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# SNAM S.P.A. FINANCIAL REVIEW

## COMPANY INFORMATION

Snam S.p.A. (hereinafter also referred to as Snam) is an industrial holding company listed on the Milan stock exchange, which holds equity investments in industrial and service companies in Italy and abroad.

In its capacity as the group's parent company, it is responsible for the strategic direction, planning and control of the financial management, direction and coordination of the group's activities. It provides Group companies with business support services (mainly administrative, tax, legal, human resources, information technology and HSEQ services) in order to optimise the available resources and efficiently use the existing know-how. These services are governed by specific inter-company service contracts.

As at 31 December 2020, the major shareholder CDP S.p.A. held, through CDP Reti S.p.A., 31.4% of the share capital of Snam S.p.A. For this purpose, note that, from 1 August 2019, CDP reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – "Consolidated financial statements" from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF.

No management and coordination activity has been formalised or exercised by CDP over Snam.

## RECLASSIFIED INCOME STATEMENT

In order to facilitate the reading of the Income Statement, taking into consideration the nature of Snam S.p.A. as an industrial holding company, the Reclassified Income Statement was prepared by presenting items relating to financial management first, because they represent the most important component of an income nature<sup>40</sup>.

<sup>40</sup> This statement was prepared on the basis of the suggestions reported in Consob Communication no. 94001437 of 23 February 1994.


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## Reclassified Income Statement

2018	(million of €)	2019	2020	Var, ass	% change
<b>Income and financial expenses</b>					
775	Income from equity investments	898	<b>1,124</b>	226	25.2
213	Interest receivable and other financial income	159	<b>151</b>	(8)	(5.0)
(249)	Interest payable and other financial expenses	(211)	<b>(178)</b>	33	(15.6)
(2)	Losses from derivative contracts	(1)	<b>(10)</b>	(9)	
<b>737</b>	<b>Total financial income and expenses</b>	<b>845</b>	<b>1,087</b>	<b>242</b>	<b>28.6</b>
213	Revenues from the provision of services	227	<b>260</b>	33	14.5
14	Other income	15	<b>15</b>		
<b>227</b>	<b>Other business income</b>	<b>242</b>	<b>275</b>	<b>33</b>	<b>13.6</b>
<b>Other management costs</b>					
(94)	For personnel	(88)	<b>(90)</b>	(2)	2.3
(146)	For the provision of non-financial services and other costs	(186)	<b>(253)</b>	(67)	36.0
<b>(240)</b>	<b>Total other management costs</b>	<b>(274)</b>	<b>(343)</b>	<b>(69)</b>	<b>25.2</b>
<b>724</b>	<b>Pre-tax profit</b>	<b>813</b>	<b>1,019</b>	<b>206</b>	<b>25.3</b>
(3)	Income tax	4	<b>(4)</b>	(8)	
<b>721</b>	<b>Net profit</b>	<b>817</b>	<b>1,015</b>	<b>198</b>	<b>24.2</b>

**Net profit** in 2020 amounted to 1,015 million euros, up by 198 million euros or 24.2% compared with 2019. The increase is due mainly to the greater financial income and expense (+242 million euros or +28.6%) essentially following the greater income from equity investments (+226 million euros or +25.2%), partly offset by the increase in other management costs (-69 million euros or 25.2%), mainly attributable to greater financial expense for the provision of non financial services and other costs (-67 million euros or 36%).


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## ANALYSIS OF INCOME STATEMENT ITEMS

### Income and financial expenses

2018	(million of €)	2019	2020	Var, ass	% change
775	Income from equity investments	898	<b>1,124</b>	226	25.2
213	Interest receivable and other financial income	159	<b>151</b>	(8)	(5.0)
(249)	Interest payable and other financial expenses	(211)	<b>(178)</b>	33	(15.6)
(2)	Losses from derivative financial instruments – ineffective portion	(1)	<b>(10)</b>	(9)	
<b>737</b>		<b>845</b>	<b>1,087</b>	<b>242</b>	<b>28.6</b>

**Financial income and expense** in 2020 (1,087 million euros) rose by 242 million euros or 28.6% compared with the previous year.

