



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1) COMPANY INFORMATION

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as “Snam”, the “Snam Group” or the “Group”), is an integrated Group at the forefront of the regulated gas industry (transportation, regasification and storage) and a major player in terms of its regulatory asset base (RAB) in the sector.

Through its international subsidiaries, Snam operates in Albania, Austria, China, the United Arab Emirates, France, Greece and the United Kingdom. Snam S.p.A. invests in innovation and in development of new energy transition businesses, from sustainable mobility to biomethane and energy efficiency. It also seeks to enable and promote the development of hydrogen to move forward the decarbonisation of the energy sector and industry.

Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).

Through the resolution of 1 August 2019, the Board of Directors of CDP S.p.A. which, through the subsidiary CDP Reti S.p.A. owns a stake in Snam S.p.A. of 31.4%, reclassified its equity investment in the latter, already classified as de facto control pursuant to international accounting standard IFRS 10 - Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraphs 1 and 2 of the Italian Civil Code and Article 93 of the TUF.

No management or coordination activity of CDP S.p.A. has been formalised or exercised over Snam S.p.A.

2) BASIS OF PRESENTATION

These consolidated financial statements:

- a) have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB)

and adopted by the European Commission pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005;

- b) they have been prepared in accordance with the going concern assumption, based on the conventional historical cost criterion, taking into account value adjustments where appropriate, with the exception of items that must be measured at fair value, in accordance with IFRS, as described in the measurement criteria. Considering the characteristics of Snam’s core business, which did not require an uninterrupted continuation of operating activities, and the results of the analyses conducted on the impacts of the Covid-19 epidemic, there are no elements that require in depth analysis regarding the validity of the going concern assumption;
- c) they have been approved and authorised for publication by the Board of Directors of Snam S.p.A. in its meeting of 17 March 2021, and have been audited by Deloitte & Touche S.p.A.;
- d) they are denominated in euros,; given their size, the amounts in the financial statements and respective notes are expressed in millions of euros, unless otherwise specified.

2.1 INFORMATION TO BE PROVIDED IN THE LIGHT OF THE CONSEQUENCES OF THE COVID-19 PANDEMIC

In compliance with the indications contained in the document “European common enforcement priorities for 2020 annual financial reports” issued by ESMA on 28 October 2020, taken up by Consob Call for Attention No. 1/21 of 16 February 2021, below is an indication of the areas which, in view of the consequences of the Covid-19 pandemic, are considered to be of particular importance for the preparation of the 2020 financial statements.

Specifically, the areas identified are:

- The application of IAS 1 “Presentation of Financial Statements” referred to Note 2) “Basis of presentation”, with reference to the critical issues in



the evaluation of the existence of the going concern assumption;

- The application of IAS 36, "Impairment of Assets", referred to in Note 16) "Investments accounted for using the equity method", and Note 15) "Intangible Assets and Goodwill"; regarding how to determine the recoverable amount of goodwill intangible and tangible assets that may be impacted by a worsened economic outlook;
- The application of IFRS 9 "Financial Instruments", and IFRS 7 "Financial Instruments: Disclosures" referred to in Note 9) "Trade and other receivables" and in Note 12) "Current and non-current financial assets" and in Note 26) "Financial risk management"; in view of the risks associated with financial assets and liabilities, and in particular liquidity risk;
- The application of IFRS 16, "Leases", referred to in Note 14) "Property, plant and equipment", in relation to the specific issues stemming from Covid-19.

In addition, Note 29) "Operating costs and expenses" includes specific information on the costs incurred as a result of the state of emergency linked to the Covid-19 pandemic.

2.2 EFFECTS OF THE COVID-19 PANDEMIC ON THE PRESENTATION AND MEASUREMENT OF ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

Regulated business

The Snam Group's core business is represented by transportation, storage and regasification activities carried out by companies operating under regulated regimes. An assessment of the effects related to the spread of the pandemic showed the limited exposure of these sectors to the effects of Covid-19, allowing Snam to record no impairment indicators as at 31 December 2020. Despite the absence of indicators, the company tests its relevant CGUs (Snam Rete Gas, Infrastrutture Trasporto Gas, Stogit and LNG) for impairment at least once a year; in particular, the test conducted with

reference to the financial statements for the year then ended 31 December 2020 did not show any impairment losses. With regard to investment activities, in order to face, firstly, with the slowdown in activities due to the suspension of construction sites (from mid-March 2020) and, subsequently, with their gradual resumption (end of April 2020), Snam has implemented all necessary actions aimed at recovering the delays recorded and completing the 2020 investment programme.

Energy transition

The businesses related to energy transition, Biomethane, Energy Efficiency, and Sustainable Mobility, have not suffered significant impacts related to the effects of Covid-19; in particular:

- in the Biomethane business, the production plants from FORSU did not have a substantial impact as the collection and transfer of waste continued uninterrupted. The construction activities of IES Biogas were affected to a minimal extent, mainly due to the temporary lockdown that the containment measures by Covid-19 imposed on the sites in March and April. The company has taken all necessary actions to compensate for the slowdowns accumulated and limit the effects of the pandemic on the 2020 results;
- in the Energy Efficiency business, the impact of Covid-19 was moderate and temporary; in particular, slowdowns were noted in the performance of activities linked to the containment measures imposed due to the emergency in March and April 2020. The actions implemented by the company, including by optimising timetables, have made it possible to contain the effects of the pandemic. It should be noted, however, that the recent regulatory interventions with which the legislator has intervened in order to encourage the implementation of measures of energy efficiency, contained in the Decree-Law no. 34 of 19 May 2020 on "Urgent measures in the field of health, support for work and the economy, as well as social policies related to the epidemiological emergency of Covid-19", allow company, due to the input that the incentive mechanisms introduced will



give to the demand, to forecast growing results for future periods;

- In the Sustainable Mobility business, limited impacts related to the effects of Covid-19 were found due to the emergency containment measures introduced, which did not allow Cubogas' production plants to become fully operational, particularly in March and April. The company has already put actions on track with the aim of making up for production delays. These actions made it possible to fully make up for the delays.

The limited impact of the effects of Covid-19 on the Energy Transition businesses, allowed Snam to identify no impairment indicators at 31 December 2020. Nevertheless, the company tested its relevant CGUs for impairment (as well as the CGUs to which goodwill and/or intangible assets not yet available for use and intangible assets with an indefinite useful life have been allocated) and did not recognise any impairment losses for the purposes of the 2020 financial statements.

Foreign and Italian subsidiaries

The Snam Group's foreign and Italian subsidiaries mainly operate in the regulated sectors of natural gas transportation, storage, regasification and distribution (Terēga, DESFA, GCA, TAG, OLT and Italgas) or operate under long-term, ship or pay (TAP) contracts. With reference to Interconnector UK, the only investee company that does not operate under a regulated regime, the results for 2020 show an improvement over the forecasts made previously. None of the associate companies made any changes to their 2020 budgets, thus confirming the legitimacy of the assumptions previously presented.

The limited exposure of these segments to the effects of Covid-19 allowed Snam not to recognise any impairment indicators at 31 December 2020; however, the company tested its relevant CGUs, represented by its significant equity investments in foreign and Italian companies, for impairment and did not recognise any impairment losses for the purposes of the 2020 financial statements.

Analysis of potential impact as a result of the persistence of the Covid-19 pandemic and the increasing spread of variants

Expectations of a progressive loosening of the restrictive measures imposed by the pandemic, based on effective and quick implementation of vaccines against Covid-19 were faced in the first weeks of 2021 with concerns stemming from the growing spread of variants.

Consequent fears on the level of impact the variants could reach and uncertainties related to the expected time needed to complete the vaccine campaign in Italy and Europe, as well as in the rest of the major economies with which these societies interact, could give rise to further slowdowns in the process of returning the international economic situation to normal.

Any further containment measures imposed in the coming months to cope with the rapid spread of variants could lead to further interruptions of non-essential production activities and the temporary closure of construction sites. This could influence, to some extent, Snam's ability to fully complete the 2021 investment programme related to its core business; this could have an impact that cannot be quantified in detail at present, with respect to the forward-looking assumptions made by Snam.

In the same way, the return of containment measures for prolonged periods of time, with consequent closure of plants and blockage of construction sites, could have a more significant impact especially on the companies involved in production (Cubogas), and on site activities (IES Biogas, Snam 4 Mobility and TEP), slowing down the completion of the works and the consequent recognition of the corresponding revenues.

3) ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE FROM 2020

For the financial year ended 31 December 2020, the Group applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2020, which are described below; their initial application did not, however, have a material impact on these consolidated financial statements.


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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.



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



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.


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9) TRADE RECEIVABLES AND OTHER RECEIVABLES

Trade receivables and other receivables amounting to 1,676 million euros (1,376 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019	31.12.2020
Trade receivables, gross of provision for impairment losses	1,319	1,653
Provision for impairment losses	(102)	(102)
Total trade receivables	1,217	1,551
Other receivables from the Energy and Environmental Services Fund (CSEA)	124	79
Receivables for private contributions	8	7
IRES receivables for the national tax consolidation scheme with former parent	9	9
Advances to suppliers	6	6
Others	12	24
Total trade receivables and other receivables	1,376	1,676

Trade receivables (1,551 million euros; 1,217 million euros at 31 December 2019) mainly pertain to the natural gas transportation (1,150 million euros) and storage (176 million euros) segments.

Trade receivables relating to the storage sector include VAT receivable invoiced to users in previous years for the use of strategic gas collected and not replenished (77 million euros, unchanged from 31 December 2019).

This provision for impairment losses (102 million euros) essentially relates to impairment losses recorded in previous years on receivables from the balancing service pursuant to resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas) of uncollected receivables for the period from 1 December 2011 to 23 October 2012 (90 million euros, including the relative interest)⁹.

Receivables from the CSEA (79 million euros) refer to the transportation sector and are attributable to the gas settlement, introduced by the Authority through resolutions 670/2017/R/gas and 782/2017/R/gas, and to the incentives paid to the balancing manager.

Receivables for private contributions (7 million euros; 8 million euros at 31 December 2019) were recognised in respect of third-party interference works involving the transportation sector (so-called compensation).

IRES receivables for the national tax consolidation regime (9 million euros, unchanged from 31 December 2019) mainly related to receivables from the

⁹ Pursuant to the provisions of Resolution 608/2015/R/gas, the Company made a provision for impairment losses for a value of approximately 125 million euros, which, following the Council of State's ruling of 5 March 2020, was released at a value of approximately 35 million euros. As at 31 December 2020, the value of the provision for impairment losses amounted to 90 million euros and related to the balancing receivables due to the Company from certain customers with whom bankruptcy proceedings are in progress. For more information, see Note 26 "Financial Risk Management – Credit Risk".


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former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

All receivables are in euros. The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the contractual terms and conditions.

Receivables from related parties are described in Note 36 "Related-party transactions".

Specific information on credit risk can be found in Note 26 "Financial risk management - Credit risk".

Trade receivables and other receivables largely refer to activities carried out by Snam in the regulated business segments (transportation, storage and regasification), with customers of high credit standing. This exposes Snam to a very limited risk of expected losses on its receivables. In consideration of the assessments made, also in relation to the possible impacts of Covid-19, no deterioration in the creditworthiness of counterparties was found; for these reasons, Snam has not identified any issues with regard to the recoverability of trade and other receivables as at 31 December 2020.

10) CURRENT AND NON-CURRENT INVENTORIES

Current and non-current inventories, which amount to 461 million euros (475 million euros at 31 December 2019) are analysed in the table below:

(million €)	31.12.2019			31.12.2020		
	Gross value	Provision for Impairment losses	Net value	Gross value	Provision for Impairment losses	Net value
Raw materials, consumables and supplies	106	(13)	93	93	(13)	80
Finished products and goods	51	(32)	19	50	(32)	18
Total current inventories	157	(45)	112	143	(45)	98
Total non-current inventories - Compulsory inventories	363		363	363		363
Total current and non-current inventories	520	(45)	475	506	(45)	461

Inventories of current raw materials, consumables and supplies (80 million euros; 93 million euros at 31 December 2019) primarily include stock materials relating to the pipeline network (40 million euros) to storage plants (12 million euros), and natural gas used for transportation activities (9 million euros).

Inventories of finished products and merchandise (18 million euros, 19 million euros at 31 December 2019) mainly refer to the natural gas present in the storage system (617 million euros standard cubic metres, unchanged from 31 December 2019).


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Inventories are stated net of write-down provisions of 45 million euros (unchanged from 31 December 2019). The provision essentially concerns the write-down (30 million euros) recorded in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011¹⁰.

Inventories are not pledged to guarantee. Inventories do not secure liabilities, nor inventories recognised at net realisation value.

Non-current inventories (363 million euros, unchanged from 31 December 2019) include minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree No. 22 of 31 January 2001 (so-called Compulsory inventories).

The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development¹¹.

10.1 THIRD PARTY NATURAL GAS ON DEPOSIT

Risks related to third party assets on deposit, equal to 1,458 million euros (2,073 million euros at 31 December 2019) relate to approximately 8 billion cubic metres of natural gas deposited in the storage plants by service customers. This amount was determined by applying the estimated unit repurchase cost¹² of approximately 0.18 per standard cubic metre (0.23 per standard cubic metre at 31 December 2019) to the quantities of gas deposited.

11) CURRENT AND NON-CURRENT INCOME TAX ASSETS/LIABILITIES

Current and non-current income tax assets/liabilities break down as follows:

(million €)	31.12.2019	31.12.2020
IRES	9	17
IRAP		1
Other assets	3	16
Total current income tax assets	12	34
IRES	(22)	(1)
IRAP	(4)	(1)
Total current income tax liabilities	(26)	(2)

¹⁰ For more information regarding the progress of the lawsuits under way, see Note 26 "Financial risk management - Credit risk - Recovering receivables from users of the storage system".

¹¹ On 12 February 2021, the Ministry confirmed the total volume of strategic storage for the contractual year 2021-2022 (1 April 2021 - 31 March 2022) at 4.62 billion cubic metres or approximately 48,846 gigawatt hours GWh, unchanged compared with the thermal year 2020-2021 (1 April 2020-31 March 2021). The Stogit share was unchanged at 4.5 billion cubic metres.

¹² Value calculated on the basis of the CCI Tariff, or the wholesale price established by the ARERA every quarter.


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Current income tax assets 34 million euros (12 million euros at 31 December 2019) mainly include IRES receivables (17 million euros) settle against receivables for additional IRES (8 million euros) and other assets (16 million euros) for Ecobonus and Sismabonus receivables (14 million euros).

Current income tax liabilities amount to 2 million euros (26 million euros at 31 December 2019). The decrease compared to the previous year is mainly due to lower payables for IRES under the National Tax Consolidation Regime (21 million euros).

Taxes for the year under review are shown in Note 33 "Income taxes".

12) OTHER CURRENT AND NON-CURRENT FINANCIAL ASSETS

Current financial assets of 7 million euros and non-current financial assets of 420 million euros (44 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
Long-term financial receivables		3	3	1	306	307
Minority equity investments FVTOCI		39	39		112	112
Short-term financial receivables				5		5
Other		2	2	1	2	3
Total other current and non-current assets		44	44	7	420	427

Long-term financial receivables amount to 307 million euros (3 million euros at 31 December 2019). Compared to 31 December 2019, receivables increased by 304 million euros mainly as a result of Snam taking over the residual portion of a shareholders' loan from Iren S.p.A. to OLT, against the acquisition of a 49.07% stake in the company's share capital, a transaction completed on 26 February 2020. With reference to such receivables, including in relation to the possible impact of Covid-19, no deterioration in the counterparty's creditworthiness was recorded.

Minority equity investments valued at FVTOCI (112 million euros at 31 December 2020; 39 million euros at 31 December 2019) relate to the valuation of the shares held by Snam in the capital of Terminale GNL Adriatico S.r.l. (7.3% stake) and in the capital of ITM Power PLC (2.318% stake, acquired in the financial year), amounting to 38 million euros and 74 million euros respectively.


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Changes during the year were as follows:

(million €)	
Value as at 31.12.2019	39
Acquisitions and subscriptions	34
Change in fair value through other comprehensive income	43
Disposals and redemptions	(4)
Value as at 31.12.2020	112

The acquisitions and subscriptions in the financial year, equal to 34 million euros, fully refer to the subscription of the capital increase of ITM Power PLC that led Snam to possess a shareholding of 2.318%; the change of Fair Value from the date of subscription, shown in the other elements of the comprehensive income statement, is equal to 40 million euros.

For further information on the acquisition of ITM Power PLC see section "Main events - Hydrogen" in the Directors' Report.

13) OTHER CURRENT AND NON-CURRENT ASSETS

Other current assets, which amount to 99 million euros (33 million euros at 31 December 2019) and other non-current assets of 48 million euros (26 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
Other current tax assets:	14		14	50		50
- VAT	11		11	46		46
- Other taxes	3		3	4		4
Regulated activities	1	1	2	1	18	19
Other assets:	18	25	43	48	30	78
- Prepaid expenses	9	10	19	7	13	20
- Security deposits		13	13		14	14
- Other	9	2	11	41	3	44
Total other current and non-current assets	33	26	59	99	48	147

Other current tax assets 50 million euros (14 million euros at 31 December 2019) mainly refer to VAT receivables (46 million euros).


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The item "Other assets" (78 million euros; 43 million euros at 31 December 2019) basically includes:

- prepaid expenses (20 million euros), relating to upfront fees and the substitute tax on revolving credit lines (17 million euros) and to insurance premiums (3 million euros);
- security deposits (14 million euros) issued to support operations mainly relating to the natural gas transportation sector;
- other (44 million euros) mainly relate to contract work on biogas plants.

14) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, amounts to 16,815 million euros (16,439 million euros at 31 December 2019) breaks down as follows:

(million €)	31.12.2019						Total
	Land	Buildings	Plant and equipment	Industrial and Commercial Equipment	Other assets	Fixed assets in progress and advances	
Cost at 31.12.2018	171	472	23,195	117	235	816	25,006
Investments			5	12	1	843	861
Disposals		(1)	(23)	(7)	(1)	(4)	(36)
Change in the scope of consolidation		2	74	1		2	79
- of which rights of use for leased assets		2					2
Other changes	2	11	682	5	50	(717)	33
Rights of use for leased assets (*)	3	20			2		25
Cost at 31.12.2019	176	504	23,933	128	287	940	25,968
Provisions for amortisation and depreciation at 31.12.2018		(116)	(8,432)	(62)	(173)		(8,783)
Total amortisation and depreciation		(11)	(605)	(12)	(22)		(650)
Disposals			20	7	1		28
Change in the scope of consolidation			(18)				(18)
Rights of use for leased assets	(1)	(4)			(1)		(6)
Provisions for amortisation and depreciation at 31.12.2019	(1)	(131)	(9,035)	(67)	(195)	0	(9,429)
Provision for impairment losses at 31.12.2018	(1)	(4)	(26)			(39)	(70)
(Impairment losses)/Recovery of value			(3)			(27)	(30)
Provision for impairment losses at 31.12.2019	(1)	(4)	(29)			(66)	(100)
Net balance at 31.12.2018	170	352	14,737	55	62	777	16,153
Net balance at 31.12.2019	174	369	14,869	61	92	874	16,439

(*) Includes the effects of the IFRS 16 first-time application (20 million euros) and the changes during the year (5 million euros).


