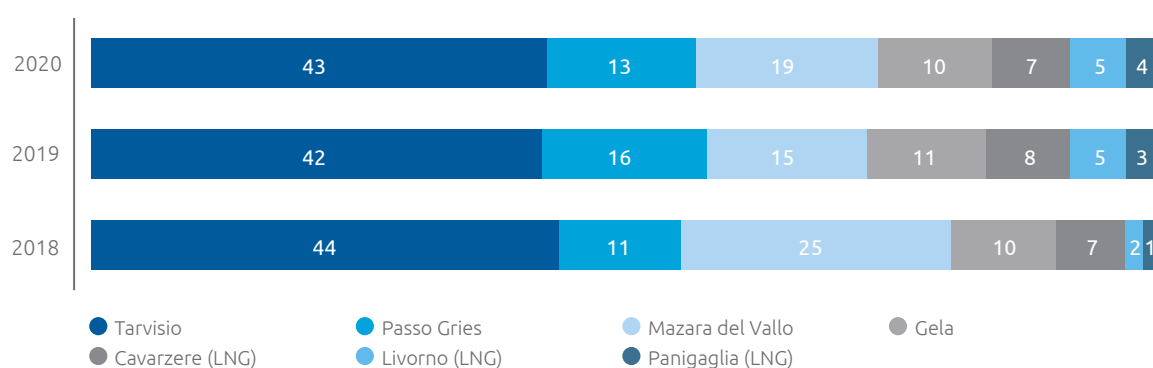
Injections into the network from domestic production fields or their collection and treatment centres totalled 3.86 billion cubic metres, down by 0.65 billion cubic metres (-14.4%) compared with 2019.

Volumes injected at entry points connected with other countries and with regasification plants, overall equal to 66.11 billion cubic metres, fell by 4.75 billion cubic metres

(-6.7% with respect to 2019), in line with the decline in natural gas demand and the greater use of provisions from storage.

The lesser volumes injected from the LNG regasification terminals (-1.36 billion cubic metres; -9.7%), as well as from the entry points of Passo Gries (-2.53 billion cubic metres; -22.7%), Tarvisio (-1.42 billion cubic metres; -4.8%) and Gela (-1.24 billion cubic metres; -21.8%), were partly offset by the higher volumes injected from the Mazara del Vallo entry point (+1.81 billion cubic metres; -17.7%).

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




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## Natural gas withdrawals

(billions of m <sup>3</sup> )	2018	2019	2020	Change	% change
Redelivery to domestic market	71.49	73.04	<b>70.01</b>	(3.03)	(4.1)
Exports and transit (*)	0.45	0.37	<b>0.36</b>	(0.01)	(2.7)
Consumption and emissions, Snam Rete Gas	0.27	0.23	<b>0.23</b>		
Unaccounted for gas and other changes (**)	0.18	0.33	<b>0.30</b>	(0.03)	(9.1)
<b>Total natural gas withdrawals</b>	<b>72.39</b>	<b>73.97</b>	<b>70.90</b>	<b>(3.07)</b>	<b>(4.2)</b>

(\*) Includes exports to the Republic of San Marino.

(\*\*) Includes variation from network invasion. In the energy budget prepared by Snam Rete Gas, UFG is conventionally defined as the natural difference between the amounts of gas measured at injection and the amounts of gas measured at withdrawal, deriving from the technical tolerances of the measurement tools.

Natural gas withdrawn from the national transportation network in 2020 (70.90 billion cubic metres; -4.2 with respect to 2019) mainly went to: (i) redelivery to users at network exit points (70.01 billion cubic metres; -4.1%); (ii)

exports and transit (0.36 billion cubic metres or -2.7%); and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.23 billion cubic metres, the same as in 2019).

## Reconciliation of gas volumes injected into the network and gas demand in Italy

(billions of m <sup>3</sup> )	2018	2019 (a)	2020	Change	% change (b)
<b>Total gas injected into the network</b>	<b>72.82</b>	<b>75.37</b>	<b>69.97</b>	<b>(5.40)</b>	<b>(7.2)</b>
Net balance storage withdrawals/injections (c)	(0.43)	(1.40)	<b>0.93</b>	2.33	
<b>Total natural gas withdrawals</b>	<b>72.39</b>	<b>73.97</b>	<b>70.90</b>	<b>(3.07)</b>	<b>(4.2)</b>
Exports (-) (d)	(0.45)	(0.37)	<b>(0.36)</b>	0.01	(2.7)
Gas injected in other operator regional network	0.03	0.03	<b>0.03</b>		
Other consumption (e)	0.69	0.85	<b>0.72</b>	(0.13)	(14.8)
<b>Total demand Italy</b>	<b>72.67</b>	<b>74.48</b>	<b>71.30</b>	<b>(3.18)</b>	<b>(4.3)</b>

(a) 2019 figures were definitively updated.

(b) The percentage change is calculated with reference to the figures in cubic metres.

(c) Understood as the balance between withdrawals from storage (+) and injections into storage (-), expressed after consumption through injection/provision.

(d) Includes transits and exports to the Republic of San Marino.

(e) Includes consumption from LNG regasification terminals, consumption from storage compression stations and from power stations for production treatment.

The transportation capacity of the network again covered all user demand in 2020. Average transportation capacity provided in 2020 at the entry points connected with foreign pipes and at regasification facilities was 363.1 million cubic metres on average per day, 19.1 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 22.00 million cubic metres/day.
- the production of biomethane at a total of 0.6 million cubic metres/day.
- production from virtual entry points (PIV) connected to distribution networks/other transportation networks for a total of 0.1 million cubic metres/day.


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## Transportation capacity

(billions of m <sup>3</sup> /day)	Calendar year 2018			Calendar year 2019			Calendar year 2020		
Entry points	Transportation capacity	Capacity transferred	Saturation (%)	Transportation capacity	Capacity transferred	Saturation (%)	Transportation capacity	Capacity transferred	Saturation (%)
Tarvisio (**)	111.1	107.4	96.7	110.6	98.3	88.9	<b>113.0</b>	<b>88.5</b>	<b>78.3</b>
Mazara del Vallo (*) (**)	82.0	81.2	99.0	86.7	36.1	41.6	<b>85.6</b>	<b>36.9</b>	<b>43.1</b>
Gries Pass	64.4	34.8	54.0	64.4	31.3	48.6	<b>64.4</b>	<b>23.9</b>	<b>37.1</b>
Cavarzere (LNG)	26.4	24.4	92.4	26.4	24.9	94.3	<b>26.4</b>	<b>22.3</b>	<b>84.5</b>
Gela (*)	20.3	20.1	99.0	22.9	19.0	83.0	<b>22.4</b>	<b>17.2</b>	<b>76.7</b>
Livorno (LNG)	15.0	15.0	100.0	15.0	14.3	95.3	<b>15.0</b>	<b>11.7</b>	<b>78.0</b>
Panigaglia (LNG)	13.0	4.0	30.8	13.0	7.4	56.9	<b>13.0</b>	<b>6.7</b>	<b>51.5</b>
Gorizia	4.2	0.1	2.4	4.0	0.1	2.5	<b>4.2</b>		
Competitor Capacity (*)	24.4			19.9			<b>19.1</b>		
	<b>360.8</b>	<b>287.0</b>	<b>79.5</b>	<b>362.9</b>	<b>231.4</b>	<b>63.8</b>	<b>363.1</b>	<b>207.2</b>	<b>57.1</b>

(\*) Capacity values at the Mazara del Vallo and Gela Entry Points do not include Competitor Capacity. This capacity, pursuant to Regulation EU 984/2013, in effect as of 1 November 2015, is the transportation capacity available at a Point for which the transfer entirely or partially reduces the capacity available for transfer at another Point on the Transportation System.

(\*\*) Capacity values at the Mazara del Vallo and Tarvisio Entry Points include capacity quotas pursuant to ARERA Resolution 666/2017/R/GAS.

Snam Rete Gas has prepared a long-term plan for available transportation, sent to the Ministry of Economic Development on 28/06/2019 and published on the Snam website at [www.snam.it/en/transportation/index.html](http://www.snam.it/en/transportation/index.html) 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 2020 - 2021 and subsequent years up to 30 September 2035.

Also shown for the thermal year 2020 - 2021 are the transportation 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.

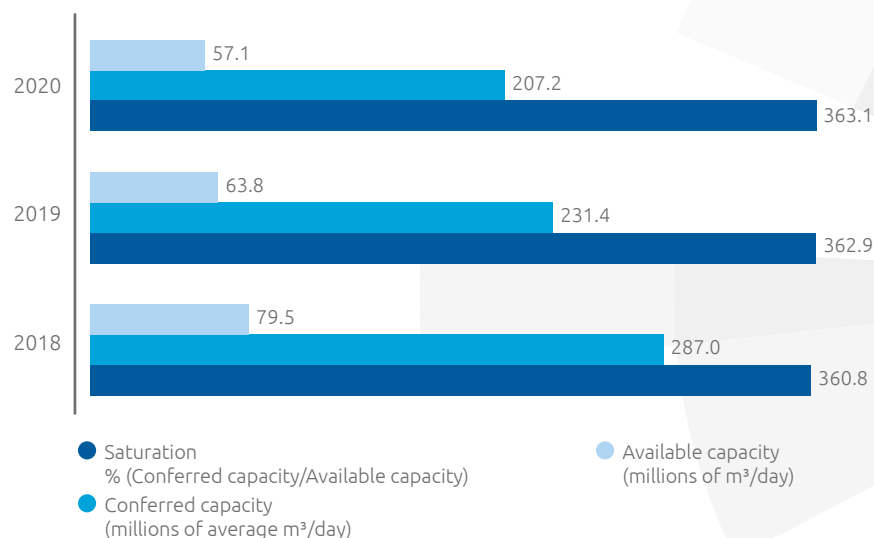
Over the last 15 years transportation operators have been constantly increasing, going from around 30 entities in 2003 to around 213 entities in 2020 (including shippers and traders), with the number of customers (shippers) standing at 145.

The number of PSV traders active in September 2020 (end of thermal year 2019-2020) is 68, compared to 69 PSV traders active in September 2019.

In 2020, 103 connection agreements were entered into for the creation of new delivery/redelivery points or for upgrading existing ones, 19 contracts for the injection of biomethane and 35 relating to CNG service areas.



### Transportation and saturation capacity



### Organisational Changes

During the course of 2020, the recorded number of personnel in service fell by a total of 35 resources, from 1,945 at 31 December 2019 to 1,910 resources at 31 December 2020.

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. 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 GNL Italia of the commercial services previously delivery by Snam.

### Accidents

In 2020 the number of accidents was 0 for employees and 1 for contractors, tragically fatal (compared with 0 and 5 accidents in 2019).

#### Work-related accidents (no.)

	2018	2019	2020
Total employee accidents	4	0	0
Total contractor accidents	3	5	1



### Indexes - Accidents

	2018	2019	2020
<b>Employees</b>			
Frequency index (*)	1.29	0.00	<b>0.00</b>
Severity index (**)	0.03	0.00	<b>0.00</b>
<b>Contractors</b>			
Frequency index (*)	0.46	0.83	<b>0.16</b>
Severity index (**)	0.03	0.08	<b>1.18</b>

(\*) 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

Energy consumption for transport, totalling 6,321 Terajoules (TJ), increased by around 3% with respect to 2019 despite a reduction in gas injected into the network (-7%): the trend in energy consumption for gas transportation is heavily influenced by the use of import backbones and in 2020 more energy intensive pipelines were used (north Africa backbone) with respect to the northern Europe and Russia backbones which use less energy.

In 2020, nitrogen oxide (NOx) emissions totalled around 242 tonnes (-15.4% compared with 2019). In order to minimise these emissions, a programme has been launched over the years to replace conventional turbines with low-emission turbines (DLE), which, to date, have replaced almost all of the turbines.

#### Energy consumption and emissions

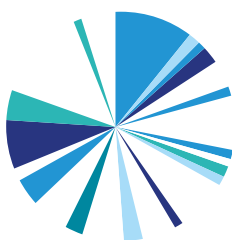
	2018	2019	2020
Energy consumption (TJ)	7,463	6,123	<b>6,321</b>
Emissions of CO <sub>2eq</sub> – scope 1 (kt) (*)	982	838	<b>848</b>
Natural gas emissions (106 m <sup>3</sup> )	32.8	28.7	<b>28.5</b>
NOx emissions (t)	305	286	<b>242</b>

(\*) Emissions of CO<sub>2eq</sub> are calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the scientific study issued by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".



# LIQUEFIED NATURAL GAS (LNG) REGASIFICATION

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



**17,500 m<sup>3</sup>**

**Maximum daily LNG regasification capacity at Panigaglia**

**2.52 billion m<sup>3</sup>**

**LNG regasified in 2020 at Panigaglia**

(+5.0% with respect to 2019)

**60**

**Methane tankers**

**unloaded**

(57 in 2019; +5.3%)

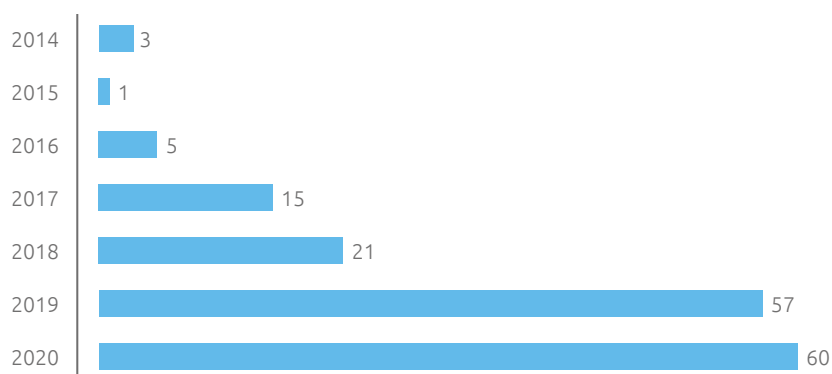
The Panigaglia plant, built in 1971 and owned by GNL Italia, is able to regasify 17,500 m<sup>3</sup> of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transportation network every year.

The total amount of gas regasified at the Panigaglia plant in 2020 was 2.52 billion m<sup>3</sup> (2.40 billion m<sup>3</sup> in 2019; +5%).

The continued increase in volumes of activities compared with 2018 (0.91 billion m<sup>3</sup> in 2018, more than doubled in 2020) 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 2020, 60 methane tankers were unloaded (+3 with respect to 2019; +5.3%; +39 unloaded with respect to 2018).

## Methane ship trends



The 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 transportation and maritime transport, will lead to a scenario of further growth in the consumption of LNG in future years.

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 2020, GNL Italia provided regasification services to 5 active customers (6 customers in 2019).




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## Key performance indicators

(million euros)	2018	2019	2020	Change	% change
Total revenues (a)	24	32	31	(1)	(3.1)
Total revenues net of pass-through items (a)	21	22	23	1	4.5
- of which regulated revenues (a)	17	17	21	4	23.5
Operating costs (a)	17	26	24	(2)	(7.7)
Operating costs net of pass-through items (a)	14	16	16		
EBIT	2	1		(1)	(100.0)
Technical investments (b)	9	19	20	1	5.3
Net invested capital at 31 December	86	95	104	9	9.5
Volumes of LNG regasified (billion cubic metres) (c) (d)	0.91	2.40	2.52	0.12	5.0
Tanker loads (number)	21	57	60	3	5.3
Employees in service at 31 December (number)	64	65	67	2	3.1

(a) Before consolidation adjustments.

(b) Investments remunerated at a real base pre-tax WACC of 6.8%, both for 2019 and 2020 (6.6% for 2018).

(c) With reference to 2020, gas volumes are expressed in standard cubic metres (Scm) with a conventional average Higher Heating Value (HHV) of 38.1 MJ/Scm (10.575 kWh/Scm).

(d) Regasified amounts are shown including self-consumption and losses (QCP component), equal to 1.7% from January to September and to 1.4% from October to December for the Panigaglia terminal.

## RESULTS

**Total revenues** came to 31 million euros, substantially in line with 2019 (-1 million euros; -3.1%). Excluding the items offset in costs<sup>48</sup>, total revenues amounted to 23 million euros, up by 1 million euros or 4.5%.

**Regulated revenues**, net of components offset in costs, was 21 million euros, up by 4 million euros (or 23.5%) on 2019. The increase is attributable to the introduction, for the fifth regulatory period in force from 1 January 2020, of a variable fee to cover energy costs (electricity and CO<sub>2</sub>), against fees for regasification capacity in line with the previous period.

**Non-regulated revenues** fell by 3 million euros mainly due to lower revenues coming from natural gas sales. This decrease in revenues is also reflected in corresponding lower operating costs associated with the relative warehouse withdrawals.

**EBIT** fell by 1 million euros with respect to 2019, essentially due to greater depreciation and amortisation related to new capitalised expense.

<sup>48</sup> Revenues offset in costs refer to the costs that GNL charges back to its customers for use of the transportation service provided by Snam Rete Gas.

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## TECHNICAL INVESTMENTS

Technical investments for 2020 stood at 20 million euros, up slightly with respect to 2019 (+1 million euros) and more than double compared to 2018 (9 million euros), including investments in maintenance, aimed at the modernisation, technological adaptation and security of plant systems.

Among these notes: (i) engineering and revamping projects for tanks (7 million euros); (ii) various IT and real estate projects (over 2 million euros).

## OPERATING REVIEW

During 2020, 2.52 billion cubic metres of LNG were regasified at the LNG terminal in Panigaglia (SP) (2.40 billion cubic metres in 2019; +5.0%) with 60 methane tankers unloaded (+3 with respect to 2019; +5.3%).

With reference to the number of employees, this figure stood at 67 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 2020 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 metres, OLT is the second largest Italian liquefied natural gas (LNG) terminal.



## Accidents

In 2020, there were no accidents involving either employees or contract workers.

### Work-related accidents (no.)

	2018	2019	2020
Total employee accidents	0	0	0
Total contractor accidents	0	0	0

### Indexes - Accidents

	2018	2019	2020
<b>Employees</b>			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0
<b>Contractors</b>			
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

2020 saw an increase in consumption for the regasification facility (+4% with respect to 2019), due to the rise in the amount of gas regasified. Total nitrogen oxide (NOx) emissions and natural gas emissions in 2020 were in line with 2019 figures, respectively amounting to 48.6 tonnes and 1.3 million m<sup>3</sup>.

### Energy consumption and emissions

	2018	2019	2020
Energy consumption (TJ)	462	1,217	1,265
Emissions of CO <sub>2eq</sub> – Scope1 (kt) (*)	41	83	88
Natural gas emissions (106 m <sup>3</sup> )	1.2	1.3	1.3
NOx emissions (t)	22.4	49.8	48.6

(\*) Emissions of CO<sub>2eq</sub> are calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the scientific study issued by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".



## NATURAL GAS STORAGE

**The total storage capacity in 2020, including strategic storage, amounts to approximately 17.0 billion cubic metres, continuing again in 2020 to represent the largest capacity at the European level.**

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, gas demand 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 Bordolano site began operating, gradually increasing the capacity offered to a total of 1,050 million SCM.

Stogit provides its storage services (peak modulation, uniform modulation, strategic, transporter balancing, mining, short-term allocation services and, from 2018, the new Fast Cycle<sup>49</sup> service, to 91 operators based on the Storage Code approved by the Italian Regulatory Authority for Energy, Networks and the Environment (hereinafter also ARERA).

In 2020 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 2020) was 99.01%, in line with the European average.

The market oriented approach adopted 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.

Total storage capacity at the end of 2020, holding strategic storage equal, came to 17.0 billion cubic metres, thanks to the gradual increase in operations at the Bordolano field.

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.



9

Operating concessions

19,60 bcm

Gas moved through the storage system

17,00 bcm

Total storage capacity

<sup>49</sup> The storage service involves constant injection services and supply availability.


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## Key performance indicators

(million euros)	2018	2019	2020	Change	% change
Total revenues (a)	595	591	<b>689</b>	98	16.6
Total revenues net of pass-through items (a)	509	508	<b>504</b>	(4)	(0.8)
- of which regulated revenue (a)	505	505	<b>499</b>	(6)	(1.2)
Operating costs (a)	161	149	<b>263</b>	114	76.5
Operating costs net of pass-through items (a)	74	66	<b>78</b>	12	18.2
EBIT	335	337	<b>314</b>	(23)	(6.8)
Technical investments (b)	99	112	<b>134</b>	22	19.6
Net invested capital at 31 December	3,397	3,421	<b>3,460</b>	39	1.1
Concessions (number)	10	10	<b>10</b>		
- of which operational (c)	9	9	<b>9</b>		
Natural gas moved through the storage system (billion cubic metres) (d)	21.07	19.33	<b>19.60</b>	0.27	1.4
- of which injected	10.64	10.16	<b>9.30</b>	(0.86)	(8.5)
- of which withdrawn	10.43	9.17	<b>10.30</b>	1.13	12.3
Total storage capacity (billion cubic metres)	16.90	17.00	<b>17.0</b>		
- of which available (e)	12.40	12.50	<b>12.5</b>		
- of which strategic	4.5	4.5	<b>4.5</b>		
Employees in service at 31 December (number)	59	61	<b>62</b>	1	1.6

(a) Before consolidation adjustments.

(b) Investments remunerated at a real base pre-tax WACC of 6.7%, for 2020 and 2019 (6.5% for 2016-2018).

(c) Working gas capacity for modulation services.

(d) Volumes of gas are expressed in Standard cubic metres (SCM) with an average Higher Heating Value (HHV) conventionally set to 39.3 MJ/Scm (10.893 KWh/SCM) for natural gas storage for thermal year 2020- 2021 (approximately 39.3 MJ/SCM, 10.895 KWh/SCM, for the thermal year 2019- 2020).

(e) Working gas capacity for modulation, mining and balancing services. The value shown represents maximum available capacity, entirely awarded for thermal year 2020-2021.

## RESULTS

**Total revenues** amount to 689 million euros, up by 98 million euros or 16.6% with respect to 2019, mainly due to an increase in pass-through items connected with chargebacks to users of charges relative to natural gas transportation services, supplied by Snam Rete Gas S.p.A. (185 million euros; +102 million euros with respect to 2019)<sup>50</sup>. Total revenues, net of cost components, amounted to 504 million euros, down slightly compared to 2019 (-4 million euros; -0.8%).

**Regulated revenues**, net of components that are offset in costs, amounted to 499 million euros, down by 6 million euros or 1.2% compared with 2019. Lower storage revenues, due to tariff adjustment mechanisms, mainly against

<sup>50</sup> 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.


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lower incentives for new investments, referred to as “input based”, were partly absorbed by higher revenues related to the introduction, for the fifth regulatory period in force from 1 January 2020, of a variable fee to cover energy costs, essentially attributable to CO<sub>2</sub> emission rights.

**Non-regulated revenues** equal to 5 million euros (3 million euros in 2019) mainly refers to income from gas transfers for system balancing purposes.

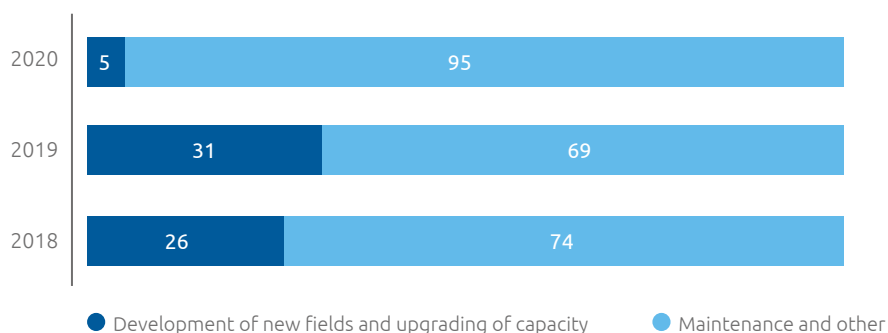
**EBIT** in 2020 amounted to 314 million euros, down by 23 million euros or 6.8% compared with 2019. This reduction can be attributed to, beyond minor revenues (-4 million euros, net of fees to cover energy costs), to an increase in operating costs (-8 million euros, net of energy costs relative to the purchase of CO<sub>2</sub> emission rights), mainly associated with the trend in provisions for risks and charges. Greater amortisation and depreciation also contributed to the decrease in EBIT (-3 million euros; 2.9%) due to the new entry of infrastructure and greater writedowns (-4 million euros) connected to work over projects for certain wells.

## TECHNICAL INVESTMENTS

**Technical investments** made by the Company in 2020 totalled 134 million euros, an increase of 22 million euros (approximately +19.6%) compared with the previous year and refer to investments to **develop new fields and upgrade capacity** (7 million euros) and investments in **maintenance and sundry** (127 million euros).

These latter mainly refer to: (i) “work over” activities on existing wells, in particular at Cortemaggiore, for the restoration to operation of wells made unavailable due to the loss of mechanical integrity, and in Ripalta; (ii) engineering works on the TC1 plant at Sergnano and the compressor units; (iii) IT projects (16 million euros), mainly for the Consumption Cloud - Azure Credit project and for the purchase of licenses and projects on system renewals.

### Investment proportions by type (% of total investments)





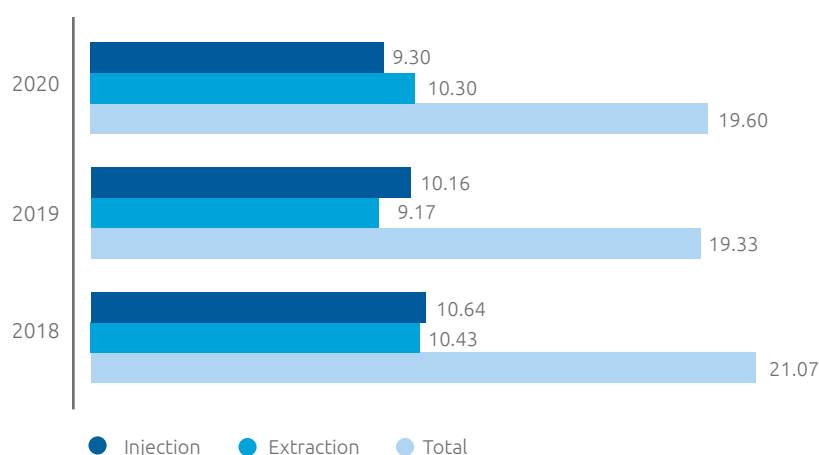
Total storage capacity as at 31 December 2020, including strategic storage, was 17.0 billion cubic metres (unchanged with respect to 2019), of which 12.5 billion cubic metres related to available capacity fully allocated for the thermal year 2020-2021 and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2019-2020, as established by the Ministry of Economic Development by means of the notice dated 17 January 2020<sup>51</sup>).

## OPERATING REVIEW

### Gas Moved Through The Storage System

Volumes of gas moved through the storage system in 2020 amounted to 19.60 billion cubic metres, an increase of 0.27 billion cubic metres, or 1.40%, compared with 2019. Greater disbursements to deal with the reduction in injections to the national network were partially compensated for by lower injections in storage.

#### Gas moved through the storage system (billion cubic metres)



### Organisational Changes

At the end of 2020, the number of personnel in service totalled 62, essentially in line compared with 31 December 2019 (61).

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 further integrated, including the document for the management of the availability and traceability of operating personnel.

<sup>51</sup> By means of the Decree of 12 February 2021, the Ministry of Economic Development confirmed that the strategic gas storage volume for thermal storage year 2021-2022 (1 April 2021-31 March 2022) would remain at 4.62 billion standard cubic metres, 4.5 billion 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.


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## Accidents

In 2020, there were no accidents involving either employees, while there was 1 accident involving a contract worker.

### Work-related accidents (no.)

	2018	2019	2020
Total employee accidents	0	0	0
Total contractor accidents	0	0	1

### Indexes - Accidents

	2018	2019	2020
<b>Employees</b>			
Frequency index (*)	0	0	0
Severity index (**)	0	0	0
<b>Contractors</b>			
Frequency index (*)	0	0	0.99
Severity index (**)	0	0	0.06

(\*) 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

In 2020 energy consumption for gas storage fell by 6% compared with 2019, in line with the reduction in gas stored. In 2020, nitrogen oxide (NOx) emissions totalled around 111 tonnes (-4.3% compared with 2019). In order to minimise these emissions, a programme has been launched over the years to replace conventional turbines with low-emission turbines (DLE), which, to date, have replaced almost all of the turbines installed. In particular, all storage sites operated with low emission units.

### Energy consumption and emissions

	2018	2019	2020
Energy consumption (TJ)	5,337	4,784	4.483
Emissions of CO <sub>2eq</sub> – scope1 (kt) (*)	473	424	336
Natural gas emissions (106 m <sup>3</sup> )	10.5	9.2	5.2
NOx emissions (t)	236	116	111

(\*) Emissions of CO<sub>2eq</sub> are calculated with a methane Global Warming Potential (GWP) of 28, as indicated in the scientific study issued by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".





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# OUTLOOK



Achieving global climate goals will lead to significant investments in decarbonising the energy industry over the next thirty years. Numerous countries, representing over 60% of global emissions, have already announced or are preparing climate neutrality goals. There are excellent development prospects for green gases, in particular hydrogen, which could potentially reach over 25% of the global energy mix by 2050. In particular, it is believed that green hydrogen could be competitive in various sectors in a few years, starting with rail and heavy transportation, thanks to the progressive and already clear reduction in the cost of producing renewable energy, combined with a simultaneous decrease in the cost of electrolyzers. Gas infrastructure represents the most efficient method of transporting green hydrogen.

Snam has set itself the goal of achieving carbon neutrality by 2040, in line with the target to limit global warming to within 1.5° C established under the Paris Climate Agreement. Snam's infrastructure is an enabler of the energy transition and will allow the company to contribute to an overall emissions reduction. The company envisages to transport entirely decarbonised gas by 2050, making of Italy a European hub for hydrogen. Moreover, Snam is committed to establishing a market positioning across the value chain for both hydrogen and biomethane, thereby contributing to the energy transition also through the supply of energy efficiency services to the residential, industrial and public administration sectors as well as promoting sustainable mobility. In line with this objective, Snam's corporate purpose "Energy to inspire the world", has been introduced in the company Bylaws, to reflect "the company's commitment to supporting the energy transition through resource use and energy sources compatible with protecting the environment and with progressive decarbonisation". Environment, Social, Governance (ESG) factors will continue to play a central role in defining the company's strategy and in its management. To that end, Snam has prepared and published a "scorecard" for 13 areas, with 22 material and quantitative objectives, to offer stakeholders a holistic view of its commitment and growing sensitivity to ESG issues, while also allowing them to monitor results.

Snam planned a 7.4 billion euros in investments from 2020-2024, an increase of almost 1 billion euros with respect to the 6.5 billion euros set in the previous plan. Growth is seen in both the core business of regulated infrastructure (6.7 billion euros in investments) and in new energy transition businesses (over 0.7 billion euros in investments, almost doubling the figure in the previous plan). 50% of

the investments called for in the plan are dedicated to replacing and developing assets with hydrogen-compatible standards.

Snam also plans to strengthen the efficiency plan launched in the second half of 2016, with over 70 million euros savings expected by 2022. Additionally, it is expected that activities to optimise the financial structure implemented over the last five years will lead to a reduction in the average cost of gross debt from 2.4% in 2016 to an average of 1.2% over the time horizon of the plan (compared to 1.4% in the previous plan), thanks to actions implemented to take full advantage of current favourable market conditions and improve the interest rate and credit spread scenario with respect to the previous plan. Further possible savings could derive from treasury optimisation, as well as further diversifying sources and increasing sustainable finance instruments.

With reference to the pandemic, restrictions were introduced in Italy to contain the epidemic, by identifying measures to prevent the spread of the disease, including limitations on productive activities, individual movement and socialising. After a slowdown recorded in the summer, in the second half of 2020 the curve of contagion once again began to rise in several countries, especially in Europe, thereby registering an acceleration during the final weeks of the year due to the spread of variants. Consequent fears on the level of impact the variants could reach, and uncertainty linked to the schedule for completing the vaccination programme in Europe, as well as in the rest of the countries with which the company interacts, could give rise to further slowdowns in the returning to normal of the domestic and international economic backdrop.

While at present Snam cannot reliably determine the impacts deriving from Covid-19 on its 2021 targets and in subsequent years, the company foresees a limited impact with respect to the targets for the year in course. To that end, Snam has revised upward its guidance on adjusted net profit for 2021, bringing it to 1,170 million euros, compared to the previous figure of approx. 1,130 million euros announced in November 2020.

Any additional further impacts on economic/financial performance and on the Group's equity situation, as well as on business development plans, will be evaluated in the light of the evolution and duration of the pandemic. The same remarks also apply to possible impacts on development initiatives and on suppliers and clients, as well as for the assets held by the Snam Group outside Italy, specifically in France, Austria, Greece, Albania and the UK.

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# CONSOLIDATED NON-FINANCIAL STATEMENT

(Legislative Decree No. 254 of 30 December 2016)

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## NFS TCFD INTRODUCTION AND GUIDE TO READING THE DOCUMENT

The Consolidated Non-Financial Statement (hereinafter also the “Non-Financial Statement”, “Declaration” or “NFS”) of Snam Group for the year 2020 (from 1<sup>st</sup> January 2020 until 31<sup>st</sup> December 2020) constitutes a specific section of the Directors’ Report – Integrated Report (hereinafter also referred to as the “Integrated Management Report”) and is drafted in compliance with the provisions of the Legislative Decree of 30 December 2016, no. 254 and subsequent supplements (hereinafter also referred to as the “Decree”)¹.

The NFS contains relevant data and information on environmental, health and safety, social, personnel-related aspects and active and passive corruption prevention, which have been coherently selected on the basis of a structured materiality analysis, that allowed to identify the most relevant sustainability topics for the Group and its stakeholders. The materiality analysis is described in the paragraph “Material topics in relation to the activities carried out” in the Director’s report Integrated report. The relevance of the individual topics is defined taking into account the activities carried out and the characteristics of Snam².

The scope of reference of the information in the NFS coincides with the scope of consolidation of the Consolidated financial statements and includes, in addition to the parent company Snam S.p.A.:

- **Transportation of natural gas** (Snam Rete Gas S.p.A., Asset Company 2 S.r.l., Infrastrutture Trasporto Gas S.p.A., Enura S.p.A.);
- **LNG regasification** (GNL Italia S.p.A.);
- **Natural gas storage** (Stogit S.p.A.);
- **Sustainable mobility** (Snam 4 Mobility S.p.A., Cubogas S.r.l.);
- **Biogas / Biomethane** (Snam 4 Environment S.r.l., Renerwaste S.r.l., Ecoprogetto Milano S.r.l., Ecoprogetto Tortona S.r.l., Renerwaste Lodi S.r.l., IES Biogas S.r.l., Enersi Sicilia S.r.l.);
- **Energy efficiency** (Snam 4 Efficiency S.r.l., TEP Energy Solution S.r.l. and Mici S.p.A., Tlax S.r.l., Evolve S.p.A.).
- **Other activities** (Snam International BV, Gasrule Insurance DAC, Snam Gas & Energy Service-Beijing)

With reference to the reported environmental aspects, the companies Snam International BV, Gasrule Insurance DAC, Enura S.p.A. and Snam Gas & Energy Service-Beijing, which do not have significant environmental impacts, are excluded from the consolidation.

The structure of the Snam Group, including investments abroad, is shown on page 22 of the Integrated Management Report³.

The content of the NFS is supplemented, where necessary or appropriate, with other information included in the Integrated Management Report, in the Report on Corporate Governance and Ownership Structure, and on the Company’s Website ([www.snam.it](http://www.snam.it)), which can be found and consulted by following the specific references⁴.

In order to standardise the reporting of data and information, as well as to facilitate the connection with each issue envisaged by the Decree, each area listed above has been divided into specific paragraphs divided into four sections dedicated respectively to:

- The main results achieved, future objectives and reference SDGs;
- Material topics and relevant generated or incurred risks;
- Company policies and commitments and details of their implementation by the Group, in order to manage the topics and mitigate relevant risks;
- Relevant performance indicators to understand the results obtained in pursuing these commitments.

The NFS has been prepared in conformity with the GRI Sustainability Reporting Standards published by the GRI (Global Reporting Initiative) and subsequent updates adopting the option “in accordance - Core”⁵. Alongside the tables displaying the data for the financial year ending 31 December 2020, the results of the previous two financial years are shown for comparison purposes. In the annex of this section has been inserted the GRI content index where the GRI standards are matched with the Group’s material topics.

With the current NFS the new GRI 403 2018 (Occupational Health & Safety) has been adopted.

1 See Article 5, paragraph 1 of Legislative Decree no. 254 of 30 December 2016, Law no. 145 of 30 December 2018, Article 1073.

2 See Article 3, paragraph 1 of the Decree no. 254 of 30 December 2016.

3 See Article 4, paragraph 1 of the Decree no. 254 of 30 December 2016.

4 See Article 5, paragraph 4 of the Decree no. 254 of 30 December 2016.

5 See Article 3, paragraph 5 of the Decree no. 254 of 30 December 2016.


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In order to guarantee the reliability of the presented data, estimates have been avoided or based on the best calculation methodology that have been promptly disclosed.

In addition, the Directors' Report has been enriched with the content required by the recommendations of the *Task Force on Climate-Related Financial Disclosure* (TCFD).

To fulfil our aim of constantly improving transparency on the Company's performance, the guidelines provided by the Sustainability Accounting Standards Board (SASB) for the identification and publication of information considered most relevant to the creation of long-term value for the sector were also considered.

This Non-Financial Statement has been approved by the Board of Directors of Snam S.p.A. of 17 March 2021. The same Statement, prepared using the GRI as a reporting

standard according to the level of application indicated above, was subjected to a judgment of conformity, with respect to the provisions of art. 3 and 4 of Legislative Decree 254/16, by Deloitte & Touche S.p.A, which is expressed in a specific "Independent auditor's Report". The opinion of the auditing firm and the related verification activities did not concern the information relating to the SASB and TCFD requirements respectively summarized in the tables below in the Independent auditor's Report.

The Report, of which the NFS is a specific section, is published in the 2020 Annual Report available on the Company's website at [www.snam.it/en/Investor\\_Relations/Reports/](http://www.snam.it/en/Investor_Relations/Reports/).

An association table is shown below, highlighting the information content required by the Decree and its location within the document.

Scope of Legislative Decree 254/2016	Material topics	Paragraphs contained in the NFS	Other relevant content of the Integrated Management Report
<b>Management and organisation business model</b>			Snam's Profile, The Towards Net Zero strategy, Governance
<b>Policies enacted by the company</b>		Within the specific paragraphs concerning each area of the Legislative Decree. 254/2016	Governance
<b>Main generated and incurred risks, including their management</b>		Within the specific paragraphs concerning each area of the Legislative Decree. 254/2016	Governance Risk management
<b>Environmental issues</b>	Climate change Green business Protecting the local area and biodiversity	Environmental and health and safety aspects	Snam's Net Zero Carbon strategy, ESG Scorecard
<b>Social</b>	Health and safety Reliability of infrastructures, business continuity and cyber security Relations with authorities and quality of services Innovation Economic performance and value creation Relations with local communities	Social aspects Environmental and health and safety aspects	ESG Scorecard
<b>Staff</b>	Diversity and inclusion Developing and safeguarding human capital	Aspects concerning the management of personnel	ESG Scorecard
<b>Human rights</b>	Not material issue according materiality analysis	Protecting Human Rights	ESG Scorecard
<b>Anti-corruption</b>	Business integrity Fighting corruption	Prevention of active and passive corruption	Governance


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# ENVIRONMENTAL AND HEALTH AND SAFETY ASPECTS

## Future objectives and results achieved

SDGs	Action		Target	2020 performance
<b>Emissions</b>				
 	Percentage reduction of Scope 1 and Scope 2 greenhouse gas emissions (vs 2018)	NET ZERO	-50% al 2030 (vs. 2018) NET ZERO al 2040	-15%
	Percentage reduction of total natural gas emissions (vs 2015) (*)	ESG scorecard NET ZERO	-36% al 2023 (vs. 2015) -45% al 2025 (vs.2015)	-30%
	Percentage of natural gas recovered from maintenance activities (**)	ESG scorecard	>40% of last five years average value till 2023	49%
<b>Land protection &amp; biodiversity</b>				
	Percentage of vegetation restoration of the natural and semi-nature areas involved in the construction of the pipeline routing	ESG scorecard	>99% until 2023	Figure available from 2021
<b>New businesses – Green Innovation</b>				
	Production of biomethane	ESG scorecard	141 mln m <sup>3</sup> by 2023	0.44 mln m <sup>3</sup>
	Cumulative number of CNG and LNG stations	ESG scorecard	167 by 2023	25
	Supply of LNG Volumes from SSLNG infrastructure	ESG scorecard	250 kton by 2023	Figure available from 2021
	Reduction of CO <sub>2eq</sub> emissions from energy efficiency interventions	ESG scorecard	43 kton by 2023	5 kton
<b>Energy savings of operational management</b>				
	MWh of electricity production by photovoltaic systems	ESG scorecard	>860 MWh by 2023	872 MWh
	Increase electricity purchased from renewable sources		55% by 2030	49%
	Trigeneration plants		5,200 MWh by 2022	1,966 MWh
	High-efficiency heat generators (***)		110 MW by 2025	81 MW
	Improvement of the energy efficiency of buildings		Renovate to achieve annual savings of 75,000 m <sup>3</sup> of gas and 210 MWh of electricity by 2022	15,000 m <sup>3</sup> of gas and 65 MWh of electricity
	Installation of LED lightning systems		Replace 534 kW with 1,860 MWh savings by 2022	450 kW installed 1,107 MWh saved
	Percentage of retrofit & methane-fuelled cars out of total car fleet	ESG scorecard	61% by 2023	39%
<b>Safety</b>				
	IpFG (Combined Frequency & Severity Index)	ESG scorecard	< of the average of the last 5 years until 2023	0.49
	No. of HS remarks / no. of total Audits conducted (external and internal)	ESG scorecard	< of the average of the last 5 years until 2023	52 remarks / 193 audits 0.27

(\*) The KPI was aligned with the indications provided by the UN OGMP 2.0 protocol.

(\*\*) The KPI was reprogrammed with a more challenging target (value understood as average of the last 5 years).

(\*\*\*) The KPI was reprogrammed with a more challenging target.

ESG scorecard KPI entered in the ESG Scorecard

NET ZERO KPI entered in the Net Zero Carbon Strategy



## MATERIAL TOPICS AND RISKS RELATED TO THE ENVIRONMENT, HEALTH AND SAFETY

**Climate change:** as it operates in the energy sector, Snam is aware of its role in the fight against climate change. As outlined in the new Towards Net Zero strategy, the Group sets itself challenging targets in reducing emissions and improving energy efficiency to ensure an ever-smaller impact on climate change. The Company promotes collaborations between energy sector businesses in order to jointly achieve the common goal of carbon neutrality. Snam promotes more sustainable business management through the use and production of energy from renewable sources, with regard to the development of green gases (biomethane and hydrogen).

**Green business:** Snam has integrated new businesses (biomethane, sustainable mobility, energy efficiency and hydrogen) into its operations, aimed at fostering decarbonisation and positioning Snam as an enabler of the energy transition for Italy as a country.

**Health and safety:** the safety of its staff is an essential factor that governs Snam's daily activities, and one that has taken on even greater significance in 2020 following the Covid-19 pandemic. Snam annually monitors current, potential and emerging risks in order to mitigate and prevent accidents in the workplace and the impacts on people's health.

**Protecting the local area and biodiversity:** Snam is committed to protecting the biodiversity of the areas

it operates in, carrying out its activities efficiently and responsibly and minimising their impact on the environment, particularly during infrastructure construction processes. The landscape and local areas where the Group's plants and sites are located are safeguarded through inspection and monitoring activities as well as through policies aimed at protecting the soil, subsoil and aquifers.

Air quality protection and the management of waste and water resources are issues that were not categorised as material by the materiality analysis, but are nonetheless supervised by Snam. Concerning air protection, the only significant emissions are nitrogen oxides that derive mainly from the combustion of natural gas in gas turbines installed in the compression plants (thrust and storage). In order to minimise these emissions, a programme has been launched over the years to replace conventional turbines with low-emission turbines (DLE), which, to date, has replaced almost all of the turbines (all our storage sites were run with low-emission units). Water management was not deemed a material topic either as only small quantities of water resources are used, mainly in the operations of the GNL Italia regasification plant and for sanitary and horticultural use. Similarly, waste management was also not categorised as a material topic, considering the limited amount of waste produced by the company's operations, which for the large part are not dangerous.

### Risks and material topics related to environmental, health and safety aspects

Risks		Material topics
<b>STRATEGIC RISKS</b>	Risks associated with climate change that entail a reduction in gas demand	<ul style="list-style-type: none"> <li>■ Climate Change</li> <li>■ Green business</li> </ul>
<b>LEGAL AND NON-COMPLIANCE RISK</b>	Risk of breach of laws and regulations in relation to health and safety of workers	<ul style="list-style-type: none"> <li>■ Health and safety</li> </ul>
<b>OPERATING RISKS</b>	Risk of breakages, lesions or malfunctions, also following external events, that can cause an unforeseen interruption of the service or delays in the advancement of infrastructure creation programmes	<ul style="list-style-type: none"> <li>■ Protecting the local area and biodiversity</li> <li>■ Health and safety</li> </ul>

For a complete description of the risks, please refer to "Risks factors and uncertainties" contained in the "Risk management" section in the Integrated Management Report.





## POLICIES, COMMITMENTS AND MANAGEMENT MODELS

The main policies adopted by Snam regarding the environment, health and safety are the **HSEQ Policy** and the **Sustainable Development Policy**, which:

- Ensure respect for the protection of health and safety of workers and the environment, through the prevention of accidents, injuries and occupational illnesses
- Promote actions to fight climate change by implementing operational and management measures to reduce greenhouse gas emissions
- Promote energy efficiency and guarantee the sustainable use of natural resources
- Prevent pollution and guarantee the protection of ecosystems and biodiversity
- Set up procedures to identify and respond to emergency situations and monitor the consequences of accidents.

In managing environmental, health and safety issues, Snam uses a management system that complies with **ISO 14001**, **ISO 9001** and **ISO 45001 (or OHSAS 18001)** standards. To this end, 248 health, safety and environmental audits were carried out.

### Climate change and energy efficiency

Snam contributes to the fight against climate change starting from its own energy management: in 2020, 95.4% of the Company's energy requirements were met through the use of natural gas.

The main **greenhouse gases** emitted into the atmosphere due to Snam's activities are methane (CH<sub>4</sub>), the main component of natural gas, and carbon dioxide (CO<sub>2</sub>). 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 their maintenance, or by accidental events occurring on infrastructure, whereas the CO<sub>2</sub> produced is directly correlated with fuel consumption. In 2020, like the year before, the contribution from the use of hydrofluorocarbons (HFC) in refrigeration systems was included in the evaluation of direct emissions (equal to approximately 0.001 million tons of CO<sub>2eq</sub>).

Every day, Snam renews its commitment to reducing climate-changing emissions. To this end, the Company has set the following targets for reducing its Scope 1 and Scope 2 natural gas and CO<sub>2eq</sub> emissions:

The preventive assessments of the effects on the environment and on the safety of new settlements are carried out in the context of Environmental Impact Assessment (VIA) procedures, at the end of which the responsible administrations, both at central and local level, issue the authorisations required by current legislation. The progress of the permit activities is reported in the paragraph "Progress of activities related to obtaining permits" in the chapters Natural gas transportation in the Integrated Management Report. Ensuring the safety and quality levels of the plants is of great importance to Snam, which is why the Group employs numerous technologies to guarantee complete, continuous and efficient control and monitoring of the network. Furthermore, great attention is paid to environmental and safety requirements in the workplace during the qualification and selection of suppliers. Snam ensures that its critical suppliers are equipped with quality, environmental and safety management systems certified to ISO 9001, ISO 14001 and OHSAS 18001 or ISO 45001 standards.

- 45% reduction in natural gas emissions by 2025 compared to 2015;
- 50% reduction by 2030 of all direct (Scope 1) and indirect (Scope 2) CO<sub>2eq</sub> emissions, compared to 2018;
- Achieving carbon neutrality by 2040 for all direct (Scope 1) and indirect (Scope 2) CO<sub>2eq</sub> emissions.

In 2020, the initiatives implemented to reduce these emissions, overall, avoided 200,000 tonnes of CO<sub>2eq</sub>, the highest value recorded in recent years (+12% compared to 2019).

For more information on these initiatives, see the chapter "2020 Performance - Greenhouse gas emissions" in the 2020 Annual Report.

Regarding the **use of energy from renewable sources**, electricity generation from photovoltaic plants owned by the Company increased, reflecting the rise in 2020 of the total number of plants to 2,360 (+32% compared to 2019) and the increase in installed capacity from 1.13 MW to 5.12 MW (+3.99 MW). This increase is attributable to cogeneration plants (3.92 MW), the installation of new back-up plants in the gas transportation network and a new


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photovoltaic plant connected to the electricity grid.

Snam also plans to increase the percentage of **electricity purchased from renewable sources** to 55% by 2030. In 2020, the percentage of green electricity in relation to the electricity consumed was 49%, which is a very positive result.