Income from equity investments (1,124 million euros) consists mainly of the dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (665 million euros) and Stogit S.p.A. (197 million euros), by the companies under joint control Terēga (86 million euros) and Trans Austria Gasleitung GmbH - TAG (83 million euros), and by the related companies Italgas S.p.A. (28 million euros), Galaxy Pipeline Assets HoldCo Limited (17 million euros) and Senfluga Energy Infrastructure Holding S.A. (11 million euros). The increase of 226 million euros, up 25.2% compared with 2019, was mainly due to the greater dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (+85 million euros) and Stogit S.p.A. (+11 million euros), by the companies under joint control Terēga (+72 million euros) and Trans Austria Gasleitung GmbH - TAG (+20 million euros), and by the related companies Galaxy Pipeline Assets HoldCo Limited (+17 million euros) and Senfluga Energy Infrastructure Holding S.A. (+11 million euros).

Interest receivable and other financial income (151 million euros), principally relates to: (i) interest deriving from the intra-group loans granted by Snam S.p.A. to the subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (106 million euros overall) and to company under joint control OLT - Offshore LNG Toscana S.p.A (13 million euros); (ii) the income from the direct recharging and treasury arrangements concluded between Snam S.p.A. and the companies, the expenses connected by the compulsory buy back transaction implemented by Snam in December 2020 (18 million euros in total).

The interest payable and other financial expenses (178 million euros) relate to: (i) the expenses connected to the bond buy back transaction (22 million euros), equal to the difference between the buy back price of the bonds on the market and the relative value at the amortised cost; (ii) expenses for bond loans<sup>41</sup> (138 million euros) and for loans provided by banks and other financial institutions (18 million euros).

<sup>41</sup> Details of the bond issues that took place during the year and their conditions are provided in Note 16, "Current and non-current financial liabilities" in the Notes to the Separate Financial Statements.


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The losses from derivatives financial instruments (10 million euros) relate to the effects deriving from the unwinding of derivative financial contracts on bonds subject to the buyback operation.

## Other business income

2018	(million of €)	2019	2020	Var, ass	% change
213	Revenues from the provision of services	227	260	33	14.5
14	Other income	15	15		
<b>227</b>		<b>242</b>	<b>275</b>	<b>33</b>	<b>13.6</b>

**Revenue for the provision of services** (260 million euros) mainly involve charge backs for services provided by Snam to subsidiaries (229 million euros in total). The services are governed by contracts entered into with Snam S.p.A. and the subsidiaries, and concern the following areas: ICT, Personnel and Organisation, Planning, Administration Finance and Control, General Services, Property, Security, Legal and Corporate Affairs and Compliance, Health, Safety and Environment, External Relations and Communication, Internal Audit, Technical, Commercial, Regulation and Procurement. The services provided also include the revenue on projects of the Global Solution Business Unit (31 million euros).

The increase of 33 million euros compared with the previous year is due to the greater charge backs to subsidiaries (+26 million euros), for services mainly of an ICT nature and to the greater revenue from Global Solution Business Unit projects (+7 million euros) essentially following the design services rendered to the subsidiary TAP.

**Other income** (15 million euros) essentially refers to income from the leasing and maintenance of fibre optic telecommunications cables for third-parties (13 million euros).

## Other management costs

2018	(million of €)	2019	2020	Var, ass	% change
146	For the provision of non-financial services and other costs	186	253	67	36.0
94	For personnel	88	90	2	2.3
<b>240</b>		<b>274</b>	<b>343</b>	<b>69</b>	<b>25.2</b>

**Costs for non financial services and other costs** are composed of operating costs (242 million euros) and depreciation and amortisation (11 million euros). The increase of 67 million euros is essentially due to: (i) higher costs for services (27 million euros), mainly attributable to ICT services charged back to Group companies; (ii) costs incurred as a result of the state of emergency related to the Covid-19 pandemic for a total amount of 24 million euros, relating mainly to donations of health equipment (14 million euros) and money (2 million euros) to


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the Italian health system and the third sector, purchases of personal protection equipment for internal use (6 million euros) and costs for services (2 million euros), mainly relating to employee support and security; (iii) the dynamics of the provision for risks and charges (17 million euros).

**Personnel costs** totalled 90 million euros, an increase of 2 million euros, essentially in line with the corresponding period of the previous year.