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(million €)	31.12.2020						Total
	Land	Buildings	Plant and equipment	Industrial and Commercial Equipment	Other assets	Fixed assets in progress and advances	
Cost at 31.12.2019	176	504	23,933	128	287	940	25,968
- of which rights of use for leased assets	3	22			2		27
Investments			16	12	1	995	1,024
Disposals		(3)	(24)	(6)	(10)	(4)	(47)
Change in the scope of consolidation					2		2
Other changes		15	792	5	28	(789)	51
Changes in rights of use for leased assets	2	2			2		6
Cost at 31.12.2020	178	518	24,717	139	310	1,142	27,004
Provisions for amortisation and depreciation at 31.12.2019	(1)	(131)	(9,035)	(67)	(195)		(9,429)
- of which rights of use for leased assets	(1)	(4)			(1)		(6)
Total amortisation and depreciation	(1)	(11)	(622)	(13)	(28)		(675)
Disposals		1	15	7	10		33
Other changes		(2)	(2)				(4)
Depreciation rights of use for leased assets	(1)	(5)					(6)
Provisions for amortisation and depreciation at 31.12.2020	(3)	(148)	(9,644)	(73)	(213)		(10,081)
Provision for impairment losses at 31.12.2019	(1)	(4)	(29)			(66)	(100)
(Impairment losses)/Recovery of value			(7)			(4)	(11)
Other changes		1	2				3
Provision for impairment losses at 31.12.2020	(1)	(3)	(34)			(70)	(108)
Net balance at 31.12.2019	174	369	14,869	61	92	874	16,439
Net balance at 31.12.2020	174	367	15,039	66	97	1,072	16,815

Property, plant and equipment (16,815 million euros; 16,439 million euros at 31 December 2019) primarily relates to transportation (13,686 million euros), storage (2,892 million euros) and regasification infrastructure (110 million euros).

Investments¹³ (1,024 million euros) mainly relate to the transportation segment (856 million euros).

¹³ Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.


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During the year, Snam capitalised 12 million euros of financial expenses (11 million euros in 2019).

Depreciation (681 million euros), included rights-of-use on leased assets, refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company, and, with reference to leased assets, on the basis of the contractual duration if the exercise of any purchase options is not probable.

Capital contributions recorded against the net value of property, plant and equipment stood at 404 million euros (389 million euros at 31 December 2019).

Disposals (14 million euros, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to transportation segment assets, specifically relating to sections of methane pipeline, components of compression stations and electronic equipment .

Impairment losses and reversals (11 million euros) mainly refer to assets to the transport segment as well as the storage segment, following work over interventions on some plants.

The value of plant and equipment includes the estimated (discounted) costs to be incurred for the removal of facilities and the restoration of sites (325 million euros) mainly relating to the natural gas storage (198 million euros) and transportation (126 million euros) segments.

Other changes (47 million euros) relate essentially to: (i) the upward revision of dismantling estimated costs and restoration of sites, basically relating to the storage sector, against the reduction in the expected discount rates (73 million euros in all); (ii) contributions on works for interference with third parties (so-called recharges, -20 million euros).

With reference to the item "Rights of use for leased assets", it should be noted that in 2020 no lease agreements were renegotiated with counterparties as a result of the Covid-19.

In the absence of impairment indicators recorded during the year, there is no need to verify the recoverability of the carrying amount of property, plant and equipment. Nevertheless, as indicated in Note 15 "Intangible assets and goodwill", to which reference should be made for further details, an impairment test was carried out on all the main CGUs of the group.

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 25 "Guarantees and commitments".

There are no real guarantees on property, plant and equipment.


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14.1 TANGIBLE ASSETS BY BUSINESS SEGMENT

Property, plant and equipment by business segment break down as follows:

(million €)	31.12.2019	31.12.2020
Historical cost	25,968	27,004
Transportation	21,645	22,477
Storage	4,020	4,167
Regasification	176	192
Corporate and other activities	127	168
Provisions for depreciation, amortisation and impairment losses	(9,529)	(10,189)
Transportation	(8,244)	(8,791)
Storage	(1,175)	(1,274)
Regasification	(76)	(82)
Corporate and other activities	(34)	(42)
Net balance	16,439	16,815
Transportation	13,401	13,686
Storage	2,845	2,893
Regasification	100	110
Corporate and other activities	93	126


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15) INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill, which amount to 1,125 million euros (990 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019					
	With a finite useful life				With an indefinite useful life	
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible fixed assets	Fixed assets in progress and advances	Goodwill	Total
Cost at 31.12.2018	763	769	64	38	42	1,676
Investments				102		102
Change in the scope of consolidation		31	7		9	47
Other changes	91	3	(1)	(93)		
Cost at 31.12.2019	854	803	70	47	51	1,825
Provisions for amortisation and depreciation at 31.12.2018	(624)	(101)	(44)			(769)
Total amortisation and depreciation	(61)	(4)	(1)			(66)
Provisions for amortisation and depreciation at 31.12.2019	(685)	(105)	(45)			(835)
Provision for impairment losses at 31.12.2018						
Provision for impairment losses at 31.12.2019						
Net balance at 31.12.2018	139	668	20	38	42	907
Net balance at 31.12.2019	169	698	25	47	51	990


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(million €)	31.12.2020					
	With a finite useful life				With an indefinite useful life	
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible fixed assets	Fixed assets in progress and advances	Goodwill	Total
Cost at 31.12.2019	854	803	70	47	51	1,825
Investments				165		165
Disposals	(1)		(44)			(45)
Change in the scope of consolidation			42		12	54
Other changes	101	16	3	(119)	(3)	(2)
Cost at 31.12.2020	954	819	71	93	60	1,997
Provisions for amortisation and depreciation at 31.12.2019	(685)	(105)	(45)			(835)
Total amortisation and depreciation	(72)	(4)	(5)			(81)
Disposals	1		43			44
Provisions for amortisation and depreciation at 31.12.2020	(756)	(109)	(7)			(872)
Provision for impairment losses at 31.12.2019						
Provision for impairment losses at 31.12.2020						
Net balance at 31.12.2019	169	698	25	47	51	990
Net balance at 31.12.2020	198	710	64	93	60	1,125

Industrial patent and intellectual property rights 198 million euros (169 million euros at 31 December 2019) mainly concern information systems and applications in support of operating activities.

Concessions, licences, trademarks and similar rights (710 million euros; 698 million euros at 31 December 2019) refer basically to concessions for natural gas storage activities (665 million euros) and to the concessions of Settala (231 million euros), Sergnano (128 million euros), Fiume Treste (91 million euros) and Brugherio (57 million euros). The value of the storage concessions is represented by the reserves of natural gas in the fields ("Cushion Gas"¹⁴).

Change in consolidation perimeter (54 million euros) refers to intangible fixed assets, including goodwill, recognized following the Purchase Price Allocation of the acquisition transactions, closed in October 2020, of the companies Miecì and Evolve¹⁵.

¹⁴ Cushion gas is not depreciated.

¹⁵ For further information, see Note 24 - "Business combinations".



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Other intangible fixed assets (64 million euros; 25 million euros at 31 December 2019) include the fair value attributed during the Purchase Price Allocation of Miecì and Evolve, as regulated by the accounting standard IFRS3 "Business Combinations", relating to the book order (approximately 40 million euros). Amortisation is based on the average duration of the contracts.

The increase in assets with an indefinite useful life (9 million euros) refers mainly to goodwill recorded following the Miecì 's acquisition (12 million euros). This goodwill was allocated to the CGUs represented by the same legal entity.

Investments (165 million euros) mainly related to the natural gas transportation (123 million euros) segment¹⁶, refer to information systems development projects, including the Cloud - Azure Consumption project.

Amortisation (81 million euros) refers to economic and technical amortisation determined on the basis of the definite useful life of the intangible assets or their remaining possible use by the Company.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note 25 - "Guarantees and commitments".

Impairment test

As required by accounting principle (IAS 36), the impairment test is carried out at least once a year for all CGUs to which goodwill, recorded in the consolidated financial statements, has been allocated and for CGUs that include intangible fixed assets with an indefinite useful life and intangible fixed assets not yet available for use. For all the remaining CGUs, the impairment test is carried out only when there are impairment indicators. In 2020, the test was performed for all the main CGUs, regardless of the presence of impairment indicators. In particular, these were represented by:

- for regulated activities of the transportation, regasification and storage of natural gas by the CGUs Snam Rete Gas, ITG, LNG and Stogit; goodwill amounting to 27 million euros was allocated to ITG only;

- the sustainable mobility businesses, composed of refuelling stations and compressors, of the CGUs Snam 4 Mobility and Cubogas, allocated a goodwill of 7 million euros;
- for the biogas/biomethane business, by the companies IES Biogas and by CGUs Enersi and Renerwaste¹⁷, to which a total goodwill of 10 million euros is allocated. The companies of the Renerwaste group represent a single CGU (Renerwaste CGU) since the method of managing waste treatment plants is unitary and centralised. Moreover, in view of the characteristics of such plants, management is not bound by the corporate structure when making decisions on the allocation of resources and investments;
- the energy efficiency business, by CGUs TEP Energy Solutions, allocated a total goodwill of 4 million euros.

With reference to the "sustainable mobility" business, while activities until 2019 focused mainly on defining commercial agreements, signing agreements for new stations and identifying partners to develop new initiatives, activities in 2020 focused on the construction of filling stations. Considering such a new phase that the business is facing, both the methods for monitoring results and the consequent methods for managing strategic decisions have been redefined to support in an adequate way the growth.

These changes, together with the unitary management of resources and the strong vertical integration of Cubogas and Snam 4 Mobility, have led to the consideration that the criterion of monitoring by individual company is now out of date, in favour of a model focused on unitary management of the sustainable mobility business. Consistently, with this management method, starting from 2020¹⁸, the goodwill allocated to Cubogas CGU is tested at the Cubogas and Snam 4 Mobility CGU grouping level.

¹⁷ The Renerwaste CGU consists of the four companies acquired by the group in November 2019, namely Renerwaste S.r.l., Renerwaste Lodi, Ecoprogetto Milano and Ecoprogetto Tortona.

¹⁸ In compliance with CONSOB Communication no.0003907 of 19-01-2015, following the change in the method for verifying the recoverable amount of the sustainable mobility business for the purposes of the consolidated financial statements as at 31.12.2020, the Cubogas CGU was also tested for impairment separately. The impairment test conducted did not reveal any losses in value.

¹⁶ Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.


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Overall, except for the amendment mentioned above, the impairment test was carried out on the basis of a similar CGU set-up to last year, supplemented by the CGUs Renerwaste.

The recoverable amount of CGUs Snam 4 Mobility and Cubogas was determined as the usage value, on the basis of the Discounted Cash Flow (DCF) Method. Taking into consideration the start up stage of the business, the cash flows were calculated taking into consideration a longer time horizon compared with the forecast 2021-2024 Plan data approved by the Board, in order to be able to consider all the effects that could have a significant impact on cash flows. The Weighted Cost of Capital Average - WAAC method was used to discount cash flows. The Terminal Value was calculated using the perpetuity method, applying a growth rate in line with market evidence for the expected long-term inflation rate, based on the values indicated by the International Monetary Fund (IMF).

With reference to the biogas/biomethane business, the recoverable value of the three CGUs identified consisting of IES Biogas, Enersi and Renerwaste was determined as the usage value, on the basis of the Discounted Cash Flow (DCF) Method, using the 2021-2024 Plan approved by the Board. For the Renerwaste and Enersi CGUs only, cash flows were calculated taking into consideration a longer time horizon compared to the forecast 2021-2024 Plan data approved by the Board, so as to consider all the effects that could have a significant impact on cash flows. The Weighted Cost of Capital Average - WAAC method was used to discount cash flows. The Terminal Value was calculated using the perpetuity method, applying to IES Biogas only, a growth rate in line with market evidence for the expected long-term inflation rate, based on the values indicated by the International Monetary Fund (IMF).

With reference to the energy efficiency business, the recoverable value of the CGU TEP Energy Solutions was determined as the usage value, on the basis of the Discounted Cash Flow (DCF) Method. Given the nature of the business, significantly affected by physical benefits related to the energy reclassification of buildings, cash flows were calculated over a longer time horizon than the Plan approved by the Board, so as to provide an adequate representation of the value of contracts still existing at the end of the approved Plan. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows. The Terminal Value was calculated using the perpetuity method, applying a growth rate in line with market evidence for the expected long-term inflation rate, based on the values indicated by the International Monetary Fund (IMF).

For the companies newly acquired in the last quarter of 2020 (Mieci and Evolve), operating in the energy efficiency business, the recoverable value allocated to the CGUs was assumed to be equal to the purchase prices of the companies also taking into account the timing of the acquisitions.

With reference to the Transportation (Snam Rete Gas), Regasification (GNL) and Storage (Stogit) CGUs, the recoverable value was defined corresponding to estimated value of Net Invested Capital as recognised for those assets for tariff purposes (RAB - Regulatory Asset Base) by the Italian Regulatory Authority for Energy, Networks and the Environment (ARERA) net of the flat-fee components¹⁹, of the Employee Severance Pay (TFR) and contributions received.

With reference to the ITG CGU, the recoverable value of the CGU was calculated as the usage value, based on the Discounted Cash Flow (DCF) Method, using the 2021-2024 Plan approved by the Board. The Weighted Average Cost of Capital - WAAC method was used to discount cash flows.

¹⁹ The RAB is the reference basis for the determination of the service tariffs and, therefore, of the cash flows generated by the activities. The value of the RAB is defined through the historical cost method revalued as regards the Fixed capital, and on a flat rate basis for the working capital, the employee severance indemnity and, with reference to the storage sector, the site dismantling and restoration fund.


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For all CGUs, the recoverable value as represented above, was higher than the net book value of the CGUs included in the goodwill.

As required by the accounting principle IAS 36, the CGUs subject to impairment testing, whose recoverable value was determined by discounting the expected cash flows deriving from the use of the asset and from its sale at the end of its useful life, were subjected to sensitivity analyses of the recoverable value, in the worst case scenario formulated which includes a 0.5% increase in the discount rate applied to cash flows. This stress test did not highlight any loss in value of the CGUs.

15.1 INTANGIBLE ASSETS BY BUSINESS SEGMENT

Intangible assets by business segment break down as follows:

(million €)	31.12.2019	31.12.2020
Historical cost	1,825	1,997
Transportation	809	907
Storage	844	848
Regasification	6	10
Corporate and other activities	166	232
Provisions for depreciation, amortisation and impairment losses	(835)	(872)
Transportation	(594)	(631)
Storage	(166)	(155)
Regasification	(4)	(5)
Corporate and other activities	(71)	(81)
Net balance	990	1,125
Transportation	215	276
Storage	678	693
Regasification	2	5
Corporate and other activities	95	151


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16) EQUITY INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments accounted for using the equity method, of 1,923 million euros (1,787 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019	31.12.2020
Terēga Holding S.A.S.	482	338
Trans Austria Gasleitung GmbH	520	521
AS Gasinfrastruktur Beteiligung GmbH	125	125
Iniziative Biometano S.p.A.		15
OLT - Offshore LNG Toscana S.p.A.		8
Total equity investments in joint ventures	1,127	1,007
Trans Adriatic Pipeline A.G.	264	278
Italgas S.p.A.	209	235
Galaxy Pipeline Assets HoldCo Limited.		207
Senfluga Energy Infrastructure Holding S.A.	125	138
Interconnector (UK) Ltd.	62	58
Total equity investments in associates	660	916
Equity investments accounted for using the equity method	1,787	1,923


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Changes during the year are detailed in the following table.

(million €)	Equity investments		Total
	Joint ventures	Associates	
Balance at 01.01.2019	1,099	611	1,710
Acquisitions and subscriptions		23	23
Disposals and redemptions	(9)	(22)	(31)
Dividends received	(98)	(34)	(132)
Effect of equity-accounting method			
- Portion recognised in income statement	128	90	218
- Portion recognised in the comprehensive income statement		6	6
Other changes	7	(14)	(7)
Balance at 31.12.2019	1,127	660	1,787
Acquisitions and subscriptions	18	236	254
Disposals and redemptions	(81)		(81)
Dividends received	(198)	(59)	(257)
Effect of equity-accounting method			
- Portion recognised in income statement	132	115	247
- Portion recognised in the comprehensive income statement	1	(38)	(37)
Other changes	8	2	10
Balance at 31.12.2020	1,007	916	1,923


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Acquisitions and subscriptions (254 million euros) relate essentially to: (i) the acquisition, in consortium with five international funds, of 49% of ADNOC Gas Pipeline Assets LLC for an outlay of approximately 221 million euros²⁰; (ii) the capital increase of TAP to meet the requests for shareholders' loans received during the year (15 million euros); (iii) the acquisition and subsequent capital increase of Iniziative Biometano, including the charges for the purchase of the equity investment (15 million euros in all).

Disposals and redemptions (81 million euros) refer to the repayment of the principal amount of the equity investment in Terēga Holding S.A.S.

The dividends received (257 million euros) mainly refer to the jointly controlled companies Terēga (106 million euros) TAG (83 million euros) and the associate companies Italgas (28 million euros) Galaxy Pipeline Assets HoldCo Limited (18 million euros) and Senfluga (11 million euros).

The effect of the equity-accounting method refers to: (i) the portion recognised in the income statement (247 million euros), mainly attributable to the share of the results of the jointly controlled companies TAG (84 million euros), Terēga (35 million euros) and AS Gasinfrastruktur Beteiligung GmbH (9 million euros) and of the associated companies Italgas (52 million euros), Senfluga (27 million euros) and Galaxy Pipeline Assets HoldCo Limited (20 million euros) (ii) the portion recognised in the comprehensive income statement (-37 million euros), mainly due to the change in the fair value hedging derivatives of the associate TAP (-16 million euros) and to exchange rate differences (EUR/USD) of the associate Galaxy Pipeline Assets HoldCo Limited (-18 million euros).

For investments, except for what is stated with reference to the investment in TAP²¹, there were no real guarantees.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2020", which is an integral part of these Notes.