Snam's commitment to battling climate change and energy efficiency can also be observed in the issuance of three **Transition Bonds**, in June and November 2020 and February 2021 respectively, to finance projects related to reducing CO<sub>2</sub> emissions, developing renewables, energy efficiency and the development of green projects on the basis of environmental criteria. Another example of

Snam's engagement is the creation of **Arbolia**, the benefit company created in collaboration between Snam and CDP [the Italian National Development Bank] with the goal of planting 3 million trees in Italy by 2030, which will absorb about 200 thousand tonnes of CO<sub>2</sub> per year and support national forestation efforts.

Another important initiative aimed at combating climate change and the environmental impact of the Group and its suppliers is Snam Plasticless. Its aim is to eliminate all plastics for packaging by 2023, except for the amount required for safety reasons. In 2020, a 60% reduction in plastic use was achieved, which is in line with the 2023 target.

## Environmental monitoring and restoration in the development of the gas pipeline network

Snam believes that safeguarding nature in its areas of operation is of particular importance. For this reason, during the realisation phase of its construction activities, it implements appropriate project decisions to **avoid** and **minimise** impacts on biodiversity. Once the infrastructures are complete, the Company puts in place environmental restoration and **monitoring** projects in agreement and in collaboration with the responsible government bodies. In addition, if necessary, Snam adopts practices to **offset** its impacts.

The objective of **vegetation restoration**, with particular regard to reforestation, is not merely to reconstitute forest areas but to reconstitute the landscape in general and to revive the biological functionality of vegetated areas, especially in their role as habitats for fauna with specific biodiversity characteristics. Restoration and reforestation

is followed by the implementation of "horticultural initiatives", i.e. the care and maintenance, for a period of at least five years, of seedlings that have been planted.

The **monitoring projects** involve the sections of several pipelines that interfere, even only marginally, with natural areas high in fauna and ecological value. These programmes are aimed at verifying the renaturation process of the areas disturbed by the installation process, based on the comparison between the conditions after the restoration ("post-construction") and the original conditions ("pre-construction"). 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 during the year and the environments they have passed through.

## 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**.

**Accident prevention** is carried out through the implementation of targeted initiatives aimed at eliminating or reducing risk factors inherent in employees' work. These initiatives are listed in the table below.


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Management area	Activities
<b>Reduction of work-related risk factors, also through risk assessment activities</b>	<ul style="list-style-type: none"> <li>■ Assessment of all risks and consequent drafting of the document required by the Legislative Decree. 81/2008</li> <li>■ In-depth analysis of the causes of accidents in order to identify possible interventions to eliminate, mitigate and correct risk factors</li> <li>■ Application of technical and managerial organisational solutions for equipment, facilities, workplaces, but also operational and behavioural methods</li> <li>■ Regular safety meetings, where staff are made aware of the causes of possible accidents and of any prevention and protection measures taken</li> </ul>
<b>Snam4Safety (improvement and prevention plans)</b>	<ul style="list-style-type: none"> <li>■ Creation and reinforcement of a culture of awareness of health and safety issues through training activities, technological innovation and work organisation</li> <li>■ Selection of winners of the "Zero Accident Prize", whereby employees of the sites commit to achieving 365 consecutive days without an accident (either at work or en-route). The winning staff member is awarded with a prize. In 2020, 10 teams, amounting to 1,535 employees, received the prize</li> </ul>
<b>Specific training</b>	<ul style="list-style-type: none"> <li>■ Technical and professional training in the classroom or online, including on-the-job training, with priority given to internal expert teachers and, where appropriate, cooperation with top-tier external institutes and training bodies</li> <li>■ In 2020, 11,021 hours of HSEQ training were conducted, totalling 2,856 participations</li> </ul>
<b>Supplier engagement</b>	<ul style="list-style-type: none"> <li>■ Evaluation of suppliers during the qualification phase</li> <li>■ Control and monitoring through feedback and inspections during the execution of works</li> <li>■ Periodic annual workshops both to illustrate the Company's strategic plans and to share operational best practices in the areas of safety, environment and transparency</li> <li>■ "Contractor Safety Trophy" awarded to contractors whose performance is assessed through the collection and analysis of specific indicators (e.g. accident indices and negative feedback on issues of interest)</li> </ul>

The **protection of workers' health** is based on ongoing monitoring of risk elements in corporate processes and on 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 working and environmental conditions and to identify possible measures for prevention or improvement.

Snam employees are not susceptible to a high risk of contracting occupational illnesses, and those exposed to specific risk factors undergo periodic health surveillance and are covered by specific health protocols, in addition to any supplementary specialist visits. Employees whose work requires them to travel to non-European countries receive specific preventive care.

As part of its efforts to promote the health of its employees, Snam carries out various welfare initiatives, including, for example, a flu vaccination campaign, an early detection plan for cancer prevention, and agreements with specialised institutes.

Following the Covid-19 pandemic, these initiatives were extended to include the distribution to all employees of

pulse oximeters, capable of remotely reporting abnormal oxygen saturation values, and personal protective equipment. Staff were also granted free laboratory serological tests and benefited from the subscription of an insurance policy, fully funded by Snam, to ensure employees are covered in the event of hospitalisation caused by a Covid-19 infection. Moreover, employees were also given the opportunity to work from home in the appropriate manner through reinforced remote working programmes, thus guaranteeing social distancing. In addition, travels were suspended and safety measures were put in place for control rooms, facilities and local offices where the presence of staff was necessary to ensure continuity of the service.


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## Management systems

Snam is also committed to the expanding and the maintaining of management systems that cover certain specific issues, such as health and safety at work, the environment and the quality of services provided. During

2020, 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.

Company	Certification scope	Certification	Year of first certification
Snam	Management of operational continuity for the design, development and centralised management of processes and remote control systems for the dispatch of natural gas transportation	ISO 22301	2018
	Management of the security of information for the design, development and centralised management of processes and remote control systems for the dispatch of natural gas transportation	ISO 27001	2014
	Company	ISO 9001	2016
		ISO 14001	2015
		ISO 45001	2012
Snam Rete Gas	Company	ISO 9001	2016
		ISO 14001	2013
		ISO 45001	2010
	Natural gas dispatch and transportation activities	ISO 22301	2015
	Testing laboratory (LAB 764 Piped gaseous flows)	ISO 17025	2007
	Calibration laboratory (LAT 155 Natural gas mixtures)	ISO 17025	2002
GNL Italia	Company	ISO 14001	2000
		ISO 45001	2012
		ISO 9001	2020
Stogit	Company	ISO 14001	2002
		ISO 45001	2012
		ISO 9001	2008
ITG	Company	ISO 9001	2018
		ISO 14001	2010
		ISO 45001	2009
Snam 4 Mobility	Company	ISO 9001	2018
		ISO 14001	
		ISO 45001	
TEP	Company	UNI 11352	2013
		ISO 9001	2010


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Company	Certification scope	Certification	Year of first certification
<b>Cubogas</b>	Company	ISO 9001	2018
		ISO 14001	
		ISO 45001	
<b>IES Biogas</b>	Company	ISO 9001	2018
		SOA OS 22 CL VII	2019
<b>Renerwaste S.r.l. (*)</b>	Company	ISO 9001	2020
		ISO 14001	
<b>Renerwaste Lodi S.r.l. (*)</b>	Company	ISO 9001	2013
		ISO 14001	
<b>Ecoprogetto Tortona S.r.l. (*)</b>	Company	ISO 9001	2020
		ISO 14001	
<b>Ecoprogetto Milano S.r.l. (*)</b>	Company	ISO 9001	2019
		ISO 14001	
<b>Evolve S.p.A. (**)</b>	Company	UNI CEI 11352	2012
		UNI EN ISO 9001	2003
		UNI EN ISO 14001	2013
		OHSAS 18001 (***)	2017
		SA 8000	2018
		SOA certificate of qualification for the execution of public works	2007
<b>Mieci S.p.A. (**)</b>	Company	UNI CEI 11352	2018
		UNI EN ISO 9001	2011
		UNI EN ISO 14001	2014
		OHSAS 18001 (***)	2016
		SOA certificate of qualification for the execution of public works	2016
<b>Tlux S.r.l. (85%) (**)</b>	Company	/	/

(\*) controlled by Snam 4 Environment S.r.l.

(\*\*) controlled by Snam 4 Efficiency S.r.l.

(\*\*\*) The transition from OHSAS 18001 to ISO 45001 has been completed for most of the Group's companies, with the exception of those acquired in October 2020, which are scheduled to be upgraded in 2021.


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## KEY PERFORMANCE INDICATORS

Compared to 2019, the number of accidents involving employees increased slightly from 2 to 3, while those involving contractors more than halved from 5 to 2, 1 of which, regrettably, resulted in death. Snam's 2020 Scope 1 emissions amount to approximately 1.27 million tonnes of CO<sub>2eq</sub>, a reduction of -5% compared to 2019. The reduction

in direct emissions is mainly attributable to initiatives to reduce natural gas emissions implemented in the reference period, which demonstrates the effectiveness of the decarbonisation strategies adopted by Snam over time.

Indicator	GRI Standard	Measurement unit	2018	2019	2020
Employee accident frequency index		Accidents per 10 <sup>6</sup> hours worked	0.84	0.41	0.59
Contractor accident frequency index			0.41	0.71	0.25
Severity rate for employee accidents (a)		Work days lost per 10 <sup>3</sup> hours worked	0.02	0.03	0.01
Severity rates for contractor accidents (a)			0.03	0.07	0.93
<b>Employee accidents (of which with serious consequences) (b)</b>	403-9		4	2	3 (0)
<i>Of which fatal</i>	403-10		0	0	0
<i>Of which due to a traffic accident</i>		no.	2	0	0
<i>Of which due to a professional accident (maintenance, inspection, checks)</i>			1	1	2
<i>of which due to a general accident (slipping, collisions, tripping)</i>			1	1	1
<b>Contractor accidents (of which with serious consequences) (b)</b>			3	5	2 (0)
<i>Of which fatal</i>			0	0	1
<b>Hours worked by employees</b>			/	/	5,089,955
<b>Hours worked by contractors</b>			/	/	8,140,212
<b>Recognised cases of professional illnesses for employees (b)</b>			0	0	0
<b>Employee absenteeism (c)</b>			4.6	4.5	5.9
<i>Women</i>		%	4.8	5.1	3.6
<i>Men</i>			4.6	4.4	6.2
Emissions of CO <sub>2eq</sub> – Scope 1 (d)			1,497	1,347	1,274
CO <sub>2eq</sub> emissions - Scope 2 - Market based	305-1	10 <sup>3</sup> tCO <sub>2eq</sub>	32	32	31
CO <sub>2eq</sub> emissions - Scope 2 - Location based			34	38	39


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Indicator	GRI Standard	Measurement unit	2018	2019	2020
<b>Energy consumption</b>			13,281.0	12,152.2	<b>12,154.4</b>
<i>Of which natural gas</i>			12,801.4	11,627.9	<b>11,597.5</b>
<i>Of which diesel</i>			91.0	82.6	<b>69.5</b>
<i>of which petrol</i>			2.8	3.9	<b>10.3</b>
<i>Of which LPG</i>	302-1	TJ	0.4	0.4	<b>0.4</b>
<i>of which electricity (e)</i>			376.9	422.6	<b>463.5</b>
<i>of which thermal energy</i>			8.5	14.8	<b>13.4</b>
<i>green energy consumed</i>			139	186	<b>226</b>
<b>Health and safety training</b>					
<i>Hours provided</i>	404-1	hours	25,219	20,291	<b>8,154</b>
<i>Equity investments</i>			4,515	2,916	<b>1,437</b>
<b>Environmental visits and surveys</b>					
Medical visits	403-3	no.	1,350	1,984	<b>2,109</b>
<i>of which regular</i>			1,061	1,747	<b>1,649</b>
Environmental surveys			247	243	<b>212</b>
<b>Protecting the environment and biodiversity</b>					
Environmental restoration			227	63	<b>98</b>
New afforestation (f)	304-1	km of network	21	8	<b>16</b>
Horticultural initiatives			74	73	<b>65</b>
Environmental monitoring			445	747	<b>1,094</b>
Transportation network within Natura 2000 sites (g)		km	1.4	3.7	<b>34.6</b>

(a) Number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. Data is calculated by including the contribution of fatal accidents, for each of which 7,500 days of absence were considered.

(b) Work-related accident leading to an injury from which the worker cannot recover, does not recover or cannot realistically be expected to recover fully and return to his pre-accident state of health within 6 months (excludes fatal accidents).

(c) For the purposes of calculating the employee absenteeism rate, all hours worked (paid and unpaid) were excluded, excluding holidays and recoveries. The absenteeism rate does not include Executives and mandatory or voluntary maternity leave.

(d) The emissions of CO<sub>2eq</sub> were consolidated according to the operational control approach. The GHG gases included in the calculation are CO<sub>2</sub> and CH<sub>4</sub> and the emissions are calculated with a GWP of methane equal to 28, as indicated in the scientific study by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

(e) The percentage of electricity produced from renewable sources and consumed by the Group depends on the individual national electricity mixes. For Italy, self-consumption of electricity from renewable sources also takes place.


(f) New afforestation area 285,722 m<sup>2</sup> (157,500 m<sup>2</sup> in 2019).

(g) Natura 2000 sites are special protection areas/sites of Community interest. The indicator denotes the km of lines laid in these sites in the year. For 2020, the Natura 2000 sites subject to infrastructure construction involved the following regions: Piedmont, Veneto, Emilia-Romagna, Tuscany, San Marino, Apulia and Sicily.


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## SOCIAL ASPECTS

### Future objectives and results achieved

SDGs	Action		Target	2020 performance
<b>Responsible supply</b>				
Target				
	Percentage spending to local suppliers on total procurement	ESG scorecard	50% by 2023	37%
	Increase Third Sector suppliers in Vendor list	ESG scorecard	+20% (year-on-year) until 2023 (*)	26
	Reduction of the quantity of plastic in the packaging of industrial supplies		-100% by 2023	-60%
<b>Local community engagement</b>				
	Percentage of employees hours devoted to Fondazione Snam initiatives supporting local communities	ESG scorecard	+10% (year-on-year) until 2023	4,100 hours
<b>Infrastructure reliability</b>				
	Average annual customer satisfaction rate in terms of service quality (**)	ESG scorecard	8.1 by 2023	8.2
	Percentage of the reliability levels on gas supply	ESG scorecard	99.9% up to 2023	99.99%

(\*) With the exception of the 2021 target which is +10% compared to 2020.

(\*\*) The value is understood as the average of the last three years.

ESG scorecard

KPI entered in the ESG Scorecard

## MATERIAL TOPICS AND RISKS RELATED TO SOCIAL ASPECTS

**Reliability of infrastructures, business continuity and cyber security:** Snam works daily to ensure the reliability of its infrastructures and services in order to prevent and/or mitigate potential situations that could compromise the continuity of the business and public safety (e.g. emergencies, cyber-attacks). For more information, please see the chapter “2020 Performance - Maintenance of plant security and quality” of the 2020 Annual Report.

**Relations with authorities and quality of services:** Snam is committed to providing a quality service capable of meeting the needs and expectations of its customers, ensuring a safe and reliable service over time, in compliance with the principles of fair competition and equal treatment and access to infrastructure; to this end, Snam conducts customer satisfaction analyses to improve the services it offers. Furthermore, Snam promotes constructive relations with regulatory authorities and institutions to develop satisfactory services for customers that are at the same time geared to market needs and demands. For more

information see the chapter “Business segment operating performance - Provision and development of regulated services” in the 2020 Annual Report.

**Innovation:** in view of a more complex and challenging economic outlook, Snam has paid special attention to the search for new technologies from a perspective of increasing efficiency in conducting its business and reducing the impact on the environment. For more information, see the chapter “Towards Net Zero strategy - Innovation for business development” in the 2020 Annual Report.

**Economic performance and value creation:** economic sustainability and business growth represent key objectives and factors that enable business activities as a whole. To this end, Snam is committed to fostering the creation of shared medium to long-term value for all categories of stakeholders through operational and financial efficiency. For more information, see the chapter “Financial review





and Other Information” in the 2020 Annual Report.

**Relations with local communities:** by creating and supporting projects for local communities, Snam intends to have a positive impact on the social fabric in the areas in which the company operates reinforcing its “licence-to-operate”. For more information, see the chapter “Snam’s Profile - Relations with stakeholders” in the 2020 Annual Report.

Issues relating to the supply chain were not categorised as material as a result of the analysis carried out, but are nevertheless supervised by Snam. The Group has, for some time, adopted policies for selecting suppliers, contractors and commercial partners based on fair and transparent processes which set out the integration of sustainability criteria. For more information see the chapter “The power

of working together’ in the Sustainability Report 2020.

Brand reputation issues were likewise not categorised as material, but Snam safeguards and values its reputation through constant, proactive and diversified communication, striving for dialogue with its reference public and seeking to expand it further. The company communicates through an integrated multimedia strategy via traditional and digital channels, also engaging its employees and partners as brand ambassadors, and through events and campaigns to confirm Snam’s centrality in the country system and as a player in energy transition, nationally and internationally, with a special focus on the areas and communities in which it operates. For more information see the chapter “The power of working together” in the Sustainability Report 2020.

### Risks and material topics related to social aspects

Risks		Material topics
<b>STRATEGIC RISKS</b>	Risks of increased severity of extreme atmospheric phenomena and worsening of the regulatory framework in favour of new technologies that favour the use of intermittent energy sources with consequent reduction of demand	<ul style="list-style-type: none"> <li>■ Reliability of infrastructures, business continuity and cyber security</li> <li>■ Relations with authorities and quality of services</li> <li>■ Innovation</li> </ul>
<b>FINANCIAL RISKS</b>	Risk of changes in the internal and external financial context that can compromise the earnings and asset structure	<ul style="list-style-type: none"> <li>■ Economic performance and value creation</li> </ul>
<b>OPERATING RISKS</b>	Risk of breakages, damage or malfunctions, also following external events or IT threats, that can cause an unforeseen interruption of the service or delays in the advancement of infrastructure creation programmes	<ul style="list-style-type: none"> <li>■ Reliability of infrastructures, business continuity and cyber security</li> <li>■ Relations with local communities</li> </ul>

For a complete description of the risks, please refer to “Risks factors and uncertainties” contained in the “Risk management” section in the Integrated Management Report.

## POLICIES, COMMITMENTS AND MANAGEMENT MODELS

Snam’s business development model is based on sustainable growth and the promotion of **economic and social development** and the **continuous dialogue** with all players in the communities and areas in which the business operates.

Snam, in line with the guidelines of its **Stakeholder Engagement Policy**, maintains regular and frequent relations with local government bodies and with local stakeholder associations.

Among the policies related to social aspects, the Group has drawn up its own **Sustainable Development Policy** and a **Policy for the Management of Philanthropic Activities and Social Initiatives**. In accordance with these documents, Snam is committed to foster local development through:

- A continuous exchange with institutions and other stakeholders about authorisation and environmental impact assessments procedures and, for some plants, socio-economic processes.



- Fondazione Snam <sup>6</sup> promotes innovative “corporate citizenship” practices to promote civil, cultural and economic development in priority areas of public interest, encouraging partnerships and making design skills and expertise available.
- Collaboration with local associations, Confindustria Energia and the authorities, with which it handles issues relating to energy, economic and environmental policies.
- Collaboration, locally and nationally, with regulatory bodies and participation in associations and committees, lending its know-how and expertise on social innovation and sustainable development<sup>7</sup>.

Through its **Code of Ethics**, Snam is committed to protecting and promoting human rights. In this regard, Snam upholds the framework provided by the **United Nation's Universal Declaration of Human Rights**, the **Fundamental Conventions of the ILO – International Labour Organization** – and the **OECD Guidelines for Multinational Enterprises**. In addition, the Group has set out a **Human rights policy** through which it pledges to prevent and denounce:

- all forms of discrimination and violence, forced or child labour;
- any form of sexual harassment or abuse regarding the personal and cultural diversity of individuals;
- harassment or attitudes in any way attributable to bullying.

In addition, Snam has also adopted a **Social Supply Chain Policy to facilitate the involvement of social enterprises in the supply chain**, i.e. private entities that carry out activities in the public interest, on a non-profit basis and for civic, solidarity and social purposes. Snam also encourages the application of this policy for its subcontractors, by rewarding certain attributes when evaluating bids.

Finally, in order to further strengthen its Internal Control and Risk Management System, the Snam Group has adopted the **Tax Control Framework (TCF)**, which provides a structured approach to the detection, assessment, management and control of tax risks, and has prepared the “Tax Control Framework - Tax Strategy” Guidelines.

## Relations with local communities

Snam has a presence, 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 by the stakeholders.

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.

During the year 52 meetings, counting the transportation sector only, were held with local government authorities and regional associations to illustrate works projects.

<sup>6</sup> More information on the Fondazione Snam can be found on the Company's website: [www.snam.it/en/about-us/innovation\\_and\\_technology/index.html](http://www.snam.it/en/about-us/innovation_and_technology/index.html)

<sup>7</sup> More information on relations between Snam and the associations is available on the Company's website at: [www.snam.it/en/about-us/innovation\\_and\\_technology/index.html](http://www.snam.it/en/about-us/innovation_and_technology/index.html)


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## The main initiatives in local communities

### School

**Young Energy**, a project aimed at fostering student orientation and bringing them closer to the world of work through initiatives focused on private-sector businesses. About 800 students from 8 technical schools were involved in 2020.

**Con la Scuola**, a project with the aim of helping schools to move from knowledge-based teaching to know-how-based teaching, where cooperation, involvement and creativity are the essential ingredients of a new way of school learning. In 2020, 40 institutions were involved, with a total of 300 teachers and 1,000 students.

**Sprint! La scuola con una marcia in più** promotes an alliance between schools, families and third sector organisations to create an experimental model for combating educational poverty among minors and preventing forms of juvenile distress. In 2020, the project involved more than 700 children, 100 parents and 50 teachers and education staff.

### Fragile categories

**Tesori - Terre Solidali in Reti Inclusive** is an initiative aimed at implementing environmental and agricultural projects involving vulnerable social groups. Snam makes unused land available to communities. Between 2019 and 2020, Snam supported projects in the areas of Recanati (MC) and Ronco all'Adige (VR).

**Welfare, che impresa!** is a competition that gives financial and educational support to the winner. In 2020, the first prize was awarded to the social cooperative **ZeroPerCento**, which creates employment opportunities for young people with disabilities.

### Company volunteering

In 2020, despite the difficulties of the Covid-19 pandemic, company volunteering activities continued, often rethinking their original design by using digital solutions to ensure social distancing. The initiatives involved more than 1,200 employees who donated a total of **4,100 hours**, of which 4,000 through payroll giving and 100 through expert volunteering.

### Land redevelopment and social development

**Corvetto Adottami** is an initiative that involves local communities to contribute to the redevelopment and social development of Milan's Corvetto district. The activities pursue three strands: social innovation, combating educational poverty and improving the environment and energy efficiency. In 2020, the initiative launched social inclusion projects involving the Istituto Comprensivo Candia and the social enterprise "MadeinCorvetto" and urban regeneration projects like "Il Tappeto Volante".

**ForestaMI** is a project, also supported by the Municipality of Milan, aimed at planting 3 million trees by 2030. In 2020, Fondazione Snam has identified the first strategic project, **Serravalle**, to which it will contribute financially in partnership with Tep Energy Solution and at a planning and design level through Arboria.

### Tackling energy poverty

In 2020, Fondazione Snam renewed its commitment to Energy Poverty by carrying out a series of activities that will evolve during 2021.

In particular, the activities comprise the publication of a research study aiming at defining, measuring and describing the phenomenon of energy poverty and the main countermeasures. In addition, a call for projects will be launched to support the development of project activities aimed at combating energy poverty.

### Supporting local communities during the Covid-19 pandemic

In 2020, Fondazione Snam and Snam intervened to support, in addition to the health system, the most vulnerable social groups who risked slipping into worse conditions as a result of the pandemic. Initiatives to support vulnerable groups have reached more than **600 thousand beneficiaries** through the support of projects promoted by more than **150 partners**. Partners were supported with financial and material donations to aid projects working with the Elderly, People with different abilities, Women at risk of violence, People at risk of financial distress and homelessness, Children and Youth at risk of educational poverty, People affected by diseases and Foreigners.

In addition, Fondazione Snam has awarded prizes in the **"Impatto Sociale Reloaded"** competition to three organisations, supporting the reorganisation process initiated as a result of the pandemic.


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## Quality of services

For Snam, **customer care** represents the consolidation of a path through which the Company aims to increase dialogue, engagement, and interaction with customers.

Customer Engagement activities in 2020 were strongly influenced by the emergency situation caused by Covid 19, making it necessary to revise and reorganise them. In keeping with original plans, stakeholder engagement activities were carried out with workshops on issues of transportation, balancing, storage and regasification, and Ten-year Plans, as well as co-design sessions for the Jarvis project, the commercial platform for integrated business services, amounting to a total of **3 commercial workshops** and **4 co-design workshops**.

In addition, ad-hoc surveys were carried out after each workshop in order to have improved analysis material to measure customer satisfaction. In December 2020 a new

online survey was conducted, involving all shippers and traders with whom Snam collaborated in the thermal year 2019-2020 just ended.

Furthermore, as already done in previous years, the Group conducted the Customer Satisfaction questionnaire with the aim of assessing the next developments in the commercial services offered for the transportation, storage and regasification businesses.

The **survey participation rate was 83.6%**, with an **average satisfaction score of 8.6** (on a scale of 0 to 10) for 2020 alone, and **8.2 measured as average over the three-year period**, a result that testifies the satisfaction with the customer engagement activities developed by Snam, implemented to improve the services it offers and to consolidate proactive collaboration with all its stakeholders.

## The value of brand reputation

During 2020, Snam continued to consolidate its **brand identity**, reinforcing the company's positioning on the issues of energy transition and the decarbonisation of local communities.

The aim is to communicate proactively and transparently with all its stakeholders, from the press to the ever larger audience reached through social media and the Group website and the many supervision and dialogue

activities conducted with the local communities involved in the main projects. Snam has significantly increased its visibility in recent years. In particular, there has been a more noticeable presence in the international media concerning topics of global interest, first and foremost the energy transition.

## Supply chain relations

Snam considers its suppliers to be an essential component of its business model and aims to establishing an **ongoing dialogue** with them to assess issues of responsibility, sustainable development and the creation of value to be shared throughout the supply chain.

**Cooperation with the supply chain** to ensure high levels of procurement is an essential point in Snam's journey towards excellence, as sharing know-how, best practices and information ensures the creation of a common vision.

In accordance with this approach, Snam has involved its suppliers in specific initiatives aimed at surveying their knowledge regarding climate change and mapping in detail

the effective sustainable management of their activities.

Snam also continued to engage a selection of its main suppliers, corresponding to 75% of total procurement, in the **CDP (formerly Carbon Disclosure Program) - Supply Chain** programme with the aim of collecting their data on greenhouse gas emissions. 60% of the participants responded to the questionnaire (+ 7% compared to 2019).

In the context of the CDP Supply Chain assessment, Snam received a score of A-, which demonstrates its commitment in its engagement activities with suppliers to issues related to the reduction of emissions and the development of sustainable strategies.



Continuous communication with suppliers is facilitated through the **Suppliers Portal**, a web platform active since 2013, where suppliers can access their reserved area and various documents, published with the aim of keeping them up-to-date on the processes governing qualification and procurement activities. Thanks to the Supply Portal, the Company can implement its procurement policy with absolute transparency, ensuring the traceability and

completeness of the information published.

At the end of 2020, there were more than 2,275 suppliers registered on the portal, with 66% accessing the portal more than once per day, a figure which, together with the more than 676,000 pages read, is a testament to the activity and engagement fostered by the website.

## Added Value

At Snam, sustainability and value creation are strongly connected concepts. Sustainability creates value for the Company and the stakeholders and establishes a connection between the business and corporate social responsibility. The wealth produced by Snam contributes to the economic growth of the society and environment in which it operates. This wealth is measured 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.

In 2020, the gross global Added Value produced by Snam was 2,758 million euros, an increase of 63 million euros or 2.3% compared with 2019 (2,695 million euros).

38.7% of the gross global Added Value produced by Snam was reinvested within the Group (in line compared with 2019, 39.2%), of which around 72.3% was employed for the amortisation of group assets (71.2% in 2019). With regard to the main reference stakeholders, the value distributed to financing bodies fell in 2020 (6.4%; -1.4 percentage points compared with 2019), following a reduction in financial expenditures attributable to the effects of the actions taken to optimise the financial structure between 2016 and 2020, specifically the liability management operations. The value distributed to shareholders through the distribution of dividends increased (29.6%; 28.9% in 2019). With an increasing dividend (+5% compared with 2019), confirmation of the commitment to guarantee shareholders attractive and sustainable remuneration, more than compensating the reduction of the number of outstanding shares following Snam's buyback programme.

With reference to employees, there was an increase in the Added Value distributed (10.1% or +0.5 percentage points compared with 2019) 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, welfare). With regard to costs for staff services, against a backdrop of cost containment related to lock-down measures following the Covid-19 health emergency, Snam supported its employees through welfare initiatives, the purchase of protective equipment and health monitoring devices (pulse oximeters), and initiatives to sanitise work environments.

The value allocated to the Public Administration through the payment of direct and indirect taxes is in line with 2019 (14.5% or +0.1% compared with 2019).

Finally, more than 19 million euros was allocated to local communities (0.7% of the value generated; 0.1% in 2019). The significant increase compared to 2019 is proof of Snam's commitment, also through the Foundation, to support the Italian health system and the third sector in combating the Covid-19 emergency, through donations in kind and money for approximately 16 million euros. This is complemented by sponsorships, donations and environmental offsets made in accordance with the law amounting to a total of approximately 3 million euros (in line with 2019).

During 2020, Snam spent approximately 173 million euros on environmental, health and safety protection (155 million euros on investments and 18 million euros on operating costs).



## Approach to tax

In line with the **Code of Ethics**, Snam and its direct and indirect subsidiaries apply **principles of fairness, transparency, honesty and integrity**, which in the tax area are implemented in the correct discharge of tax obligations in compliance with the rules; in managing tax matters, **the Group aims for the “certainty” of its tax adopted positions.**

In order to further strengthen its Internal Control and Risk Management System, the Snam Group has adopted the **Tax Control Framework (TCF), which provides a structured approach to the detection, assessment, management and control of tax risks.**

The implementation of the TCF for Snam S.p.A. and Snam Rete Gas S.p.A. was instrumental to the **admission, on 2 December 2019, to the collaborative compliance regime** laid out by Legislative Decree no. 128/2015 (so-called “cooperative compliance”). The regime enables continuous and preventive dialogue with the Italian Tax Agency and reflects the constant application of the principles of fairness, transparency and awareness of the fulfilment of the tax obligation defined in the “Tax Control Framework - Tax Strategy” Guidelines.

These guidelines define the company’s policy concerning taxation and is available in an extract on the web page [www.snam.it/en/Sustainability/snam\\_commitments/tax\\_policy.html](http://www.snam.it/en/Sustainability/snam_commitments/tax_policy.html).

The Tax Strategy sets out to achieve the following aims:

- Tax Value, i.e. the **effective management of the tax ‘cost’ inherent to the company’s business;**
- Risks and Reputation, i.e. the control of fiscal risks with a view to protecting the **reputation of the Company and the Group;**
- Tax Compliance, i.e. **integrity in the management of tax compliance and the determination of the tax liability** of Group companies;
- Promotion of shared values, i.e. **promoting awareness at all levels of the company of the importance that Snam attributes to the values of transparency, honesty, fairness and compliance with regulations;**
- Relations with the tax authorities, i.e. establishing **relations** with the tax authorities based on **good faith and transparency;**
- Best use of resources, i.e. developing and **strengthening the professional skills of resources involved at any level in the tax process.**

The Tax Control Framework carries out **periodic assessment and monitoring activities**, which are reported to the relevant corporate functions, the Company’s Administrative and Control Bodies and the financial authorities.


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In order to ensure maximum transparency of the tax management procedures, Snam provides its financial, economic and tax information for each jurisdiction in which it operates. This reporting provides an indication

of the magnitude of the Group activities and their tax contributions in these jurisdictions.

Country	Description of the main activities of the organization	Number of employees	Revenues from third parties (€ Mln)	Revenues from intercompany transactions in other tax jurisdictions (€ Mln)	Pre-tax profit/loss (€ Mln)	Tangible assets other than cash and cash equivalents (€ Mln)	Corporate income taxes paid on a cash basis (€ Mln)	Corporate income taxes accrued on profits/losses (€ Mln)
<b>Italy</b>	Snam operates in transport and dispatching, storage of natural gas and regasification of liquefied natural gas (LNG) activities in Italy. In addition to its core business, the company is also increasingly investing in new businesses related to the energy transition, from sustainable mobility to energy efficiency and the development of renewable gases such as biomethane and hydrogen	3,008	2,828.07	1,010.70	2,153.32	16,406.20	387.34	400.43
<b>Albania</b>	Engineering and Project Management services and supervision of pipeline laying activities	0	-	0.21	0.02	-	-	0.00
<b>The Netherlands</b>	Subholding activities	2	8.03	-	7.85	-	-	-
<b>United Kingdom</b>	Engineering and Project Management services and oversight of a compressor station upgrade activity	0	-	0.09	0.01	-	-	0.00
<b>Ireland</b>	Captive insurance business	2	1.90	9.15	1.82	-	0.19	0.23
<b>China</b>	Development of the Snam Group's activities in the Chinese market	3	0.14	1.16	-0.23	0.00	0.01	-
<b>Total</b>		<b>3,015</b>	<b>2,838.14</b>	<b>1,021.31</b>	<b>2,162.79</b>	<b>16,406.20</b>	<b>387.54</b>	<b>400.66</b>

Note: The scope of information and the data reported in this section represent "country-by-country" reporting, pursuant to Art. 1, paragraphs 145 and 146, of Law No. 208 of 28/12/2015.

Entities registered in Italy: Snam S.p.A., Snam Rete Gas S.p.A., GNL Italia SpA, Stogit S.p.A., Snam 4 Mobility S.p.A., Asset Company 2 S.r.l., Infrastrutture Trasporto Gas S.p.A., Cubogas s.r.l., Snam 4 Efficiency S.r.l. (formerly Asset Company 4 S.r.l.), Tep Energy Solution S.r.l., Enura S.p.A. (formerly Asset Company 5 S.r.l.), Asset Company 6 S.r.l., IES Biogas S.r.l., Enersi Sicilia, Renerwaste S.r.l., Renerwaste Lodi S.r.l., Ecoprogetto Milano S.r.l., Ecoprogetto Tortona S.r.l., Tea Servizi S.r.l. Entities registered in Albania: Snam Rete Gas S.p.A. - Branch Albania. Entities registered in the Netherlands: Snam International B.V. Entities registered in the United Kingdom: Snam Rete Gas S.p.A. - Branch UK. Entities registered in Ireland: Gasrule Insurance D.A.C. Entities registered in China: Snam Gas & Services (Beijing) Co. Ltd.


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## KEY PERFORMANCE INDICATORS

In 2020, the gross global Added Value produced by Snam was 2,758 million euros, an increase of 63 million euros or 2.3% compared with 2019 (2,695 million euros). The percentages distributed to the main reference stakeholders (lenders, shareholders, employees, public administrations) are in line with those of 2019, with the exception of the

value distributed to local communities, which increased by 0.6 percentage points compared to 2019, attributable to donations in kind and money donations to support the Italian health system and the third sector during the fight against the Covid-19 emergency.

Indicator	GRI Standard	Measurement unit	2018	2019	2020
Added value produced (A)			2,532	2,695	<b>2,758</b>
<b>Added value distributed (B)</b>			<b>1,634</b>	<b>1,639</b>	<b>1,690</b>
Employees (*)			280	258	<b>278</b>
Local community Donations and sponsorships and Statutory environmental offsetting			3	3	<b>19</b>
Lenders	201-1	Million euros	249	211	<b>178</b>
Shareholders (**)			746	780	<b>816</b>
Public administrations			356	387	<b>399</b>
Direct taxes			341	375	<b>370</b>
Indirect taxes			15	12	<b>29</b>
<b>Added value retained by the Company (A)-(B)</b>			<b>898</b>	<b>1,056</b>	<b>1,068</b>

(\*) Includes staff-related service costs..

(\*\*) The 2020 figure refers to the dividend proposed by the Board of Directors subject to the approval of the Shareholders' Meeting of 28 April 2021.




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# ASPECTS CONCERNING THE MANAGEMENT OF PERSONNEL

## Future objectives and results achieved

SDGs	Action		Target	2020 Performance
<b>Gender diversity &amp; inclusion</b>				
	Percentage of women in executive and middle-management positions (*)	ESG scorecard	25% by 2023	20.3%
	Percentage of women in succession planning (first and second line of reporting and key positions) (*)	ESG scorecard	27% by 2023	22%
<b>Welfare</b>				
	Percentage participation in welfare initiatives	ESG scorecard	54% by 2023	39%
<b>Employee engagement</b>				
	Percentage employee engagement index	ESG scorecard	75% by 2023	82%
	Elimination of disposable plastic in offices		-100% by 2020	Postponed to 2021 due to Covid-19
<b>Training</b>				
	Training hours provided		320,000 hours by 2023	66,385
<b>Performance Management</b>				
	Adoption of the Performance Management programme		Widening of the perimeter to all the subsidiaries at 2020	Postponed to 2021 due to Covid-19

(\*) Operating scope covered includes the following companies: Snam S.p.A. Snam Rete Gas, Snam 4 Mobility, Snam Gas & Energy Services, Snam International B.V., GNL Italia, Stogit, Cubogas, Enura, Gasrule, Ies Biogas S.r.l., Renerwaste Lodi, Renerwaste, TEP, TEA.

ESG scorecard KPI entered in the ESG Scorecard


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## MATERIAL TOPICS AND RISKS RELATED TO STAFF MANAGEMENT

**Diversity and inclusion:** for Snam, protecting employees promoting merit and diversity means actively advocating the creation of an inclusive and effective work environment through initiatives of dialogue and collaboration.

**Developing and safeguarding human capital:** Snam is committed every day to the development of the expertise and potential of its people, encouraging professional development, implementing policies to attract and retain talent, and promoting the transfer of skills and experience. Increasing the technical, managerial and organisational skills of its employees, also through training activities

and the activation of systematic listening systems for employees, is therefore of vital importance. Snam considers the well-being of its employees to be a priority and therefore develops welfare initiatives to guarantee a good work-life balance.

The issue of employment is important for Snam, but it was not categorised as material during the analysis conducted, taking into consideration the fact that the Company operates in countries featuring well-defined rules on the protection of workers.

### Risks and material topics associated with aspects concerning the management of personnel

Risks	Material topics
<b>EMPLOYEES AND PERSONNEL IN KEY ROLES</b> Risk of losing "key" personnel or of inability to attract, train or keep qualified personnel or situations in which the ability to implement the long-term business strategy is negatively affected owing to significant disputes with employees	<ul style="list-style-type: none"> <li>■ <b>Developing and safeguarding human capital</b></li> <li>■ <b>Diversity and inclusion</b></li> </ul>

For a complete description of the risks, please refer to "Risks factors and uncertainties" contained in the "Risk management" section in the Integrated Management Report.

## POLICIES, COMMITMENTS AND MANAGEMENT MODEL

Through the **Sustainable Development Policy**, the **Human Rights Policy** and the new **Diversity & Inclusion Policy**, enhanced in 2020, with the **Diversity & Inclusion Policy: Gender equality** and **Diversity & Inclusion Policy: Recruiting**, Snam is committed to:

- Develop its system of professional and managerial skills supporting the growth of its resources;
- Attract and retain qualified resources;
- Ensure the involvement of staff so that they participate actively in the improvement processes;
- Adopt work practices based on a culture of diversity and equal opportunities, safeguarding the dignity, freedom and equality of all employees and partners;
- Create a welcoming work environment with no direct or indirect discrimination of any kind;
- Protect jobs, working conditions and trade-union freedoms;
- Guarantee pay rises based strictly on merit and skill;
- Protect the system of values and principles in matters

of transparency and sustainable development.

The Group commitment to ensure gender diversity<sup>8</sup> has been strengthened with Snam's membership in **Valore D**, **InspirinGirls** and **Parks**, associations and campaigns that promote diversity, talent and female leadership for the growth of companies and the country. Internally, the Group has published the **Inclusive Language Manifesto** to spread a culture of language that respects all identities, conditions, affiliations, orientations and cultures, and has implemented, thanks to the Inclusion Team, the **#Snam4Diversity Talks**, training events aimed at discussing diversity and inclusion issues.

In addition, Snam has once again been acknowledged by **Bloomberg's Gender Equality Index (GEI) 2021**, which tracks the financial performance of companies most committed to promoting gender equality in the world.

Finally, Snam guarantees all workers the right to express

<sup>8</sup> See Article 3, paragraph 1, letter d of Legislative Decree no. 254 of 30 December 2016.



their thoughts freely, to join associations and to engage in trade union activities. Dialogue with social partners<sup>9</sup> is classified and regulated by the current **Protocol for Industrial Relations**, signed in 2013.

For more information on employment dynamics and industrial relations, see the chapter "Performance in 2020", while for information on employee engagement activities in 2020, see the chapter "Snam's Profile – Stakeholder relations" contained in the 2020 Annual Report.

## Trends in employment, diversity and inclusion

To continue to play a key role within an ever-changing environment while establishing as leaders in an international market abundant with opportunities, it is necessary to exploit the full potential of the human capital and help it to grow continuously.

Creating a shared corporate culture through purpose, promoting transparent and constant internal communication, and working on the growth of know-how enables the creation of a **cohesive community** of workers, in which their personal development is encouraged and praised through entrepreneurship, motivation and capacity to make the change.

Snam, in alignment with its Sustainable Development Goals, generates stable and continuous employment relationships involving qualified and specialist activities (54% of employees have a technical diploma and 29% are graduates). Moreover, the **Snam Institute** aids the Company in its ambition to exploit the potential of its skills not only internally, but also externally.

As of 31 December 2020, out of a total of 3,249 employees, 93.4% have a permanent employment contract while 42 have part-time employment contracts and 197 apprenticeships contracts; a further 43 employees have a third party contract (32 in 2019). The average age of Snam Group employees is 44.5 years, while the average length of service is around 17.2 years.

Staff aged under 40 (1,274) account for 39.2% of the company workforce, increased by 110 employees compared with 2019, partly thanks to the hiring of young talent in recent years.

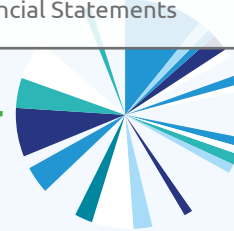
The absenteeism rate of 5.9% in 2020 is broadly in line with previous years and is slightly increased because, in agreement with trade unions, those who were unable to work from home were granted a period of paid leave equal to or more than 6 days.

The turnover rate for 2020 (11.9%) is consistent with the 2019 figure thanks to the hiring campaign, as well as acquisitions completed during the year.

Gender diversity and inclusion are issues to which Snam pays particular attention, which is why the **Inclusion Team** was created, a cross-functional group of 35 people representing diverse employees and which promotes a culture of diversity and equal opportunities, in order to create an environment that fully exploits the potential of the different individuals that contribute to the business. The Inclusion team has drawn up the action plan "**#Snam4Diversity, Energia che Include**", which comprises a series of initiatives aimed at spreading a culture of diversity.

With regard to the gender distribution of employees, at the end of the year, there were 507 female staff members, an increase on the previous year (+14.9%), while the Group employed 117 people with disabilities, who Snam aims to include and integrate in company processes.

<sup>9</sup> See Article 3, paragraph 1, letter d of Legislative Decree no. 254 of 30 December 2016. At the end of 2020, 22.3% of employees were members of a union.



## Boardroom diversity

The Company believes that diversity is a value that makes a positive contribution to the effectiveness of the actions of corporate bodies. Considering this, Snam aims to integrate a variety of professional skill sets in the composition of its administration, management, and control bodies, complemented by different experiences, and enriched by age and gender diversity.

In 2020, the Bylaws were amended in order to bring the current provisions concerning election method of board members in line with the new provisions on gender balance set out in paragraph 1-ter of Article 147-ter of the Consolidated Law on Finance, which stipulates a gender composition criterion, whereby the lesser represented gender must account for at least one third of the members of the administration and control bodies. That being so:

- Three out of nine board members are female (one third of the total);
- The Board of Statutory Auditors is composed of three Standing Statutory Auditors (one of whom is a female) and of two female Alternate Statutory Auditors;
- Two Chairpersons of the Committees out of four are female.

In addition, on the 2nd of February 2021, the Shareholders' Meeting approved the amendment of Article 13 of the Bylaws in order to establish that the least represented gender must account for at least two-fifths of the Board of Directors. The change will enter into force as of the next mandate.

- The Company ensures the monitoring of the situation in relation to diversity and the complementary nature of professional profiles and take actions to increase the knowledge of the members of the administrative and control bodies through board inductions, through which specific industry expertise is acquired.

As far as age is concerned, Snam's Articles of Association do not contain specific limits for members of corporate bodies. It is believed that statutory limits are not required because adequate diversity is already guaranteed, as demonstrated by the following figures:

- The age of Snam's board members spans between 43 and 68 years, with an average age of 53;
- The age of Snam's statutory auditors spans between 44 and 69 years, with an average age of 55.

In March 2020, Snam conducted an evaluation of the functioning of the Board of Directors and of its committees and of their size and composition, also considering elements such as the professional characteristics, the experience – including managerial experience – and the gender of its members and their seniority.

For further details on the subject of diversity in relation to the composition of the administrative, management and control bodies pursuant to Article 10 of the Decree, please refer to the paragraph "Description of the Snam policy on diversity" in the 2020 Report on corporate governance and ownership structures.

## Development of human capital

As last year, Snam's **career and skills development activities** focused on improving the leadership model, consolidating the new skills model, identifying and developing talent throughout the organisation, keeping succession plans solid and structured, thereby guaranteeing a sustainable succession line, and increasing engagement levels.

During 2020, the third Performance Management cycle was launched, but, because of limitations caused by the

Covid-19 emergency, it did not include the entire Snam workforce in its assessment scope as planned. This initiative has therefore been postponed until 2021.

To assess the performance of Snam's employees, all roles, with the exception of senior directors, undergo analytical and overall evaluation on the subjects of Complexity, Responsibility, Experience and Autonomy (CREA). In 2020, 320 CREA assessments were approved.


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**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. 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 that were set up involved 110 Group staff, identifying 175 experts and 145 trades, working to create the 16 volumes that make up the Snam technical "trades" encyclopaedia.

These centres are also supported by an **Internal Faculty** composed of 80 employees who transfer their technical and business expertise to other colleagues through a by-Snam-to-Snam logic.

## Company welfare

From 2018, as part of a Welfare Plan to respond to people's current needs and requirements, the digital platform named "**Snammy**" was developed with five areas of interest: Family, Education, Work life balance, Wellness and leisure, Health.

In the **Family and Education** area, in addition to the "**dediCARE**" service - which helps solve small and large family problems, from care for the elderly to school tutoring - specific psychological, relational and family support services have been set up to deal with the problems arising from the pandemic. Employees were able to access a search portal for childcare services, which also provided for partial reimbursement of any expenses incurred, and a platform was set up with online lessons for children of employees at all levels of education with a school guidance service.

In the **Wellness and Leisure** area, in addition to agreements with major health institutions and prevention programmes, a range of topical workshops were introduced, for example of pilates, yoga, posture training as well as mindfulness, healthy eating and digital detoxing. Furthermore, in the post-emergency phase, a **psychological support and resilience webinar** with a specialised psychologist was set up.

In the **Health** area, comprehensive support was provided for some health initiatives, such as the introduction of monitoring services for vital signs through the distribution

During 2020, 66,385 hours of training were delivered with 17,277 participations, involving 90% of the company workforce (95% of women participated in at least one training course). On average, 20.4 hours of training took place per employee (20.8 hours on average for male staff and 18.5 for female staff). The decrease in the number of training hours compared to the previous year is attributable on the one hand to a reduction in the number of compulsory training hours, and on the other hand to the need to redesign training in order for it to take place in a remote setting.

A great deal of effort has been put into employee training programmes on sensitive issues such as health, safety and the environment. On the matters of business ethics and anti-corruption, in 2020 1,414 hours of training were provided with 1,408 participants.

to all staff of **pulse oximeters**, capable of remotely raising alarms for abnormal saturation values. **Health guidance** is also available with the aim of helping employees find a general practitioner or suitable specialist. In addition, an **insurance policy** has been signed to provide cover for all employees, fully paid for by Snam, in the event of hospitalisation after contracting Covid-19.

Even before the health emergency, Snam offered its staff flexible working schemes, including remote work, flexible working hours, and "short Fridays", i.e. the option of stopping work at 1 p.m. In the wake of the Covid-19 pandemic, our welfare system was enriched with a number of tools made available to employees in order to better cope with the difficulties caused by the health emergency, including authorising all the Group's local offices in Italy to **work remotely** immediately from the beginning of the crisis, ahead of the government regulations of March 2020 (which stipulated the closure of all businesses not deemed necessary or strategic).

The "**Flexible Benefits**" system has also been continued, increasing the purchasing power of employees who take part in the initiative, transforming a portion of the profit-sharing bonus scheme, up to the entire amount, into a welfare credit that can be used to purchase services in the areas of health, school and training, cultural and sporting activities, travel, mobility and supplementary pension contributions for staff and their family members. The advantage of converting part of the bonus into a


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welfare credit is that, for this amount, no tax is due and the company is able to grant staff an additional bonus,

increased proportionally from 8% to 20% depending on the amount converted.

