2020 Half Year Financial Report

Company profile

Snam is one of the world's leading energy infrastructure companies and one of the largest listed Italian capitalised companies. Thanks to a sustainable and technologically advanced network, it guarantees security of supply, enables energy transition and promotes the development of the territories in which it operates. Through its international subsidiaries it operates in Albania (AGSCo), Austria (TAG, GCA), China (Snam Gas & Energy Services Beijing), United Arab Emirates (Adnoc Gas Pipelines), France (Terēga), Greece (DESFA), and the United Kingdom (Interconnector UK). Snam is also one of the main shareholders of TAP (Trans Adriatic Pipeline), the final section of the Southern Energy Corridor.

Number one in Europe in terms of the size of its transmission network (over 41,000 km, including international activities) and natural gas storage capacity (about 20 billion cubic metres, including international activities), the company is also one of the main continental regasification operators, through the Panigaglia terminal and the shares of the Livorno (OLT) and Rovigo (Adriatic LNG) facilities in Italy and the Revithoussa (DESFA) facilities in Greece, with a total pro-rata regasification capacity of about 8.5 billion cubic metres a year.

As part of a plan from Euro 6.5 billion to 2023, Snam is investing Euro 1.4 billion in the SnamTec (Tomorrow's Energy Company) project to reduce the environmental impact of its activities through innovation (with targets of a 40% reduction in methane emissions by 2025 and direct and indirect CO2eq emissions by 2030) and contribute to the decarbonisation of the system through its new businesses in the energy transition: sustainable mobility (compressed natural gas distributors - CNG and bio-CNG - and liquefied natural gas - LNG and bio-LNG, Small-scale LNG), biomethane infrastructure from organic waste and agricultural and agro-industrial waste, energy efficiency services for condominiums, public administration and industry. Snam was the first European company to experiment with the introduction of hydrogen mixed with natural gas into its network.

The company's business model is based on sustainable growth, transparency, the enhancement of talent and diversity, and the protection and social development of the territories through the Snam Foundation.

2020 Half Year Financial Report

Corporate bodies

BOARD OF DIRECTORS (*)

Chairman (**)

Nicola Bedin (1) (2)

Chief Executive Officer

Marco Alverà (1)

Directors

Laura Cavatorta (2) (3)

Francesco Gori (2) (3)

Yunpeng He (1)

Antonio Marano (1) (2)

Francesca Pace (1) (2)

Rita Rolli (2) (3)

Alessandro Tonetti (1)

BOARD OF STATUTORY AUDITORS (*)

Chairman

Stefano Gnocchi (5)

Principal statutory auditors

Gianfranco Chinellato (4)

Donata Paola Patrini (4)

Alternate statutory auditors

Federica Albizzati (5)

Maria Gimigliano (4)

CONTROL, RISK AND RELATED-PARTY TRANSACTIONS COMMITTEE

Francesco Gori - Chairman

Francesca Pace

Antonio Marano

APPOINTMENTS COMMITTEE

Antonio Marano - Chairman

Laura Cavatorta

Alessandro Tonetti

COMPENSATION COMMITTEE

Francesca Pace - Chairman

Rita Rolli

Alessandro Tonetti

ENVIRONMENTAL, SOCIAL & GOVERNANCE COMMITTEE (***)

Laura Cavatorta - Chairman

Rita Rolli

Yunpeng He

AUDIT FIRM (****)

Deloitte & Touche S.p.A.

(*) Appointed by the Shareholders' Meeting on 02 April 2019 and in office until the date of the Shareholders' Meeting that shall be called in 2022 to approve the financial statements at 31 December 2021.

(**) Appointed by the Shareholders' Meeting on 18 June 2020 and in office until the date of the Shareholders' Meeting that shall be called in 2022 to approve the financial statements at 31 December 2021.

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

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

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

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

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

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

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

Group Structure as at 30 June 2020

The scope of consolidation of the Snam Group at 30 June 2020[1] has not changed compared to that at 31 December 2019.

The main transactions on equity investments in the first half of 2020, which did not have an impact on the Group's scope of consolidation, were as follows: (i) the sale, on 13 January 2020, of a 6% stake in the associated company Senfluga, downstream of which Snam's stake is 54%. This sale follows the agreements signed by the Senfluga shareholders for the sale of a 10% stake, in proportion to the shares held by each shareholder; (ii) the completion, on 26 February 2020, of the acquisition of a 49.07% stake in OLT (Offshore LNG Toscana), against which Snam takes control of the regasification terminal jointly with First State Investments International LTD; (iii) the change in the stake in Tep Energy Solution S.r.l. (TEP) from 82% to 100% of the share capital, through the exercise of the call option on third-party interests (equal to 18%)[2] made on 6 March 2020; (iv) the change of the company name of Snam 4 Efficiency S.r.l. to Asset Company 4 S.r.l. effective 14 May 2020; (v) the subsequent change of the company name of Asset Company 4 S.r.l. to Snam 4 Efficiency S.r.l. effective 19 May 2020.

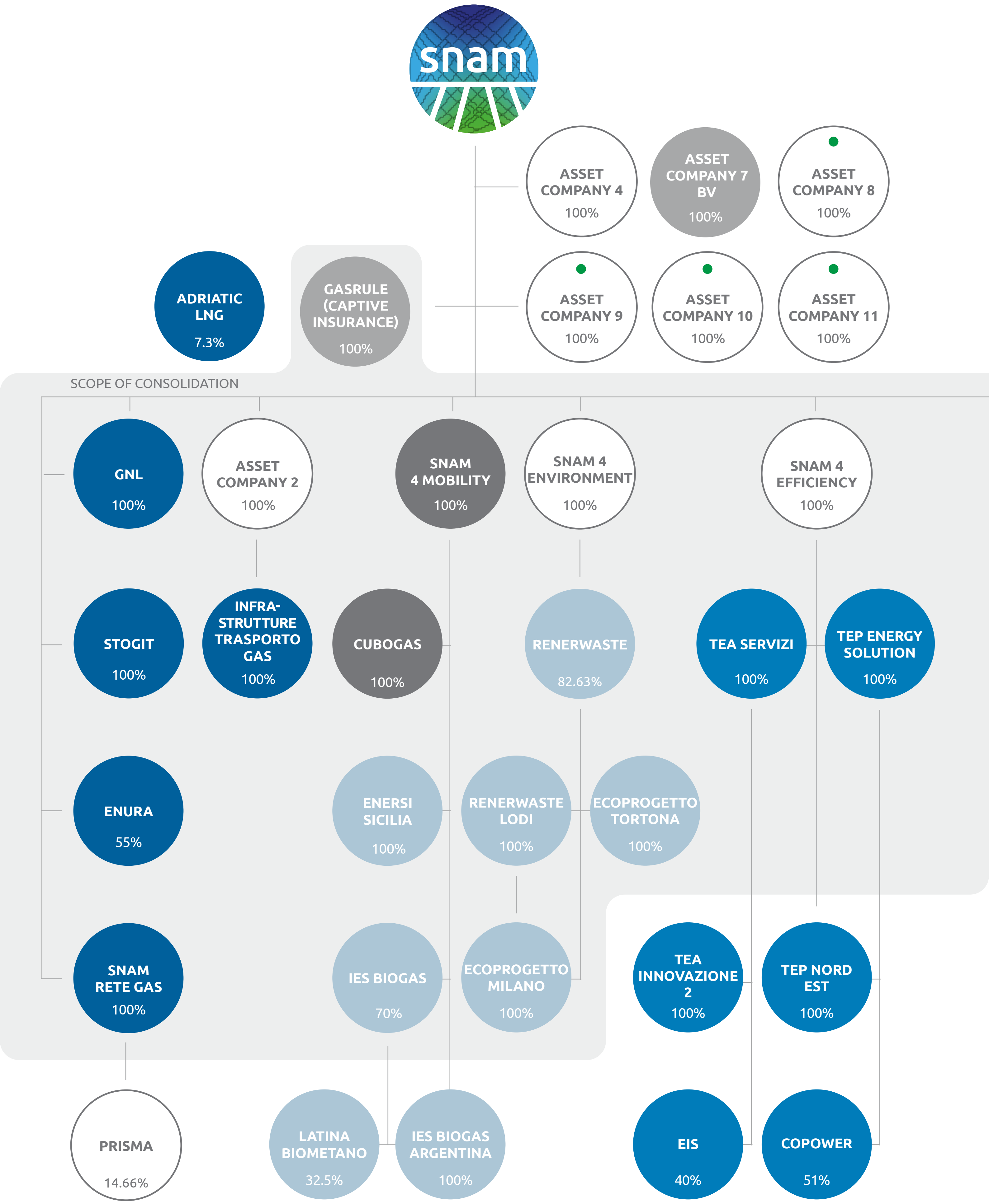
It should also be noted that during the first half of 2020 corporate vehicles will be available for future business needs.

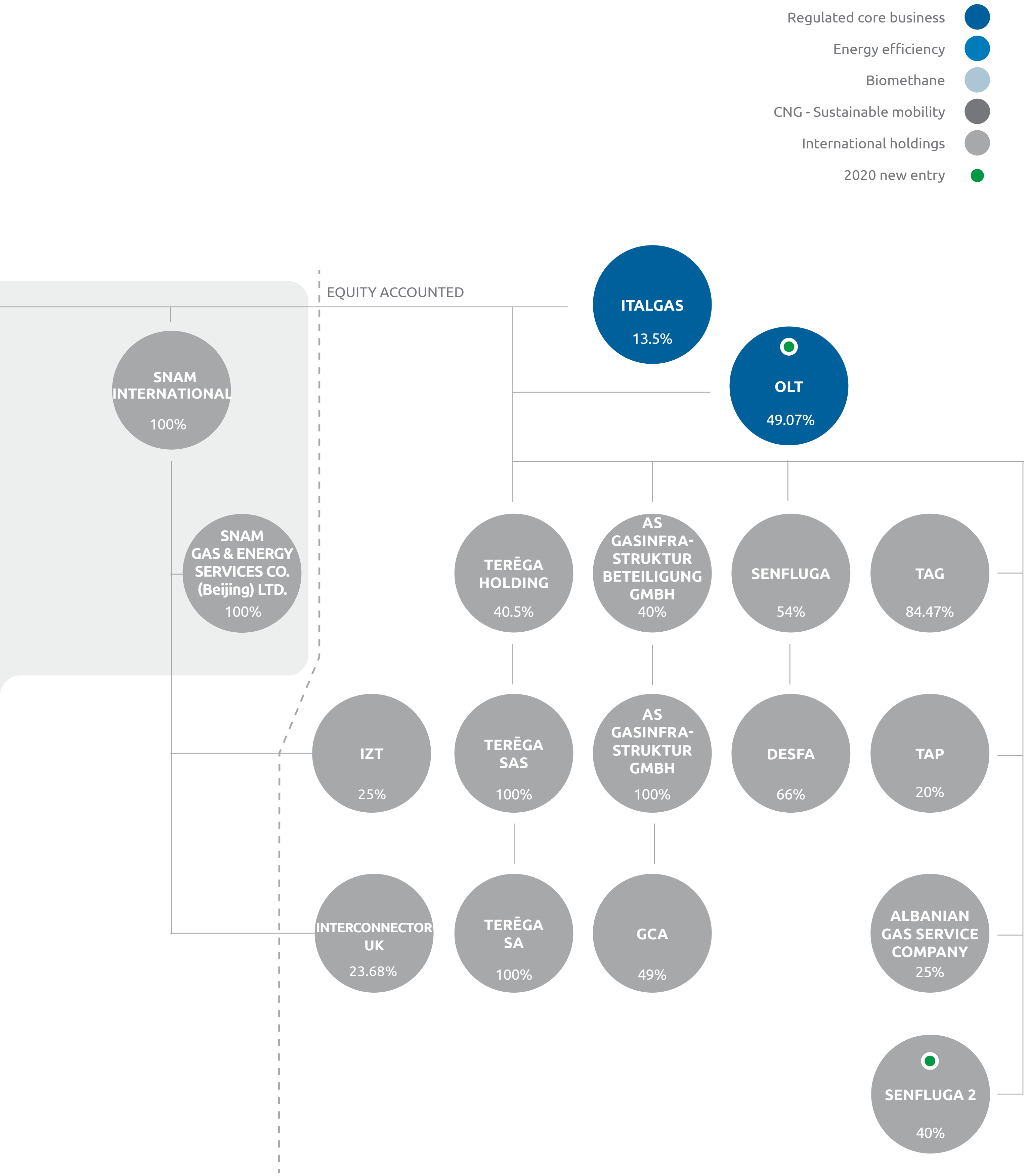
The structure of the Group at 30 June 2020 is shown below:

1 Further information can be found in the annex “Snam S.p.A. equity investments at 30 June 2020” to the Notes to the condensed interim consolidated financial statements.

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

Group structure as at 30 June 2020




Regulated core business
Energy efficiency
Biomethane
CNG - Sustainable mobility
International holdings
2020 new entry
EQUITY ACCOUNTED
ITALGAS 13.5%
OLT 49.07%
SNAM INTERNATIONAL 100%
SNAM GAS & ENERGY SERVICES CO. (Beijing) LTD. 100%
TERĒGA HOLDING 40.5%
AS GASINFRA-STRUKTUR BETEILIGUNG GMBH 40%
SENFLUGA 54%
TAG 84.47%
IZT 25%
TERĒGA SAS 100%
AS GASINFRA-STRUKTUR GMBH 100%
DESFA 66%
TAP 20%
INTERCONNECTOR UK 23.68%
TERĒGA SA 100%
GCA 49%
ALBANIAN GAS SERVICE COMPANY 25%
SENFLUGA 2 40%

General contents

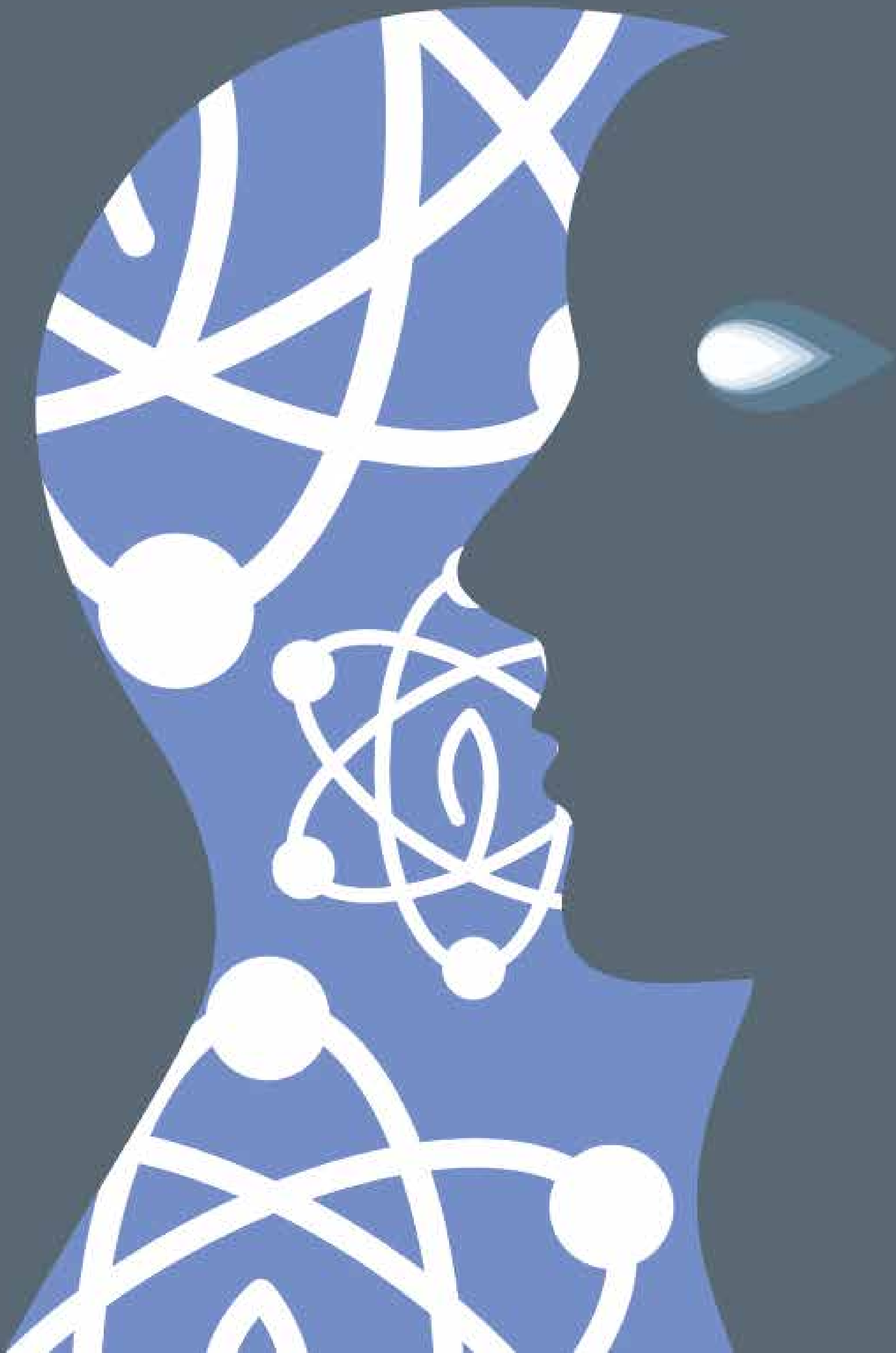
General contents

Disclaimer

This Report contains forward-looking statements, specifically in the "Outlook" section, relating to changes in demand for natural gas, investment plans, future management performance and the execution of projects.
Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. The actual results may therefore differ from those forecast as a result of several factors: trends in natural gas demand, supply and price, actual operating performance, general macroeconomic conditions, geopolitical factors such as international conflicts, the effect of new energy and environmental legislation, the successful development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.

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

Interim Directors' report



Contents of the Interim directors' report

Summary data and information

Results

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

Income components classified as special items in the first half of 2020 refer to costs incurred as a result of the COVID-19 pandemic-related emergency, mainly related to donations of medical supplies and cash to the Italian health system and the third sector, purchases of personal protective equipment for internal use and costs for services, for a total of Euro 9 million (Euro 6 million net of related taxes).

No special items were recognised in the first half of 2019.

ADJUSTED RESULTS[3]

Adjusted EBITDA for the first half of 2020 amounted to Euro 1,107 million, substantially in line with the corresponding figure reported for the first half of 2019 (Euro -4 million or 0.4%). The higher regulated revenues deriving from the increase in the RAB base (Euro +6 million), together with the cost reduction actions activated as a result of the lock-down measures, were absorbed by the effects of the reduction in volumes of gas transported as a result of the COVID-19 health emergency and milder weather during the winter months (Euro -15 million compared with the same period of the previous year).