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates for the financial years ended 31 December 2019 and 31 December 2020 are provided below.

The limited exposure of the investee companies to the effects of Covid-19 allowed Snam not to recognise any impairment indicators at 31 December 2020; however, the company tested its relevant equity investments, represented in foreign and Italian companies, for impairment, and did not recognise any impairment losses for the purposes of the 2020 financial statements.

²⁰ Including accessory charges for the purchase of the equity investment.

²¹ For more information, see Note 25, "Guarantees and Commitments - Guarantees and commitments - associate company TAP".


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16.1 EQUITY INVESTMENTS IN JOINT VENTURES

The economic-financial data relating to each investment in joint ventures deemed significant, refers to values in the financial statements prepared on the basis of IFRS for investee companies²² are listed below:

(million €)	31.12.2019		
	Terëga Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrasturktur Beteiligung GmbH
Current assets	133	46	2
- of which cash and cash equivalents	40	5	2
Non-current assets	2,930	1,104	605
Total assets	3,063	1,150	607
Current liabilities	(174)	(92)	(3)
- of which current financial liabilities	(74)	(12)	(3)
Non-current liabilities	(1,700)	(475)	(292)
- of which non-current financial liabilities	(1,425)	(337)	(244)
Total liabilities	(1,874)	(567)	(295)
Net assets	1,189	583	312
Equity investments held by Snam % ^(*)	40.50%	89.22%	40.00%
Snam share	482	520	125
Carrying value of the equity investment	482	520	125
Revenue	502	312	
Operating costs	(208)	(127)	
Amortisation, depreciation and impairment losses	(103)	(61)	
Operating profit/loss	191	124	
Financial income			2
Financial expense	(52)	(11)	(7)
Income (expense) from equity investments			23
Income taxes	(45)	(30)	(2)
Profit for the year	94	83	16
Other components of the comprehensive income statement			
Total comprehensive income	94	83	16
Total comprehensive income held by Snam	38	74	6

(*) The equity investment in Trans Austria Gasleitung GmbH is valued on the basis of the percentage of economic rights held.

22 Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.


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(million €)	31.12.2020		
	Terēga Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH
Current assets	568	44	2
- of which cash and cash equivalents	494	7	1
Non-current assets	2,959	1,075	598
Total assets	3,527	1,119	600
Current liabilities	(612)	(103)	(3)
- of which current financial liabilities	(524)	(32)	(3)
Non-current liabilities	(2,080)	(432)	(284)
- of which non-current financial liabilities	(1,792)	(301)	(40)
Total liabilities	(2,692)	(535)	(287)
Net assets	835	584	313
Equity investments held by Snam % ^(*)	40.50%	89.22%	40.00%
Snam share	338	521	125
Carrying value of the equity investment	338	521	125
Revenue	433	322	
Operating costs	(157)	(124)	
Amortisation, depreciation and impairment losses	(107)	(61)	
Operating profit/loss	169	137	
Financial income			2
Financial expense	(42)	(10)	(7)
Income (expense) from equity investments			28
Income taxes	(40)	(33)	
Profit for the year	87	94	23
Other components of the comprehensive income statement	4		(1)
Total comprehensive income	91	94	22
Total comprehensive income held by Snam	37	84	9

(*) The equity investment in Trans Austria Gasleitung GmbH is valued on the basis of the percentage of economic rights held.


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Individually non-significant minor equity investments in joint ventures

In addition to the investments in joint ventures discussed above, the following are the carrying amounts of the individually minor equity investments in two joint ventures, accounted for using the shareholders' equity method:

(million €)	2020
Aggregate value of individually minor equity investments in joint ventures	23
Aggregate value of the group's share:	
Profit for the year	4
Elements of the comprehensive income statement	
Total comprehensive income	4
Other changes	
Total	4

Terēga Holding S.A.S.

Terēga Holding S.A.S. is a company operating under French law which controls Terēga S.A., through Terēga S.A.S., wholly-owned by Terēga Holding S.A.S.

Terēga S.A. (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation and storage activities in France are subject to regulation.

At 31 December 2020 Terēga Holding S.A.S. was an affiliate of Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue du Crédit Agricole).

Terēga Holding S.A.S.'s consolidated financial statements include Terēga Holding S.A.S., Terēga S.A.S and Terēga S.A.

Corporate governance rules provide that decisions on certain matters of particular interest to the company must be taken with the favourable vote of Snam and GIC shareholders.

The interest payment to shareholders on the nominal amount of the 470 million euros convertible bond loan (of which Snam has subscribed 190 million euros) may be deferred at the discretion of the issuer Terēga S.A.S.


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Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment. It owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2020, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and (GCA) also stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

Corporate governance rules provide that decisions on certain relevant activities must be taken with the unanimous consent of all members of the Supervisory Board, composed of Snam and GCA representatives, as well as employee representatives as required by Austrian law.

AS Gasinfrastruktur Beteiligung GmbH

AS Gasinfrastruktur Beteiligung GmbH is an Austrian company jointly controlled by Snam S.p.A. and the Allianz group, with holdings of 40% and 60% respectively.

The company holds 100% of the Austrian company AS Gasinfrastruktur GmbH, which in turn holds 49% of the share capital of Gas Connect Austria GmbH, which is controlled by OMV AG.

Corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions at management level must be taken by simple majority with the favourable vote of a Managing Director of Snam and one of Allianz.


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16.2 INVESTMENTS IN ASSOCIATES

The economic-financial data relating to investments in associate companies deemed major, refers to the values in the financial statements prepared in accordance with the IFRS of associates²³ and are reported below:

	31.12.2019			
(million €)	Trans Adriatic Pipeline (TAP)	Italgas S.p.A.	Senfluga Energy Infra- structure Holding S.A.	Intercon- nector UK Ltd.
Current assets	79	985	220	31
Non-current assets	4,100	7,247	839	675
Total assets	4,179	8,232	1,059	706
Current liabilities	(210)	(1,319)	(105)	(29)
Non-current liabilities	(3,103)	(5,118)	(466)	(173)
Total liabilities	(3,313)	(6,437)	(571)	(202)
Net assets	866	1,795	488	504
- attributable to third parties		236	257	
- attributable to investee's shareholders	866	1,559	231	504
Equity investments held by Snam %	20%	13.5%	54%	23.68%
Snam share	173	209	125	119
Goodwill	91			
Reductions/increases in value				(58)
Carrying value of the equity investment	264	209	125	61
Revenue	2	1,893	257	88
Operating profit/loss	(39)	516	141	39
Net profit/loss	(40)	424	88	33
Other components of the comprehensive income statement	(93)	(6)	(5)	28
Total comprehensive income	(133)	418	83	61
- attributable to third parties		6	33	
- attributable to investee's shareholders	(133)	412	58	61
Total comprehensive income held by Snam	(27)	56	31	14

23 The financial statement figures for associates, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.


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(million €)	31.12.2020				
	Trans Adriatic Pipeline (TAP)	Italgas S.p.A.	Senfluga Energy Infrastructure Holding S.A.	Interconnector UK Ltd.	Galaxy Pipeline Assets HoldCo Limited
Current assets	277	1,494	240	34	152
Non-current assets	4,606	7,635	821	650	8,128
Total assets	4,883	9,129	1,061	684	8,280
Current liabilities	(323)	(1,511)	(110)	(27)	(152)
Non-current liabilities	(3,626)	(5,637)	(427)	(184)	(6,488)
Total liabilities	(3,949)	(7,148)	(537)	(211)	(6,640)
Net assets	934	1,981	524	473	1,640
- attributable to third parties		240	268		
- attributable to investee's shareholders	934	1,741	256	473	1,640
Equity investments held by Snam %	20%	13.5%	54%	23.68%	12.32%
Snam share	187	235	138	112	219
Goodwill	91				5
Reductions/increases in value				(54)	
Carrying value of the equity investment	278	235	138	58	207
Revenue	167	2,127	153	30	219
Operating profit/loss	101	603	127	7	217
Net profit/loss	76	403	77	5	159
Other components of the comprehensive income statement	(81)	(11)	(3)	(12)	12
Total comprehensive income	(5)	392	74	(7)	(134)
- attributable to third parties		20	30		
- attributable to investee's shareholders	(5)	372	48	(7)	25
Total comprehensive income held by Snam	(1)	50	26	(2)	3

Trans Adriatic Pipeline A.G. (TAP)

Trans Adriatic Pipeline A.G. (TAP) is a Swiss company established to design, develop, build and operate the new gas pipeline extending from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania. Construction of the pipeline has been completed and the asset has been commercially operational as of 15 November 2020.

As at 31 December 2020, TAP A.G. was an investee of Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).


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Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

Italgas S.p.A.

Italgas S.p.A. is an Italian company that controls 100% of Italgas Reti S.p.A., Seaside S.r.l., Italgas Newco S.r.l. and Italgas Acqua S.p.A., companies operating in the natural gas distribution sector in Italy, energy efficiency and the management of the water service in five municipalities in Campania.

As at 31 December 2020, Italgas S.p.A. was an affiliate of Snam (13.5%) and of CDP Reti S.r.l. (26.05%), while the remaining stake is held by minority shareholders.

On 7 November 2016, the effective date of the separation operation from Snam S.p.A. of the natural gas distribution business the shareholder agreement signed by CDP Reti S.p.A. and CDP Gas S.r.l. on 20 October 2016 covering all the shares each company held in Italgas S.p.A., entered into effect. The shareholder agreement establishes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (including in the event of an Accelerated Exit) are subject not only to advance approval by CDP Reti, but also to the subrogation of a third party. In addition, Snam may not increase its equity investment. The agreement has a three-year term that is renewable barring notice of termination; in the event that Snam does not renew, CDP Reti shall have an option to purchase at fair market value Snam's equity investment in Italgas.

Senfluga Energy Infrastructure Holding

Senfluga Energy Infrastructure Holding is a company through which the European consortium composed of Snam (54%), Enagás (18%), Fluxys (18%) and DAMCO Energy S.A. (10%) owns a 66% stake of DESFA, the national operator in the natural gas infrastructure sector.

DESFA owns and manages a regulated system for a high pressure transportation network covering around 1,500 km, as well as a regasification terminal at Revithoussa. Greece, an important crossroads for the diversification of procurement and the opening of new natural gas routes in Europe, has further development potential as a south-east European hub.

Under current corporate governance rules, none of Senfluga's shareholders is able to exercise control over the company, including in a joint capacity.

Galaxy Pipeline Assets Holdco Limited

Galaxy Pipeline Assets Holdco Limited ("Holdco") holds a 49% stake in ADNOC Gas Pipeline Assets LLC ("Assetco") through an international consortium, consisting of GIP, Brookfield, Ontario Teachers' Pension Plan, GIC, NH Investments & Securities and Snam, which in turn holds a 12.327% stake in the consortium.

Assetco, a subsidiary of ADNOC (Abu Dhabi National Oil Company), holds a twenty-year lease on ADNOC's strategic assets relating to gas and NGL transportation in the United Arab Emirates; the management and use of these assets are held by ADNOC for the same twenty-year term.

Snam is the only industrial operator in the consortium, representing an important investment opportunity in a strategic infrastructure in the Gulf area.

The rules of governance provide that decisions on certain matters of particular interest to the company must be taken by a reinforced majority vote or unanimously with respect to indirect equity investments in Assetco.

Interconnector UK Ltd.

Interconnector UK Ltd. is a company under British law that owns the two-way pipeline that joins the United Kingdom to Belgium and the rest of Europe.

At 31 December 2020 Interconnector UK Ltd was an affiliate company of Snam International B.V. (23,68%) and Fluxys UK Ltd (76.32%).

Interconnector UK directly holds 48% of the company under Dutch law Interconnector Zeebrugge Terminal S.C./C.V. S.c.r.l. and 1% indirectly through Interconnector Leasing company Ltd.

The governance of Interconnector UK is structured in such a way as to ensure certain veto rights in favour of Snam International B.V., aimed at protecting the investment and supervising certain decisions of particular importance to Snam International B.V.


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17) CURRENT AND NON-CURRENT FINANCIAL LIABILITIES

Current financial liabilities inclusive of the current portion of long term liabilities, for a total of 5,605 million euros (4,131 million euros at 31 December 2019) and non-current financial liabilities of 10,332 million euros (10,643 million euros at 31 December 2019) break down as follows:

(million €)	31.12.2019						31.12.2020					
	Current financial liabilities			Non-current financial liabilities			Current financial liabilities			Non-current financial liabilities		
	Short-term liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Total debt	Short-term liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Total debt
Bond loans		1,439	3,800	3,809	7,609	9,048		308	4,012	3,820	7,832	8,140
Bank loans	455	230	1,798	1,221	3,019	3,704	1,501	1,287	1,384	1,101	2,485	5,273
Euro Commercial Paper - ECP	2,001					2,001	2,503					2,503
Financial payables for leased assets		6	11	4	15	21		6	13	2	15	21
Total liabilities	2,456	1,675	5,609	5,034	10,643	14,774	4,004	1,601	5,409	4,923	10,332	15,937

17.1 SHORT-TERM FINANCIAL LIABILITIES

Short-term financial liabilities, 4,004 million euros (2,456 million euros at 31 December 2019) mainly include to the use of floating rate uncommitted bank credit lines (1,500 million euros) and the issuing of unsecured short-term bonds (Euro Commercial Papers) issued by the money market and placed with institutional investors (2,503 million euros)²⁴. The increase compared to 31 December 2019 of 1,548 million euros was essentially due to higher net utilisation of uncommitted credit lines (1,047 million euros) and the issue of new short-term unsecured securities (502 million euros, net of redemptions).

There are no short-term financial liabilities denominated in currencies other than the euro.

The weighted average interest rate on short-term financial liabilities was -0.15% (-0.11% for 2019).

The market value of short-term financial liabilities is the same as their book value.

²⁴ At the date of this document, the Euro Commercial Paper programme had been used for the entire amount of 2.5 billion.


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17.2 LONG-TERM FINANCIAL LIABILITIES AND SHORT-TERM PORTIONS OF LONG-TERM FINANCIAL LIABILITIES

Long-term financial liabilities, including the short-term portion of long-term liabilities, amounted to a total of 11,933 million euros (12,318 million euros at 31 December 2019) relate to bond loans (8,140 million euros), bank loans (3,772 million euros) and financial payables for leased assets (21 million euros).

The breakdown of bond loans, indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(million €)								
Issuing company	Issued (year)	Currency	Nominal amount	Adjustments ^(a)	Balance at 31.12.2020	Rate (%)	Maturity (year)	
Euro Medium Term Notes (EMTN)								
Snam S.p.A. ^{(b) (c) (d) (e) (f)}	2012	€	582	6	588	5.25	2022	
Snam S.p.A. ^{(c) (d) (e)}	2013	€	259	8	267	3.375	2021	
Snam S.p.A. ^{(c) (d) (e) (f)}	2014	€	385	10	395	3.25	2024	
Snam S.p.A. ^{(c) (d) (e) (g) (f)}	2014	€	190	3	193	1.5	2023	
Snam S.p.A. ^{(c) (d) (e) (h) (f)}	2015	€	167	(11)	156	1.375	2023	
Snam S.p.A.	2016	€	1,250	(4)	1,246	0.875	2026	
Snam S.p.A. ^{(e) (f)}	2017	€	339	3	342	1.2500	2025	
Snam S.p.A. ^{(i) (f)}	2017	€	151	0	151	0.6+eur3m	2022	
Snam S.p.A. ^{(i) (f)}	2017	€	106	0	106	0.836	2024	
Snam S.p.A.	2017	€	650	(2)	648	1.375	2027	
Snam S.p.A. ^{(i) (e) (f)}	2018	€	522	(2)	520	1	2023	
Snam S.p.A.	2019	€	500	(1)	499	1.25	2025	
Snam S.p.A.	2019	€	250	2	252	1.63625	2030	
Snam S.p.A.	2019	€	700	(4)	696		2024	
Snam S.p.A.	2019	€	600	(10)	590	1	2034	
Snam S.p.A.	2020	€	500	0	500	0.75	2030	
Snam S.p.A.	2020	€	600	(4)	596		2028	
Total Euro Medium Term Notes (EMTN)			7,751	(6)	7,745			
Convertible bonds								
SNAM S.p.A.	2017	€	400	(5)	395		2022	
Total Bond loans			8,151	(11)	8,140			

(a) Include: (i) the issue premium/discount; (ii) the interest accrual.

(b) Bond loans subject to the 2016 liability management operation.

(c) Bond loans subject to the 2017 liability management operation.

(d) Bond loans subject to the 2018 liability management operation.

(e) Bond loans subject to the 2019 liability management operation.

(f) Bond loans subject to the 2020 liability management operation.

(g) Bond loan tapped in January 2015 for an incremental amount of 250 million euros, with the same interest rate and maturity as the original placement.

(h) Bond loans subject to the 2015 liability management operation.

(i) Floating-rate bond loan, converted into fixed-rate through an interest rate swap (IRS) hedging derivative.

(l) Bond loan tapped in November 2018 for an incremental amount of 300 million euros, with the same interest rate and maturity as the original placement.


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Bond loans (8,140 million euros) decreased by 908 million euros compared to 31 December 2019 mainly as a result of: (i) the repayment of a fixed rate bond maturing on 29 January 2020, for a nominal amount of 350 million euros; (ii) the repayment of a fixed rate bond loan maturing on 13 February 2020, for a nominal amount of 526 million euros; (iii) the repayment of a fixed rate bond loan maturing on 25 October 2020 for a nominal amount of 500 million euros; (iv) the repurchase on the market of fixed-rate bonds for a total nominal value of 629 million euros with an average coupon of 0.62% and a residual duration of approximately 2.80 years. The total disbursement resulting from the buy back of securities as part of the Liability Management transaction, concluded in December 2020 stood at 651 million euros²⁵, including the fees paid to intermediaries and accrued interest. These changes were partially offset by the issue: (i) of a fixed-rate Transition Bond for a nominal amount of 500 million euros maturing on 17 June 2030; (ii) of a fixed-rate Transition Bond for a nominal amount of 600 million euros maturing on 7 December 2028.

Payables for bank loans (3,772 million euros) mainly relate to maturing loans (term loans), of which 1,620 million euros concern European Investment Bank (EIB) funding.

There are no other long-term bank loans denominated in currencies other than the euro.

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.2%²⁶ (no change compared to 2019).

There were no breaches of loan agreements as at the reporting date.

The market value of long term financial debts, including the short-term portion totals 12,496 million euros²⁷ (12,755 million euros at 31 December 2019).

Snam also has unused committed credit lines totalling 3.2 billion euros.