## KEY PERFORMANCE INDICATORS

The following indicators show the results of the management of social and staff aspects, with an indication of the reference GRI standard. The main changes between 2020 and 2019 were a reduction in the number of training hours provided to employees due to the Covid-19 pandemic, which prevented on-site training, largely

replaced by e-learning. In addition, the number of new employees increased by 145 in 2020, demonstrating Snam's willingness to continue on its growth path, unaffected by the pandemic. The management hierarchy of the Company, composed of middle managers and executives, comprises 680 staff, 20% of whom are women, in line with 2019.

Indicator	GRI Standard	Measurement unit	2018	2019	2020
Total number of employees	102-8	no.	3,016	3,025	3,249
Employees by type of contract					
Permanent contract (of which women)			2,812 (395)	2,817 (417)	3,036 (480)
Apprentice or first employment contract (of which women)			185 (20)	193 (23)	197 (24)
Fixed-term contract (of which women)			19 (4)	15 (1)	16 (3)
Employees by type of employment					
Full time (of which women)			2,975 (382)	2,987 (407)	3,207 (474)
Part time (of which women)		no.	41 (37)	38 (34)	42 (33)
Employees by geographical area					
Northern Italy			2,302	2,294	2,495
Central Italy		220	241	246	
Southern Italy and Sicily		490	477	498	
Abroad		4	13	10	


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Indicator	GRI Standard	Measurement unit	2018	2019	2020
<b>New hires (of which women)</b>			195 (42)	172 (38)	<b>376 (84)</b>
< 30 years (of which women)			110	104	<b>105 (28)</b>
between 30 and 50 years (of which women)			78	59	<b>111 (39)</b>
> 50 years (of which women)			7	9	<b>10 (2)</b>
of which university graduates		no.	108	92	<b>151</b>
of which school graduates			86	79	<b>71</b>
of which possessing other title			1	1	<b>4</b>
Other new employees (non-consolidated companies, acquisitions, tenders, etc.)			126	59	<b>150</b>
<b>Hire rate (*)</b>	401-1		6.5	5.7	<b>7.3</b>
< 30 years (**)		%	22.8	20.1	<b>20.6</b>
between 30 and 50 years (**)			6.9	5.2	<b>8.5</b>
> 50 years (**)			0.5	0.6	<b>0.7</b>
<b>Departures (of which women)</b>			189 (24)	198 (19)	<b>152 (19)</b>
< 30 years (of which women)		no.	8	18 (2)	<b>13 (4)</b>
between 30 and 50 years (of which women)			30	34 (12)	<b>31 (11)</b>
> 50 years (of which women)			151	146 (5)	<b>99 (1)</b>
Turnover rate (***)		%	6.3	6.6	<b>4.6</b>
Voluntary departure rate (****)			1.2	1.5	<b>1.5</b>
<b>Training</b>					
Total hours			107,771	114,179	<b>66,385</b>
Executives			4,392	5,669	<b>3,390</b>
Middle Managers			19,072	16,950	<b>13,766</b>
White collars			49,650	58,238	<b>28,333</b>
Blue collars			34,657	33,322	<b>20,896</b>
Average hours of training for men	404-1	no.	36.9	38.4	<b>20.8</b>
Average hours of training for women			28.7	33.8	<b>18.5</b>
Average hours of training for Executives			41.0	51.1	<b>25.9</b>
Average hours of training for middle managers			39.7	34.4	<b>25.1</b>
Average hours of training for white collars			29.5	34.6	<b>16.1</b>
Average hours of training for blue collars			46.4	45.2	<b>26.0</b>


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Indicator	GRI Standard	Measurement unit	2018	2019	2020
Key training initiatives					
Technical training (of which participations)		no. hours	58,120 (4,454)	47,705 (8,023)	35,304 (5,706)
Health, safety, environment and quality (of which participations)			28,345 (4,953)	29,755 (5,580)	12,021 (2,856)
Management training (of which participations)			19,257 (3,822)	19,524 (4,356)	11,174 (4,862)
Diversity of governing bodies					
Members of the Board of Directors	405-1	no.	9	9	9
of which women			4	3	3
Diversity of employees					
Executives (of which women)	405-1	no.	107 (18)	111 (20)	131 (27)
Middle Managers (of which women)			480 (90)	493 (87)	549 (109)
White collars (of which women)			1,682 (311)	1,683 (333)	1,764 (369)
Blue collars (of which women)			747 (0)	738 (1)	805 (2)
Female executives			16.8	18.0	20.6
Female middle managers			18.8	17.6	19.8
Female white collars			18.5	19.8	20.9
Female blue collars			/	0.1	0.2
Employees < 30 years			16	17	16
Employees between 30 and 50 years			38	38	40
Employees > 50 years			46	45	44
Absenteeism rate			%	4.6	4.5
Staff turnover (*****)		%	13.0	12.3	11.9

(\*) Total hire rate = (number of employees hired / average headcount) x 100.

(\*\*) The hire rate by age group = (number of employees hired in the age group / the total number of employees in the corresponding age group as at 31/12) x 100.

(\*\*\*) Turnover rate = (departures / total number of employees as at 31/12) x 100. Departures due to transfers to non-consolidated companies are excluded.

(\*\*\*\*) Voluntary departure rate = (departures from resigning / average headcount) x 100.

(\*\*\*\*\*) Turnover = ((employees hired + departures) / average headcount in work) x 100. Departures due to transfers to non-consolidated companies are excluded.





# PROTECTING HUMAN RIGHTS

## MATERIAL TOPICS AND RISKS RELATED TO STAFF MANAGEMENT

Safeguarding human rights is a subject that, given the type and geographical area of Snam's activities, is associated with a limited risk profile and it hasn't been regarded as significant following the recent updating of the materiality analysis. Snam believes that the issue of safeguarding human rights is strongly linked to aspects of diversity and

equal opportunities, expressed specifically in this area from the perspective of non-discrimination. Further issues may potentially arise along the supply chain, for which specific initiatives have been implemented to ensure the upholding of human rights in business relations (for more details see the section 'Social aspects - Supply chain relations').

## POLICIES, COMMITMENTS AND MANAGEMENT MODEL

Snam's Code of Ethics enshrines our commitment to protect and promote human rights, which we believe are inalienable and unavoidable liberties for all human beings and represent the basis for building societies founded on the principles of equality, solidarity, repudiation of war and the protection of civil and political rights, social, economic and cultural rights and so-called third generation rights (right to self-determination, peace, development and protection of the environment).

In this regard, Snam strives to uphold the framework provided by the United Nation's Universal Declaration of Human Rights, the Fundamental Conventions of the ILO – International Labour Organization – and the OECD Guidelines for Multinational Businesses.

In relation to these aspects, Snam has also adopted a Human Rights Policy through which it pledges to prevent and repudiate:

- all forms of discrimination and violence, forced or child labour;
- any form of sexual harassment or that referring to the personal and cultural diversity of individuals;
- harassment or attitudes in any way attributable to bullying.

Snam human Rights Policy and the new Diversity & Inclusion Policy defined in 2019 and supplemented in 2020 with two appendices (the Diversity & Inclusion Policy: Gender equality and Diversity & Inclusion Policy: Recruiting) reaffirm our commitment, already stated in the specific policies mentioned in the previous chapters, to promote personal well-being, both on an individual and societal level, based on the following principles and management guidelines:

- safeguarding dignity, freedom and equality of human beings;
- protecting jobs, working conditions and trade-union freedoms;
- the confidentiality of personal data;
- protection of health and safety;
- guaranteeing career growth and pay based strictly on merit and skill;
- protection of the system of values and principles in matters of transparency and sustainable development;
- creation of a welcoming work environment with no direct or indirect discrimination of any kind.


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## KEY PERFORMANCE INDICATORS

The following indicators show the results of the management non-discrimination initiatives, with an

indication of the reference GRI standard. In 2020, no reports of discriminatory incidents were received.






Indicator	GRI Standard	Measurement unit	2018	2019	2020
<b>Reports received for episodes related to discriminatory practices (*)</b>			/	1	/
<i>of which reports examined</i>			/	/	/
<i>of which ongoing corrective actions</i>	406-1	no.	/	/	/
<i>of which completed corrective actions</i>			/	/	/
<i>of which archived reports</i>			/	1	/

(\*) The figure published in the 2019 NFS has been amended following completed investigations and the closure of a report.


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# PREVENTION OF ACTIVE AND PASSIVE CORRUPTION

## Future objectives and results achieved

SDGs	Action	Target	2020 Performance
<b>Anti-corruption</b>			
 	Percentage of third party counterparts on which reputational due diligence checks have been performed	 100% up to 2023	100%
<b>Governance</b>			
	Percentage of BoD time dedicated to ESG matters in strategy meetings and induction sessions	 at least 40% up to 2023	41% (*)

(\*) Data extracted from the minutes of Board meetings from January 2020 to December 2020 and from the Corporate Governance Report and including Board Induction sessions.



KPI entered in the ESG Scorecard

## MATERIAL TOPICS AND RISKS RELATED TO THE PREVENTION OF ACTIVE AND PASSIVE CORRUPTION


**Business integrity:** Snam considers maintaining business integrity essential for its economic and social relations, promoting honesty, transparency and fairness in its business processes, in compliance with the principles and values on which the Group is based.

**Fighting corruption:** Snam recognises corruption as a serious threat to its development. For this reason, The Group conducts its business in full compliance with the rules and pledges to fight against corruption nationally and internationally, in relations with both public and private officials.

### Risks and material topics associated with aspects concerning the prevention of active and passive corruption

Risks	Material topics
<b>LEGAL AND NON-COMPLIANCE RISK</b> Risk of possible breach of laws and regulations and of an inadequate reputational profile for suppliers and subcontractors	<ul style="list-style-type: none"> <li>■ <b>Business integrity</b></li> <li>■ <b>Fighting corruption</b></li> </ul>

For a complete description of the risks, please refer to "Risks factors and uncertainties" contained in the "Risk management" section in the Integrated Management Report.

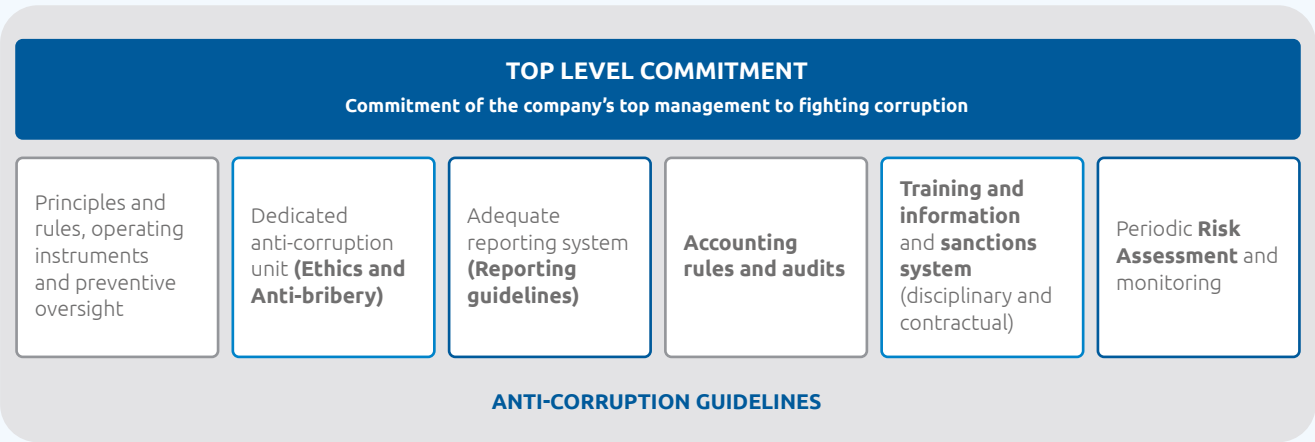
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Policies, commitments and management model

Anti-corruption Compliance Programme

Snam has defined an **Anti-corruption Compliance Programme** designed to identify and assess corruption risks related to its business activities and to prevent the violation of both internal and external rules. This

programme does not only adopt the **231 Model** (aimed at preventing offences from which administrative liability for offences by the company arises, including corruption offences) but, consistent with the provisions of international guidelines and best practices, has also implemented the following instruments<sup>10</sup>:



Anti-Corruption Guidelines

The **Anti-corruption Guidelines** are an integral part of a broader corporate ethics control system, aimed at ensuring Snam's compliance with national and international **Anti-corruption Laws** and with the best international standards in the fight against corruption, also with the goal of protecting Snam's reputation, with particular regard to the **selection of suppliers and business partners**, the management of relations with such parties and the relevant protective contractual clauses. Furthermore, the Guidelines comply with the tenth principle of the Global Compact, which repudiates corruption "in all its forms, including extortion and bribery" and clearly outline permissible and

prohibited conduct.

The Anti-Corruption Guidelines apply to Snam and its subsidiaries and have also been brought to the attention of investee companies, with the aim of promoting conduct and information flows consistent with those expressed by Snam. Furthermore, Snam uses its influence, as far as the circumstances reasonably permit so, to encourage the companies and the entities in which Snam owns a non-controlling shareholding and associated businesses to meet the standards specified in the Anti-corruption Guidelines<sup>11</sup>.

10 In this regard, the Code of Ethics provides, inter alia, that Snam rejects any kind of corruption (in all its forms with reference to any public or private entity) and that practices of corruption, unlawful favours, collusive behaviour, solicitations, direct and/or through third parties, personal and career advantages for themselves or others, are without exception prohibited.

11 The Anti-corruption Guidelines are available on the Company website at: [www.snam.it/export/sites/snam-rp/repository/file/Governance/procedure/anticorruzione/Snam\\_anticorruzione\\_anticorruption.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/procedure/anticorruzione/Snam_anticorruzione_anticorruption.pdf)



## Anti-corruption Compliance Programme Highlights

- Zero Tolerance Policy towards any form of corruption
- Specific rules and controls in relation to the activities identified as potentially “at risk” and to the activities concerning the effective implementation of anti-corruption compliance
- Clear distinction between permitted conduct and prohibited conduct
- Special attention to relations with public officials and with suppliers and sub-contractors and, in general, with all associated businesses
- Establishment of the Ethics & Anti-bribery dedicated function
- Annual monitoring of activities with the involvement of managers
- Specific training launched in 2016 for over 1,442 participants, which continued in 2017 and 2018 for all new hires, renovated in 2019 for all the concerned company workforce (2,906 people) and further conveyed to new hires in 2020
- Preparation of the “Anti-corruption Mini Guide”, distributed to all Snam staff as a document that can easily be consulted, designed to reinforce our anti-corruption culture
- Example of “absolute excellence” from Transparency International Italy following its “Assessment on Transparency in Reporting on Anti-Corruption”
- 7,453 reputation audits were carried out on business partners in 2020 (2,758 of which were suppliers and sub-contractors)

## Collaboration with Transparency International and other initiatives

Since 2016, Snam has been working alongside **Transparency International** to develop a partnership under the scope of the **Global Corporate Supporters Forum**. As part of the agreement, Snam is one of the international partners of the Forum as the first Italian company to be in conformity with the standards of **good governance, transparency and accountability** promoted by Transparency International, in the context of the global commitment against corruption and promoting ethical business conduct.

In 2020, thanks to Snam’s constant commitment to the issues of anti-corruption, business ethics, integrity and transparency, and despite the challenges caused by the Covid-19 emergency, the company was involved in various multilateral initiatives, including:

- *Safeguards for a resilient Covid-19 response and recovery*, first event of the year organised by the OECD since the start of the pandemic;
- participation in the *Business Integrity Forum organised by Transparency International Italia* where Snam took part in several panels and in the institutional round table “*Toward G20/b20 Italian Presidency*”;
- B20 Saudi Arabia:
  - summit held in October, celebrating the official handover of the presidency of the International Business Forum to Italy;
  - Saudi Presidency: (i) *Pursue a Culture of High*

*Integrity in the Public and Private Sectors; (ii) Leverage Emerging Technologies to Manage Risks relating to Corruption and Fraud; (iii) Enhance Integrity and Transparency in Public Procurement;*

- side events: (i) *Reviving Business for a New Normal*, (ii) *Enhancing Integrity for Responsible and Inclusive Growth*; (iii) *Pre-summit Shaping a More Inclusive World Reviving Business for a New Normal*;

- *Compliance in times of crisis* organised by the *Partnering Against Corruption Initiative* of the World Economic Forum;
- OECD events: (i) *Asia Network on Corporate Governance of State-Owned Enterprises*; (ii) *Working Party on Responsible Business Conduct*; (iii) *OECD Working Group on Bribery*; (iv) *Working Party on State Ownership and Privatisation Practices*.

In addition to the role of Vice Chair within the Anti-Corruption Committee acquired in 2019, in order to better address ESG issues at a multilateral level, Snam has also been selected as an active member of the Corporate Governance Committee of BIAC (Business at OECD). With the same purpose, the company participated in the World Economic Forum’s “ESG and Corporate Governance” round table.

In addition, Snam has eliminated all manual data procedures and has improved the traceability, transparency and security


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of all its operations by digitising its information flows to the National Anti-Corruption Authority through a direct

interface between their respective computer systems and the assignment of a tender identification code (CIG).

## Key performance indicators

The indicators below show the results of the management of the aspects related to the prevention of corruption, with an indication of the reference GRI standard.

In 2020, the training cycle launched in 2016 continued with the aim of applying the concepts of business ethics, legality and anti-corruption in our daily operations, enabling the participants to recognise potential Red Flags and manage them. The training on these issues has a cyclical nature,

designed to follow the evolution of the regulations applicable to the Company and the related amendments to the internal regulatory system. The figures for training on the code of ethics and anti-corruption are decreasing, because the 'compliance path', which started in 2019, was mostly provided to new employees in 2020. With regard to reports, it should be noted that the one received refers to an anonymous report alleging corruption in the management of certain suppliers.

Indicator	GRI Standard	Measurement unit	2018	2019	2020
Cases of proven corruption	205-3	no.	0	0	0
Reports received on corruption and under examination			0	0	1
Reports received on corruption and archived because unfounded			0	0	0
Hours of training on anti-corruption, code of ethics and model 231	205-2		321	4,028	1,414
Participations in training on anti-corruption, code of ethics and model 231 (*)			112	3,981	1,408

(\*) Instead of the participants, the number of participations is reported as recorded in the attendance recording system for training purposes.


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## GRI STANDARDS CORRELATION TABLE

T = Transport

S = Storage

R = Regasification

C = Corporate

M = Sustainable mobility

B = Biomethane

E = Energy efficiency

H = Hydrogen

Group = T, S, R, C, M, B, E, H

Material topics	GRI aspects	Scope of the aspect		Reporting restrictions	
		Internal	External	Internal	External
Health and safety	GRI 403 Occupational Health & Safety	Group	Suppliers	-	-
Climate change	GRI 305 Emissions	Group	Suppliers	-	Emissions related to energy consumption of suppliers
	GRI 302 Energy	Group	Suppliers	-	Energy consumption of suppliers
Reliability of infrastructures, business continuity and cyber security	-	Group	-	-	-
Green business	-	Group	-	-	-
Innovation	-	Group	-	-	-
Economic performance and value creation	GRI 201 Economic Performance	Group	-	-	-
Diversity and inclusion	GRI 405 Diversity and Equal opportunities	Group	-	-	-
	GRI 406 Non discrimination	Group	-	-	-
Developing and safeguarding human capital	GRI 401 Employment	Group	-	-	-
	GRI 404 Training and Education		-	-	-
Business integrity	GRI 205 Anticorruption	Group	Suppliers	-	-
	GRI 207 Tax	Group	-	-	-
	GRI 419 Socioeconomic compliance	Group	-	-	-
Relations with local communities	GRI 203 Indirect economic impact	Group	-	-	-
	GRI 413 Local communities	Group	-	-	-
Fighting corruption	GRI 205 Anticorruption	Group	Suppliers		
Protecting local areas and biodiversity	GRI 304 Biodiversity	T, B	Suppliers		
Relations with authorities and quality of services	-	Group	-		


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## GRI CONTENT INDEX

AR: Annual report

NFS: Non-Financial Statement

GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>GRI 102 – General disclosure 2016</b>				
<b>Organizational profile</b>	102-1	Name of the organization		Snam S.p.A.
	102-2	Activities, brands, products, and services	AR "Snam's Profile - Summary"	
	102-3	Location of headquarters		Snam's headquarters are located in San Donato Milanese <a href="http://www.snam.it/it/chi-siamo/la-sede/">www.snam.it/it/chi-siamo/la-sede/</a>
	102-4	Location of operations	AR "Snam's Profile - Snam's presence in Italy and in the international Infrastructure system"	
	102-5	Ownership and legal form	AR "Snam and the financial markets, Snam Shareholder composition at 31 December 2020"	
	102-6	Markets served	AR Services "Snam's Profile - Summary" AR "Snam's Profile - Snam's presence in Italy and in the international infrastructure system"	
	102-7	Scale of the organization	AR "Snam's Profile - Snam's presence in Italy and in the international infrastructure system" AR "2020 Performance - Results" AR "2020 Performance - Operating review and sustainability impacts, Volumes of activities" AR "2020 Performance - Operating review and sustainability impacts, Staff employment and development" NFS "Aspects concerning the management of personnel" NFS "Introduction and guide to reading the document"	
	102-8	Information on employees and other workers	NFS "Aspects concerning the management of personnel"	The distribution by gender and region of the number of employees by type of contract is not relevant
	102-9	Supply chain	AR "2020 Performance - Operating review and sustainability impacts, Supply chain management" NFS "Introduction and guide to reading the document"	




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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>GRI 102 – General disclosure 2016</b>				
	102-10	Significant changes to the organization and its supply chain	NFS "Introduction and guide to reading the document AR "2020 Performance - Operating review and sustainability impacts, Supply chain management"	
<b>Organizational profile (cont'd)</b>	102-11	Precautionary Principle or approach	AR "Governance - Control system" AR "Risk management - Management of risks and opportunities" AR "Business segment operating performance - Natural gas transportation, Progress of work to obtain permits" NFS "Environmental and health and safety aspects"	
	102-12	External initiatives		Snam is a member of, among others, the Global Compact and Task Force on Climate Related Financial Disclosure (TCFD)
	102-13	Membership of associations		Section "Snam and associations" published on the company website <a href="http://www.snam.it/it/chi-siamo/innovazione_e_tecnologia/">www.snam.it/it/chi-siamo/innovazione_e_tecnologia/</a>
<b>Strategy</b>	102-14	Statement from senior decision-maker	AR "Letter to the shareholders and stakeholders"	
<b>Ethics and integrity</b>	102-16	Values, principles, standards, and norms of behavior	AR "Governance - Governance and organisation, Snam's organisational model" NFS "Prevention of active and passive corruption"	
<b>Governance</b>	102-18	Governance structure	AR "Governance - Governance and organisation"	
<b>Stakeholder engagement</b>	102-40	List of stakeholder groups	AR "Snam's Profile - Relations with stakeholders, Stakeholder engagement processes and activities"	
	102-41	Percentage of employees covered by collective bargaining agreements		100%. The CCNL applies to non-executive staff (Energy and Oil contract, Metal workers contract, Commercial contract). The National Contract for Executives of Companies producing Goods and Services is applied to executives
	102-42	Identifying and selecting stakeholders	AR "Snam's Profile - Relations with stakeholders, Stakeholder engagement processes and activities"	
	102-43	Approach to stakeholder engagement	AR "Snam's Profile - Relations with stakeholders"	
	102-44	Key topics and concerns raised	AR "Snam's Profile - Relations with stakeholders"	


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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>GRI 102 – General disclosure 2016</b>				
<b>Reporting practice</b>	102-45	Entities included in the consolidated financial statements and excluded from the NFS	NFS "Introduction and guide to reading the document"	There are no differences in the scope of consolidation
	102-46	Defining report content and topic Boundaries	NFS "Introduction and guide to reading the document"	
	102-47	List of material topics	AR "Snam's Profile - Relations with stakeholders, Material topics in relation with activities carried out"	
	102-48	Restatements of information		Changes from the previous report are indicated in the text
	102-49	Changes in reporting	AR "Snam's Profile - Relations with stakeholders, Material issues in relation with activities carried out" NFS "Correlation table for GRI"	
	102-50	Reporting period	NFS "Introduction and guide to reading the document"	
	102-51	Date of most recent report		Last published document: 2019 Consolidated Non-Financial Statement, included in the Directors' Report – 2019 Integrated Report in the 2019 Annual Report
	102-52	Reporting cycle		The NFS is published annually
	102-53	Contact point for questions regarding the report		Domenico Negrini (domenico.negrini@snam.it)
	102-54	Claims of reporting in accordance the GRI Standards	NFS "Introduction and guide to reading the document"	
	102-55	GRI content index	NFS "GRI Standards correlation table"	
	102-56	External assurance	NFS "Independent auditor's report"	


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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>Economic topics (GRI 200)</b>				
<b>GRI 201 Economic performance 2016</b>	103-1, 103-2, 103-3	Management approach	AR "Risk Management" NFS "Social aspects" NFS "GRI Standards correlation table"	
	201-1	Direct economic value generated and distributed	AR "2020 Performance - Results" NFS "Social aspects"	
<b>GRI 203 203 Indirect economic impacts 2016</b>	103-1, 103-2, 103-3	Approach to the management of the topic	NFS "Social aspects" NFS "GRI Standards correlation table"	
	203-1	Infrastructure investments and services supported	AR "Snam's Profile" AR "Towards Net Zero - 2020-2024 Strategic Plan"	
	203-2	Significant indirect economic impacts	AR "Snam's Profile - 2020: towards decarbonisation, The Covid-19 pandemic" NFS "Social aspects"	
<b>GRI 205 Anti- corruption 2016</b>	103-1, 103-2, 103-3	Management approach	AR "Governance - Control system, Internal Control and Risk Management System (SCIGR)" NFS "Prevention of active and passive corruption" NFS "GRI Standards correlation table"	
	205-2	Communication and training about anti-corruption policies and procedures	NFS "Prevention of active and passive corruption"	100% of employees and members of the Board of Directors were informed with regard to Snam's anti-corruption policies and procedures
	205-3	Confirmed incidents of corruption and actions taken	NFS "Prevention of active and passive corruption"	No incidents of corruption were detected in 2020
<b>GRI 207 Tax 2019</b>	103-1, 103-2, 103-3	Management approach	NFS "Social aspects, Approach to tax" NFS "GRI Standards correlation table"	
	207-1	Approach to tax	NFS "Social aspects, Approach to tax"	
	207-2	Tax governance, control, and risk management	NFS "Social aspects, Approach to tax"	
	207-3	Stakeholder engagement and management concerns related to tax	NFS "Social aspects, Approach to tax"	
	207-4	Country-by-country reporting	NFS "Social aspects, Approach to tax"	


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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>Environmental topics (GRI 300)</b>				
<b>GRI 302 Energy 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Environmental and health and safety aspects" NFS "GRI Standards correlation table"	
	302-1	Energy consumption within the organization	AR "2020 Performance - Operating review and sustainability impacts, Energy consumption" NFS "Environmental and health and safety aspects"	
<b>GRI 304 Biodiversity 2016</b>	103-1, 103-2, 103-3	Approach to the management of the topic	AR "2020 Performance - Operating review and sustainability impacts, Technical investments, Safety and quality levels for systems" NFS "Environmental and health and safety aspects" NFS "GRI Standards correlation table"	
	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	AR "2020 Performance - Operating review and sustainability impacts, Technical investments, Safety and quality levels for systems" NFS "Environmental and health and safety aspects"	
<b>GRI 305 Emissions 2016</b>	103-1, 103-2, 103-3	Management approach	AR "Towards Net Zero - Snam's Net Zero Carbon strategy" NFS "Environmental and health and safety aspects" NFS "GRI Standards correlation table"	
	305-1	Direct (Scope 1) GHG emissions	AR "Towards Net Zero - Snam's Net Zero Carbon strategy" AR "2020 Performance - Operating review and sustainability impacts, Greenhouse gas emissions" NFS "Environmental and health and safety aspects"	
	305-2	Energy indirect (Scope 2) GHG emissions	AR "Towards Net Zero - Snam's Net Zero Carbon strategy" AR "2020 Performance - Operating review and sustainability impacts, Greenhouse gas emissions" NFS "Environmental and health and safety aspects"	
<b>Social topics (GRI 400)</b>				
<b>GRI 401 Employment 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Aspects concerning the management of personnel" NFS "GRI Standards correlation table"	
	401-1	New employee hires and employee turnover	AR "2020 Performance - Operating review and sustainability impacts, Staff employment and development" NFS "Aspects concerning the management of personnel"	The breakdown of the data by country are not reported as it is not applicable (almost all the employees are located in Italy)


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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>Social topics (GRI 400)</b>				
<b>GRI 403 Occupational Health and Safety 2018</b>	103-1, 103-2, 103-3	Management approach	NFS "Environmental and health and safety aspects NFS "GRI Standards correlation table"	
	403-1	Occupational health and safety management system	NFS "Environmental and health and safety aspects	
	403-2	Hazard identification, risk assessment, and accident investigation	NFS "Environmental and health and safety aspects	
	403-3	Occupational health services	NFS "Environmental and health and safety aspects	
	403-4	Worker participation, consultation, and communication on occupational health and safety	NFS "Environmental and health and safety aspects	Worker representation is also ensured by law (see Consolidated Text of Legislative Decree 81/2008) and national contracts. During 2020, numerous trade union agreements were signed on various issues (dispatch isolation, establishment of local committees for the application of the anti-Covidhealth protocols, collective closures, profit-sharing schemes)
	403-5	Worker training on occupational health and safety	NFS "Environmental and health and safety aspects	
	403-6	Promotion of worker health	NFS "Environmental and health and safety aspects	
	403-7	Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	NFS "Environmental and health and safety aspects	
	403-8	Workers covered by an occupational health and safety management system	NFS "Environmental and health and safety aspects	94.4% of employees are covered by an occupational health and safety management system


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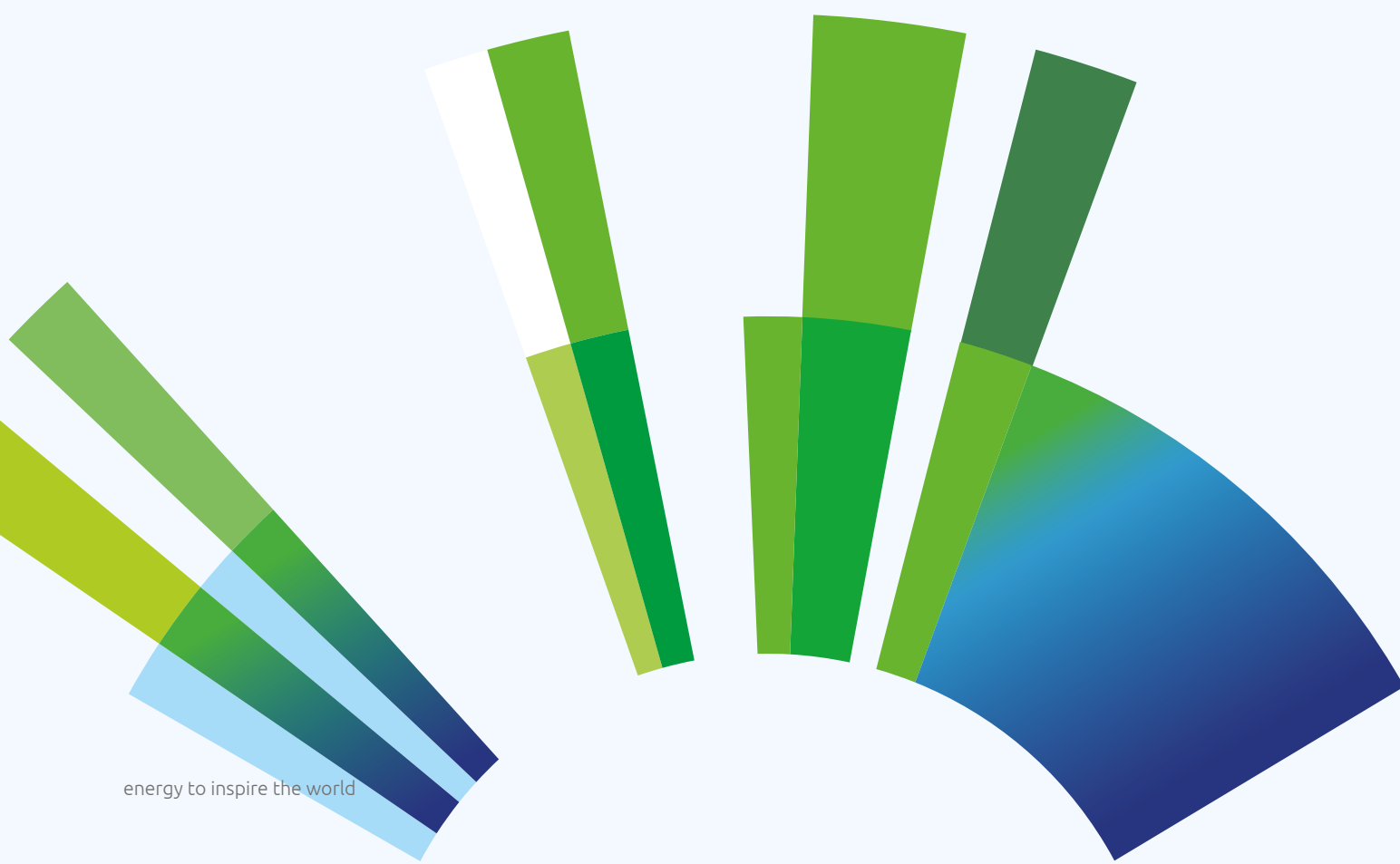
GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>Social topics (GRI 400)</b>				
<b>GRI 403 Occupational Health and Safety 2018</b>	403-9	Work-related injuries	AR "2020 Performance - Operating review and sustainability impacts, Health and safety" NFS "Environmental and health and safety aspects"	All the injuries involving employees and contractors occurred in Italy (for employees 3 in the North and for contractors 1 in the Centre and 1 in the South). The injuries involved only male staff. The rate of fatalities as a result of accidents at work was 0 for employees and 0.12 for contractors. The rate of high-consequence work-related injuries (excluding fatal accidents) is 0 for both employees and contractors. The rate of recordable work related accidents, which is the same as the injury frequency rate, is 0.59 for employees and 0.25 for contractors, calculated as the ratio between the number of injuries of the related type and the number of hours worked in the related category, multiplied by 1,000,000. The hours worked of employees and contractors taken into account for the calculation are respectively 5.09 and 8.14 million hours.
	403-10	Work-related ill health	NFS "Environmental and health and safety aspects"	Contractors, like employees, are not exposed to risks that will generate occupational illnesses over time. Moreover, considering the fact that health surveillance protocols are implemented for contractors by the employer of the contracting companies, the collection of data on the occupational illnesses of contractors is not applicable
<b>GRI 404 Training and Education 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Aspects concerning the management of personnel" NFS "GRI Standards correlation table"	
	404-1	Average hours of training per year per employee	AR "2020 Performance - Operating review and sustainability impacts, Staff employment and development" NFS "Aspects concerning the management of personnel"	


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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>Social topics (GRI 400)</b>				
<b>GRI 405 Diversity and Equal Opportunity 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Aspects concerning the management of personnel" NFS "GRI Standards correlation table"	
	405-1	Diversity of governance bodies and employees	AR "Governance - Governance and organisation, Diversity and skills matrix" NFS "Aspects concerning the management of personnel"	In 2020, 3 members of the Board of Directors were in the 30-50 age group, 6 were over 50 (in 2018 and 2019, 2 were in the 30-50 group and 7 were over 50). Employees under 30 years of age: 0 executives, 2 middle managers, 283 white collars, 225 blue collars. Employees aged between 30 and 50: 79 executives, 298 middle managers, 689 white collars, 236 blue collars. Employees over 50 years of age: 52 executives, 249 middle managers, 792 white collars, 344 blue collars
<b>GRI 406 Non discrimination 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Protecting human rights" NFS "GRI Standards correlation table"	
	406-1	Incidents of discrimination and corrective actions taken	NFS "Protecting human rights"	
<b>GRI 413 Local Communities 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Social aspects" NFS "GRI Standards correlation table"	
	413-1	Operations with local community engagement, impact assessments, and development programs	AR "Business segment operating performance - Natural gas transportation, Progress of work to obtain permits" NFS "Social aspects"	
<b>GRI 419 Socioeconomic Compliance 2016</b>	103-1, 103-2, 103-3	Management approach	NFS "Prevention of active and passive corruption" NFS "GRI Standards correlation table"	
	419-1	Non-compliance with laws and regulations in the social and economic area	AR "Criminal and tax disputes and proceedings with the regulatory authority ARERA (in "Notes to the consolidated financial statements") NFS "Prevention of active and passive corruption"	


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GRI Standard	Disclosure	Description	Reference document and paragraph	Notes / Omissions
<b>Snam's Material topics not associated with the GRI material topics</b>				
<b>Green business</b>	103-1, 103-2, 103-3	Management approach	AR "Towards Net Zero - 2020-2024 Strategic Plan" NFS "Environmental and health and safety aspects" NFS "GRI Standards correlation table"	
<b>Reliability of infrastructures, business continuity and cyber security</b>	103-1, 103-2, 103-3	Management approach	AR "2020 Performance - Operating review and sustainability performance, Technical investments, Safety and quality levels for systems" NFS "Social aspects" NFS "GRI Standards correlation table"	
<b>Innovation</b>	103-1, 103-2, 103-3	Management approach	AR "Towards Net Zero - Innovation for business development" NFS "Social aspects" NFS "GRI Standards correlation table"	
<b>Relations with authorities and quality of services</b>	103-1, 103-2, 103-3	Management approach	AR "2020 Performance - Operating review and sustainability performance, Technical investments, Safety and quality levels for systems" AR "Business segment operating performance - Relations with the Regulatory Authority" NFS "GRI Standards correlation table"	







# INDEPENDENT AUDITOR'S REPORT



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## INDEPENDENT AUDITOR'S REPORT ON THE CONSOLIDATED NON-FINANCIAL STATEMENT PURSUANT TO ARTICLE 3, PARAGRAPH 10 OF LEGISLATIVE DECREE No. 254 OF DECEMBER 30, 2016 AND ART. 5 OF CONSOB REGULATION N. 20267/2018

To the Board of Directors of  
Snam S.p.A.

Pursuant to article 3, paragraph 10, of the Legislative Decree no. 254 of December 30, 2016 (hereinafter "Decree") and to article 5 of the CONSOB Regulation n. 20267/2018, we have carried out a limited assurance engagement on the Consolidated Non-Financial Statement of Snam S.p.A. (the "Company") and its subsidiaries (hereinafter "Snam Group" or "Group") as of December 31, 2020 prepared on the basis of art. 4 of the Decree, presented in the specific section of the Directors' Report and approved by the Board of Directors on March 17, 2021 (hereinafter "NFS").

### Responsibility of the Directors and the Board of Statutory Auditors for the NFS

The Directors are responsible for the preparation of the NFS in accordance with articles 3 and 4 of the Decree and "Global Reporting Initiative Sustainability Reporting Standards" established by GRI – Global Reporting Initiative ("GRI Standards") which they have identified as reporting framework.

The Directors are also responsible, within the terms established by law, for such internal control as they determine is necessary to enable the preparation of NFS that is free from material misstatement, whether due to fraud or error.

The Directors are moreover responsible for defining the contents of the NFS, within the topics specified in article 3, paragraph 1, of the Decree, taking into account the activities and characteristics of the Group, and to the extent necessary in order to ensure the understanding of the Group's activities, its trends, performance and the related impacts.

Finally, the Directors are responsible for defining the business management model and the organisation of the Group's activities as well as, with reference to the topics detected and reported in the NFS, for the policies pursued by the Group and for identifying and managing the risks generated or undertaken by the Group.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the compliance with the provisions set out in the Decree.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

Sede Legale: Via Tortona, 25 - 20144 Milano | Capitale Sociale: Euro 10.328.220,00 i.v.

Codice Fiscale/Registro delle Imprese di Milano Monza Brianza Lodi n. 03049560166 - R.E.A. Milano n. 1720239 | Partita IVA: IT 03049560166

Il nome Deloitte si riferisce a una o più delle seguenti entità: Deloitte Touche Tohmatsu Limited, una società inglese a responsabilità limitata ("DTTL"), le member firm aderenti al suo network e le entità a esse correlate. DTTL e ciascuna delle sue member firm sono entità giuridicamente separate e indipendenti tra loro. DTTL (denominata anche "Deloitte Global") non fornisce servizi ai clienti. Si invita a leggere l'informativa completa relativa alla descrizione della struttura legale di Deloitte Touche Tohmatsu Limited e delle sue member firm all'indirizzo [www.deloitte.com/about](http://www.deloitte.com/about).



### Auditor's Independence and quality control

We have complied with the independence and other ethical requirements of the *Code of Ethics for Professional Accountants* issued by the *International Ethics Standards Board for Accountants*, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour. Our auditing firm applies *International Standard on Quality Control 1 (ISQC Italia 1)* and, accordingly, maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### Auditor's responsibility

Our responsibility is to express our conclusion based on the procedures performed about the compliance of the NFS with the Decree and the GRI Standards. We conducted our work in accordance with the criteria established in the "*International Standard on Assurance Engagements ISAE 3000 (Revised) – Assurance Engagements Other than Audits or Reviews of Historical Financial Information*" (hereinafter "*ISAE 3000 Revised*"), issued by the *International Auditing and Assurance Standards Board* (IAASB) for limited assurance engagements. The standard requires that we plan and perform the engagement to obtain limited assurance whether the NFS is free from material misstatement. Therefore, the procedures performed in a limited assurance engagement are less than those performed in a reasonable assurance engagement in accordance with ISAE 3000 Revised, and, therefore, do not enable us to obtain assurance that we would become aware of all significant matters and events that might be identified in a reasonable assurance engagement.

The procedures performed on NFS are based on our professional judgement and included inquiries, primarily with Company personnel responsible for the preparation of information included in the NFS, analysis of documents, recalculations and other procedures aimed to obtain evidence as appropriate.

Specifically we carried out the following procedures:

1. analysis of relevant topics with reference to the Group's activities and characteristics disclosed in the NFS, in order to assess the reasonableness of the selection process in place in light of the provisions of art.3 of the Decree and taking into account the adopted reporting standard;
2. analysis and assessment of the identification criteria of the consolidation area, in order to assess its compliance with the Decree;
3. comparison between the financial data and information included in the NFS with those included in the Consolidated Financial Statements of the Snam Group;
4. understanding of the following matters:
  - business management model of the Group's activities, with reference to the management of the topics specified by article 3 of the Decree;
  - policies adopted by the entity in connection with the topics specified by article 3 of the Decree, achieved results and related fundamental performance indicators;
  - main risks, generated and/or undertaken, in connection with the topics specified by article 3 of the Decree.



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Moreover, with reference to these matters, we carried out a comparison with the information contained in the NFS and the verifications described in the subsequent point 5, letter a) of this report;

5. understanding of the processes underlying the origination, recording and management of qualitative and quantitative material information included in the NFS.

In particular, we carried out interviews and discussions with the management of Snam S.p.A. and with the employees of the main legal entities of the Group and we carried out limited documentary verifications, in order to gather information about the processes and procedures which support the collection, aggregation, elaboration and transmittal of non-financial data and information to the department responsible for the preparation of the NFS.

In addition, for material information, taking into consideration the Group's activities and characteristics:

- at the parent company and subsidiaries level:
  - a) with regards to qualitative information included in the NFS, and specifically with reference to the business management model, policies applied and main risks, we carried out interviews and gathered supporting documentation in order to verify its consistency with the available evidence;
  - b) with regards to quantitative information, we carried out both analytical procedures and limited verifications in order to ensure, on a sample basis, the correct aggregation of data.
- for entities Snam S.p.A., Snam Rete Gas S.p.A. and Stogit S.p.A., which we selected based on their activities, their contribution to the performance indicators at the consolidated level and their location, we carried out remote meetings, during which we have met their management and have gathered supporting documentation with reference to the correct application of procedures and calculation methods used for the indicators.

## Conclusions

Based on the work performed, nothing has come to our attention that causes us to believe that the NFS of the Snam Group as of December 31, 2020 is not prepared, in all material aspects, in accordance with article 3 and 4 of the Decree and GRI Standards.

## Other matters

The NFS for the years ended December 31, 2018 and December 31, 2019, whose data are presented for comparative purposes, have been subject to a limited assurance engagement by another auditor that on March 11, 2019 and on May 11, 2020, expressed unmodified conclusions.

DELOITTE & TOUCHE S.p.A.