Adjusted EBIT

Euro 733 million; -3.0%

Adjusted EBIT[4] for the first half of 2020 amounted to Euro 733 million, down Euro 23 million, or 3.0%, compared with the corresponding figure reported for the first half of 2019 following the above-mentioned reduction in EBITDA together with the physiological increase in amortisation and depreciation (Euro -19 million, or 5.4%), resulting from the entry into service of new assets.

3 For the definition of these indicators and the reconciliation of the economic ones with the related reported results, in line with the guidelines of the 2015/ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 05 October 2015 as subsequently amended, please refer to the chapter "Financial review and other information - Non-GAAP measures".

4 An analysis of EBIT by business segment is provided in the “Business segment operating performance” section. In conformity with IFRS 8 “Operating segments”, the operating business segments were defined on the basis of the internal reporting used by the Company’s management for allocating resources to the different segments and for analysing the respective performances. To this end, it is noted that the “Corporate and other activities” segment, not operating under the terms of IFRS 8, includes the new companies acquired in FYs 2018 and 2019, which head activities relating to the energy transition. The operating business segment of Natural gas transportation includes the values of the companies Snam Rete Gas, Infrastrutture Trasporto Gas and Enura.

Adjusted net profit

Euro 578 million; -0.5%

Adjusted net profit in the first half of 2020 amounted to Euro 578 million, substantively in line (Euro -3 million or 0.5%) compared with the reported net profit achieved in the first half of 2019 (Euro 581 million). The above-mentioned reduction in EBIT was partly absorbed by the improvement in net financial expense (Euro +18 million; equal to 21.2%), mainly due to the optimisation of the financial structure and treasury management, despite the higher average indebtedness for the period influenced by the outlay for the acquisition of the jointly controlled interest in OLT, as well as temporary effects on working capital, which are expected to be partly reabsorbed in the second half of the year. The reduction in net profit was also affected by lower income from equity investments (Euro -8 million; -6.8%) due to the lower contribution of the investee company Teréga, which in the first half of 2019 had benefited from non-recurring income, and Interconnector UK which, in line with forecasts, had lower capacity commitments in the first half of the year compared with the same period last year, more than absorbed by lower income taxes (Euro -10 million; equal to 4.8%) essentially due to lower pre-tax profit.

Net cash flow from operations (Euro 749 million) allowed us to cover entirely the net technical investments for the period of Euro 513 million. Including the disbursement related to the acquisition of the jointly controlled interest in OLT (Euro 334 million, including ancillary charges; Euro 316 million net of redemptions for the period), Free Cash Flow was negative by Euro 83 million. Net financial debt, after the cash flow of shareholders' equity (Euro 881 million), deriving primarily from payment to shareholders of the 2019 dividend (Euro 770 million, of which Euro 313 million as an advance and Euro 457 million as the balance[5]) and from purchase of treasury shares (Euro 111 million), recorded an increase of Euro 965 million on 31 December 2019.

Technical investments

Euro +49 million

Technical investments in the first half of 2020 totalled Euro 457 million (Euro 408 million in the first half of 2019), Euro 49 million or 12.0% more than in the same period last year, despite the slowdown caused by the COVID-19 pandemic. The investments related mainly to the transportation (Euro 388 million; Euro 340 million in the first half of 2019) and storage (Euro 43 million; Euro 60 million in the first half of 2019) segments. On the basis of the information available to date, it is expected that by the end of the year there will be a substantial recovery of the delays compared to the investments planned for 2020.

During the first half of 2020, there were 3 accidents involving Snam employees and contractors, similarly in the first half of 2019, despite the expansion of the group's perimeter, thanks to Snam's constant commitment to developing and promoting health and safety protection in the workplace, not only within the company but also towards suppliers. With regard to accident indices, there was a decrease in frequency (0.49; 0.54 in the first half of 2019), but an increase in severity compared with the first half of 2019 (1.25; 0.04 in the first half of 2019), following an accident with fatal outcome that occurred to a contracting supplier.

[5] The total dividend from 2019 earnings amounted to Euro 779 million , including Euro 313 million as an advance (paid in full) and Euro 466 million as the balance (including Euro 457 million paid at 30 June 2020 and Euro 9 million to be paid upon deferral of collection requested by certain shareholders).

Main events

Financing

Transition Bond

On 10 June 2020, Snam S.p.A. concluded issue of its first Transition Bond for a nominal amount of Euro 500 million, with annual coupon of 0.75% and maturity on 17 June 2030.

By issuing its first Transition Bond, which follows the issue of the Climate Action Bond in February 2019, Snam intends to ensure full alignment of the company's financial strategy with the energy transition through its sustainability objectives, as well as further expanding its investor base.

International business development

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

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

The transaction values 49% of ADNOC Gas Pipelines, a company that holds for 20 years the management rights to 38 pipelines in the United Arab Emirates, at about 10.1 billion dollars.

The consortium has obtained approximately 8 billion dollars in funding from a pool of international banks. The equity contribution is distributed proportionally among the consortium members, all of whom hold equal shares with the exception of the GIP leader. For Snam, in particular, the disbursement from own resources amounted to approximately 250 million dollars.

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

Biomethane

Entry into the agricultural biomethane segment: agreement signed for the acquisition of 50% of Biomethane Initiatives

Snam, through its subsidiary Snam 4 Environment and following the stipulation of a binding letter of intent communicated on 21 November 2019 when the strategic plan was presented, signed an agreement with Femogas S.p.A. for the acquisition of a 50% stake in the share capital with joint control rights of Iniziative Biometano, a company operating in Italy in the management of biogas and biomethane plants fed with biomass of agricultural origin. The value of the transaction is approximately Euro 10 million.

The acquisition will allow Snam to enter and increase its expertise in the field of biomethane for agricultural production, whose development is crucial for the affirmation of biomethane in Italy as a structuring element of the energy transition. Iniziative Biometano, through its subsidiaries, owns five biogas plants already in operation, for which conversion to biomethane is planned, and is also developing further projects throughout Italy. The plants acquired through the acquisition of Iniziative Biometano will have a total production potential of about 31 megawatts when fully operational.

The transaction, which is expected to be closed by the end of the year, will generate further synergies for the Snam Group as the plant conversion and construction activities will be carried out through the subsidiary IES Biogas, leader in the construction of biogas and biomethane plants in Italy and abroad. In its plan for 2023, Snam looks to invest Euro 250 million in the biomethane segment as part of its comprehensive growth programme in the most important sectors of energy transition and decarbonisation.

Energy efficiency

Snam strengthens itself in energy efficiency: agreement to acquire 70% of Mieci and Evolve

On 10 June 2020 Snam, through its subsidiary Snam4Efficiency, signed contracts with Gemma S.r.l. and Fen Energia S.p.A. to acquire, in cash, 70% of two companies active in the energy efficiency sector in Italy, Mieci S.p.A. and Evolve S.r.l., for a total value of approximately Euro 50 million.

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

As part of the transaction, options are envisaged to allow Snam 4 Efficiency to acquire 100% of both companies in the long term and, for the seller, to invest in Snam 4 Efficiency. The transaction, subject to antitrust clearance, is expected to be completed by the end of October.

Sustainable mobility

Awarded third order for public transport in Paris

Cubogas, controlled by Snam4Mobility and specialized in technological solutions for CNG (compressed natural gas) refueling stations, was awarded the tender for the construction of a new natural gas distributor for buses launched by RATP, the Parisian public transport company active in the entire Île-de-France region.

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

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

Hydrogen

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

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

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

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

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

Memorandum of Understanding (MoU) between Snam and Rina for the launch of a collaboration in the hydrogen sector

Snam and Rina, a leading global player active in the field of testing, inspection, certification and engineering consulting services, have signed an MoU to start a collaboration in the hydrogen sector, in order to realise its wide potential as a key energy carrier for the fight against climate change and the decarbonisation of industries.

Other

COVID-19 health emergency

Snam, also through the Snam Foundation, has decided to donate Euro 20 million to support the Italian health system and the third sector in the fight against the COVID-19 emergency. To date, 600 ventilators and 600,000 masks have been donated and over 60 non-profit organisations and associations have been supported. The donation will also be allocated to new initiatives to support the restart of the country after the acute phase of the health emergency. In addition, the "Diamo forma al futuro" ("Let's shape the future") fund-raising campaign, promoted by Snam employees, was launched, ending on 11 May. As part of this initiative, to which the Chief Executive Officer Marco Alverà also contributed, over 10% of managers decided to reduce their GAC by percentages ranging from 5% to 25%. The total amount collected will be doubled by Snam, for a total amount of over Euro 800 thousand, and will then be donated to parties involved in the health emergency and identified together with the Snam Foundation. Transfers of over Euro 60 thousand were also made to external entities, doubled by the company. In addition, more than 250 days of vacation were donated to third parties and employees in difficulty and 4,000 hours of work, thanks to the generosity of over 1,200 employees.

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

On 18 June 2020, the Snam Ordinary Shareholders' Meeting, after revoking the resolution of the Ordinary Shareholders' Meeting of 2 April 2019 to authorise the purchase of treasury shares, for the part that remained unexecuted, authorised the purchase of treasury shares, to be carried out on one or more occasions through one or more top-level intermediaries appointed by the Company, for a maximum duration of 18 months from the date of the resolution, with a maximum disbursement of Euro 500 million, and in any case up to the maximum limit of shares in portfolio equal to 6.50% of the subscribed and paid-up share capital (taking into account treasury shares already held by the Company).

The shareholders' resolution also specifies the terms and conditions of the price for the purchase of treasury shares and provides that acts of disposal may be carried out on one or more occasions, without time limits and even before the purchases have been exhausted, in relation to all or part of the Company's treasury shares purchased on the basis of the same resolution, as well as those already held. The Extraordinary Shareholder’s Meeting held on the same date also approved the cancellation of 33,983,107 treasury shares with no nominal value with no change to the share capital and the resulting amendment of art. 5.1 of the Articles of Association. The shares were cancelled on 06 July 2020 following the deposit with Companies House of the amended Articles of Association.

As a result of this transaction, the share capital consists of 3,360,857,809 shares with no nominal value for a total value of Euro 2,736 million (as at 31 December 2019). At the date of this report, Snam has 91,500,000 shares in its portfolio, equal to 2.72% of the share capital.

Key figures

Main income statement data

(€ million)	First half 2019	First half 2020	Change	Change %
Regulated revenues (a)	1,252	**1,273**	21	1.7
Total revenue (a)	1,303	**1,346**	43	3.3
Operating costs (a) (b)	192	**239**	47	24.5
EBITDA (b)	1,111	**1,107**	(4)	(0.4)
(EBIT) (b)	756	**733**	(23)	(3.0)
Net profit (b) (c)	581	**578**	(3)	(0.5)

(a) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.
(b) The 2020 values are shown in the adjusted configuration.
(c) Entirely held by Snam shareholders.

Reported results

(€ million)	First half 2019	First half 2020	Change	Change %
EBIT	756	**724**	(32)	(4.2)
Net profit (a)	581	**572**	(9)	(1.5)

(a) Entirely held by Snam shareholders.

Key balance sheet and cash flow figures

(€ million)	First half 2019	First half 2020	Change	Change %
Technical investments	408	**457**	49	12.0
Net invested capital at period end	17,588	**19,112**	1,524	8.7
Shareholders' equity at end of period (including minority interests)	6,065	**6,224**	159	2.6
Shareholders’ equity attributable to Snam at period end	6,062	**6,221**	159	2.6
Net financial debt at period end	11,523	**12,888**	1,365	11.8
Free cash flow	794	**(83)**	(877)	

Key share and income figures

		First half 2019	First half 2020	Change	Change %
Number of shares of share capital	(million)	3,394.8	**3,394.8**		
Number of shares outstanding at year end	(million)	3,300.8	**3,269.4**	(31.4)	(1.0)
Average number of shares outstanding during the period	(million)	3,300.8	**3,292.1**	(8.7)	(0.3)
Period end official share price	(€)	4.388	**4.334**	(0.054)	(1.2)
EBIT per share (*)	(€)	0.229	**0.220**	(0.009)	(4.0)
Net profit per share held by Snam shareholders (*)	(€)	0.176	**0.174**	(0.002)	(1.3)

(*) Calculated considering the average number of shares outstanding during the period.

Key operating figures

	First half		Change	Change %
	2019	2020		
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	39.82	**35.71**	(4.11)	(10.3)
Gas demand (b)	40.44	**36.06**	(4.38)	(10.8)
Liquefied Natural Gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	1.39	**1.30**	(0.09)	(6.5)
Natural gas storage (a)				
Total available storage capacity (billions of cubic metres) (c)	12.5	**12.5**		
Natural gas moved through the storage system (billions of cubic metres)	11.8	**11.9**	0.10	0.8
Employees in service at period end (number) (d)	**3,014**	**3,048**	**34**	**1.1**
of which business segment:				
- Transportation	1,894	**1,908**	14	0.7
- Regasification	64	**64**		
- Storage	63	**62**	(1)	(1.6)
- Corporate and other activities (e)	993	**1,014**	21	2.1
Employees and contract workers accident indices				
Total number of injuries	3	**3**		
Frequency index (f)	0.54	**0.49**	(0.05)	
Severity index (g)	0.04	**1.25**	1.21	

(a) With regard to the first half of 2020, gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 MJ/SCM (10.575 kWh/SCM) for transportation and regasification activities and approximately 39.3 MJ/SCM (10.893 kWh/SCM) natural gas storage for the 2020-2021 thermal year.

(b) The data for the first half of 2020 is current as at 09 July 2020. The corresponding figure for 2019 has been updated definitively and is consistent with that published by the Ministry of Economic Development.

(c) (e) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 June 2020 is that declared to the Electricity, Gas and Water Authority at the start of the 2020- 2021 thermal year, almost entirely conferred as at 30 June 2020.

(d) Fully consolidated companies.

(e) The figures for the first half of 2020 include the resources coming from the companies of the Renerwaste group (41 resources, as at 30 June 2020) and from TEA Servizi (5 resources, as at 30 June 2020).

(f) Frequency index: number of accidents at work resulting in absence of at least one day, per million hours worked.

(g) Severity index: number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

Natural gas transportation

During the first half of 2020, the volumes of gas injected into the network totalled 35.71 billion cubic metres, down by 4.11 billion cubic metres, or 10.3%, compared to the corresponding figure for the first half of 2019 (39.82 billion cubic metres), essentially as a result of the significant drop in demand for natural gas in Italy (36.06 billion cubic metres; -4.38 billion cubic metres; -10.8%) recorded in all consumption sectors. In particular, the contraction in gas demand is attributable: (i) to the lesser consumption in the thermoelectric sector (-1.66 billion cubic metres; -13.0%), recorded almost entirely in March-June as a result of the reduction in demand for electricity caused by lock-down measures to contain the COVID-19, as well as the increase in production from hydroelectric and photovoltaic plants, partly offset by a substantial drop in electricity import flows; (ii) to the lesser consumption in the residential and tertiary sector (-1.55 billion cubic metres; -8.9%) compared to milder temperatures in the first half of 2019.

The reduction in demand for natural gas was also affected by lesser consumption in the industrial sector (-1.03 billion cubic metres; -11.4%), affected by a 20% reduction in the industrial production index in the first five months of 2020, intensified by the closure of various production activities following the lock-down (March-April) and then by the slow recovery of industrial production (May-June).

Adjusted for the weather effect, gas demand was estimated at 36.39 billion cubic metres, down by 3.32 billion cubic metres (8.4%) compared with the first half of 2019 (39.71 billion cubic metres), also following the greater use of energy efficiency enhancing measures by the residential and tertiary sector.

Natural gas storage

The natural gas moved through the storage system in the first half of 2020 totalled 11.9 billion cubic metres, a slight rise compared with volumes in the first half of 2019 (+0.1 billion cubic metres; +0.8%). The higher injections were partly compensated by lower storage supply, mainly due to weather conditions. Total storage capacity at 30 June 2020, including strategic storage, was 17.0 billion cubic metres (unchanged from 30 June 2019 and 31 December 2019). Total capacity includes 12.5 billion cubic metres of available storage capacity, fully booked as at 30 June 2020, and 4.5 billion cubic metres of strategic[6] storage capacity (unchanged from the thermal year 2019-2020).

[6] With a press release dated 17 January 2020, the same Ministry confirmed for the thermal year 2020-2021 (01 April 2020-31 March 2021) the volume of strategic gas storage equal to 4.62 billion cubic metres, of which 4.5 billion are attributable to Stogit.

Liquefied Natural Gas (LNG) regasification

During the first half of 2020, 1.30 billion cubic metres of LNG (1.39 billion cubic metres in the first half of 2019) were regasified and 31 methane tankers were unloaded (33 in the first half of 2019), in line with the number of unloadings conferred.

Snam share performance

The Snam share price ended the first half 2020 at an official price of Euro 4.334, down 7.51% from the Euro 4.686 recorded at the end of 2019.

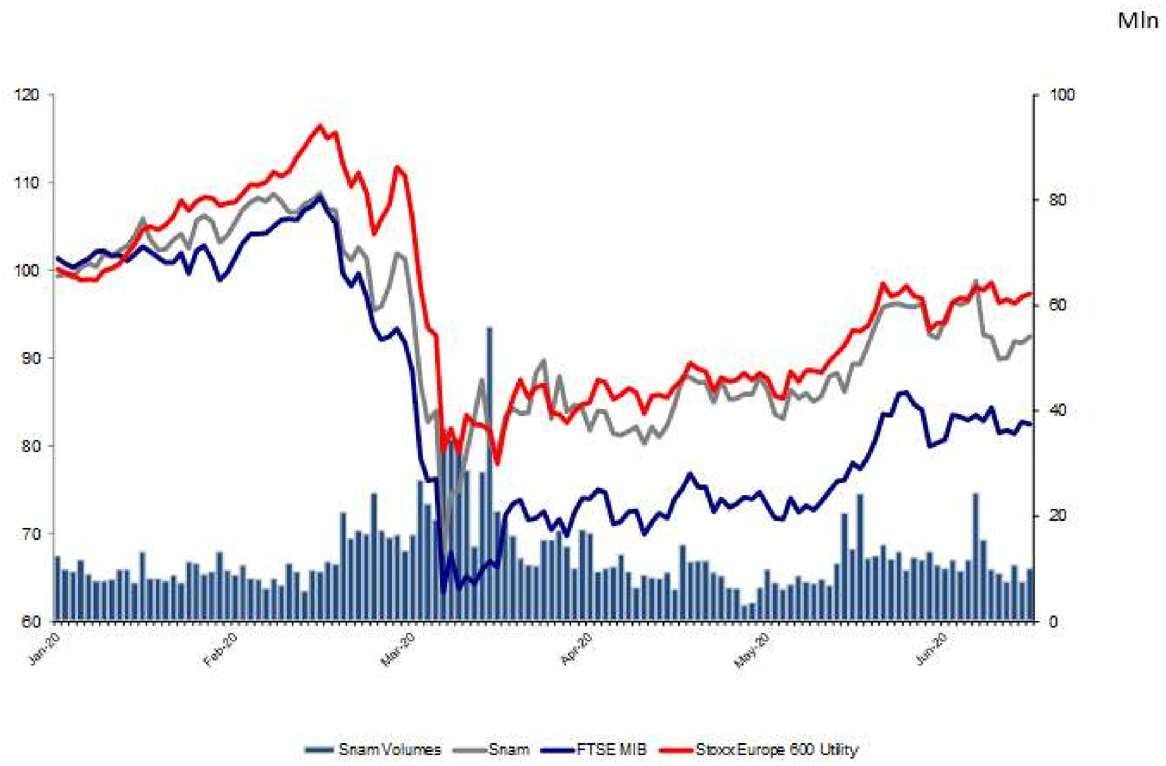
The average value of the share during the half year was Euro 4.358, peaking at Euro 5.1 in the second half of February.