The number of employees as at 31 December 2020 (804 people) is analysed below by professional status:

### Employees by professional status

31.12.2018	(number)	31.12.2019	31.12.2020	Var, ass	% change
	<b>Professional status</b>				
71	Senior Managers	71	<b>75</b>	4	5.6
259	Middle Managers	242	<b>265</b>	23	9.5
505	Office workers	426	<b>461</b>	35	8.2
3	Manual workers	3	<b>3</b>		
<b>838</b>		<b>742</b>	<b>804</b>	<b>62</b>	<b>8.4</b>

### Income tax

**Income tax** amounts to 4 million euros mainly on account of the share of non taxable dividends collected in the year.


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## RECLASSIFIED STATEMENT OF FINANCIAL POSITION

The reclassified statement of financial position combines the assets and liabilities of the condensed statement based on how the business operates, conventionally split into the three basic functions: investment, operations and financing.

Management believes that this format presents useful information for investors as it allows identification of the sources of financing (equity and third-party funds) and the investment of financial resources in fixed and working capital.

The reclassified statement of financial position format is used by management to calculate the key leverage and profitability ratios.

### Reclassified statement of financial position <sup>(\*)</sup>

(million of €)	31.12.2019	31.12.2020	Change
<b>Fixed capital</b>	<b>11,608</b>	<b>11,056</b>	<b>(552)</b>
Property, plant and equipment	20	18	(2)
- of which right-of-use leased assets	14	12	(2)
Intangible assets	12	15	3
Equity investments	6,545	6,761	216
Financial assets	5,035	4,268	(767)
Net payables for investments	(4)	(6)	(2)
<b>Net working capital</b>	<b>(334)</b>	<b>(320)</b>	<b>14</b>
<b>Provision for employee benefits</b>	<b>(14)</b>	<b>(13)</b>	<b>1</b>
<b>Assets held for sale</b>	<b>10</b>		<b>(10)</b>
<b>NET INVESTED CAPITAL</b>	<b>11,270</b>	<b>10,723</b>	<b>(547)</b>
<b>Shareholders' equity</b>	<b>4,396</b>	<b>4,550</b>	<b>154</b>
<b>Net financial debt</b>	<b>6,874</b>	<b>6,173</b>	<b>(701)</b>
- of which financial payables for leased assets <sup>(**)</sup>	14	12	(2)
<b>COVERAGE</b>	<b>11,270</b>	<b>10,723</b>	<b>(547)</b>

(\*) See the paragraph titled "Non-GAAP measures" for a methodological indication of the reclassified statements.

(\*\*) Including non-current lease liabilities (9 million euros) and the current portion of non-current lease liabilities (3 million euros).

**Fixed capital** (11,056 million euros) decreased by 552 million euros compared with 31 December 2019 mainly as a result of the reduction in financial assets (-767 million euros). This effect was partially offset by the increase in equity investments (216 million euros), mainly due to the subscription of the increase in the share capital in favour of Galaxy Pipeline Assets HoldCo Limited (221 million euros), following the purchase of ADNOC Gas Pipeline Assets LLC.


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## Equity investments

This item amounts of 6,761 million euros and is composed of equity investments in the following companies:

(million of €)	% ownership	Balance at 31.12.2019	Acquisitions and subscriptions	Assignments and reimbursements	Other changes	Balance at 31.12.2020
<b>Investments in subsidiaries</b>		<b>4,864</b>	<b>48</b>		<b>9</b>	<b>4,921</b>
Snam Rete Gas S.p.A.	100%	2,850			1	2,851
Stogit S.p.A.	100%	1,597				1,597
Asset company 2 S.r.l.	100%	172				172
Snam International B.V.	100%	61				61
GNL Italia S.p.A.	100%	43				43
Snam 4 Mobility S.p.A.	100%	38				38
Snam 4 Efficiency S.r.l.	100%	23	48		8	79
Gasrule Insurance D.A.C.	100%	20				20
Enura S.p.A.	55%	4				4
Snam 4 Environment S.r.l.	100%	55				55
Asset Company 4 S.r.l.	100%	1				1
<b>Investments in joint ventures</b>						
Trans Austria Gasleitung GmbH	84.47%	500				500
Terēga Holding S.A.S.	40.50%	452		(81)		371
AS Gasinfrastruktur Beteiligung GmbH	40%	93			1	94
OLT - Offshore LNG Toscana S.p.A.	49.07%		3			3
<b>Investments in associates</b>		<b>636</b>	<b>236</b>			<b>872</b>
Trans Adriatic Pipeline AG	20%	303	15			318
Italgas S.p.A.	13.50%	244				244
Galaxy Pipeline Assets HoldCo Limited	12.32%		221		1	222
Senfluga Energy Infrastructure Holding S.A.	54.00%	89				89
		<b>6,545</b>	<b>287</b>	<b>(81)</b>	<b>10</b>	<b>6,761</b>