Signed by  
**Franco Amelio**  
 Partner

Milan, Italy  
 April 6, 2021

*This report has been translated into the English language solely for the convenience of international readers.*


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# SASB AND TCFD CORRESPONDENCE TABLES

## SASB CORRESPONDENCE TABLE

AR = Annual Report

NFS = Non-Financial Statement

SR = Sustainability Report

Dimension	Category	Disclosure	Description	Reference document and chapter/paragraph	Omissions/Notes
Environmental	GHG Emissions	EM-MD-110a.1	Gross global Scope 1 emissions, percentage methane, percentage covered under emissions-limiting regulations	AR "2020 Performance - Operating review and sustainability impacts, Greenhouse gas emissions" NFS "Environmental and health and safety aspects"	
		EM-MD-110a.2	Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets	AR "Towards Net Zero - Snam's Net Zero Carbon strategy" NFS "Environmental and health and safety aspects"	
	Air quality	EM-MD-120a.1	Emissions of the following pollutants: (1) NO <sub>x</sub> (excluding N <sub>2</sub> O), (2) SO <sub>x</sub> , (3) volatile organic compounds (VOCs) and (4) particulate matter (PM10)	AR "Business segment operating performance - Natural gas transportation, Energy consumption and emissions" AR "Business segment operating performance - Regasification of liquefied natural gas, Energy consumption and emissions" AR "Business segment operating performance - Natural gas storage, Energy consumption and emissions"	
	Ecological impacts	EM-MD-160a.1	Description of environmental management policies and practices for active operations	AR "2020 Performance - Operating review and sustainability impacts, Technical investments, Safety and quality levels for systems" NFS "Environmental and health and safety aspects" SR "For a Net Zero world - Protect the earth and biodiversity"	


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Dimension	Category	Disclosure	Description	Reference document and chapter/paragraph	Omissions/Notes
<b>Environmental</b>	Ecological impacts	EM-MD-160a.2	Percentage of land owned, leased, and/or operated within areas of protected conservation status or endangered species habitat	NFS "Environmental and health and safety aspects"	
		EM-MD-160a.3	Terrestrial acreage disturbed, percentage of impacted area restored	NFS "Environmental and health and safety aspects"	
		EM-MD-160a.4	Number and aggregate volume of hydrocarbon spills, volume in Arctic, volume in Unusually Sensitive Areas (USAs), and volume recovered		Indicator irrelevant for Snam
<b>Leadership &amp; Governance</b>	Competitive behaviour	EM-MD-520a.1	Total amount of monetary losses as a result of legal proceedings associated with federal pipeline and storage regulations	AR "Criminal and tax disputes and proceedings with the regulatory authority ARERA (in "Notes to the consolidated financial statements")"	
	Operational Safety, Emergency Preparedness & Response	EM-MD-540a.1	Number of recordable pipeline accidents, significant percentage	AR "Criminal and tax disputes and proceedings with the regulatory authority ARERA (in "Notes to the consolidated financial statements")"	
		EM-MD-540a.2	Percentage of (1) natural gas and (2) hazardous liquid pipelines inspected	AR "2020 Performance - Operating review and sustainability impacts, Technical investments, Safety and quality levels for systems"	4.5% of the natural gas transportation network inspected with smart pigs; 63.3% inspected by helicopter flyover; 32.3% inspected with leak detection technique and 13.6% with geological monitoring
		EM-MD-540a.3	Number of (1) accident releases and (2) non-accident releases (NARs) from rail transportation		Indicator irrelevant for Snam
		EM-MD-540a.4	Discussion of management systems used to integrate a culture of safety and emergency preparedness throughout the value chain and throughout project lifecycles.	NFS "Environmental and health and safety aspects"	


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## TCFD RECOMMENDATIONS CORRESPONDENCE TABLE

AR: Annual Report

NFS: Non-Financial Statement

SR: Sustainability Report

TCFD: Task Force on Climate-related financial Disclosure

TCFD Recommendations	Disclosure
<b>GOVERNANCE</b> <b>Disclose the company's governance around climate-related risks and opportunities.</b>	
a) Describe the board's oversight of climate-related risks and opportunities.	<ul style="list-style-type: none"> <li>■ AR "Governance - Governance and organisation, Sustainability governance"</li> <li>■ TCFD "Governance for climate change management - The role and Presidium of the Board"</li> </ul>
b) Describe management's role in assessing and managing climate-related risks and opportunities.	<ul style="list-style-type: none"> <li>■ AR "Risk management - Management of risks and opportunities"</li> <li>■ TCFD "Governance for climate change management - The role of management"</li> </ul>
<b>STRATEGY</b> <b>Disclose the actual and potential impacts of climate-related risks and opportunities on the company's businesses, strategy, and financial planning where such information is material.</b>	
a) Describe the climate-related risks and opportunities the company has identified over the short, medium, and long term.	<ul style="list-style-type: none"> <li>■ AR "Risk Management - Elements of risk and uncertainty, Strategic risks"</li> <li>■ TCFD "The ERM model and the risks and opportunities associated with climate change - The risks associated with climate change"</li> <li>■ The ERM model and the risks and opportunities associated with climate change - The opportunities associated with climate change"</li> </ul>
b) Describe the impact of climate-related risks and opportunities on the company's businesses, strategy, and financial planning.	<ul style="list-style-type: none"> <li>■ AR "Risk Management - Elements of risk and uncertainty, Strategic risks"</li> <li>■ TCFD "The ERM model and the risks and opportunities associated with climate change - The risks associated with climate change"</li> <li>■ The ERM model and the risks and opportunities associated with climate change - The opportunities associated with climate change"</li> </ul>
c) Describe the resilience of the company's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	<ul style="list-style-type: none"> <li>■ AR "Towards Net Zero - Snam's Net Zero Carbon strategy"</li> <li>■ TCFD "The reference context and scenarios"</li> <li>■ TCFD "Towards Net Zero: Snam's strategy"</li> <li>■ TCFD "Act for the future - Snam and its commitment to the fight against climate change"</li> </ul>


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## TCFD Recommendations

## Disclosure

### RISK MANAGEMENT

**Disclose how the company identifies, assesses, and manages climate-related risks.**

a) Describe the company's processes for identifying and assessing climate-related risks.	<ul style="list-style-type: none"> <li>■ AR "Risk Management - Elements of risk and uncertainty, Strategic risks"</li> <li>■ TCFD "The ERM model and the risks and opportunities associated with climate change - The ERM model for centralised risk management"</li> </ul>
b) Describe the company's processes for managing climate-related risks.	<ul style="list-style-type: none"> <li>■ AR "Risk Management - Elements of risk and uncertainty, Strategic risks"</li> <li>■ TCFD "The ERM model and the risks and opportunities associated with climate change - The ERM model for centralised risk management"</li> </ul>
c) Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the company's overall risk management.	<ul style="list-style-type: none"> <li>■ TCFD "The ERM model and the risks and opportunities associated with climate change - The ERM model for centralised risk management"</li> </ul>

### METRICS AND TARGETS

**Disclose the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material.**

a) Disclose the metrics used by the company to assess climate-related risks and opportunities in line with its strategy and risk management process.	<ul style="list-style-type: none"> <li>■ AR "Towards Net Zero - Snam's Net Zero Carbon strategy"</li> <li>■ NFS "Environmental and health and safety aspects"</li> <li>■ TCFD "Act for the future - Snam and its commitment to the fight against climate change"</li> <li>■ TCFD "Performance indicators"</li> </ul>
b) Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	<ul style="list-style-type: none"> <li>■ AR "Towards Net Zero - Snam's Net Zero Carbon strategy"</li> <li>■ AR "2020 Performance - Operating review and sustainability impacts, Greenhouse gas emissions"</li> <li>■ NFS "Environmental and health and safety aspects"</li> <li>■ TCFD "Act for the future - Snam and its commitment to the fight against climate change, The reduction of GHG emissions"</li> <li>■ TCFD "Performance indicators"</li> </ul>
c) Describe the targets used by the company to manage climate-related risks and opportunities and performance against targets.	<ul style="list-style-type: none"> <li>■ AR "Towards Net Zero - Snam's Net Zero Carbon strategy"</li> <li>■ NFS "Environmental and health and safety aspects"</li> <li>■ TCFD "Act for the future - Snam and its commitment to the fight against climate change"</li> <li>■ TCFD "Performance indicators"</li> </ul>



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# CONSOLIDATED FINANCIAL STATEMENTS







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# FINANCIAL STATEMENTS

## STATEMENT OF FINANCIAL POSITION

		31.12.2019		31.12.2020	
(million €)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
<b>ASSETS</b>					
Cash and cash equivalents	(8)	2,851		<b>3,044</b>	
Trade receivables and other receivables		1,376	291	<b>1,676</b>	<b>301</b>
Current inventories	(10)	112		<b>98</b>	
Current income tax assets	(11)	12		<b>34</b>	
Other current financial assets	(12)			<b>7</b>	<b>5</b>
Other current assets	(13)	33		99	
<b>Total current assets</b>		<b>4,384</b>		<b>4,958</b>	
Property, plant and equipment	(14)	16,439		<b>16,815</b>	
Equity investments accounted for using the equity method	(16)	1,787		<b>1,923</b>	
Intangible assets and goodwill	(15)	990		<b>1,125</b>	
Other non-current financial assets	(12)	44		<b>420</b>	<b>303</b>
Non-current inventories - Compulsory inventories	(10)	363		<b>363</b>	
Deferred tax assets	(22)	23		<b>23</b>	
Other non-current assets	(13)	26	1	<b>48</b>	<b>2</b>
<b>Total non-current assets</b>		<b>19,672</b>		<b>20,717</b>	
<b>Non-current assets held for sale</b>		<b>10</b>			
<b>TOTAL ASSETS</b>		<b>24,066</b>		<b>25,675</b>	


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		31.12.2019		31.12.2020	
(million €)	Notes	Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
Current financial liabilities	(17)	4,131		5,605	
Trade payables and other payables	(18)	1,801	189	2,029	209
Current income tax liabilities	(11)	26		2	
Other current liabilities	(19)	106	22	70	1
<b>Total current liabilities</b>		<b>6,064</b>		<b>7,706</b>	
Non-current financial liabilities	(17)	10,643		10,332	
Provisions for risks and charges	(20)	713		798	
Provision for employee benefits	(21)	46		40	
Deferred tax liabilities	(22)	129		113	
Other non-current liabilities	(19)	213		214	
<b>Total non-current liabilities</b>		<b>11,744</b>		<b>11,497</b>	
<b>TOTAL LIABILITIES</b>		<b>17,808</b>		<b>19,203</b>	
<b>SHAREHOLDERS' EQUITY</b>					
Share capital		2,736		2,736	
Treasury shares		(389)		(361)	
Reserves		618		495	
Retained earnings		3,290		3,599	
<b>Equity attributable to parent company shareholders</b>		<b>6,255</b>		<b>6,469</b>	
<b>Equity of minority interests</b>		<b>3</b>		<b>3</b>	
<b>TOTAL SHAREHOLDERS' EQUITY</b>	(23)	<b>6,258</b>		<b>6,472</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>24,066</b>		<b>25,675</b>	


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## INCOME STATEMENT

(million €)	Notes	2019		2020	
		Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
Core business revenue		2,635	1,576	2,735	1,262
Other operating revenues and income		30	1	35	2
<b>Total operating revenues and income</b>	(28)	<b>2,665</b>		<b>2,770</b>	
Raw, and consumable materials and goods		(62)	(38)	(172)	(2)
Services		(186)	(23)	(146)	(20)
Personnel costs		(180)	2	(188)	2
Other operating costs and expenses		(33)		(111)	(2)
<b>Total operating costs and expenses</b>	(29)	<b>(461)</b>		<b>(617)</b>	
<b>Depreciation, amortisation and impairment losses on property, plant, equipment and intangible assets</b>	(30)	<b>(752)</b>		<b>(773)</b>	
<b>EBIT</b>		<b>1,452</b>		<b>1,380</b>	
Financial income		11		26	12
Financial expense		(213)		(174)	
Losses on derivative financial instruments - ineffective portion		(1)		(10)	
<b>Total net financial expenses</b>	(31)	<b>(203)</b>		<b>(158)</b>	
Portion of profit or losses of investments accounted for using the equity method		218		247	
Other income (expense) from equity investments		(2)		2	
<b>Total income from net investments</b>	(32)	<b>216</b>		<b>249</b>	
<b>Pre-tax profit</b>		<b>1,465</b>		<b>1,471</b>	
Income taxes	(33)	(375)		(370)	
<b>Net profit</b>		<b>1,090</b>		<b>1,101</b>	
<b>Net profit attributable to:</b>		<b>1,090</b>		<b>1,101</b>	
- parent company shareholders		<b>1,090</b>		<b>1,101</b>	
- minority interests					
<b>Earnings per share (amounts in € per share)</b>	(34)				
- base		0.330		0.336	
- diluted		0.323		0.329	


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## COMPREHENSIVE INCOME STATEMENT

(million €)	Notes	2019	2020
<b>NET PROFIT FOR THE YEAR</b>		<b>1,090</b>	<b>1,101</b>
<b>OTHER COMPONENTS OF COMPREHENSIVE INCOME STATEMENT</b>			
Cash flow hedge - effective portion of fair value change	(23)	(44)	(6)
Share of other comprehensive income statement of Equity investments accounted for using the equity method <sup>(*)</sup>	(16)	(17)	(38)
Tax effect		10	1
<b>Total items that maybe reclassified to profit or loss, net of tax effect</b>		<b>(51)</b>	<b>(43)</b>
Revaluation of employee benefit liabilities (defined-benefit plans)	(21)		(1)
Share of other comprehensive income statement of Equity investments accounted for using the equity method	(16)	(1)	1
Equity investments accounted for at FVTOCI ("fair value through other comprehensive income")	(12)	4	43
Tax effect			
<b>Total items that will not be reclassified to profit or loss, net of tax effect</b>		<b>3</b>	<b>43</b>
<b>TOTAL OTHER COMPREHENSIVE INCOME, NET OF TAX</b>		<b>(48)</b>	
<b>TOTAL COMPREHENSIVE INCOME STATEMENT</b>		<b>1,042</b>	<b>1,101</b>
<b>Total comprehensive income attributable to:</b>		1,042	1,101
- parent company shareholders		1,042	1,101
- minority interests			

(\*) IThe values essentially refer to the change in the fair value of derivative financial instruments used to hedge investments in associates.


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## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(million €)		Shareholders' equity pertaining to parent Company Shareholders														
		Reserves								Retained earnings						
		Share capital	Treasury shares	Share premium reserve	Legal reserve	Reserve for cash flow hedges	Reserve for defined-benefit plans for employees	Reserve for fair-value valuation of investments	Consolidation reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Total	Minority interests' equity	Total shareholders' equity
BALANCE AT 31 DECEMBER 2018 (A)		2,736	(625)	1,021	547	(28)	(8)	1	(674)	67	2,286	(298)	960	5,985		5,985
Profit for the year 2019													1,090	1,090		1,090
Other components of the comprehensive income statement						(34)		4		(18)						
Total comprehensive income statement for the year 2019 (B)						(34)		4		(18)			1,090	1,042		1,042
Dividend for the financial year 2018 (0.2263 € per share), net of interim dividend (0.0905 € per share)												298	(746)	(448)		(448)
Appropriation of 2018 residual net profit											214		(214)			
Interim dividend for 2019 (0.095 € per share)												(313)		(313)		(313)
Share-based payments (Share-based incentive plan 2017-2019)										7				7		7
Acquisition of treasury shares			(39)											(39)		(39)
Cancellation of treasury shares			275	(275)												
Total transactions with shareholders (C)			236	(275)						7	214	(15)	(960)	(793)		(793)
Changes in minority interests in subsidiaries not involving a change in control															3	3
Other changes										8	13			21		21
Total other changes (D)										8	13			21	3	(769)
BALANCE AT 31 DECEMBER 2019 (E = A + B + C + D)		(23)	2,736	(389)	746	547	(62)	(8)	5	(674)	64	2,513	(313)	1,090	6,255	3 6,258


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		Shareholders' equity pertaining to parent Company Shareholders													
		Reserves								Retained earnings					
		Share capital	Treasury shares	Share premium reserve	Legal reserve	Reserve for cash flow hedges	Reserve for defined-benefit plans for employees	Reserve for fair-value valuation of investments	Consolidation reserve	Other reserves	Retained earnings	Interim dividend	Profit for the year	Total	Minority interests' equity
(million €)															Total shareholders' equity
<b>BALANCE AT 31 DECEMBER 2019</b>	(23)	2,736	(389)	746	547	(62)	(8)	5	(674)	64	2,513	(313)	1,090	6,255	3
<b>(E = A + B + C + D)</b>															6,258
Profit for the year 2020													1,101	1,101	1,101
Other components of the comprehensive income statement						(5)	(1)	43		(37)				0	0
<b>Total comprehensive income statement for the year 2020 (B)</b>						<b>(5)</b>	<b>(1)</b>	<b>43</b>		<b>(37)</b>			<b>1,101</b>	<b>1,101</b>	<b>1,101</b>
Dividend for the financial year 2019 (0.2376 € per share), net of interim dividend (0.095 € per share)												313	(779)	(466)	(466)
Appropriation of 2019 residual net profit											311		(311)		
Interim dividend for 2020 (0.0998 € per share)												(326)		(326)	(326)
Share-based payments (Share-based incentive plan 2017-2019)										6				6	6
Share-based payments (Share-based incentive plan 2020)										2				2	2
Allocation of treasury shares			7							(7)					
Acquisition of treasury shares			(114)											(114)	(114)
Cancellation of treasury shares			135	(135)											
<b>Total transactions with shareholders (C)</b>		<b>28</b>	<b>(135)</b>							<b>1</b>	<b>311</b>	<b>(13)</b>	<b>(1,090)</b>	<b>(898)</b>	<b>(898)</b>
Other changes										11				11	11
<b>Total other changes (D)</b>										<b>11</b>				<b>11</b>	<b>11</b>
<b>BALANCE AT 31 DECEMBER 2020</b>	(23)	2,736	(361)	611	547	(67)	(9)	48	(674)	39	2,824	(326)	1,101	6,469	3
<b>(E = A + B + C + D)</b>															6,472


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## CASH FLOW STATEMENT

(million €)	Notes	2019	2020
<b>PROFIT FOR THE YEAR</b>		<b>1,090</b>	<b>1,101</b>
Adjustments reconciling profit for the year to cash flows from operating activities:			
- Depreciation, amortisation and impairment losses on property, plant, equipment and intangible assets	(30)	752	<b>773</b>
- Share of profit or losses of equity investments accounted for using the equity method	(16)	(218)	<b>(247)</b>
- Dividends	(32)	(2)	<b>(2)</b>
- Other (income) expenses from equity investments	(32)	4	
Net capital losses (capital gains) on asset sales, write-offs and eliminations		8	<b>13</b>
- Interest income		(11)	<b>(25)</b>
- Interest expense		190	<b>159</b>
- Income taxes	(33)	375	<b>370</b>
- Other changes		7	<b>8</b>
Change in net working capital:			
- Inventories		(43)	<b>(23)</b>
- Trade receivables		38	<b>(308)</b>
- Trade payables		(28)	<b>138</b>
- Provisions for risks and charges		6	<b>13</b>
- Other assets and liabilities		(237)	<b>(44)</b>
<b>Net cash outflow from net working capital</b>		<b>(264)</b>	<b>(224)</b>
Change in provision for employee benefits		(18)	<b>(9)</b>
Dividends collected		134	<b>241</b>
Interest collected		11	<b>22</b>
Interest paid		(185)	<b>(155)</b>
Income taxes paid net of reimbursed tax credits		(387)	<b>(428)</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		<b>1,486</b>	<b>1,597</b>
<b>- of which with related parties</b>	<b>(36)</b>	<b>1,555</b>	<b>1,233</b>




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(million €)	Notes	2019	2020
Investments:			
- Property, plant and equipment <sup>(*)</sup>	(14)	(852)	(1,001)
- Intangible assets	(15)	(102)	(165)
- Acquisition of subsidiaries and businesses, net of liquidity acquired	(24)	(41)	(30)
- Non current financial assets		(5)	(332)
- Equity investments (including those measured at FVTOCI, included in non-current financial assets)		(24)	(288)
- Change in payables and receivables relating to investments		(16)	53
<b>Cash used in investments</b>		<b>(1,040)</b>	<b>(1,763)</b>
Divestments:			
- Property, plant and equipment	(14)		2
- Investments (including investments measured at Fair Value Through OCI, included in non-current financial assets)		36	95
- Non current financial assets			34
<b>Cash generated from divestments</b>		<b>36</b>	<b>131</b>
<b>NET CASH OUTFLOW FROM INVESTING ACTIVITIES</b>		<b>(1,004)</b>	<b>(1,632)</b>
<b>- of which with related parties</b>	<b>(36)</b>	<b>(33)</b>	<b>(333)</b>
Increase in non current financial liabilities		2,877	1,684
Decrease in non current financial liabilities		(2,070)	(2,091)
Increase/(decrease) in current financial liabilities		478	1,540
Change in short-term financial receivables			(5)
Repayment of financial payables for leased assets		(6)	(7)
Acquisition of treasury shares		(39)	(114)
Dividends distributed	(23)	(746)	(779)
Change in minority interests in subsidiaries not involving a change in control		3	
<b>CASH FLOWS FROM FINANCIAL ACTIVITIES</b>		<b>497</b>	<b>228</b>
<b>- of which with related parties</b>	<b>(36)</b>		<b>(5)</b>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>		<b>979</b>	<b>193</b>
<b>Cash and cash equivalents at beginning of the period</b>	<b>(8)</b>	<b>1,872</b>	<b>2,851</b>
<b>Cash and cash equivalents at end of the period</b>	<b>(8)</b>	<b>2,851</b>	<b>3,044</b>

(\*) For financial reporting purposes only, the flow includes: (i) the change in inventories of piping and related ancillary materials used in plant construction activities, referring to the natural gas transportation sector (-5 million euros and 3 million euros, respectively, for 2019 and 2020); (ii) subsidies on works for interference with third parties, so called compensation (14 million euros and 20 million euros, respectively, for 2019 and 2020).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1) COMPANY INFORMATION

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as "Snam", the "Snam Group" or the "Group"), is an integrated Group at the forefront of the regulated gas industry (transportation, regasification and storage) and a major player in terms of its regulatory asset base (RAB) in the sector.

Through its international subsidiaries, Snam operates in Albania, Austria, China, the United Arab Emirates, France, Greece and the United Kingdom. Snam S.p.A. invests in innovation and in development of new energy transition businesses, from sustainable mobility to biomethane and energy efficiency. It also seeks to enable and promote the development of hydrogen to move forward the decarbonisation of the energy sector and industry.

Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).

Through the resolution of 1 August 2019, the Board of Directors of CDP S.p.A. which, through the subsidiary CDP Reti S.p.A. owns a stake in Snam S.p.A. of 31.4%, reclassified its equity investment in the latter, 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, paragraphs 1 and 2 of the Italian Civil Code and Article 93 of the TUF.

No management or coordination activity of CDP S.p.A. has been formalised or exercised over Snam S.p.A.

## 2) BASIS OF PRESENTATION

These consolidated financial statements:

- a) have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB)

and adopted by the European Commission pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005;

- b) they have been prepared in accordance with the going concern assumption, based on the conventional historical cost criterion, taking into account value adjustments where appropriate, with the exception of items that must be measured at fair value, in accordance with IFRS, as described in the measurement criteria. Considering the characteristics of Snam's core business, which did not require an uninterrupted continuation of operating activities, and the results of the analyses conducted on the impacts of the Covid-19 epidemic, there are no elements that require in depth analysis regarding the validity of the going concern assumption;
- c) they have been approved and authorised for publication by the Board of Directors of Snam S.p.A. in its meeting of 17 March 2021, and have been audited by Deloitte & Touche S.p.A.;
- d) they are denominated in euros;; given their size, the amounts in the financial statements and respective notes are expressed in millions of euros, unless otherwise specified.

### 2.1 INFORMATION TO BE PROVIDED IN THE LIGHT OF THE CONSEQUENCES OF THE COVID-19 PANDEMIC

In compliance with the indications contained in the document "European common enforcement priorities for 2020 annual financial reports" issued by ESMA on 28 October 2020, taken up by Consob Call for Attention No. 1/21 of 16 February 2021, below is an indication of the areas which, in view of the consequences of the Covid-19 pandemic, are considered to be of particular importance for the preparation of the 2020 financial statements.

Specifically, the areas identified are:

- The application of IAS 1 "Presentation of Financial Statements" referred to Note 2) "Basis of presentation", with reference to the critical issues in



the evaluation of the existence of the going concern assumption;

- The application of IAS 36, "Impairment of Assets", referred to in Note 16) "Investments accounted for using the equity method", and Note 15) "Intangible Assets and Goodwill"; regarding how to determine the recoverable amount of goodwill intangible and tangible assets that may be impacted by a worsened economic outlook;
- The application of IFRS 9 "Financial Instruments", and IFRS 7 "Financial Instruments: Disclosures" referred to in Note 9) "Trade and other receivables" and in Note 12) "Current and non-current financial assets" and in Note 26) "Financial risk management"; in view of the risks associated with financial assets and liabilities, and in particular liquidity risk;
- The application of IFRS 16, "Leases", referred to in Note 14) "Property, plant and equipment", in relation to the specific issues stemming from Covid-19.

In addition, Note 29) "Operating costs and expenses" includes specific information on the costs incurred as a result of the state of emergency linked to the Covid-19 pandemic.

## 2.2 EFFECTS OF THE COVID-19 PANDEMIC ON THE PRESENTATION AND MEASUREMENT OF ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

### Regulated business

The Snam Group's core business is represented by transportation, storage and regasification activities carried out by companies operating under regulated regimes. An assessment of the effects related to the spread of the pandemic showed the limited exposure of these sectors to the effects of Covid-19, allowing Snam to record no impairment indicators as at 31 December 2020. Despite the absence of indicators, the company tests its relevant CGUs (Snam Rete Gas, Infrastrutture Trasporto Gas, Stogit and LNG) for impairment at least once a year; in particular, the test conducted with

reference to the financial statements for the year then ended 31 December 2020 did not show any impairment losses. With regard to investment activities, in order to face, firstly, with the slowdown in activities due to the suspension of construction sites (from mid-March 2020) and, subsequently, with their gradual resumption (end of April 2020), Snam has implemented all necessary actions aimed at recovering the delays recorded and completing the 2020 investment programme.

### Energy transition

The businesses related to energy transition, Biomethane, Energy Efficiency, and Sustainable Mobility, have not suffered significant impacts related to the effects of Covid-19; in particular:

- in the Biomethane business, the production plants from FORSU did not have a substantial impact as the collection and transfer of waste continued uninterrupted. The construction activities of IES Biogas were affected to a minimal extent, mainly due to the temporary lockdown that the containment measures by Covid-19 imposed on the sites in March and April. The company has taken all necessary actions to compensate for the slowdowns accumulated and limit the effects of the pandemic on the 2020 results;
- in the Energy Efficiency business, the impact of Covid-19 was moderate and temporary; in particular, slowdowns were noted in the performance of activities linked to the containment measures imposed due to the emergency in March and April 2020. The actions implemented by the company, including by optimising timetables, have made it possible to contain the effects of the pandemic. It should be noted, however, that the recent regulatory interventions with which the legislator has intervened in order to encourage the implementation of measures of energy efficiency, contained in the Decree-Law no. 34 of 19 May 2020 on "Urgent measures in the field of health, support for work and the economy, as well as social policies related to the epidemiological emergency of Covid-19", allow company, due to the input that the incentive mechanisms introduced will



give to the demand, to forecast growing results for future periods;

- In the Sustainable Mobility business, limited impacts related to the effects of Covid-19 were found due to the emergency containment measures introduced, which did not allow Cubogas' production plants to become fully operational, particularly in March and April. The company has already put actions on track with the aim of making up for production delays. These actions made it possible to fully make up for the delays.

The limited impact of the effects of Covid-19 on the Energy Transition businesses, allowed Snam to identify no impairment indicators at 31 December 2020. Nevertheless, the company tested its relevant CGUs for impairment (as well as the CGUs to which goodwill and/or intangible assets not yet available for use and intangible assets with an indefinite useful life have been allocated) and did not recognise any impairment losses for the purposes of the 2020 financial statements.

## Foreign and Italian subsidiaries

The Snam Group's foreign and Italian subsidiaries mainly operate in the regulated sectors of natural gas transportation, storage, regasification and distribution (Terēga, DESFA, GCA, TAG, OLT and Italgas) or operate under long-term, ship or pay (TAP) contracts. With reference to Interconnector UK, the only investee company that does not operate under a regulated regime, the results for 2020 show an improvement over the forecasts made previously. None of the associate companies made any changes to their 2020 budgets, thus confirming the legitimacy of the assumptions previously presented.

The limited exposure of these segments to the effects of Covid-19 allowed Snam not to recognise any impairment indicators at 31 December 2020; however, the company tested its relevant CGUs, represented by its significant equity investments in foreign and Italian companies, for impairment and did not recognise any impairment losses for the purposes of the 2020 financial statements.

## Analysis of potential impact as a result of the persistence of the Covid-19 pandemic and the increasing spread of variants

Expectations of a progressive loosening of the restrictive measures imposed by the pandemic, based on effective and quick implementation of vaccines against Covid-19 were faced in the first weeks of 2021 with concerns stemming from the growing spread of variants.

Consequent fears on the level of impact the variants could reach and uncertainties related to the expected time needed to complete the vaccine campaign in Italy and Europe, as well as in the rest of the major economies with which these societies interact, could give rise to further slowdowns in the process of returning the international economic situation to normal.

Any further containment measures imposed in the coming months to cope with the rapid spread of variants could lead to further interruptions of non-essential production activities and the temporary closure of construction sites. This could influence, to some extent, Snam's ability to fully complete the 2021 investment programme related to its core business; this could have an impact that cannot be quantified in detail at present, with respect to the forward-looking assumptions made by Snam.

In the same way, the return of containment measures for prolonged periods of time, with consequent closure of plants and blockage of construction sites, could have a more significant impact especially on the companies involved in production (Cubogas), and on site activities (IES Biogas, Snam 4 Mobility and TEP), slowing down the completion of the works and the consequent recognition of the corresponding revenues.

## 3) ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE FROM 2020

For the financial year ended 31 December 2020, the Group applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2020, which are described below; their initial application did not, however, have a material impact on these consolidated financial statements.



### 3.1 CHANGES TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS

Regulation No. 2019/2075, issued by the European Commission on 29 November 2019 endorsed the regulatory provisions of the document "Amendments to Conceptual Framework references in IFRSs"; these provisions are effective for the financial years beginning on, or after, 1 January 2020. The document updated existing references in international accounting standards in order to incorporate the innovations introduced by the revised version of the "Conceptual Framework for Financial Reporting", issued by the IASB on 29 March 2018. Among the main aspects we find the updating of the definitions of "assets" and "liabilities" as well as the process for their evaluation, elimination and presentation. The document also clarifies important concepts such as the identification of the financial statement recipients and the targets that the financial statements intend to reach, and it also deals with the issues of prudence and uncertainty in the evaluations for financial statement information.

The adoption of said amendment did not have effects on the Group's consolidated financial statements.

### 3.2 DEFINITION OF MATERIAL (AMENDMENTS TO IAS 1 AND IAS 8)

Regulation no. 2019/2104, issued by the European Commission on 29 November 2019 endorsed the regulatory provisions contained in the document "Definition of Material (Amendments to IAS 1 and IAS 8)". The arrangements are effective from the financial years starting on or after 1 January 2020. The document restated and clarified the definition of material with reference to the following concepts:

- i) "obscuring" - obscuring material information with other data that could be omitted can have an effect similar to omission or misrepresentation;
- ii) "could reasonably be expected to influence" - when deciding the amount of information to disclose there should be no risk, even remote, of influencing the users of financial statements;
- iii) "primary users" - identified as the users of financial statements to bear in mind when determining the information to be presented.

The adoption of the amendment did not have effects on the Group's consolidated financial statements.

### 3.3 INTEREST RATE BENCHMARK REFORM (AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7)

Regulation No. 2020/34 issued by the European Commission on 15 January 2020 endorsed the amendments to IFRS 9, IAS 39 and IFRS 7 contained in the document "Interest rate benchmark reform" (hereinafter the amendments to IFRS 9, IAS 39 and IFRS 7), aimed at providing temporary exemptions from the application of certain hedge accounting provisions for all hedging relationships directly impacted by the reform of benchmark interest rates. The amendments to IFRS 9, IAS 39 and IFRS 7 are effective from financial years beginning 1 January 2020 or later.

The adoption of the amendment did not have effects on the Group's consolidated financial statements.

### 3.4 DEFINITION OF A BUSINESS (AMENDMENTS TO IFRS 3)

Regulation No. 2020/551, issued by the European Commission on 21 April 2020, endorsed the regulatory provisions contained in the document "Definition of a business (amendments to IFRS 3)" issued by the IASB on 22 October 2018, whose provisions are effective for financial years beginning on or after 1 January 2020. The amendments clarify the criteria for qualifying a transaction as an acquisition of a business or a group of businesses.

The adoption of the amendment did not have effects on the Group's consolidated financial statements.

### 3.5 AMENDMENTS TO IFRS 16 "LEASES" REGARDING THE EFFECTS OF THE COVID-19 PANDEMIC ON RENTS CONCESSIONS

Regulation No. 2020/1434, issued by the European Commission on 9 April 2020, endorsed the regulatory provisions contained in the document "Covid-19 rent-related concessions (amendments to IFRS 16)" issued by the IASB on 28 May 2020, whose provisions are effective for financial years beginning on or after 1 June 2020.



The changes introduced through the new paragraphs 46A and 46B now allow a practical expedient in the section 'Lease amendments', which allows the lessee to disregard any concessions on rent payments resulting from the effects of Covid-19 as an amendment to the original contract. These concessions, in application of the practical expedient, are accounted for as if the original contract had not been amended, with the effects posted to the income statement as negative variable rents. The Group has not used this expedient.

The adoption of the amendment did not have effects on the Group's consolidated financial statements.

## 4) FINANCIAL STATEMENTS

With reference to the financial statements, note that:

- the balance sheet items are broken down into assets and liabilities, using a "current/non-current" criterion<sup>1</sup>;
- the income statement has been presented separately from the comprehensive income statement and classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with the established practice of companies operating in international markets;
- the cash flow statement has been prepared using the indirect method.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.

With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 39 – "Related-party transactions", are shown separately in the financial statements.

In order to make the financial statements more intelligible, the following changes have been made to the mandatory statements:

- a) STATEMENT OF FINANCIAL POSITION
  - "Current assets" and "Non-current assets" include the "Other current financial assets" and "Other non-current financial assets", addressed to taken in: (i) financial assets measured at Fair Value Through Other Comprehensive Income - FVTOCI; (ii) financial receivables granted to investee companies;

<sup>1</sup> Assets and liabilities are classified as current if: (i) their realisation/settlement is part of the normal operating cycle of the company or in the 12 months after the financial year-end; (ii) they consist of the cash or cash equivalents without restrictions that would limit usage thereof in the 12 months following the closure of the year; or (iii) they are held mainly for trading.



- The items “Other current tax assets” and “Other current tax liabilities” have been eliminated from “Current assets” and “Current liabilities” and recorded under “Other current assets” and “Other current liabilities”;
- The item “Current portions of long-term financial liabilities” has been eliminated from “Current Liabilities” and its value has been recorded under “Current financial liabilities”;
- within “Shareholders’ Equity” there is a different way of grouping the items “Retained earnings”, equal to the algebraic sum of “Profit from previous years”, “Profit for the year” and “Interim dividend” and “Reserves”. In line with this, separate evidence of these groupings has also been provided in the statement of changes in shareholders’ equity.

b) INCOME STATEMENT

- the item “Other revenues and income” has been renamed “Other operating revenues and income”;
- under the item “Operating costs and expenses”<sup>2</sup>, separate evidence has been given for costs and expenses of the following types: “Raw materials, materials, consumables, used”, “Services” and “Other operating costs and expenses”.

c) STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY

- the detailed items of “Other components of the comprehensive income”, already reported in the Comprehensive Income, have been eliminated.

Considering the intangible amounts subject to reclassification, the Statement of Financial Position as at 1.1.2019 has not been presented.

## 5) SIGNIFICANT ACCOUNTING STANDARDS

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

### 5.1 CONSOLIDATION CRITERIA

Subsidiaries, joint ventures, associates and other significant equity investments are indicated separately in the appendix “Equity investments of Snam S.p.A. as at 31 December 2020”, which is an integral part of these notes. The same appendix shows the changes in the scope of consolidation at 31 December 2020 compared to 31 December 2019. For more details relating to the acquisition of controlling investments please see the section “Business Combinations”.

All subsidiaries and associated companies, except for the newly acquired companies Miei and Evolve, close their financial statements on 31 December<sup>3</sup>, and (with the exception of Snam Gas & Energy Services Beijing) are expressed in euro. The financial statements of subsidiaries that were prepared in accordance with accounting standards different from the IFRSs adopted by the Group’s Parent Company were restated as necessary to make them consistent with the Parent’s Company accounting principles.

#### Fully consolidated subsidiaries

The Group defines another entity as a subsidiary when it:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

Figures relating to subsidiaries are included in the consolidated financial statements, based on standardised accounting principles, from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist. The assets, liabilities, income and expenses of consolidated companies are fully incorporated line-by-line in the consolidated financial statements (full consolidation method).

<sup>2</sup> Equal to the sum of the values of the items “Raw materials, ancillary materials, consumables, supplies and goods”, “Services”, “Other operating costs and expenses”, “Personnel costs” and “Depreciation, amortisation and impairment losses of property, plant, equipment and intangible assets”.

<sup>3</sup> For the consolidated financial statements, the companies’ Reporting Package includes the extension of the administrative periods to 31 December 2020.





Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they are considered to represent the impairment loss on the transferred asset.

Changes in equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded directly in equity as transactions with shareholders. The book value of the shareholders' equity pertaining to parent company shareholders and minority interests are adjusted to reflect the change in the equity investment ownership. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to parent company shareholders.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of shareholders' equity transferred; (ii) the effect of the alignment to the fair value of any residual equity investment maintained; (iii) any amounts posted to other comprehensive income statement components relating to the former subsidiary that will be reclassified to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

## Associates and joint ventures accounted for using the equity method

An associate is an investee company in relation to which the Group holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control<sup>4</sup>. It is assumed that the investor has significant influence (unless there is proof to the contrary) which is presumed to exist when the investment held is at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

Equity investments in associates and joint ventures are measured using the equity method, whereby the investments are initially recognised at cost and subsequently adjusted to take account of:

- i) the investor's share of the results of operations of the investee after the date of acquisition;
- ii) the investor's share of the other components of comprehensive income statement of the investee.

Dividends paid out by the investee are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the previous point on fully consolidated subsidiaries).

<sup>4</sup> Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.





In the case of assumption of an association (or joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income. The sale of investment that results in loss of joint control or significant influence over the investee determines the recognition of the following in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding fraction of the book value of the investment sold; (ii) the effect of the alignment to the fair value of any residual equity investment maintained; (iii) any amounts posted to other comprehensive income statement components relating to the former subsidiary that will be reclassified to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new reference value for the successive valuation according to the applicable valuation criteria.

If there is objective evidence of impairment, the Group performs an impairment test by comparing the book value with the related recoverable amount and recognises the difference in the income statement under "Share of profit or loss of investments accounted for using the equity method". If the Group's share of the loss exceeds the book value of the investment, the latter is written off and any excess is recognised in a specific provision, if the investor is obliged to meet the legal or constructive obligations of the investee or otherwise cover its losses. When the reasons for the impairment losses no longer apply, equity investments are revalued up to the amount of the impairment losses entered, with the effect posted to the income statement under the above item.

The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

## Business combinations

Business combinations are transactions with which the group acquires control of a business. To determine whether a particular set of acquired assets and activities meets the definition of a business, the Group examines whether that set comprises at least a production factor and a substantial process and whether it has the ability to generate production.

Business combinations are accounted for by applying the acquisition method, whereby the consideration transferred at the date of acquisition of control is equal to the fair value of the assets transferred, the liabilities incurred or taken on, and any equity instruments issued.

The consideration transferred also includes the current value of any deferred fixed payments and the fair value of any contingent considerations (e.g. earn-outs). If the contingent consideration meets the definition of an equity instrument, it is classified as shareholders' equity and is not measured thereafter. Other contingent considerations are recognised as a liabilities and are measured at fair value at each financial year-end; changes in fair value are recognised in the income statement.

Costs directly attributable to the transaction, other than those related to the issue of debt or equity instruments, are recognised in the income statement when they are incurred.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the consideration transferred is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.



Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the “partial goodwill method”). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the “full goodwill method”). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (Partial goodwill method or full goodwill method) is based on each individual business combination transaction.

If control is assumed in successive stages, the consideration transferred is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid to acquire the additional equity investment. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of the comprehensive income statement are posted to the income statement or to another item of shareholders' equity, if no provisions are made for classification in the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

## Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as “Business combinations of entities under common control”, whose accounting is not specifically disclosed in IFRSs. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which leads to the application of the criterion of continuity values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired (or the vendor company) before the transaction or, alternatively, at the values from the consolidated financial statements of the common ultimate parent.

With regard to the sale of business, the treatment of the difference between the contractually defined consideration and the carrying amounts of the transferred business is differentiated depending on the entities involved in the transfer.

With regard to contributions involving businesses under common control, on the other hand, irrespective of the pre-existing investment relationship, the transferee entity recognizes the transferred business at its historical carrying value, increasing its own equity by an equal amount; the transferring entity shall recognize the investment in the transferee entity at an amount equal to the increase in the latter's shareholders' equity. This accounting treatment refers to the proposal by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1 Revised) - “Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements” issued in October 2016.



## Accounting treatment of put options written on the shares of subsidiaries

Therefore, if the Group does not have the unconditional right to avoid delivery of cash or other financial instruments when a put option on shares in subsidiaries is exercised, a financial liability equal to the current value of the option exercise price is recognised and subsequent changes in the financial liability are recognised in the income statement. The same accounting treatment is applicable when, in addition to a put option, there is also the simultaneous presence of a symmetrical call option, the so-called symmetrical put and call options related to non-controlling interests.

Snam considers that shares subject to put options (or symmetrical put and call options) have already been acquired by the Group, in cases where the economic benefits and risks associated with the actual ownership of the shares do not remain with the minority shareholders; therefore, in such circumstances, it does not recognise minority interests in the consolidated financial statements.

## 5.2 PROPERTY, PLANT AND EQUIPMENT

### Recognition and measurement of property assets

Property, plant and equipment are measured at cost, less accumulated depreciation and impairment losses. When a significant period of time is needed before the asset is ready for use, financial expenses incurred during the asset preparation period are also capitalised in the cost of the asset.

If there are current obligations for dismantling and removal the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the Note 5.9 "Provisions for risks and charges, contingent liabilities and contingent assets".

Subsequent costs of improvements, upgrades and transformations to/of property, plant and equipment are capitalised when it is likely that they will increase the future economic benefits expected. Costs are also capitalised when related to items purchased for security or environmental reasons which, although not directly improving the future economic benefits of existing assets, are necessary to carry out the company's operations.

Property, plant and equipment includes:

- i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the "initial line pack") is depreciated over the useful life of the plant to which it refers. On the contrary, the commercial component, which is eventually transferable to the market or can be put to alternative uses (the so-called "Operating line pack"), is not subject to depreciation, since by its nature it cannot depreciate;
- ii) in the context of natural gas storage, the part of the gas injected into the storage wells as cushion gas.

### Recognition and measurement of leased assets

A contract is or contains a lease if it gives an entity the right to control the use of an identified asset for a certain period of time in exchange for a fee. For all leases that run for more than 12 months, relating to non-low value assets<sup>5</sup>, the following elements are recognised in the balance sheet at the effective date, i.e. when the asset is available for use: (i) an asset, under Property, plant and equipment, representing the right to use the asset, and (ii) a financial liability, representing the obligation to make the payments under the contract (also referred to as the "lease liability").

<sup>5</sup> The Group considers low-value assets to be all assets worth 25 thousand euros or less.



In determining the duration of the lease, the group considers the non-cancellable period of the contract and, when it believes there is reasonable certainty, also the additional periods for the exercise of renewal options or the non-exercise of early termination options provided in the contract.

Liabilities for leases are recognised initially at an amount equal to the current value of the following lease payments not yet made at the lease commencement date:

- i) fixed (or substantially fixed) payments, net of any incentives to be received;
- ii) variable payments that depend on trends in rates or indices;
- iii) estimated future payments for any residual value guarantees, for the exercise of the purchase option and for any penalties related to the early termination of the contract, if the group considers the exercise of such options to be reasonably certain.

The current value of the payments is calculated using a discount rate equal to the group's marginal borrowing rate taking into account the frequency and duration of payments under the lease agreement.

Subsequent to initial recognition, the lease liability is measured at amortised cost and is redetermined, against the book value of the right-of-use asset, when there is a change in the lease payments due as a result of:

- i) contract renegotiations;
- ii) changes in rates or indices; or
- iii) changes in measurement made regarding the exercise of contractually-provided options (e.g. purchase of the leased asset or the extension or early termination of the contract).

The right-of-use asset is initially recognised at cost, determined as the sum of the following components:

- i) the initial amount of the finance lease liability;
- ii) the initial direct costs incurred by the lessee;
- iii) any payments made on or before the lease commencement date, net of any incentives received by the lessor; and
- iv) the best estimate of the costs that the group expects to incur for the dismantling and removal of the asset and for the possible restoration of the site (i.e. the costs for restoring the asset to the conditions established in the contract).

After the initial recognition, the right-of-use asset is adjusted to take account of (i) depreciation and amortisation expense,

- i) any impairment losses and
- ii) the related effects and any restatements of the financial lease liability.



## Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, owned and leased property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application<sup>6</sup>:

### Annual economic-technical depreciation rate (%)

<b>Land</b>	not depreciated
<b>Buildings</b>	2-2.5
<b>Plant and machinery - Transportation</b>	
Methane pipelines	2
Compression stations	5
Gas reduction and regulation plants	5
Radio links	25
Measurement and control instruments and systems	5
<b>Plant and machinery - Storage</b>	
Pipelines	2
Treatment plants	4
Compression stations	5
Storage wells	1.66
Monitoring and control instruments and systems	5
<b>Plant and machinery - Regasification</b>	
Regasification facilities	4
Tanks and oil pipelines	4
<b>Other assets</b>	
Centralised IT infrastructures	20
Other plant and equipment	2.5-12.5
Measuring equipment	5
Industrial and commercial equipment	10-35
Other assets	10-33
<b>Rights of use for leased assets</b>	< between economic-technical life and contract duration

<sup>6</sup> The application rate or internal could be higher depending on the residual life following business combination acquisitions and/or transactions.


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When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

## 5.3 INTANGIBLE ASSETS AND GOODWILL

### Recognition and measurement of intangible assets and goodwill

Intangible assets are those non monetary assets without identifiable physical form, are controlled by the group and are capable of generating future economic benefits. They are recognised at cost net of amortisation and any accumulated impairment losses.

Goodwill arising from the acquisition of subsidiaries is measured at cost less impairment losses.

Technical development costs are capitalised as intangible assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.

Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for capitalization are considered current costs and charged to the income statement for the period in which they are incurred.

The book value of the storage concessions represents the reserves of natural gas in the fields (so-called cushion gas), which does undergo depreciation, because:

- i) the volume of this gas is not changed by the storage activity;
- ii) the economic value of the gas that can be recovered at the end of the concession, in accordance with the provisions of the Ministerial Decree of 3 November 2005 "Criteria for determining an adequate consideration for the remuneration of assets allocated to a concessionaire for the storage of natural gas" of the Ministry of Productive Activities (MAP), is not less than the value recorded in the financial statements.



## Amortisation of intangible assets with finite useful life

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

### Annual economic-technical depreciation rate (%)

<b>Storage concessions</b>	not amortised: residual value greater than book value
<b>Information systems</b>	20-33
<b>Other intangible fixed assets</b>	20 or based on the duration of the contract

## 5.4 PUBLIC AND PRIVATE GRANTS

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions.

Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

## 5.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

### Impairment of tangible and intangible assets with finite useful life

At least once a year, non-financial, tangible and intangible assets with a finite useful life are analysed to uncover any indicators of impairment.

When there are indications that an impairment loss may exist or when events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value, net of disposal costs (see paragraph 5.8 "Measurement at fair value"), or the value in use, whichever is greater.



The recoverable amount, in the value in use configuration, is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs.

This methodology is applied for CGUs Renerwaste, Enersi, lesbiogas, TEP and Cubogas and Snam 4 Mobility, tested jointly for the purpose of the impairment test.

With reference to the Transportation (Snam Rete Gas), Regasification (GNL) and Storage (Stogit) CGUs, the recoverable value was defined corresponding to estimated value of Net Invested Capital as recognised for those assets for tariff purposes (RAB - Regulatory Asset Base) by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) net of the flat-fee components<sup>7</sup>, of the Employee Severance Pay (TFR) and contributions received.

The measurement is performed for each individual asset or for the smallest identifiable group of assets which, through continuous use, generates incoming cash inflows that are largely independent of those of other assets or groups of assets (Cash Generating Unit - CGU). The expected cash flows are determined on the basis of reasonable, documentable assumptions representing the best estimate of future economic conditions that will occur during the remaining useful life of the asset, with greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows.

If the book value of the asset or CGU is greater than its recoverable amount, an impairment loss is recognised in the income statement; a CGU's impairment losses are first recognised as a reduction in the book value of any goodwill (see next point "Impairment of goodwill and intangible assets not yet available for use") allocated to it and then as a reduction in the book value of the other assets of the CGU, in proportion to their respective carrying amounts.

If the conditions for a previously effected impairment no longer apply, the book value of the asset (except for goodwill) is restored with recognition in the income statement (recovery of value), within the limits of the net book value that the asset in question would have had if the impairment had not been carried out and any related amortisation had been carried out.

If certain specific assets held by the Group are affected by unfavourable operating or economic conditions that may compromise their ability to contribute to the realisation of cash flows, they may be subject to an independent recoverability analysis and impaired, if necessary.

## Impairment of goodwill and intangible assets not yet available for use

The recoverability of the book value of goodwill and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment.

Pursuant to the provisions of IFRS 3, in the context of business combinations, the acquirer, at the acquisition date, recognises all assets, liabilities and identifiable contingent liabilities under the acquisition at their fair values; any remaining positive difference with respect to the acquisition cost is recognised in the asset item Goodwill, and any negative difference is recognised in the income statement.

For the purpose of the impairment test, goodwill is allocated, as from the date of acquisition, to each Cash Generating Unit that is expected to benefit from the synergies of the combination.

After its initial recognition, goodwill is not amortised but is instead subject to a recoverability test at least annually by determining the recoverable value of the CGU to which it is allocated (following the procedures described in the note "Impairment of property, plant and equipment and intangible assets of finite useful life"); this is then compared to the book value of the CGU itself.

When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed

<sup>7</sup> The RAB is the reference basis for the determination of the service tariffs and, therefore, of the cash flows generated by the activities. The value of the RAB is defined through the historical cost method revalued as regards the Fixed capital, and on a flat rate basis for the working capital, the employee severance indemnity and, with reference to the storage sector, the site dismantling and restoration fund.





pro rata to the book value of the assets constituting the CGU. Goodwill write-downs are not reversed, even if the reasons for the write-down no longer apply in subsequent years.

## Reduction in value of the investments

When there are indications that an impairment loss may exist or when events occur leading to the assumption of impairment of investments, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value, net of disposal costs (see paragraph 5.8 "Measurement at fair value"), or the value in use, whichever is greater.

## 5.6 INVENTORIES

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realizable value, which is the amount that the entity expects to receive from their sale in the normal course of business, net of the estimated costs for the completion and the realisation of the sale.

The cost of natural gas inventories is determined using the weighted average cost method.

Note that strategic gas transactions, which are subject to prior authorisation by MISE, entail the withdrawal and subsequent replenishment of quantities of gas from the strategic reserve, and therefore do not determine any inventory movements<sup>8</sup>.

## 5.7 FINANCIAL INSTRUMENTS

### Non-derivative financial assets - cash and cash equivalents

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible. They are recorded at their nominal value, which corresponds to the fair value.

### Non-derivative financial assets - receivables and debt securities

Debt securities held by the group consist mainly of trade receivables, financial receivables and other receivables.

Initial recognition is at fair value; except for trade receivables without a significant financial component, whose initial recognised value is represented by the price of the transaction.

When the purchase or the sale of financial assets takes place in accordance with a contract that involves the regulation of the transactions and the handing over of the asset within a certain number of days, established by the market control bodies or by market agreements (e.g. the acquisition of securities on regulated markets), the transaction is recognised at the regulation date.

Financial assets in the form of debt securities held by the Group, generate contractual cash flows exclusively representative of payments of principal and interest and are held with the purpose of collecting the contractual cash flows (the so-called hold to collect business model); they are subsequently measured at amortised cost. According to the amortised cost method the initial book value is then adjusted to account for repayments of principal, any impairments for credit losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial recognition value equal at the time of the initial recording.

Financial assets valued at the amortised cost are presented in the statement of financial position net of the related impairment provision.

The valuation of the recoverability of financial assets valued at amortised cost is carried out based on the so-called Expected Credit Loss model.

<sup>8</sup> Or the risk, the timing or the amount of the future cash flows of the entity are not intended to change following these transactions IFRS 15.9d



In particular, expected losses are generally determined on the basis of the product between:

- i) exposure to the counterparty net of the relative mitigating factors (so-called Exposure At Default);
- ii) the probability that the counterparty will default on its payment obligations (so-called Probability of Default);
- iii) the percentage estimate of the amount of non-recoverable credit in the event of default (so-called Loss Given Default) defined on the basis of past experience and possible recovery actions (e.g. out-of-court actions, legal disputes, etc.).

Taking into consideration the characteristics of regulated markets, credit exposures more than 90 days overdue are considered to be in default or, in any event, credit exposures subject to litigation or for which restructuring/renegotiation actions are taking place. Exposures for which credit recovery measures have been implemented through legal/judicial proceedings are defined as disputed.