In the first few months of the year, Snam shares benefited from the perceived greater stability of the regulatory environment compared to other sectors.

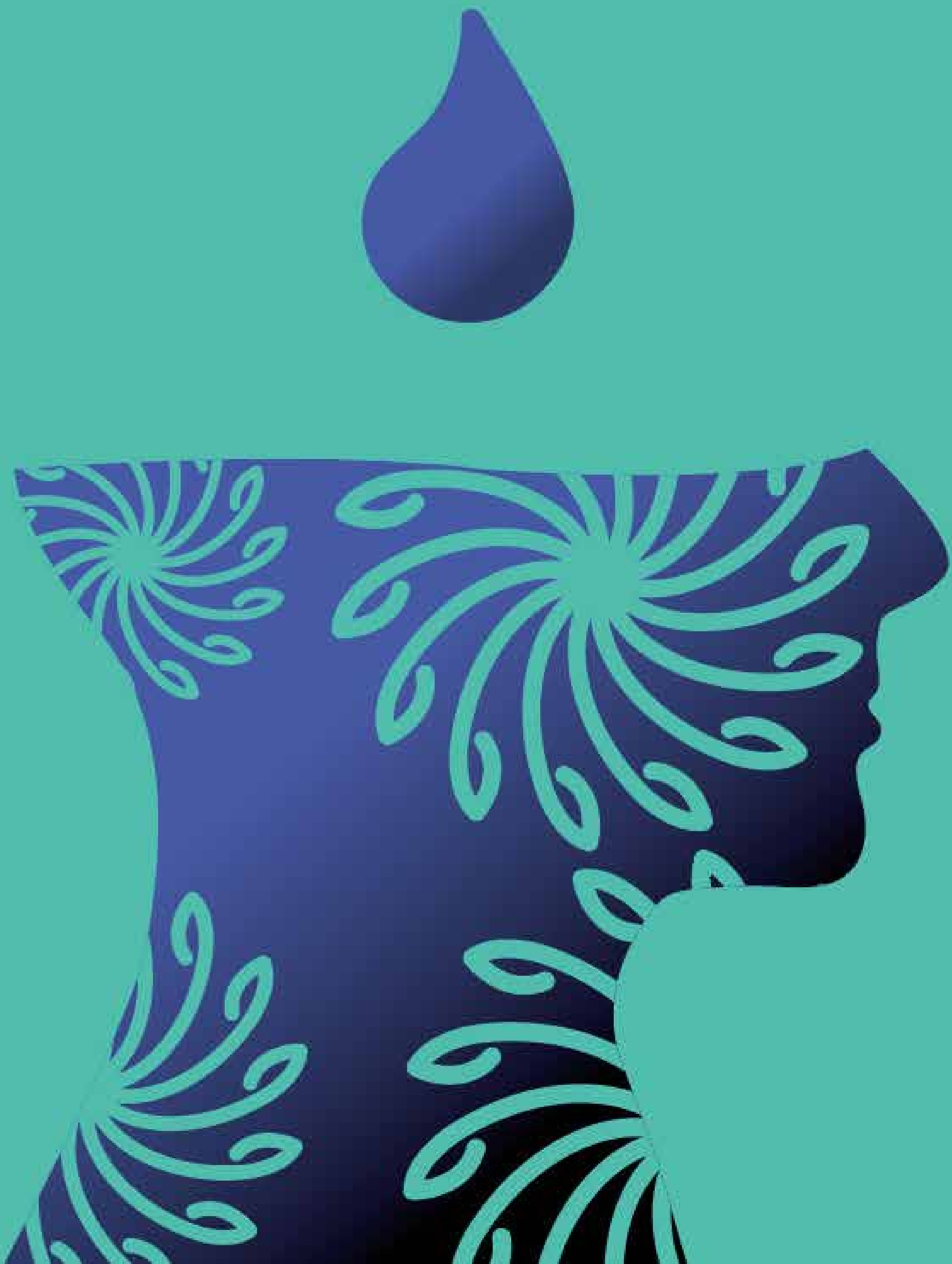
Since the beginning of March, concerns about the effects of the COVID-19 pandemic and lock-down measures have triggered strong tensions and volatility in financial markets and global equity indices have fallen sharply. The Snam share also fell in relation to the intensification of restrictive measures and the widening of the yield differential between Italian and German government bonds. Despite the restrictions imposed by the authorities on production activities and the mobility of people, the company has worked with great commitment and extraordinary measures to guarantee its essential energy security service. Despite the difficult context, Snam has confirmed its 2019 - 2023 investment plan. On the basis of the most up-to-date information available, also due to the nature of Snam's activities, limited impacts are expected on the economy and the investment programme, proportionately to the speed of recovery of business.

The growing results in the first quarter, the success of the issue of the first Transition Bond, whose funds will be used to finance projects in the energy transition, the agreement with ADNOC to join the networks of the Arab Emirates, and the continued commitment to energy transition activities, are elements that contributed to a gradual recovery of the share in the last months of the first half of the year.

SNAM - Comparison of prices of Snam, FTSE MIB and STOXX Europe 600 Utility
(1 January 2020 - 30 June 2020)



Business segments operating performance



Natural gas transportation

Information of the Natural gas transportation business segment includes the values of Snam Rete Gas, Infrastrutture Trasporto Gas and Enura.

Key performance indicators

	First half			
(€ million)	2019	2020	Change	Change %
Total revenue (a) (b)	1,068	**1,080**	12	1.1
Total revenue net of pass- through items (a) (b)	1,025	**1,044**	19	1.9
- of which regulated revenue (a) (b)	*992*	***1,014***	*22*	*2.2*
Operating costs (a) (b)	166	**192**	26	15.7
Operating costs net of pass-through items (a) (b)	123	**156**	33	26.8
EBIT	607	**579**	(28)	(4.6)
Technical investments	340	**388**	48	14.1
- of which with a greater return	*105*	***126***	*21*	*20.0*
- of which with a basic return (c)	*235*	***262***	*27*	*11.5*
Natural gas injected in the National Gas Transportation Network (billions of cubic metres) (d)	39.82	**35.71**	(4.11)	(10.3)
Gas transportation network (kilometres in use)	32,640	**32,727**	87	0.3
- of which national network	*9,613*	***9,728***	*115*	*1.2*
- of which regional network	*23,027*	***22,999***	*(28)*	*(0.1)*
Employees in service at period end (number)	1,894	**1,908**	14	0.7

(a) Before consolidation adjustments.

(b) The revenue components that are offset by costs ("pass-through" items) relate to modulation. As from 1 January 2020, the pass-through component attributable to interconnection with other transport operators is recognised as a direct reduction in the corresponding revenue (Euro 22 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 26 million) have been restated.

(c) At an actual basic pre-tax WACC of 5.7% for 2019 and 2020.

(d) The data for the first half of 2020 is current as at 09 July 2020. The corresponding figure for 2019 has been updated definitively and is consistent with that published by the Ministry of Economic Development.

Results

Total revenue amounted to Euro 1,080 million, up by Euro 12 million, or 1.1%, compared with the first half of 2019 (Euro 1,068 million). Net of components offset in costs[7], total revenue amounted to Euro 1,044 million, up by Euro 19 million, or 1.9%, compared with the corresponding period of the previous year, mainly in view of the higher regulated revenue.

Adjusted revenues, net of the components that are offset by costs and the effects deriving from the coverage of energy costs, amounted to Euro 988 million, down by Euro 4 million or 0.4%. The higher revenues mainly attributable to tariff updating mechanisms, which are attributable in particular to the increase in RAB (Euro + 12 million), were absorbed by the reduction in volumes transported as a result of the COVID-19 health emergency, as well as milder weather compared with 2019 (Euro -15 million compared with the same period of the previous year).

Unregulated revenues (Euro 30 million) decreased by Euro 3 million compared with the first half of 2019, due mainly to recharges for technical services provided to other Group companies, which are reflected in the costs incurred to provide the related services.

EBIT stands at Euro 579 million, down Euro 28 million, or 4.6%, on the first half 2019. The reduction is

7 The main revenue components offset by costs relate to the modulation service.

essentially due to lower revenues, lower capitalisation deriving from the temporary slowdown in investment activities due to the lock-down, as well as higher amortisation and depreciation mainly due to the entry into service of new assets (Euro -14 million; equal to 4.7%).

Technical investments

	First half 2019		First half 2020	
Type of investment	**Higher return (%) (*)**	**€ million**	**Higher return (%) (*)**	**€ million**
Development	1.0%	105	1.5%	126
Replacement and other		235		262
		340		**388**

(*) Compared with an actual basic pre-tax WACC of 5.7%, respectively for 2019 and 2020.

Technical investments amounted to Euro 388 million in the first half of 2020, up by Euro 48 million (+14.1%) compared with the corresponding period of the previous year (Euro 340 million). Investments in the first half of 2020 have been classified consistently with resolution 114/2019/R/gas whereby the Autorità di Regolazione per Energia, Reti e Ambiente ("ARERA" or the "Authority") identified different categories of projects with which a different level of remuneration is associated.

The main investments made in developing new transportation capacity, for which a greater remuneration of 1% is envisaged (Euro 126 million), concern:

- investments in developing new transportation capacity on the national network functional to import and export capacity (Euro 92 million) as part of the initiative to support the market in the country's north-east, and to allow for the reversal of physical transportation flows at the interconnection points with northern Europe in the area of the Po Valley, projects to upgrade the transportation network in southern Italy, including the interconnection with the Trans Adriatic Pipeline;
- investments for the development of new transport capacity on the Regional and National Networks (Euro 34 million), including: the continuation of construction and connection works connected to the methane pipeline of the Calabria Region and the continuation of the construction of some biomethane and CNG connections;

Investments in replacement and other investments with basic return (Euro 262 million) mainly concern: (i) works aimed at maintaining plant safety levels, also in terms of function and quality (Euro 102 million), including, in particular, the adjustment of the Istrana plant, the maintenance works in accordance with Italian Presidential Decree no. 151, adjustments and improvements to plants; (ii) the replacement of methane pipelines (Euro 66 million); (iii) projects relating to the development of information systems and the implementation of existing ones (Euro 75 million), including the Consumption Cloud - Azure project, the storage of software development, the adaptation of applications to support network management and mapping systems; (iv) real estate projects (Euro 4 million).

Operating review

Injections and withdrawals of gas in the transmission network

Gas volumes are stated in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10.575 Kwh/SCM). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

The volumes of gas injected into the network in the first half of 2020 totalled 35.71 billion cubic metres, down by 4.11 billion cubic metres, or 10.3%, compared to the corresponding figure for the first half of 2019 (39.82 billion cubic metres), essentially as a result of the significant drop in demand for natural gas in Italy (36.06 billion cubic metres; -4.38 billion cubic metres; -10.8%) recorded in all consumption sectors, partly offset by the net balance of the storage (+0.27 billion cubic metres).

Injections into the network from domestic production fields or their collection and treatment centres totalled 1.97 billions of cubic metres, down by 0.38 billions of cubic metres (-16.2%) compared with the first half of 2019.

Volumes of gas injected into the network for entry points interconnected with foreign countries or with LNG regasification terminals amounted to 33.74 billions of cubic metres, down 3.73 billions of cubic metres or 10.0% on the first half of 2019. The lesser volumes injected from the LNG regasification terminals (-0.49 billion cubic metres; -7.0%), as well as from the entry points of Tarvisio (-1.50 billion cubic metres; -9.4%), Mazara del Vallo (-1.79 billion cubic metres; -31.7%) and Gela (-0.45 billion cubic metres; -16.0%), were partly offset by the higher volumes injected from the Passo Gries entry point (+0.50 billion cubic metres; +8.2%).

Gas injected into the network (*)

	First half			
€ million	2019	2020	Change	Change % (**)
Domestic output	**2.35**	**1.97**	**(0.38)**	**(16.2)**
Entry points (***)	**37.47**	**33.74**	**(3.73)**	**(10.0)**
Tarvisio	15.93	**14.43**	(1.50)	(9.4)
GriesPass	6.08	**6.58**	0.50	8.2
Mazara del Vallo	5.64	**3.85**	(1.79)	(31.7)
Cavarzere (LNG)	3.83	**3.46**	(0.37)	(9.7)
Gela	2.81	**2.36**	(0.45)	(16.0)
Livorno (LNG)	1.78	**1.80**	0.02	1.1
Panigaglia (LNG)	1.40	**1.26**	(0.14)	(10.0)
	39.82	**35.71**	**(4.11)**	**(10.3)**

(*) The data for the first half of 2020 is current as at 09 July 2020. The corresponding figure for 2019 has been updated definitively and is consistent with that published by the Ministry of Economic Development.

(**) The percentage change is calculated with reference to the figures in cubic metres.

(***) Entry points connected with other countries or with LNG regasification plants.

Regulation

Tariff regulations for 2021

Approval of revenues for the year 2021

By means of Resolution 180/2020/R/gas, published on 26 May 2020, the Authority approved the revenue recognised and prices for the natural gas transportation, dispatching and metering service for 2021. Revenue recognised for the natural gas storage service for 2021 amounted to Euro 2,121 million. The RAB used to calculate 2021 revenue for the transmission, dispatching and measurement business was Euro 16.8 billion, and included the investments estimated for 2020.

Balancing and gas settlement

Amendments to the Integrated Text on Balancing (TIB)

By Resolution No. 45/2020/R/gas, the AEEG approved several amendments to the Integrated Text for balancing and the Integrated Text for monitoring the wholesale natural gas market, which are functional to the definition of the parameters for the incentive system of the Balancing Manager for the fourth incentive period from 20 February 2020 to 31 December 2021.

The measure confirmed the incentive scheme in place, based on three performance indicators (p1, p2, p3) that measure respectively the goodness of the System's forecasts of requirements (p1) and the efficiency of the Balancing Manager's balancing actions (p2 linked to the intervention prices of the Balancing Manager and p3 on the residual balance sheet), providing for profit sharing with the System of part of the annual bonus. Two new performance indicators have also been introduced (p4 already defined with Res. 208/2019/R/gas and p5), linked to the start of the new Settlement regime, which measure SRG's efficiency in supplying the quantities of gas needed to operate the network.

In addition, the Authority refers to further evaluations and to the examination of the performance results for 2020, the introduction of a new incentive based on the forecast by the person in charge of Balancing withdrawals during the gas day.

Unaccounted for gas - CNG

Determination of charges for the purchase of gas to cover unaccounted-for gas

With Resolution 291/2020/R/gas, published on 29 July 2020, it concluded its investigation, recognising an additional volume of CNG for the years 2018-2019 totalling 182 million cubic metres, equal to a total value of about Euro 42 million, which will be recognised by the CSEA, net of the amount already received on account for the year 2018. In addition, it has initiated a procedure, to be completed by the end of 2020, to refine the CNG recognition criteria for the 5th regulatory period (2020-2023), aimed at strengthening the consistency of the mechanism's operation and its stability, providing that the incentive force of the mechanism is in any case determined on the basis of predefined unit fees proportionate to the remuneration of the metering service, rather than the price of gas.

Liquefied Natural Gas (LNG) regasification

The Liquefied Natural Gas Regasification business segment information includes the values of the company GNL Italia.

Key performance indicators

	First half			
Billions of cubic meter	2019	2020	Change	Change %
Total revenue (*)	19	**15**	(4)	(21.1)
Total revenue net of pass- through items (*)	13	**12**	(1)	(7.7)
- of which regulated revenue (*)	*9*	***11***	2	22.2
Operating costs (*)	15	**11**	(4)	(26.7)
Operating costs net of pass-through items (*)	9	**8**	(1)	(11.1)
EBIT	2	**1**	(1)	(50.0)
Technical investments (**)	5	**8**	3	60.0
Volumes of LNG regasified (billions of cubic metres) (***)	1.39	**1.30**	(0.09)	(6.5)
Tanker loads (number)	33	**31**	(2)	(6.1)
Employees in service at period end (number)	64	**64**		

(*) Before consolidation adjustments.
(**) Investments remunerated at an actual basic pre-tax WACC of 6.8%, both for 2019 and 2020.
(***) The regasified volumes are shown gross of self-consumption and losses (QCP component), equal to 1.40% for the Panigaglia terminal. Gas volumes are expressed in standard cubic metres (Scm) with an average higher heating value (HHV) of 38.1 Mj/Scm (10.575 KWh/Scm).

Results

Total revenue amounted to Euro 15 million, a decrease of Euro 4 million, or 21.1%, compared with the first half 2019. Total revenues, net of components offset by costs[8], decreased by Euro 1 million, or 7.7%, compared with the same period last year, due mainly to lower revenues from gas sales on the balancing platform, which more than offset the increase in regulated revenues.

Regulated revenue, net of items that are offset in costs, comes to Euro 11 million, up by Euro 2 million on the first half of 2019. The increase is attributable to the introduction, for the fifth regulatory period in force from 1 January 2020, of a variable fee to cover energy costs (electricity and CO_2), against fees for regasification capacity in line with the previous period.

EBIT of Euro 1 million, down Euro 1 million on the first half of 2019, due mainly to an increase in depreciation and amortisation related to new capitalisations. The lower revenues from gas sales were offset by lower operating costs for the related withdrawals from stock.