## Financial assets

**Financial assets** stand at 4,268 million euros and relate to: (i) receivables from long-term loans, including the relative current portions, granted mainly to the subsidiaries Snam Rete Gas (3,135 million euros) and Stogit (676 million euros), (ii) the loan granted to the company under joint control OLT (303 million euros) and (iii) fair value measurement through OCI of the minority interests in the company Terminale GNL Adriatico S.r.l. and ITM Power Plc (112 million euros overall).


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The reduction of 781 million euros compared with 31 December 2019 was mainly due to the closing and the simultaneous repayment of existing loans to Snam Rete Gas S.p.A. and Stogit S.p.A. (-1,148 million euros overall), partially offset by the taking over of the residual share of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020 (332 million euros; 303 million euros net of subsequent reimbursements).

## Net working capital

(million of €)	31.12.2019	31.12.2020	Change
Trade receivables	106	106	
Other assets	58	54	(4)
Tax receivables	45	39	(6)
Net prepaid tax assets	29	25	(4)
Inventories		3	
Provisions for risks and charges	(11)	(28)	(17)
Tax liabilities	(45)	(32)	13
Derivatives	(62)	(38)	24
Trade payables	(81)	(83)	(2)
Other liabilities	(373)	(366)	7
	<b>(334)</b>	<b>(320)</b>	<b>14</b>

**Net working capital** (-320 million euros) decreased by 14 million euros compared with 31 December 2019 mainly as a result of the reduction in liabilities for derivatives (+24 million euros) and the reduction in tax debts (+13 million euros), partly offset by changes in provisions for risks and charges (-17 million euros).

## Shareholders' equity

(million of €)	
<b>Shareholders' equity at 31 December 2019</b>	<b>4,396</b>
Increases owing to:	
- 2020 comprehensive income (*)	1,052
- Other changes	8
	<b>1,060</b>
Decreases owing to:	
- Final 2019 dividend	(466)
- 2020 interim dividend	(326)
- Acquisition of treasury shares	(114)
	<b>(906)</b>
<b>Shareholders' equity at 31 December 2020</b>	<b>4,550</b>

(\*) For further details, refer to the Comprehensive income statement of Snam S.p.A.


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## Net financial debt

(million of €)	31.12.2019	31.12.2020	Change
<b>Financial and bond debt</b>	<b>14,799</b>	<b>15,972</b>	<b>1,173</b>
Short- term financial liabilities <sup>(*)</sup>	4,158	<b>5,651</b>	1,493
Long- term financial payables	10,627	<b>10,309</b>	(318)
Financial payables for leased assets <sup>(**)</sup>	14	<b>12</b>	(2)
<b>Financial receivables and cash and cash equivalents</b>	<b>(7,925)</b>	<b>(9,799)</b>	<b>(1,874)</b>
Short-term financial receivables	(5,120)	<b>(6,808)</b>	(1,688)
Cash and cash equivalents	(2,805)	<b>(2,991)</b>	(186)
	<b>6,874</b>	<b>6,173</b>	<b>(701)</b>

(\*) Includes the current portion of non-current financial liabilities.

(\*\*) Including non-current lease liabilities (9 million euros) and the current portion of non-current lease liabilities (3 million euros).

Net financial debt at 31 December 2020 was 6,173 million euros, a reduction of 701 million euros compared with 31 December 2019.

Financial and bond debts (15,972 million euros) are denominated in euros and relate mainly to bond loans (8,140 million euros; 51%) and bank loans (5,260 million euros, 33%, of which 1,620 million euros was provided by the European Investment Bank - EIB).

Long-term financial debt (10,309 million euros) represented around 65% of gross financial debt (around 72% at 31 December 2019).