Impairments of trade receivables and other receivables are recognised in the income statement, net of any write-backs, under the item "Other operating expenses".

The recoverability of long-term financial receivables granted to associate companies and joint ventures, the repayment of which is not planned or is not probable in the foreseeable future, and which, in essence, represent a further investment in them, is valued, firstly, based on the expected credit loss model and, secondly, together with the investment in the associate company/joint venture by applying the criteria of equity-accounting method. The application of the expected credit loss model does not consider any adjustments of the book value of the long-term interest resulting from the application of the criteria of the equity accounting method.

Financial assets that are disposed of are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument expire or are transferred to third parties.

### Non-derivative financial assets - minority interests

Financial assets representing minority interests, because they are not held for trading purposes, are measured

at fair value on an alternating basis with the effects recognised: (i) in the income statement (so-called fair value through profit or loss or FVTPL) or in the shareholders' equity reserve that comprises the other components of the comprehensive income statement, without provision for reclassification to profit or loss in the event of realisation (fair value through other comprehensive income or FVTOCI).

This classification can be made security by security, exclusively at the time of initial recognition and it is irrevocable.

The dividends from these investments are recognised in the income statement under "Income (expense) from investments". The valuation at cost of a minority interest is allowed in limited cases in which the cost represents an adequate estimate of the fair value.

### Financial liabilities

Financial liabilities, unlike derivative instruments, including financial debt, trade payables and other payables, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting purposes, as demonstrated in the previous point "Non-derivative financial assets - debt securities".

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

### Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset in the balance sheet when there is a currently legally enforceable right to set-off and the intention either to settle the relationship on a net basis (i.e. to realise the asset and settle the liability simultaneously).

### Derivative financial instruments and hedge accounting

Derivative financial instruments, including embedded derivatives, are assets and liabilities recognised at fair value. Under the scope of the strategy and objectives defined for risk management, the qualification of transactions as hedging requires: (i) the verification of the existence of an economic relationship between



the object hedged and the hedging instrument for the purpose of offsetting the changes in value and ensuring this offsetting capacity is not invalidated by the level of counterparty credit risk; (ii) the definition of a hedge ratio consistent with the risk management objectives, under the scope of the risk management strategy defined, where necessary activating the appropriate rebalancing actions. The amendments of the risk management objectives, the disappearance of the conditions indicated previously for the qualification of transactions as hedging or the activation of rebalancing operations cause the total or partial prospective discontinuation of the hedge.

In order to qualify a transaction as a hedge, at the start of the hedge a formal document is prepared that illustrates the strategies and objectives of the risk management and identifies the hedging instrument, the instrument hedged, the nature of the risk hedged and the methods through which the evaluation of whether the hedge relationship satisfies the hedge effectiveness requirements takes place.

When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.

The group subscribes to derivative instruments to cover the risk of changes in cash flows (cash flow hedges) as a result of fluctuations in interest rate or exchange rates. Changes in the fair value of hedging derivatives considered effective are initially recognised in the shareholders' equity reserve relating to other components of the comprehensive income statement and are subsequently reclassified to profit or loss in line with the economic effects produced by the hedged transaction. In the case of hedging future transactions that involve the recording of a non-financial asset or liability, the cumulative variations of the fair value of the hedge derivatives, recognised in shareholders' equity, are recognised in the adjustment of the book value of the non-financial asset/liability subject to hedging (basis adjustment).

The ineffective portion of the hedge and the changes in the fair value of derivatives that do not meet the qualifying conditions for hedging are recognised in the income statement.

### Treasury shares

Treasury shares, including those held to service share-based payment plans (share incentive plans), are measured at cost and entered as a reduction of shareholders' equity. The economic effects arising from any subsequent sales are recognised in shareholders' equity.

### Distribution of dividends

The distribution of dividends to the Company's shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's shareholders or, in the case of interim dividends, by the Board of Directors.

## 5.8 FAIR VALUE MEASUREMENT

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its maximum and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.



The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of financial instruments considers the credit risk of the counterparty for financial assets (through a "Credit Valuation Adjustment" - CVA) and the entity's own risk of default for financial liabilities (through a "Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs for assets or liabilities that are not based on observable market data.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

## 5.9 PROVISION FOR RISKS AND CHARGES, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.

The provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past

event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at the value representing the best estimate of the amount that the Company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits arising from the contract, and the cost of terminating the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation.

The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.

Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside



the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

Contingent assets, or possible assets that result from past events and whose existence will only be confirmed when one or more uncertain future events, not totally under the control of the business, occur or do not occur, are not recognised unless obtaining the related benefits is virtually certain. If obtaining the benefits is probable, the contingent assets are illustrated in the notes to the financial statements.

## 5.10 NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Non-current assets or disposal groups consisting of assets and liabilities are classified as held for sale if their book value will be recovered mainly by their sale rather than through continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether a non-controlling investment is maintained following the sale. Verification of compliance with the terms and conditions provided for classification of an item as held for sale requires management to make subjective valuations formulating reasonable and realistic assumptions based on the information available to it.

Immediately prior to classification as held for sale, the assets and liabilities included in a disposal group are measured in accordance with the accounting standards applicable to them. Subsequently, non-current assets held for sale are not amortised or depreciated and are measured at the lower of book value and related fair value, less any sales costs (see paragraph 5.8 "Fair-value measurements" above).

The classification of investments accounted for using the equity method as held for sale implies the suspension of the application of this valuation criterion. Any negative difference between the book value of the non-current

assets and their fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

Non-current assets and disposal group-related assets and liabilities held for sale are recognised in the statement of financial position separately from the group's other assets and liabilities.

Non-current assets and disposal groups, classified as held for sale, constitute a discontinued operation if, alternatively:

- i) they represent a significant autonomous business unit or a significant geographical area of operations;
- ii) they are part of a plan to dispose of a significant autonomous business unit or a significant geographical area of operations; or
- iii) they relate to a subsidiary acquired exclusively to be sold.

The economic results of discontinued operations, as well as any capital gains/losses realised on the disposal, are recorded separately in the income statement under a special item, net of related tax effects, including for the comparative periods.

When events occur that no longer permit non-current assets or disposal groups to be classified as held for sale, they are reclassified to the respective items in the statement of financial position and recognised at the lower of the following: (i) the book value at the date of classification as held for sale; and (ii) the recoverable amount at the reclassification date.

## 5.11 REVENUE

The recognition of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligation, represented by the contractual commitment to transfer goods and/or services to a customer; (iii) calculating of the transaction's price ; (iv) allocating of the transaction price to the performance obligations identified based on the stand alone sales price of each of the goods or services; (v) measuring the revenue



when the performance obligation is met, i.e. at the time of the transfer to the customer of the goods or services promised; the transfer is considered to be completed when the customer obtains control of the goods or service, which can take place over time or at a point in time.

Revenues are measured for the amount equal to the fair value of the consideration which the business believes it has the right to in exchange for the goods and/or services promised to the customer, with the exception of amounts collected on behalf of third-parties. If there is a variable consideration, the business estimates the amount of the consideration it shall have the right to in exchange for the transfer of goods and/or services promised to the customer; specifically, the amount of the consideration can vary in the presence of discounts, incentives, concessions on the price, performance bonuses, penalties or if the actual price depends on certain future events taking place or not.

Revenues from the Snam Group's ordinary operations mainly consist of services relating to the transportation, dispatching and storage of natural gas and the regasification of liquefied natural gas, which are recognised in the financial statements over the period in which the service is provided, whether the services are "regulated" or "non-regulated".

The recognition of revenues for regulated services is conditioned and influenced by the regulatory framework defined by ARERA (Autorità di Regolazione per Energia Reti e Ambiente – Regulatory Authority for Energy Networks and the Environment). Therefore, the economic conditions of the services provided are defined through regulatory schemes and not on a negotiated basis. The revenue recognised in the income statement coincides with that recognised by the regulator (so-called "revenue cap").

As regards the transportation business segment, the difference between the revenue recognised by the regulator and that actually accrued is recorded with a balancing entry in the items "Other current assets", if positive, and in "Other current liabilities", if negative, in the statement of financial position. This difference will be released under revenues in the income statement in future years in the form of tariff changes.

In the Regasification and Storage segments, however, any difference between the revenue recognised by

the regulator and the accrued revenue is recognised in the balance sheet item "Trade and other receivables", if positive, and in the item "Trade payables and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA).

Non-regulated revenues mainly involve: (i) considerations for the construction of biogas and biomethane plants; (ii) technical-specialist services to unconsolidated foreign companies; (iii) the provision of services relating to energy efficiency projects; (iv) income from the rental and maintenance of fibre optic telecommunication cables; (v) the sale of CNG compressors for motor transport. The recognition of these revenues takes place over the service provision period.

By virtue of the principle of neutrality defined by applicable regulations, transactions carried out on the balancing market generate neither costs nor revenue, as they are mere pass-through items. Any (positive or negative) differences from the usage of different prices for the transactions above will be neutralized by recognizing an asset or liability for CSEA, given that these differences are equalized by the latter.

## 5.12 EMPLOYEE BENEFITS

### Short-term benefits for employees

Short-term benefits for employee are recognised as a cost at the time when the service is rendered. The Group recognises a liability, classified under "Trade payables and other payables" for the amount due to be paid when it has a current legal or constructive obligation to make such payments.

### Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as "defined-benefit" or "defined-contribution" plans.

#### ■ Defined-benefit plans

The liability associated with defined-benefit plans is determined by estimating the present value of



the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in the comprehensive income statement in the period in which they occurred, and are not subsequently recognised in the income statement. When a plan changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in "Finance expense (income)".

#### ■ Defined-contribution plans

In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

### Other long-term benefits

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

### Benefits payable on termination of employment

The benefits payable to employees for termination of employment are recognised as an expense when the Company is committed to offering the benefits and has no option to withdraw them, or, if earlier, when the company recorded restructuring costs.

### Share-based payments (Share-based incentive plan)

Employee benefits, consistent with the essential nature of the remuneration that they comprise, include the cost of share-based incentive plans. The incentive cost is calculated with reference to the fair value of the instruments allocated and the forecast of the number of share that will effectively be allocated; the share pertaining to the financial year is calculated pro-rata temporis throughout the vesting period, or the period between the grant date and the allocation date. The fair value of the shares underlying the incentive plan is calculated at the grant date taking into account the forecasts with regard to reaching the performance parameters associated with market conditions and is not adjusted in future financial years; when obtaining the benefit is also connected to conditions other than market conditions, the estimate relating to these conditions is reflected by adjusting the number of shares during the vesting period that are expected to effectively be allocated.

### 5.13 ACCOUNTING FOR ENVIRONMENTAL CERTIFICATES - EMISSION TRADING SYSTEMS

The European Emission Trading System, established to manage and trade emission allowances, sets an upper limit for greenhouse gas emissions produced over the course of a year, for which a certain number of emission allowances are issued free of charge by the competent national authorities. Depending on the actual greenhouse gas emissions produced during the year, each company is entitled to sell or is obliged to buy emission allowances on the market.

Allowances purchased for a consideration to offset emissions released into the atmosphere during the year are recognised in the income statement; any allowances purchased beyond what is necessary are recognised in "Other current assets". Any allowances allocated free of charge and not used in the year of allocation are not recognised in the financial statements as they are used for the following year's requirements.

If there is a deficit for emission allowances that have not been purchased on the market at the balance sheet date, the cost and corresponding liability are recognised at market value at the end of the financial year.





## 5.14 FOREIGN CURRENCY TRANSACTIONS

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- monetary assets and liabilities in currencies other than the functional currency are converted into Euro by applying the exchange rate in effect on the reporting date, allocating the effect to the income statement;
- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

## 5.15 INCOME TAXES

Current income taxes are calculated by estimating the taxable income. Payables and receivables for current income taxes are recognised at the value expected to be paid to/recovered from the tax authorities

by applying the tax rates and regulations in force or substantially approved at the end of the financial year. Regarding corporation tax (IRES), Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up, except for Miecì S.p.A., Evolve S.p.A. and T-lux S.r.l. The projected payable is recognised under "Current tax liabilities".

The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which,

without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current tax liabilities"/"Current tax assets".

Deferred taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates applicable in financial years in which the temporary difference will be cancelled, approved or essentially approved at the end closing date of the reference year of the financial statements. Deferred tax assets are recognised when their recovery is considered probable; specifically, the recoverability of deferred tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability; with reference to deferred tax assets, their recoverability is verified at least annually.

If there are uncertainties over the application of tax regulations: (i) in cases where it is deemed probable that the tax authorities will accept the uncertain tax treatment, the income taxes (current and/or deferred) to be recognised in the financial statements according to the tax treatment applied or which it is expected to apply during the tax return are calculated; (ii) in cases where it is not deemed probable that the tax authorities will accept the uncertain tax treatment, this uncertainty is reflected in calculating the (current and/or deferred) income taxes to be recognised in the financial statements.

Deferred tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset and/or at the level of the consolidating company in the presence of the taxation regime set out in the national





consolidation scheme. The balance of the offsetting, if it results in an asset, is recognised under the item "Deferred tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, current and deferred taxes are also posted to equity.

## 5.16 SEGMENT REPORTING (OPERATING SEGMENTS)

Disclosure on business segments has been prepared pursuant to IFRS 8 – "Operating Segments": consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management to allocate resources to the different segments and to analyse the respective performances.

An operating segment is defined by IFRS 8 as the component of an entity that: (i) that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the same entity); (ii) for which the operating results are regularly reviewed by the entity's most senior decision-makers for the purpose of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.

Specifically, the reportable business segments are as follows: (i) natural gas transportation (the "Transportation segment"); (ii) Liquefied Natural Gas regasification (the "Regasification segment"); (iii) natural gas storage (the "Storage segment") and relate to the activities carried out predominantly by Snam Rete Gas and ITG, GNL Italia and Stogit, respectively.

The new companies of the Energy Transition, are included within the "Corporate and other activities" segment, which is not operational in accordance with IFRS 8.

## 6) ASSUMPTIONS AND UNCERTAINTIES IN ESTIMATES

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable

and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

### 6.1 IMPAIRMENT OF NON-FINANCIAL ASSETS

Non-financial assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events that can lead to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.

The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the usage value, determined by discounting the expected cash flows deriving from the use of the asset, or represented by the RAB in the regulated business segments. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are discounted using a rate that takes account of the risk inherent to the asset concerned.

The rationale behind the impairment testing used by management in relation to property plant and machinery,



intangible assets, goodwill and investments accounted for using the equity method are illustrated respectively in note 14 "Property, plant and equipment", note 15 "Intangible assets and goodwill" and note 16 "Investments accounted for using the equity method".

## 6.2 PROVISION FOR RISKS AND CHARGES

### Provision for site dismantlement and restoration

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities that will be incurred many years in the future for compliance with dismantling and

restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.

The criticality of estimates of dismantlement and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks

is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied.

The calculation of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the Company's management.

### Environmental liabilities

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local

level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.

The group does not currently believe that the financial statements will suffer particularly significant adverse effects due to non-compliance with environmental regulations, also considering actions already undertaken, but it cannot be ruled out with certainty that Snam may incur further, possibly significant, costs or liabilities, since current knowledge says it is impossible to predict the effects of future developments, taking into account also the following aspects: (i) the possible emergence of contamination; (ii) the outcome of the refurbishment in progress and to be followed and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental reclamation; (v) the possibility of disputes and the difficulty of determining the possible consequences, also in relation to the liability of other parties and to possible compensation payments.

### Provisions for legal and tax disputes

The estimation of the group's provisions for these purposes is the result of a complex process involving subjective judgements by Company management.

## 6.3 INVESTMENTS AND BUSINESS COMBINATIONS

Verification of the existence of control, joint control, considerable influence over another entity as well as, in the case of joint operations, verification of the existence of enforceable rights and obligations requires Corporate Management to exercise professional judgement taking into consideration the characteristics of the corporate structure and agreements between the parties as well as other facts and circumstances that are relevant for the purpose of this check. Similar considerations also apply in cases of a planned change in status following a loss of control, joint control or connection with the possible need to activate the classification as "assets held for sale/discontinued operation".



The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the attribution of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

## 6.4 EMPLOYEE BENEFITS

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.

The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the comprehensive income statement. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

## 6.5 FAIR VALUE

Calculating the fair value of financial and non-financial instruments is a structured process featuring the use of complex evaluation methodologies and techniques that involve collecting up to date information from the reference markets and/or using internal input data.

Similar to other estimates, calculating the fair value, albeit based on the best information available and on the adoption of adequate evaluation methodologies and techniques, it intrinsically features random elements and the exercising of professional judgement and could create forecasts with different values from those that will effectively be realised.

## 6.6 CLASSIFICATION AND MEASUREMENT OF INVESTMENTS MADE FOR DEVELOPMENT AND MAINTENANCE OF PROPRIETARY INFRASTRUCTURES

The Snam Group makes significant investments for development and maintenance of its own infrastructures. Assessing the recoverability of the investments currently underway and the distinction of the costs as improvements, upgrades and transformations that increase the infrastructure and the expenses for ordinary maintenance and repairs which restore but do not increase the performance of the assets, includes valuation elements. These assessments are formulated on the basis of objective criteria that the Group has developed to facilitate an application consistent with its accounting policies.

## 7) ACCOUNTING STANDARDS PUBLISHED BY THE IASB BUT NOT YET ENTERED INTO FORCE

Below are the new accounting standards or amendments to existing accounting standards published by the IASB and coming into force after 31 December 2020. The new elements have been divided into documents approved and those not yet approved by the European Commission. Looking at the group's current operations and transactions, Snam deems it reasonable to assume that the first-time application of these innovations will not have a material impact on the financial statements.



## 7.1 ACCOUNTING STANDARDS PUBLISHED BY THE IASB AND APPROVED BY THE EUROPEAN COMMISSION BUT NOT YET ENTERED INTO FORCE

### Extension of temporary exemption from application of IFRS 9 (Amendments to IFRS 4)

Regulation No. 2020/2097, issued by the European Commission on 15 December 2020 endorsed the regulatory provisions contained in the document "Extension of the temporary exemption from applying IFRS 9 (Amendments to IFRS 4)", whose provisions are effective from the financial years starting on or after 1 January 2021. The main changes involve the deadline provided for the temporary exemption in IFRS 4 "Insurance contracts" from the application of IFRS 9 "Financial Instruments", so that the entity is required to apply IFRS 9 for financial years beginning on or after 1 June 2023, in order to remedy the temporary accounting consequences of the time lag between the entry into force of IFRS 9 "Financial Instruments" and the date of entry into force of the future IFRS 17 "Insurance contracts".

The directors will not experience significant changes to the Group's consolidated financial statements deriving from the adoption of said amendment.

### Interest rate benchmark reform – Phase 2

Regulation No. 2021/25, issued by the European Commission on 13 January 2021, endorsed the regulatory provisions contained in the document "Interest Rate Benchmark Reform - Phase 2 (amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)", whose provisions are effective for financial years beginning on or after 1 January 2021. These amendments provide for specific accounting treatment to spread over time changes in financial instrument or lease values arising from replacement of the interest rate benchmark, thus avoiding immediate repercussions on profit (or losses) for the year and unnecessary disruptions of hedging relationships as a result of the interest rate benchmark.

The directors will not experience significant changes to the Group's consolidated financial statements deriving from the adoption of said amendment.

## 7.2 ACCOUNTING STANDARDS AND INTERPRETATIONS PUBLISHED BY THE IASB AND NOT YET APPROVED BY THE EUROPEAN COMMISSION

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed.

### Standard

#### IFRS 17 Insurance Contracts

On 18 May 2017, the IASB issued the document IFRS 17 "Insurance Contracts", which is applicable to all insurance companies. They define the principles for recognition, measurement, presentation and disclosure, replacing IFRS 4. The measures contained in IFRS 17 will take effect from financial years starting on or after 1 January 2023, subject to deferrals established upon approval by the European Commission. The new standard requires a "Building Block Approach" (BBA) based on expected cash flow and the specification of a "risk adjustment" and of a Contractual Service Margin (CSM) which represents expected profit from insurance contract. This margin is reported in the income statement in the period in which the insurance cover is provided. Moreover, there are two alternative approaches in addition to the BBA which are the "Variable Fee Approach" (VFA) and the Premium Allocation Approach (PAA), applicable in specific cases. The standard also provides for a new method of presentation in the income statement, which presents the following separately: (i) "insurance revenues", (ii) "insurance service expenses" and (iii) "insurance finance income or expenses".

### Amendments

#### Classification of current and non-current liabilities - Amendments to IAS 1

On 23 January 2020, the IASB issued the document "Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current", the provisions of which will take effect from financial years starting on or after 1 January 2023, subject to deferrals established upon approval by the European Commission. The IASB clarifies the criteria that should be used to determine whether the liabilities should be classified as current or non-current. The amendments aim to promote consistency in the application of the requirements by helping companies to determine whether debts and other liabilities with an uncertain settlement



date should be classified as current (due or potentially due to be settled within one year) or non-current. In addition, they include clarifications regarding the classification requirements of payables that an entity could extinguish through conversion to equity. Early application of the amendments is permitted.

#### Changes in accounting estimates and changes in accounting policies - Amendments to IAS 1 and IAS 8

On 12 February 2021, the IASB issued the document "Amendments to IAS 1 Presentation of Financial Statements 2: Disclosure of Accounting Policies" and "Amendments to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates", the provisions of which will take effect from financial years starting on or after 1 January 2023, subject to deferrals established upon approval by the European Commission. The changes will help companies to improve disclosure on accounting standards so that they provide more useful information to investors and other primary users of financial statements and provide useful guidance in distinguishing changes in accounting estimates from changes in accounting standards.

#### Change cycle: May 2020

On 14 May 2020, the IASB issued the following amendments whose provisions are effective for financial years beginning on or after 1 January 2022, notwithstanding subsequent deferrals established upon approval by the European Commission:

- **Improvements to IFRSs (2018-2020 cycle):**
  - (i) amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards", in relation to the measurement of cumulative translation differences; (ii) amendments to IFRS 9 "Financial Instruments" clarifying which fees are included when performing the "10 per cent" test required by paragraph B3.3.6 of IFRS 9, specifying that only commissions paid or received between the entity and the lender should be included; (iii) deletion of Illustrative Example 13 accompanying IFRS 16 "Leases" relating to the reimbursement of leasehold improvements by the lessor, in order to remove any doubt about the treatment of leasing incentives; (iv) amendments to IAS 41 "Agriculture" to clarify that in the fair value measurement of biological assets, there is no obligation to exclude the cash flows related to.
- **Amendments to IAS 16:** the document "Amendments

to IAS 16 Property, Plant and Equipment: Proceeds before intended use" introduced some clarifications, specifying that there can be no deduction, from the asset cost, of the amount received from the sale of goods produced, before the asset was ready for use, as intended by the management. These sales revenues and related costs shall therefore be recognised in the income statement.

- **Amendments to IAS 37:** The document "Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets: Onerous contracts - Cost of fulfilling a contract" clarified which cost items are to be considered in determining whether or not a contract will be loss-making.
- **Amendments to IFRS 3:** the document "Amendments to IFRS 3 Business Combinations: Reference to the Conceptual Framework" aims to update the IFRS 3 reference to the Conceptual Framework in its revised version, without leading to any changes to the requirements of IFRS 3.

The directors will not experience significant changes to the Group's consolidated financial statements deriving from the adoption of said amendment.

## 8) CASH AND CASH EQUIVALENTS

Cash and cash equivalents, of 3,044 million euros (2,851 million euros as at 31 December 2019) refer mainly to current accounts and bank deposits in euros with financial institutions (2,991 million euros), representing the use of cash held for the Group's financial needs, and cash held at the companies Gasrule Insurance DAC (23 million euros) and Snam International BV (22 million euros).

The average yield on cash investments is approximately 0.12%.

The book value of cash and cash equivalents approximates to their fair value. They are not subject to any usage restrictions.

A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the cash flow statement.


[> Highlights](#)
[> Directors' report integrated report](#)
[> Consolidated non-financial statement](#)
[> Consolidated Financial Statements](#)

## 9) TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables amounting to 1,676 million euros (1,376 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019	31.12.2020
Trade receivables, gross of provision for impairment losses	1,319	1,653
Provision for impairment losses	(102)	(102)
<b>Total trade receivables</b>	<b>1,217</b>	<b>1,551</b>
Other receivables from the Energy and Environmental Services Fund (CSEA)	124	79
Receivables for private contributions	8	7
IRES receivables for the national tax consolidation scheme with former parent	9	9
Advances to suppliers	6	6
Others	12	24
<b>Total trade receivables and other receivables</b>	<b>1,376</b>	<b>1,676</b>

Trade receivables (1,551 million euros; 1,217 million euros at 31 December 2019) mainly pertain to the natural gas transportation (1,150 million euros) and storage (176 million euros) segments.

Trade receivables relating to the storage sector include VAT receivable invoiced to users in previous years for the use of strategic gas collected and not replenished (77 million euros, unchanged from 31 December 2019).

This provision for impairment losses (102 million euros) essentially relates to impairment losses recorded in previous years on receivables from the balancing service pursuant to resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas) of uncollected receivables for the period from 1 December 2011 to 23 October 2012 (90 million euros, including the relative interest)<sup>9</sup>.

Receivables from the CSEA (79 million euros) refer to the transportation sector and are attributable to the gas settlement, introduced by the Authority through resolutions 670/2017/R/gas and 782/2017/R/gas, and to the incentives paid to the balancing manager.

Receivables for private contributions (7 million euros; 8 million euros at 31 December 2019) were recognised in respect of third-party interference works involving the transportation sector (so-called compensation).

IRES receivables for the national tax consolidation regime (9 million euros, unchanged from 31 December 2019) mainly related to receivables from the

<sup>9</sup> Pursuant to the provisions of Resolution 608/2015/R/gas, the Company made a provision for impairment losses for a value of approximately 125 million euros, which, following the Council of State's ruling of 5 March 2020, was released at a value of approximately 35 million euros. As at 31 December 2020, the value of the provision for impairment losses amounted to 90 million euros and related to the balancing receivables due to the Company from certain customers with whom bankruptcy proceedings are in progress. For more information, see Note 26 "Financial Risk Management – Credit Risk".



former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

All receivables are in euros. The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the contractual terms and conditions.

Receivables from related parties are described in Note 36 "Related-party transactions".

Specific information on credit risk can be found in Note 26 "Financial risk management - Credit risk".

Trade receivables and other receivables largely refer to activities carried out by Snam in the regulated business segments (transportation, storage and regasification), with customers of high credit standing. This exposes Snam to a very limited risk of expected losses on its receivables. In consideration of the assessments made, also in relation to the possible impacts of Covid-19, no deterioration in the creditworthiness of counterparties was found; for these reasons, Snam has not identified any issues with regard to the recoverability of trade and other receivables as at 31 December 2020.

## 10) CURRENT AND NON-CURRENT INVENTORIES

Current and non-current inventories, which amount to 461 million euros (475 million euros at 31 December 2019) are analysed in the table below:

(million €)	31.12.2019			31.12.2020		
	Gross value	Provision for Impairment losses	Net value	Gross value	Provision for Impairment losses	Net value
Raw materials, consumables and supplies	106	(13)	93	93	(13)	80
Finished products and goods	51	(32)	19	50	(32)	18
<b>Total current inventories</b>	157	(45)	112	143	(45)	98
<b>Total non-current inventories - Compulsory inventories</b>	363		363	363		363
<b>Total current and non-current inventories</b>	<b>520</b>	<b>(45)</b>	<b>475</b>	<b>506</b>	<b>(45)</b>	<b>461</b>

Inventories of current raw materials, consumables and supplies (80 million euros; 93 million euros at 31 December 2019) primarily include stock materials relating to the pipeline network (40 million euros) to storage plants (12 million euros), and natural gas used for transportation activities (9 million euros).

Inventories of finished products and merchandise (18 million euros, 19 million euros at 31 December 2019) mainly refer to the natural gas present in the storage system (617 million euros standard cubic metres, unchanged from 31 December 2019).




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Inventories are stated net of write-down provisions of 45 million euros (unchanged from 31 December 2019). The provision essentially concerns the write-down (30 million euros) recorded in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011<sup>10</sup>.

Inventories are not pledged to guarantee. Inventories do not secure liabilities, nor inventories recognised at net realisation value.

Non-current inventories (363 million euros, unchanged from 31 December 2019) include minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree No. 22 of 31 January 2001 (so-called Compulsory inventories).

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<sup>11</sup>.

## 10.1 THIRD PARTY NATURAL GAS ON DEPOSIT

Risks related to third party assets on deposit, equal to 1,458 million euros (2,073 million euros at 31 December 2019) relate to approximately 8 billion cubic metres of natural gas deposited in the storage plants by service customers. This amount was determined by applying the estimated unit repurchase cost<sup>12</sup> of approximately 0.18 per standard cubic metre (0.23 per standard cubic metre at 31 December 2019) to the quantities of gas deposited.

## 11) CURRENT AND NON-CURRENT INCOME TAX ASSETS/LIABILITIES

Current and non-current income tax assets/liabilities break down as follows:

(million €)	31.12.2019	31.12.2020
IRES	9	17
IRAP		1
Other assets	3	16
<b>Total current income tax assets</b>	<b>12</b>	<b>34</b>
IRES	(22)	(1)
IRAP	(4)	(1)
<b>Total current income tax liabilities</b>	<b>(26)</b>	<b>(2)</b>

<sup>10</sup> For more information regarding the progress of the lawsuits under way, see Note 26 "Financial risk management - Credit risk - Recovering receivables from users of the storage system".

<sup>11</sup> On 12 February 2021, the Ministry confirmed the total volume of strategic storage for the contractual year 2021-2022 (1 April 2021 - 31 March 2022) at 4.62 billion cubic metres or approximately 48,846 gigawatt hours GWh, unchanged compared with the thermal year 2020-2021 (1 April 2020-31 March 2021). The Stogit share was unchanged at 4.5 billion cubic metres.

<sup>12</sup> Value calculated on the basis of the CCI Tariff, or the wholesale price established by the ARERA every quarter.




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Current income tax assets 34 million euros (12 million euros at 31 December 2019) mainly include IRES receivables (17 million euros) settle against receivables for additional IRES (8 million euros) and other assets (16 million euros) for Ecobonus and Sismabonus receivables (14 million euros).

Current income tax liabilities amount to 2 million euros (26 million euros at 31 December 2019). The decrease compared to the previous year is mainly due to lower payables for IRES under the National Tax Consolidation Regime (21 million euros).

Taxes for the year under review are shown in Note 33 "Income taxes".

## 12) OTHER CURRENT AND NON-CURRENT FINANCIAL ASSETS

Current financial assets of 7 million euros and non-current financial assets of 420 million euros (44 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
Long-term financial receivables		3	3	1	306	307
Minority equity investments FVTOCI		39	39		112	112
Short-term financial receivables				5		5
Other		2	2	1	2	3
<b>Total other current and non-current assets</b>		<b>44</b>	<b>44</b>	<b>7</b>	<b>420</b>	<b>427</b>

Long-term financial receivables amount to 307 million euros (3 million euros at 31 December 2019). Compared to 31 December 2019, receivables increased by 304 million euros mainly as a result of Snam taking over the residual portion of a shareholders' loan from Iren S.p.A. to OLT, against the acquisition of a 49.07% stake in the company's share capital, a transaction completed on 26 February 2020. With reference to such receivables, including in relation to the possible impact of Covid-19, no deterioration in the counterparty's creditworthiness was recorded.

Minority equity investments valued at FVTOCI (112 million euros at 31 December 2020; 39 million euros at 31 December 2019) relate to the valuation of the shares held by Snam in the capital of Terminale GNL Adriatico S.r.l. (7.3% stake) and in the capital of ITM Power PLC (2.318% stake, acquired in the financial year), amounting to 38 million euros and 74 million euros respectively.


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Changes during the year were as follows:

(million €)	
<b>Value as at 31.12.2019</b>	<b>39</b>
Acquisitions and subscriptions	<b>34</b>
Change in fair value through other comprehensive income	<b>43</b>
Disposals and redemptions	<b>(4)</b>
<b>Value as at 31.12.2020</b>	<b>112</b>

The acquisitions and subscriptions in the financial year, equal to 34 million euros, fully refer to the subscription of the capital increase of ITM Power PLC that led Snam to possess a shareholding of 2.318%; the change of Fair Value from the date of subscription, shown in the other elements of the comprehensive income statement, is equal to 40 million euros.

For further information on the acquisition of ITM Power PLC see section "Main events - Hydrogen" in the Directors' Report.

### 13) OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets, which amount to 99 million euros (33 million euros at 31 December 2019) and other non-current assets of 48 million euros (26 million euros at 31 December 2019) break down as follows:

	31.12.2019			31.12.2020		
(million €)	Current	Non-current	Total	Current	Non-current	Total
Other current tax assets:	14		14	50		50
- VAT	11		11	46		46
- Other taxes	3		3	4		4
Regulated activities	1	1	2	1	18	19
Other assets:	18	25	43	48	30	78
- Prepaid expenses	9	10	19	7	13	20
- Security deposits		13	13		14	14
- Other	9	2	11	41	3	44
<b>Total other current and non-current assets</b>	<b>33</b>	<b>26</b>	<b>59</b>	<b>99</b>	<b>48</b>	<b>147</b>

Other current tax assets 50 million euros (14 million euros at 31 December 2019) mainly refer to VAT receivables (46 million euros).


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The item "Other assets" (78 million euros; 43 million euros at 31 December 2019) basically includes:

- prepaid expenses (20 million euros), relating to upfront fees and the substitute tax on revolving credit lines (17 million euros) and to insurance premiums (3 million euros);
- security deposits (14 million euros) issued to support operations mainly relating to the natural gas transportation sector;
- other (44 million euros) mainly relate to contract work on biogas plants.

## 14) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, amounts to 16,815 million euros (16,439 million euros at 31 December 2019) breaks down as follows:

(million €)	31.12.2019						Total
	Land	Buildings	Plant and equipment	Industrial and Commercial Equipment	Other assets	Fixed assets in progress and advances	
<b>Cost at 31.12.2018</b>	<b>171</b>	<b>472</b>	<b>23,195</b>	<b>117</b>	<b>235</b>	<b>816</b>	<b>25,006</b>
Investments			5	12	1	843	<b>861</b>
Disposals		(1)	(23)	(7)	(1)	(4)	<b>(36)</b>
Change in the scope of consolidation		2	74	1		2	<b>79</b>
- of which rights of use for leased assets		2					<b>2</b>
Other changes	2	11	682	5	50	(717)	<b>33</b>
Rights of use for leased assets <sup>(*)</sup>	3	20			2		<b>25</b>
<b>Cost at 31.12.2019</b>	<b>176</b>	<b>504</b>	<b>23,933</b>	<b>128</b>	<b>287</b>	<b>940</b>	<b>25,968</b>
<b>Provisions for amortisation and depreciation at 31.12.2018</b>		<b>(116)</b>	<b>(8,432)</b>	<b>(62)</b>	<b>(173)</b>		<b>(8,783)</b>
Total amortisation and depreciation		(11)	(605)	(12)	(22)		<b>(650)</b>
Disposals			20	7	1		<b>28</b>
Change in the scope of consolidation			(18)				<b>(18)</b>
Rights of use for leased assets	(1)	(4)			(1)		<b>(6)</b>
<b>Provisions for amortisation and depreciation at 31.12.2019</b>	<b>(1)</b>	<b>(131)</b>	<b>(9,035)</b>	<b>(67)</b>	<b>(195)</b>	<b>0</b>	<b>(9,429)</b>
<b>Provision for impairment losses at 31.12.2018</b>	<b>(1)</b>	<b>(4)</b>	<b>(26)</b>			<b>(39)</b>	<b>(70)</b>
(Impairment losses)/Recovery of value			(3)			(27)	<b>(30)</b>
<b>Provision for impairment losses at 31.12.2019</b>	<b>(1)</b>	<b>(4)</b>	<b>(29)</b>			<b>(66)</b>	<b>(100)</b>
<b>Net balance at 31.12.2018</b>	<b>170</b>	<b>352</b>	<b>14,737</b>	<b>55</b>	<b>62</b>	<b>777</b>	<b>16,153</b>
<b>Net balance at 31.12.2019</b>	<b>174</b>	<b>369</b>	<b>14,869</b>	<b>61</b>	<b>92</b>	<b>874</b>	<b>16,439</b>

(\*) Includes the effects of the IFRS 16 first-time application (20 million euros) and the changes during the year (5 million euros).


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	31.12.2020						
(million €)	Land	Buildings	Plant and equipment	Industrial and Commercial Equipment	Other assets	Fixed assets in progress and advances	Total
<b>Cost at 31.12.2019</b>	<b>176</b>	<b>504</b>	<b>23,933</b>	<b>128</b>	<b>287</b>	<b>940</b>	<b>25,968</b>
- of which rights of use for leased assets	3	22			2		27
Investments			16	12	1	995	1,024
Disposals		(3)	(24)	(6)	(10)	(4)	(47)
Change in the scope of consolidation					2		2
Other changes		15	792	5	28	(789)	51
Changes in rights of use for leased assets	2	2			2		6
<b>Cost at 31.12.2020</b>	<b>178</b>	<b>518</b>	<b>24,717</b>	<b>139</b>	<b>310</b>	<b>1,142</b>	<b>27,004</b>
<b>Provisions for amortisation and depreciation at 31.12.2019</b>	<b>(1)</b>	<b>(131)</b>	<b>(9,035)</b>	<b>(67)</b>	<b>(195)</b>		<b>(9,429)</b>
- of which rights of use for leased assets	(1)	(4)			(1)		(6)
Total amortisation and depreciation	(1)	(11)	(622)	(13)	(28)		(675)
Disposals		1	15	7	10		33
Other changes		(2)	(2)				(4)
Depreciation rights of use for leased assets	(1)	(5)					(6)
<b>Provisions for amortisation and depreciation at 31.12.2020</b>	<b>(3)</b>	<b>(148)</b>	<b>(9,644)</b>	<b>(73)</b>	<b>(213)</b>		<b>(10,081)</b>
<b>Provision for impairment losses at 31.12.2019</b>	<b>(1)</b>	<b>(4)</b>	<b>(29)</b>			<b>(66)</b>	<b>(100)</b>
(Impairment losses)/Recovery of value			(7)			(4)	(11)
Other changes		1	2				3
<b>Provision for impairment losses at 31.12.2020</b>	<b>(1)</b>	<b>(3)</b>	<b>(34)</b>			<b>(70)</b>	<b>(108)</b>
<b>Net balance at 31.12.2019</b>	<b>174</b>	<b>369</b>	<b>14,869</b>	<b>61</b>	<b>92</b>	<b>874</b>	<b>16,439</b>
<b>Net balance at 31.12.2020</b>	<b>174</b>	<b>367</b>	<b>15,039</b>	<b>66</b>	<b>97</b>	<b>1,072</b>	<b>16,815</b>

Property, plant and equipment (16,815 million euros; 16,439 million euros at 31 December 2019) primarily relates to transportation (13,686 million euros), storage (2,892 million euros) and regasification infrastructure (110 million euros).

Investments<sup>13</sup> (1,024 million euros) mainly relate to the transportation segment (856 million euros).

<sup>13</sup> Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.


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During the year, Snam capitalised 12 million euros of financial expenses (11 million euros in 2019).

Depreciation (681 million euros), included rights-of-use on leased assets, refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company, and, with reference to leased assets, on the basis of the contractual duration if the exercise of any purchase options is not probable.

Capital contributions recorded against the net value of property, plant and equipment stood at 404 million euros (389 million euros at 31 December 2019).

Disposals (14 million euros, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to transportation segment assets, specifically relating to sections of methane pipeline, components of compression stations and electronic equipment.

Impairment losses and reversals (11 million euros) mainly refer to assets to the transport segment as well as the storage segment, following work over interventions on some plants.

The value of plant and equipment includes the estimated (discounted) costs to be incurred for the removal of facilities and the restoration of sites (325 million euros) mainly relating to the natural gas storage (198 million euros) and transportation (126 million euros) segments.

Other changes (47 million euros) relate essentially to: (i) the upward revision of dismantling estimated costs and restoration of sites, basically relating to the storage sector, against the reduction in the expected discount rates (73 million euros in all); (ii) contributions on works for interference with third parties (so-called recharges, -20 million euros).

With reference to the item "Rights of use for leased assets", it should be noted that in 2020 no lease agreements were renegotiated with counterparties as a result of the Covid-19.

In the absence of impairment indicators recorded during the year, there is no need to verify the recoverability of the carrying amount of property, plant and equipment. Nevertheless, as indicated in Note 15 "Intangible assets and goodwill", to which reference should be made for further details, an impairment test was carried out on all the main CGUs of the group.

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 25 "Guarantees and commitments".

There are no real guarantees on property, plant and equipment.


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## 14.1 TANGIBLE ASSETS BY BUSINESS SEGMENT

Property, plant and equipment by business segment break down as follows:

(million €)	31.12.2019	31.12.2020
<b>Historical cost</b>	<b>25,968</b>	<b>27,004</b>
Transportation	21,645	<b>22,477</b>
Storage	4,020	<b>4,167</b>
Regasification	176	<b>192</b>
Corporate and other activities	127	<b>168</b>
<b>Provisions for depreciation, amortisation and impairment losses</b>	<b>(9,529)</b>	<b>(10,189)</b>
Transportation	(8,244)	<b>(8,791)</b>
Storage	(1,175)	<b>(1,274)</b>
Regasification	(76)	<b>(82)</b>
Corporate and other activities	(34)	<b>(42)</b>
<b>Net balance</b>	<b>16,439</b>	<b>16,815</b>
Transportation	13,401	<b>13,686</b>
Storage	2,845	<b>2,893</b>
Regasification	100	<b>110</b>
Corporate and other activities	93	<b>126</b>


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## 15) INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill, which amount to 1,125 million euros (990 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019					Total
	With a finite useful life				With an indefinite useful life	
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible fixed assets	Fixed assets in progress and advances	Goodwill	
<b>Cost at 31.12.2018</b>	<b>763</b>	<b>769</b>	<b>64</b>	<b>38</b>	<b>42</b>	<b>1,676</b>
Investments				102		<b>102</b>
Change in the scope of consolidation		31	7		9	<b>47</b>
Other changes	91	3	(1)	(93)		
<b>Cost at 31.12.2019</b>	<b>854</b>	<b>803</b>	<b>70</b>	<b>47</b>	<b>51</b>	<b>1,825</b>
<b>Provisions for amortisation and depreciation at 31.12.2018</b>	<b>(624)</b>	<b>(101)</b>	<b>(44)</b>			<b>(769)</b>
Total amortisation and depreciation	(61)	(4)	(1)			<b>(66)</b>
<b>Provisions for amortisation and depreciation at 31.12.2019</b>	<b>(685)</b>	<b>(105)</b>	<b>(45)</b>			<b>(835)</b>
<b>Provision for impairment losses at 31.12.2018</b>						
<b>Provision for impairment losses at 31.12.2019</b>						
<b>Net balance at 31.12.2018</b>	<b>139</b>	<b>668</b>	<b>20</b>	<b>38</b>	<b>42</b>	<b>907</b>
<b>Net balance at 31.12.2019</b>	<b>169</b>	<b>698</b>	<b>25</b>	<b>47</b>	<b>51</b>	<b>990</b>


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	31.12.2020					
	With a finite useful life				With an indefinite useful life	
(million €)	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible fixed assets	Fixed assets in progress and advances	Goodwill	Total
<b>Cost at 31.12.2019</b>	854	803	70	47	51	1,825
Investments				165		165
Disposals	(1)		(44)			(45)
Change in the scope of consolidation			42		12	54
Other changes	101	16	3	(119)	(3)	(2)
<b>Cost at 31.12.2020</b>	954	819	71	93	60	1,997
<b>Provisions for amortisation and depreciation at 31.12.2019</b>	(685)	(105)	(45)			(835)
Total amortisation and depreciation	(72)	(4)	(5)			(81)
Disposals	1		43			44
<b>Provisions for amortisation and depreciation at 31.12.2020</b>	(756)	(109)	(7)			(872)
<b>Provision for impairment losses at 31.12.2019</b>						
<b>Provision for impairment losses at 31.12.2020</b>						
<b>Net balance at 31.12.2019</b>	169	698	25	47	51	990
<b>Net balance at 31.12.2020</b>	198	710	64	93	60	1,125

Industrial patent and intellectual property rights 198 million euros (169 million euros at 31 December 2019) mainly concern information systems and applications in support of operating activities.

Concessions, licences, trademarks and similar rights (710 million euros; 698 million euros at 31 December 2019) refer basically to concessions for natural gas storage activities (665 million euros) and to the concessions of Settala (231 million euros), Sergnano (128 million euros), Fiume Treste (91 million euros) and Brugherio (57 million euros). The value of the storage concessions is represented by the reserves of natural gas in the fields ("Cushion Gas" <sup>14</sup>).

Change in consolidation perimeter (54 million euros) refers to intangible fixed assets, including goodwill, recognized following the Purchase Price Allocation of the acquisition transactions, closed in October 2020, of the companies Miei and Evolve<sup>15</sup>.

<sup>14</sup> Cushion gas is not depreciated.

<sup>15</sup> For further information, see Note 24 - "Business combinations".





Other intangible fixed assets (64 million euros; 25 million euros at 31 December 2019) include the fair value attributed during the Purchase Price Allocation of Miecì and Evolve, as regulated by the accounting standard IFRS3 "Business Combinations", relating to the book order (approximately 40 million euros). Amortisation is based on the average duration of the contracts.

The increase in assets with an indefinite useful life (9 million euros) refers mainly to goodwill recorded following the Miecì 's acquisition (12 million euros). This goodwill was allocated to the CGUs represented by the same legal entity.

Investments (165 million euros) mainly related to the natural gas transportation (123 million euros) segment<sup>16</sup>, refer to information systems development projects, including the Cloud - Azure Consumption project.

Amortisation (81 million euros) refers to economic and technical amortisation determined on the basis of the definite useful life of the intangible assets or their remaining possible use by the Company.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note 25 - "Guarantees and commitments".

## Impairment test

As required by accounting principle (IAS 36), the impairment test is carried out at least once a year for all CGUs to which goodwill, recorded in the consolidated financial statements, has been allocated and for CGUs that include intangible fixed assets with an indefinite useful life and intangible fixed assets not yet available for use. For all the remaining CGUs, the impairment test is carried out only when there are impairment indicators. In 2020, the test was performed for all the main CGUs, regardless of the presence of impairment indicators. In particular, these were represented by:

- for regulated activities of the transportation, regasification and storage of natural gas by the CGUs Snam Rete Gas, ITG, LNG and Stogit; goodwill amounting to 27 million euros was allocated to ITG only;

- the sustainable mobility businesses, composed of refuelling stations and compressors, of the CGUs Snam 4 Mobility and Cubogas, allocated a goodwill of 7 million euros;
- for the biogas/biomethane business, by the companies IES Biogas and by CGUs Enersi and Renerwaste<sup>17</sup>, to which a total goodwill of 10 million euros is allocated. The companies of the Renerwaste group represent a single CGU (Renerwaste CGU) since the method of managing waste treatment plants is unitary and centralised. Moreover, in view of the characteristics of such plants, management is not bound by the corporate structure when making decisions on the allocation of resources and investments;
- the energy efficiency business, by CGUs TEP Energy Solutions, allocated a total goodwill of 4 million euros.

With reference to the "sustainable mobility" business, while activities until 2019 focused mainly on defining commercial agreements, signing agreements for new stations and identifying partners to develop new initiatives, activities in 2020 focused on the construction of filling stations. Considering such a new phase that the business is facing, both the methods for monitoring results and the consequent methods for managing strategic decisions have been redefined to support in an adequate way the growth.

These changes, together with the unitary management of resources and the strong vertical integration of Cubogas and Snam 4 Mobility, have led to the consideration that the criterion of monitoring by individual company is now out of date, in favour of a model focused on unitary management of the sustainable mobility business. Consistently, with this management method, starting from 2020<sup>18</sup>, the goodwill allocated to Cubogas CGU is tested at the Cubogas and Snam 4 Mobility CGU grouping level.

<sup>17</sup> The Renerwaste CGU consists of the four companies acquired by the group in November 2019, namely Renerwaste S.r.l., Renerwaste Lodi, Ecoprogetto Milano and Ecoprogetto Tortona.

<sup>18</sup> In compliance with CONSOB Communication no.0003907 of 19-01-2015, following the change in the method for verifying the recoverable amount of the sustainable mobility business for the purposes of the consolidated financial statements as at 31.12.2020, the Cubogas CGU was also tested for impairment separately. The impairment test conducted did not reveal any losses in value.

<sup>16</sup> Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.


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Overall, except for the amendment mentioned above, the impairment test was carried out on the basis of a similar CGU set-up to last year, supplemented by the CGUs Renerwaste.

The recoverable amount of CGUs Snam 4 Mobility and Cubogas was determined as the usage value, on the basis of the Discounted Cash Flow (DCF) Method. Taking into consideration the start up stage of the business, the cash flows were calculated taking into consideration a longer time horizon compared with the forecast 2021-2024 Plan data approved by the Board, in order to be able to consider all the effects that could have a significant impact on cash flows. The Weighted Cost of Capital Average - WAAC method was used to discount cash flows. The Terminal Value was calculated using the perpetuity method, applying a growth rate in line with market evidence for the expected long-term inflation rate, based on the values indicated by the International Monetary Fund (IMF).