Technical investments

Technical investments in the first half totalled Euro 8 million (Euro 5 million in the first half 2019) and concerned maintenance investments aimed at guaranteeing plant system safety, with specific reference to tank revamping interventions.

Operating review

During the first half 2020, at the LNG terminal of Panigaglia (SP), 1.30 billions of cubic metres of LNG were regasified (1.39 during the first half 2019) and 31 discharges from methane tanker loads, an increase on the first half 2019 (33 discharges), also thanks to the new auction-based capacity allocation mechanisms.

8 Revenue offset in costs regards the recharging to customers of expenses relating to natural gas transportation services provided by Snam Rete Gas S.p.A. (Euro 6 million and Euro 2 million, respectively in the first half 2019 and 2018). For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within GNL Italia S.p.A. in order to represent the substance of the operation.

Regulation

Tariff regulations for 2021

Approval of revenues for the year 2021

By means of Resolution no. 229/2020/R/gas "Approval of tariffs for the LNG regasification service for the year 2021 and provisions relating to the revenue coverage factor for 2019", published on 26 June 2020, the Authority approved the revenues recognised for the regasification service for the year 2021 based on the proposal submitted by GNL Italia. The tariffs were determined on the basis of reference revenues of Euro 26.6 million and energy costs of approximately Euro 4.3 million. The revenue coverage factor has been set at 64% of the reference revenue. The RAB for regasification activities was Euro 129 million.

At the same time, the Authority gave the go-ahead for the payment by the CSEA of the amounts due in relation to the revenue coverage factor for the year 2019 for an amount of approximately Euro 11 million.

Natural gas storage

The Natural Gas Storage business segment information includes the values of the company Stoccaggi Gas Italia (Stogit).

Key performance indicators

	First half			
(€ million)	2019	2020	Change	Change %
Total revenue (a) (b)	295	**342**	47	15.9
Total revenue net of pass- through items (a) (b)	252	**249**	(3)	(1.2)
- of which regulated revenue (a) (b)	*251*	***248***	(3)	(1.2)
Operating costs (a) (b)	76	**126**	50	65.8
Operating costs net of pass-through items (a) (b)	33	**33**		
EBIT	169	**163**	(6)	(3.6)
Technical investments (c)	60	**43**	(17)	(28.3)
Concessions (number)	10	**10**		
- of which operational (d)	*9*	***9***		
Natural gas moved through the storage system (billions of cubic metres) (e)	11.8	**11.9**	0.1	0.8
- of which injected	*5.7*	***5.9***	*0.2*	*3.5*
- of which withdrawn	*6.1*	***6.0***	*(0.10)*	*(1.6)*
Total storage capacity (billions of cubic metres)	17.0	**17.0**		
- of which available (f)	*12.5*	***12.5***		
- of which strategic	*4.5*	***4.5***		
Employees in service at period end (number)	63	**62**	(1)	(1.6)

(a) Before consolidation adjustments.
(b) As from 1 January 2020, the pass-through component attributable to interconnection with other storage operators is recognised as a direct reduction in the corresponding revenue (Euro 3 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 3 million) have been restated.
(c) Investments remunerated at an actual basic pre-tax WACC of 6.7%, both for 2019 and 2020.
(d) Working gas capacity for modulation services.
(e) The volumes of gas are expressed in Standard cubic metres (SCM) with an average higher heating value (HHV) equal to 39.3 MJ/Scm (10.893 KWh/SCM) for the thermal year 2020- 2021 (approximately 39.3 MJ/SCM, 10.895 KWh/SCM, for the thermal year 2019- 2020).
(f) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity and may not be in line with the maximum filling.

Results

Total revenue came to Euro 342 million, up on the first half 2019 (Euro +47 million; 15.9%). Total revenues, net of cost[9] components, amounted to Euro 249 million, down slightly compared to the same period of the previous year (Euro -3 million; -1.2%).

Regulated revenues , net of components offset by costs, amounted to Euro 248 million, down slightly compared with the same period of the previous year (Euro -3 million; -1.2%). The lower storage revenues due to tariff updating mechanisms were partly absorbed by higher revenues related to the introduction, for the fifth regulatory period in force from 1 January 2020, of a variable fee to cover energy costs (electricity and CO_2).

EBIT stands at Euro 163 million, down Euro 6 million, or 3.6%, on the first half 2019. The reduction is mainly due to lower revenues, against costs in line with the previous period, as well as higher amortisation and depreciation (Euro -3 million; equal to 6.0%) following the entry into service of new infrastructures.

9 These components mainly refer to revenues deriving from the charge-back to storage users of the costs related to the natural gas transportation service, provided by Snam Rete Gas S.p.A., pursuant to Resolution 297/2012/R/gas of the Authority (Euro 93 million; Euro 43 million in the first half of 2019). For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.

Technical investments

(€ million)	First half 2019	First half 2020	Change	Change %
Type of investment				
Development of new fields and upgrading of capacity	28	**3**	(25)	(89.3)
Maintenance and other	32	**40**	8	25.0
	60	**43**	**(17)**	**(28.3)**

Technical investments in the first half of 2020 amounted to Euro 43 million, down Euro 17 million (-28.3%) compared with the first half of 2019 (Euro 60 million), and refer to investments in the development of new fields and capacity expansion (Euro 3 million) and maintenance and other investments (Euro 40 million).

The latter are mainly relative: (i) "work over" activities on existing wells, in particular at Cortemaggiore, for the restoration to operation of wells made unavailable due to the loss of mechanical integrity; (ii) engineering works on the TC1 plant at Sergnano and the compressor units; (iii) IT projects (Euro 7 million), mainly for the Consumption Cloud - Azure Credit project and for the purchase of licenses and projects on system renewals.

Operating review

Gas moved through the storage system

The natural gas moved through the storage system in the first half of 2020 totalled 11.9 billion cubic metres, a slight rise compared with volumes in the first half of 2019 (+0.1 billion cubic metres; +0.8%). The higher injections were partly compensated by lower storage supply, mainly due to weather conditions.

Total storage capacity at 30 June 2020, including strategic storage, was 17.0 billion cubic metres (unchanged from 30 June 2019 and 31 December 2019). Total capacity includes 12.5 billion cubic metres of available storage capacity, fully booked as at 30 June 2020, and 4.5 billion cubic metres of strategic[10] storage capacity (unchanged from the thermal year 2019-2020).

Regulation

Storage service incentive mechanisms

With Resolution no. 232/2020/R/Gas, the Authority extends to 31 December 2020 the incentive scheme that provides for (i) a 50% profit sharing on the sale of short-term storage services and for the remodulation of the injection profile and (ii) the withholding of 100% of the revenues deriving from the sale of the remodulation services. The resolution requires storage companies to submit an incentive proposal for the following calendar year by 30 November each year. The Authority also envisages that storage companies can access on a voluntary basis an enhanced incentive mechanism that increases the level of profit sharing applied to revenues from the sale of short-term services against a reduction in guaranteed revenues. Storage companies may apply for access to the enhanced incentive mechanism for 2021-2022 by 30 November 2020.

Tariff regulations for 2021

Approval of revenues for the year 2021

By means of Resolution 275/2020/R/gas, published on 23 July 2020, the Authority approved the revenue recognised for the natural gas storage service for 2021. The recognised revenues amounted to Euro 486 million. The RAB used for the calculation of revenues 2021 is Euro 3.95 billion and includes the estimated investments for the year 2020.

[10] With a press release dated 17 January 2020, the same Ministry confirmed for the thermal year 2020-2021 (01 April 2020-31 March 2021) the volume of strategic gas storage equal to 4.62 billion cubic metres, of which 4.5 billion are attributable to Stogit.

Financial review and other information

Financial review

The economic figures relating to "new business" include the values of the companies acquired during 2018 and 2019, which are responsible for the Energy Transition activities, as well as the activities of Snam Global Solutions. Consistently, the figures for the comparison period have been restated.

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

INCOME STATEMENT

	First half				
	2019	2020		2020 adjusted vs 2019	
(€ million)	Reported	Reported	Adjusted (a)	Change	Change %
Regulated revenues (b)	1,252	1,273	1,273	21	1.7
Non-regulated revenue	16	12	12	(4)	(25.0)
Core business revenues	**1,268**	**1,285**	**1,285**	**17**	**1.3**
New business revenues	**35**	**61**	**61**	26	74.3
TOTAL REVENUES (b)	**1,303**	**1,346**	**1,346**	**43**	**3.3**
Core business costs (b)	**(156)**	**(188)**	**(179)**	**(23)**	14.7
New business costs	**(36)**	**(60)**	**(60)**	**(24)**	66.7
TOTAL OPERATING COSTS (b)	**(192)**	**(248)**	**(239)**	**(47)**	24.5
EBITDA	**1,111**	**1,098**	**1,107**	**(4)**	**(0.4)**
Amortisation, depreciation and impairment losses	(355)	(374)	(374)	(19)	5.4
EBIT	**756**	**724**	**733**	**(23)**	**(3.0)**
Net financial expenses	(85)	(67)	(67)	18	(21.2)
Net income from equity investments	118	110	110	(8)	(6.8)
Profit before taxes	**789**	**767**	**776**	**(13)**	**(1.6)**
Income taxes	(208)	(195)	(198)	10	(4.8)
Net profit (c)	**581**	**572**	**578**	**(3)**	**(0.5)**

(a) The values exclude the special items. For more details see the summary below.

(b) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.

(c) Entirely held by Snam shareholders.

Reconciled summary of adjusted results (*)

	First half			
(€ million)	2019	2020	Change	Change %
EBIT	**756**	**724**	**(32)**	**(4.2)**
Exclusion of special items for emerging COVID-19 costs:		**9**	**9**	
- of which donations		*7*	*7*	
- of which sanitary material for internal use		*1*	*1*	
- of which services		*1*	*1*	
Adjusted operating profit (adjusted EBIT)	**756**	**733**	**(23)**	**(3.0)**
Net profit (**)	**581**	**572**	**(9)**	**(1.5)**
Exclusion of special items for emerging COVID-19 costs net of related taxes		6	6	
Adjusted net profit (**)	**581**	**578**	**(3)**	**(0.5)**

(*) Further details are provided in the section "Alternative Performance Measures (Non-GAAP Measures)" of this Report.
(**) Entirely held by Snam shareholders.

Adjusted EBITDA for the first half of 2020 amounted to Euro 733 million, coming in below the corresponding amount reported in the first half of 2019, for a decrease of Euro 23 million, or 3.0%. The higher regulated revenues deriving from the increase in the RAB base (Euro +6 million), together with the cost reduction actions activated as a result of the lock-down measures, were absorbed by the effects of the reduction in volumes of gas transported as a result of the COVID-19 health emergency and milder weather during the winter months (Euro -15 million , compared with the same period of the previous year). The reduction in EBIT was also affected by the physiological increase in depreciation and amortisation for the period (Euro -19 million, or 5.4%), due mainly to the commissioning of new assets.

Adjusted net profit in the first half of 2020 amounted to Euro 578 million, a slight reduction (Euro -3 million or 0.5%) compared with the net profit achieved in the first half of 2019 (Euro 581 million). The above-mentioned reduction in EBIT was partly absorbed by the improvement in net financial expense (Euro +18 million; equal to 21.2%), mainly due to the optimisation of the financial structure and treasury management, despite the higher average indebtedness for the period influenced by the outlay for the acquisition of the jointly controlled interest in OLT, as well as temporary effects on working capital, which are expected to be partly reabsorbed in the second half of the year. The reduction in net profit was also affected by lower income from equity investments (Euro -8 million; -6.8%) due to the lower contribution of the investee company Teréga, which in the first half of 2019 had benefited from non-recurring income, and Interconnector UK, had lower capacity commitments in the first half of the year compared with the same period last year, more than absorbed by lower income taxes (Euro -10 million; equal to 4.8%) essentially due to lower pre-tax profit.

Net of the emerging costs subject to adjustment, the overall impact on net income in the first half of 2020 resulting from the effects of COVID-19 amounts to approximately Euro 5 million.

Analysis of the entries on the adjusted income statement

Total revenue

	First half			
(€ million)	2019	2020	Change	Change %
Business segments				
Transportation (a)	1,068	**1,080**	12	1.1
Storage (a)	295	**342**	47	15.9
Regasification	19	**15**	(4)	(21.1)
Corporate and other activities	132	**189**	57	43.2
Consolidation eliminations	*(211)*	**(280)**	(69)	32.7
	1,303	**1,346**	**43**	**3.3**

Core and new business revenues

	First half			
(€ million)	2019	2020	Change	Change %
Core business revenues	**1,268**	**1,285**	17	1.3
Regulated revenues (a)	***1,252***	***1,273***	21	1.7
- Transportation (a) (b)	992	1,014	22	2.2
- Storage (a) (b)	251	248	(3)	(1.2)
- Regasification	*9*	*11*	2	22.2
Non-regulated revenue	***16***	***12***	(4)	(25.0)
New business revenues	**35**	**61**	26	74.3
Total revenue (a)	**1,303**	**1,346**	43	3.3

(a) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.

(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 the first half of 2019 have been restated.

Total revenue in the first half of 2020 amounted to Euro 1,346 million, up by Euro 43 million or 3.3% compared with the first half of 2019.

Core business revenues (Euro 1,285 million, net of consolidation eliminations) rose Euro 17 million compared with the first half of 2019 (+1.3%) due to higher regulated revenues, up Euro 21 million or 1.7%, thanks in particular to the contribution from the transportation business segment. Net of the effects of the sterilisation of energy costs, regulated revenues amounted to Euro 1,243 million, down by Euro 9 million or 0.7%. The higher revenues mainly attributable to tariff updating mechanisms, which are attributable in particular to the increase in RAB, were absorbed by the reduction in volumes transported as a result of the COVID-19 health emergency, as well as milder weather compared with 2019.

Revenues from new businesses (Euro 61 million, net of consolidation eliminations), increased by Euro 26 million compared to the first half of 2019 (+74.3%) thanks to an increase in EPC activities on Biogas and Biomethane plants, following an increase in active construction sites (from 6 to 11 active construction sites in the first half of 2020), higher revenues for energy efficiency projects thanks to deep renovation activities in the residential sector, an increase in sales of automotive compressors - CNG, as well as the development of Snam Global Solutions activities. The increase in revenues was also affected by the contribution of the companies that joined the scope of consolidation at the end of 2019 operating in the biomethane business.

Operating costs

	First half			
(€ million)	**2019**	**2020**	**Change**	**Change %**
Business segments				
Transportation	166	**192**	26	15.7
Regasification	15	**11**	(4)	(26.7)
Storage	76	**126**	50	65.8
Corporate and other activities (*)	146	**189**	43	29.5
Consolidation eliminations	*(211)*	**(279)**	(68)	32.2
	192	**239**	**47**	**24.5**

(*) The value for the first half of 2020 excludes special items.

Core and new business operating costs

	First half			
(€ million)	**2019**	**2020**	**Change**	**Change %**
Core business costs (a)	**156**	**179**	23	14.7
Fixed costs	139	**142**	3	2.2
Variable costs	10	**21**	11	
Other costs (b)	7	**16**	9	
New business costs	**36**	**60**	24	66.7
Total operating costs (a)	**192**	**239**	47	24.5

(a) Starting 01 January 2020, the cost components that are offset in revenues (so-called pass-through items), essentially attributable to interconnection, are recognised as a direct reduction of the corresponding revenue (Euro 25 million in the first half of 2020). Consistently, the corresponding figures for the first half of 2019 (Euro 29 million) have been restated.
(b) The value for the first half of 2020 excludes special items.

Total revenue in the first half of 2020 amounted to Euro 239 million, up by Euro 47 million (24.5%) compared with the first half of 2019.

Operating costs of the core business amounted to Euro 179 million, an increase of Euro 23 million, or 14.7%, compared with the first half 2019.

The effects of the cost reduction actions activated as a result of the lock-down measures, together with the dynamics of the provisions for risks and charges, were more than absorbed by the increase in energy costs, referring in particular to the costs for the purchase of fuel gas, previously contributed in kind by shippers. These costs are covered by revenues, based on the current regulatory framework for the fifth regulatory period.

New business operating costs (Euro 60 million) rose by Euro 24 million, or 66.7% compared to the same period of 2019. The increase is mainly attributable to the costs arising from the entry and integration of companies active in the biomethane business that entered the scope of consolidation at the end of 2019.

The number of employees as at 30 June 2020 (3,048 people) is analysed below by professional status:

	First half			
	2019	**2020**	**Change**	**Change %**
Professional status				
Executives	103	**122**	19	18.4
Managers	489	**505**	16	3.3
Office workers	1,691	**1,686**	(5)	(0.3)
Manual workers	731	**735**	4	0.5
	3,014	**3,048**	**34**	**1.1**

The increase of 34 units compared to the first half of 2019 is mainly due to the resources coming from Renerwaste and TEA Servizi, which joined the group at the end of 2019.

Amortisation, depreciation and impairment losses

	First half			
(€ million)	**2019**	**2020**	**Change**	**Change %**
Total amortisation and depreciation	**355**	**374**	**19**	**5.4**
Business segments				
Transportation	295	**309**	14	4.7
Regasification	2	**3**	1	50.0
Storage	50	**53**	3	6.0
Corporate and other activities	8	**10**	2	25.0
Consolidation eliminations		***(1)***	(1)	
Impairment losses (Recovery of value)				
	355	**374**	**19**	**5.4**

Amortisation, depreciation and impairment losses (Euro 374 million) rose by Euro 19 million or 5.4% on the first half 2019, mainly due to the natural gas transportation segment, following, essentially, the commissioning of new assets.

EBIT

(€ million)	First half 2019	2020	Change	Change %
Business segments				
Transportation	607	**579**	(28)	(4.6)
Regasification	2	**1**	(1)	(50.0)
Storage	169	**163**	(6)	(3.6)
Corporate and other activities (*)	(22)	**(10)**	12	54.5
	756	**733**	**(23)**	**(3.0)**

(*) The value for the first half of 2020 excludes special items.

Net financial expenses

(€ million)	First half 2019	2020	Change	Change %
Financial expense related to net financial debt	**81**	**72**	**(9)**	**(11.1)**
- Interest and other expense on short- and long- term financial debt	85	**77**	(8)	(9.4)
- Bank interest income	(4)	**(5)**	(1)	25.0
Other net financial expense (income)	**8**		(8)	(100.0)
- Accretion discount	4	**3**	(1)	(25.0)
- Other net financial expense (income)	4	**(3)**	(7)	(175.0)
Losses on derivatives - ineffective portion	**1**	**1**		
Financial expense capitalised	**(5)**	**(6)**	**(1)**	20.0
	85	**67**	**(18)**	**(21.2)**

Net financial expense (Euro 67 million) record a Euro 18 million reduction, equal to 21.2%, in respect to the first half 2019. The reduction is due to the benefits of the initiatives implemented by Snam to optimise its treasury management financial structure, despite the higher average debt for the period. The financial expense capitalised in the first half of 2020 total Euro 6 million, basically in line with the first half of 2019 (Euro +1 million).

