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The company has provided all requested documentation and is actively cooperating with the Agency. The Company has made provisions for risks.

28) OPERATING REVENUES AND INCOME

The breakdown of operating revenue and income for the period, which totalled 2,770 million euros (2,665 million euros in 2019), is provided in the following table.

(million €)	2019	2020
Core business revenue	2,635	2,735
Other operating revenues and income	30	35
Total operating revenues and income	2,665	2,770

The Group generates most of its revenue in Italy. An analysis of revenue by business segment can be found in Note 35 - "Information by business segment".

Revenue from related parties is illustrated in Note 36 "Related-party transactions".

CORE BUSINESS REVENUE

Core business revenue, which totalled 2,735 million euros (2,635 million euros in 2019), is analysed in the following table:

(million €)	2019	2020
Natural gas transportation	2,006	2,010
Storage of natural gas	511	499
Liquefied Natural Gas (LNG) regasification	17	21
Corporate and other activities	101	205
Total core business revenue	2,635	2,735

Natural gas transportation

Core business revenues (2,010 million euros) mainly relate to service fees for transportation activities (1,976 million euros) and mainly concern Eni S.p.A. (812 million euros; 1,114 million euros in 2019) and Enel Trade S.p.A. (277 million euros; 319 million euros in 2019).


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Group core business Revenues are reported net of tariff components, mainly referring to the transportation sector, additional to the tariff and intended to cover gas system general expenses (1,133 million euros, 1,287 million euros in 2019), the amounts of which are paid by Snam to the Energy and Environmental Services Fund (Cassa per i Servizi Energetici e Ambientali (CSEA)). The main components relate to:

- the additional GST and RET tariff components (for a total amount of 619 million euros in 2020; 661 million euros in 2019), introduced by the Authority's resolutions ARG/Com 93/10 and ARG/Gas 177/10 with effect from 1 January 2011, intended to finance, respectively, the "Account for the compensation of tariff concessions to gas sector customers in a state of hardship" (GS Account) and the "Fund for measures and interventions for energy saving and the development of renewable sources in the natural gas sector" (RE Account);
- the variable CRVOS fee was introduced in 2011 by Resolution ARG/gas No. 29/11 of the Authority, to cover the charges pursuant to Article 9 of Legislative Decree No. 130/10, incurred by the Energy Services Operator (Gestore Servizi Energetici (GSE)) for the payment to the storage company of the amounts due to the SG guarantee factor (for a total amount of 268 million euros in 2020; 328 million euros in 2019).

Snam provided its transportation service to 213 users in 2020.

Natural gas storage

Core business revenues (499 million euros) relates essentially to fees for modulation storage (419 million euros; 416 million euros in 2019) and strategic storage (72 million euros; 83 million euros in 2019).

Snam provided its natural gas storage service to 91 companies in 2020.

In addition, as of 1 January 2020, revenues from ordinary operations in the transportation and storage segments are provided net of revenues attributable to operators connected to the infrastructures managed by Snam⁴¹.

In particular, with Resolution no. 114/2019/R/GAS, which initiates the fifth regulatory period (as of 1 January 2020), the main transportation company is required to annually adjust its corrective factors net of the equalisation mechanisms deriving from the revenue sharing agreements in place with the other interconnected operators. As a result of this change in the regulatory framework, in order to reflect the economic substance of the transactions, core business revenues are shown net of revenues attributable to operators connected to the infrastructures managed by Snam.

Liquefied Natural Gas (LNG) regasification

Core business revenues (21 million euros) refers to the regasification service fees, which include the revenues coverage factor recognised by the Authority (4 million euros).

Snam provided its regasification service to 5 companies in 2020.

With regard to the residual sector "Corporate and other activities," which is not being reported separately in accordance with IFRS 8 "Business Segments", revenues from regular operations (205 million euros) are mainly the result of the following activities: (i) considerations for the construction of biogas and biomethane plants (71 million euros); (ii) provision of services relating to energy efficiency projects (75 million euros); (iii) technical-specialist services to unconsolidated foreign companies (31 million euros); (iv) income from the rental and maintenance of fibre optic telecommunication cables (14 million euros); (v) the sale of CNG compressors for motor transport (15 million euros).

OTHER OPERATING REVENUES AND INCOME

Other operating revenues and income, amounting to 35 million euros (30 million euros in 2019), mainly relate to the incentives paid to the Company for balancing services, based on technical and economic performance governed by Resolution 45/2020/R/gas (18 million euros) and contributions for new connections to the transportation network (4 million euros).