Financial covenants and negative pledge commitments

At 31 December 2020, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other lending institutions, with the exception of a bank loan (totalling 6.1 million euros) relating to one subsidiary that entered the scope of consolidation in October 2020, assisted by a pledge on financial instruments for a value of around 1 million euros.

Some of these agreements include, inter alia, compliance with typical international practice commitments, some of which are subject to specific materiality thresholds, such as, for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; and (iv) limits on the debt of subsidiaries.

Failure to comply with these covenants, and the occurrence of other events such as cross-default events could result in Snam's failure to comply and, possibly, trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam's credit rating is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three ratings agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow, resulting in additional costs and/or liquidity issues.

At 31 December 2020, the financial debt subject to these restrictive clauses amounted to approximately 3.8 billion euros.

²⁵ For more information on the operation, see the section "Performance 2020 – Main events" in the Directors' Report.

²⁶ It excludes the depreciation of the upfront fees.

²⁷ It includes bond loans, whose value is estimated on the basis of the market listings at 31 December 2020, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.


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Bond loans issued by Snam as at 31 December 2020, with a nominal value of approximately 8.2 billion euros, mainly referred to securities issued under the Euro Medium Term Notes programme. The covenants established for the programme's securities are typical of international market practice and consist of, inter alia, negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its material subsidiaries are subject to limitations to pledging or maintaining encumbrances on all or part of their assets or proceeds to guarantee present or future debt, unless this is explicitly permitted.

17.3 BREAKDOWN OF NET FINANCIAL DEBT

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	2,851		2,851	3,044		3,044
B. Securities available for sale and held to maturity				1		1
C. Cash (A + B)	2,851		2,851	3,045		3,045
D. Short-term financial receivables				5		5
E. Short-term financial liabilities to banks	455		455	1,501		1,501
F. Long-term financial liabilities to banks	230	3,019	3,249	1,287	2,485	3,772
G. Bond loans	1,439	7,609	9,048	308	7,832	8,140
H. Short-term financial liabilities to related parties						
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	2,001		2,001	2,503		2,503
M. Other long-term financial liabilities (*)	6	15	21	6	15	21
N. Gross financial debt (E + F + G + H + I + L + M)	4,131	10,643	14,774	5,605	10,332	15,937
O. Net financial debt (N - C - D)	1,280	10,643	11,923	2,555	10,332	12,887

(*) This item relates to financial payables for leased assets recognised in accordance with IFRS 16 "Leases".


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17.4 RECONCILIATION OF NET FINANCIAL DEBT

In compliance with the provisions of IAS 7 “Statement of Cash Flows”, we provide below the cash and non-cash changes to liabilities arising from financing activities and to assets included in net financial debt.

(million €)	31.12.2019	Changes in cash flow	Changes without impact on cash flow			31.12.2020
			Impact of IFRS 16	Change in the scope of consolidation	Other changes	
Cash and cash equivalents (*)	2,851	193				3,044
Securities available for sale and held to maturity				1		1
Short-term financial receivables		5				5
Liquidity and financial receivables	2,851	198		1		3,050
Short-term financial liabilities (*)	2,456	1,540		8		4,004
Long-term financial payables (**)	12,297	(407)		17	5	11,912
Financial payables for leased assets	21	(7)	6	1		21
Gross financial debt	14,774	1,126	6	26	5	15,937
Net financial debt	11,923	928	6	25	5	12,887

(*) Including cash and cash equivalents resulting from changes in the scope of consolidation.

(**) Includes the current portion of long term financial payables.


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18) TRADE PAYABLES AND OTHER PAYABLES

Trade payables and other payables, which amount to 2,029 million euros (1,801 million euros at 31 December 2019) comprise the following:

(million €)	31.12.2019	31.12.2020
Trade payables for the purchase of goods and services	487	639
Trade payables for the purchase of fixed assets	320	394
Total trade payables	807	1,033
Payables to the Energy and Environmental Services Fund (CSEA)	597	575
Interim dividend	313	326
Payables to employees	35	38
Payables to pension and social security institutions	19	21
Consultants and professionals	8	9
Others	22	27
Total other payables	994	996
Total trade payables and other payables	1,801	2,029

Trade payables for the purchase of goods and services (639 million euros; 487 million euros at 31 December 2019) relate mainly to the transportation (465 million euros, including 378 million euros relating to gas balancing activities), storage (22 million euros) and regasification (9 million euros) business segments.

Trade payables for the purchase of fixed assets (394 million euros; 320 million euros at 31 December 2019) relate mainly to the natural gas transportation (302 million euros) and storage (47 million euros) business segments.

Payables to the CSEA (575 million euros) mainly relate to accessory tariff components applied to transportation service users.

The interim dividend (326 million euros) refers to payable to shareholders following the 2020 interim dividend of 0.0998 euros per share, approved on 4 November 2020. The interim dividend was paid from 20 January 2021.

Note 36 "Related-party transactions" contains information about payables due to related parties.

The fair value measurement of trade payables and other payables has no material impact given the short period of time between when the payable arises and its due date and the contractual terms and conditions.



19) OTHER CURRENT AND NON-CURRENT LIABILITIES

Other current liabilities, amounting to 70 million euros (106 million euros at 31 December 2019), and other non-current liabilities, amounting to 214 million euros (213 million euros at 31 December 2019), break down as follows:

(million €)	31.12.2019			31.12.2020		
	Current	Non-current	Total	Current	Non-current	Total
Regulated liabilities	49	98	147	48	82	130
Market value of derivative financial instruments	7	56	63	4	34	38
Other current tax liabilities:	9		9	8		8
- IRPEF withholdings for employees	7		7	7		7
- VAT	1		1			
- Other taxes	1		1	1		1
Other liabilities	41	59	100	10	98	108
- Security deposits		47	47		92	92
- Prepaid revenue and income	26	6	32	5	2	7
- Prepaid contributions for connecting to the transportation network		6	6		4	4
- Other	15		15	5		5
Total other current and non-current liabilities	106	213	319	70	214	284

Liabilities from regulated activities, amounting to 130 million euros (147 million euros at 31 December 2019), relate to:

- transportation segment (101 million euros) mainly made up of penalties charged to users that exceeded the capacity committed, to be repaid to the system through tariff adjustments. The current and non-current portions amount to 49 and 52 million euros respectively (49 and 69 million euros respectively at 31 December 2019);
- the storage segment (29 million euros) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution No. 50/06 of the Electricity and Gas Authority, corresponding entirely to the non-current share (unchanged at 31 December 2019).


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The market value of derivatives at 31 December 2020 is as follows:

(million €)	31.12.2019			31.12.2020		
	Current liabilities	Non-current liabilities	Total	Current liabilities	Non-current liabilities	Total
Market value of derivative financial instruments	7	56	63	4	34	38
Cash flow hedging derivative financial instruments:						
- Fair value interest rate hedging derivatives	6	56	62	3	34	37
- Accrued expenses on derivatives	1		1	1		1

The liabilities arising from measurement at market value of derivative financial instruments used as cash flow hedges (38 million euros) refer to:

- an Interest Rate Swap “Forward Start” derivative with Mandatory Early Termination clause to cover the risk of interest rate fluctuations of long-term bond issues scheduled for FY 2021, for a total market value of 30 million euros;
- four Interest Rate Swap derivatives with a total market value of 8 million euros. Interest Rate Swaps are used to hedge the risk of interest rate fluctuations on bond loans and bank loans at floating rates. Through derivatives, floating rate liabilities are converted into an equivalent fixed rate liabilities.




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The main characteristics of the derivatives in question are summarised in the tables below:

Interest Rate Swap - Forward Start

Type of derivative (million €)	Contract start date	Maturity date	Early extin- guishment date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2019	Nominal value 31.12.2020	Market value 31.12.2019	Market value 31.12.2020
IRS - Forward start	15.04.2021	15.04.2028	15.07.2021	7.3	1.3130%	6 month Euribor	250	250	20	30
IRS - Forward start ^(*)	29.10.2020	29.10.2027	29.01.2021	6.8	1.4225%	6 month Euribor	250		23	

(*) Derivative closed on 30 November 2020.

Interest Rate Swap

Type of derivative (million €)	Contract start date	Maturity date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2019	Nominal value 31.12.2020	Market value 31.12.2019	Market value 31.12.2020
Interest Rate Swap ^(*)	02.08.2017	02.08.2024	3.6	0.4360%	3 month Euribor	350	106	11	4
Interest Rate Swap	31.07.2018	31.07.2022	1.6	0.1250%	3 month Euribor	150	150	2	2
Interest Rate Swap	30.07.2018	31.10.2021	0.8	0.0570%	3 month Euribor	250	250	2	1
Interest Rate Swap	31.10.2018	31.10.2021	0.8	-0.0440%	3 month Euribor	250	250	1	1
Interest Rate Swap ^(**)	21.02.2017	21.02.2022	1.1	0.0408%	3 month Euribor	300		3	

(*) The derivative was impaired as part of the Liability Management operation, which closed in December 2020.

(**) The derivative was closed as part of the Liability Management operation, which closed in December 2020.

The fair value hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 26 - Management of financial risks".

Other current tax liabilities of 8 million euros (9 million euros at 31 December 2019) mainly relate to IRPEF (personal income tax) withholdings for employees (7 million euros).

Other liabilities (108 million euros; 100 million euros at 31 December 2019) mainly include: (i) the security deposits (92 million euros; 47 million euros at 31 December 2019) paid as collateral by the users of the balancing service, pursuant to resolution ARG/gas 45/11 (ii) the liabilities for prepaid revenue and income (7 million euros) essentially regarding the prepaid fee for the concession to use the fibre optic cables given to a telecommunications operator (4 million euros, including 2 million euros as the current portion and 2 million euros as the non-current portion).


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20) PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges, which amount to 798 million euros (713 million euros at 31 December 2019) are analysed in the table below:

31.12.2019							
(million €)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				Against charges	For excess		
Provision for site dismantlement and restoration	607		7	(9)		42	647
Provision for litigation	19	3			(4)		18
Provision for tax litigation	6	1			(1)		6
Other provisions	33	21		(12)			42
Total	665	25	7	(21)	(5)	42	713

31.12.2020							
(million €)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				Against charges	For excess		
Provision for site dismantlement and restoration	647		6	(15)	(1)	73	710
Provision for litigation	18	1		(1)	(3)		15
Provision for tax litigation	6			(1)	(1)		4
Other provisions	42	40		(13)			69
Total	713	41	6	(30)	(5)	73	798

Provision for dismantling and restoration site 710 million euros (647 million euros at 31 December 2019) includes the estimated (discounted) costs that will be incurred for the removal of facilities and the restoration of sites in the natural gas storage (551 million euros) and transportation²⁸ (154 million euros) business segments. The discounting for the provision for dismantling and restoration site was carried out using the corresponding to the euro area Corporate Bond returns with an "AA" rating. The rate thus determined was between 0.13% and 0.56%.

The last deadline in chronological order for disbursements related to the dismantling and restoration storage sites refers to the Bordolano concession, in 2041.

²⁸ The costs refer to the estimated expenses for the removal of the connection works to the Livorno LNG regasification terminal - OLT Offshore LNG Toscana.


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The other changes (73 million euros) refer to the effects of the reduction in expected discounting rates and the upward revision of the estimated dismantling and restoration site costs that mainly refer to the storage sector.

The provision for litigation (15 million euros; 18 million euros as at 31 December 2019) included costs which the Company has estimated it will incur for existing lawsuits.

The risk provision for tax disputes (4 million euros; 6 million euros at 31 December 2019) contains the estimate of the probable expenses in the event of levying of assessments and pursuant to tax disputes.

The other provisions for risks and charges (69 million euros; 42 million euros at 31 December 2019) mainly refer to: (i) charges that the Group's insurance company Gasrule Insurance DAC expects to incur for insured claims (21 million euros); (ii) the provision for voluntary redundancies (12 million euros); (iii) the provision relating to the estimate of probable charges of a fiscal and financial nature for facts and/or events already existing at 31 December 2020 (17 million euros).

The sensitivity²⁹ of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(million €)	Change in discount rate	
	10% reduction	10% increase
Effect on net obligation at 31.12.2020		
Provision for site dismantlement and restoration	6	(6)

²⁹ For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.


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21) PROVISION FOR EMPLOYEE BENEFITS

Provision for employee benefits, for 40 million euros (46 million euros at 31 December 2019), can be broken down as follows:

(million €)	31.12.2019	31.12.2020
Employee severance indemnity (TFR)	25	25
Supplementary Health Insurance for Managers of Eni companies (FISDE)	4	6
Isopension Fund	12	6
Other liabilities - employee benefits related to seniority bonuses	3	3
Other liabilities - deferred monetary incentive plans (IMD) and long-term incentive plans (ILT)	2	
Total provision for employee benefits	46	40

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods.

The FISDE includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current³⁰ and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group³¹ executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions by member companies; (ii) contributions paid by Shareholders for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

³⁰ For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

³¹ The fund provides the same benefits for Snam Group executives.

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The early retirement fund refers to expenses incumbent upon the employer from application of the implementation agreement, relating to the early retirement instrument for employees regulated pursuant to Article 4 paragraphs 1-7 of Law 92/2012 (the "Fornero Law").

Deferred monetary incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Snam's commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term monetary incentive plans, involve the granting and payment, of a variable monetary bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters. From 2017, in place of the long-term monetary incentive plans (IMD and ILT) a new share-based long-term incentive plan (share ILT) was introduced³², the recipients of which was extended in 2018.

Seniority bonuses are benefits paid upon reaching a minimum service period at the company and are paid in kind in the form of goods and/or services.

³² For more information on the characteristics of this plan, refer to the "Other information" paragraph of the Directors' Report.


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The composition and changes in liabilities for employee benefits, determined by applying actuarial methods, are as follows:

(million €)	31.12.2019					31.12.2020				
	TFR	FISDE	Isopen- sion Fund	Other liabilities	Total	TFR	FISDE	Isopen- sion Fund	Other liabilities	Total
Current value of the obligation at the beginning of the year	26	3	25	10	64	25	4	12	5	46
Costs related to current services (recognised in "personnel costs")		1	(6)		(5)		1			1
Interest cost (recorded under "financial expenses")	1				1					
Actuarial (gains)/losses resulting from: (recorded under other components of the comprehensive income statement)	1		(1)	(1)	(1)		1			1
- corrections based on past experience	1		(1)	(1)	(1)		1			1
Benefits paid	(3)		(6)	(4)	(13)	(2)		(6)	(2)	(10)
Change in the scope of consolidation						2				2
Current value of the obligation at the end of the year	25	4	12	5	46	25	6	6	3	40

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below.

	31.12.2019			31.12.2020		
	TFR	FISDE	Other liabilities	TFR	FISDE	Other liabilities
Discount rate (%)	0.9	0.9	0.9	0.6	0.6	0.6
Inflation rate (%) (*)	0.9	0.9	0.9	0.7	0.7	0.7

(*) With reference to other liabilities, the rate refers only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.


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The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, as a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible change in the discount rate at the end of the year. It should also be noted that any changes relating to mortality do not have a significant effect on liability. The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(million €)	Change in discount rate	
	Reduction of 0.5%	Increase of 0.5%
Effect on net obligation at 31.12.2020		
Employee severance indemnity		2
FISDE		(1)

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(million €)	31.12.2019					31.12.2020				
	TFR	FISDE	Isopen-sion Fund	Other liabilities	Total	TFR	FISDE	Isopen-sion Fund	Other liabilities	Total
Within the next financial year	2		4	2	8	2		5		7
Within 5 years	6		2		8	6		1	1	8
Over 5 and up to 10 years	9	1		1	11	9	1		1	11
More than 10 years	8	3	6	2	19	8	5		1	14
	25	4	12	5	46	25	6	6	3	40


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The weighted average maturity of obligations for employee benefit plans is shown below:

	31.12.2019				31.12.2020			
	TFR	FISDE	Isopen- sion Fund	Other liabilities	TFR	FISDE	Isopen- sion Fund	Other liabilities
Weighted average duration (years)	9	23	1	6	9	23		11

22) DEFERRED TAX LIABILITIES/ASSETS

Deferred tax liabilities, amount to 113 million euros (129 million euros at 31 December 2019) and deferred tax assets amount to 23 million euros (unchanged from 31 December 2019).

(million €)	31.12.2019	31.12.2020
Gross deferred tax liabilities	548	568
Deferred tax assets which can be offset	(419)	(455)
Deferred tax liabilities	129	113
Gross deferred tax assets	(442)	(478)
Deferred tax liabilities which can be offset	419	455
Deferred tax assets	(23)	(23)


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Deferred tax liabilities and assets are analysed below, based on the nature of the most significant temporary differences:

(million €)	31.12.2020								
	Opening balance	Provisions	Utilisations	Impact recognised in shareholders' equity	Other changes	Change in the scope of consolidation	Final balance	of which: IRES	of which: IRAP
Deferred tax liabilities	548	5	(17)		21	11	568	546	22
Depreciation, amortisation and impairment carried out for tax purposes only	408		(14)				394	394	
Site dismantling and restoration	94				20		114	98	16
Revaluations of tangible assets	21		(1)			11	31	28	3
Capitalisation financial expense	7		(1)				6	5	1
Write-down of excess receivables	3						3	3	
Other temporary differences	15	5	(1)		1		20	18	2
Deferred tax assets	(442)	(31)	18	(1)	(22)		(478)	(436)	(42)
Site dismantling and restoration	(182)	(1)	4		(20)		(199)	(170)	(29)
Non-deductible depreciation and amortisation	(151)	(24)	3				(172)	(170)	(2)
Provisions for risks and charges and other non-deductible provisions	(51)	(4)	3				(52)	(45)	(7)
Grants and contractual contributions	(20)		1				(19)	(16)	(3)
Employee benefits	(10)		4				(6)	(6)	
Other temporary differences	(28)	(2)	3	(1)	(2)		(30)	(29)	(1)
Net deferred tax liabilities	106	(26)	1	(1)	(1)	11	90	110	(20)

As required by IAS 1 "Presentation of Financial Statements", deferred tax liabilities and assets are considered non-current liabilities and assets, respectively.

Note 33 "Income taxes" provides information about taxes for the year.

With reference to the Group companies, it should be noted that Snam Rete Gas, Gnl, Stogit and Renerwaste (hereinafter the Companies) intend to make use of the tax realignment rules introduced by sub-paragraph 8, article 110, Decree Law no. 104 of 14 August 2020 converted, with amendments, by Law no. 126 of 13 October 2020.


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Specifically, the Companies intend to realign the (lower) tax value to the (higher) carrying value existing at 31 December 2020 with respect to certain assets in their respective financial statements ended 31 December 2019.