Income from equity investments

(€ million)	First half 2019	2020	Change	Change %
Effect of valuation using the equity method	116	**107**	(9)	(7.8)
Dividends	2	**2**		
Other income		**1**	1	
	118	**110**	**(8)**	**(6.8)**

Net income from equity investments (Euro 110 million) refers mainly to the Group's interest in the net results of companies valued by the equity method (Euro 107 million), mainly related to the joint ventures TAG (Euro 44 million; Euro 39 million in the first half 2019), Teréga (Euro 20 million; Euro 29 million in the first half 2019) and the associates Italgas (Euro 21 million; Euro 23 million in the first half 2019) and Senfluga (Euro 17 million; Euro 15 million in the first half 2019).

The decrease of Euro 9 million compared with the first half of 2019 is mainly attributable to the contribution of Teréga, which in the first half of 2019 had benefited from non-recurring income, and Interconnector UK, which had lower capacity commitments in the first half compared with the same period last year, as well as a lower contribution from Italgas.

Income taxes

	First half			
(€ million)	2019	2020	Change	Change %
Current taxes (*)	**223**	**215**	**(8)**	**(3.6)**
(Prepaid) deferred taxes				
Deferred taxes	(30)	**(8)**	22	(73.3)
Prepaid taxes	15	**(9)**	(24)	(160.0)
	(15)	**(17)**	**(2)**	**13.3**
	208	**198**	**(10)**	**(4.8)**
Tax rate (%) (*)	**26.4**	**25.5**	**(0.9)**	**(3.4)**

(*) The value for the first half of 2020 excludes special items.

Income taxes for the first half of 2020 (Euro 198 million) decreased by Euro 10 million, or 4.8%, compared with the same period of the previous year, mainly due to the lower pre-tax profit, the greater ACE - Aid to economic Growth benefit[11], reintroduced by the 2020 Budget Law, as well as the benefits associated with the tax benefits from super-amortisation.

The tax rate was 25.5% (26.4% in the first half 2019).

Non-GAAP measures

Snam presents in the management report, in addition to the financial results envisaged by the IFRS, certain variables deriving from the latter, even if not envisaged by the IFRS or by other standard setters (Non-GAAP measures).

Snam's management believes that these measures facilitate the analysis of the Group's performance and of the business sectors, ensuring better comparability of results over time.

Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS.

In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from

11 This measure, introduced by Decree-Law no. 201 of 6 December 2011 converted into Law no. 214 of 22 December 2011 and subsequent additions and amendments, was repealed by the 2019 Budget Law and reinstated by the 2020 Budget Law with a reduced rate from 1.5% to 1.3%.

reclassifications or algebraic sums of conventional indicators[12] and compliant with international accounting standards[13].

With regard to the impact of COVID-19 on the determination of alternative performance indicators, ESMA[14] recommends caution in the use of separate items in the income statement with regard to the impacts of COVID-19 in order to ensure consistency in the determination of alternative performance indicators, and not to affect the comprehensibility of a company's financial performance through new indicators if not adequately justified.

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

EBITDA, EBIT and adjusted net profit

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

The income statement items classified as special items in the first half of 2020 include Euro 9 million in costs incurred as a result of the emergency caused by the COVID-19 pandemic (Euro 6 million net of related taxes), broken down as follows: (i) donations of medical equipment (Euro 5 million) and money (Euro 2 million), also through the Snam Foundation, in favour of the Italian health system and the third sector; (ii) purchases of personal protective equipment for internal use (Euro 1 million); costs for services (Euro 1 million), mainly related to workplace sanitisation and security.

No special items were recognised in the first half of 2019.

Special items

The income components are classified under special items, if significant, when: (i) they result from non-recurring events or transactions or from transactions or events which do not occur frequently in the ordinary course of business; or (ii) they result from events or transactions which are not representative of the normal course of business.

[12] According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the balance sheet, the income statement, the statement of changes in shareholders' equity and the statement of cash flows are conventional indicators or in the commentary notes.

[13] For the definition of these quantities refer to the Glossary.

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

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Any income components deriving from non-recurring transactions in accordance with Consob Resolution no. 15519 of 27 July 2006 are also shown separately in the IFRS financial report.

Free cash flow

Free cash flow is the measure that allows the connection between the obligatory financial statement, which expresses the change in liquidity between the beginning and end of the period, and the change in net financial debt between the beginning and end of the reclassified cash flow statement. "Free cash flow" represents the surplus or cash deficit remaining after the investment financing and closes alternatively: (i) on the cash change for the period, after the cash flows related to the financial payables/assets (credit/debit repayments/financial payables) have been added/subtracted, to the equity capital (payment of dividends/net acquisition of own shares/capital injections), as well as the effects on cash and cash equivalents of changes in the scope of consolidation and exchange differences arising from conversion; (ii) on the change in net financial debt for the period, after the flows relating to own capital have been added/subtracted, as well as the effects on net financial debt of changes in the scope of consolidation and exchange differences arising on conversion.

Net financial debt

Net financial debt is calculated as financial debt net of liquid funds and equivalents, securities available for sale and to be held to maturity and short-term financial receivables.

Reclassified statement of financial position

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year Report based on how the business operates, usually split into the three basic functions of investment, operations and financing.

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

Management uses the reclassified balance sheet to calculate the key profitability ratios (ROI and ROE).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (*)

(€ million)	31.12.2019	30.06.2020	Change
Fixed capital	**19,311**	**19,773**	**462**
Property, plant and equipment	16,439	16,469	30
- of which rights of use of leased assets	*21*	*19*	*(2)*
Compulsory inventories	363	363	
Intangible fixed assets	990	1,031	41
Equity investments	1,828	1,844	16
Long-term financial receivables	3	318	315
Net payables for investments	(312)	(252)	60
Net working capital	**(1,094)**	**(618)**	**476**
Provisions for employee benefits	**(46)**	**(43)**	**3**
Assets held for sale	**10**		**(10)**
NET INVESTED CAPITAL	**18,181**	**19,112**	**931**
Shareholders' equity	**6,258**	**6,224**	**(34)**
- Held by Snam's shareholders	6,255	6,221	(34)
- Minority interests	3	3	
Net financial debt	**11,923**	**12,888**	**965**
- of which financial payables for leased assets	*21*	*19*	*(2)*
COVERAGE	**18,181**	**19,112**	**931**

(*) For a reconciliation of the reclassified statement of financial position to the compulsory format see the paragraph below "Reconciliation of the reclassified financial statement with the compulsory formats".

The fixed capital (Euro 19,773 million) increased by Euro 462 million compared to 31 December 2019, essentially as a result of: (i) the increase in long-term financial receivables (Euro +315 million) following the taking over of the residual portion of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020 (Euro 332 million; Euro 314 million net of subsequent repayments); (ii) the increase in tangible and intangible assets (Euro +71 million); together with (iii) the trend in net payables related to investment activities (Euro +60 million).

The change in property, plant and equipment and in intangible fixed assets can be broken down as follows:

(€ million)	Property, plant and equipment	Assets intangible	Total
Balance at 31 December 2019	**16,439**	**990**	**17,429**
Technical investments	381	76	**457**
Amortisation, depreciation and impairment losses	(338)	(36)	**(374)**
Transfers, write-offs and divestments	(1)		**(1)**
Other changes	(12)	1	**(11)**
Balance at 30 June 2020	**16,469**	**1,031**	**17,500**

Technical investments in the first half of 2020, totalling Euro 457 million[15] (Euro 408 million in the first half of 2019), related mainly to the transportation (Euro 388 million) and storage (Euro 43 million) business segments.

Other changes (Euro -11 million) refer mainly to the effect of adjusting the present value of disbursements for site decommissioning and remediation costs (Euro -12 million), due to an increase in expected discount rates. Contributions to works for interference with third parties have been absorbed by the effects of changes in the inventories of piping and related ancillary materials used in plant construction activities, referring to the natural gas transportation business segment.

Equity investments

The item equity investments (Euro 1,844 million) mainly includes: (i) equity investments valued by the equity method in Trans Austria Gasleitung GmbH-TAG (Euro 526 million), Teréga Holding S.A.S. (Euro 495 million), Trans Adriatic Pipeline AG – TAP (Euro 260 million), Italgas S.p.A. (Euro 201 million), Senfluga Energy Infrastructure Holdings (Euro 137 million), AS Gasinfrastruktur Beteiligung GmbH (Euro 121 million) and Interconnector UK (Euro 59 million); (ii) the minority interest in the company Terminale GNL Adriatico S.r.l. (Adriatic LNG) (Euro 37 million).

15 An analysis of the technical investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

Net working capital

(€ million)	31.12.2019	30.06.2020	Change
Trade receivables	1,217	**1,267**	50
Inventories	112	**122**	10
Tax receivables	35	**50**	15
Other assets	185	**85**	(100)
Provisions for risks and charges	(713)	**(696)**	17
Trade payables	(487)	**(312)**	175
Assets and liabilities from regulated activities	(145)	**(146)**	(1)
Deferred tax liabilities	(106)	**(85)**	21
Derivative liabilities/(assets)	(63)	**(79)**	(16)
Tax liabilities	(35)	**(53)**	(18)
Other liabilities	(1,094)	**(771)**	323
	(1,094)	**(618)**	**476**

The Net Capital for the Fiscal Year (Euro -618 million) improve by Euro 476 million in respect to 31 December 2019. This improvement was mainly due to: (i) the reduction in the amount payable to Snam shareholders against the payment, on 22 January 2020, of the 2019 interim dividend of Euro 0.095 per share (Euro +313 million); (ii) higher net assets for additional tariff components invoiced to transport service users (Euro +75 million), mainly due to the dynamics of invoicing fees and the related collection times; (iii) the recognition of the receivable from the CSEA for the lower amounts invoiced to transport users in the first half of 2020, compared with the constraint established by the Regulatory Authority (Euro +45 million).

Statement of comprehensive income

	First half	
(€ million)	2019	2020
Net profit	**581**	**572**
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective share)	(52)	**(15)**
Portion of equity investments valued using the equity method pertaining to “other components of comprehensive income” (*)	(22)	**(25)**
Tax effect	12	**4**
	(62)	**(36)**
Total other components of comprehensive income, net of tax effect	**(62)**	**(36)**
Total comprehensive income	**519**	**536**
- Held by Snam’s shareholders	519	**536**
- Minority interests		
	519	**536**

(*) The values essentially refer to the change in the fair value of derivative financial instruments used to hedge investments in associates TAP and Senfluga.

Shareholders’ equity

(€ million)		
Shareholders' equity at 31 December 2019		**6,258**
Increases owing to:		
- Comprehensive income for first half 2020	536	
- Other changes	7	
		543
Decreases owing to:		
- 2019 dividend balance	(466)	
Acquisition of treasury shares	(111)	
		(577)
Shareholders' equity at 30 June 2020		**6,224**
- Held by Snam’s shareholders		6,221
- Minority interests		3

Note 18 "Shareholders' Equity" of the Notes to the condensed interim consolidated financial statements gives information about the individual equity items and changes therein compared with 31 December 2019.

At 30 June 2020 Snam held 125,483,107 treasury shares (102,412,920 at 31 December 2019), equal to 3.70% of the share capital (102,412,920 treasury shares, equal to 3.02% of the share capital at 31 December 2019), for a book value of approximately Euro 500 million (Euro 389 million at 31 December 2019) and recorded as a reduction in shareholders' equity. The market value of the treasury shares at 30 June 2020 was around Euro 544 million[16]. For further information about treasury shares, please refer to the next section entitled "Other information - Treasury shares".

Net financial debt

(€ million)	31.12.2019	30.06.2020	Change
Financial and bond debt	**14,774**	**15,992**	**1,218**
Short- term financial debt (*)	4,125	**5,100**	975
Long- term financial payables	10,628	**10,873**	245
Financial payables for leased assets (**)	21	**19**	(2)
Financial receivables and cash and cash equivalents	**(2,851)**	**(3,104)**	**(253)**
Cash and cash equivalents	(2,851)	**(3,104)**	(253)
	11,923	**12,888**	**965**

(*) Includes the short- term portion of long- term financial payables.
(**) Of which Euro 14 million long-term and Euro 5 million short- term portions of long- term financial payables.

Net cash flow from operations (Euro 749 million) allowed us to cover entirely the net technical investments for the period of Euro 513 million. Including the disbursement related to the acquisition of the jointly controlled interest in OLT (Euro 334 million, including ancillary charges connected with the acquisition; Euro 316 million net of redemptions for the period), Free Cash Flow was negative by Euro 83 million. Net financial debt, after the cash flow of shareholders' equity (Euro 881 million), deriving primarily from payment to shareholders of the 2019 dividend (Euro 770 million, of which Euro 313 million as an advance and Euro 457 million as the balance[17] and from the purchase of treasury shares (Euro 111 million), recorded an increase of Euro 965 million on 31 December 2019.

Financial and bond debts at 30 June 2020 equal to Euro 15,992 million (Euro 14,774 million at 31 December 2019) comprise the following:

(€ million)	Total at 31.12.2019	Total at 30.06.2020	Change
Bonds	9,048	**8,682**	(366)
- of which short-term (*)	*1,439*	***827***	*(612)*
Bank loans	3,704	**5,291**	1,587
- of which short-term (*)	*685*	***2,273***	*1,588*
Euro Commercial Paper - ECP (**)	2,001	**2,000**	(1)
Financial payables for leased assets	21	**19**	(2)
	14,774	**15,992**	**1,218**

(*) Includes the short- term portion of long- term financial payables.
(**) Entirely short-term.

16 Calculated by multiplying the number of treasury shares by the period-end official price of Euro 4.334 per share.
17 The total dividend from 2019 earnings amounted to Euro 779 million , including Euro 313 million as an advance (paid in full) and Euro 466 million as the balance (including Euro 457 million paid at 30 June 2020 and Euro 9 million to be paid upon deferral of collection requested by certain shareholders).

Financial and bond debts are denominated in Euro and refer mainly to bond loans (Euro 8,682 million, or 54%) and bank loans (Euro 5,290 million, or 33%, including Euro 1,648 million provided by the European Investment Bank- EIB) and Euro Commercial Papers (Euro 2,000 million, 13%)[18].

Bonds (Euro 8,682 million) declined by Euro 366 million compared with 31 December 2019, specifically: (I) the reimbursement of a fixed-rate bond maturing on 13 February 2020 of a nominal value of Euro 526 million; (ii) the reimbursement of a fixed-rate bond maturing on 29 January 2020 worth a nominal Euro 350 million. These changes were partially offset by the issue of the Transition Bond, for a nominal amount of Euro 500 million, at a fixed rate maturing on 17 June 2030.

Bank loans (Euro 5,291 million) increased by Euro 1,587 million, due mainly to higher net utilisations of uncommitted credit facilities (Euro 1,047 million).

Euro Commercial Paper (Euro 2,000 million) refers to unsecured short-term securities issued on the money market and placed with institutional investors and are substantially in line with 31 December 2019.

Cash and cash equivalents (Euro 3,104 million) refer mainly to current accounts and on-call bank deposits (Euro 3,053 million) and cash held at the company Gasrule Insurance DAC (Euro 25 million) and Snam International B.V. (Euro 20 million).

At 30 June 2020, Snam had unused committed long-term lines of credit worth Euro 3.2 billion.

Information on financial covenants can be found in Note 13 “Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities” of the Notes to the condensed interim consolidated financial statements.

18 At the date of this Report, the Euro Commercial Paper programme had been used for the entire amount of Euro 2 billion.

Reclassified statement of cash flows

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

RECLASSIFIED STATEMENT OF CASH FLOWS (*)

	First half	
(€ million)	2019	2020
Net profit	581	**572**
Adjusted for:		
- Amortisation, depreciation and other non-monetary components	237	**265**
- Net capital losses (capital gains) on asset sales and write-offs	3	**1**
- Dividends, interest and income taxes	279	**247**
Change in working capital due to operating activities	285	**(176)**
Dividends, interest and income taxes collected (paid)	(164)	**(160)**
Net cash flow from operating activities	**1,221**	**749**
Technical investments	(402)	**(457)**
Equity investments	6	**(5)**
Change in long-term financial receivables		**(314)**
Other changes relating to investment activities	(31)	**(56)**
Free cash flow	**794**	**(83)**
Repayment of financial payables for leased assets	(3)	**(3)**
Change in short- and long-term financial payables	577	**1,220**
Equity cash flow (a)	(743)	**(881)**
Net cash flow for the period	**625**	**253**

CHANGE IN NET FINANCIAL DEBT

	First half	
(€ million)	2019	2020
Free cash flow	**794**	**(83)**
Exchange rate differences on financial debt	(2)	
Change in financial payables for leased assets	(24)	**(1)**
Equity cash flow (a)	(743)	**(881)**
Change in net financial debt	**25**	**(965)**

(*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph “Reconciliation of the reclassified financial statements with the compulsory formats” below.