⁴¹ Until the end of the fourth regulatory period, which ended on 31 December 2019, these fees were shown under revenues gross of the cost represented by the retrocession to the interconnected companies of the relevant revenues.


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29) OTHER OPERATING COSTS AND EXPENSES

The breakdown of operating costs and expenses for the period, which totalled 617 million euros (461 million euros in 2019), is provided in the following tables.

(million €)	2019	2020
Raw and consumable materials and goods	62	172
Services	186	146
Other operating costs and expenses	33	111
Staff costs	180	188
Total operating costs and expenses	461	617

The costs incurred due to the state of emergency linked to the Covid-19 pandemic, for a total of 27 million euros (21 million euros net of tax effects), relate to: (i) donations of healthcare materials (14 million euros) and cash (2 million euros), also through the Fondazione Snam, to assist the Italian healthcare system and the third sector; (ii) purchases of personal protective equipment for internal use (6 million euros); (iii) services costs (5 million euros), mainly to deep clean working environments and for security.

The group's operating costs and expenses are mainly generated in Italy.

The operating costs and expenses incurred with related parties are described in Note 36 "Related-party transactions".

29.1 RAW AND CONSUMABLE MATERIALS AND GOODS

Raw and consumable materials and goods, which amounted to 172 million euros (62 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Costs for purchase of raw materials, consumables, supplies and goods	213	309
Changes in inventories of raw materials, consumables, supplies and goods	(49)	(6)
Total costs incurred during the year	164	303
Share of costs capitalised for internal work	(102)	(131)
Total costs for purchase of raw materials, consumables, supplies and goods recognised in the income statement	62	172

The positive change of raw materials, materials, consumables and goods in inventories (6 million euros) is mainly due to the natural gas purchases required for transportation services, purchased on the balancing market from 1 January 2020 pursuant to Resolution 114/2019/R/Gas, in place of the quantities contributed in kind by shippers in the previous regulatory period.


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29.2 SERVICES

Costs for services, which amounted to 146 million euros (186 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
IT Services (Information Technology)	59	73
Technical, legal, administrative and professional services	52	57
Construction, design and works supervision	27	33
Ordinary maintenance services	27	29
Supply of electricity, heat, water, etc.	19	23
Personnel-related services	23	14
Telecommunication services	12	12
Insurance	8	9
Purchase of transportation capacity (interconnection)	52	
Other services	40	60
Total costs incurred during the year	319	310
Share of costs capitalised for internal work	(133)	(164)
Total costs for services recognised in the income statement	186	146

As of 1 January 2020, Purchase of transportation capacity (interconnection) is recognised as a direct reduction of the corresponding revenue (53 million euros for 2020).

29.3 PERSONNEL COSTS

Personnel costs, which amounted to 188 million euros (180 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Wages and salaries	167	176
Social security contributions (pensions and healthcare assistance)	48	48
Employee benefits	(5)	1
Other expenses	25	29
Total personnel costs incurred during the year	235	254
Quota of capitalised costs	(55)	(66)
Total Personnel costs recognised in the income statement	180	188

Other expenses (29 million euros) mainly includes the expenses for defined contribution plans (12 million euros), mainly related to severance pay to be


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accrued, to be paid to pension funds or INPS, and expenses for redundancy packages (8 million euros).

A description of employee benefits can be found in Note 21 "Liabilities for employee benefits".

Average number of employees

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

Professional status	2019	2020
Executives	116	129
Middle Managers	494	525
Office workers	1,699	1,715
Manual workers	733	752
Average number of employees	3,042	3,121

The average number of employees is calculated on the basis of the monthly number of employees for each category.

The number of personnel in service at 31 December 2020 was 3,249 resources (3,025 resources at 31 December 2019), an increase of 224 resources (+7.4%) compared with 31 December 2019. The increase is mainly due to new companies joining the scope of consolidation and new entries from the market.

Snam share-based incentive plan for senior managers

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term share-based incentive plan and, subsequently, on 18 June 2020, the same Shareholders' Meeting approved the 2020--2022 long-term share-based incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plans.

The plans, intended for the Snam CEO and other beneficiaries, identified as those who hold positions with a greater impact on company results or with strategic importance for achieving Snam's multi-year targets, includes three cycles of the annual assignment of three-year targets (the so-called rolling plan) for the years 2017, 2018, 2019 and for the years 2020, 2021 and 2022. At the end of the three-year performance period, if the underlying conditions of the plan are met, the beneficiary shall have the right to receive Company shares free of charge.

A maximum number of 3,500,000 shares will service the Plans for each three-year cycle of the Plan. The Plans will terminate in 2022, upon expiration of the Vesting Period relating to the last 2019 allocation, and in 2025, upon expiration of the Vesting Period relating to the last 2022 allocation.