In this case, the companies must pay the substitute tax on IRES and IRAP of 3% on the higher carrying value compared to the tax value, in a maximum of three equal instalments, the first of which must be paid by 30 June 2021, and indicate their exercising of the option for this tax regime in the tax return for the 2020 tax year.

With regard to the accounting effects in the event of realignment, the Companies shall recognise the substitute tax due in the 2021 financial statements and reverse the deferred tax provision allocated for the misalignment.

Lastly, these companies, by means of a shareholders' resolution to be passed by 31 December 2021, shall set up a specific reserve, subject to the regime of reserves in suspension of taxation, for an amount equal to the higher misaligned values net of the substitute tax.

23) SHAREHOLDERS' EQUITY

Shareholders' equity, which amounts to 6,472 million euros (6,258 million euros at 31 December 2019) breaks down as follows:

(million €)	31.12.2019	31.12.2020
Share capital	2,736	2,736
Treasury shares	(389)	(361)
Share premium reserve	746	611
Legal reserve	547	547
Cash flow hedge reserve	(62)	(67)
Reserve for defined-benefit plans for employees	(8)	(9)
Reserve for fair-value valuation of investments	5	48
Consolidation reserve	(674)	(674)
Other reserves	64	39
Total reserves	618	495
Retained earnings	2,513	2,824
Interim dividend	(313)	(326)
Profit for the year	1,090	1,101
Total retained earnings	3,290	3,599
Equity attributable to Parent Company shareholders	6,255	6,469
Equity of minority interests	3	3
Total shareholders' equity	6,258	6,472


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23.1 SHARE CAPITAL

The share capital at 31 December 2020 consisted of 3,360,857,809 shares without nominal value (3,394,840,916 without nominal value at 31 December 2019), with a total value of 2,735,670,475.56 (unchanged from 31 December 2019). The change of share capital follows the elimination of 33,983,107 treasury shares in the portfolio with no nominal value, with no share capital reduction, and consequent amendment of art. 5.1 of the company Bylaws approved by the Snam Shareholders' Meeting, held in extraordinary session on 18 June 2020 and completed on 6 July 2020.

23.2 TREASURY SHARES

Negative reserve holds a purchase cost of no. 90,642,115 treasury shares as at 31 December 2020 (102,412,920 as at 31 December 2019), as a total amount of approximately 361 million euros (389 million euros at 31 December 2019). The decrease of 28 million euros compared to 31 December 2019 was primarily due to: (i) the cancellation of 33,983,107 treasury shares held by the company, by the Extraordinary Shareholders' Meeting of 18 June 2020 completed on 6 July 2020 (approximately 135 million euros), (ii) the allocation of shares to Snam executives under the 2017 Share Incentive Plan (1,511,461 shares), the vesting period of which expired in July 2020. These effects were partially offset by the purchase of 23,723,763 shares for an overall cost of approximately 114 million euros, essentially carried out in the context of the buyback programme approved by the Shareholders' Meeting of 2 April 2019, subsequently extended with a resolution of the same Shareholders' Meeting of 18 June 2020, following the revocation of the resolution of 2 April 2019, in relation to the part that remained unexercised.

Detailed information on treasury shares and long-term share-based incentive plans are shown in the "Other information" section of Directors' Report, to which reference should be made.

23.3 RESERVES

Share premium reserve

The share premium reserve at 31 December 2020 stood at 611 million euros (746 million euros at 31 December 2019). The reduction of 135 million euros is due to the use of part of the reserve following the cancellation of 33,983,107 treasury shares in the portfolio with no share capital reduction, approved by the Extraordinary Shareholders' Meeting held on 18 June 2020 and completed on 6 July 2020.

Legal reserve

The legal reserve amounted to 547 million euros at 31 December 2020 (unchanged at 31 December 2019) and has already reached one-fifth of the share capital as required by Article 2430 of the Italian Civil Code.


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Cash flow hedge reserve

The fair value reserve for cash flow hedge financial instruments (-67 million euros, -62 million euros at 31 December 2019); includes the fair value measurement of derivative instruments, net of related tax effects, on 4 Interest Rate Swaps (IRS) and 1 Forward start Interest Rate Swap, illustrated in Note 19 "Other current and non-current liabilities".

The changes in the reserve during the course of the year are shown below:

(million €)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.2019	(81)	19	(62)
Changes in 2020	(6)	1	(5)
Reserve at 31.12.2020	(87)	20	(67)

Reserve for defined-benefit plans for employees

At 31 December 2019, the reserve for remeasurement of employee benefit plans of -9 million euros (-8 million euros at 31 December 2019) included actuarial losses, net of the relative tax effect, recognised under other components of the comprehensive income statement pursuant to IAS 19.

Reserve for fair-value valuation of investments

The fair value reserve as at 31 December 2020 (48 million euros; 5 million euros as at 31 December 2019) includes the change in fair value, net of tax effects of minority interests that were designated as accounted for FVTOCI upon initial recognition ("fair value recognized through other comprehensive income"). For further details, see note 12 "Current and non-current financial assets".

Consolidation reserve

The consolidation reserve (-674 million euros; unchanged from 31 December 2019) recognised in 2009, relates to the value arising from the difference between the purchase cost of the Stogit investment and the related shareholders' equity attributable to the group at the date of completion of the transaction, as part of a business combination under common control (BCUCC) transaction carried out in 2009 with the former parent company Eni.

Other reserves

Other reserves of 39 million euros (64 million euros as at 31 December 2019) mainly refer to the portion of the other elements of the comprehensive



income statement of equity investments accounted for using the equity method.

23.4 RETAINED EARNINGS

Retained earnings include:

- profits relating to previous years, which amounted to 2,824 million euros (2,513 million euros at 31 December 2019); the increase of 311 million euros is due to the allocation of the residual profit for the 2019 financial year, after the distribution of dividends;
- the interim dividend of 326 million euros, equal to 0.0998 euros per share, was approved on 4 November 2020 by the Board of Directors pursuant to Article 2433-bis, paragraph 5 of the Italian Civil Code. The interim dividend was paid out as of 20 January 2021, with an ex-coupon date of 18 January 2021 and a record date of 19 January 2021;
- profit for the 2020 financial year of 1,101 million euros.

23.5 DIVIDENDS DECLARED AND DISTRIBUTED AND DIVIDENDS TO BE DISTRIBUTED

On 28 April 2020, the Snam S.p.A. Shareholders' Meeting approved the distribution of the 2019 ordinary dividend of 0.2376 euros per share, including 0.095 euros per share for an amount of 313 million euros already distributed by way of an interim dividend. The balance of the dividend of 0.1426 euros per share, for a sum of 466 million euros, was paid from 24 June 2020, with an ex-dividend date of 22 June 2020 and a record date of 23 June 2020.

In its meeting of 17 March 2021, the Board of Directors proposed to the Shareholders' Meeting convened for 28 April 2021 the distribution of an ordinary dividend of 0.2495 euros per share, of which 0.0998 euros per share, for an amount of 326 million euros, was already distributed as the interim dividend. The dividend of 0.1497 euros per share will be paid out from 23 June 2021, with an ex-coupon date of 21 June 2021 and a record date of 22 June 2021.

24) BUSINESS COMBINATIONS

24.1 MIECI AND EVOLVE

On 5 October 2020, Snam, through its subsidiary Snam 4 Efficiency³³, completed the acquisition of a 70% stake in Miecì S.p.A.³⁴ and Evolve S.r.l., companies active in Italy in the energy efficiency sector, for a value of approximately 47 million euros (approximately 30 million euros net of cash acquired).

The operation was fully financed with own funds and cross put and call options are contractually envisaged on the interests of minority shareholders expiring in 2025. The activities of Miecì and Evolve employ approximately 140 people and generate an annual EBITDA of approximately 10 million euros.

The operation is a Business combination in compliance with IFRS 3, Business combinations. To this end, on the date that control was acquired, the individual assets acquired and the liabilities assumed at fair value were recognized, as provisional accounting from goodwill.

At the acquisition date, on the basis of the terms of the contract governing the exercise of the cross put and call options on minority interests of (equal to 30%) is regulated, the transaction was accounted for as if Snam had acquired control over 100% of Miecì and Evolve, without therefore recognising the minority interests.

The present value of the payments envisaged in the event of exercise of the options included in the determination of the consideration of the business combination including the earn out under the aforementioned option (roughly 26 million euros).

³³ In January 2021, CDP Equity completed the transaction by which it acquired a 30% stake in Snam 4 Efficiency. At the same time, its name was changed to Renovit, which is now 70% owned by Snam and 30% by CDP Equity.

³⁴ Includes the subsidiary T.Lux S.r.l.


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The accounting effects of the business combination, in accordance with the provisions of IFRS 3 - "Business combinations", are summarised below:

(million €)	Values after fair value allocation		
	Mieci	Evolve	Total
Fair value of consideration (including contingent considerations)	38	9	47
Exercise price of put/call option on minority interests	21	5	26
Total net identifiable assets at fair value	47	14	61
Goodwill	12		12

The main values of the assets and liabilities of Mieci and Evolve at the acquisition date are summarised below:

(million €)	Values after fair value allocation		
	Mieci	Evolve	Total
Current assets	41	18	59
Non-current Assets	40	21	61
Goodwill	12		12
Acquired assets	93	39	132
Current liabilities	12	8	20
Short-term financial liabilities	1	7	8
Long-term financial liabilities	11	6	17
Liabilities for employee benefits	1	1	2
Deferred tax liabilities	9	3	12
Acquired liabilities	34	25	59
Acquired shareholders' equity (including goodwill)	59	14	73

Goodwill (12 million euros) was determined as the difference between the fair value of the consideration, including the financial component relating to the purchase option of the minority interests and the fair value of the net assets acquired.

From the acquisition date (October 2020), Mieci and Evolve's contribution to consolidated net profit was 2 million euros. With reference to revenues, the contribution amounted to 19 million euros.


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25) GUARANTEES AND COMMITMENTS

The Group's guarantees and commitments are outlined below:

(million €)	31.12.2019	31.12.2020
Guarantees given, and to be given, to third parties on behalf of the associate company TAP	1,129	1,129
Commitments with regards to associate company TAP	234	113
Guarantees and commitments - associate company TAP	1,363	1,242
Guarantees given to third parties in the interest of subsidiaries	101	178
Group commitments for the purchase of goods and services	892	1,168

25.1 GUARANTEES AND COMMITMENTS – ASSOCIATE COMPANY TAP

Commitments with regards to associate company Trans Adriatic Pipeline AG (TAP) (113 million euros) refer to the residual commitment of Snam S.p.A., as shareholder and in connection with the project finance for the development of the gas pipeline by virtue of the share held, of 20%.

The commitment relates to the total costs of the project, including the financial expense in the realisation of the work resulting from the loan agreement, concluded by TAP, in December 2018. Note that following the finalisation of the project financing for TAP, around 75% of the cost of the project will be funded by lending institutions. Based on the project funding concluded, Snam S.p.A.'s commitment to TAP could gradually be reduced as a result of the provision to TAP of loans by lending institutions. During the construction and commissioning of the plant, the loan contract of the associate TAP will be, amongst others, accompanied by a first-demand guarantee (the "Debt Service Guarantee") up to a maximum pro-quota amount of Snam of 1,129 million euros.

At 31 December 2020 the effective value of the guarantee relating to the above loan stood at around 779 million euros. The guarantee will be released when certain requirements agreed with the lending institutions are verified, including, specifically, the completion of the verification procedures carried out in relation to the start-up of the plant. Once the project has been developed, during operation, a mechanism is instead envisaged in support of the repayment of the financial debt issued by shareholders (the "Debt Payment Undertaking"), which will activate where certain, specific conditions should arise. The structure of the project financing concluded for TAP includes several limitations for shareholders for transactions of this type, including: (i) a restriction on the possibility of TAP shares being freely available according to certain time frames; (ii) the pledging of the shares owned by Snam in TOP in favour of the lenders for the entire duration of the loan.



25.2 GUARANTEES GIVEN IN THE INTEREST OF SUBSIDIARIES

Guarantees given in the interest of subsidiaries (178 million euros; 101 million euros as at 31 December 2019) mainly relate to:

- i) guarantees given in favour of the Revenue Agency in the interest of the subsidiaries Stogit, GNL, Snam 4 Mobility and Enura (72 million euros);
- ii) indemnities issued in favour of third-parties to guarantee the execution of works (52 million euros);
- iii) pooling contracts with the subsidiaries Snam 4 Environment and IES Biogas (29 million euros);
- iv) bank guarantees in favour of the INPS to guarantee fulfilment of the obligations undertaken under the scope of provisions connected with early retirement, regulated by Article 4, paragraphs 1-7 of Law 92/2012 - Fornero Law (22 million euros).

25.3 GROUP COMMITMENTS FOR THE PURCHASE OF GOODS AND SERVICES

The commitments for the purchase of goods and services (1,168 million euros; 892 million as at 31 December 2019) regard the commitments made with suppliers for the purchase of tangible fixed assets and the supply of services relative to the investments being made.

25.4 OTHER UNEVALUATED COMMITMENTS AND RISKS

Other unrecognized commitments and risks refer mainly to commitments undertaken at the time of the closing of equity purchase transactions, which will continue to apply after the date of execution of those transactions.

As of 31 December 2020, commitments related to the following agreements remain in place:

- the contract through which Eni acquired Stogit, for commitments related to the occurrence of future events, such as (i) the possible different valuation of the gas owned by Stogit, compared to the valuation recognised by ARERA (Autorità di Regolazione per Energia Reti e Ambiente - Energy, Networks and Environment Regulatory Authority) which may emerge in certain contractually defined circumstances; (ii) the possible transfer of the storage capacity which should be freely available on a negotiable basis rather than a regulated basis, or the transfer of concessions held

by Stogit at the time of the share transfer that may become dedicated to mainly storage activities which are no longer regulated;

- Commitments arising from the contract through which Edison acquired Terminale GNL Adriatico S.r.l., for commitments related to the benefits that may result from the potential signing of new contracts to use the terminal's capacity;
- the Renerwaste S.r.l. purchase contract:
 - with Ecopartner, for commitments related to the occurrence of future events, including: (i) the expansion of the capacity of the production facilities, or (ii) the future exceeding of certain contractually defined parameters;
 - with Ladurner, Ladurner Ambiente and AB Invest, for commitments related to the fulfilment of certain conditions, by 2022, for the purchase of two SPVs to which authorisations will be granted for the construction of two further plants for the production of Biogas/Biomethane;
- the contract through which Iren acquired OLT Offshore LNG Toscana S.p.A. for commitments related to the occurrence of future events, including the exceeding of certain contractually defined parameters;
- the contract through which Femo Gas acquired Iniziative Biometano S.p.A., for commitments connected with the occurrence of future events, including (i) the exceeding in the future of certain contractually defined parameters and, (ii) the obtaining of part of the benefits.

25.5 GREENHOUSE GAS EMISSION ALLOWANCE SYSTEM - EMISSION TRADING SYSTEM

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC. The reduction of CO₂ emissions comes under the objectives set by the European Union in the 2020 Climate and Energy Package, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%. There are 22 Snam Group plants subject to the Emissions Trading regulation, 13 of which are Snam Rete Gas compression plants, 8 Stogit storage facilities and the GNL Italia gasification plant.


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In 2020, the free allocation for the Snam Group was 120,292 quotas, decrease by approximately 40 % compared to 2019, due to the gradually decreasing assignment of free quotas by the competent national authority, provided for the third regulatory period by Article 10a of Directive 2009/29/EC, as well as to some specific rules for updating allocations provided for by the same Directive (reduction in activity levels, new entrant allocations and reduction in thermal capacity).

In 2020, dioxide carbon emissions of Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. Compared to approx 0.615 million tonnes of dioxide carbon emitted into the atmosphere, around 0.120 million tonnes were allocated, resulting in a 0.495 million-tonne deficit. The deficit was offset by the quotas purchased by the company, with an approximately cost of 9.5 million euros recognised in "Other operating costs and expenses".

26) FINANCIAL RISK MANAGEMENT

26.1 INTRODUCTION

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations on interest rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments.

With regard to the exposure to exchange rate risk, due to the situations currently in place, Snam group's exposure is currently limited with regard to transaction risk, while there is still exposure to translation risk with regard to certain foreign investees that prepare their financial statements in currencies other than the euro. At present, it has been decided not to adopt specific hedging policies for these exposures. For instance, it should be noted that the effects of exchange rate differences deriving from the difference in translation into currency presentation (euro) of the functional currencies of these companies are recognised in the comprehensive income statement.

With regard to the other risks that characterise operations, including those related to the Covid-19 pandemic, please

refer to the information provided in the section of the Directors' Report entitled "Risk Management - Elements of risk and uncertainty".

The following describes Snam's policies and principles for the management and control of financial risks, according to the approach provided for by international accounting standard IFRS 7 - Financial instruments: disclosures.

26.2 INTEREST RISK RATE CHANGE

Interest risk rate change is associated with fluctuations in interest rates affecting the market value of the Company's financial assets and liabilities and its net financial expense.

Snam's objective is to optimize the interest rate risk while pursuing its financial objectives.

Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits.

At 31 December 2020, the Snam Group used external financial resources in the form of bond loans and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates. The exposure to interest risk rate change at 31 December 2020, taking into account the hedging transactions put in place, was approximately 33% of the total exposure of the Group (24% at 31 December 2019). As at 31 December 2020, Snam has interest rate swaps (IRSs) in place for a notional total amount of 756 million euros, relating to hedges on a 106 million euros floating-rate bond loans maturing in 2024 and bilateral floating-rate funding totalling 650 million euros maturing in 2021 and 2023. The IRS derivative contracts are used to convert floating rate loans to fixed rate loans.

Moreover, as at 31 December 2020, Snam has forward starting IRS derivatives in place of a notional amount totalling 250 million euros, maturing in the medium to long-term, for highly probable future financial liabilities to be undertaken up to 2021, for coverage of financial


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requirements. Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow. Even considering the limited exposure to changes in interest rates, limited to 33% of the Group's total exposure and fully attributable to the Euribor rate, a possible change in the method of calculating the latter and the related fallback clauses that may be formulated could result in the Snam Group having to adjust the financial contracts that may be affected by the aforementioned change and/or the management of prospective cash flows.