The breakdown of debt by type of interest rate at 31 December 2020 is as follows:

(million of €)	31.12.2019	%	31.12.2020	%	Change
Fixed rate	11,188	<b>76</b>	<b>10,739</b>	<b>67</b>	(449)
Variable rate	3,611	<b>24</b>	<b>5,198</b>	<b>33</b>	1,587
	<b>14,799</b>	<b>100</b>	<b>15,937</b>	<b>100</b>	<b>1,138</b>


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The reduction in bond loans (908 million euros) compared to 31 December 2019, mainly relates to: (i) the repayment of a fixed rate bond maturing on 29 January 2020, for a nominal amount of 350 million euros; (ii) the repayment of a fixed rate bond loan maturing on 13 February 2020, of a nominal amount of 526 million euros; (iii) the repayment of a fixed rate bond maturing 25 October 2020, of a nominal amount of 500 million euros; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of 629 million euros with an average coupon of 0.62% and a residual duration of approximately 2.80 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction, concluded in December 2020 stood at 651 million euros<sup>42</sup>, including the fees paid to intermediaries and accrued interest. These variations were partially offset by the issuing: (i) a Transition Bond, for a nominal amount of 500 million euros, at a fixed rate maturing on 17 June 2030; (ii) a Transition Bond, for a nominal amount of 600 million euros, at a fixed rate maturing on 7 December 2028.

The increase in bank loans (1,569 million euros) relates mainly to higher net utilisations of uncommitted credit lines (1,047 million euros) and the subscription of new Term Loans for an incremental nominal value of 590 million euros.

The Euro Commercial Papers (2,503 million euros) involve unsecured short-term securities issued on the money market and placed with institutional investors and recorded an increase of 502 million euros.

Short-term financial receivables (6,808 million euros) showed an increase of 1,688 million euros compared with 31 December 2019. The increase is essentially attributable to the greater net use of current account balances of the subsidiaries Snam Rete Gas and Stogit (1,540 million euros in total).

Cash and cash equivalents, standing at 2,991 million euros (2,805 million euros as at 31 December 2019) refer to current accounts and on-call bank deposits.

At 31 December 2020, Snam had unused committed long-term credit lines worth 3.2 billion euros.

<sup>42</sup> For more information on the operation, see the section titled "2020 Performance - Main events".


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## RECLASSIFIED STATEMENT OF CASH FLOWS AND CHANGE IN NET FINANCIAL DEBT

The reclassified statement of cash flows below summarises the legally required financial reporting format. It shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. Free cash flow closes either: (i) with the change in cash for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repaying financial receivables/payables) and equity (payment of dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

### Reclassified statement of cash flows

(million of €)	2019	2020
<b>Net profit</b>	<b>817</b>	<b>1,015</b>
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	13	<b>17</b>
- Dividends, interest and income taxes	(866)	(1,101)
Change in working capital due to operating activities	(14)	<b>(30)</b>
Dividends, interest and income taxes collected (paid)	862	<b>1,111</b>
<b>Net Cash inflow from operating activities</b>	<b>812</b>	<b>1,012</b>
Technical investments	(5)	<b>(9)</b>
Equity investments	(48)	<b>(226)</b>
Change in non current financial receivables	425	<b>832</b>
Free cash flow	1,184	1,609
<b>Change in current financial assets</b>	<b>(751)</b>	<b>(1,697)</b>
Repayment of financial payables for leased assets	(4)	<b>(4)</b>
Change in current and non-current financial liabilities	1,320	<b>1,171</b>
Equity cash flow (a)	(785)	<b>(893)</b>
<b>Net cash flow for the year</b>	<b>964</b>	<b>186</b>

(a) Includes cash flows deriving from the purchase of treasury shares and dividend payment to shareholders.


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### Change in net financial debt

(million of €)	2019	2020
<b>Free cash flow</b>	<b>1,184</b>	<b>1,609</b>
Exchange rate differences on financial debt	(3)	
Change in financial payables for leased assets	(18)	(2)
Equity cash flow (a)	(785)	<b>(893)</b>
Other non-monetary changes		<b>(13)</b>
<b>Change in net financial debt</b>	<b>378</b>	<b>701</b>

(a) Includes cash flows deriving from the purchase of treasury shares and dividend payment to shareholders.