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A total of 5,385,372 shares have been allocated in connection with the Plan, 1,368,397 of which are for the 2017 allocation, 2,324,413 for the 2018 allocation and 1,692,562 for the 2019 allocation. The unitary fair value of the shares, determined by the stock market price of the Snam stock at the allocation dates (the grant date), is equal to 3.8548 and 3.5463 and 4.3522 euros per share, respectively for the 2017, 2018 and 2019 allocations.

For the 2020-2022 Plan, 1,277,996 shares have been allocated for 2020 and the unitary fair value of the share, determined by the stock market price of the Snam stock on the allocation dates, is 4.441 euros per share and 4.559 euros per share (on the dates of 14 October 2020 and 16 December 2020 respectively for the CEO and members of the Leadership Team and for the other beneficiaries).

The cost for the Long-term incentive plan, measured as the staff costs component, amounts to 7 million euros (the same as in 2019) with an opposing entry in shareholder equity reserves. Taking into consideration the non-market conditions to which receiving the benefit is connected, the cost reflects the adjustment, throughout the vesting period, of the number of shares that will effectively be granted.

For more information on the features of the Plan, see "Financial review and Other Information" in the Directors' Report.

Remuneration due to managers with strategic responsibilities

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities⁴² ("key management personnel"), in office during the year amounted (including contributions and ancillary charges) to 11 million euros (the same as in 2019) and breaks down as follows:

(million €)	2019	2020
Wages and salaries	6	5
Indemnities for termination of employment		2
Post-employment benefits	1	
Benefits based on shares	4	4
Total remuneration due to managers with strategic responsibilities	11	11

⁴² This includes managers who have the power and the responsibility, both directly and indirectly, for the planning, direction and supervision of Snam activities. Snam's managers with strategic responsibilities, other than directors and statutory auditors, were identified with reference to the following positions: (i) Chief Business Unit Asset Italia (ii) EVP Human Resources, Organisation & Pfm (iii) Chief Financial Officer & Chief International & Business Development Officer (iv) General Counsel (v) Chief Energy Transition.


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Remuneration due to directors and statutory auditors

The remuneration due to directors amounted to 5.1 million euros and 6.0 million euros respectively for 2020 and 2019. The remuneration due to statutory auditors amounted to 0.2 million euros (0.4 million euros in 2019). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor in Snam S.p.A. and in other companies included in the scope of consolidation, giving rise to a cost for Snam, even if not subject to personal income tax.

29.4 OTHER OPERATING COSTS

(million €)	2019	2020
Software licences, short-term leasing costs and leasing of moderate amount assets	26	22
Capital losses from elimination of property, plant and equipment and intangible assets	9	14
Indirect taxes and duties	12	13
Net accrual to (utilisation of) provisions for risks and charges	13	12
CO ₂ emission rights	1	10
Allocations (uses) to the provision for impairment losses	(35)	2
Other expenses	7	38
Total other operating costs and expenses	33	111

Net allocations to provisions for risks and charges, equal to 12 million euros, net of uses, mainly refers to the allocation to the accident reserve fund for the captive company Gasrule (6 million euros).

For more details about the change in provisions for risks and charges, please see Note 20 "Provisions for risks and charges".

30) DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES ON PROPERTY, PLANT, EQUIPMENT AND INTANGIBLE ASSETS

Depreciation, amortisation and impairment losses on property, plant, equipment and intangible assets, amounting to 773 million euros (752 million euros in 2019), can be analysed as follows:

(million €)	2019	2020
Property, plant and equipment	656	681
Intangible assets	66	81
Total amortisation/depreciation	722	762
Impairment losses on property, plant and equipment	30	11
Total impairment losses	30	11
Total depreciation, amortisation and impairment losses	752	773


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For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 14 "Property, plant and equipment", and Note 15 "Intangible assets and goodwill".

An analysis of amortisation, depreciation and impairment losses by business segment can be found in Note 33 "Information by business segment".