The effects on shareholders' equity and net profit at 31 December 2020 are shown below, assuming a hypothetical change in the interest rate basis points of +/-10% actually applied during the course of the year:

(million €)	31.12.2020			
	Income statement result		Other components of the comprehensive income statement	
	Interest +10 bps	Interest -10 bps	Interest +10 bps	Interest -10 bps
Floating rate loans not subject to hedging				
Interest rate change effect	(5)	5		
Floating rate loans converted through IRS into fixed rate loans				
Effect of interest rate changes on the fair value of hedging derivatives pursuant to IAS 39 - effective portion of the hedge ^(*)			3	(3)
Impacts gross of tax effect	(5)	5	3	(3)
Tax effect	1	(1)	(1)	1
Impacts net of tax effect	(4)	4	2	(2)

(*) The change in the interest rate impacts on the change of fair value of derivative hedging instruments recognised, amongst other components, in the comprehensive income statement and, therefore, does not impact on the income statement result.

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26.3 CREDIT RISK

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and Snam financial balance of. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any disputes are handled by the business units and the centralised Snam departments. Snam, as far as regulated activities are concerned, which currently represent almost all activities, provides its business services to 220 operators in the gas sector, with 10 operators representing approximately 68% of the entire market (Eni, Edison and Enel Global Trading hold the top three spots). The rules for customer access to the services offered are established by the Authorities and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in selling and providing said services and contain contractual conditions, which significantly reduce the risk of customer default. The Codes contain guarantees to be provided to cover the obligations undertaken. In certain cases, if the customer has a credit rating issued by leading international organisation, the issuing of these guarantees can be mitigated. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, the current balancing rules require that Snam, on the basis of financial merit criteria, mainly operates in buying and selling on the GME balancing platform to guarantee the necessary resources for the safe and efficient movement of gas from the injection points to the withdrawal points in order to guarantee the constant equilibrium of the network.

As regards non-regulated activities, which will become increasingly important over the Plan period, the company, through its centralised functions, performs a prior analysis of the financial soundness of counterparties in order to minimise this risk.

Snam's maximum exposure to credit risk as at 31 December 2020 is represented by the book value of the financial assets recorded in the financial statements, detailed in Note 9 "Trade and other receivables".


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The following table shows a breakdown of trade and other receivables by maturity, indicating the gross value and the value net of the provision for impairment losses:

(million €)	31.12.2019			31.12.2020		
	Trade receivables (*)	Other receivables	Total	Trade receivables (*)	Other receivables	Total
Non-overdue and non-impaired receivables	1,085	159	1,244	1,357	125	1,482
Overdue and non-impaired receivables:	132		132	194		194
- from 0 to 3 months	11		11	23		23
- from 3 to 6 months	7		7	7		7
- from 6 to 12 months	26		26	14		14
- beyond 12 months	88		88	150		150
Total trade receivables and other receivables	1,217	159	1,376	1,551	125	1,676

(*) The exposure is net of overdue and impaired loans for 102 million euros (same as 31 December 2019).

The net book value of overdue and non-impaired trade receivables as at 31 December 2020, equal to 194 million euros, refer mainly to: (i) the storage sector (77 million euros), in particular to VAT³⁵ billed to users for the use of strategic gas which was withdrawn but not replenished by them pursuant to the terms established by the Storage Code during 2010 and 2011; (ii) the transportation sector (51 million euros) and mainly regard receivables from Users referring to positions within balancing and settlement services.

Approximately 34% of trade receivables (39% as at 31 December 2019) were with extremely reliable clients, including Eni, which represents 11% of total trade receivables (16% as at 31 December 2019).

The current context characterised by the spread of the Covid-19 virus, together with the macroeconomic scenario, could cause a financial stress situation with regard to several customers and suppliers or a slowdown in activities that could have an impact on Snam's assets and/or liabilities. With reference to the development of energy transition activities, similarly a slowdown in activities and a similar context risk is possible, with repercussions on collection and payments activities, which currently represent an extremely limited amount compared with the entire scope of the Snam Group.

³⁵ As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.


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The following is a description of the credit recovery activities carried out against certain users of the transportation and balancing system and the storage system.

Recovering receivables from certain users of the transportation and balancing system

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority.

Through its subsequent Resolution 351/2012/R/gas³⁶, the Authority implemented the start date of 1 October 2012 for the application of the variable unit fee CV^{BL} to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to 6 million euros over a minimum of 36 months.

The Authority subsequently opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012³⁷. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013. On the same date, the Authority: (i) opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service.

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company appealed Resolution 608/2015/R/gas, before the Regional Administrative Court of Milan, which partially admitted the appeal submitted by the Company with ruling 942/2017; this was in turn partially appealed by the Company and the Authority. The ruling

³⁶ The aforementioned resolution was annulled pursuant to the ruling 1587/2014 of the Regional Administrative Court of Milan insofar as the obligation of Users to pay the CVBL consideration of 0.001 €/Scm with effect from 1 October 2012. Moreover, with the subsequent Resolution 372/2014/R/gas the coefficient was redefined at the same amount of 0.001 €/Scm.

³⁷ The time period set for the preliminary investigation which was initially limited to 1 December 2011-31 May 2012, was subsequently extended to 23 October 2012.


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was then confirmed through the ruling of the Council of State 1630/2020, published on 5 March 2020. As a result of these rulings, the Company has obtained, through CSEA, a recognition of an amount of approximately 40 million euros (including VAT).

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to balancing and transport items.

Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service³⁸. Having received these orders, Snam Rete Gas initiated the executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the Users, partly because of the bankruptcy procedures under way at all of these Users.

In particular, at present:

- five Users were declared bankrupt. With regard to all five Users, Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest. As part of these proceedings, a proposal for arrangement with creditors was submitted and approved by the majority of the creditors; the bankruptcy proceedings, following the final distribution, were closed with recognition of a minimal portion of the claim filed. In addition, a second procedure was recently closed in 2020, after approval and execution of the final distribution, which did not lead to the recognition of any amount in favour of the Company;
- one User has requested to be admitted to the arrangement with creditors and the Court Authorities have issued a ruling endorsing the arrangement³⁹.

³⁸ The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. The oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

³⁹ In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

Unpaid receivables after 23 October 2012

In 2013, two further transportation contracts were terminated and Snam Rete Gas initiated injunction proceedings. It obtained three payment orders, of which two for receivables relating to the balancing service and one for the transportation service. Both Users appealed, with the relative rulings rejecting the claims and consolidating the securities acquired by Snam Rete Gas. The executive procedures that were initiated resulted in a negligible recovery of amounts when compared to the overall amounts due from the Users which were then declared bankrupt. Snam Rete Gas regularly submitted its claims in the respective arrangements with creditors. In addition, one of the bankruptcy proceedings was concluded in 2020 with the recovery of minimal amounts with respect to the bankrupted party's total debt.

In 2014, a further transport contract was terminated and Snam Rete Gas initiated provisional executive procedures for recovery of the receivables, one relating to balancing services and the other to transportation services. The User was declared bankrupt and Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

Finally, in 2015 a further transportation contract was terminated and Snam Rete Gas initiated debt recovery measures, securing two provisional executive injunctions against the User, one for the balancing service and the other for the transport service. Moreover, the User was recently declared bankrupt and Snam Rete Gas has regularly submitted its claims for the arrangements with creditors.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.


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Lastly, we note that on 12 February 2016 the Public Prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five Users. In May 2017, the investigation was concluded and the investigated parties were charged with the being involved in a criminal association and committing aggravated fraud against Snam Rete Gas. At the preliminary hearing set for 19 December 2018, the judge accepted SRG joining the proceedings as a civil party. The Court granted the investigation requests, declared the trial open, and adjourned the hearing for impending business until February 2021.

These criminal proceedings resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud.

Recovering receivables from users of the storage system

Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code

Following withdrawals from strategic storage made by a User in November and December 2010, Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. The appropriate executive actions were launched as a result.

Following the withdrawals and the failure to replenish the strategic gas in the initial months of 2011 as well, Stogit requested and obtained a second provisional executive injunction for the further sums accrued.

Urgent proceedings were also launched for the replenishment of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

In 2012 the above user together with another two users (who also defaulted with regard to Stogit) were added to the proceedings for an arrangement with creditors, in

which Stogit formally transmitted and documented the amounts of its receivables with these users.

Moreover, following the sub-proceedings to dismiss the arrangement, the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit promptly filed a proof of claim and its receivables were admitted in full.

However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was appealed by one of the creditors. The Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one User pursuant to Article 186-ter.

At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million euros SCM.

Stogit has therefore taken the appropriate actions.

The Court of Rome then declared the User bankrupt and Stogit submitted its claim, which was accepted.

Withdrawals made from strategic storage by a User, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, relating to October and November 2011

Stogit filed with the Civil Court of Milan for a provisionally enforceable payment injunction, brought because of improper withdrawals, in respect of which Stogit still was owed approximately 56.0 million euros SCM.

While the proceedings were ongoing, the Court of Rome declared the User bankrupt. Consequently, the Civil Court of Milan declared the case interrupted and Stogit submitted its claim, which was accepted,


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during which the final distribution of assets was made and, consequently, in 2020, the proceedings were closed, during which no amounts were paid to the Company.

26.4 LIQUIDITY RISK

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

Under the financial plan, Snam's risk management system aims to establish a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.

The financial market is characterised by a continuous growth of sources of financing for companies able to improve the environmental impact of their investments. The interest of the investors is linked and subordinated to the ability of the companies themselves to achieve certain objectives in terms of environmental sustainability.

With a view to the correct management of liquidity risk, the diversification of funding sources also through the use of sustainable finance instruments is therefore crucial to guarantee companies wide access to financial markets at competitive costs, with consequent positive effects on the economic situation, equity and financial position of the companies themselves.

Similarly, for Snam, the failure to achieve certain KPIs in the ESG area, within the general objective of the Group to make its business more sustainable in the medium-long term, could lead to higher financing costs or to the lack of access to some sources of funding.

The mitigation of this risk passes through Snam's extreme attention to ESG issues, traditionally a relevant and structured part of the corporate strategy.

In line with this approach, in 2018, Snam finalised the transformation of the Euro 3.2 billion in syndicate credit facilities, into a sustainable loan, the third largest sustainable loan to ever have been stipulated worldwide and the largest by a gas utility company. This loan provides for bonus/malus mechanisms based on the achievement of certain KPIs in the ESG (Environment, Social, Governance) area. In addition, Snam issued i) its first 500 million euros Climate Action Bond in February 2019 (ii) in June 2020 its first Transition bond, the second in Europe and the first by a gas transportation utility, for a further 500 million euros and (iii) in December 2020 a second Transition bond for 600 million euros, the longest zero coupon bond loan issued by an Italian issuer. These issues are aimed at financing investments in environmental sustainability and energy transition. Finally, in 2020, Snam renewed the Euro Commercial Paper programme, rising from 2 billion to 2.5 billion, linking it to environmental and social sustainability objectives in line with the Sustainable Loan and obtaining an EE ESG rating for the instrument from Standard Ethics. As shown in section 26.2 "Interest rate risk", the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the European Investment Bank (EIB), bond loans and Commercial Papers).

Snam's objective is to maintain a debt structure that is balanced in composition between bond loans and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

At 31 December 2020, Snam had unused committed long-term credit lines worth approximately 3.2 billion. In addition, as at the same date, Snam has a Euro Medium Term Notes (EMTN) programme in place for a maximum total nominal value of 11 billion, used for approximately 7.8 billion and a Euro Commercial Paper Programme (ECP) for a maximum total nominal value of 2.5 billion, used in full as at 31 December 2020.

Snam's cash and cash equivalents mainly refer to current accounts and bank deposits readily collectable.

The Group's main long-term financial payables include covenants that are typical of international practice, such as negative pledge and pari passu clauses. Failure to meet these clauses, and the occurrence of other events, for

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example cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relative loan, resulting in additional costs and/or liquidity issues. There are no covenants among commitments that involve compliance with ratios of an economic and/or financial nature.

Among the factors that define the risk perceived by the market, creditworthiness, assigned to Snam by rating agencies, plays a decisive role because it influences their ability to access sources of financing and the related economic conditions. A worsening of this creditworthiness could therefore constitute a limitation on access to the capital market and/or an increase in the cost of sources of financing, with consequent negative effects on the Group's economic situation, equity and financial position.

Snam's long term rating is: (i) Baa2 with stable outlook, confirmed on 11 January 2021 by Moody's Investor Services; (ii) BBB+ with stable outlook, confirmed on 22 February 2021 by Standard & Poor's Global Rating ("S&P"); (iii) BBB+ with stable outlook, confirmed on 22 January 2021 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt, two notches above for Fitch. Based on the methodology adopted by Moody's, S&P and Fitch, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

The company's short-term rating, used as part of Snam's Commercial Paper programme, is P-2 for Moody's, A-2 for S&P and F2 for Fitch.

Although the Snam Group has relations with diverse counterparties with a high credit standing, based on the management policy and ongoing monitoring of their credit risk, the default of a counterparty or the difficulty to liquidate assets on the market could have negative effects on the Snam Group's operations, results balance sheet and cash flow.


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The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments and other liabilities connected to derivative instruments:

(million €)	Future flows				Maturity				
	31.12.2019	31.12.2020	Quota within 12 months	Quota beyond 12 months	2022	2023	2024	2025	Beyond
Bank loans	3,704	5,272	2,786	2,485	687	457	119	121	1,101
Bond loans ^(*)	9,056	8,151	259	7,892	1,133	879	1,191	839	3,850
Euro Commercial Paper - ECP	2,000	2,500	2,500						
Financial payables for leased assets	21	21	6	15	5	4	2	2	2
Interest on loans ^(*)	772	498	109	388	94	67	59	43	125
Financial liabilities	15,553	16,442	5,660	10,780	1,919	1,407	1,371	1,005	5,078
Derivative instruments Forward start ^(**)	48	31	31						
Liabilities for derivative instruments	48	31	31						
Total contractual flows of financial payables	15,601	16,473	5,691	10,780	1,919	1,407	1,371	1,005	5,078

(*) Future payments include the cash flow generated by hedging derivative contracts.

(**) Future payments are valued at the Mandatory Early Termination Date.

With reference to the payment terms for trade and other payables, please see Note 18 "Trade payables and other payables".


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26.5 FAIR VALUE OF FINANCIAL INSTRUMENTS

It should be noted that, with the exception of the valuation of derivative agreements and minority investments, financial assets and liabilities, depending on the characteristics of the instrument and the business management adopted for their management, entirely come under the financial instruments valued through the amortised cost method.

The book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

(million €)	Book value		Income/expenses recognised in the income statement		Other components of the comprehensive income statement ^(a)	
	Balance at 31.12.2019	Balance at 31.12.2020	Balance at 31.12.2019	Balance at 31.12.2020	Balance at 31.12.2019	Balance at 31.12.2020
Financial instruments valued at amortised cost						
Trade receivables and other receivables ^(b)	1,380	1,681	35	(2)		
Financial receivables ^(c)	3	312		13		
Trade payables and other payables ^(b)	1,848	2,121				
Financial payables ^(c)	14,774	15,937	(200)	(166)		
Financial instruments measured at fair value						
Net assets (liabilities) for hedging derivatives ^(c)	(63)	(38)	(1)	(10)	(34)	(5)
Financial assets valued at FVOCI						
Minority equity investments ^(d)	39	112	2	2	4	29

(a) Net of tax effect.

(b) The effects on the income statement are recognised under "other operating costs and expenses".

(c) The effects on the income statement are recognised under "Financial income/(expenses)".

(d) The effects on the income statement are recognised under "other income (expenses) from equity investments".

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
- level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- level 3: inputs not based on observable market data.

In relation to the above, the classification of assets and liabilities measured at fair value in the statement of financial position according to the fair value


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hierarchy involved: (i) derivative financial instruments at 31 December 2020 classified as level 2 and disclosed in Note 19 "Other current and non-current liabilities" (38 million euros); (ii) minority investment in Adriatic LNG, valued at FVTOCI, classified as level 3 a and disclosed in Note 12 "Other current and non-current financial assets" (38 million euros); (iii) the minority investment in ITM Power, valued at FVTOCI, classified as level 1 and disclosed in Note 12 "Other current and non-current financial assets" (74 million euros).

27) CRIMINAL AND TAX DISPUTES AND PROCEEDINGS WITH THE REGULATORY AUTHORITY ARERA

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects.

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

At 31 December 2020, risks concerning compensation and disputes related to litigation that is ongoing but where the risk of losing the case is not considered probable amounted to 44 million euros (38 million euros at 31 December 2019).

27.1 CRIMINAL DISPUTES

Snam Rete Gas S.p.A. - Pineto incident

On 6 March 2015 in Mutignano landslide affected 10 metres of the San Benedetto Del Tronto-Chieti section of the Ravenna-Chieti pipeline, causing it to break with the consequent escape of gas, with a subsequent fire due an electricity pylon collapsing at the same time.

With regard to this event, the Public Prosecutor at the Court of Teramo immediately opened an investigation into negligence associated with the forest fire. Upon completion, the Prosecutor requested the Snam Rete Gas

technicians and technical managers be brought to court. The committal to trial was ordered by the preliminary hearing judge for 3 October 2018. At the first main hearing on 10 January 2019, the presiding member of the bench asked the defence and the Public Prosecutor to comment on moving the proceedings to a single judge proficient in this issue. The parties referred to the decision of the Court, which after a short period in council chambers, passed the proceedings onto a competent single judge. The first main hearing was held on 17 September 2020, at which all parties presented their requests for evidence. The hearing was adjourned until the end of April 2021 for the examination of witnesses by the Public Prosecutor.

IES Biogas - Criminal offence conviction

On 2 November 2018 a criminal offence conviction was issued by the Court of Venice, with regard to an IES Biogas executive following the workplace accident that took place on 29 September 2016 involving a company employee, during the maintenance of a silo agitator. On 16 November 2018, a notice of opposition was filed against the criminal offence conviction, which requested the definition of the proceedings in the form of the simplified and shortened ruling. In 2020, the insurance process was completed and the injured party accepted the offer of compensation for damages provided by the insurance company. Due to the prospective inability to attend the hearings related to the health emergency decrees, the Judge postponed the hearing until the end of June 2021.

27.2 PROCEEDINGS WITH THE AUTORITÀ DI REGOLAZIONE PER ENERGIA RETI E AMBIENTE - ARERA

Snam Rete Gas S.p.A. Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A. and request for information

Through Resolution VIS 97/11, notified on 15 November 2011, the ARERA started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 systems owned by the distributor; through Resolution 431/2012/S/Gas the proceedings were brought together with other proceedings involving said events contested by the company launched with regard to the distributor involved.