With reference to the biogas/biomethane business, the recoverable value of the three CGUs identified consisting of IES Biogas, Enersi and Renerwaste was determined as the usage value, on the basis of the Discounted Cash Flow (DCF) Method, using the 2021-2024 Plan approved by the Board. For the Renerwaste and Enersi CGUs only, cash flows were calculated taking into consideration a longer time horizon compared to the forecast 2021-2024 Plan data approved by the Board, so as to consider all the effects that could have a significant impact on cash flows. The Weighted Cost of Capital Average - WAAC method was used to discount cash flows. The Terminal Value was calculated using the perpetuity method, applying to IES Biogas only, a growth rate in line with market evidence for the expected long-term inflation rate, based on the values indicated by the International Monetary Fund (IMF).

With reference to the energy efficiency business, the recoverable value of the CGU TEP Energy Solutions was determined as the usage value, on the basis of the Discounted Cash Flow (DCF) Method. Given the nature of the business, significantly affected by physical benefits related to the energy reclassification of buildings, cash flows were calculated over a longer time horizon than the Plan approved by the Board, so as to provide an adequate representation of the value of contracts still existing at the end of the approved Plan. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows. The Terminal Value was calculated using the perpetuity method, applying a growth rate in line with market evidence for the expected long-term inflation rate, based on the values indicated by the International Monetary Fund (IMF).

For the companies newly acquired in the last quarter of 2020 (Mieci and Evolve), operating in the energy efficiency business, the recoverable value allocated to the CGUs was assumed to be equal to the purchase prices of the companies also taking into account the timing of the acquisitions.

With reference to the Transportation (Snam Rete Gas), Regasification (GNL) and Storage (Stogit) CGUs, the recoverable value was defined corresponding to estimated value of Net Invested Capital as recognised for those assets for tariff purposes (RAB - Regulatory Asset Base) by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) net of the flat-fee components<sup>19</sup>, of the Employee Severance Pay (TFR) and contributions received.

With reference to the ITG CGU, the recoverable value of the CGU was calculated as the usage value, based on the Discounted Cash Flow (DCF) Method, using the 2021-2024 Plan approved by the Board. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

<sup>19</sup> The RAB is the reference basis for the determination of the service tariffs and, therefore, of the cash flows generated by the activities. The value of the RAB is defined through the historical cost method revalued as regards the Fixed capital, and on a flat rate basis for the working capital, the employee severance indemnity and, with reference to the storage sector, the site dismantling and restoration fund.


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For all CGUs, the recoverable value as represented above, was higher than the net book value of the CGUs included in the goodwill.

As required by the accounting principle IAS 36, the CGUs subject to impairment testing, whose recoverable value was determined by discounting the expected cash flows deriving from the use of the asset and from its sale at the end of its useful life, were subjected to sensitivity analyses of the recoverable value, in the worst case scenario formulated which includes a 0.5% increase in the discount rate applied to cash flows. This stress test did not highlight any loss in value of the CGUs.

## 15.1 INTANGIBLE ASSETS BY BUSINESS SEGMENT

Intangible assets by business segment break down as follows:

(million €)	31.12.2019	31.12.2020
<b>Historical cost</b>	<b>1,825</b>	<b>1,997</b>
Transportation	809	907
Storage	844	848
Regasification	6	10
Corporate and other activities	166	232
<b>Provisions for depreciation, amortisation and impairment losses</b>	<b>(835)</b>	<b>(872)</b>
Transportation	(594)	(631)
Storage	(166)	(155)
Regasification	(4)	(5)
Corporate and other activities	(71)	(81)
<b>Net balance</b>	<b>990</b>	<b>1,125</b>
Transportation	215	276
Storage	678	693
Regasification	2	5
Corporate and other activities	95	151


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## 16) EQUITY INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method, of 1,923 million euros (1,787 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019	31.12.2020
Terēga Holding S.A.S.	482	338
Trans Austria Gasleitung GmbH	520	521
AS Gasinfrastruktur Beteiligung GmbH	125	125
Iniziative Biometano S.p.A.		15
OLT - Offshore LNG Toscana S.p.A.		8
<b>Total equity investments in joint ventures</b>	<b>1,127</b>	<b>1,007</b>
Trans Adriatic Pipeline A.G.	264	278
Italgas S.p.A.	209	235
Galaxy Pipeline Assets HoldCo Limited.		207
Senfluga Energy Infrastructure Holding S.A.	125	138
Interconnector (UK) Ltd.	62	58
<b>Total equity investments in associates</b>	<b>660</b>	<b>916</b>
<b>Equity investments accounted for using the equity method</b>	<b>1,787</b>	<b>1,923</b>


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Changes during the year are detailed in the following table.

(million €)	Equity investments		Total
	Joint ventures	Associates	
<b>Balance at 01.01.2019</b>	<b>1,099</b>	<b>611</b>	<b>1,710</b>
Acquisitions and subscriptions		23	<b>23</b>
Disposals and redemptions	(9)	(22)	<b>(31)</b>
Dividends received	(98)	(34)	<b>(132)</b>
Effect of equity-accounting method			
- Portion recognised in income statement	128	90	<b>218</b>
- Portion recognised in the comprehensive income statement		6	<b>6</b>
Other changes	7	(14)	<b>(7)</b>
<b>Balance at 31.12.2019</b>	<b>1,127</b>	<b>660</b>	<b>1,787</b>
Acquisitions and subscriptions	<b>18</b>	<b>236</b>	<b>254</b>
Disposals and redemptions	<b>(81)</b>		<b>(81)</b>
Dividends received	<b>(198)</b>	<b>(59)</b>	<b>(257)</b>
Effect of equity-accounting method			
- Portion recognised in income statement	<b>132</b>	<b>115</b>	<b>247</b>
- Portion recognised in the comprehensive income statement	<b>1</b>	<b>(38)</b>	<b>(37)</b>
Other changes	<b>8</b>	<b>2</b>	<b>10</b>
<b>Balance at 31.12.2020</b>	<b>1,007</b>	<b>916</b>	<b>1,923</b>


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Acquisitions and subscriptions (254 million euros) relate essentially to: (i) the acquisition, in consortium with five international funds, of 49% of ADNOC Gas Pipeline Assets LLC for an outlay of approximately 221 million euros<sup>20</sup>; (ii) the capital increase of TAP to meet the requests for shareholders' loans received during the year (15 million euros); (iii) the acquisition and subsequent capital increase of Iniziative Biometano, including the charges for the purchase of the equity investment (15 million euros in all).

Disposals and redemptions (81 million euros) refer to the repayment of the principal amount of the equity investment in Terēga Holding S.A.S.

The dividends received (257 million euros) mainly refer to the jointly controlled companies Terēga (106 million euros) TAG (83 million euros) and the associate companies Italgas (28 million euros) Galaxy Pipeline Assets HoldCo Limited (18 million euros) and Senfluga (11 million euros).

The effect of the equity-accounting method refers to: (i) the portion recognised in the income statement (247 million euros), mainly attributable to the share of the results of the jointly controlled companies TAG (84 million euros), Terēga (35 million euros) and AS Gasinfrastruktur Beteiligung GmbH (9 million euros) and of the associated companies Italgas (52 million euros), Senfluga (27 million euros) and Galaxy Pipeline Assets HoldCo Limited (20 million euros) (ii) the portion recognised in the comprehensive income statement (-37 million euros), mainly due to the change in the fair value hedging derivatives of the associate TAP (-16 million euros) and to exchange rate differences (EUR/USD) of the associate Galaxy Pipeline Assets HoldCo Limited (-18 million euros).

For investments, except for what is stated with reference to the investment in TAP<sup>21</sup>, there were no real guarantees.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2020", which is an integral part of these Notes.

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates for the financial years ended 31 December 2019 and 31 December 2020 are provided below.

The limited exposure of the investee companies to the effects of Covid-19 allowed Snam not to recognise any impairment indicators at 31 December 2020; however, the company tested its relevant equity investments, represented in foreign and Italian companies, for impairment, and did not recognise any impairment losses for the purposes of the 2020 financial statements.

<sup>20</sup> Including accessory charges for the purchase of the equity investment.

<sup>21</sup> For more information, see Note 25, "Guarantees and Commitments - Guarantees and commitments - associate company TAP".


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## 16.1 EQUITY INVESTMENTS IN JOINT VENTURES

The economic-financial data relating to each investment in joint ventures deemed significant, refers to values in the financial statements prepared on the basis of IFRS for investee companies<sup>22</sup> are listed below:

(million €)	31.12.2019		
	Terëga Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastuktur Beteiligung GmbH
Current assets	133	46	2
- of which cash and cash equivalents	40	5	2
Non-current assets	2,930	1,104	605
<b>Total assets</b>	<b>3,063</b>	<b>1,150</b>	<b>607</b>
Current liabilities	(174)	(92)	(3)
- of which current financial liabilities	(74)	(12)	(3)
Non-current liabilities	(1,700)	(475)	(292)
- of which non-current financial liabilities	(1,425)	(337)	(244)
<b>Total liabilities</b>	<b>(1,874)</b>	<b>(567)</b>	<b>(295)</b>
<b>Net assets</b>	<b>1,189</b>	<b>583</b>	<b>312</b>
Equity investments held by Snam % <sup>(*)</sup>	40.50%	89.22%	40.00%
Snam share	482	520	125
<b>Carrying value of the equity investment</b>	<b>482</b>	<b>520</b>	<b>125</b>
Revenue	502	312	
Operating costs	(208)	(127)	
Amortisation, depreciation and impairment losses	(103)	(61)	
<b>Operating profit/loss</b>	<b>191</b>	<b>124</b>	
Financial income			2
Financial expense	(52)	(11)	(7)
Income (expense) from equity investments			23
Income taxes	(45)	(30)	(2)
<b>Profit for the year</b>	<b>94</b>	<b>83</b>	<b>16</b>
Other components of the comprehensive income statement			
<b>Total comprehensive income</b>	<b>94</b>	<b>83</b>	<b>16</b>
<b>Total comprehensive income held by Snam</b>	<b>38</b>	<b>74</b>	<b>6</b>

(\*) The equity investment in Trans Austria Gasleitung GmbH is valued on the basis of the percentage of economic rights held.

22 Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.


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	31.12.2020		
(million €)	Terëga Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH
Current assets	568	44	2
- of which cash and cash equivalents	494	7	1
Non-current assets	2,959	1,075	598
<b>Total assets</b>	<b>3,527</b>	<b>1,119</b>	<b>600</b>
Current liabilities	(612)	(103)	(3)
- of which current financial liabilities	(524)	(32)	(3)
Non-current liabilities	(2,080)	(432)	(284)
- of which non-current financial liabilities	(1,792)	(301)	(40)
<b>Total liabilities</b>	<b>(2,692)</b>	<b>(535)</b>	<b>(287)</b>
<b>Net assets</b>	<b>835</b>	<b>584</b>	<b>313</b>
Equity investments held by Snam % <sup>(*)</sup>	40.50%	89.22%	40.00%
Snam share	338	521	125
<b>Carrying value of the equity investment</b>	<b>338</b>	<b>521</b>	<b>125</b>
Revenue	433	322	
Operating costs	(157)	(124)	
Amortisation, depreciation and impairment losses	(107)	(61)	
<b>Operating profit/loss</b>	<b>169</b>	<b>137</b>	
Financial income			2
Financial expense	(42)	(10)	(7)
Income (expense) from equity investments			28
Income taxes	(40)	(33)	
<b>Profit for the year</b>	<b>87</b>	<b>94</b>	<b>23</b>
Other components of the comprehensive income statement	4		(1)
<b>Total comprehensive income</b>	<b>91</b>	<b>94</b>	<b>22</b>
<b>Total comprehensive income held by Snam</b>	<b>37</b>	<b>84</b>	<b>9</b>

(\*) The equity investment in Trans Austria Gasleitung GmbH is valued on the basis of the percentage of economic rights held.





## Individually non-significant minor equity investments in joint ventures

In addition to the investments in joint ventures discussed above, the following are the carrying amounts of the individually minor equity investments in two joint ventures, accounted for using the shareholders' equity method:

(million €)	2020
<b>Aggregate value of individually minor equity investments in joint ventures</b>	<b>23</b>
<b>Aggregate value of the group's share:</b>	
Profit for the year	<b>4</b>
Elements of the comprehensive income statement	
<b>Total comprehensive income</b>	<b>4</b>
Other changes	
<b>Total</b>	<b>4</b>

### Terêga Holding S.A.S.

Terêga Holding S.A.S. is a company operating under French law which controls Terêga S.A., through Terêga S.A.S., wholly-owned by Terêga Holding S.A.S.

Terêga S.A. (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation and storage activities in France are subject to regulation.

At 31 December 2020 Terêga Holding S.A.S. was an affiliate of Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue du Crédit Agricole).

Terêga Holding S.A.S.'s consolidated financial statements include Terêga Holding S.A.S., Terêga S.A.S and Terêga S.A.

Corporate governance rules provide that decisions on certain matters of particular interest to the company must be taken with the favourable vote of Snam and GIC shareholders.

The interest payment to shareholders on the nominal amount of the 470 million euros convertible bond loan (of which Snam has subscribed 190 million euros) may be deferred at the discretion of the issuer Terêga S.A.S.


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### Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment. It owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2020, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and (GCA) also stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

Corporate governance rules provide that decisions on certain relevant activities must be taken with the unanimous consent of all members of the Supervisory Board, composed of Snam and GCA representatives, as well as employee representatives as required by Austrian law.

### AS Gasinfrastruktur Beteiligung GmbH

AS Gasinfrastruktur Beteiligung GmbH is an Austrian company jointly controlled by Snam S.p.A. and the Allianz group, with holdings of 40% and 60% respectively.

The company holds 100% of the Austrian company AS Gasinfrastruktur GmbH, which in turn holds 49% of the share capital of Gas Connect Austria GmbH, which is controlled by OMV AG.

Corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions at management level must be taken by simple majority with the favourable vote of a Managing Director of Snam and one of Allianz.


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## 16.2 INVESTMENTS IN ASSOCIATES

The economic-financial data relating to investments in associate companies deemed major, refers to the values in the financial statements prepared in accordance with the IFRS of associates<sup>23</sup> and are reported below:

	31.12.2019			
(million €)	Trans Adriatic Pipeline (TAP)	Italgas S.p.A.	Senfluga Energy Infrastructure Holding S.A.	Interconnector UK Ltd.
Current assets	79	985	220	31
Non-current assets	4,100	7,247	839	675
<b>Total assets</b>	<b>4,179</b>	<b>8,232</b>	<b>1,059</b>	<b>706</b>
Current liabilities	(210)	(1,319)	(105)	(29)
Non-current liabilities	(3,103)	(5,118)	(466)	(173)
<b>Total liabilities</b>	<b>(3,313)</b>	<b>(6,437)</b>	<b>(571)</b>	<b>(202)</b>
<b>Net assets</b>	<b>866</b>	<b>1,795</b>	<b>488</b>	<b>504</b>
- attributable to third parties		236	257	
- attributable to investee's shareholders	866	1,559	231	504
<b>Equity investments held by Snam %</b>	<b>20%</b>	<b>13.5%</b>	<b>54%</b>	<b>23.68%</b>
Snam share	173	209	125	119
Goodwill	91			
Reductions/increases in value				(58)
<b>Carrying value of the equity investment</b>	<b>264</b>	<b>209</b>	<b>125</b>	<b>61</b>
Revenue	2	1,893	257	88
<b>Operating profit/loss</b>	<b>(39)</b>	<b>516</b>	<b>141</b>	<b>39</b>
<b>Net profit/loss</b>	<b>(40)</b>	<b>424</b>	<b>88</b>	<b>33</b>
Other components of the comprehensive income statement	(93)	(6)	(5)	28
<b>Total comprehensive income</b>	<b>(133)</b>	<b>418</b>	<b>83</b>	<b>61</b>
- attributable to third parties		6	33	
- attributable to investee's shareholders	(133)	412	58	61
<b>Total comprehensive income held by Snam</b>	<b>(27)</b>	<b>56</b>	<b>31</b>	<b>14</b>

23 The financial statement figures for associates, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.


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	31.12.2020				
(million €)	Trans Adriatic Pipeline (TAP)	Italgas S.p.A.	Senfluga Energy Infrastructure Holding S.A.	Interconnector UK Ltd.	Galaxy Pipeline Assets HoldCo Limited
Current assets	277	1,494	240	34	152
Non-current assets	4,606	7,635	821	650	8,128
<b>Total assets</b>	<b>4,883</b>	<b>9,129</b>	<b>1,061</b>	<b>684</b>	<b>8,280</b>
Current liabilities	(323)	(1,511)	(110)	(27)	(152)
Non-current liabilities	(3,626)	(5,637)	(427)	(184)	(6,488)
<b>Total liabilities</b>	<b>(3,949)</b>	<b>(7,148)</b>	<b>(537)</b>	<b>(211)</b>	<b>(6,640)</b>
<b>Net assets</b>	<b>934</b>	<b>1,981</b>	<b>524</b>	<b>473</b>	<b>1,640</b>
- attributable to third parties		240	268		
- attributable to investee's shareholders	934	1,741	256	473	1,640
<b>Equity investments held by Snam %</b>	<b>20%</b>	<b>13.5%</b>	<b>54%</b>	<b>23.68%</b>	<b>12.32%</b>
Snam share	187	235	138	112	219
Goodwill	91				5
Reductions/increases in value				(54)	
<b>Carrying value of the equity investment</b>	<b>278</b>	<b>235</b>	<b>138</b>	<b>58</b>	<b>207</b>
Revenue	167	2,127	153	30	219
<b>Operating profit/loss</b>	<b>101</b>	<b>603</b>	<b>127</b>	<b>7</b>	<b>217</b>
<b>Net profit/loss</b>	<b>76</b>	<b>403</b>	<b>77</b>	<b>5</b>	<b>159</b>
Other components of the comprehensive income statement	(81)	(11)	(3)	(12)	12
<b>Total comprehensive income</b>	<b>(5)</b>	<b>392</b>	<b>74</b>	<b>(7)</b>	<b>(134)</b>
- attributable to third parties		20	30		
- attributable to investee's shareholders	(5)	372	48	(7)	25
<b>Total comprehensive income held by Snam</b>	<b>(1)</b>	<b>50</b>	<b>26</b>	<b>(2)</b>	<b>3</b>

### Trans Adriatic Pipeline A.G. (TAP)

Trans Adriatic Pipeline A.G. (TAP) is a Swiss company established to design, develop, build and operate the new gas pipeline extending from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania. Construction of the pipeline has been completed and the asset has been commercially operational as of 15 November 2020.

As at 31 December 2020, TAP A.G. was an investee of Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).


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Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

### Italgas S.p.A.

Italgas S.p.A. is an Italian company that controls 100% of Italgas Reti S.p.A., Seaside S.r.l., Italgas Newco S.r.l. and Italgas Acqua S.p.A., companies operating in the natural gas distribution sector in Italy, energy efficiency and the management of the water service in five municipalities in Campania.

As at 31 December 2020, Italgas S.p.A. was an affiliate of Snam (13.5%) and of CDP Reti S.r.l. (26.05%), while the remaining stake is held by minority shareholders.

On 7 November 2016, the effective date of the separation operation from Snam S.p.A. of the natural gas distribution business the shareholder agreement signed by CDP Reti S.p.A. and CDP Gas S.r.l. on 20 October 2016 covering all the shares each company held in Italgas S.p.A., entered into effect. The shareholder agreement establishes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (including in the event of an Accelerated Exit) are subject not only to advance approval by CDP Reti, but also to the subrogation of a third party. In addition, Snam may not increase its equity investment. The agreement has a three-year term that is renewable barring notice of termination; in the event that Snam does not renew, CDP Reti shall have an option to purchase at fair market value Snam's equity investment in Italgas.

### Senfluga Energy Infrastructure Holding

Senfluga Energy Infrastructure Holding is a company through which the European consortium composed of Snam (54%), Enagás (18%), Fluxys (18%) and DAMCO Energy S.A. (10%) owns a 66% stake of DESFA, the national operator in the natural gas infrastructure sector.

DESFA owns and manages a regulated system for a high pressure transportation network covering around 1,500 km, as well as a regasification terminal at Revithoussa. Greece, an important crossroads for the diversification of procurement and the opening of new natural gas routes in Europe, has further development potential as a south-east European hub.

Under current corporate governance rules, none of Senfluga's shareholders is able to exercise control over the company, including in a joint capacity.

### Galaxy Pipeline Assets Holdco Limited

Galaxy Pipeline Assets Holdco Limited ("Holdco") holds a 49% stake in ADNOC Gas Pipeline Assets LLC ("Assetco") through an international consortium, consisting of GIP, Brookfield, Ontario Teachers' Pension Plan, GIC, NH Investments & Securities and Snam, which in turn holds a 12.327% stake in the consortium.

Assetco, a subsidiary of ADNOC (Abu Dhabi National Oil Company), holds a twenty-year lease on ADNOC's strategic assets relating to gas and NGL transportation in the United Arab Emirates; the management and use of these assets are held by ADNOC for the same twenty-year term.

Snam is the only industrial operator in the consortium, representing an important investment opportunity in a strategic infrastructure in the Gulf area.

The rules of governance provide that decisions on certain matters of particular interest to the company must be taken by a reinforced majority vote or unanimously with respect to indirect equity investments in Assetco.

### Interconnector UK Ltd.

Interconnector UK Ltd. is a company under British law that owns the two-way pipeline that joins the United Kingdom to Belgium and the rest of Europe.

At 31 December 2020 Interconnector UK Ltd was an affiliate company of Snam International B.V. (23,68%) and Fluxys UK Ltd (76.32%).

Interconnector UK directly holds 48% of the company under Dutch law Interconnector Zeebrugge Terminal S.C./C.V. S.c.r.l. and 1% indirectly through Interconnector Leasing company Ltd.

The governance of Interconnector UK is structured in such a way as to ensure certain veto rights in favour of Snam International B.V., aimed at protecting the investment and supervising certain decisions of particular importance to Snam International B.V.


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## 17) CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

Current financial liabilities inclusive of the current portion of long term liabilities, for a total of 5,605 million euros (4,131 million euros at 31 December 2019) and non-current financial liabilities of 10,332 million euros (10,643 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019						31.12.2020					
	Current financial liabilities		Non-current financial liabilities				Current financial liabilities		Non-current financial liabilities			
	Short-term liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Total debt	Short-term liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Total debt
Bond loans		1,439	3,800	3,809	7,609	9,048		308	4,012	3,820	7,832	8,140
Bank loans	455	230	1,798	1,221	3,019	3,704	1,501	1,287	1,384	1,101	2,485	5,273
Euro Commercial Paper - ECP	2,001					2,001	2,503					2,503
Financial payables for leased assets		6	11	4	15	21		6	13	2	15	21
<b>Total liabilities</b>	<b>2,456</b>	<b>1,675</b>	<b>5,609</b>	<b>5,034</b>	<b>10,643</b>	<b>14,774</b>	<b>4,004</b>	<b>1,601</b>	<b>5,409</b>	<b>4,923</b>	<b>10,332</b>	<b>15,937</b>

### 17.1 SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, 4,004 million euros (2,456 million euros at 31 December 2019) mainly include to the use of floating rate uncommitted bank credit lines (1,500 million euros) and the issuing of unsecured short-term bonds (Euro Commercial Papers) issued by the money market and placed with institutional investors (2,503 million euros)<sup>24</sup>. The increase compared to 31 December 2019 of 1,548 million euros was essentially due to higher net utilisation of uncommitted credit lines (1,047 million euros) and the issue of new short-term unsecured securities (502 million euros, net of redemptions).

There are no short-term financial liabilities denominated in currencies other than the euro.

The weighted average interest rate on short-term financial liabilities was -0.15% (-0.11% for 2019).

The market value of short-term financial liabilities is the same as their book value.

<sup>24</sup> At the date of this document, the Euro Commercial Paper programme had been used for the entire amount of 2.5 billion.


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## 17.2 LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

Long-term financial liabilities, including the short-term portion of long-term liabilities, amounted to a total of 11,933 million euros (12,318 million euros at 31 December 2019) relate to bond loans (8,140 million euros), bank loans (3,772 million euros) and financial payables for leased assets (21 million euros).

The breakdown of bond loans, indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(million €)							
Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 31.12.2020	Rate (%)	Maturity (year)
<b>Euro Medium Term Notes (EMTN)</b>							
Snam S.p.A. (b) (c) (d) (e) (f)	2012	€	582	6	588	5.25	2022
Snam S.p.A. (c) (d) (e)	2013	€	259	8	267	3.375	2021
Snam S.p.A. (c) (d) (e) (f)	2014	€	385	10	395	3.25	2024
Snam S.p.A. (c) (d) (e) (g) (f)	2014	€	190	3	193	1.5	2023
Snam S.p.A. (c) (d) (e) (h) (f)	2015	€	167	(11)	156	1.375	2023
Snam S.p.A.	2016	€	1,250	(4)	1,246	0.875	2026
Snam S.p.A. (e) (f)	2017	€	339	3	342	1.2500	2025
Snam S.p.A. (i) (f)	2017	€	151	0	151	0.6+eur3m	2022
Snam S.p.A. (i) (f)	2017	€	106	0	106	0.836	2024
Snam S.p.A.	2017	€	650	(2)	648	1.375	2027
Snam S.p.A. (i) (e) (f)	2018	€	522	(2)	520	1	2023
Snam S.p.A.	2019	€	500	(1)	499	1.25	2025
Snam S.p.A.	2019	€	250	2	252	1.63625	2030
Snam S.p.A.	2019	€	700	(4)	696		2024
Snam S.p.A.	2019	€	600	(10)	590	1	2034
Snam S.p.A.	2020	€	500	0	500	0.75	2030
Snam S.p.A.	2020	€	600	(4)	596		2028
<b>Total Euro Medium Term Notes (EMTN)</b>			<b>7,751</b>	<b>(6)</b>	<b>7,745</b>		
<b>Convertible bonds</b>							
SNAM S.p.A.	2017	€	400	(5)	395		2022
<b>Total Bond loans</b>			<b>8,151</b>	<b>(11)</b>	<b>8,140</b>		

(a) Include: (i) the issue premium/discount; (ii) the interest accrual.

(b) Bond loans subject to the 2016 liability management operation.

(c) Bond loans subject to the 2017 liability management operation.

(d) Bond loans subject to the 2018 liability management operation.

(e) Bond loans subject to the 2019 liability management operation.

(f) Bond loans subject to the 2020 liability management operation.

(g) Bond loan tapped in January 2015 for an incremental amount of 250 million euros, with the same interest rate and maturity as the original placement.

(h) Bond loans subject to the 2015 liability management operation.

(i) Floating-rate bond loan, converted into fixed-rate through an interest rate swap (IRS) hedging derivative.

(l) Bond loan tapped in November 2018 for an incremental amount of 300 million euros, with the same interest rate and maturity as the original placement.



Bond loans (8,140 million euros) decreased by 908 million euros compared to 31 December 2019 mainly as a result of: (i) the repayment of a fixed rate bond maturing on 29 January 2020, for a nominal amount of 350 million euros; (ii) the repayment of a fixed rate bond loan maturing on 13 February 2020, for a nominal amount of 526 million euros; (iii) the repayment of a fixed rate bond loan maturing on 25 October 2020 for a nominal amount of 500 million euros; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of 629 million euros with an average coupon of 0.62% and a residual duration of approximately 2.80 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction, concluded in December 2020 stood at 651 million euros<sup>25</sup>, including the fees paid to intermediaries and accrued interest. These changes were partially offset by the issue: (i) of a fixed-rate Transition Bond for a nominal amount of 500 million euros maturing on 17 June 2030; (ii) of a fixed-rate Transition Bond for a nominal amount of 600 million euros maturing on 7 December 2028.

Payables for bank loans (3,772 million euros) mainly relate to maturing loans (term loans), of which 1,620 million euros concern European Investment Bank (EIB) funding.

There are no other long-term bank loans denominated in currencies other than the euro.

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.2%<sup>26</sup> (no change compared to 2019).

There were no breaches of loan agreements as at the reporting date.

The market value of long term financial debts, including the short-term portion totals 12,496 million euros<sup>27</sup> (12,755 million euros at 31 December 2019).

Snam also has unused committed credit lines totalling 3.2 billion euros.

## Financial covenants and negative pledge commitments

At 31 December 2020, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other lending institutions, with the exception of a bank loan (totalling 6.1 million euros) relating to one subsidiary that entered the scope of consolidation in October 2020, assisted by a pledge on financial instruments for a value of around 1 million euros.

Some of these agreements include, inter alia, compliance with typical international practice commitments, some of which are subject to specific materiality thresholds, such as, for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; and (iv) limits on the debt of subsidiaries.

Failure to comply with these covenants, and the occurrence of other events such as cross-default events could result in Snam's failure to comply and, possibly, trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam's credit rating is lower than BBB (Standard & Poor's/ Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three ratings agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow, resulting in additional costs and/or liquidity issues.

At 31 December 2020, the financial debt subject to these restrictive clauses amounted to approximately 3.8 billion euros.

<sup>25</sup> For more information on the operation, see the section "Performance 2020 – Main events" in the Directors' Report.

<sup>26</sup> It excludes the depreciation of the upfront fees.

<sup>27</sup> It includes bond loans, whose value is estimated on the basis of the market listings at 31 December 2020, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.





Bond loans issued by Snam as at 31 December 2020, with a nominal value of approximately 8.2 billion euros, mainly referred to securities issued under the Euro Medium Term Notes programme. The covenants established for the programme's securities are typical of international market practice and consist of, inter alia, negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its material subsidiaries are subject to limitations to pledging or maintaining encumbrances on all or part of their assets or proceeds to guarantee present or future debt, unless this is explicitly permitted.

### 17.3 BREAKDOWN OF NET FINANCIAL DEBT

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	2,851		2,851	3,044		3,044
B. Securities available for sale and held to maturity				1		1
<b>C. Cash (A + B)</b>	<b>2,851</b>		<b>2,851</b>	<b>3,045</b>		<b>3,045</b>
<b>D. Short-term financial receivables</b>				<b>5</b>		<b>5</b>
E. Short-term financial liabilities to banks	455		455	1,501		1,501
F. Long-term financial liabilities to banks	230	3,019	3,249	1,287	2,485	3,772
G. Bond loans	1,439	7,609	9,048	308	7,832	8,140
H. Short-term financial liabilities to related parties						
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	2,001		2,001	2,503		2,503
M. Other long-term financial liabilities (*)	6	15	21	6	15	21
<b>N. Gross financial debt (E + F + G + H + I + L + M)</b>	<b>4,131</b>	<b>10,643</b>	<b>14,774</b>	<b>5,605</b>	<b>10,332</b>	<b>15,937</b>
<b>O. Net financial debt (N - C - D)</b>	<b>1,280</b>	<b>10,643</b>	<b>11,923</b>	<b>2,555</b>	<b>10,332</b>	<b>12,887</b>

(\*) This item relates to financial payables for leased assets recognised in accordance with IFRS 16 "Leases".


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## 17.4 RECONCILIATION OF NET FINANCIAL DEBT

In compliance with the provisions of IAS 7 "Statement of Cash Flows", we provide below the cash and non-cash changes to liabilities arising from financing activities and to assets included in net financial debt.

(million €)	31.12.2019	Changes in cash flow	Changes without impact on cash flow			31.12.2020
			Impact of IFRS 16	Change in the scope of consolidation	Other changes	
Cash and cash equivalents <sup>(*)</sup>	2,851	193				3,044
Securities available for sale and held to maturity				1		1
Short-term financial receivables		5				5
<b>Liquidity and financial receivables</b>	<b>2,851</b>	<b>198</b>		<b>1</b>		<b>3,050</b>
Short-term financial liabilities <sup>(*)</sup>	2,456	1,540		8		4,004
Long-term financial payables <sup>(**)</sup>	12,297	(407)		17	5	11,912
Financial payables for leased assets	21	(7)	6	1		21
<b>Gross financial debt</b>	<b>14,774</b>	<b>1,126</b>	<b>6</b>	<b>26</b>	<b>5</b>	<b>15,937</b>
<b>Net financial debt</b>	<b>11,923</b>	<b>928</b>	<b>6</b>	<b>25</b>	<b>5</b>	<b>12,887</b>

(\*) Including cash and cash equivalents resulting from changes in the scope of consolidation.

(\*\*) Includes the current portion of long term financial payables.



## 18) TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables, which amount to 2,029 million euros (1,801 million euros at 31 December 2019) comprise the following:

(million €)	31.12.2019	31.12.2020
Trade payables for the purchase of goods and services	487	639
Trade payables for the purchase of fixed assets	320	394
<b>Total trade payables</b>	<b>807</b>	<b>1,033</b>
Payables to the Energy and Environmental Services Fund (CSEA)	597	575
Interim dividend	313	326
Payables to employees	35	38
Payables to pension and social security institutions	19	21
Consultants and professionals	8	9
Others	22	27
<b>Total other payables</b>	<b>994</b>	<b>996</b>
<b>Total trade payables and other payables</b>	<b>1,801</b>	<b>2,029</b>

Trade payables for the purchase of goods and services (639 million euros; 487 million euros at 31 December 2019) relate mainly to the transportation (465 million euros, including 378 million euros relating to gas balancing activities), storage (22 million euros) and regasification (9 million euros) business segments.

Trade payables for the purchase of fixed assets (394 million euros; 320 million euros at 31 December 2019) relate mainly to the natural gas transportation (302 million euros) and storage (47 million euros) business segments.

Payables to the CSEA (575 million euros) mainly relate to accessory tariff components applied to transportation service users.

The interim dividend (326 million euros) refers to payable to shareholders following the 2020 interim dividend of 0.0998 euros per share, approved on 4 November 2020. The interim dividend was paid from 20 January 2021.

Note 36 "Related-party transactions" contains information about payables due to related parties.

The fair value measurement of trade payables and other payables has no material impact given the short period of time between when the payable arises and its due date and the contractual terms and conditions.


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## 19) OTHER CURRENT AND NON-CURRENT LIABILITIES

Other current liabilities, amounting to 70 million euros (106 million euros at 31 December 2019), and other non-current liabilities, amounting to 214 million euros (213 million euros at 31 December 2019), break down as follows:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
Regulated liabilities	49	98	147	48	82	130
Market value of derivative financial instruments	7	56	63	4	34	38
Other current tax liabilities:	9		9	8		8
- IRPEF withholdings for employees	7		7	7		7
- VAT	1		1			
- Other taxes	1		1	1		1
Other liabilities	41	59	100	10	98	108
- Security deposits		47	47		92	92
- Prepaid revenue and income	26	6	32	5	2	7
- Prepaid contributions for connecting to the transportation network		6	6		4	4
- Other	15		15	5		5
<b>Total other current and non-current liabilities</b>	<b>106</b>	<b>213</b>	<b>319</b>	<b>70</b>	<b>214</b>	<b>284</b>

Liabilities from regulated activities, amounting to 130 million euros (147 million euros at 31 December 2019), relate to:

- transportation segment (101 million euros) mainly made up of penalties charged to users that exceeded the capacity committed, to be repaid to the system through tariff adjustments. The current and non-current portions amount to 49 and 52 million euros respectively (49 and 69 million euros respectively at 31 December 2019);
- the storage segment (29 million euros) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution No. 50/06 of the Electricity and Gas Authority, corresponding entirely to the non-current share (unchanged at 31 December 2019).


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The market value of derivatives at 31 December 2020 is as follows:

(million €)	31.12.2019			31.12.2020		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
<b>Market value of derivative financial instruments</b>	<b>7</b>	<b>56</b>	<b>63</b>	<b>4</b>	<b>34</b>	<b>38</b>
Cash flow hedging derivative financial instruments:						
- Fair value interest rate hedging derivatives	6	56	62	3	34	37
- Accrued expenses on derivatives	1		1	1		1

The liabilities arising from measurement at market value of derivative financial instruments used as cash flow hedges (38 million euros) refer to:

- an Interest Rate Swap “Forward Start” derivative with Mandatory Early Termination clause to cover the risk of interest rate fluctuations of long-term bond issues scheduled for FY 2021, for a total market value of 30 million euros;
- four Interest Rate Swap derivatives with a total market value of 8 million euros. Interest Rate Swaps are used to hedge the risk of interest rate fluctuations on bond loans and bank loans at floating rates. Through derivatives, floating rate liabilities are converted into an equivalent fixed rate liabilities.




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The main characteristics of the derivatives in question are summarised in the tables below:

### Interest Rate Swap - Forward Start

Type of derivative (million €)	Contract start date	Maturity date	Early extin- guishment date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2019	Nominal value 31.12.2020	Market value 31.12.2019	Market value 31.12.2020
IRS - Forward start	15.04.2021	15.04.2028	15.07.2021	7.3	1.3130%	6 month Euribor	250	250	20	30
IRS - Forward start <sup>(*)</sup>	29.10.2020	29.10.2027	29.01.2021	6.8	1.4225%	6 month Euribor	250		23	

(\*) Derivative closed on 30 November 2020.

### Interest Rate Swap

Type of derivative (million €)	Contract start date	Maturity date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2019	Nominal value 31.12.2020	Market value 31.12.2019	Market value 31.12.2020
Interest Rate Swap <sup>(*)</sup>	02.08.2017	02.08.2024	3.6	0.4360%	3 month Euribor	350	106	11	4
Interest Rate Swap	31.07.2018	31.07.2022	1.6	0.1250%	3 month Euribor	150	150	2	2
Interest Rate Swap	30.07.2018	31.10.2021	0.8	0.0570%	3 month Euribor	250	250	2	1
Interest Rate Swap	31.10.2018	31.10.2021	0.8	-0.0440%	3 month Euribor	250	250	1	1
Interest Rate Swap <sup>(**)</sup>	21.02.2017	21.02.2022	1.1	0.0408%	3 month Euribor	300		3	

(\*) The derivative was impaired as part of the Liability Management operation, which closed in December 2020.

(\*\*) The derivative was closed as part of the Liability Management operation, which closed in December 2020.

The fair value hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 26 - Management of financial risks".

Other current tax liabilities of 8 million euros (9 million euros at 31 December 2019) mainly relate to IRPEF (personal income tax) withholdings for employees (7 million euros).

Other liabilities (108 million euros; 100 million euros at 31 December 2019) mainly include: (i) the security deposits (92 million euros; 47 million euros at 31 December 2019) paid as collateral by the users of the balancing service, pursuant to resolution ARG/gas 45/11 (ii) the liabilities for prepaid revenue and income (7 million euros) essentially regarding the prepaid fee for the concession to use the fibre optic cables given to a telecommunications operator (4 million euros, including 2 million euros as the current portion and 2 million euros as the non-current portion).


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## 20) PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, which amount to 798 million euros (713 million euros at 31 December 2019) are analysed in the table below:

31.12.2019							
(million €)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				Against charges	For excess		
Provision for site dismantlement and restoration	607		7	(9)		42	<b>647</b>
Provision for litigation	19	3			(4)		<b>18</b>
Provision for tax litigation	6	1			(1)		<b>6</b>
Other provisions	33	21		(12)			<b>42</b>
<b>Total</b>	<b>665</b>	<b>25</b>	<b>7</b>	<b>(21)</b>	<b>(5)</b>	<b>42</b>	<b>713</b>

31.12.2020							
(million €)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				Against charges	For excess		
Provision for site dismantlement and restoration	<b>647</b>		6	(15)	(1)	73	<b>710</b>
Provision for litigation	<b>18</b>	1		(1)	(3)		<b>15</b>
Provision for tax litigation	<b>6</b>			(1)	(1)		<b>4</b>
Other provisions	<b>42</b>	40		(13)			<b>69</b>
<b>Total</b>	<b>713</b>	<b>41</b>	<b>6</b>	<b>(30)</b>	<b>(5)</b>	<b>73</b>	<b>798</b>

Provision for dismantling and restoration site 710 million euros (647 million euros at 31 December 2019) includes the estimated (discounted) costs that will be incurred for the removal of facilities and the restoration of sites in the natural gas storage (551 million euros) and transportation<sup>28</sup> (154 million euros) business segments. The discounting for the provision for dismantling and restoration site was carried out using the corresponding to the euro area Corporate Bond returns with an "AA" rating. The rate thus determined was between 0.13% and 0.56%.

The last deadline in chronological order for disbursements related to the dismantling and restoration storage sites refers to the Bordolano concession, in 2041.

<sup>28</sup> The costs refer to the estimated expenses for the removal of the connection works to the Livorno LNG regasification terminal - OLT Offshore LNG Toscana.


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The other changes (73 million euros) refer to the effects of the reduction in expected discounting rates and the upward revision of the estimated dismantling and restoration site costs that mainly refer to the storage sector.

The provision for litigation (15 million euros; 18 million euros as at 31 December 2019) included costs which the Company has estimated it will incur for existing lawsuits.

The risk provision for tax disputes (4 million euros; 6 million euros at 31 December 2019) contains the estimate of the probable expenses in the event of levying of assessments and pursuant to tax disputes.

The other provisions for risks and charges (69 million euros; 42 million euros at 31 December 2019) mainly refer to: (i) charges that the Group's insurance company Gasrule Insurance DAC expects to incur for insured claims (21 million euros); (ii) the provision for voluntary redundancies (12 million euros); (iii) the provision relating to the estimate of probable charges of a fiscal and financial nature for facts and/or events already existing at 31 December 2020 (17 million euros).

The sensitivity<sup>29</sup> of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(million €)	Change in discount rate	
	10% reduction	10% increase
<b>Effect on net obligation at 31.12.2020</b>		
Provision for site dismantlement and restoration	6	(6)

<sup>29</sup> For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.




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## 21) PROVISION FOR EMPLOYEE BENEFITS

*Provision for employee benefits*, for 40 million euros (46 million euros at 31 December 2019), can be broken down as follows:

(million €)	31.12.2019	31.12.2020
Employee severance indemnity (TFR)	25	25
Supplementary Health Insurance for Managers of Eni companies (FISDE)	4	6
Isopension Fund	12	6
Other liabilities - employee benefits related to seniority bonuses	3	3
Other liabilities - deferred monetary incentive plans (IMD) and long-term incentive plans (ILT)	2	
<b>Total provision for employee benefits</b>	<b>46</b>	<b>40</b>

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods.

The FISDE includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current<sup>30</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group<sup>31</sup> executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions by member companies; (ii) contributions paid by Shareholders for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

<sup>30</sup> For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

<sup>31</sup> The fund provides the same benefits for Snam Group executives.


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The early retirement fund refers to expenses incumbent upon the employer from application of the implementation agreement, relating to the early retirement instrument for employees regulated pursuant to Article 4 paragraphs 1-7 of Law 92/2012 (the "Fornero Law").

Deferred monetary incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Snam's commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term monetary incentive plans, involve the granting and payment, of a variable monetary bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters. From 2017, in place of the long-term monetary incentive plans (IMD and ILT) a new share-based long-term incentive plan (share ILT) was introduced<sup>32</sup>, the recipients of which was extended in 2018.

Seniority bonuses are benefits paid upon reaching a minimum service period at the company and are paid in kind in the form of goods and/or services.

<sup>32</sup> For more information on the characteristics of this plan, refer to the "Other information" paragraph of the Directors' Report.


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The composition and changes in liabilities for employee benefits, determined by applying actuarial methods, are as follows:

(million €)	31.12.2019					31.12.2020				
	TFR	FISDE	Isopen- sion Fund	Other liabilities	Total	TFR	FISDE	Isopen- sion Fund	Other liabilities	Total
<b>Current value of the obligation at the beginning of the year</b>	<b>26</b>	<b>3</b>	<b>25</b>	<b>10</b>	<b>64</b>	<b>25</b>	<b>4</b>	<b>12</b>	<b>5</b>	<b>46</b>
Costs related to current services (recognised in "personnel costs")		1	(6)		(5)		1			1
Interest cost (recorded under "financial expenses")	1				1					
Actuarial (gains)/losses resulting from: (recorded under other components of the comprehensive income statement)	1		(1)	(1)	(1)		1			1
- corrections based on past experience	1		(1)	(1)	(1)		1			1
Benefits paid	(3)		(6)	(4)	(13)	(2)		(6)	(2)	(10)
Change in the scope of consolidation						2				2
<b>Current value of the obligation at the end of the year</b>	<b>25</b>	<b>4</b>	<b>12</b>	<b>5</b>	<b>46</b>	<b>25</b>	<b>6</b>	<b>6</b>	<b>3</b>	<b>40</b>

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below.

	31.12.2019			31.12.2020		
	TFR	FISDE	Other liabilities	TFR	FISDE	Other liabilities
Discount rate (%)	0.9	0.9	0.9	0.6	0.6	0.6
Inflation rate (%) (*)	0.9	0.9	0.9	0.7	0.7	0.7

(\*) With reference to other liabilities, the rate refers only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.


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The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, as a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible change in the discount rate at the end of the year. It should also be noted that any changes relating to mortality do not have a significant effect on liability. The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(million €)	Change in discount rate	
Effect on net obligation at 31.12.2020	Reduction of 0.5%	Increase of 0.5%
Employee severance indemnity	2	
FISDE		(1)

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(million €)	31.12.2019					31.12.2020				
	TFR	FISDE	Isopen-sion Fund	Other liabilities	Total	TFR	FISDE	Isopen-sion Fund	Other liabilities	Total
Within the next financial year	2		4	2	8	2		5		7
Within 5 years	6		2		8	6		1	1	8
Over 5 and up to 10 years	9	1		1	11	9	1		1	11
More than 10 years	8	3	6	2	19	8	5		1	14
	25	4	12	5	46	25	6	6	3	40


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The weighted average maturity of obligations for employee benefit plans is shown below:

	31.12.2019				31.12.2020			
	TFR	FISDE	Isopen- sion Fund	Other liabilities	TFR	FISDE	Isopen- sion Fund	Other liabilities
Weighted average duration (years)	9	23	1	6	9	23		11

## 22) DEFERRED TAX LIABILITIES/ASSETS

Deferred tax liabilities, amount to 113 million euros (129 million euros at 31 December 2019) and deferred tax assets amount to 23 million euros (unchanged from 31 December 2019).

(million €)	31.12.2019	31.12.2020
Gross deferred tax liabilities	548	568
Deferred tax assets which can be offset	(419)	(455)
<b>Deferred tax liabilities</b>	<b>129</b>	<b>113</b>
Gross deferred tax assets	(442)	(478)
Deferred tax liabilities which can be offset	419	455
<b>Deferred tax assets</b>	<b>(23)</b>	<b>(23)</b>


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Deferred tax liabilities and assets are analysed below, based on the nature of the most significant temporary differences:

	31.12.2020								
(million €)	Opening balance	Provisions	Utilisations	Impact recognised in shareholders' equity	Other changes	Change in the scope of consolidation	Final balance	of which: IRES	of which: IRAP
<b>Deferred tax liabilities</b>	<b>548</b>	<b>5</b>	<b>(17)</b>		<b>21</b>	<b>11</b>	<b>568</b>	<b>546</b>	<b>22</b>
Depreciation, amortisation and impairment carried out for tax purposes only	<b>408</b>		<b>(14)</b>				<b>394</b>	<b>394</b>	
Site dismantling and restoration	<b>94</b>				<b>20</b>		<b>114</b>	<b>98</b>	<b>16</b>
Revaluations of tangible assets	<b>21</b>		<b>(1)</b>			<b>11</b>	<b>31</b>	<b>28</b>	<b>3</b>
Capitalisation financial expense	<b>7</b>		<b>(1)</b>				<b>6</b>	<b>5</b>	<b>1</b>
Write-down of excess receivables	<b>3</b>						<b>3</b>	<b>3</b>	
Other temporary differences	<b>15</b>	<b>5</b>	<b>(1)</b>		<b>1</b>		<b>20</b>	<b>18</b>	<b>2</b>
<b>Deferred tax assets</b>	<b>(442)</b>	<b>(31)</b>	<b>18</b>	<b>(1)</b>	<b>(22)</b>		<b>(478)</b>	<b>(436)</b>	<b>(42)</b>
Site dismantling and restoration	<b>(182)</b>	<b>(1)</b>	<b>4</b>		<b>(20)</b>		<b>(199)</b>	<b>(170)</b>	<b>(29)</b>
Non-deductible depreciation and amortisation	<b>(151)</b>	<b>(24)</b>	<b>3</b>				<b>(172)</b>	<b>(170)</b>	<b>(2)</b>
Provisions for risks and charges and other non-deductible provisions	<b>(51)</b>	<b>(4)</b>	<b>3</b>				<b>(52)</b>	<b>(45)</b>	<b>(7)</b>
Grants and contractual contributions	<b>(20)</b>		<b>1</b>				<b>(19)</b>	<b>(16)</b>	<b>(3)</b>
Employee benefits	<b>(10)</b>		<b>4</b>				<b>(6)</b>	<b>(6)</b>	
Other temporary differences	<b>(28)</b>	<b>(2)</b>	<b>3</b>	<b>(1)</b>	<b>(2)</b>		<b>(30)</b>	<b>(29)</b>	<b>(1)</b>
<b>Net deferred tax liabilities</b>	<b>106</b>	<b>(26)</b>	<b>1</b>	<b>(1)</b>	<b>(1)</b>	<b>11</b>	<b>90</b>	<b>110</b>	<b>(20)</b>

As required by IAS 1 "Presentation of Financial Statements", deferred tax liabilities and assets are considered non-current liabilities and assets, respectively.