31) NET FINANCIAL EXPENSE

Net financial expense, which amounted to 158 million euros (203 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Financial expense (income)	191	155
Financial expense	200	166
Financial income	(9)	(11)
Other financial expense (income)	11	(7)
Other financial expense	13	8
Other financial income	(2)	(15)
Losses (Gains) on hedging derivatives - ineffective portion	1	10
Losses from derivative contracts	1	10
	203	158

(million €)	2019	2020
Financial expense (income)	191	155
Expense on financial debt:	211	178
Interest and other expenses on bond loans	193	160
Fees on loans and bank credit lines	7	7
Interest expense on credit lines and loans due to banks and other lenders	11	11
Financial expense capitalised	(11)	(12)
Income from financial receivables:	(9)	(11)
Interest income and other income on short-term financial assets	(9)	(11)
Other financial expense (income):	11	(7)
Accretion discount ^(*)	8	6
Other expenses	5	2
Interest income on long-term financial receivables		(13)
Other income	(2)	(2)
Losses (Gains) on hedging derivatives - ineffective portion	1	10
	203	158

(*) The item reflects the increase in the provisions for risks and charges and the liabilities for employee benefits, which are shown at their present value in Note 20 "Provisions for risks and charges" and Note 21 "Liabilities for employee benefits".


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Expense on financial debt (178 million euros) include the following: (i) interest expense and other expenses on bond loans (160 million euros), referring to interest on 18 bond loans (138 million euros) and expenses from the liability management operation (22 million euros) which led to the buy back on the market of bonds with a total nominal value of 629 million euros and an average coupon of approximately 0.62% and residual duration of approximately 2.8 years; (ii) interest expense to the banks relating to revolving lines of credit and loans totalling 11 million euros; (iii) the portion attributable to the period of upfront fees on revolving credit lines (3 million euros) and credit line non-usage fees (4 million euros).

Financial expense capitalised (12 million euros) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial income (7 million euros) mainly relates to financial income on long-term financial receivables connected with the pro-rata contribution from the OLT Shareholder Loan (13 million euros), partially offset by the costs associated with the passage of time relating to the provision for site dismantling and restoration of the storage and transportation sectors (-6 million euros in total).

Losses on derivatives (10 million euros) relate to the effects deriving from the unwinding of financial contracts on bonds included in the buyback transaction.

32) INCOME FROM NET INVESTMENTS

Income from equity investments, which amounted to 249 million euros (216 million euros in 2019), can be broken down as follows:

(million €)	2019	2020
Income from investments accounted for using the equity method	225	247
Expenses from investments accounted for using the equity method	(7)	
Portion of profit or losses of investments accounted for using the equity method	218	247
Dividends from minority investments accounted for at FVTOCI	2	2
Other expenses from equity investments	(4)	
Other income (expense) from equity investments	(2)	2
Total income from net investments	216	249

Details of capital gains and capital losses from valuation of equity investments accounted for the equity method can be found in Note 16 "Investments accounted for using the equity method". Dividends from minority investments accounted for at FVTOCI (2 million euros) relate to the equity investment in Terminale GNL Adriatico S.r.l.


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33) INCOME TAXES

Income taxes for the year, which amounted to 370 million euros (375 million euros in 2019), can be broken down as follows:

(million €)	2019			2020		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	339	62	401	334	62	396
Current taxes for the year	339	62	401	337	62	399
Adjustments for current taxes relating to previous years				(3)		(3)
Deferred taxes	(25)	(1)	(26)	(25)	(1)	(26)
Total income taxes in the income statement	314	61	375	309	61	370

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

(million €)	2019		2020	
	Tax rate	Balance	Tax rate	Balance
IRES				
Pre-tax profit		1,465		1,471
IRES taxes for the period calculated on the basis of the theoretical tax rate	24.0%	352	24.0%	353
<i>Variations from the theoretical rate:</i>				
- Income in relation to equity investments	(3.5%)	(51)	(3.5%)	(52)
- Dividend tax	1.1%	16	1.2%	18
- Other permanent differences	(0.2%)	(3)	(0.7%)	(10)
IRES taxes for the year recognised in the Income Statement	21.4%	314	21.0%	309


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(million €)	2019		2020	
	Tax rate	Balance	Tax rate	Balance
IRAP				
Difference between value and cost of production		1,431		1,397
IRAP taxes for the period calculated on the basis of the theoretical tax rate	3.9%	56	3.9%	54
<i>Variations from the theoretical rate</i>				
Delta regional IRAP rates	0.3%	4	0.3%	4
Other permanent differences	0.1%	1	0.2%	3
IRAP taxes for the year recognised in the Income statement	4.2%	61	4.4%	61

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 22 "Deferred tax liabilities/assets".