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Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct. By means of Resolution 332/2015/S/gas, the ARERA declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Upon completion of the investigation on 20 October 2017, the ARERA notified the results to Snam Rete Gas, which confirmed the charges made when the proceedings were initiated. The company has requested time for it to formulate its own defence and, to this end, a hearing was called before the board of the Authority on 1 March 2018 during which the defence brief was submitted. After the proceedings, the Authority, although accepting some of the Company's arguments deemed relevant from the perspective of the quantification of the fine, imposed an administrative monetary fine on Snam Rete Gas, through resolution 206/2018/S/gas of 5 April 2018, of 880 thousand. Though it paid the pecuniary fine, the Company has appealed Resolution 206/2018/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

Snam Rete Gas S.p.A. - Resolution 608/2015/R/gas - Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor

Upon completion of the proceedings initiated with Resolution 145/2013/R/gas to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor, relating to the period 1 December 2011 - 23 October 2012, in relation to three cases which had previously been investigated, with Resolution 608/2015/R/gas, the ARERA closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately 130 million euros (including VAT).

The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged Resolution 608/2015/R/gas before the Regional Administrative Court of Milan, which with its ruling No. 942/2017, published on 21 April 2017, partially upheld Snam Rete Gas's appeal, finding that, in relation to some of the cases covered by the preliminary investigation, there were grounds for recognising all or part of the charges deriving from the related uncollected receivables for a total amount of approximately 38 million euros.

Both parties have lodged partial appeals to the aforementioned judgment. The appeals were discussed before the Council of State at a hearing held on 8 November 2018.

The decision made by the Regional Administrative Court was then recently confirmed by the Council of State in its ruling No. 1630/2020, published on 5 March 2020⁴⁰. As a result of these rulings, the Company has obtained recognition of an amount of approximately 40 million euros (including VAT).

An allocation had been made to the provision for impairment losses on receivables in relation to the costs in question.

Snam Rete Gas S.p.A. - Resolution 9/2014/S/gas – “Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas”

With Resolution 9/2014/S/gas the ARERA launched punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement. Upon conclusion of the proceedings, with its resolution 853/2017/S/gas, the Authority sentenced Snam Rete Gas to pay a pecuniary fine of 95 thousand since, although it accepted a part of the Company's arguments which were significant insofar as determining the amount of the fine, it considered that the Company was late in complying with Resolution 292/2013/R/Gas.

⁴⁰ For more information, refer to the next paragraphs “Recovering receivables from certain users of the transportation and balancing system”.


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Though it paid the pecuniary fine, the Company has appealed Resolution 853/2017/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 regarding: "Adoption of measures on the odouring of gas for domestic use and similar for end users connected directly to the natural gas transportation networks"

Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the ARERA amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation of transportation companies to odorise gas for end users connected directly to the transportation network, which, taking into account the categories of use indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the ARERA ordered that the transportation companies shall complete the implementation of the adaptation plans by 31 January 2017, after carrying out a survey of the redelivery points involved (by 31 July 2015) and sending the ARERA the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified. Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey.

Having carried out the survey, when sending the plan and the subsequent updates Snam Rete Gas once again found that the deadline set by the ARERA with its Resolution 484/2016/E/gas was unreasonable. Consequently, in the appeal with which Snam Rete Gas challenged Resolution 250/2015/R/gas, it also included an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended.

The request was accepted by the Council of State. Following the hearing that was held on 16 January 2019, through ruling no. 869 of 17 April 2019, the Milan Regional Administrative Court accepted the appeal submitted by Snam Rete Gas declaring the unlawfulness of the deadline set by the Authority because it was clearly unreasonable as it does not take into account the complexity of the activities to be carried out by the transportation company and the need to collaborate with end users on whom the burden of guaranteeing the use of gas in safe conditions for the workers involved weighs.

Note that through the Ministerial Decree of 18 May 2018 the Minister for Economic Development placed the responsibility of guaranteeing the use of gas in safe conditions on the end users directly connected to the natural gas transportation network, where there is domestic or similar use of gas, even only in part, if combined with technological uses. Following the functional activities to the implementation of the Decree, the end users demonstrated that they guaranteed the safe use of the gas in accordance with the methods laid down by said Decree.

As part of the Consultation Document (DCO 203/2019/R/Gas) as preparation for the revision of the regulation on the transportation service quality, ARERA demonstrated its intention to: (i) confirm the regulatory framework pursuant to the above Resolution 250/2015/R/Gas without setting a deadline by which the Plan has to be implemented; and (ii) promote a regulatory amendment aimed at coordinating the regulation with the aforementioned Ministerial Decree. Following on from what the DCO anticipates, through Resolution 554/2019/R/gas, the Authority confirmed the previous regulatory regime (the obligation of the transportation company to take responsibility for the odouring) thereby putting forward the issue of coordination with the obligations imposed by the Decree. Therefore, pending a possible regulatory change, Snam Rete Gas challenged Resolution 554/2019/R/gas.

27.3 TAX DISPUTES

TEP Energy Solution - Formal notice of assessment

On 14 December 2018, TEP Energy Solution S.r.l. received a notice of tax assessment limited to the 1 January 2013-31 December 2013 tax period. The notice of tax assessment was the result of a tax audit of the company that began on 27 September 2018 to verify its compliance with tax law requirements applicable to income tax, VAT and other duties. This investigation was spurred by a more extensive one launched by the Milan Public Prosecutor's Office into a system of tax fraud based on issuing and using invoices for objectively and subjectively non-existent transactions in connection with energy certificate trading. Based on the findings of the tax audit, on 21 January 2019, TEP Energy Solution received a notice of tax assessment for the 1 January 2014-31 December 2014 tax period and TEP REALE ESTATE received one for the 2013 and 2014 tax years. It should be noted that on 27 December 2018, the Guardia di Finanza (Italian Financial Police) sent a notice of offence


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to the Rome Public Prosecutor's Office, which initiated an investigation against the Company's legal representative for the crime of fraudulent declaration through the use of invoices or other documents for non-existent transactions (Article 2 of Legislative Decree No. 74/2000). Following notification of the tax assessments, the Company filed defence briefs with the Revenue Agency, requesting a hearing with the same tax office to clarify and explain the facts set out in the notices of tax assessment for a correct reconstruction of events. During the hearing with the tax authorities, the possibility of settling the notices of tax assessment arose, which would entail assessments with the taxpayer's acceptance and partial dismissal of the notices. Later, on 30 July 2019, the Revenue Agency and TEP signed separate deeds of acceptance to settle the aforementioned notices of tax assessment. Alongside the hearing with the Revenue Agency, discussions were initiated with the Public Prosecutor, who was informed that the case had been settled with the Revenue Office. Therefore, we are waiting for the Public Prosecutor's decision.

Snam Rete Gas S.p.A. - IMU/TASI - northern Italy municipalities

The municipalities of northern Italy sent Snam Rete Gas 17 assessment notices for IMU/TASI for the years 2013, 2014 and 2015, which follow on from requests for information for land registry purposes pursuant to Article 1, paragraph 693 of Law 147/2013. The company has paid the above taxes amounting to 187 thousand.

Stogit S.p.A. - IMU

The Municipality of Bordolano served Stogit S.p.A. with notices of assessment for IMU property tax for the years 2012, 2013 and 2014.

The notices come to a total of around 560 thousand (including taxes, penalties and interest). Through ruling no. 130/5/2019, the Cremona Provincial Tax Court confirmed the tax liability for the years 2012 and 2013 and, with ruling No. 16/2/2020, confirmed the tax liability relating to the year 2014.

In light of the aforementioned rulings, the company has paid an amount of 243 thousand.

27.4 OTHER PROCEEDINGS

Snam Rete Gas S.p.A. - Criteria for regulating natural gas transportation and dispatching rates for the 2010-2013 period

By ruling No. 2888/2015, the Council of State rejected the appeal filed by ARERA asking it to overturn ruling No. 995/2013 by the Regional Administrative Court of Milan, which voided the provisions of resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 concerning natural gas transportation and dispatching rates for the 2010-2013 period, specifically with regard to the commodity/capacity allocation, the reform of the entry/exit model and gas for consumption by compression stations (self-consumption).

By way of Resolution 428/2015/C/gas, ARERA resolved to appeal for revocation on the grounds of an error of fact against the aforementioned ruling, an appeal which was subsequently withdrawn on 29 March 2018 due to the lack of interest in continuing the proceedings. At the same time, the Authority complied with the aforementioned rulings by way of Resolution 550/2016/R/gas whereby, having reformed the rules on self-consumption, it justified its confirmation of the remaining tariff criteria also in light of the consultations carried out.

Given the confirmatory nature of the aforementioned resolution, the original appellant contested for compliance with the aforementioned rulings and a declaration of the nullity of Resolution 550/2016/R/gas. By ruling No. 494/2017, the Milan Regional Administrative Court partially upheld the appeal with specific reference to the issue of the commodity/capacity allocation, finding that the contested Resolution complied inaccurately and partially with ruling No. 995/2013 and that, therefore, the Authority should carry out an additional assessment of the effects of the choices made.

Ruling No. 494/2017 was challenged by the appellant, as well as incidentally by ARERA. In ruling No. 1840/2018 of 23 March 2018, the Council of State, in partial acceptance of the Authority's cross-appeal, dismissed the action of nullity for breach of judgment filed by the appellant at first instance and ordered the conversion of the proceedings into an ordinary judgment of annulment. The appellant consequently resumed the proceedings before the Milan Regional Administrative Court.


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Stogit S.p.A. - Appeals Coordination Environmental Committee (*Ricorsi Coordinamento Comitato Ambientalisti*)

With the Presidential Decree of 16 September 2019, the binding opinion published by the Council of State on 27 June 2019, by which the appeals filed by the Appeals Coordination Environmental Committee plus others were accepted, was implemented. In that Presidential Decree it is stated that: (i) on account of the failure to file the documents relating to the environmental impact assessment in the municipalities of Azzanello and Verolavecchia, the EIA decree issued in 2009 for the construction of the new storage facility at Bordolano is annulled, without prejudice to the provisions contained therein, only in so far as it expresses a favourable opinion on environmental compatibility; (ii) the decree of the Ministry of Economic Development of 28 December 2011 (approval of the change in the work programme of the "Bordolano Storage" concession) is annulled, as well as (iii) the measures of the Ministry of the Environment (prot. No. 18804 of 8 August 2013 and prot. No.14583 of 16 May 2014), again on the subject of EIA, without prejudice to the continuing validity of the prescriptions contained therein, to protect public safety and security, which are in no way overturned by the annulment ruling. The Council of State also established the reopening of the EIA procedure and the Ministry of Environment promptly reopened the terms of the EIA (with note DVA U28389 of 29 October 2019) limited to the municipalities of Azzanello and Verolavecchia only; of these, only the municipality of Verolavecchia submitted comments, to which were added those of other parties. The proceedings are currently pending before the Technical Commission for Environmental Impact Assessment (Commissione Tecnica per la Valutazione di Impatto Ambientale) and Stogit has provided all the technical clarifications in response to the comments submitted. It should be added that MiSE, with note U.0025890 of 22 November 2019, issued a provision pursuant to Article 29, paragraph 3 of Legislative Decree 152/2006, which allows for the continuation of storage activities in the Bordolano plant pending the completion of the EIA.

Snam S.p.A. - Questionnaire Q00017/2020 on VAT

On 13 February 2020, the Revenue Agency served Snam (hereinafter, the "Company") with a VAT questionnaire requesting the reasons for the voluntary correction of tax return carried out in 2016 with reference to the 2012, 2013, 2014 and 2015 tax years. In particular, in 2016 the Company submitted supplementary declarations relating to the years 2012 to 2014 to acknowledge the performance - as from 2012 - of a new activity of granting loans and that in relation to this activity the Company intended to avail itself, for VAT purposes, of the optional separation of activities pursuant to Article 36, paragraph 3 of Presidential Decree No. 633/1972. On the other hand, as regards 2015, the relative annual declaration was presented within the ordinary terms and an amicable settlement was made to remedy certain irregularities (again connected with the keeping of separate accounts) which had affected the correct monthly settlements.

Following a preliminary investigation, on 21 December 2020, the Revenue Agency served an order to appear for the establishment of the cross-examination of the years 2012-2013-2014-2015, in order to better verify whether the Company actually behaved "ex ante" in this sense.


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

28) OPERATING REVENUES AND INCOME

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

(million €)	2019	2020
Core business revenue	2,635	2,735
Other operating revenues and income	30	35
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 regasifi- cation	Other segments not separately reported (Corporate and other activities)	Consoli- dation elimina- tions and adjust- ments	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.



36) RELATED-PARTY TRANSACTIONS

From 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already classified as de facto control pursuant to international accounting standard IFRS 10 – Consolidated financial statements from 2014, as de facto control pursuant to Article 2359, paragraph 1 of the Italian Civil Code and Article 93 of the TUF.

Considering the de facto control of CDP S.p.A. over Snam S.p.A., Snam's related parties, based on the current group ownership structure, are represented not only by Snam's subsidiaries, associates and joint ventures, as well as by the parent company CDP S.p.A. and its subsidiaries and joint ventures, as well as the subsidiaries and joint ventures of the Ministry of Economy and Finance (MEF). Members of the Board of Directors, Statutory Auditors and Snam Group and CDP managers with strategic responsibilities, and their families, are also regarded as related parties.

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the relevant legislation, the Company has adopted internal guidelines to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Snam is not subject to any direction or coordination activities. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of related-party transactions, the following should be pointed out pursuant to the disclosure obligations set forth under Consob Regulation No. 17221 of 12 March 2010:

- the conclusion between Snam Rete Gas S.p.A. and Eni S.p.A. of the natural gas transportation agreement for the Thermal Year 2019-2020. On 5 February 2020, the value of the transportation contract exceeded the significance threshold of 140 million euros as defined in the Snam "Procedure for transactions in which directors and auditors have an interest and transactions with related parties";
- the conclusion between Snam Rete Gas S.p.A. and Enel Global Trading S.p.A. of the natural gas transportation agreement for the Thermal Year 2019-2020. On 3 September 2020, the value of the transportation contract exceeded the threshold of Euro 140 million euros identified in Snam's "Transactions with directors' and statutory auditors' interests and related party transactions" guideline.

The above contracts are defined in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code approved by the Regulatory Authority for Energy Networks and the Environment (ARERA) pursuant to Resolution 75/2003, as amended.

The calculation of a fee for services rendered take place through application of the natural gas transportation and dispatching tariffs approved by Resolution of the Authority.

These contracts are configured as ordinary operations concluded at conditions equivalent to market or standard conditions because, pursuant to paragraph 2 of the guideline (published on the website www.snam.it): (i) they come under ordinary operations and related financial operations; (ii) the conditions applied are based on regulatory tariffs.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the current year and the previous one for comparison purposes. The nature of the most significant transactions is also stated.


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Commercial and other transactions

Commercial and other transactions can be broken down as follows:

(million €)	31.12.2019				2019				
	Receivables	Other assets	Payables	Other liabilities	Costs ^(a)			Revenue ^(b)	
					Goods	Services	Other	Services	Other
Companies under joint control and associates									
Interconnector UK	1			1				3	
Albanian Gas Services	1							1	
Senfluga									
TAG GmbH	3		2					2	
Terêga S.A.S.	1								
Trans Adriatic Pipeline AG (TAP)	4			21				15	
	10		2	22				21	
Fondazione Snam									
	1								
Parent company									
Cassa Depositi e Prestiti			100						
			100						
Companies controlled by the parent company Cassa Depositi e Prestiti									
Italgas group	1		2				1		1
	1		2						1
Companies jointly controlled by the parent company Cassa Depositi e Prestiti									
Saipem group			16			22			
Valvitalia Finanziaria S.p.A.			1		3	2			
			17		3	24			
Companies owned or controlled by the State									
Gestore dei mercati energetici S.p.A.	11		6						
Anas group	2	1	3		36			2	
Enel group (c)	65		24			1		354	
Eni group (c)	200		34			22		1,197	
Ferrovie dello Stato group	1		1					2	
Finmeccanica group						2			
	279	1	68		36	25		1,555	
Total	291	1	189	22	39	49	1	1,576	1

(a) These include costs for goods and services used for investment purposes.

(b) Before tariff components that are offset in costs.

(c) Including balance sheet figures relating to balancing activities.


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(million €)	31.12.2020				2020				
	Receivables	Other assets	Payables	Other liabilities	Costs ^(a)			Revenue ^(b)	
					Goods	Services	Other	Services	Other
Companies under joint control and associates									
Interconnector UK									2
Albanian Gas Services	1							1	
Senfluga									
TAG GmbH	2		2			1			1
Terêga S.A.S.	1								
Trans Adriatic Pipeline AG (TAP)	5			1					26
Galaxy Pipeline Assets Holdco	17								
	26		2	1		2	1		29
Fondazione Snam	1					1			
Parent company									
Cassa Depositi e Prestiti			110						
			110						
Companies controlled by the parent company Cassa Depositi e Prestiti									
Italgas group	2		2						1
	2		2						1
Companies jointly controlled by the parent company Cassa Depositi e Prestiti									
Saipem group			20			26			
Valvitalia Finanziaria S.p.A.			1		3				
			21		3	26			
Companies owned or controlled by the State									
Gestore dei mercati energetici S.p.A.	26		25						
Anas group	1	2	2				3		
Enel group (c)	65		19						338
Eni group (c)	179		26			19	1		895
Ferrovie dello Stato group	1		2				3		
Finmeccanica group						1			
	272	2	74	1	3	48	7		1,233
Total	301	2	209	1	3	48	8	1,262	2

(a) These include costs for goods and services used for investment purposes.

(b) Before tariff components that are offset in costs.

(c) Including balance sheet figures relating to balancing activities.


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Companies under joint control and associates

The most significant commercial relations with companies under joint control and associates include:

- the provision to TAP of services for the construction of transportation infrastructures governed by the Engineering and Project Management (EPMS) Agreement;
- the provision to TAG of services for the realisation of the transportation infrastructures governed by the Engineering, Procurement and Construction Management (EPCM) Agreement.

Companies jointly controlled by the parent company Cassa Depositi e Prestiti

The most significant commercial relations with companies under the joint control of Cassa Depositi e Prestiti include the purchase by Saipem of design and works supervision services for the realisation of natural gas transportation and storage infrastructures, regulated by agreements signed at normal market conditions.