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

Reconciliation of the reclassified financial statement with the compulsory formats

Reclassified statement of financial position

(€ million)

	31.12.2019			30.06.2020	
Items of the reclassified statement of financial position(Where not expressly stated, the component is taken directly from the legally required format)	Reference to notes to consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	**Partial amount from legally required format**	**Amount from reclassified format**
Fixed capital					
Property, plant and equipment			**16,439**		**16,469**
Compulsory inventories			**363**		**363**
Intangible fixed assets			**990**		**1,031**
Equity investments comprising:			**1,828**		**1,844**
- Equity investments measured using the equity method		1,787		**1,805**	
- Other equity investments		41		**39**	
Long-term financial receivables	(Note 5)		**3**		**318**
Net payables for investments, consisting of:			**(312)**		**(252)**
- Payables for investment activities	(Note 14)	(320)		**(256)**	
- Receivables from investment/divestment activities	(Note 5)	8		**4**	
Total fixed capital			**19,311**		**19,773**
Net working capital					
Trade receivables	(Note 5)		**1,217**		**1,267**
Inventories			**112**		**122**
Tax receivables, consisting of:			**35**		**50**
- Current income tax assets and other current tax assets		26		**41**	
- IRES receivables for national tax consolidation scheme	(Note 5)	9		**9**	
Trade payables	(Note 14)		**(487)**		**(312)**
Tax payables, consisting of:			**(35)**		**(53)**
- Current income tax liabilities and other current tax liabilities		(35)		**(53)**	
Deferred tax liabilities			**(106)**		**(85)**
Provisions for risks and charges			**(713)**		**(696)**
Derivative hedging instruments	(Note 15		**(63)**		**(79)**
Other assets, consisting of:			**185**		**85**
- Other receivables	(Note 5)	142		**37**	
- Other current and non-current assets	(Note 8)	43		**48**	
Assets and liabilities from regulated activities, consisting of:			**(145)**		**(146)**
- Regulated assets	(Note 8)	2		**13**	
- Regulated liabilities	(Note 15)	(147)		**(159)**	
Other liabilities, consisting of:			**(1,094)**		**(771)**
- Other payables	(Note 14)	(994)		**(654)**	
- Other current and non-current liabilities	(Note 15)	(100)		**(117)**	
Total net working capital			**(1,094)**		**(618)**
Provisions for employee benefits			**(46)**		**(43)**
Assets held for sale and directly associated liabilities consisting of:			**10**		
- Assets held for sale		10			
NET INVESTED CAPITAL			**18,181**		**19,112**

(€ million)

Items of the reclassified statement of financial position(Where not expressly stated, the component is taken directly from the legally required format)	Reference to notes to consolidated financial statements	31.12.2019 Partial amount from legally required format	31.12.2019 Amount from reclassified format	30.06.2020 Partial amount from legally required format	30.06.2020 Amount from reclassified format
NET INVESTED CAPITAL			**18,181**		**19,112**
Shareholders' equity (entirely held by Snam's shareholders)	(Note 18)		**6,255**		**6,221**
Minority interests	(Note 18)		**3**		**3**
Net financial debt					
Financial liabilities, consisting of:			**14,774**		**15,992**
- Long-term financial liabilities	(Note 13)	10,643		**10,887**	
- Short-term portion of long-term financial liabilities	(Note 13)	1,675		**1,604**	
- Short-term financial liabilities	(Note 13)	2,456		**3,501**	
Financial receivables and cash and cash equivalents, consisting of:			**(2,851)**		**(3,104)**
- Cash and cash equivalents	(Note 4)	(2,851)		**(3,104)**	
Total net financial debt			**11,923**		**12,888**
COVERAGE			**18,181**		**19,112**

Reclassified statement of cash flows

(€ million)	First half			
	2019		2020	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	**Partial amount from legally required format**	**Amount from reclassified format**
Net profit		**581**		**572**
Adjusted for:				
Amortisation, depreciation and other non-monetary components:		**237**		**265**
- Amortisation and depreciation	355		**374**	
- Equity method valuation effect	(116)		**(107)**	
- Other income from equity investments			**(1)**	
- Change in provisions for employee benefits	(4)		**(4)**	
- Other changes	2		**3**	
Net capital losses (capital gains) on asset sales and write-offs		3		**1**
Dividend, interest and income taxes:		279		**247**
- Dividends	(2)		**(2)**	
- Interest income	(4)		**(10)**	
- Interest expense	77		**64**	
- Income taxes	208		**195**	
Change in working capital due to operating activities:		**285**		**(176)**
- Inventories	14		**(12)**	
- Trade receivables	300		**(50)**	
- Trade payables	(153)		**(175)**	
- Change in provisions for risks and charges	8		**(5)**	
- Other assets and liabilities	116		**66**	
Dividends, interest and income taxes collected (paid):		**(164)**		**(160)**
- Dividends collected	71		**89**	
- Interest collected	4		**6**	
- Interest paid	(72)		**(64)**	
- Income taxes (paid) received	(167)		**(191)**	
Net cash flow from operating activities		**1,221**		**749**
Investments:		**(402)**		**(457)**
- Property, plant and equipment	(365)		**(381)**	
- Intangible assets	(37)		**(76)**	
Equity investments		**6**		**(5)**
- Investments in shares	(5)		**(17)**	
- Disinvestments in shares	11		**12**	
Long-term financial receivables				**(314)**
- Stipulation of long-term financial receivables			**(332)**	
- Repayments of long-term financial credit			**18**	
Other changes relating to investment activities:		**(31)**		**(56)**
- Change in net payables for investments	(31)		**(56)**	
Free cash flow		**794**		**(83)**

(€ million)	First half			
	2019		2020	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Free cash flow		794		(83)
Change in short- term financial receivables				
Change in financial payables:		574		1,217
- Taking on long-term financial debt	968		1,147	
- Repaying long-term financial debt	(1,340)		(972)	
- Increase (decrease) in short- term financial debt	949		1,045	
- Repayment of financial payables for leased assets	(3)		(3)	
Equity cash flow		(743)		(881)
- Dividends paid	(746)		(770)	
- Acquisition of treasury shares			(111)	
- Capital contributions by minority interests	3			
Net cash flow for the period		625		253

Other information

Related-party transactions

With effect from 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already qualified as a de facto control under IFRS 10 - Consolidated financial statements from 2014, as a de facto control also pursuant to Article 2359, paragraph 1, of the Italian Civil Code and Article 93 of the Consolidated Law on Finance. Considering the de facto control of CDP S.p.A. over Snam S.p.A., based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, as well as subsidiaries, associates and companies under joint control (directly or indirectly) with the Ministry of Economy and Finance (MEF).

Operations with these parties mainly involve the exchange of goods and the provision of regulated services in the gas sector.

These transactions are part of ordinary business operations and are generally settled at market conditions, i.e. the conditions which would be applied for two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

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

Directors and auditors declare their interests affecting 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), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

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

Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, economic results and cash flows, are provided in Note 28 “Related-party transactions” of the Notes to the condensed interim consolidated financial statements.

Treasury shares

Period	No of shares	Average cost (€)(*)	Total cost (€ millions)	Share capital (%) (**)
Repurchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Year 2017	56,010,436	3.748	210	1.60
Year 2018	113,881,762	3.743	426	3.28
Year 2019	8,412,920	4.609	39	0.25
H1 2020	23,070,187	4.823	111	0.68
	425,691,185	**3.954**	**1,683**	
Less treasury shares granted/sold/cancelled:				
. granted under the 2005 stock grant plans	(39,100)			
. sold under the 2005 stock option plans	(69,000)			
. sold under the 2006 stock option plans	(1,872,050)			
. sold under the 2007 stock option plans	(1,366,850)			
. sold under the 2008 stock option plans	(1,514,000)			
. cancelled in 2012 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
. cancelled in 2018 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(31,599,715)			
. cancelled in 2019 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(74,197,663)			
Treasury shares held by the Company at 30 June 2020	**125,483,107**			

(*) Calculated on the basis of historic prices.

(**) Refers to the share capital in existence at the date of the last purchase of the period.

During the period 1 January-27 February 2020, 23,070,187 shares were purchased, at a total cost of approximately Euro 111 million, to complete the buyback program launched on 16 December 2019 in execution of the resolution approved by the Shareholders' Meeting of 2 April 2019.

As at 30 June 2020, Snam therefore held 125,483,107 treasury shares, equal to 3.70% of the share capital (102,412,920 treasury shares, equal to 3.02% of the share capital at 31 December 2019), with a book value of Euro 500 million (Euro 389 million as at 31 December 2019) recorded on shareholders' equity. The market value of the treasury shares at 30 June 2020 was around Euro 544 million[19].

The share capital as at 30 June 2020 consisted of 3,394,840,916 shares with no nominal value, with a total value of Euro 2,736 million.

The Snam Shareholder's Meeting held on 18 June 2020 in an extraordinary session also approved the cancellation of 33,983,107 treasury shares with no nominal value with no reduction in the share capital, and the resulting amendment of art. 5.1 of the Articles of Association. The shares were cancelled on 06 July 2020 following the deposit with Companies House of the amended Articles of Association. As a result of this transaction, the share capital consists of 3,360,857,809

19 Calculated by multiplying the number of treasury shares by the period-end official price of Euro 4.334 per share.

shares with no nominal value for a total value of Euro 2,736 million (as at 31 December 2019). At the date of this report, Snam has 91,500,000 shares in its portfolio, equal to 2.72% of the share capital.

Incentive plans for managers with Snam shares

2020-2022 Long-Term Share-Based Incentive Plan

The Shareholders' Meeting of Snam, held on 18 June 2020 in ordinary session,approved the 2020-2022 long-term share-based incentive plan, conferring to the Board of Directors, every necessary power for the implementation of the Plan.

The plan is intended for Snam's Chief Executive Officer and managers, identified among those holding positions with the greatest impact on company results or with strategic importance for the achievement of Snam's long-term objectives, as well as any other positions identified in relation to performance achieved, skills possessed or with a view to retention, up to a maximum of 100 beneficiaries.

The Plan calls for three annual attributions for the period 2020-2022. Each attribution is subject to a three-year vesting period and consequently any effective assignment of shares takes place between 2023 and 2025, as shown below:

Attribution	Performance Period	End of Vesting Period	Assignment of Shares
2020	2020-2022	2023	2023
2021	2021-2023	2024	2024
2022	2022-2024	2025	2025

The Board of Directors has determined that a maximum of 3,500,000 Shares will be used for each three-year cycle of the Plan. The Plan will be concluded in 2025, upon expiry of the vesting period for the last attribution envisaged in 2022.

The Plan envisages the free assignment of a variable number of Shares, depending on the individual attribution and the degree to which the Plan performance conditions are achieved. The number of shares accrued is subject to the achievement of performance conditions, verified for all Beneficiaries at the end of each three-year implementation period following a detailed process of verification of the results actually achieved by the Remuneration Committee.

The performance conditions of the Plan, calculated according to a linear interpolation criterion between minimum, target and maximum values, are linked to the following parameters:

- Adjusted net profit cumulated in the three-year period corresponding to the Performance Period, with a weight of 50%;
- Added Value which reflects the generation of the value of the regulated business, calculated as the change in the RAB over the three-year period corresponding to the Performance Period, added to the dividends distributed, the treasury shares repurchased and reduced by the change in net debt[20];
- ESG metric, with a weight of 20%, measured through the results achieved with respect to 2 indicators, aiming at:
    1) reducing natural gas emissions (weight 10%) in the three-year period corresponding to the Performance Period;
    2) guaranteeing a fair representation of the less present gender in Snam’s management team (weighing for 10%) in terms of the % of the less represented gender in managers and executives out of all Group managers and executives.

[20] The change in net debt is calculated excluding changes to working capital connected with regulatory dynamics and considering changes to commercial working capital.

It is also envisaged that an additional number of shares will be assigned - defined as “dividend equivalents” - according to the shares effectively assigned at the end of the vesting period. The number of additional shares to be allocated is determined by dividing the sum of the dividends distributed in the vesting period by the average price of the share recorded in the month prior to the assignment. For the Chief Executive Officer and the other Plan Beneficiaries, it is envisaged that 20% of the shares assigned, gross of those required to fulfil tax requirements, shall be subject to a lock-Up period.

For further information, see the "Information Document on the 2020-2022 Long-Term Share-Based Incentive Plan" prepared pursuant to Article 84-bis of the Issuers' Regulations, available on Snam's website.

Elements of risk and uncertainty

Introduction

This chapter presents the main elements of risks and uncertainty characterising Snam's core business. The disclosure below takes into account the impacts of COVID-19, set out in a specific paragraph of this section.

The risks identified by Snam are divided up into financial and non-financial risks. The latter are then further classified as follows:

- strategic
- legal and non-compliance
- operating

Financial risks are described in Note 19,"Guarantees, commitments and risks - financial risk management", of the Notes to the condensed interim consolidated financial statements.

RISKS AND UNCERTAINTIES ARISING FROM THE HEALTH EMERGENCY DERIVING FROM COVID- 19

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

Although the lock-down measures introduced have collectively reduced the spread of the virus in Italy and Europe, transmission continues to be documented with varying incidence in different countries. There is, however, a progressive easing (total or partial) of these measures and many countries have begun a gradual reopening of economic and productive activities and public spaces.

However, considerable risks remain, both from an economic and financial point of view and for people's health.

In addition to the worsening global macroeconomic scenario and the risk of deterioration in the credit profile of a considerable number of countries (including Italy), the risk of slowdowns in many commercial activities persists due to negative impacts on supply chains, commodity prices, flows and capital demand.

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

Snam, which has taken protective measures since last 21 February, has equipped itself to take all the necessary steps to protect the safety of its people, both in compliance with the lock-down measures and by taking further precautions.

In particular, the company has set up an inter-functional team to manage the situation, in constant contact with the Civil Protection, with two fundamental objectives: the health and safety of its people and the continuity of the essential energy security service for the country.

As early as 24 February, Snam has already ordered, as a precautionary measure, smart-working for workers whose activities did not require physical presence in the workplace, without prejudice to the necessary supervision of operational activities in the area and those relating to the dispatching of San Donato Milanese, the heart of Snam's infrastructure. As far as construction sites are concerned, works that cannot be postponed have been identified and all appropriate precautionary measures have been taken.

With the gradual resumption of Snam's activities, in line with the indications and provisions of the competent authorities, criteria and measures aimed at protecting the health and safety of workers in the workplace have been defined as a priority.

These criteria and measures are updated according to the indications that are progressively communicated by the Institutions and Health Authorities, as well as according to the results of the monitoring of the measures adopted and the health status of the workers that will be carried out by the competent figures.

To date, the company is unable to reliably determine the impacts of COVID-19 on 2020 and beyond.

However, on the basis of the latest information available, also due to the nature of the activities conducted by Snam and the containment measures promptly adopted by the company, limited impacts are expected on the economy and the investment programme, proportionately to the speed of recovery of business.

The same considerations apply in respect of any potential effects on the development initiatives and suppliers or customers deriving from the slow-down to business and the current macroeconomic context consequent to the international reach of the pandemic, cannot yet be assessed. As indeed also to the assets held by the Snam Group outside Italy, in particular in France, Austria, Greece, Albania and the United Kingdom.

STRATEGIC RISKS

Regulatory and legislative risk

Regulatory risk and legislative risk for Snam is linked to the regulation of activities in the gas sector. The decisions made by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA) and National Regulatory Authority in the countries in which the foreign associates operate, the regulations issued on the matter by the European Union and the Italian Government and, more generally, a change to the reference regulatory framework, may significant impact the Company's operations, economic results and financial balance.

It is not possible to foresee the effect that future changes in legislative and fiscal policies could have on Snam's business and on the industrial sector in which it operates.

Considering the specific nature of its business and the area in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Macroeconomic and geo-political risk

Because of the specific nature of the business in which Snam operates, there are also risks associated with political, social and economic instability in natural gas supplier countries, mainly related to the gas transportation segment. A large part of the natural gas transported in the Italian national transport network is imported from or passes through countries included in the MENA area (Middle East and North Africa, in particular Algeria, Tunisia, Libya and, in TANAP-TAP perspective, Turkey together with States bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine, and in the future, Azerbaijan and Georgia), national situations which are subject to political, social and economic instability and which could constitute potential future crisis scenarios.

In particular, the importation and transit of natural gas from/through these countries are subject to a wide range of risks, including: terrorism and common crime, alteration of the political-institutional balance; armed conflicts, socio-economic and ethno-sectarian tensions; unrest and disturbances; deficient legislation on insolvency and protection of creditors; limits on investment and on the import and export of goods and services; introduction of and increases in taxes and excise duties; forced imposition of contract renegotiations; nationalisation of assets; changes in trade policies and monetary restrictions.

If a Shipper using the transportation service via Snam's networks cannot procure or transport natural gas from/through the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, or to an extent so as to make it impossible or discourage the fulfilment of contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

In addition, Snam is exposed to macro-economic risks deriving from relocation or tension on financial markets or situations deriving from exogenous phenomena, which could have an impact on liquidity and accessibility to financial markets.

Commodity risk associated with changes in the price of gas

In relation to transportation activities, the Authority has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by service users to the leading transportation company, of quantities of gas to cover unaccounted-for gas (CNG), due as a percentage of the quantities withdrawn from the transportation network. Specifically, the Authority, by means of Resolution 514/2013/R/gas, defined the permitted level of the CNG given the average value registered over the last two years, and decided to keep this amount fixed for the entire regulatory period in order to provide incentive to the main transport system operator to deliver further efficiency improvements. For the relevant regulatory period, amounts of CNG higher than the permitted level would not be compensated. This criterion also was subsequently confirmed for the years 2018 and 2019 of the transition tariff period.

By resolution 114/2019/R/gas, as part of the process of reviewing the criteria for determining the revenues recognised for the natural gas transportation and metering service for the fifth regulatory period (2020-2023), criteria will also be defined for the recognition of CNG. On the basis of these criteria, starting 2020, acknowledgement of the quantities of gas required for self-consumption, network losses and CNG will take place in monetary terms in lieu of the recognition in kind by shippers. However, the change in natural gas prices will continue not to be a significant risk factor for Snam, as a mechanism is envisaged to hedge the risk associated with the differences between the price recognised for the volumes of gas required for self-consumption, network losses and CNG and the effective price of procurement. With reference to the quantities recognised, said resolution confirmed the current criterion relative to gas for self-consumption and losses, whilst for CNG, the level admitted will be updated once a year and will equal the average of the quantities effectively recorded in the last four years available.

With reference to CNG, it notes that, as part of the dialogue established with the ARERA, in 2019 the ARERA recognised part of the higher charges incurred in 2018 and anticipated the recognition for the same phenomena on any quantities in excess of the quotas recognised in 2019.

In July 2020, with Resolution 291/2020/R/gas, it concluded its investigation, recognising an additional volume of CNG for the years 2018-2019 totalling 182 million cubic metres, equal to a total value of about Euro 42 million, which will be recognised, net of the amount already received on account for the year 2018, by the CSEA. In addition, it has initiated a procedure, to be completed by the end of 2020, to refine the CNG recognition criteria for the 5th regulatory period (2020-2023), aimed at strengthening the consistency of the mechanism's operation and its stability, providing that the incentive force of the mechanism is in any case determined on the basis of predefined unit fees proportionate to the remuneration of the metering service, rather than the price of gas.

In general, the change in the regulatory framework on the recognition of quantities of natural gas to cover self-consumption, network losses and CNG could have negative effects on the Snam Group’s operations, results, balance sheet and cash flow.