Taxes related to components of the comprehensive income statement

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

(million €)	2019			2020		
	Pre-tax value	Fiscal impact	Net tax value	Pre-tax value	Fiscal impact	Net tax value
Remeasurement of defined-benefit plans for employees				(1)		(1)
Portion of equity investments accounted for using the shareholders' equity method pertaining to "other components of comprehensive income statement"	(18)		(18)	(37)		(37)
Change in fair value of minority investments measured at FVTOCI	4		4	43		43
Change in fair value of cash flow hedge derivatives	(44)	10	(34)	(6)	1	(5)
Other components of the comprehensive income statement	(58)	10	(48)	(1)	1	
Deferred taxes on income recorded in other components of the comprehensive income statement		10			1	


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34) EARNINGS PER SHARE

Basic earnings per share, at 0.336 euros per share (0.330 euros per share in 2019), are calculated by dividing the profit for the year pertaining to the shareholders of the parent company Snam (1,101 million euros; 1,090 million euros in 2019) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,272,020,890 shares; 3,300,593,207 shares in 2019).

Diluted earnings per share are calculated by dividing the profit for the year pertaining to the shareholders of the parent company Snam, after deducting interest recognised during the year on the convertible bond loan, net of the tax effect, by the weighted average number of shares outstanding in the period, excluding treasury shares, and those potentially deriving from the long-term share-based incentive plans (2018, 2019 and 2020 allocations) as well as from the conversion of the convertible bond.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,358,022,355 and 3,386,571,782 for 2020 and 2019, respectively.

Reconciliation of basic and diluted earnings per share

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

	2019	2020
Weighted average number of outstanding shares used to calculate basic earnings per share	3,300,593,207	3,272,020,890
Number of potential shares for long-term incentive plans	3,424,347	3,447,237
Number of potential shares for the convertible bond loans issue	82,554,228	82,554,228
Weighted average number of outstanding shares used to calculate diluted earnings per share	3,386,571,782	3,358,022,355
Group profit for the year (million €) ^(a)	1,090	1,101
Dilution effect of the convertible bond loan	3	3
Group profit for the year (million €) ^(a)	1,093	1,104
Basic net profit per share (euros per share) ^(a)	0.330	0.336
Diluted net profit per share (euros per share) ^(a)	0.323	0.329

(a) Entirely attributable to parent company shareholders.


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35) INFORMATION BY BUSINESS SEGMENT

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used for 2020 by the Company's management for allocating resources to the different segments and for analysing the respective performances.

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

The information by business segment as at 31 December 2020 and 31 December 2019 is listed below.

(million €)	Natural gas transportation	Storage of natural gas	LNG regasification	Other segments not separately reported (Corporate and other activities)	Consolidation eliminations and adjustments	Total
2019 year						
Net core business revenue (a)	2,139	594	27	310		3,070
to deduct: infra-segment revenues	(133)	(83)	(10)	(209)		(435)
Revenue from third parties	2,006	511	17	101		2,635
Other operating revenues and income	25	1	2	2		30
Net (accrual to) utilisation of provisions for risks and charges	(6)			(7)		(13)
Amortisation, depreciation and impairment losses	628	105	5	14		752
EBIT	1,157	337	1	(43)		1,452
Portion of profit or losses of investments accounted for using the equity method				218		218
Total assets	14,694	4,053	124	5,172		24,043
- of which Equity investments accounted for using the equity method				1,787		1,787
Total liabilities	9,911	2,598	65	15,458	(10,247)	17,785
Investments in tangible and intangible fixed assets	813	112	19	19		963


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(million €)	Natural gas transportation	Storage of natural gas	LNG regasification	Other segments not separately reported (Corporate and other activities)	Consolidation eliminations and adjustments	Total
2020 year						
Net core business revenue (a)	2,120	684	29	441		3,274
to deduct: infra-segment revenues	(110)	(185)	(8)	(236)		(539)
Revenue from third parties	2,010	499	21	205		2,735
Other operating revenues and income	31	1		3		35
Net (accrual to) utilisation of provisions for risks and charges	2	(6)		(8)		(12)
Amortisation, depreciation and impairment losses	634	112	7	23	(3)	773
EBIT	1,139	314		(73)		1,380
Portion of profit or losses of investments accounted for using the equity method				247		247
Total assets	15,268	4,141	120	6,146		25,675
- of which Equity investments accounted for using the equity method				1,923		1,923
Total liabilities	10,364	2,677	76	16,693	(10,607)	19,203
Investments in tangible and intangible fixed assets	981	134	20	54		1,189

(a) Balances before elimination of intra-segment revenue.

(b) In the consolidated financial statements, the considerations for the modulation service, an integral part of transportation revenue, are eliminated under the transportation companies, along with the costs of the service purchased from the storage company, in order to reflect the substance of the transaction. Consistently, the corresponding figures for 2019 have been restated.

Revenue is generated by applying regulated tariffs or market conditions. The revenue was mainly generated in Italy; costs were incurred almost entirely in Italy.