Companies owned or controlled by the State

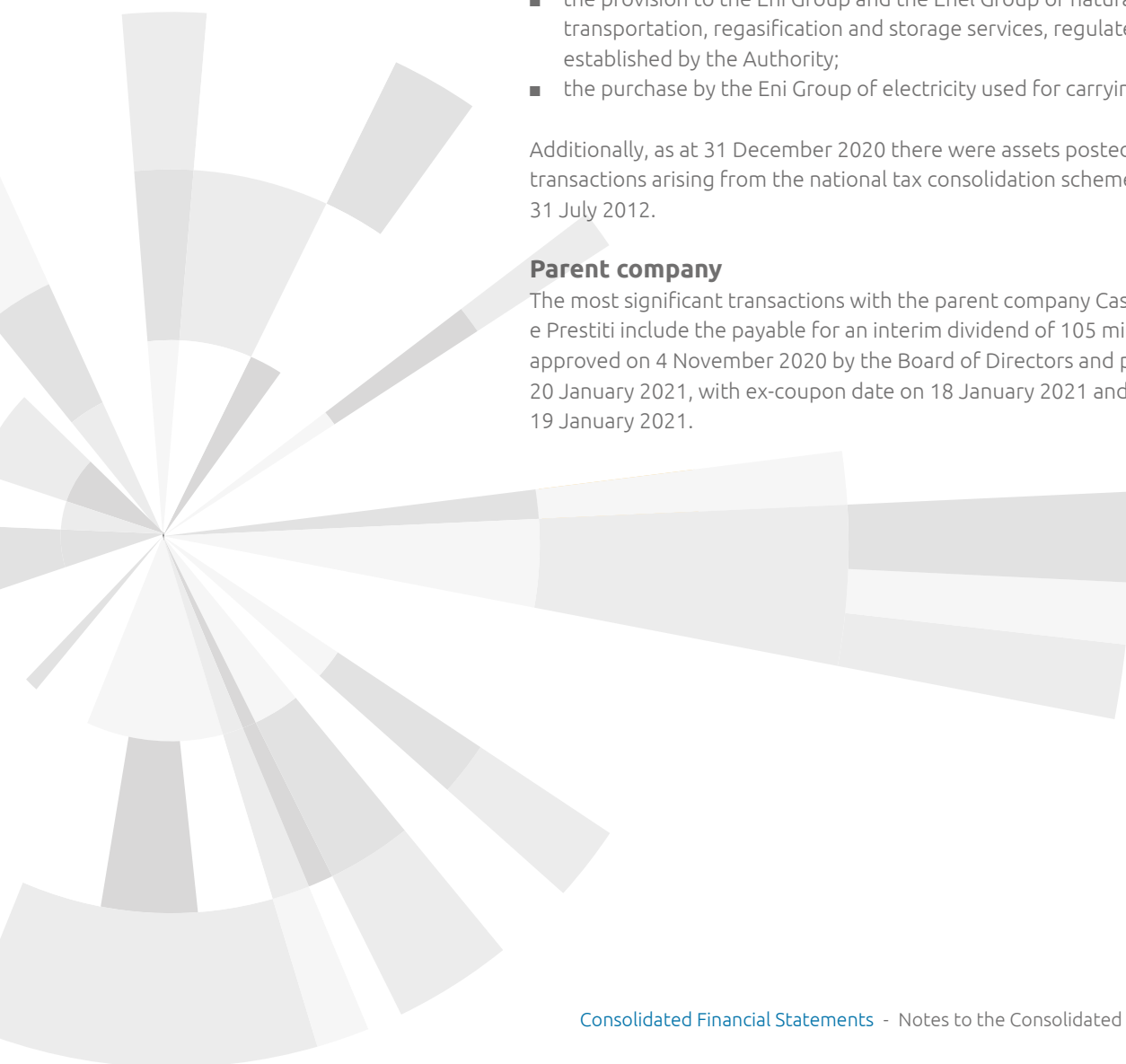
The most significant commercial relations with companies controlled or owned by the State involve:

- the provision to the Eni Group and the Enel Group of natural gas transportation, regasification and storage services, regulated by tariffs established by the Authority;
- the purchase by the Eni Group of electricity used for carrying out activities.

Additionally, as at 31 December 2020 there were assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

Parent company

The most significant transactions with the parent company Cassa Depositi e Prestiti include the payable for an interim dividend of 105 million euros, approved on 4 November 2020 by the Board of Directors and payable from 20 January 2021, with ex-coupon date on 18 January 2021 and record date on 19 January 2021.




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Financial transactions

Financial transactions can be broken down as follows:

(million €)	31.12.2019			2019	
	Receivables	Payables	Guarantees and commitments	Charges	Income
Companies under joint control and associates					
- Trans Adriatic Pipeline AG (TAP)			1,363		
			1,363		

(million €)	31.12.2020			2020	
	Receivables	Payables	Guarantees and commitments	Charges	Income
Companies under joint control and associates					
Trans Adriatic Pipeline AG (TAP)			1,242		
EBS società agricola a r.l.	5				
OLT Offshore Toscana	303				12
	308		1,242		12

Companies under joint control and associates

Financial relations with companies under joint control and associates include:

- the debt service guarantee on the loan agreement of the associate TAP, in the phase relating to the construction and start-up of the plant;
- Snam S.p.A.'s remaining commitment as a shareholder and in relation to the project funding for the construction of the pipeline on the basis of the shares owned, equal to 20%, with regard to TAP⁴³;
- the long-term financial receivable following the takeover of the residual share of a shareholders' loan, from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% share in the share capital.

⁴³ For more information, see Note 26, "Guarantees, commitments and risks – Commitments, guarantees and pledges - TAP".


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Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet and income statement is summarised in the following table:

(million €)	31.12.2019			31.12.2020		
	Total	Related entities	% Share	Total	Related entities	% Share
Statement of financial position						
Trade receivables and other current receivables	1,376	291	21.1	1,676	301	18.0
Other current and non-current assets	59	1	1.7	147	2	1.4
Other current and non-current financial assets	44			427	308	72.1
Trade payables and other payables	1,801	189	10.5	2,029	209	10.3
Other current liabilities	106	22	20.8	70	1	1.4

The impact of related-party transactions on the income statement is summarised in the following table:

(million €)	2019			2020		
	Total	Related entities	% Share	Total	Related entities	% Share
Income Statement						
Core business revenue	2,635	1,576	59.8	2,735	1,262	46.1
Other operating revenues and income	30	1	3.3	35	2	5.7
The purchase of goods and services and other operating costs	281	61	21.7	429	24	5.6
Staff costs	180	(2.0)	(1.1)	188	(2)	(1.1)
Financial income	11			26	12	46.2

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions that would be applied between two independent parties.


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The principal cash flows with related parties are shown in the following table.

(million €)	2019	2020
Operating revenues and income	1,577	1,264
Operating costs and expenses	(59)	(22)
Change in trade receivables and other current receivables	129	(10)
Change in trade payables and other current payables	(87)	12
Change in other current and non-current assets		(1)
Change in other current liabilities	(5)	(21)
Cash flow from operating activities	1,555	1,233
Investments:		
- Tangible and intangible fixed assets	(30)	(37)
- Long-term financial receivables		(332)
- Change in payables and receivables relating to investments	(3)	3
Cash flow from investing activities	(33)	(366)
Divestments:		
- financial receivables (returns)		33
Net cash flow from investing activities	(33)	(333)
Short-term financial receivables		(5)
Cash flow from financial activities		(5)
Total cash flows to related entities	1,522	895

The effect of cash flows with related parties is shown in the following table:

(million €)	2019			2020		
	Total	Related entities	% Share	Total	Related entities	% Share
Cash flow from operating activities	1,486	1,555		1,597	1,233	77.2
Cash flow from investing activities	(1,004)	(33)	3	(1,632)	(333)	20.4
Cash flow from financial activities	497			228	(5)	


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37) PUBLIC FUNDS - INFORMATION PURSUANT TO ARTICLE 1, PARAGRAPHS 125-129, LAW NO. 124/2017 (TO BE UPDATED)

Pursuant to Article 1, paragraph 125 of Law No. 124/2017 and later amendments, the information with regard to funds received from Italian public bodies by Snam S.p.A. and its wholly-consolidated subsidiaries are reported below. The consolidated information takes into account the funds received from Italian state bodies/public bodies. Specifically, the following are not presented: (i) forms of incentives/subsidies received in application of a general aid scheme to all those entitled; (ii) considerations relating to the provision of work/services, including sponsorships; (iii) refunds and indemnities paid to parties involved in training and orientation internships; (iv) contributions for ongoing training by inter-professional funds in the form of a legal association; (v) association contributions for membership of trade and regional associations, as far as to foundations, or equivalent organisations, functional to the activities related to the business. The funds are identified according to the cash criterion.

Disclosure requirements on the issue of the transparency of public funds granted, pursuant to Law 124 of 2017, Article 1, paragraph 126, are not applicable to the Snam Group.

In 2020, there were no disbursements of more than 10 thousand euros made by the same party, including through a number of acts. Pursuant to the provisions of Article 3-quater of Legislative Decree 135/2018, converted with amendments by Law No. 12 of 11 February 2019 for any funds received, refer to the guidelines contained in the National State Aid Register pursuant to Article 52 of Law No. 234 of 24 December 2012.

38) SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

39) POSITIONS OR TRANSACTIONS ARISING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

40) KEY EVENTS AFTER THE END OF THE FINANCIAL YEAR

With reference to key events occurring after the end of the financial year, we note the acquisition, on 8 January 2021, of a quota equal in total to 37%, of Industrie De Nora S.p.A., an innovator on a global scale in sustainable energy and water treatment technologies, on the basis of a 100% enterprise value of approximately 1.2 billion.

41) PUBLICATION OF THE FINANCIAL STATEMENTS

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 17 March 2021, in accordance with the law.



MANAGEMENT STATEMENT ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. The undersigned Marco Alverà and Luca Oglialoro, in their capacity as Chief Executive Officer and Manager responsible for preparing the company's financial reports for Snam S.p.A., respectively, attest, also taking into account the provisions of Article 154-bis, paragraphs 3 and 4, of Legislative Decree no. 58 of 24 February 1998:
 - the adequacy, considering the Company's characteristics, and
 - the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2020.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2020 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.

3. It is also certified that:
 - 3.1 The consolidated financial statements at 31 December 2020:
 - a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - b) are consistent with the accounting records and ledgers;
 - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.
 - 3.2 The Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

17 March 2021

/Signature/Marco Alverà
Marco Alverà
Chief Executive Officer

/Signature/Luca Oglialoro
Luca Oglialoro
Manager responsible for preparing
the Company's financial reports


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INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL

Deloitte.

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INDEPENDENT AUDITOR'S REPORT PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010 AND ARTICLE 10 OF THE EU REGULATION 537/2014

**To the Shareholders of
Snam S.p.A.**

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Snam Group (hereinafter also the "Group"), which comprise the statement of financial position as at 31 December 2020, the income statement, the comprehensive income statement, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Snam S.p.A. (hereinafter also the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Ancona Bari Bergamo Bologna Brescia Cagliari Firenze Genova Milano Napoli Padova Parma Roma Torino Treviso Udine Verona

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Investments in regulated businesses of the natural gas transportation, storage and regasification and related impairment test

Description of the key audit matter

As at 31 December 2020, the Group accounts for the item “Property, Plant and Equipment” for a total amount of euro 16.815 million and for the item “Intangible assets and Goodwill”, for a total amount of euro 1.125 million, mainly related to the regulated business segments and, in particular, for a total amount of euro 13.962 million referred to natural gas transportation business segment, for a total amount of euro 3.586 million referred to natural gas storage business segment and for a total amount of euro 115 million referred to natural gas regasification business segment. Investments made in the financial year relating to these sectors totalled euro 1.135 million.

The natural gas transportation, storage and regasification business segments are regulated by the Italian Regulatory Authority for Energy, Networks and Environment (Autorità di Regolazione per Energia Reti e Ambiente, “ARERA”), which defines, among the others, the rules for the remuneration of such services. In particular, the regulated revenues for the natural gas transportation, storage and regasification services provided by the Group are determined by ARERA and provide for recognition of a predefined return on the regulatory net invested capital recognized for tariff purposes (RAB – Regulatory Asset Base), of the relative depreciation and of some operating expenses – the so-called “revenue cap”. The RAB value is determined by ARERA mainly through the “revalued historical cost” method.

At the end of the financial year, the Group's management, despite the absence of impairment indicators, assessed the recoverability of non-financial fixed assets referring to the aforementioned business segments.

The recoverability of these fixed assets was tested by comparing the carrying amount, represented by the net invested capital of each of the cash-generating units of the natural gas transportation, storage and regasification business segments, with their recoverable amount represented by the higher of fair value and value in use.

In performing the impairment test, the recoverable amount of the assets was estimated mainly based on the RAB.
No impairment loss resulted from the test.

We believe that investments in the natural gas transportation, storage and regasification business segments and the related impairment test represent a key audit matter for the Group's consolidated financial statements as at 31 December 2020 due to: (i) the relevance of the tangible and intangible assets related to natural gas transportation, storage and regasification services, compared to the Group's total assets, (ii) the relevance of the investments made during the year, (iii) their impact in determining the revenue cap for the remuneration of services related to such sectors and (iv) the estimation component in determining the recoverable amount of the assets.


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Explanatory notes “5) Significant accounting standards - Impairment of non-financial assets”, “6) Assumptions and uncertainties in estimates, “14) Property, plant and equipment” and 15) Intangible assets and Goodwill” of the consolidated financial statements include the disclosure on the investments in regulated businesses related to the natural gas transportation, storage and regasification regulated sectors and related impairment test.

Audit procedures performed

With reference to the investments in regulated businesses related to the natural gas transportation, storage and regasification services and the related impairment test, our audit procedures included, among the others, the following, also with the support of Deloitte network's experts with reference to the impairment test:

- understand the processes for recognition of such investments in the financial statements and for performing impairment test;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;
- critical analysis of the composition of the tangible and intangible assets captions, including the analysis of any unusual item;
- test the accurate start of depreciation when the asset is available for use, for the projects included in tangible and intangible work in progress, even through the analysis of their aging;
- with reference to investments and disposals occurred during the period, selection of a sample of transactions and test of the compliance with the capitalization and disposal criteria provided by accounting standards;
- assessment of the consistency between the useful life used for the depreciation of the assets and their regulatory useful life and reperforming of the period depreciation;
- obtain the impairment test calculation and discussion meetings with the Group's management in order to understand the impairment test methodology;
- assessment of impairment test methodology's, adopted by management, compliance with the related applicable accounting standards
- assessment of the recoverable amount estimated by the Group and of the underlying assumptions to the impairment test.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.



Impairment test of equity investments accounted for using the equity method

Description of the key audit matter As at 31 December 2020, the Group accounts for the item “Equity investments accounted for using the equity method” for a total amount of euro 1.923 million, related to the Italian and foreign investments, in equity investments in joint ventures for an amount of euro 1.007 million and in equity investments in associates for an amount of euro 916 million.

At the end of the financial year, the Group's management, despite the absence of impairment indicators, performed the impairment test of such equity investments, assessing their recoverability comparing the carrying amount with the recoverable amount represented by the higher of fair value and value in use.

In particular, for the purpose of the impairment test, the recoverable amount of the investments was determined as the value in use on the basis of the Dividend Discount Model (DDM) method for all the aforementioned equity investments, with the exception of the equity investment in Italgas S.p.A., associated company, for which the fair value was considered, determined on the basis of market prices at the end of the year.

No impairment loss resulted from the test.

In consideration of: (i) the relevance of such investments' amount, and (ii) the estimation component referred to the impairment model's key variables used in determining the recoverable amount, we believe that impairment test of equity investments accounted for using the equity method represents a key audit matter for the Group's consolidated financial statements as at 31 December 2020.

Explanatory notes “5) Significant accounting standards - Reduction in value of the investments”, “6) Assumptions and uncertainties in estimates”, “16) Equity investments accounted for using the equity method” of the consolidated financial statements include the disclosure on the equity investments accounted for using the equity method and the relative impairment test.

Audit procedures performed

With reference to our activities we performed, among the others, the following audit procedures, also with the support of Deloitte network's experts:

- understand the processes for performing the impairment test;
- understand the relevant controls implemented by the Group in relation to these processes and assessment of their operating effectiveness;
- obtain the impairment test calculation and discussion meetings with the Group's management in order to understand the impairment test methodology;



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- assessment of impairment test methodology's, adopted by management, compliance with the related applicable accounting standards;
- reasonableness analysis of main assumptions adopted for the estimated expected dividends, by obtaining information from management;
- analysis of actual figures with respect to the original plans in order to assess the nature of the variations and the plans preparation process' reliability, also by examining the results of the work performed by equity investments' local auditors involved in the audit of the Group consolidated financial statements;
- reasonableness' assessment of the discount rate (K_e in the DDM method) and of the long-term growth rate (g-rate) used;
- mathematical accuracy's test of the recoverable amount estimated by the Group's management and of the comparison between the recoverable amount and the carrying amount of the investment;
- test of sensitivity analysis prepared by management;
- with reference to Italgas S.p.A., accuracy's test of the market prices used to determine the fair value.

Finally, we assessed the adequacy of the disclosure provided in the notes to the consolidated financial statements and its compliance with the accounting standards.

Other aspects

The consolidated financial statements of the Group for the year ended 31 December 2019 were audited by another auditor who expressed an unmodified opinion on those statements on May 11, 2020.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of national regulations issued pursuant to art. 9 of Italian Legislative Decree no. 38/05, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.



The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.


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We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence applicable in Italy, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report.

Other information communicated pursuant to art. 10 of the EU Regulation 537/2014

The Shareholders' Meeting of Snam S.p.A. has appointed us on October 23, 2019 as auditors of the Company for the years from 1 January 2020 to 31 December 2028.

We declare that we have not provided prohibited non-audit services referred to in art. 5 (1) of EU Regulation 537/2014 and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to the Board of Statutory Auditors, in its role of Audit Committee, referred to in art. 11 of the said Regulation.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10 and art. 123-bis, paragraph 4, of Legislative Decree 58/98

The Directors of Snam S.p.A. are responsible for the preparation of the Directors' report and the report on corporate governance and the ownership structure of Snam Group as at 31 December 2020, including their consistency with the related consolidated financial statements and their compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the Directors' report and some specific information contained in the report on corporate governance and the ownership structure set forth in art. 123-bis, n. 4 of Legislative Decree 58/98, with the consolidated financial statements of Snam Group as at 31 December 2020 and on their compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned Directors' report and some specific information contained in the report on corporate governance and the ownership structure are consistent with the consolidated financial statements of Snam Group as at 31 December 2020 and are prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

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Statement pursuant to art. 4 of the Consob Regulation for the implementation of Legislative Decree 30 December 2016, no. 254

The Directors of Snam S.p.A. are responsible for the preparation of the non-financial statement pursuant to Legislative Decree 30 December 2016, no. 254.

We verified the approval by the Directors of the non-financial statement.

Pursuant to art. 3, paragraph 10 of Legislative Decree 30 December 2016, no. 254, this statement is subject of a separate attestation issued by us.

DELOITTE & TOUCHE S.p.A.

Signed by

Paola Mariateresa Rolli

Partner

Milan, Italy

April 6, 2021

This report has been translated into the English language solely for the convenience of international readers.