Market risk

With reference to the risk associated with demand for gas, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via the directly controlled transport companies, is partly correlated to volumes withdrawn. The ARERA, however, confirmed for the fifth regulatory period (2020-2023), with resolution 114/2019/R/gas, the guarantee mechanism with respect to the share of revenues related to volumes withdrawn already introduced in the fourth regulatory period on volumes transported. This mechanism provides for the reconciliation of major or minor revenues, exceeding ± 4% of the reference revenues related to the volumes withdrawn. Under this mechanism, approximately 99.5% of total revenues from transportation activities are guaranteed.

Based on the tariff system currently applied by the Authority to natural gas storage activities, Snam's revenue, via Stogit, correlates to infrastructure usage. However, the Authority has introduced a mechanism to guarantee reference revenue that allows companies to cover a significant portion of revenues recorded. Until the fourth regulatory period (2015-2019), the minimum guaranteed level of recognised revenues was approximately 97%, while for the fifth regulatory period (2020-2025) Resolution 419/2019/R/gas extended the level of guarantee to all recognised revenues (100%). The same resolution also introduced an enhanced incentive mechanism (defined by subsequent resolution 232/2020/R/gas) with voluntary participation that provides for an increase in profit-sharing of revenues from short-term services from 50% to 75% against a reduction in the portion of recognised revenue subject to a hedging factor.

Finally, with reference to the tariff regulation criteria for the LNG regasification service for the fifth regulatory period (2020-2023), Resolution 474/2019/R/gas confirmed the mechanism to cover reference revenues at a guaranteed minimum level of 64%.

In general, the change to the regulatory framework in force could have negative effects on the Snam Group’s operations, results, balance sheet and cash flow.

Abroad, market risk protection is afforded by French (Teréga) and Greek (Desfa) regulation, long-term Tap contracts and Austria (different scheduling for TAG and Gas Connect as from 2023). In Austria and the United Kingdom (Interconnector UK), the regulation does not guarantee cover of the volume risk.

Risk of climate change

Compliance with greenhouse gas regulations in the future may require Snam to adjust its facilities, and to control or limit its greenhouse gas emissions or undertake other actions that could increase the costs of complying with applicable law, and therefore have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

The risks associated with the emissions market fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. With the start of the third regulatory period (2013-2020) of the European Emissions Trading System (EU - ETS), the main objective of the update of the sector's regulations has been to issue greenhouse gas emissions permits and a steady reduction in emission allowances issued free of charge, and this trend will continue in the next ET regulatory period, which will start in 2021. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant, and will also depend on the actual functionality of the plants. The allowances assigned free of charge to Group plants no longer suffice to comply with the regulatory conformity obligations relative to ETS mechanisms, hence Snam will procure the additional allowances required on the market.

By Resolution 114/209/R/gas of 28 March 2019, the ARERA defined the regulatory criteria for the fifth regulatory period (2020-2023) of the natural gas transportation and metering service, providing, among other things, for the recognition of costs related to the Emission Trading System (ETS). Resolutions No. 419/2019/R/gas and No. 474/2019/R/gas introduced the recognition of ETS-related costs for the storage service (regulatory period 2020-2025) and the regasification service (2020-2023).

Climate change scenarios could also lead to a change in the choice of energy mixes of the different European countries, and in the behaviour of the population and could have an impact on the demand for natural gas and the volumes transported, as well as affect the development of alternative uses of gas, encourage greater penetration of renewable gases (biomethane, synthetic methane and hydrogen) and the promotion of new businesses.

Climate change could also increase the severity of extreme weather events (floods, droughts, extreme temperature fluctuations) causing worsening of the natural and hydrogeological conditions of the territory with a possible impact both on the quality and continuity of the service provided by Snam, and on the demand for Italian and European gas. With reference to the effects of the change in the gas demand on the balance sheet, income statement and financial position of the Snam Group, see the previous paragraph "Market risk".

In relation to the new climate agreements in force at global level (including the "Paris Agreement" adopted in the context of the 2015 Climate Conference (COP21) where governments agreed to keep the average global temperature increase well below 2°C compared to pre-industrial levels as a long-term objective) aimed at fostering the transition to a more sustainable economy favouring zero emission energy sources, may pose a regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at European and national level, which may also have an impact on the evolution and related financing of energy infrastructure worldwide.

Finally, in June 2020, Snam took part in the Energy Community (an international organisation based in Vienna that brings together the European Union and neighbouring countries to create an integrated pan-European energy market) where the "Methane Emissions in the Gas Sector" meeting was held to raise awareness and share knowledge on methane emissions with particular reference to policies, scientific and strategic aspects. Snam intervened to illustrate the strategy implemented against Climate Change, including the best practices implemented to reduce its carbon footprint. The meeting was attended by the European Commission, the Florence School of Regulation, ACER as well as GIE and MARCOGAZ. The activity is part of the wider range of interventions that Snam has held in recent months at the European Commission in Brussels, the United Nations Economic Commission for Europe (UN-ECE) in Geneva and the International Gas Union in Korea.

LEGAL AND NON-COMPLIANCE RISK

The legal and non-compliance risk concerns the failure to comply, in full or in part, with the European, national, regional and local laws and regulations with which Snam must comply in relation to the activities it carries out. The violation of the laws and regulations may result in criminal, civil, tax and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation.

With reference to specific cases, *inter alia*, violation of the regulations protecting the health and safety of workers and the environment, and violation of the rules established for the fight against corruption, may also lead to sanctions, even substantial, against the company based on the administrative liability of the entities (Legislative Decree no. 231 of 08 June 2001). With regard to the Risk of Fraud and Corruption, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations.

Reputational verification and acceptance and stipulation of the Integrity Ethical Pact are the pillars of the system of controls aimed at preventing the risks associated with illegal behaviour and criminal infiltrations concerning our suppliers and subcontractors, with the aim of ensuring transparent relations and professional morality requirements in the whole chain of enterprises and for the whole duration of the relationship.

Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the "Global Corporate Supporter Partnership".

As part of this collaboration, in October 2018, Snam renewed its partnership with Transparency International, the Secretary General of Berlin, during the eighteenth International Anti-Corruption Conference of Transparency International held in Copenhagen. On this occasion, Snam took part in a restricted round table that saw, for the first time, the participation of 4 private companies too, including Snam as the only Italian representative.

During 2019, Snam further strengthened its cooperation with other main bodies active in the fight against corruption. In particular, in October Snam also joined the Partnering Against Corruption Initiative (PACI) of the World Economic Forum, an initiative with the aim of bringing together at least twice a year the main Compliance & Anticorruption Officers of some of the most important companies in the world to share and strengthen best practices and preventive measures; and in November it was included in the "Integrity & Compliance Taskforce" of the Saudi B20 Presidency, whose work began in January 2020 with an "inception event" and will continue throughout the year, until the October Summit, where the results of the work and proposals to bring to the G20 will be presented.

In addition to new partnerships, during 2019 Snam also participated in a series of events dedicated to transparency, integrity, business ethics and best practices and good governance for the prevention of corruption. Among the most significant events in which Snam participated during 2019, those held at the OECD, the Global Anti-Corruption & Integrity Forum in March on "Tech for Trust: risks and opportunities of new technologies for anti-corruption & integrity", the Trust in Business Forum and the October Working Party on State Ownership and Privatisation Practices at the OECD and, finally, Snam also spoke at the December 2019 Working Group on Bribery, an annual consultation that was preceded by a restricted meeting of members of the Permanent Representation of Business at the OECD (BIAC). In addition to this, in October, the General Counsel of Snam was also appointed Vice-Chairman of the Anti-Corruption Committee of BIAC, a very important recognition that will see Snam - the only Italian company in the Leadership of BIAC - even more committed and involved in the activities of the OECD on issues of integrity and anti-corruption.

Finally, in December Snam took part in the Italian Business Integrity Day - an initiative sponsored by the Anti-Corruption Coordination of the Ministry of Foreign Affairs - held on the occasion of the 8th Conference of the Member States of the United Nations Convention against Corruption in Abu Dhabi. At the event, Snam intervened to describe the challenges it faces on a daily basis in the area of anti-corruption and the best practices implemented to manage the various complexities. In this context, Snam also took part in a round table organised by the United Nations Office on Drugs and Crime entitled "Private sector as a Partner in Anti-Corruption Education", in which it spoke about its experience and commitment also in the field of training, which is aimed not only at its own people but also at the outside organisation.

OPERATING RISKS

Ownership of storage concessions

The risk linked to maintenance of the ownership of the storage concessions is attributable by Snam to the business in which the subsidiary Stogit operates on the basis of concessions issued by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted - within the statutory terms — the extension request to the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings the Company’s activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion. One concession (River Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years[21].

If Snam is unable to retain ownership of one or more of its concessions or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on the Company's operations, results, balance sheet and cash flow.

Malfunction and unexpected service interruption

Operating risks consist mainly of the malfunctioning and unforeseen interruption of the service determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people and property, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks according to best industry practices, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

Delays in the progress of infrastructure implementation programs

There is also the concrete possibility that Snam could incur delays in the progress of infrastructure construction programmes as a result of several unknowns linked to operating, economic, regulatory, authorisation, competition and social factors or health emergency situations, regardless of its intentions. Snam is therefore unable to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer time frames than those originally planned, affecting Snam's financial position and economic results.

Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations, or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. In addition, changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results.

Environmental risks

Snam and the sites in which it operates are subject to laws and regulations relating to pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential costs and liabilities related to the operation and its assets. The costs of possible environmental remediation obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility and are therefore difficult to estimate.

21 The Stogit concessions issued before the coming into force of Italian Legislative Decree no. 164/2000 can be extended by the Ministry of Economic Development up to twice for a term of ten years each time, in accordance with Art. 1, paragraph 61 of Italian Law no. 239/2004. Pursuant to Article 34, paragraph 18 of Italian Decree Law no. 179/2012, converted by Italian Law no. 221/2012, the duration of the only Stogit concession issued after the coming into force of Italian Legislative Decree no. 164/2000 (Bordolano) is thirty years with the possibility of an extension for another ten years.

Snam cannot predict if and how environmental regulations and laws may over time become more binding and cannot provide assurance that future costs to ensure compliance with environmental legislation will not increase or that these costs can be recovered within the tariff's mechanisms or the applicable regulation. Although Snam has also taken out specific insurance contracts to cover some of the environmental risks, according to industry best practices, substantial increases in costs relating to environmental compliance and other related aspects and the costs of possible sanctions could have a negative impact on the business, operating results and financial and reputational aspects.

Employees and staff in key roles

Snam's ability to operate its business effectively depends on the skills and performance of its personnel. Loss of "key" personnel or inability to attract, train or retain qualified personnel (in particular for technical positions where the availability of appropriately qualified personnel may be limited), or situations in which the ability to implement long-term business strategy is negatively influenced due to significant disputes with employees, could have an adverse effect on the business, financial conditions and operating results.

Risk linked to foreign holdings

The foreign investee companies owned by Snam may be subject to regulatory/legislative risk, under conditions of social and economic political instability, to a market risk, cyber security, credit and financial risk and other risks typical of the business of the transportation and storage of natural gas highlighted for Snam, such as to adversely affect their activities, economic results and the equity and financial situation. This can have negative impacts for Snam on the contribution towards the profits generated by such investments.

Risks connected with future acquisitions/equity investments

Each investment made as part of joint ventures and each future investment in Italian or foreign companies may entail an increase in the complexity of Snam Group operations and there can be no guarantee that such investments will generate the expected return in the acquisition or investment decisions and will correctly integrate in terms of quality standards, policies and procedures, consistently with the rest of Snam's operations. The integration process can be costly and require additional investment. Improper management or supervision of the investment made may adversely affect the business, operating results and financial aspects.

Cyber security

Snam carries out its activities through a complex technological architecture relying on an integrated model of processes and solutions capable of promoting the efficient management of the entire country's gas system. The development of the business and recourse to innovative solutions capable of continuous improvement, however, requires increasing attention to be focused on aspects of cybersecurity. For this reason, Snam has developed its own cybersecurity strategy based on a framework defined in agreement with standard principles on the subject and focusing constant attention on Italian and European regulatory developments, especially as far as the world of critical infrastructures and essential services is concerned. First and foremost, this strategy involves adapting one's own processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and ISO22301 (Business Continuity Management Systems) and the formal certification of conformity to the listed standards. Alongside this and in accordance with technological developments, solutions aimed at protecting the Company from cyber threats and malware are assessed and, where deemed appropriate, implemented.

More specifically, Snam has defined a model of cybersecurity incident management aimed at preventing and, when necessary, ensuring timely remediation in the event of events that could damage the confidentiality and integrity of the information processed and the IT systems used. At the base of the activity is a Security Incident Response Team which, using technologies that allow collecting and correlating all the security events recorded on the entire perimeter of the company's IT infrastructure, has the task of monitoring all the anomalous situations from which negative impacts may result for the company and to activate, where necessary, escalation plans suitable to guarantee the involvement of the various operating structures.

With reference to the management of information in support of the business processes, it is considered appropriate to stress that the company owns the asset (fibre) used for the transportation of data to and from the territory; this results in intrinsically greater security thanks to the lack of dependency on the service provided by third parties and the possibility of making exclusive use of the communication channel. Lastly, as part of cyber incident management (preventive and reactive), information-sharing with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events. A great deal of attention is also paid to increasing awareness and specialist training of personnel, in order to facilitate the identification of weak signals and raising consciousness about risks of a cyber nature that could occur during the course of normal work activities.

Outlook

Outlook

In Italy, by Decree of the Presidency of the Council of Ministers (DPCM) of 23 February 2020 and subsequent amendments, restrictions were introduced for the epidemiological containment of COVID-19 and measures have been identified to hinder the spread of contagion, including through restrictions on production activities, mobility of people and collective sociality.

Snam, which has taken protective measures since 21 February last, has equipped itself to take all the necessary steps to protect the safety of its people, both in compliance with the restrictions and by taking further precautions.

From the very early days, Snam secured the control rooms, plants and territorial offices to guarantee the country's normal operations and energy security.

In particular, the dispatching of San Donato Milanese, the heart of Snam's infrastructure, continues its normal activity, even during the most acute phase of the emergency, thanks to the installation of dedicated accommodation and the implementation of a new shift system.

Physical presence has been reduced to a minimum. As far as construction sites are concerned, works that cannot be postponed have been identified and all appropriate precautionary measures have been taken.

Starting April, activities at the construction sites have gradually resumed and to date they have all been restarted.

To date, the company is unable to reliably determine the impacts of COVID-19 on 2020 and beyond.

However, on the basis of the latest information available, also due to the nature of the activities conducted by Snam and the containment measures promptly adopted by the company, limited impacts are expected on the economy and the investment programme, proportionately to the speed of recovery of business.

The same considerations apply in respect of any potential effects on the development initiatives and suppliers or customers deriving from the slow-down to business and the current macroeconomic context consequent to the international reach of the pandemic, cannot yet be assessed. As indeed also to the assets held by the Snam Group outside Italy, in particular in France, Austria, Greece, Albania and the United Kingdom.

At present, growth in new businesses is expected to slow.

In the first half of the year, demand for natural gas in Italy totalled 36.06 billion cubic metres, or 10.8% less (-4.38 billion cubic metres) than in the same period last year. The decrease is due, in addition to milder temperatures compared to the same period of the previous year, to the impact of COVID-19, first with the closure of all non-core activities (March-April), and then the slow recovery of industrial production (May-June). It should be noted that, based on the current regulatory framework, the maximum annual impact on Snam is estimated to be a reduction in revenues of approximately Euro 9 million related to the commodity component. In the current scenario, the company is continuing to implement the efficiency program, which has already resulted in savings of Euro 55 million compared with the 2016 cost base.

Insofar as the financial structure is concerned, the optimisation carried out over the past three years has resulted in a significant reduction in the average cost of gross debt (0.9% in the first half of the year, compared with 1.2% in the same period last year) and the risk management activities implemented limit the risks of negative impacts of the worsened market scenario on the Group's financial management. The company's management will continue to guarantee an appealing, sustainable remuneration of its shareholders, whilst maintaining a balanced financial structure.

Condensed interim consolidated financial statements

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Financial statements

Statement of financial position

		31.12.2019		30.06.2020	
(€ million)	Notes	Related	*of which with related parties*	Related	*of which with related parties*
ASSETS					
Current assets					
Cash and cash equivalents	(4)	2,851		**3,104**	
Trade receivables and other receivables	(5)	1,376	*291*	**1,318**	***329***
Inventories	(6)	112		**122**	
Current income tax assets	(7)	12		**25**	
Other current tax assets	(7)	14		**16**	
Other current assets	(8)	19		**24**	
		4,384		**4,609**	
Non-current Assets					
Property, plant and equipment	(9)	16,439		**16,469**	
Compulsory inventories	(6)	363		**363**	
Intangible fixed assets	(10)	990		**1,031**	
Investments valued using the equity method	(11)	1,787		**1,805**	
Other investments	(12)	41		**39**	
Other receivables	(5)	3		**317**	***315***
Other non-current assets	(8)	26	*1*	**37**	***1***
		19,649		**20,061**	
Non-current assets held for sale		**10**			
TOTAL ASSETS		**24,043**		**24,670**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(13)	2,456		**3,501**	
Short-term portion of long-term financial liabilities	(13)	1,675		**1,604**	
Trade payables and other payables	(14)	1,801	*189*	**1,222**	***53***
Current income tax liabilities	(7)	26		**46**	
Other current tax liabilities	(7)	9		**7**	
Other current liabilities	(15)	97	*22*	**94**	***13***
		6,064		**6,474**	
Non-current liabilities					
Long-term financial liabilities	(13)	10,643		**10,887**	
Provisions for risks and charges	(16)	713		**696**	
Provisions for employee benefits		46		**43**	
Deferred tax liabilities	(17)	106		**85**	
Other non-current liabilities	(15)	213		**261**	
		11,721		**11,972**	
TOTAL LIABILITIES		**17,785**		**18,446**	
SHAREHOLDERS' EQUITY	(18)				
Share capital		2,736		**2,736**	
Reserves		3,131		**3,413**	
Net profit		1,090		**572**	
Negative reserve for treasury shares held in the portfolio		(389)		**(500)**	
Interim dividend		(313)			
Snam Shareholders' equity		**6,255**		**6,221**	
Minority interests		**3**		**3**	
TOTAL SHAREHOLDERS' EQUITY		**6,258**		**6,224**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**24,043**		**24,670**	

Income Statement

(€ million)	Notes	First half 2019 Related	First half 2019 *of which with related parties*	First half 2020 Related	First half 2020 *of which with related parties*
REVENUE	(20)				
Core business revenue (*)		1,318	*856*	**1,330**	***652***
Other revenue and income		14		**16**	
		1,332		**1,346**	
OPERATING COSTS	(21)				
Purchases, services and other costs		(135)	*(13)*	**(158)**	***(12)***
Personnel cost		(86)		**(90)**	
		(221)		**(248)**	
AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	(22)	**(355)**		**(374)**	
OPERATING PROFIT (EBIT)		**756**		**724**	
FINANCIAL INCOME (EXPENSES)	(23)				
Financial income		5		**10**	***4***
Financial expense		(89)		**(76)**	
Derivative financial instruments		(1)		**(1)**	
		(85)		**(67)**	
INCOME FROM EQUITY INVESTMENTS	(24)				
Effect of valuation using the equity method		116		**107**	
Other income (expense) from equity investments		2		**3**	
		118		**110**	
PRE-TAX PROFIT		**789**		**767**	
Income taxes	(25)	(208)		**(195)**	
NET PROFIT		**581**		**572**	
- Held by Snam's shareholders		**581**		**572**	
- Minority interests					
Earnings per share held by Snam shareholders (€ per share)	(26)				
- basic		0.176		**0.174**	
- diluted		0.172		**0.170**	

(*) Starting 1 January 2020, the pass-through component attributable to interconnection with other infrastructure operators is recognised as a direct reduction of the corresponding revenue. For further information, see note no. 20 "Revenues" of this document.