Note 33 "Income taxes" provides information about taxes for the year.

With reference to the Group companies, it should be noted that Snam Rete Gas, Gnl, Stogit and Renerwaste (hereinafter the Companies) intend to make use of the tax realignment rules introduced by sub-paragraph 8, article 110, Decree Law no. 104 of 14 August 2020 converted, with amendments, by Law no. 126 of 13 October 2020.


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Specifically, the Companies intend to realign the (lower) tax value to the (higher) carrying value existing at 31 December 2020 with respect to certain assets in their respective financial statements ended 31 December 2019.

In this case, the companies must pay the substitute tax on IRES and IRAP of 3% on the higher carrying value compared to the tax value, in a maximum of three equal instalments, the first of which must be paid by 30 June 2021, and indicate their exercising of the option for this tax regime in the tax return for the 2020 tax year.

With regard to the accounting effects in the event of realignment, the Companies shall recognise the substitute tax due in the 2021 financial statements and reverse the deferred tax provision allocated for the misalignment.

Lastly, these companies, by means of a shareholders' resolution to be passed by 31 December 2021, shall set up a specific reserve, subject to the regime of reserves in suspension of taxation, for an amount equal to the higher misaligned values net of the substitute tax.

## 23) SHAREHOLDERS' EQUITY

*Shareholders' equity*, which amounts to 6,472 million euros (6,258 million euros at 31 December 2019) breaks down as follows:

(million €)	31.12.2019	31.12.2020
<b>Share capital</b>	<b>2,736</b>	<b>2,736</b>
<b>Treasury shares</b>	<b>(389)</b>	<b>(361)</b>
Share premium reserve	746	611
Legal reserve	547	547
Cash flow hedge reserve	(62)	(67)
Reserve for defined-benefit plans for employees	(8)	(9)
Reserve for fair-value valuation of investments	5	48
Consolidation reserve	(674)	(674)
Other reserves	64	39
<b>Total reserves</b>	<b>618</b>	<b>495</b>
Retained earnings	2,513	2,824
Interim dividend	(313)	(326)
Profit for the year	1,090	1,101
<b>Total retained earnings</b>	<b>3,290</b>	<b>3,599</b>
<b>Equity attributable to Parent Company shareholders</b>	<b>6,255</b>	<b>6,469</b>
<b>Equity of minority interests</b>	<b>3</b>	<b>3</b>
<b>Total shareholders' equity</b>	<b>6,258</b>	<b>6,472</b>


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## 23.1 SHARE CAPITAL

The share capital at 31 December 2020 consisted of 3,360,857,809 shares without nominal value (3,394,840,916 without nominal value at 31 December 2019), with a total value of 2,735,670,475.56 (unchanged from 31 December 2019). The change of share capital follows the elimination of 33,983,107 treasury shares in the portfolio with no nominal value, with no share capital reduction, and consequent amendment of art. 5.1 of the company Bylaws approved by the Snam Shareholders' Meeting, held in extraordinary session on 18 June 2020 and completed on 6 July 2020.

## 23.2 TREASURY SHARES

Negative reserve holds a purchase cost of no. 90,642,115 treasury shares as at 31 December 2020 (102,412,920 as at 31 December 2019), as a total amount of approximately 361 million euros (389 million euros at 31 December 2019). The decrease of 28 million euros compared to 31 December 2019 was primarily due to: (i) the cancellation of 33,983,107 treasury shares held by the company, by the Extraordinary Shareholders' Meeting of 18 June 2020 completed on 6 July 2020 (approximately 135 million euros), (ii) the allocation of shares to Snam executives under the 2017 Share Incentive Plan (1,511,461 shares), the vesting period of which expired in July 2020. These effects were partially offset by the purchase of 23,723,763 shares for an overall cost of approximately 114 million euros, essentially carried out in the context of the buyback programme approved by the Shareholders' Meeting of 2 April 2019, subsequently extended with a resolution of the same Shareholders' Meeting of 18 June 2020, following the revocation of the resolution of 2 April 2019, in relation to the part that remained unexercised.

Detailed information on treasury shares and long-term share-based incentive plans are shown in the "Other information" section of Directors' Report, to which reference should be made.

## 23.3 RESERVES

### Share premium reserve

The share premium reserve at 31 December 2020 stood at 611 million euros (746 million euros at 31 December 2019). The reduction of 135 million euros is due to the use of part of the reserve following the cancellation of 33,983,107 treasury shares in the portfolio with no share capital reduction, approved by the Extraordinary Shareholders' Meeting held on 18 June 2020 and completed on 6 July 2020.

### Legal reserve

The legal reserve amounted to 547 million euros at 31 December 2020 (unchanged at 31 December 2019) and has already reached one-fifth of the share capital as required by Article 2430 of the Italian Civil Code.




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## Cash flow hedge reserve

The fair value reserve for cash flow hedge financial instruments (-67 million euros, -62 million euros at 31 December 2019); includes the fair value measurement of derivative instruments, net of related tax effects, on 4 Interest Rate Swaps (IRS) and 1 Forward start Interest Rate Swap, illustrated in Note 19 "Other current and non-current liabilities".

The changes in the reserve during the course of the year are shown below:

(million €)	Gross reserve	Tax effect	Net reserve
<b>Reserve at 31.12.2019</b>	<b>(81)</b>	<b>19</b>	<b>(62)</b>
Changes in 2020	(6)	1	(5)
<b>Reserve at 31.12.2020</b>	<b>(87)</b>	<b>20</b>	<b>(67)</b>

## Reserve for defined-benefit plans for employees

At 31 December 2019, the reserve for remeasurement of employee benefit plans of -9 million euros (-8 million euros at 31 December 2019) included actuarial losses, net of the relative tax effect, recognised under other components of the comprehensive income statement pursuant to IAS 19.

## Reserve for fair-value valuation of investments

The fair value reserve as at 31 December 2020 (48 million euros; 5 million euros as at 31 December 2019) includes the change in fair value, net of tax effects of minority interests that were designated as accounted for FVTOCI upon initial recognition ("fair value recognized through other comprehensive income"). For further details, see note 12 "Current and non-current financial assets".

## Consolidation reserve

The consolidation reserve (-674 million euros; unchanged from 31 December 2019) recognised in 2009, relates to the value arising from the difference between the purchase cost of the Stogit investment and the related shareholders' equity attributable to the group at the date of completion of the transaction, as part of a business combination under common control (BCUCC) transaction carried out in 2009 with the former parent company Eni.

## Other reserves

Other reserves of 39 million euros (64 million euros as at 31 December 2019) mainly refer to the portion of the other elements of the comprehensive



income statement of equity investments accounted for using the equity method.

## 23.4 RETAINED EARNINGS

Retained earnings include:

- profits relating to previous years, which amounted to 2,824 million euros (2,513 million euros at 31 December 2019); the increase of 311 million euros is due to the allocation of the residual profit for the 2019 financial year, after the distribution of dividends;
- the interim dividend of 326 million euros, equal to 0.0998 euros per share, was approved on 4 November 2020 by the Board of Directors pursuant to Article 2433-bis, paragraph 5 of the Italian Civil Code. The interim dividend was paid out as of 20 January 2021, with an ex-coupon date of 18 January 2021 and a record date of 19 January 2021;
- profit for the 2020 financial year of 1,101 million euros.

## 23.5 DIVIDENDS DECLARED AND DISTRIBUTED AND DIVIDENDS TO BE DISTRIBUTED

On 28 April 2020, the Snam S.p.A. Shareholders' Meeting approved the distribution of the 2019 ordinary dividend of 0.2376 euros per share, including 0.095 euros per share for an amount of 313 million euros already distributed by way of an interim dividend. The balance of the dividend of 0.1426 euros per share, for a sum of 466 million euros, was paid from 24 June 2020, with an ex-dividend date of 22 June 2020 and a record date of 23 June 2020.

In its meeting of 17 March 2021, the Board of Directors proposed to the Shareholders' Meeting convened for 28 April 2021 the distribution of an ordinary dividend of 0.2495 euros per share, of which 0.0998 euros per share, for an amount of 326 million euros, was already distributed as the interim dividend. The dividend of 0.1497 euros per share will be paid out from 23 June 2021, with an ex-coupon date of 21 June 2021 and a record date of 22 June 2021.

## 24) BUSINESS COMBINATIONS

### 24.1 MIECI AND EVOLVE

On 5 October 2020, Snam, through its subsidiary Snam 4 Efficiency<sup>33</sup>, completed the acquisition of a 70% stake in Miecì S.p.A.<sup>34</sup> and Evolve S.r.l., companies active in Italy in the energy efficiency sector, for a value of approximately 47 million euros (approximately 30 million euros net of cash acquired).

The operation was fully financed with own funds and cross put and call options are contractually envisaged on the interests of minority shareholders expiring in 2025. The activities of Miecì and Evolve employ approximately 140 people and generate an annual EBITDA of approximately 10 million euros.

The operation is a Business combination in compliance with IFRS 3, Business combinations. To this end, on the date that control was acquired, the individual assets acquired and the liabilities assumed at fair value were recognized, as provisional accounting from goodwill.

At the acquisition date, on the basis of the terms of the contract governing the exercise of the cross put and call options on minority interests of (equal to 30%) is regulated, the transaction was accounted for as if Snam had acquired control over 100% of Miecì and Evolve, without therefore recognising the minority interests.

The present value of the payments envisaged in the event of exercise of the options included in the determination of the consideration of the business combination including the earn out under the aforementioned option (roughly 26 million euros).

<sup>33</sup> In January 2021, CDP Equity completed the transaction by which it acquired a 30% stake in Snam 4 Efficiency. At the same time, its name was changed to Renovit, which is now 70% owned by Snam and 30% by CDP Equity.

<sup>34</sup> Includes the subsidiary T.Lux S.r.l.


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The accounting effects of the business combination, in accordance with the provisions of IFRS 3 - "Business combinations", are summarised below:

(million €)	Values after fair value allocation		
	Mieci	Evolve	Total
Fair value of consideration (including contingent considerations)	38	9	47
Exercise price of put/call option on minority interests	21	5	26
Total net identifiable assets at fair value	47	14	61
<b>Goodwill</b>	<b>12</b>		<b>12</b>

The main values of the assets and liabilities of Mieci and Evolve at the acquisition date are summarised below:

(million €)	Values after fair value allocation		
	Mieci	Evolve	Total
Current assets	41	18	59
Non-current Assets	40	21	61
Goodwill	12		12
<b>Acquired assets</b>	<b>93</b>	<b>39</b>	<b>132</b>
Current liabilities	12	8	20
Short-term financial liabilities	1	7	8
Long-term financial liabilities	11	6	17
Liabilities for employee benefits	1	1	2
Deferred tax liabilities	9	3	12
<b>Acquired liabilities</b>	<b>34</b>	<b>25</b>	<b>59</b>
<b>Acquired shareholders' equity (including goodwill)</b>	<b>59</b>	<b>14</b>	<b>73</b>

Goodwill (12 million euros) was determined as the difference between the fair value of the consideration, including the financial component relating to the purchase option of the minority interests and the fair value of the net assets acquired.

From the acquisition date (October 2020), Mieci and Evolve's contribution to consolidated net profit was 2 million euros. With reference to revenues, the contribution amounted to 19 million euros.


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## 25) GUARANTEES AND COMMITMENTS

The Group's guarantees and commitments are outlined below:

(million €)	31.12.2019	31.12.2020
Guarantees given, and to be given, to third parties on behalf of the associate company TAP	1,129	1,129
Commitments with regards to associate company TAP	234	113
<b>Guarantees and commitments - associate company TAP</b>	<b>1,363</b>	<b>1,242</b>
<b>Guarantees given to third parties in the interest of subsidiaries</b>	<b>101</b>	<b>178</b>
<b>Group commitments for the purchase of goods and services</b>	<b>892</b>	<b>1,168</b>

### 25.1 GUARANTEES AND COMMITMENTS – ASSOCIATE COMPANY TAP

Commitments with regards to associate company Trans Adriatic Pipeline AG (TAP) (113 million euros) refer to the residual commitment of Snam S.p.A., as shareholder and in connection with the project finance for the development of the gas pipeline by virtue of the share held, of 20%.

The commitment relates to the total costs of the project, including the financial expense in the realisation of the work resulting from the loan agreement, concluded by TAP, in December 2018. Note that following the finalisation of the project financing for TAP, around 75% of the cost of the project will be funded by lending institutions. Based on the project funding concluded, Snam S.p.A.'s commitment to TAP could gradually be reduced as a result of the provision to TAP of loans by lending institutions. During the construction and commissioning of the plant, the loan contract of the associate TAP will be, amongst others, accompanied by a first-demand guarantee (the "Debt Service Guarantee") up to a maximum pro-quota amount of Snam of 1,129 million euros.

At 31 December 2020 the effective value of the guarantee relating to the above loan stood at around 779 million euros. The guarantee will be released when certain requirements agreed with the lending institutions are verified, including, specifically, the completion of the verification procedures carried out in relation to the start-up of the plant. Once the project has been developed, during operation, a mechanism is instead envisaged in support of the repayment of the financial debt issued by shareholders (the "Debt Payment Undertaking"), which will activate where certain, specific conditions should arise. The structure of the project financing concluded for TAP includes several limitations for shareholders for transactions of this type, including: (i) a restriction on the possibility of TAP shares being freely available according to certain time frames; (ii) the pledging of the shares owned by Snam in TOP in favour of the lenders for the entire duration of the loan.



## 25.2 GUARANTEES GIVEN IN THE INTEREST OF SUBSIDIARIES

Guarantees given in the interest of subsidiaries (178 million euros; 101 million euros as at 31 December 2019) mainly relate to:

- i) guarantees given in favour of the Revenue Agency in the interest of the subsidiaries Stogit, GNL, Snam 4 Mobility and Enura (72 million euros);
- ii) indemnities issued in favour of third-parties to guarantee the execution of works (52 million euros);
- iii) pooling contracts with the subsidiaries Snam 4 Environment and IES Biogas (29 million euros);
- iv) bank guarantees in favour of the INPS to guarantee fulfilment of the obligations undertaken under the scope of provisions connected with early retirement, regulated by Article 4, paragraphs 1-7 of Law 92/2012 - Fornero Law (22 million euros).

## 25.3 GROUP COMMITMENTS FOR THE PURCHASE OF GOODS AND SERVICES

The commitments for the purchase of goods and services (1,168 million euros; 892 million as at 31 December 2019) regard the commitments made with suppliers for the purchase of tangible fixed assets and the supply of services relative to the investments being made.

## 25.4 OTHER UNEVALUATED COMMITMENTS AND RISKS

Other unrecognized commitments and risks refer mainly to commitments undertaken at the time of the closing of equity purchase transactions, which will continue to apply after the date of execution of those transactions.

As of 31 December 2020, commitments related to the following agreements remain in place:

- the contract through which Eni acquired Stogit, for commitments related to the occurrence of future events, such as (i) the possible different valuation of the gas owned by Stogit, compared to the valuation recognised by ARERA (Autorità di Regolazione per Energia Reti e Ambiente - Energy, Networks and Environment Regulatory Authority) which may emerge in certain contractually defined circumstances; (ii) the possible transfer of the storage capacity which should be freely available on a negotiable basis rather than a regulated basis, or the transfer of concessions held

by Stogit at the time of the share transfer that may become dedicated to mainly storage activities which are no longer regulated;

- Commitments arising from the contract through which Edison acquired Terminale GNL Adriatico S.r.l., for commitments related to the benefits that may result from the potential signing of new contracts to use the terminal's capacity;
- the Renerwaste S.r.l. purchase contract:
  - with Ecopartner, for commitments related to the occurrence of future events, including: (i) the expansion of the capacity of the production facilities, or (ii) the future exceeding of certain contractually defined parameters;
  - with Ladurner, Ladurner Ambiente and AB Invest, for commitments related to the fulfilment of certain conditions, by 2022, for the purchase of two SPVs to which authorisations will be granted for the construction of two further plants for the production of Biogas/Biomethane;
- the contract through which Iren acquired OLT Offshore LNG Toscana S.p.A. for commitments related to the occurrence of future events, including the exceeding of certain contractually defined parameters;
- the contract through which Femo Gas acquired Iniziative Biometano S.p.A., for commitments connected with the occurrence of future events, including (i) the exceeding in the future of certain contractually defined parameters and, (ii) the obtaining of part of the benefits.

## 25.5 GREENHOUSE GAS EMISSION ALLOWANCE SYSTEM - EMISSION TRADING SYSTEM

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC. The reduction of CO<sub>2</sub> emissions comes under the objectives set by the European Union in the 2020 Climate and Energy Package, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%. There are 22 Snam Group plants subject to the Emissions Trading regulation, 13 of which are Snam Rete Gas compression plants, 8 Stogit storage facilities and the GNL Italia regasification plant.


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In 2020, the free allocation for the Snam Group was 120,292 quotas, decrease by approximately 40 % compared to 2019, due to the gradually decreasing assignment of free quotas by the competent national authority, provided for the third regulatory period by Article 10a of Directive 2009/29/EC, as well as to some specific rules for updating allocations provided for by the same Directive (reduction in activity levels, new entrant allocations and reduction in thermal capacity).

In 2020, dioxide carbon emissions of Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. Compared to approx 0.615 million tonnes of dioxide carbon emitted into the atmosphere, around 0.120 million tonnes were allocated, resulting in a 0.495 million-tonne deficit. The deficit was offset by the quotas purchased by the company, with an approximately cost of 9.5 million euros recognised in "Other operating costs and expenses".

## 26) FINANCIAL RISK MANAGEMENT

### 26.1 INTRODUCTION

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations on interest rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments.

With regard to the exposure to exchange rate risk, due to the situations currently in place, Snam group's exposure is currently limited with regard to transaction risk, while there is still exposure to translation risk with regard to certain foreign investees that prepare their financial statements in currencies other than the euro. At present, it has been decided not to adopt specific hedging policies for these exposures. For instance, it should be noted that the effects of exchange rate differences deriving from the difference in translation into currency presentation (euro) of the functional currencies of these companies are recognised in the comprehensive income statement.

With regard to the other risks that characterise operations, including those related to the Covid-19 pandemic, please

refer to the information provided in the section of the Directors' Report entitled "Risk Management - Elements of risk and uncertainty".

The following describes Snam's policies and principles for the management and control of financial risks, according to the approach provided for by international accounting standard IFRS 7 - Financial instruments: disclosures.

### 26.2 INTEREST RISK RATE CHANGE

Interest risk rate change is associated with fluctuations in interest rates affecting the market value of the Company's financial assets and liabilities and its net financial expense.

Snam's objective is to optimize the interest rate risk while pursuing its financial objectives.

Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits.

At 31 December 2020, the Snam Group used external financial resources in the form of bond loans and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates. The exposure to interest risk rate change at 31 December 2020, taking into account the hedging transactions put in place, was approximately 33% of the total exposure of the Group (24% at 31 December 2019). As at 31 December 2020, Snam has interest rate swaps (IRSs) in place for a notional total amount of 756 million euros, relating to hedges on a 106 million euros floating-rate bond loans maturing in 2024 and bilateral floating-rate funding totalling 650 million euros maturing in 2021 and 2023. The IRS derivative contracts are used to convert floating rate loans to fixed rate loans.

Moreover, as at 31 December 2020, Snam has forward starting IRS derivatives in place of a notional amount totalling 250 million euros, maturing in the medium to long-term, for highly probable future financial liabilities to be undertaken up to 2021, for coverage of financial


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requirements. Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow. Even considering the limited exposure to changes in interest rates, limited to 33% of the Group's total exposure and fully attributable to the Euribor rate, a possible change in the method of calculating the latter and the related fallback clauses that may be formulated could result in the Snam Group having to adjust the financial contracts that may be affected by the aforementioned change and/or the management of prospective cash flows.

The effects on shareholders' equity and net profit at 31 December 2020 are shown below, assuming a hypothetical change in the interest rate basis points of +/-10% actually applied during the course of the year:

(million €)	31.12.2020			
	Income statement result		Other components of the comprehensive income statement	
	Interest +10 bps	Interest -10 bps	Interest +10 bps	Interest -10 bps
<b>Floating rate loans not subject to hedging</b>				
Interest rate change effect	(5)	5		
<b>Floating rate loans converted through IRS into fixed rate loans</b>				
Effect of interest rate changes on the fair value of hedging derivatives pursuant to IAS 39 - effective portion of the hedge <sup>(*)</sup>			3	(3)
<b>Impacts gross of tax effect</b>	(5)	5	3	(3)
Tax effect	1	(1)	(1)	1
<b>Impacts net of tax effect</b>	(4)	4	2	(2)

(\*) The change in the interest rate impacts on the change of fair value of derivative hedging instruments recognised, amongst other components, in the comprehensive income statement and, therefore, does not impact on the income statement result.


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## 26.3 CREDIT RISK

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and Snam financial balance of. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any disputes are handled by the business units and the centralised Snam departments. Snam, as far as regulated activities are concerned, which currently represent almost all activities, provides its business services to 220 operators in the gas sector, with 10 operators representing approximately 68% of the entire market (Eni, Edison and Enel Global Trading hold the top three spots). The rules for customer access to the services offered are established by the Authorities and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in selling and providing said services and contain contractual conditions, which significantly reduce the risk of customer default. The Codes contain guarantees to be provided to cover the obligations undertaken. In certain cases, if the customer has a credit rating issued by leading international organisation, the issuing of these guarantees can be mitigated. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, the current balancing rules require that Snam, on the basis of financial merit criteria, mainly operates in buying and selling on the GME balancing platform to guarantee the necessary resources for the safe and efficient movement of gas from the injection points to the withdrawal points in order to guarantee the constant equilibrium of the network.

As regards non-regulated activities, which will become increasingly important over the Plan period, the company, through its centralised functions, performs a prior analysis of the financial soundness of counterparties in order to minimise this risk.

Snam's maximum exposure to credit risk as at 31 December 2020 is represented by the book value of the financial assets recorded in the financial statements, detailed in Note 9 "Trade and other receivables".




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The following table shows a breakdown of trade and other receivables by maturity, indicating the gross value and the value net of the provision for impairment losses:

	31.12.2019			31.12.2020		
(million €)	Trade receivables (*)	Other receivables	Total	Trade receivables (*)	Other receivables	Total
Non-overdue and non-impaired receivables	1,085	159	1,244	1,357	125	1,482
Overdue and non-impaired receivables:	132		132	194		194
- from 0 to 3 months	11		11	23		23
- from 3 to 6 months	7		7	7		7
- from 6 to 12 months	26		26	14		14
- beyond 12 months	88		88	150		150
<b>Total trade receivables and other receivables</b>	<b>1,217</b>	<b>159</b>	<b>1,376</b>	<b>1,551</b>	<b>125</b>	<b>1,676</b>

(\*) The exposure is net of overdue and impaired loans for 102 million euros (same as 31 December 2019).

The net book value of overdue and non-impaired trade receivables as at 31 December 2020, equal to 194 million euros, refer mainly to: (i) the storage sector (77 million euros), in particular to VAT<sup>35</sup> billed to users for the use of strategic gas which was withdrawn but not replenished by them pursuant to the terms established by the Storage Code during 2010 and 2011; (ii) the transportation sector (51 million euros) and mainly regard receivables from Users referring to positions within balancing and settlement services.

Approximately 34% of trade receivables (39% as at 31 December 2019) were with extremely reliable clients, including Eni, which represents 11% of total trade receivables (16% as at 31 December 2019).

The current context characterised by the spread of the Covid-19 virus, together with the macroeconomic scenario, could cause a financial stress situation with regard to several customers and suppliers or a slowdown in activities that could have an impact on Snam's assets and/or liabilities. With reference to the development of energy transition activities, similarly a slowdown in activities and a similar context risk is possible, with repercussions on collection and payments activities, which currently represent an extremely limited amount compared with the entire scope of the Snam Group.

<sup>35</sup> As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.



The following is a description of the credit recovery activities carried out against certain users of the transportation and balancing system and the storage system.

## Recovering receivables from certain users of the transportation and balancing system

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

## Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority.

Through its subsequent Resolution 351/2012/R/gas<sup>36</sup>, the Authority implemented the start date of 1 October 2012 for the application of the variable unit fee CV<sup>BL</sup> to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to 6 million euros over a minimum of 36 months.

The Authority subsequently opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012<sup>37</sup>. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013. On the same date, the Authority: (i) opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service.

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company appealed Resolution 608/2015/R/gas, before the Regional Administrative Court of Milan, which partially admitted the appeal submitted by the Company with ruling 942/2017; this was in turn partially appealed by the Company and the Authority. The ruling

<sup>36</sup> The aforementioned resolution was annulled pursuant to the ruling 1587/2014 of the Regional Administrative Court of Milan insofar as the obligation of Users to pay the CVBL consideration of 0.001 €/Scm with effect from 1 October 2012. Moreover, with the subsequent Resolution 372/2014/R/gas the coefficient was redefined at the same amount of 0.001 €/Scm.

<sup>37</sup> The time period set for the preliminary investigation which was initially limited to 1 December 2011-31 May 2012, was subsequently extended to 23 October 2012.



was then confirmed through the ruling of the Council of State 1630/2020, published on 5 March 2020. As a result of these rulings, the Company has obtained, through CSEA, a recognition of an amount of approximately 40 million euros (including VAT).

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to balancing and transport items.

Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service<sup>38</sup>. Having received these orders, Snam Rete Gas initiated the executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the Users, partly because of the bankruptcy procedures under way at all of these Users.

In particular, at present:

- five Users were declared bankrupt. With regard to all five Users, Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest. As part of these proceedings, a proposal for arrangement with creditors was submitted and approved by the majority of the creditors; the bankruptcy proceedings, following the final distribution, were closed with recognition of a minimal portion of the claim filed. In addition, a second procedure was recently closed in 2020, after approval and execution of the final distribution, which did not lead to the recognition of any amount in favour of the Company;
- one User has requested to be admitted to the arrangement with creditors and the Court Authorities have issued a ruling endorsing the arrangement<sup>39</sup>.

### Unpaid receivables after 23 October 2012

In 2013, two further transportation contracts were terminated and Snam Rete Gas initiated injunction proceedings. It obtained three payment orders, of which two for receivables relating to the balancing service and one for the transportation service. Both Users appealed, with the relative rulings rejecting the claims and consolidating the securities acquired by Snam Rete Gas. The executive procedures that were initiated resulted in a negligible recovery of amounts when compared to the overall amounts due from the Users which were then declared bankrupt. Snam Rete Gas regularly submitted its claims in the respective arrangements with creditors. In addition, one of the bankruptcy proceedings was concluded in 2020 with the recovery of minimal amounts with respect to the bankrupted party's total debt.

In 2014, a further transport contract was terminated and Snam Rete Gas initiated provisional executive procedures for recovery of the receivables, one relating to balancing services and the other to transportation services. The User was declared bankrupt and Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

Finally, in 2015 a further transportation contract was terminated and Snam Rete Gas initiated debt recovery measures, securing two provisional executive injunctions against the User, one for the balancing service and the other for the transport service. Moreover, the User was recently declared bankrupt and Snam Rete Gas has regularly submitted its claims for the arrangements with creditors.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

<sup>38</sup> The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. The oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

<sup>39</sup> In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.



Lastly, we note that on 12 February 2016 the Public Prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five Users. In May 2017, the investigation was concluded and the investigated parties were charged with the being involved in a criminal association and committing aggravated fraud against Snam Rete Gas. At the preliminary hearing set for 19 December 2018, the judge accepted SRG joining the proceedings as a civil party. The Court granted the investigation requests, declared the trial open, and adjourned the hearing for impending business until February 2021.

These criminal proceedings resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud.

## Recovering receivables from users of the storage system

### Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code

Following withdrawals from strategic storage made by a User in November and December 2010, Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. The appropriate executive actions were launched as a result.

Following the withdrawals and the failure to replenish the strategic gas in the initial months of 2011 as well, Stogit requested and obtained a second provisional executive injunction for the further sums accrued.

Urgent proceedings were also launched for the replenishment of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

In 2012 the above user together with another two users (who also defaulted with regard to Stogit) were added to the proceedings for an arrangement with creditors, in

which Stogit formally transmitted and documented the amounts of its receivables with these users.

Moreover, following the sub-proceedings to dismiss the arrangement, the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit promptly filed a proof of claim and its receivables were admitted in full.

However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was appealed by one of the creditors. The Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

### Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one User pursuant to Article 186-ter.

At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million euros SCM.

Stogit has therefore taken the appropriate actions.

The Court of Rome then declared the User bankrupt and Stogit submitted its claim, which was accepted.

### Withdrawals made from strategic storage by a User, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, relating to October and November 2011

Stogit filed with the Civil Court of Milan for a provisionally enforceable payment injunction, brought because of improper withdrawals, in respect of which Stogit still was owed approximately 56.0 million euros SCM.

While the proceedings were ongoing, the Court of Rome declared the User bankrupt. Consequently, the Civil Court of Milan declared the case interrupted and Stogit submitted its claim, which was accepted,



during which the final distribution of assets was made and, consequently, in 2020, the proceedings were closed, during which no amounts were paid to the Company.

## 26.4 LIQUIDITY RISK

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

Under the financial plan, Snam's risk management system aims to establish a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.

The financial market is characterised by a continuous growth of sources of financing for companies able to improve the environmental impact of their investments. The interest of the investors is linked and subordinated to the ability of the companies themselves to achieve certain objectives in terms of environmental sustainability.

With a view to the correct management of liquidity risk, the diversification of funding sources also through the use of sustainable finance instruments is therefore crucial to guarantee companies wide access to financial markets at competitive costs, with consequent positive effects on the economic situation, equity and financial position of the companies themselves.

Similarly, for Snam, the failure to achieve certain KPIs in the ESG area, within the general objective of the Group to make its business more sustainable in the medium-long term, could lead to higher financing costs or to the lack of access to some sources of funding.

The mitigation of this risk passes through Snam's extreme attention to ESG issues, traditionally a relevant and structured part of the corporate strategy.

In line with this approach, in 2018, Snam finalised the transformation of the Euro 3.2 billion in syndicate credit facilities, into a sustainable loan, the third largest sustainable loan to ever have been stipulated worldwide and the largest by a gas utility company. This loan provides for bonus/malus mechanisms based on the achievement of certain KPIs in the ESG (Environment, Social, Governance) area. In addition, Snam issued i) its first 500 million euros Climate Action Bond in February 2019 (ii) in June 2020 its first Transition bond, the second in Europe and the first by a gas transportation utility, for a further 500 million euros and (iii) in December 2020 a second Transition bond for 600 million euros, the longest zero coupon bond loan issued by an Italian issuer. These issues are aimed at financing investments in environmental sustainability and energy transition. Finally, in 2020, Snam renewed the Euro Commercial Paper programme, rising from 2 billion to 2.5 billion, linking it to environmental and social sustainability objectives in line with the Sustainable Loan and obtaining an EE ESG rating for the instrument from Standard Ethics. As shown in section 26.2 "Interest rate risk", the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the European Investment Bank (EIB), bond loans and Commercial Papers).

Snam's objective is to maintain a debt structure that is balanced in composition between bond loans and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

At 31 December 2020, Snam had unused committed long-term credit lines worth approximately 3.2 billion. In addition, as at the same date, Snam has a Euro Medium Term Notes (EMTN) programme in place for a maximum total nominal value of 11 billion, used for approximately 7.8 billion and a Euro Commercial Paper Programme (ECP) for a maximum total nominal value of 2.5 billion, used in full as at 31 December 2020.

Snam's cash and cash equivalents mainly refer to current accounts and bank deposits readily collectable.

The Group's main long-term financial payables include covenants that are typical of international practice, such as negative pledge and pari passu clauses. Failure to meet these clauses, and the occurrence of other events, for


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example cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relative loan, resulting in additional costs and/or liquidity issues. There are no covenants among commitments that involve compliance with ratios of an economic and/or financial nature.

Among the factors that define the risk perceived by the market, creditworthiness, assigned to Snam by rating agencies, plays a decisive role because it influences their ability to access sources of financing and the related economic conditions. A worsening of this creditworthiness could therefore constitute a limitation on access to the capital market and/or an increase in the cost of sources of financing, with consequent negative effects on the Group's economic situation, equity and financial position.

Snam's long term rating is: (i) Baa2 with stable outlook, confirmed on 11 January 2021 by Moody's Investor Services; (ii) BBB+ with stable outlook, confirmed on 22 February 2021 by Standard & Poor's Global Rating ("S&P"); (iii) BBB+ with stable outlook, confirmed on 22 January 2021 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt, two notches above for Fitch. Based on the methodology adopted by Moody's, S&P and Fitch, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

The company's short-term rating, used as part of Snam's Commercial Paper programme, is P-2 for Moody's, A-2 for S&P and F2 for Fitch.

Although the Snam Group has relations with diverse counterparties with a high credit standing, based on the management policy and ongoing monitoring of their credit risk, the default of a counterparty or the difficulty to liquidate assets on the market could have negative effects on the Snam Group's operations, results balance sheet and cash flow.


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The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments and other liabilities connected to derivative instruments:

(million €)	31.12.2019	Future flows			Maturity				
		31.12.2020	Quota within 12 months	Quota beyond 12 months	2022	2023	2024	2025	Beyond
Bank loans	3,704	5,272	2,786	2,485	687	457	119	121	1,101
Bond loans <sup>(*)</sup>	9,056	8,151	259	7,892	1,133	879	1,191	839	3,850
Euro Commercial Paper - ECP	2,000	2,500	2,500						
Financial payables for leased assets	21	21	6	15	5	4	2	2	2
Interest on loans <sup>(*)</sup>	772	498	109	388	94	67	59	43	125
<b>Financial liabilities</b>	<b>15,553</b>	<b>16,442</b>	<b>5,660</b>	<b>10,780</b>	<b>1,919</b>	<b>1,407</b>	<b>1,371</b>	<b>1,005</b>	<b>5,078</b>
Derivative instruments Forward start <sup>(**)</sup>	48	31	31						
<b>Liabilities for derivative instruments</b>	<b>48</b>	<b>31</b>	<b>31</b>						
<b>Total contractual flows of financial payables</b>	<b>15,601</b>	<b>16,473</b>	<b>5,691</b>	<b>10,780</b>	<b>1,919</b>	<b>1,407</b>	<b>1,371</b>	<b>1,005</b>	<b>5,078</b>

(\*) Future payments include the cash flow generated by hedging derivative contracts.

(\*\*) Future payments are valued at the Mandatory Early Termination Date.

With reference to the payment terms for trade and other payables, please see Note 18 "Trade payables and other payables".


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## 26.5 FAIR VALUE OF FINANCIAL INSTRUMENTS

It should be noted that, with the exception of the valuation of derivative agreements and minority investments, financial assets and liabilities, depending on the characteristics of the instrument and the business management adopted for their management, entirely come under the financial instruments valued through the amortised cost method.

The book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

	Book value		Income/expenses recognised in the income statement		Other components of the comprehensive income statement <sup>(a)</sup>	
(million €)	Balance at 31.12.2019	Balance at 31.12.2020	Balance at 31.12.2019	Balance at 31.12.2020	Balance at 31.12.2019	Balance at 31.12.2020
<b>Financial instruments valued at amortised cost</b>						
Trade receivables and other receivables <sup>(b)</sup>	1,380	<b>1,681</b>	35	<b>(2)</b>		
Financial receivables <sup>(c)</sup>	3	<b>312</b>		<b>13</b>		
Trade payables and other payables <sup>(b)</sup>	1,848	<b>2,121</b>				
Financial payables <sup>(c)</sup>	14,774	<b>15,937</b>	(200)	<b>(166)</b>		
<b>Financial instruments measured at fair value</b>						
Net assets (liabilities) for hedging derivatives <sup>(c)</sup>	(63)	<b>(38)</b>	(1)	<b>(10)</b>	(34)	<b>(5)</b>
<b>Financial assets valued at FVOCI</b>						
Minority equity investments <sup>(d)</sup>	39	<b>112</b>	2	<b>2</b>	4	<b>29</b>

(a) Net of tax effect.

(b) The effects on the income statement are recognised under "other operating costs and expenses".

(c) The effects on the income statement are recognised under "Financial income/(expenses)".

(d) The effects on the income statement are recognised under "other income (expenses) from equity investments".

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
- level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- level 3: inputs not based on observable market data.

In relation to the above, the classification of assets and liabilities measured at fair value in the statement of financial position according to the fair value





hierarchy involved: (i) derivative financial instruments at 31 December 2020 classified as level 2 and disclosed in Note 19 "Other current and non-current liabilities" (38 million euros); (ii) minority investment in Adriatic LNG, valued at FVTOCI, classified as level 3 a and disclosed in Note 12 "Other current and non-current financial assets" (38 million euros); (iii) the minority investment in ITM Power, valued at FVTOCI, classified as level 1 and disclosed in Note 12 "Other current and non-current financial assets" (74 million euros).

## 27) CRIMINAL AND TAX DISPUTES AND PROCEEDINGS WITH THE REGULATORY AUTHORITY ARERA

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects.

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

At 31 December 2020, risks concerning compensation and disputes related to litigation that is ongoing but where the risk of losing the case is not considered probable amounted to 44 million euros (38 million euros at 31 December 2019).

### 27.1 CRIMINAL DISPUTES

#### Snam Rete Gas S.p.A. - Pineto incident

On 6 March 2015 in Mutignano landslide affected 10 metres of the San Benedetto Del Tronto-Chieti section of the Ravenna-Chieti pipeline, causing it to break with the consequent escape of gas, with a subsequent fire due an electricity pylon collapsing at the same time.

With regard to this event, the Public Prosecutor at the Court of Teramo immediately opened an investigation into negligence associated with the forest fire. Upon completion, the Prosecutor requested the Snam Rete Gas

technicians and technical managers be brought to court. The committal to trial was ordered by the preliminary hearing judge for 3 October 2018. At the first main hearing on 10 January 2019, the presiding member of the bench asked the defence and the Public Prosecutor to comment on moving the proceedings to a single judge proficient in this issue. The parties referred to the decision of the Court, which after a short period in council chambers, passed the proceedings onto a competent single judge. The first main hearing was held on 17 September 2020, at which all parties presented their requests for evidence. The hearing was adjourned until the end of April 2021 for the examination of witnesses by the Public Prosecutor.

#### IES Biogas - Criminal offence conviction

On 2 November 2018 a criminal offence conviction was issued by the Court of Venice, with regard to an IES Biogas executive following the workplace accident that took place on 29 September 2016 involving a company employee, during the maintenance of a silo agitator. On 16 November 2018, a notice of opposition was filed against the criminal offence conviction, which requested the definition of the proceedings in the form of the simplified and shortened ruling. In 2020, the insurance process was completed and the injured party accepted the offer of compensation for damages provided by the insurance company. Due to the prospective inability to attend the hearings related to the health emergency decrees, the Judge postponed the hearing until the end of June 2021.

### 27.2 PROCEEDINGS WITH THE AUTORITÀ DI REGOLAZIONE PER ENERGIA RETI E AMBIENTE - ARERA

#### Snam Rete Gas S.p.A. Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A. and request for information

Through Resolution VIS 97/11, notified on 15 November 2011, the ARERA started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 systems owned by the distributor; through Resolution 431/2012/S/Gas the proceedings were brought together with other proceedings involving said events contested by the company launched with regard to the distributor involved.


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Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct. By means of Resolution 332/2015/S/gas, the ARERA declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Upon completion of the investigation on 20 October 2017, the ARERA notified the results to Snam Rete Gas, which confirmed the charges made when the proceedings were initiated. The company has requested time for it to formulate its own defence and, to this end, a hearing was called before the board of the Authority on 1 March 2018 during which the defence brief was submitted. After the proceedings, the Authority, although accepting some of the Company's arguments deemed relevant from the perspective of the quantification of the fine, imposed an administrative monetary fine on Snam Rete Gas, through resolution 206/2018/S/gas of 5 April 2018, of 880 thousand. Though it paid the pecuniary fine, the Company has appealed Resolution 206/2018/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

### **Snam Rete Gas S.p.A. - Resolution 608/2015/R/gas - Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor**

Upon completion of the proceedings initiated with Resolution 145/2013/R/gas to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor, relating to the period 1 December 2011 - 23 October 2012, in relation to three cases which had previously been investigated, with Resolution 608/2015/R/gas, the ARERA closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately 130 million euros (including VAT).

The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged Resolution 608/2015/R/gas before the Regional Administrative Court of Milan, which with its ruling No. 942/2017, published on 21 April 2017, partially upheld Snam Rete Gas's appeal, finding that, in relation to some of the cases covered by the preliminary investigation, there were grounds for recognising all or part of the charges deriving from the related uncollected receivables for a total amount of approximately 38 million euros.

Both parties have lodged partial appeals to the aforementioned judgment. The appeals were discussed before the Council of State at a hearing held on 8 November 2018.

The decision made by the Regional Administrative Court was then recently confirmed by the Council of State in its ruling No. 1630/2020, published on 5 March 2020<sup>40</sup>. As a result of these rulings, the Company has obtained recognition of an amount of approximately 40 million euros (including VAT).

An allocation had been made to the provision for impairment losses on receivables in relation to the costs in question.

### **Snam Rete Gas S.p.A. - Resolution 9/2014/S/gas – "Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas"**

With Resolution 9/2014/S/gas the ARERA launched punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement. Upon conclusion of the proceedings, with its resolution 853/2017/S/gas, the Authority sentenced Snam Rete Gas to pay a pecuniary fine of 95 thousand since, although it accepted a part of the Company's arguments which were significant insofar as determining the amount of the fine, it considered that the Company was late in complying with Resolution 292/2013/R/Gas.

<sup>40</sup> For more information, refer to the next paragraphs "Recovering receivables from certain users of the transportation and balancing system".



Though it paid the pecuniary fine, the Company has appealed Resolution 853/2017/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

**Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 regarding: "Adoption of measures on the odourising of gas for domestic use and similar for end users connected directly to the natural gas transportation networks"**

Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the ARERA amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation of transportation companies to odourise gas for end users connected directly to the transportation network, which, taking into account the categories of use indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the ARERA ordered that the transportation companies shall complete the implementation of the adaptation plans by 31 January 2017, after carrying out a survey of the redelivery points involved (by 31 July 2015) and sending the ARERA the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified. Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey.

Having carried out the survey, when sending the plan and the subsequent updates Snam Rete Gas once again found that the deadline set by the ARERA with its Resolution 484/2016/E/gas was unreasonable. Consequently, in the appeal with which Snam Rete Gas challenged Resolution 250/2015/R/gas, it also included an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended.

The request was accepted by the Council of State. Following the hearing that was held on 16 January 2019, through ruling no. 869 of 17 April 2019, the Milan Regional Administrative Court accepted the appeal submitted by Snam Rete Gas declaring the unlawfulness of the deadline set by the Authority because it was clearly unreasonable as it does not take into account the complexity of the activities to be carried out by the transportation company and the need to collaborate with end users on whom the burden of guaranteeing the use of gas in safe conditions for the workers involved weighs.

Note that through the Ministerial Decree of 18 May 2018 the Minister for Economic Development placed the responsibility of guaranteeing the use of gas in safe conditions on the end users directly connected to the natural gas transportation network, where there is domestic or similar use of gas, even only in part, if combined with technological uses. Following the functional activities to the implementation of the Decree, the end users demonstrated that they guaranteed the safe use of the gas in accordance with the methods laid down by said Decree.

As part of the Consultation Document (DCO 203/2019/R/Gas) as preparation for the revision of the regulation on the transportation service quality, ARERA demonstrated its intention to: (i) confirm the regulatory framework pursuant to the above Resolution 250/2015/R/Gas without setting a deadline by which the Plan has to be implemented; and (ii) promote a regulatory amendment aimed at coordinating the regulation with the aforementioned Ministerial Decree. Following on from what the DCO anticipates, through Resolution 554/2019/R/gas, the Authority confirmed the previous regulatory regime (the obligation of the transportation company to take responsibility for the odourising) thereby putting forward the issue of coordination with the obligations imposed by the Decree. Therefore, pending a possible regulatory change, Snam Rete Gas challenged Resolution 554/2019/R/gas.

## 27.3 TAX DISPUTES

### TEP Energy Solution - Formal notice of assessment

On 14 December 2018, TEP Energy Solution S.r.l. received a notice of tax assessment limited to the 1 January 2013-31 December 2013 tax period. The notice of tax assessment was the result of a tax audit of the company that began on 27 September 2018 to verify its compliance with tax law requirements applicable to income tax, VAT and other duties. This investigation was spurred by a more extensive one launched by the Milan Public Prosecutor's Office into a system of tax fraud based on issuing and using invoices for objectively and subjectively non-existent transactions in connection with energy certificate trading. Based on the findings of the tax audit, on 21 January 2019, TEP Energy Solution received a notice of tax assessment for the 1 January 2014-31 December 2014 tax period and TEP REALE ESTATE received one for the 2013 and 2014 tax years. It should be noted that on 27 December 2018, the Guardia di Finanza (Italian Financial Police) sent a notice of offence



to the Rome Public Prosecutor's Office, which initiated an investigation against the Company's legal representative for the crime of fraudulent declaration through the use of invoices or other documents for non-existent transactions (Article 2 of Legislative Decree No. 74/2000). Following notification of the tax assessments, the Company filed defence briefs with the Revenue Agency, requesting a hearing with the same tax office to clarify and explain the facts set out in the notices of tax assessment for a correct reconstruction of events. During the hearing with the tax authorities, the possibility of settling the notices of tax assessment arose, which would entail assessments with the taxpayer's acceptance and partial dismissal of the notices. Later, on 30 July 2019, the Revenue Agency and TEP signed separate deeds of acceptance to settle the aforementioned notices of tax assessment. Alongside the hearing with the Revenue Agency, discussions were initiated with the Public Prosecutor, who was informed that the case had been settled with the Revenue Office. Therefore, we are waiting for the Public Prosecutor's decision.

### **Snam Rete Gas S.p.A. - IMU/TASI - northern Italy municipalities**

The municipalities of northern Italy sent Snam Rete Gas 17 assessment notices for IMU/TASI for the years 2013, 2014 and 2015, which follow on from requests for information for land registry purposes pursuant to Article 1, paragraph 693 of Law 147/2013. The company has paid the above taxes amounting to 187 thousand.

### **Stogit S.p.A. - IMU**

The Municipality of Bordolano served Stogit S.p.A. with notices of assessment for IMU property tax for the years 2012, 2013 and 2014.

The notices come to a total of around 560 thousand (including taxes, penalties and interest). Through ruling no. 130/5/2019, the Cremona Provincial Tax Court confirmed the tax liability for the years 2012 and 2013 and, with ruling No. 16/2/2020, confirmed the tax liability relating to the year 2014.

In light of the aforementioned rulings, the company has paid an amount of 243 thousand.

## **27.4 OTHER PROCEEDINGS**

### **Snam Rete Gas S.p.A. - Criteria for regulating natural gas transportation and dispatching rates for the 2010-2013 period**

By ruling No. 2888/2015, the Council of State rejected the appeal filed by ARERA asking it to overturn ruling No. 995/2013 by the Regional Administrative Court of Milan, which voided the provisions of resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 concerning natural gas transportation and dispatching rates for the 2010-2013 period, specifically with regard to the commodity/capacity allocation, the reform of the entry/exit model and gas for consumption by compression stations (self-consumption).

By way of Resolution 428/2015/C/gas, ARERA resolved to appeal for revocation on the grounds of an error of fact against the aforementioned ruling, an appeal which was subsequently withdrawn on 29 March 2018 due to the lack of interest in continuing the proceedings. At the same time, the Authority complied with the aforementioned rulings by way of Resolution 550/2016/R/gas whereby, having reformed the rules on self-consumption, it justified its confirmation of the remaining tariff criteria also in light of the consultations carried out.

Given the confirmatory nature of the aforementioned resolution, the original appellant contested for compliance with the aforementioned rulings and a declaration of the nullity of Resolution 550/2016/R/gas. By ruling No. 494/2017, the Milan Regional Administrative Court partially upheld the appeal with specific reference to the issue of the commodity/capacity allocation, finding that the contested Resolution complied inaccurately and partially with ruling No. 995/2013 and that, therefore, the Authority should carry out an additional assessment of the effects of the choices made.

Ruling No. 494/2017 was challenged by the appellant, as well as incidentally by ARERA. In ruling No. 1840/2018 of 23 March 2018, the Council of State, in partial acceptance of the Authority's cross-appeal, dismissed the action of nullity for breach of judgment filed by the appellant at first instance and ordered the conversion of the proceedings into an ordinary judgment of annulment. The appellant consequently resumed the proceedings before the Milan Regional Administrative Court.



