



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 mode 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.


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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" criterion¹;
- 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;

¹ 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”², 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 Mieci and Evolve, close their financial statements on 31 December³, 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).

² 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”.

³ 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 control⁴. 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).

⁴ 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.


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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.


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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.


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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 assets⁵, 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").

⁵ 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.


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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 application⁶:

Annual economic-technical depreciation rate (%)

Land	not depreciated
Buildings	2-2.5
Plant and machinery - Transportation	
Methane pipelines	2
Compression stations	5
Gas reduction and regulation plants	5
Radio links	25
Measurement and control instruments and systems	5
Plant and machinery - Storage	
Pipelines	2
Treatment plants	4
Compression stations	5
Storage wells	1.66
Monitoring and control instruments and systems	5
Plant and machinery - Regasification	
Regasification facilities	4
Tanks and oil pipelines	4
Other assets	
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
Rights of use for leased assets	< between economic-technical life and contract duration

⁶ 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.


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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 (%)

Storage concessions	not amortised: residual value greater than book value
Information systems	20-33
Other intangible fixed assets	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.


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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 components⁷, 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.

⁷ 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.

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


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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 movements⁸.

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.

⁸ 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


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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.


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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


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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


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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,


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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”.


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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.


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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


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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.