### **Stogit S.p.A. - Appeals Coordination Environmental Committee (*Ricorsi Coordinamento Comitato Ambientalisti*)**

With the Presidential Decree of 16 September 2019, the binding opinion published by the Council of State on 27 June 2019, by which the appeals filed by the Appeals Coordination Environmental Committee plus others were accepted, was implemented. In that Presidential Decree it is stated that: (i) on account of the failure to file the documents relating to the environmental impact assessment in the municipalities of Azzanello and Verolavecchia, the EIA decree issued in 2009 for the construction of the new storage facility at Bordolano is annulled, without prejudice to the provisions contained therein, only in so far as it expresses a favourable opinion on environmental compatibility; (ii) the decree of the Ministry of Economic Development of 28 December 2011 (approval of the change in the work programme of the "Bordolano Storage" concession) is annulled, as well as (iii) the measures of the Ministry of the Environment (prot. No. 18804 of 8 August 2013 and prot. No. 14583 of 16 May 2014), again on the subject of EIA, without prejudice to the continuing validity of the prescriptions contained therein, to protect public safety and security, which are in no way overturned by the annulment ruling. The Council of State also established the reopening of the EIA procedure and the Ministry of Environment promptly reopened the terms of the EIA (with note DVA U28389 of 29 October 2019) limited to the municipalities of Azzanello and Verolavecchia only; of these, only the municipality of Verolavecchia submitted comments, to which were added those of other parties. The proceedings are currently pending before the Technical Commission for Environmental Impact Assessment (Commissione Tecnica per la Valutazione di Impatto Ambientale) and Stogit has provided all the technical clarifications in response to the comments submitted. It should be added that MiSE, with note U.0025890 of 22 November 2019, issued a provision pursuant to Article 29, paragraph 3 of Legislative Decree 152/2006, which allows for the continuation of storage activities in the Bordolano plant pending the completion of the EIA.

### **Snam S.p.A. - Questionnaire Q00017/2020 on VAT**

On 13 February 2020, the Revenue Agency served Snam (hereinafter, the "Company") with a VAT questionnaire requesting the reasons for the voluntary correction of tax return carried out in 2016 with reference to the 2012, 2013, 2014 and 2015 tax years. In particular, in 2016 the Company submitted supplementary declarations relating to the years 2012 to 2014 to acknowledge the performance - as from 2012 - of a new activity of granting loans and that in relation to this activity the Company intended to avail itself, for VAT purposes, of the optional separation of activities pursuant to Article 36, paragraph 3 of Presidential Decree No. 633/1972. On the other hand, as regards 2015, the relative annual declaration was presented within the ordinary terms and an amicable settlement was made to remedy certain irregularities (again connected with the keeping of separate accounts) which had affected the correct monthly settlements.

Following a preliminary investigation, on 21 December 2020, the Revenue Agency served an order to appear for the establishment of the cross-examination of the years 2012-2013-2014-2015, in order to better verify whether the Company actually behaved "ex ante" in this sense.


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The company has provided all requested documentation and is actively cooperating with the Agency. The Company has made provisions for risks.

## 28) OPERATING REVENUES AND INCOME

The breakdown of operating revenue and income for the period, which totalled 2,770 million euros (2,665 million euros in 2019), is provided in the following table.

(million €)	2019	2020
Core business revenue	2,635	2,735
Other operating revenues and income	30	35
<b>Total operating revenues and income</b>	<b>2,665</b>	<b>2,770</b>

The Group generates most of its revenue in Italy. An analysis of revenue by business segment can be found in Note 35 - "Information by business segment".

Revenue from related parties is illustrated in Note 36 "Related-party transactions".

## CORE BUSINESS REVENUE

Core business revenue, which totalled 2,735 million euros (2,635 million euros in 2019), is analysed in the following table:

(million €)	2019	2020
Natural gas transportation	2,006	2,010
Storage of natural gas	511	499
Liquefied Natural Gas (LNG) regasification	17	21
Corporate and other activities	101	205
<b>Total core business revenue</b>	<b>2,635</b>	<b>2,735</b>

## Natural gas transportation

Core business revenues (2,010 million euros) mainly relate to service fees for transportation activities (1,976 million euros) and mainly concern Eni S.p.A. (812 million euros; 1,114 million euros in 2019) and Enel Trade S.p.A. (277 million euros; 319 million euros in 2019).



Group core business Revenues are reported net of tariff components, mainly referring to the transportation sector, additional to the tariff and intended to cover gas system general expenses (1,133 million euros in 2019), the amounts of which are paid by Snam to the Energy and Environmental Services Fund (Cassa per i Servizi Energetici e Ambientali (CSEA)). The main components relate to:

- the additional GST and RET tariff components (for a total amount of 619 million euros in 2020; 661 million euros in 2019), introduced by the Authority's resolutions ARG/Com 93/10 and ARG/Gas 177/10 with effect from 1 January 2011, intended to finance, respectively, the "Account for the compensation of tariff concessions to gas sector customers in a state of hardship" (GS Account) and the "Fund for measures and interventions for energy saving and the development of renewable sources in the natural gas sector" (RE Account);
- the variable CRVOS fee was introduced in 2011 by Resolution ARG/gas No. 29/11 of the Authority, to cover the charges pursuant to Article 9 of Legislative Decree No. 130/10, incurred by the Energy Services Operator (Gestore Servizi Energetici (GSE)) for the payment to the storage company of the amounts due to the SG guarantee factor (for a total amount of 268 million euros in 2020; 328 million euros in 2019).

Snam provided its transportation service to 213 users in 2020.

## Natural gas storage

Core business revenues (499 million euros) relates essentially to fees for modulation storage (419 million euros; 416 million euros in 2019) and strategic storage (72 million euros; 83 million euros in 2019).

Snam provided its natural gas storage service to 91 companies in 2020.

In addition, as of 1 January 2020, revenues from ordinary operations in the transportation and storage segments are provided net of revenues attributable to operators connected to the infrastructures managed by Snam<sup>41</sup>.

In particular, with Resolution no. 114/2019/R/GAS, which initiates the fifth regulatory period (as of 1 January 2020), the main transportation company is required to annually adjust its corrective factors net of the equalisation mechanisms deriving from the revenue sharing agreements in place with the other interconnected operators. As a result of this change in the regulatory framework, in order to reflect the economic substance of the transactions, core business revenues are shown net of revenues attributable to operators connected to the infrastructures managed by Snam.

## Liquefied Natural Gas (LNG) regasification

Core business revenues (21 million euros) refers to the regasification service fees, which include the revenues coverage factor recognised by the Authority (4 million euros).

Snam provided its regasification service to 5 companies in 2020.

With regard to the residual sector "Corporate and other activities," which is not being reported separately in accordance with IFRS 8 "Business Segments", revenues from regular operations (205 million euros) are mainly the result of the following activities: (i) considerations for the construction of biogas and biomethane plants (71 million euros); (ii) provision of services relating to energy efficiency projects (75 million euros); (iii) technical-specialist services to unconsolidated foreign companies (31 million euros); (iv) income from the rental and maintenance of fibre optic telecommunication cables (14 million euros); (v) the sale of CNG compressors for motor transport (15 million euros).

## OTHER OPERATING REVENUES AND INCOME

*Other operating revenues and income*, amounting to 35 million euros (30 million euros in 2019), mainly relate to the incentives paid to the Company for balancing services, based on technical and economic performance governed by Resolution 45/2020/R/gas (18 million euros) and contributions for new connections to the transportation network (4 million euros).

<sup>41</sup> Until the end of the fourth regulatory period, which ended on 31 December 2019, these fees were shown under revenues gross of the cost represented by the retrocession to the interconnected companies of the relevant revenues.




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## 29) OTHER OPERATING COSTS AND EXPENSES

The breakdown of operating costs and expenses for the period, which totalled 617 million euros (461 million euros in 2019), is provided in the following tables.

(million €)	2019	2020
Raw and consumable materials and goods	62	172
Services	186	146
Other operating costs and expenses	33	111
Staff costs	180	188
<b>Total operating costs and expenses</b>	<b>461</b>	<b>617</b>

The costs incurred due to the state of emergency linked to the Covid-19 pandemic, for a total of 27 million euros (21 million euros net of tax effects), relate to: (i) donations of healthcare materials (14 million euros) and cash (2 million euros), also through the Fondazione Snam, to assist the Italian healthcare system and the third sector; (ii) purchases of personal protective equipment for internal use (6 million euros); (iii) services costs (5 million euros), mainly to deep clean working environments and for security.

The group's operating costs and expenses are mainly generated in Italy.

The operating costs and expenses incurred with related parties are described in Note 36 "Related-party transactions".

### 29.1 RAW AND CONSUMABLE MATERIALS AND GOODS

Raw and consumable materials and goods, which amounted to 172 million euros (62 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Costs for purchase of raw materials, consumables, supplies and goods	213	309
Changes in inventories of raw materials, consumables, supplies and goods	(49)	(6)
<b>Total costs incurred during the year</b>	<b>164</b>	<b>303</b>
Share of costs capitalised for internal work	(102)	(131)
<b>Total costs for purchase of raw materials, consumables, supplies and goods recognised in the income statement</b>	<b>62</b>	<b>172</b>

The positive change of raw materials, materials, consumables and goods in inventories (6 million euros) is mainly due to the natural gas purchases required for transportation services, purchased on the balancing market from 1 January 2020 pursuant to Resolution 114/2019/R/Gas, in place of the quantities contributed in kind by shippers in the previous regulatory period.




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## 29.2 SERVICES

*Costs for services*, which amounted to 146 million euros (186 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
IT Services (Information Technology)	59	73
Technical, legal, administrative and professional services	52	57
Construction, design and works supervision	27	33
Ordinary maintenance services	27	29
Supply of electricity, heat, water, etc.	19	23
Personnel-related services	23	14
Telecommunication services	12	12
Insurance	8	9
Purchase of transportation capacity (interconnection)	52	
Other services	40	60
<b>Total costs incurred during the year</b>	<b>319</b>	<b>310</b>
Share of costs capitalised for internal work	(133)	(164)
<b>Total costs for services recognised in the income statement</b>	<b>186</b>	<b>146</b>

As of 1 January 2020, Purchase of transportation capacity (interconnection) is recognised as a direct reduction of the corresponding revenue (53 million euros for 2020).

## 29.3 PERSONNEL COSTS

*Personnel costs*, which amounted to 188 million euros (180 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Wages and salaries	167	176
Social security contributions (pensions and healthcare assistance)	48	48
Employee benefits	(5)	1
Other expenses	25	29
<b>Total personnel costs incurred during the year</b>	<b>235</b>	<b>254</b>
Quota of capitalised costs	(55)	(66)
<b>Total Personnel costs recognised in the income statement</b>	<b>180</b>	<b>188</b>

Other expenses (29 million euros) mainly includes the expenses for defined contribution plans (12 million euros), mainly related to severance pay to be


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accrued, to be paid to pension funds or INPS, and expenses for redundancy packages (8 million euros).

A description of employee benefits can be found in Note 21 "Liabilities for employee benefits".

### 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	2019	2020
Executives	116	129
Middle Managers	494	525
Office workers	1,699	1,715
Manual workers	733	752
<b>Average number of employees</b>	<b>3,042</b>	<b>3,121</b>

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 2020 was 3,249 resources (3,025 resources at 31 December 2019), an increase of 224 resources (+7.4%) compared with 31 December 2019. The increase is mainly due to new companies joining the scope of consolidation and new entries from the market.

### 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 and, subsequently, on 18 June 2020, the same Shareholders' Meeting approved the 2020-2022 long-term share-based incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plans.

The plans, intended for the Snam CEO and other beneficiaries, 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, 2019 and for the years 2020, 2021 and 2022. 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 Plans for each three-year cycle of the Plan. The Plans will terminate in 2022, upon expiration of the Vesting Period relating to the last 2019 allocation, and in 2025, upon expiration of the Vesting Period relating to the last 2022 allocation.


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A total of 5,385,372 shares have been allocated in connection with the 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, determined by the stock market price of the Snam stock at the allocation dates (the grant date), is equal to 3.8548 and 3.5463 and 4.3522 euros per share, respectively for the 2017, 2018 and 2019 allocations.

For the 2020-2022 Plan, 1,277,996 shares have been allocated for 2020 and the unitary fair value of the share, determined by the stock market price of the Snam stock on the allocation dates, is 4.441 euros per share and 4.559 euros per share (on the dates of 14 October 2020 and 16 December 2020 respectively for the CEO and members of the Leadership Team and for the other beneficiaries).

The cost for the Long-term incentive plan, measured as the staff costs component, amounts to 7 million euros (the same as in 2019) 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 "Financial review and Other Information" in the Directors' Report.

## Remuneration due to managers with strategic responsibilities

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<sup>42</sup> ("key management personnel"), in office during the year amounted (including contributions and ancillary charges) to 11 million euros (the same as in 2019) and breaks down as follows:

(million €)	2019	2020
Wages and salaries	6	5
Indemnities for termination of employment		2
Post-employment benefits	1	
Benefits based on shares	4	4
<b>Total remuneration due to managers with strategic responsibilities</b>	<b>11</b>	<b>11</b>

<sup>42</sup> This includes managers who have the power and the responsibility, both directly and indirectly, for the planning, direction and supervision of Snam activities. Snam's managers with strategic responsibilities, other than directors and statutory auditors, were identified with reference to the following positions: (i) Chief Business Unit Asset Italia (ii) EVP Human Resources, Organisation & Pfm (iii) Chief Financial Officer & Chief International & Business Development Officer (iv) General Counsel (v) Chief Energy Transition.


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## Remuneration due to directors and statutory auditors

The remuneration due to directors amounted to 5.1 million euros and 6.0 million euros respectively for 2020 and 2019. The remuneration due to statutory auditors amounted to 0.2 million euros (0.4 million euros in 2019). 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.

## 29.4 OTHER OPERATING COSTS

(million €)	2019	2020
Software licences, short-term leasing costs and leasing of moderate amount assets	26	22
Capital losses from elimination of property, plant and equipment and intangible assets	9	14
Indirect taxes and duties	12	13
Net accrual to (utilisation of) provisions for risks and charges	13	12
CO <sub>2</sub> emission rights	1	10
Allocations (uses) to the provision for impairment losses	(35)	2
Other expenses	7	38
<b>Total other operating costs and expenses</b>	<b>33</b>	<b>111</b>

Net allocations to provisions for risks and charges, equal to 12 million euros, net of uses, mainly refers to the allocation to the accident reserve fund for the captive company Gasrule (6 million euros).

For more details about the change in provisions for risks and charges, please see Note 20 "Provisions for risks and charges".

## 30) DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES ON PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

*Depreciation, amortisation and impairment losses on property, plant, equipment and intangible assets*, amounting to 773 million euros (752 million euros in 2019), can be analysed as follows:

(million €)	2019	2020
Property, plant and equipment	656	681
Intangible assets	66	81
<b>Total amortisation/depreciation</b>	<b>722</b>	<b>762</b>
Impairment losses on property, plant and equipment	30	11
<b>Total impairment losses</b>	<b>30</b>	<b>11</b>
<b>Total depreciation, amortisation and impairment losses</b>	<b>752</b>	<b>773</b>


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For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 14 "Property, plant and equipment", and Note 15 "Intangible assets and goodwill".

An analysis of amortisation, depreciation and impairment losses by business segment can be found in Note 33 "Information by business segment".

## 31) NET FINANCIAL EXPENSE

*Net financial expense*, which amounted to 158 million euros (203 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
<b>Financial expense (income)</b>	<b>191</b>	<b>155</b>
Financial expense	200	166
Financial income	(9)	(11)
<b>Other financial expense (income)</b>	<b>11</b>	<b>(7)</b>
Other financial expense	13	8
Other financial income	(2)	(15)
<b>Losses (Gains) on hedging derivatives - ineffective portion</b>	<b>1</b>	<b>10</b>
Losses from derivative contracts	1	10
	<b>203</b>	<b>158</b>

(million €)	2019	2020
<b>Financial expense (income)</b>	<b>191</b>	<b>155</b>
<b>Expense on financial debt:</b>	<b>211</b>	<b>178</b>
Interest and other expenses on bond loans	193	160
Fees on loans and bank credit lines	7	7
Interest expense on credit lines and loans due to banks and other lenders	11	11
<b>Financial expense capitalised</b>	<b>(11)</b>	<b>(12)</b>
<b>Income from financial receivables:</b>	<b>(9)</b>	<b>(11)</b>
Interest income and other income on short-term financial assets	(9)	(11)
<b>Other financial expense (income):</b>	<b>11</b>	<b>(7)</b>
Accretion discount <sup>(*)</sup>	8	6
Other expenses	5	2
Interest income on long-term financial receivables		(13)
Other income	(2)	(2)
<b>Losses (Gains) on hedging derivatives - ineffective portion</b>	<b>1</b>	<b>10</b>
	<b>203</b>	<b>158</b>

(\*) The item reflects the increase in the provisions for risks and charges and the liabilities for employee benefits, which are shown at their present value in Note 20 "Provisions for risks and charges" and Note 21 "Liabilities for employee benefits".


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Expense on financial debt (178 million euros) include the following: (i) interest expense and other expenses on bond loans (160 million euros), referring to interest on 18 bond loans (138 million euros) and expenses from the liability management operation (22 million euros) which led to the buy back on the market of bonds with a total nominal value of 629 million euros and an average coupon of approximately 0.62% and residual duration of approximately 2.8 years; (ii) interest expense to the banks relating to revolving lines of credit and loans totalling 11 million euros; (iii) the portion attributable to the period of upfront fees on revolving credit lines (3 million euros) and credit line non-usage fees (4 million euros).

Financial expense capitalised (12 million euros) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial income (7 million euros) mainly relates to financial income on long-term financial receivables connected with the pro-rata contribution from the OLT Shareholder Loan (13 million euros), partially offset by the costs associated with the passage of time relating to the provision for site dismantling and restoration of the storage and transportation sectors (-6 million euros in total).

Losses on derivatives (10 million euros) relate to the effects deriving from the unwinding of financial contracts on bonds included in the buyback transaction.

## 32) INCOME FROM NET INVESTMENTS

*Income from equity investments*, which amounted to 249 million euros (216 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Income from investments accounted for using the equity method	225	247
Expenses from investments accounted for using the equity method	(7)	
<b>Portion of profit or losses of investments accounted for using the equity method</b>	<b>218</b>	<b>247</b>
Dividends from minority investments accounted for at FVTOCI	2	2
Other expenses from equity investments	(4)	
<b>Other income (expense) from equity investments</b>	<b>(2)</b>	<b>2</b>
<b>Total income from net investments</b>	<b>216</b>	<b>249</b>

Details of capital gains and capital losses from valuation of equity investments accounted for the equity method can be found in Note 16 "Investments accounted for using the equity method". Dividends from minority investments accounted for at FVTOCI (2 million euros) relate to the equity investment in Terminale GNL Adriatico S.r.l.


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### 33) INCOME TAXES

*Income taxes* for the year, which amounted to 370 million euros (375 million euros in 2019), can be broken down as follows:

	2019			2020		
(million €)	IRES	IRAP	Total	IRES	IRAP	Total
<b>Current taxes</b>	<b>339</b>	<b>62</b>	<b>401</b>	<b>334</b>	<b>62</b>	<b>396</b>
Current taxes for the year	339	62	401	337	62	399
Adjustments for current taxes relating to previous years				(3)		(3)
<b>Deferred taxes</b>	<b>(25)</b>	<b>(1)</b>	<b>(26)</b>	<b>(25)</b>	<b>(1)</b>	<b>(26)</b>
<b>Total income taxes in the income statement</b>	<b>314</b>	<b>61</b>	<b>375</b>	<b>309</b>	<b>61</b>	<b>370</b>

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:

	2019		2020	
(million €)	Tax rate	Balance	Tax rate	Balance
<b>IRES</b>				
Pre-tax profit		1,465		1,471
<b>IRES taxes for the period calculated on the basis of the theoretical tax rate</b>	<b>24.0%</b>	<b>352</b>	<b>24.0%</b>	<b>353</b>
<i>Variations from the theoretical rate:</i>				
- Income in relation to equity investments	(3.5%)	(51)	(3.5%)	(52)
- Dividend tax	1.1%	16	1.2%	18
- Other permanent differences	(0.2%)	(3)	(0.7%)	(10)
<b>IRES taxes for the year recognised in the Income Statement</b>	<b>21.4%</b>	<b>314</b>	<b>21.0%</b>	<b>309</b>


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(million €)	2019		2020	
	Tax rate	Balance	Tax rate	Balance
<b>IRAP</b>				
Difference between value and cost of production		1,431		1,397
<b>IRAP taxes for the period calculated on the basis of the theoretical tax rate</b>	<b>3.9%</b>	<b>56</b>	<b>3.9%</b>	<b>54</b>
<i>Variations from the theoretical rate</i>				
Delta regional IRAP rates	0.3%	4	<b>0.3%</b>	<b>4</b>
Other permanent differences	0.1%	1	<b>0.2%</b>	<b>3</b>
<b>IRAP taxes for the year recognised in the Income statement</b>	<b>4.2%</b>	<b>61</b>	<b>4.4%</b>	<b>61</b>

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 22 "Deferred tax liabilities/assets".

## Taxes related to components of the comprehensive income statement

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

(million €)	2019			2020		
	Pre-tax value	Fiscal impact	Net tax value	Pre-tax value	Fiscal impact	Net tax value
Remeasurement of defined-benefit plans for employees				(1)		(1)
Portion of equity investments accounted for using the shareholders' equity method pertaining to "other components of comprehensive income statement"	(18)		(18)	(37)		(37)
Change in fair value of minority investments measured at FVTOCI	4		4	43		43
Change in fair value of cash flow hedge derivatives	(44)	10	(34)	(6)	1	(5)
<b>Other components of the comprehensive income statement</b>	<b>(58)</b>	<b>10</b>	<b>(48)</b>	<b>(1)</b>	<b>1</b>	
<b>Deferred taxes on income recorded in other components of the comprehensive income statement</b>		<b>10</b>			<b>1</b>	





## 34) EARNINGS PER SHARE

Basic earnings per share, at 0.336 euros per share (0.330 euros per share in 2019), are calculated by dividing the profit for the year pertaining to the shareholders of the parent company Snam (1,101 million euros; 1,090 million euros in 2019) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,272,020,890 shares; 3,300,593,207 shares in 2019).

Diluted earnings per share are calculated by dividing the profit for the year pertaining to the shareholders of the parent company Snam, after deducting interest recognised during the year on the convertible bond loan, net of the tax effect, by the weighted average number of shares outstanding in the period, excluding treasury shares, and those potentially deriving from the long-term share-based incentive plans (2018, 2019 and 2020 allocations) as well as from the conversion of the convertible bond.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,358,022,355 and 3,386,571,782 for 2020 and 2019, 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:

	2019	2020
<b>Weighted average number of outstanding shares used to calculate basic earnings per share</b>	<b>3,300,593,207</b>	<b>3,272,020,890</b>
Number of potential shares for long-term incentive plans	3,424,347	<b>3,447,237</b>
Number of potential shares for the convertible bond loans issue	82,554,228	<b>82,554,228</b>
<b>Weighted average number of outstanding shares used to calculate diluted earnings per share</b>	<b>3,386,571,782</b>	<b>3,358,022,355</b>
<b>Group profit for the year (million €) <sup>(a)</sup></b>	<b>1,090</b>	<b>1,101</b>
Dilution effect of the convertible bond loan	3	<b>3</b>
<b>Group profit for the year (million €) <sup>(a)</sup></b>	<b>1,093</b>	<b>1,104</b>
Basic net profit per share (euros per share) <sup>(a)</sup>	0.330	<b>0.336</b>
Diluted net profit per share (euros per share) <sup>(a)</sup>	0.323	<b>0.329</b>

(a) Entirely attributable to parent company shareholders.



## 35) 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 2020 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 2020 and 31 December 2019 is listed below.

(million €)	Natural gas transportation	Storage of natural gas	LNG regasification	Other segments not separately reported (Corporate and other activities)	Consolidation eliminations and adjustments	Total
<b>2019 year</b>						
Net core business revenue (a)	2,139	594	27	310		<b>3,070</b>
to deduct: infra-segment revenues	(133)	(83)	(10)	(209)		<b>(435)</b>
Revenue from third parties	2,006	511	17	101		<b>2,635</b>
Other operating revenues and income	25	1	2	2		<b>30</b>
Net (accrual to) utilisation of provisions for risks and charges	(6)			(7)		<b>(13)</b>
Amortisation, depreciation and impairment losses	628	105	5	14		<b>752</b>
<b>EBIT</b>	<b>1,157</b>	<b>337</b>	<b>1</b>	<b>(43)</b>		<b>1,452</b>
Portion of profit or losses of investments accounted for using the equity method				218		<b>218</b>
Total assets	14,694	4,053	124	5,172		<b>24,043</b>
- of which Equity investments accounted for using the equity method				1,787		<b>1,787</b>
Total liabilities	9,911	2,598	65	15,458	(10,247)	<b>17,785</b>
Investments in tangible and intangible fixed assets	813	112	19	19		<b>963</b>


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(million €)	Natural gas transportation	Storage of natural gas	LNG regasification	Other segments not separately reported (Corporate and other activities)	Consolidation eliminations and adjustments	Total
<b>2020 year</b>						
Net core business revenue (a)	2,120	684	29	441		3,274
to deduct: infra-segment revenues	(110)	(185)	(8)	(236)		(539)
Revenue from third parties	2,010	499	21	205		2,735
Other operating revenues and income	31	1		3		35
Net (accrual to) utilisation of provisions for risks and charges	2	(6)		(8)		(12)
Amortisation, depreciation and impairment losses	634	112	7	23	(3)	773
<b>EBIT</b>	<b>1,139</b>	<b>314</b>		<b>(73)</b>		<b>1,380</b>
Portion of profit or losses of investments accounted for using the equity method				247		247
Total assets	15,268	4,141	120	6,146		25,675
- of which Equity investments accounted for using the equity method				1,923		1,923
Total liabilities	10,364	2,677	76	16,693	(10,607)	19,203
Investments in tangible and intangible fixed assets	981	134	20	54		1,189

(a) Balances before elimination of intra-segment revenue.

(b) 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. Consistently, the corresponding figures for 2019 have been restated.

Revenue is generated by applying regulated tariffs or market conditions. The revenue was mainly generated in Italy; costs were incurred almost entirely in Italy.



## 36) RELATED-PARTY TRANSACTIONS

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., Snam's related parties, based on the current group ownership structure, are represented not only by Snam's subsidiaries, associates and joint ventures, as well as by the parent company CDP S.p.A. and its subsidiaries and joint ventures, as well as the subsidiaries and joint ventures of the Ministry of Economy and Finance (MEF). Members of the Board of Directors, Statutory Auditors and Snam Group and CDP managers with strategic responsibilities, and their families, are also regarded as related parties.

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between 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 guidelines 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 statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn 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.

Snam is not subject to any direction or coordination activities. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of related-party transactions, the following should be pointed out pursuant to the disclosure obligations set forth under Consob Regulation No. 17221 of 12 March 2010:

- the conclusion between Snam Rete Gas S.p.A. and Eni S.p.A. of the natural gas transportation agreement for the Thermal Year 2019-2020. On 5 February 2020, the value of the transportation contract exceeded the significance threshold of 140 million euros as defined in the Snam "Procedure for transactions in which directors and auditors have an interest and transactions with related parties";
- the conclusion between Snam Rete Gas S.p.A. and Enel Global Trading S.p.A. of the natural gas transportation agreement for the Thermal Year 2019-2020. On 3 September 2020, the value of the transportation contract exceeded the threshold of Euro 140 million euros identified in Snam's "Transactions with directors' and statutory auditors' interests and related party transactions" guideline.

The above contracts are defined in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code approved by the Regulatory Authority for Energy Networks and the Environment (ARERA) pursuant to Resolution 75/2003, as amended.

The calculation of a fee for services rendered take place through application of the natural gas transportation and dispatching tariffs approved by Resolution of the Authority.

These contracts are configured as ordinary operations concluded at conditions equivalent to market or standard conditions because, pursuant to paragraph 2 of the guideline (published on the website [www.snam.it](http://www.snam.it)): (i) they come under ordinary operations and related financial operations; (ii) the conditions applied are based on regulatory tariffs.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the current year and the previous one for comparison purposes. The nature of the most significant transactions is also stated.


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## Commercial and other transactions

Commercial and other transactions can be broken down as follows:

	31.12.2019				2019				
(million €)	Receivables	Other assets	Payables	Other liabilities	Costs <sup>(a)</sup>			Revenue <sup>(b)</sup>	
					Goods	Services	Other	Services	Other
<b>Companies under joint control and associates</b>									
Interconnector UK	1			1				3	
Albanian Gas Services	1							1	
Senfluga									
TAG GmbH	3		2					2	
Terêga S.A.S.	1								
Trans Adriatic Pipeline AG (TAP)	4			21				15	
	<b>10</b>		<b>2</b>	<b>22</b>				<b>21</b>	
<b>Fondazione Snam</b>	1								
<b>Parent company</b>									
Cassa Depositi e Prestiti			100						
			<b>100</b>						
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>									
Italgas group	1		2				1		1
	<b>1</b>		<b>2</b>						<b>1</b>
<b>Companies jointly controlled by the parent company Cassa Depositi e Prestiti</b>									
Saipem group			16			22			
Valvitalia Finanziaria S.p.A.			1		3	2			
			<b>17</b>		<b>3</b>	<b>24</b>			
<b>Companies owned or controlled by the State</b>									
Gestore dei mercati energetici S.p.A.	11		6						
Anas group	2	1	3		36			2	
Enel group (c)	65		24			1		354	
Eni group (c)	200		34			22		1,197	
Ferrovie dello Stato group	1		1					2	
Finmeccanica group						2			
	<b>279</b>	<b>1</b>	<b>68</b>		<b>36</b>	<b>25</b>		<b>1,555</b>	
<b>Total</b>	<b>291</b>	<b>1</b>	<b>189</b>	<b>22</b>	<b>39</b>	<b>49</b>	<b>1</b>	<b>1,576</b>	<b>1</b>

(a) These include costs for goods and services used for investment purposes.

(b) Before tariff components that are offset in costs.

(c) Including balance sheet figures relating to balancing activities.


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	31.12.2020				2020				
(million €)	Receivables	Other assets	Payables	Other liabilities	Costs <sup>(a)</sup>		Revenue <sup>(b)</sup>		
					Goods	Services	Other	Services	Other
<b>Companies under joint control and associates</b>									
Interconnector UK								2	
Albanian Gas Services	1						1		
Senfluga									
TAG GmbH	2		2			1		1	
Terêga S.A.S.	1								
Trans Adriatic Pipeline AG (TAP)	5			1				26	
Galaxy Pipeline Assets Holdco	17								
	26		2	1		2	1	29	
<b>Fondazione Snam</b>	1					1			
<b>Parent company</b>									
Cassa Depositi e Prestiti			110						
			110						
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>									
Italgas group	2		2						1
	2		2						1
<b>Companies jointly controlled by the parent company Cassa Depositi e Prestiti</b>									
Saipem group			20			26			
Valvitalia Finanziaria S.p.A.			1		3				
			21		3	26			
<b>Companies owned or controlled by the State</b>									
Gestore dei mercati energetici S.p.A.	26		25						
Anas group	1	2	2				3		
Enel group (c)	65		19					338	
Eni group (c)	179		26			19	1	895	1
Ferrovie dello Stato group	1		2				3		
Finmeccanica group						1			
	272	2	74			20	7	1,233	1
<b>Total</b>	<b>301</b>	<b>2</b>	<b>209</b>	<b>1</b>	<b>3</b>	<b>48</b>	<b>8</b>	<b>1,262</b>	<b>2</b>

(a) These include costs for goods and services used for investment purposes.

(b) Before tariff components that are offset in costs.

(c) Including balance sheet figures relating to balancing activities.



### Companies under joint control and associates

The most significant commercial relations with companies under joint control and associates include:

- the provision to TAP of services for the construction of transportation infrastructures governed by the Engineering and Project Management (EPMS) Agreement;
- the provision to TAG of services for the realisation of the transportation infrastructures governed by the Engineering, Procurement and Construction Management (EPCM) Agreement.

### Companies jointly controlled by the parent company Cassa Depositi e Prestiti

The most significant commercial relations with companies under the joint control of Cassa Depositi e Prestiti include the purchase by Saipem of design and works supervision services for the realisation of natural gas transportation and storage infrastructures, regulated by agreements signed at normal market conditions.

### Companies owned or controlled by the State

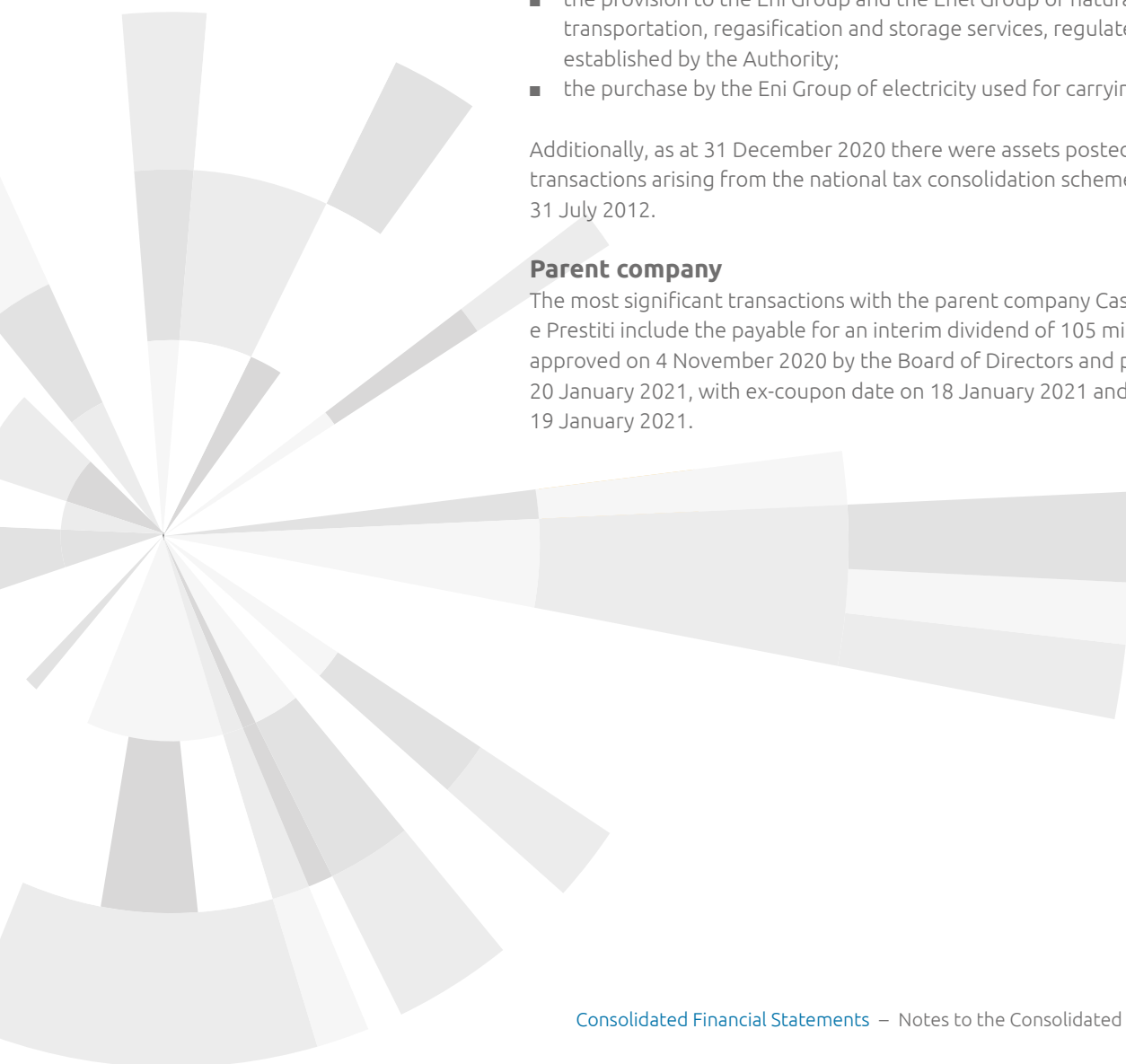
The most significant commercial relations with companies controlled or owned by the State involve:

- the provision to the Eni Group and the Enel Group of natural gas transportation, regasification and storage services, regulated by tariffs established by the Authority;
- the purchase by the Eni Group of electricity used for carrying out activities.

Additionally, as at 31 December 2020 there were assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

### Parent company

The most significant transactions with the parent company Cassa Depositi e Prestiti include the payable for an interim dividend of 105 million euros, approved on 4 November 2020 by the Board of Directors and payable from 20 January 2021, with ex-coupon date on 18 January 2021 and record date on 19 January 2021.




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## Financial transactions

Financial transactions can be broken down as follows:

	31.12.2019			2019	
(million €)	Receivables	Payables	Guarantees and commitments	Charges	Income
<b>Companies under joint control and associates</b>					
- Trans Adriatic Pipeline AG (TAP)			1,363		
			1,363		

	31.12.2020			2020	
(million €)	Receivables	Payables	Guarantees and commitments	Charges	Income
<b>Companies under joint control and associates</b>					
Trans Adriatic Pipeline AG (TAP)			1,242		
EBS società agricola a r.l.	5				
OLT Offshore Toscana	303				12
	308		1,242		12

### Companies under joint control and associates

Financial relations with companies under joint control and associates include:

- the debt service guarantee on the loan agreement of the associate TAP, in the phase relating to the construction and start-up of the plant;
- Snam S.p.A.'s remaining commitment as a shareholder and in relation to the project funding for the construction of the pipeline on the basis of the shares owned, equal to 20%, with regard to TAP<sup>43</sup>;
- the long-term financial receivable following the takeover of the residual share of a shareholders' loan, from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% share in the share capital.

<sup>43</sup> For more information, see Note 26, "Guarantees, commitments and risks – Commitments, guarantees and pledges - TAP".




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## Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet and income statement is summarised in the following table:

(million €)	31.12.2019			31.12.2020		
	Total	Related entities	% Share	Total	Related entities	% Share
<b>Statement of financial position</b>						
Trade receivables and other current receivables	1,376	291	21.1	<b>1,676</b>	<b>301</b>	<b>18.0</b>
Other current and non-current assets	59	1	1.7	<b>147</b>	<b>2</b>	<b>1.4</b>
Other current and non-current financial assets	44			<b>427</b>	<b>308</b>	<b>72.1</b>
Trade payables and other payables	1,801	189	10.5	<b>2,029</b>	<b>209</b>	<b>10.3</b>
Other current liabilities	106	22	20.8	<b>70</b>	<b>1</b>	<b>1.4</b>

The impact of related-party transactions on the income statement is summarised in the following table:

(million €)	2019			2020		
	Total	Related entities	% Share	Total	Related entities	% Share
<b>Income Statement</b>						
Core business revenue	2,635	1,576	59.8	<b>2,735</b>	<b>1,262</b>	<b>46.1</b>
Other operating revenues and income	30	1	3.3	<b>35</b>	<b>2</b>	<b>5.7</b>
The purchase of goods and services and other operating costs	281	61	21.7	<b>429</b>	<b>24</b>	<b>5.6</b>
Staff costs	180	(2.0)	(1.1)	<b>188</b>	<b>(2)</b>	<b>(1.1)</b>
Financial income	11			<b>26</b>	<b>12</b>	<b>46.2</b>

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions that would be applied between two independent parties.


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The principal cash flows with related parties are shown in the following table.

(million €)	2019	2020
Operating revenues and income	1,577	1,264
Operating costs and expenses	(59)	(22)
Change in trade receivables and other current receivables	129	(10)
Change in trade payables and other current payables	(87)	12
Change in other current and non-current assets		(1)
Change in other current liabilities	(5)	(21)
<b>Cash flow from operating activities</b>	<b>1,555</b>	<b>1,233</b>
Investments:		
- Tangible and intangible fixed assets	(30)	(37)
- Long-term financial receivables		(332)
- Change in payables and receivables relating to investments	(3)	3
<b>Cash flow from investing activities</b>	<b>(33)</b>	<b>(366)</b>
Divestments:		
- financial receivables (returns)		33
<b>Net cash flow from investing activities</b>	<b>(33)</b>	<b>(333)</b>
Short-term financial receivables		(5)
<b>Cash flow from financial activities</b>		<b>(5)</b>
<b>Total cash flows to related entities</b>	<b>1,522</b>	<b>895</b>

The effect of cash flows with related parties is shown in the following table:

(million €)	2019			2020		
	Total	Related entities	% Share	Total	Related entities	% Share
Cash flow from operating activities	1,486	1,555		1,597	1,233	77.2
Cash flow from investing activities	(1,004)	(33)	3	(1,632)	(333)	20.4
Cash flow from financial activities	497			228	(5)	



### 37) PUBLIC FUNDS - INFORMATION PURSUANT TO ARTICLE 1, PARAGRAPHS 125-129, LAW NO. 124/2017

Pursuant to Article 1, paragraph 125 of Law No. 124/2017 and later amendments, the information with regard to funds received from Italian public bodies by Snam S.p.A. and its wholly-consolidated subsidiaries are reported below. The consolidated information takes into account the funds received from Italian state bodies/public bodies. Specifically, the following are not presented: (i) forms of incentives/subsidies received in application of a general aid scheme to all those entitled; (ii) considerations relating to the provision of work/services, including sponsorships; (iii) refunds and indemnities paid to parties involved in training and orientation internships; (iv) contributions for ongoing training by inter-professional funds in the form of a legal association; (v) association contributions for membership of trade and regional associations, as far as to foundations, or equivalent organisations, functional to the activities related to the business. The funds are identified according to the cash criterion.

Disclosure requirements on the issue of the transparency of public funds granted, pursuant to Law 124 of 2017, Article 1, paragraph 126, are not applicable to the Snam Group.

In 2020, there were no disbursements of more than 10 thousand euros made by the same party, including through a number of acts. Pursuant to the provisions of Article 3-quater of Legislative Decree 135/2018, converted with amendments by Law No. 12 of 11 February 2019 for any funds received, refer to the guidelines contained in the National State Aid Register pursuant to Article 52 of Law No. 234 of 24 December 2012.

### 38) SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

### 39) POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

### 40) KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

With reference to key events occurring after the end of the financial year, we note the acquisition, on 8 January 2021, of a quota equal in total to 37%, of Industrie De Nora S.p.A., an innovator on a global scale in sustainable energy and water treatment technologies, on the basis of a 100% enterprise value of approximately 1.2 billion.

### 41) PUBLICATION OF THE FINANCIAL STATEMENTS

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 17 March 2021, in accordance with the law.



# MANAGEMENT STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. The undersigned Marco Alverà and Luca Ogliadoro, in their capacity as Chief Executive Officer and Manager responsible for preparing the company's financial reports for Snam S.p.A., respectively, attest, also taking into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
  - the adequacy, considering the Company's characteristics, and
  - the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2020.
2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2020 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
3. It is also certified that:
  - 3.1 The consolidated financial statements at 31 December 2020:
    - a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
    - b) are consistent with the accounting records and ledgers;
    - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.
  - 3.2 The Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

17 March 2021

/Signature/Marco Alverà  
Marco Alverà  
Chief Executive Officer

/Signature/Luca Ogliadoro  
Luca Ogliadoro  
Manager responsible for preparing  
the Company's financial reports


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# INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL

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## INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

To the Shareholders of  
Snam S.p.A.

### REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

#### Opinion

We have audited the consolidated financial statements of Snam Group (hereinafter also the "Group"), which comprise the statement of financial position as at 31 December 2020, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Snam S.p.A. (hereinafter also the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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### Investments in regulated businesses of the natural gas transportation, storage and regasification and related impairment test

#### Description of the key audit matter

As at 31 December 2020, the Group accounts for the item “Property, Plant and Equipment” for a total amount of euro 16.815 million and for the item “Intangible assets and Goodwill”, for a total amount of euro 1.125 million, mainly related to the regulated business segments and, in particular, for a total amount of euro 13.962 million referred to natural gas transportation business segment, for a total amount of euro 3.586 million referred to natural gas storage business segment and for a total amount of euro 115 million referred to natural gas regasification business segment. Investments made in the financial year relating to these sectors totalled euro 1.135 million.

The natural gas transportation, storage and regasification business segments are regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, “ARERA”), which defines, among the others, the rules for the remuneration of such services. In particular, the regulated revenues for the natural gas transportation, storage and regasification services provided by the Group are determined by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized for tariff purposes (RAB – Regulatory Asset Base), of the relative depreciation and of some operating expenses – the so-called “revenue cap”. The RAB value is determined by ARERA mainly through the “revalued historical cost” method.

At the end of the financial year, the Group's management, despite the absence of impairment indicators, assessed the recoverability of non-financial fixed assets referring to the aforementioned business segments.

The recoverability of these fixed assets was tested by comparing the carrying amount, represented by the net invested capital of each of the cash-generating units of the natural gas transportation, storage and regasification business segments, with their recoverable amount represented by the higher of fair value and value in use.

In performing the impairment test, the recoverable amount of the assets was estimated mainly based on the RAB.  
No impairment loss resulted from the test.

We believe that investments in the natural gas transportation, storage and regasification business segments and the related impairment test represent a key audit matter for the Group's consolidated financial statements as at 31 December 2020 due to: (i) the relevance of the tangible and intangible assets related to natural gas transportation, storage and regasification services, compared to the Group's total assets, (ii) the relevance of the investments made during the year, (iii) their impact in determining the revenue cap for the remuneration of services related to such sectors and (iv) the estimation component in determining the recoverable amount of the assets.



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Explanatory notes “5) Significant accounting standards - Impairment of non-financial assets”, “6) Assumptions and uncertainties in estimates, “14) Property, plant and equipment” and 15) Intangible assets and Goodwill” of the consolidated financial statements include the disclosure on the investments in regulated businesses related to the natural gas transportation, storage and regasification regulated sectors and related impairment test.

#### **Audit procedures performed**

With reference to the investments in regulated businesses related to the natural gas transportation, storage and regasification services and the related impairment test, our audit procedures included, among the others, the following, also with the support of Deloitte network's experts with reference to the impairment test:

- understand the processes for recognition of such investments in the financial statements and for performing impairment test;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;
- critical analysis of the composition of the tangible and intangible assets captions, including the analysis of any unusual item;
- test the accurate start of depreciation when the asset is available for use, for the projects included in tangible and intangible work in progress, even through the analysis of their aging;
- with reference to investments and disposals occurred during the period, selection of a sample of transactions and test of the compliance with the capitalization and disposal criteria provided by accounting standards;
- assessment of the consistency between the useful life used for the depreciation of the assets and their regulatory useful life and reperforming of the period depreciation;
- obtain the impairment test calculation and discussion meetings with the Group's management in order to understand the impairment test methodology;
- assessment of impairment test methodology's, adopted by management, compliance with the related applicable accounting standards
- assessment of the recoverable amount estimated by the Group and of the underlying assumptions to the impairment test.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.



### Impairment test of equity investments accounted for using the equity method

#### Description of the key audit matter

As at 31 December 2020, the Group accounts for the item “Equity investments accounted for using the equity method” for a total amount of euro 1.923 million, related to the Italian and foreign investments, in equity investments in joint ventures for an amount of euro 1.007 million and in equity investments in associates for an amount of euro 916 million.

At the end of the financial year, the Group's management, despite the absence of impairment indicators, performed the impairment test of such equity investments, assessing their recoverability comparing the carrying amount with the recoverable amount represented by the higher of fair value and value in use.

In particular, for the purpose of the impairment test, the recoverable amount of the investments was determined as the value in use on the basis of the Dividend Discount Model (DDM) method for all the aforementioned equity investments, with the exception of the equity investment in Italgas S.p.A., associated company, for which the fair value was considered, determined on the basis of market prices at the end of the year.

No impairment loss resulted from the test.

In consideration of: (i) the relevance of such investments' amount, and (ii) the estimation component referred to the impairment model's key variables used in determining the recoverable amount, we believe that impairment test of equity investments accounted for using the equity method represents a key audit matter for the Group's consolidated financial statements as at 31 December 2020.

Explanatory notes “5) Significant accounting standards - Reduction in value of the investments”, “6) Assumptions and uncertainties in estimates”, “16) Equity investments accounted for using the equity method” of the consolidated financial statements include the disclosure on the equity investments accounted for using the equity method and the relative impairment test.

#### Audit procedures performed

With reference to our activities we performed, among the others, the following audit procedures, also with the support of Deloitte network's experts:

- understand the processes for performing the impairment test;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;
- obtain the impairment test calculation and discussion meetings with the Group's management in order to understand the impairment test methodology;





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- assessment of impairment test methodology's, adopted by management, compliance with the related applicable accounting standards;
- reasonableness analysis of main assumptions adopted for the estimated expected dividends, by obtaining information from management;
- analysis of actual figures with respect to the original plans in order to assess the nature of the variations and the plans preparation process' reliability, also by examining the results of the work performed by equity investments' local auditors involved in the audit of the Group consolidated financial statements;
- reasonableness' assessment of the discount rate ( $K_e$  in the DDM method) and of the long-term growth rate (g-rate) used;
- mathematical accuracy's test of the recoverable amount estimated by the Group's management and of the comparison between the recoverable amount and the carrying amount of the investment;
- test of sensitivity analysis prepared by management;
- with reference to Italgas S.p.A., accuracy's test of the market prices used to determine the fair value.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.

### Other aspects

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on May 11, 2020.

### Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.



The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



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We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

#### **Other information communicated pursuant to art. 10 of the EU Regulation 537/2014**

The Shareholders' Meeting of Snam S.p.A. has appointed us on October 23, 2019 as auditors of the Company for the years from 1 January 2020 to 31 December 2028.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

#### **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

##### **Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98**

The Directors of Snam S.p.A. are responsible for the preparation of the Directors' report and the report on corporate governance and the ownership structure of Snam Group as at 31 December 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Snam Group as at 31 December 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned Directors' report and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Snam Group as at 31 December 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

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**Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254**

The Directors of Snam S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by  
**Paola Mariateresa Rolli**  
Partner

Milan, Italy  
April 6, 2021

*This report has been translated into the English language solely for the convenience of international readers.*



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