Statement of comprehensive income

(€ million)	First half 2019	First half 2020
Net profit	**581**	**572**
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)	(52)	**(15)**
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	(22)	**(25)**
Tax effect	12	**4**
	(62)	**(36)**
Total other components of comprehensive income, net of tax effect	**(62)**	**(36)**
Total comprehensive income	**519**	**536**
- Held by Snam's shareholders	519	536
- Minority interests		
	519	**536**

Statement of changes in shareholders' equity

	Snam shareholders' equity														
(€ million)	Share capital	Negative reserve for treasury shares held in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of CFH derivative financial instruments net of tax effect	Reserve for defined-benefit plans for employees, net of tax effect	Reserve for fair value of minority equity investments (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Net period profit	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2018	**2,736**	**(625)**	**1,021**	**547**	**(28)**	**(8)**	**1**	**(674)**	**67**	**2,286**	**960**	**(298)**	**5,985**		**5,985**
Net profit for first half 2019											**581**		**581**		**581**
Other items of comprehensive income:															
Components that can be reclassified to the income statement:															
- Portion of equity-accounted investments pertaining to "other components of comprehensive income" valued using the net equity method									(22)				**(22)**		**(22)**
- Change in fair value of cash flow hedge derivatives					(40)								**(40)**		**(40)**
Total comprehensive income for first half 2019					**(40)**				**(22)**		**581**		**519**		**519**
- Interim dividend for 2018 (€ 0.0905 per share)											(298)	**298**			
- Balance of FY 2018 dividend (€ 0.1358 per share as the balance of the 2018 interim dividend of € 0.0905 per share. The total dividend (interim and balance) totals € 0.2263 per share)											(448)		**(448)**		**(448)**
- Allocation of 2018 residual net profit										214	(214)				
- 2017-2019 share-based incentive plan									2				**2**		**2**
Total transactions with shareholders									**2**	**214**	**(960)**	**298**	**(446)**		**(446)**
Other changes in shareholders' equity:															
- Cancellation of treasury shares		275	(275)												
- Capital contributions by minority interests														**3**	**3**
- Other changes									4				**4**		**4**
Total other changes in shareholders' equity		**275**	**(275)**						**4**				**4**	**3**	**7**
Balance at 30 June 2019	**2,736**	**(350)**	**746**	**547**	**(68)**	**(8)**	**1**	**(674)**	**51**	**2,500**	**581**		**6,062**	**3**	**6,065**

(€ million)	Snam shareholders' equity														
	Share capital	Negative reserve for treasury shares held in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of CFH derivative financial instruments net of tax effect	Reserve for defined-benefit plans for employees, net of tax effect	Reserve for fair value of minority equity investments (FVTOCI)	Consolidation reserve	Other reserves	Retained earnings	Net period profit	Interim dividend	Total	Minority interests	Total shareholders' equity
Net profit for second half 2019											509		509		509
Components that can be reclassified to the income statement:															
Portion of investments pertaining to "other components of comprehensive income" valued using the net equity method									5				5		5
- Change in fair value of cash flow hedge derivatives					6								6		6
Components that cannot be reclassified to the income statement:															
- Change in fair value of equity investments measured at fair value with effect on OCI							4						4		4
- Portion of "other items of comprehensive income" of equity investments accounted for using the equity method relating to the remeasurement of defined benefit plans for employees									(1)				(1)		(1)
Total comprehensive net income for second half 2019					6		4		4				14		14
Transactions with shareholders															
- 2017-2019 share-based incentive plan									5				5		5
Acquisition of treasury shares		(39)											(39)		(39)
- Interim dividend for 2019 (€ 0.095 per share)												(313)	(313)		(313)
Total transactions with shareholders		(39)							5			(313)	(347)		(347)
Other changes in shareholders' equity															
- Other changes									4	13			17		17
Total other changes in shareholders' equity									4	13			17		17
Balance at 31 December 2019	2,736	(389)	746	547	(62)	(8)	5	(674)	64	2,513	1,090	(313)	6,255	3	6,258

Statement of changes in shareholders' equity

		Snam shareholders' equity														
(€ million)		**Share capital**	**Negative reserve for treasury shares held in the portfolio**	**Share premium reserve**	**Legal reserve**	**Reserve for fair value of CFH derivative financial instruments net of tax effect**	**Reserve for defined-benefit plans for employees, net of tax effect**	**Reserve for fair value of minority equity investments (FVTOCI)**	**Consolidation reserve**	**Other reserves**	**Retained earnings**	**Net period profit**	**Interim dividend**	**Total**	**Minority interests**	**Total shareholders' equity**
Balance at 31 December 2019	Note (18)	**2,736**	**(389)**	**746**	**547**	**(62)**	**(8)**	**5**	**(674)**	**64**	**2,513**	**1,090**	**(313)**	**6,255**	**3**	**6,258**
Net profit for first half 2020												**572**		**572**		**572**
Other items of comprehensive income:																
Components that can be reclassified to the income statement:																
- Portion of equity-accounted investments pertaining to "other components of comprehensive income" valued using the net equity method										**(25)**				**(25)**		**(25)**
- Change in fair value of cash flow hedge derivatives						**(11)**								**(11)**		**(11)**
Total comprehensive income for first half 2020(b)						**(11)**				**(25)**		**572**		**536**		**536**
- Interim dividend for 2019 (€ 0.095 per share)												**(313)**	**313**			
- Balance of FY 2019 dividend (€ 0.1426 per share as the balance of the 2019 interim dividend of € 0.095 per share. The total dividend (interim and balance) totals € 0.2376 per share)												**(466)**		**(466)**		**(466)**
- Allocation of 2019 residual net profit											**311**	**(311)**				
- 2017-2019 share-based incentive plan										**3**				**3**		**3**
Acquisition of treasury shares			**(111)**											**(111)**		**(111)**
Total transactions with shareholders (c)			**(111)**							**3**	**311**	**(1,090)**	**313**	**(574)**		**(574)**
Other changes in shareholders' equity:																
- Other changes										**4**				**4**		**4**
Total other changes in shareholders' equity (d)										**4**				**4**		**4**
Balance at 30 June 2020 (e=a+b+c+d)	Note (18)	**2,736**	**(500)**	**746**	**547**	**(73)**	**(8)**	**5**	**(674)**	**46**	**2,824**	**572**		**6,221**	**3**	**6,224**

Cash flow statement

(€ million)	Notes	First half 2019	First half 2020
Net profit		**581**	**572**
Adjustments for reconciling net profit with cash flows from operating activities:			
Total amortisation and depreciation	(22)	355	**374**
Effect of valuation using the equity method	(11)	(116)	**(107)**
Other income from equity investments			**(1)**
Net capital losses (capital gains) on asset sales, write-offs and eliminations		3	**1**
Dividends		(2)	**(2)**
Interest income		(4)	**(10)**
Interest payable		77	**64**
Income taxes	(25)	208	**195**
Final balance		2	**3**
Changes in working capital:			
- Inventories		14	**(12)**
- Trade receivables		300	**(50)**
- Trade payables		(153)	**(175)**
- Provisions for risks and charges		8	**(5)**
- Other assets and liabilities		116	**66**
Working capital cash flow		*285*	***(176)***
Change in provisions for employee benefits		(4)	**(4)**
Dividends collected		71	**89**
Interest collected		4	**6**
Interest paid		(72)	**(64)**
Income taxes paid net of reimbursed tax credits		(167)	**(191)**
Net cash flow from operating activities		**1,221**	**749**
- of which with related parties	(28)	*814*	***561***
Investments:			
- Property, plant and equipment (*)	(9)	(365)	**(381)**
- Intangible assets	(10)	(37)	**(76)**
- Long-term financial receivables			**(332)**
- Equity investments		(5)	**(17)**
- Change in payables and receivables relating to investments		(31)	**(56)**
Cash flow from investments		*(438)*	***(862)***
Divestments:			
- Equity investments		11	**12**
- Long-term financial receivables			**18**
Cash flow from divestments		*11*	**30**
Net cash flow from investment activities		**(427)**	**(832)**
- of which with related parties	(28)	*(16)*	***(328)***
Assumption of long- term financial payables		968	**1,147**
Repayment of long- term financial debt		(1,340)	**(972)**
Increase (decrease) in short- term financial debt		949	**1,045**
Repayment of financial payables for leased assets		(3)	**(3)**
		574	**1,217**
Acquisition of treasury shares			**(111)**
Dividends paid to Snam shareholders		(746)	**(770)**
Net capital contributions by minority interests		**3**	
Net cash flow from financial assets		**(169)**	**336**
Net cash flow for the period		**625**	**253**
Cash and cash equivalents at start of period	(4)	**1,872**	**2,851**
Cash and cash equivalents at end of period	(4)	**2,497**	**3,104**

(*) For financial reporting purposes only, the flow includes: (i) the change in inventories of piping and related ancillary materials used in plant construction activities, referring to the natural gas transmission sector (Euro 4 million and Euro 5 million, respectively, for the first half of 2019 and 2020); (ii) subsidies on works for interference with third parties, so called recourse (Euro 10 million and Euro 5 million, respectively, for the first half of 2019 and 2020).

Notes to the condensed interim consolidated financial statements

CORPORATE 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 segment and a major player in terms of its invested capital regulatory asset base (RAB) in the segment.

In Italy, Snam operates in the regulated business of the transportation and dispatching of natural gas, regasification of liquefied natural gas and storage of natural gas. It is also present in the energy transition business: sustainable mobility, infrastructure for the generation of biomethane from organic waste and agricultural and agro-industrial waste, energy efficiency services for condominiums, public administration and industry. It operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players. Through its subsidiaries, it operates in Albania (AGSCo), Austria (TAG and GCA), China (Snam Gas & Energy Services Bijing), France (Teréga), Greece (DESFA) and the United Kingdom (Interconnector UK) and is amongst the main shareholders of TAP (Trans Adriatic Pipeline).

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).

With a resolution of 1 August 2019, the Board of Directors of CDP S.p.A., which, through its subsidiary CDP Reti S.p.A., holds a 31.04% stake in Snam S.p.A., reclassified the investment relationship in the company, which already qualifies as de facto control under IFRS 10 - Consolidated financial statements from 2014, as a de facto control pursuant to article 2359, paragraph 1, no. 2) of the Italian Civil Code and article 93 of the Consolidated Law on Finance.

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

1) Criteria for preparation and measurement

The condensed interim consolidated financial statements as at 30 June 2020 have been prepared on the assumption of the business operating as a going concern and in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union (hereinafter the "IFRS") as well as the legislative and regulatory provisions in force in Italy.

In view of the characteristics of Snam's core business, the uninterrupted continuation of operating activities, as well as the results of the analyses conducted on the impact of the COVID-19 epidemic, there are no elements that require further investigation into the validity of the going concern assumption.

The condensed interim consolidated financial statements as at 30 June 2020 have been prepared in accordance with the provisions of IAS 34 "Interim Financial Reporting". Pursuant to this standard, the condensed interim consolidated financial statements do not include all the information required in annual consolidated financial statements and, as such, they should be read in conjunction with the Snam Group's consolidated financial statements for the year ended 31 December 2019.

The financial statements are the same as those adopted for the Annual Financial Report. In the condensed interim consolidated financial statements, the same consolidation principles and measurement criteria have been used as those used to prepare the Annual Financial Report, which should be referred to, except for the international financial reporting standards which have entered into force since 01 January 2020, described in Note 7 "Recently issued IFRS" in the 2019 Annual Financial Report. No impact has been identified which arises from application of said new provisions. The notes to the financial statements are in condensed form.

Current income taxes are calculated based on taxable income at the reporting date. Tax receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax authorities under the applicable tax law or those essentially approved at the reporting date and the rates estimated on an annual basis. Consolidated companies, non-consolidated subsidiaries, companies under joint control, associates and other significant equity investments, reporting for which is covered by Article 126 of Consob Resolution 11971 of 14 May 1999, as subsequently amended, are indicated separately in the annex "Subsidiaries of Snam S.p.A. at 30 June 2020", which is an integral part of these notes. The condensed interim consolidated financial statements as at 30 June 2020, approved by the Board of Directors of in its meeting of 29 July 2020, are subjected to a limited audit by Deloitte & Touche S.p.A. The limited audit entails a significantly smaller scope of work than that of a complete audit of the accounts carried out in accordance with the established auditing standards.

The condensed interim financial statements are presented in euro. Given their size, amounts in the financial statements and respective notes are expressed in Euro million.

HEALTH EMERGENCY CAUSED BY COVID- 19

When preparing the 2019 financial statements, the health emergency induced by the COVID-19 was considered by those applying the international accounting standards as a "non-adjusting event" according to the provisions of IAS 10, as it occurred after the end of the financial year, which should be highlighted in terms of disclosure, but which did not lead to adjustments to the closure of the financial statements at 31 December 2019.

In line with the guidelines of the Public Statement "Implications of the COVID-19 outbreak on the half early financial reports", issued by ESMA on 20 May 2020, of Consob Attention Call for Attention No. 8/20 of 16 July 2020 and in application of the provisions of IAS 34 in paragraphs 15-15C with reference to "significant events" in the period, the following paragraphs provide specific considerations on the areas of the financial statements potentially impacted by the COVID-19.

In particular, for the purposes of Snam's condensed interim consolidated financial statements at 30 June 2020, specific areas have been identified with reference to the individual IFRS, summarised below:

- going concern (IAS 1), referred to in this note "Basis of preparation and valuation"
- financial instruments (IFRS 9), referred to in Note 5) "Trade receivables and other current and non-current receivables"
- leases (IFRS 16), referred to in note 9) "Property, plant and equipment"
- impairment of assets (IAS 36), referred to in Note 11) "Investments accounted for using the equity method". The same note contains specific considerations relating to (i) the different business areas (ii) the investment area (iii) the Italian and foreign equity investments held by Snam, measured using the equity method;
- note no. 21) "Operating costs" includes specific information on the costs incurred as a result of the state of emergency linked to the COVID-19 pandemic.

2) Use of accounting estimates

With reference to the description of the use of accounting estimates, reference should be made to the 2019 Annual Financial Report.

3) Recently issued IFRS

In addition to that indicated in the 2019 Annual Financial Report, to which reference is made, below is a list of the IFRS recently issued by the IASB.

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, in force starting 01 January 2020

Regulation no. 2020/551, issued by the European Commission on 21 April 2020, endorsed the regulatory provisions contained in the document "Amendments to IFRS 3 Business Combinations" issued by the IASB on 22 October 2018, whose provisions are effective for financial years beginning on or after 1 January 2020. The changes made by the document seek to simplify the classification of a transaction as an acquisition of a business or group of businesses. No impact has been identified which arises from implementation of said standards.

Accounting standards and interpretations issued by IASB/IFRS IC during the first half of the year and not yet endorsed by the European Commission

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 01 January 2022, subject to deferrals established upon approval by the European Commission. The IASB clarifies the criteria to be used to determine whether liabilities should be classified as current or non-current. The amendments aim to promote consistency in the application of the requirements by helping companies to determine whether debts and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current. In addition, they include clarification of classification requirements for debt that an entity could settle by conversion to equity. Early application of the amendments is permitted.

On 14 May 2020, the IASB issued the document "Amendments to (i) IFRS 3 Business Combinations; (ii) IAS 16 Property, Plant and Equipment; (iii) IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and (iv) Annual Improvements to IFRS Standards 2018-2020", the provisions of which are effective for annual periods beginning on or after 1 January 2022, except for any subsequent deferments established upon endorsement by the European Commission.
In particular: (i) with the amendment "Amendments to IFRS 3 Business Combinations", the IASB has updated the reference in IFRS 3 to the Conceptual Framework in the revised version, without this entailing changes to the provisions of the standard; (ii) through the amendment "Amendments to IAS 16 Property, Plant and Equipment", the IASB has introduced some clarifications, in particular specifying how it is not allowed to deduct from the cost of the asset, the amount received from the sale of goods produced, before the asset was ready for use; (iii) with the amendment "Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets", the IASB has clarified which cost items must be considered in order to assess whether a contract will be loss-making or not; (iv) finally, through the amendments called "Annual Improvements to IFRS Standards 2018-2020 ", changes have been made (1) to IFRS 1 First-time Adoption of International Financial Reporting Standards. In particular, it simplifies the application of IFRS 1 by a subsidiary that adopts IFRS Standards for the first time after its parent company has already adopted them, and concerns the measurement of cumulative translation differences; (2) IFRS 9 Financial Instruments. The amendment clarifies which fees should be included by a company in its valuations when carrying out the "10 percent" test, provided for in paragraph B3.3.6 of IFRS 9, when assessing whether to eliminate a financial liability (derecognition). In particular, it specifies that only fees, paid or received, between the entity and the lender shall be included; (3) IAS 41 Agriculture. The amendment removes the requirement in paragraph 22 of IAS 41 that when entities measure a biological asset at fair value using present value measurement techniques, they shall exclude tax cash flows from the measurement. This will ensure consistency with the requirements of IFRS 13.
Lastly (4) the Illustrative Examples accompanying IFRS 16 "Leases". The amendment concerns illustrative example 13 accompanying IFRS 16. In particular, the IASB has removed the illustration relating to the reimbursement of leasehold improvements by the lessor; this in order to remove any doubts regarding the treatment of leasing incentives.

On 25 May 2020, the IASB issued the document "Amendments to IFRS 4 Insurance Contracts - deferral of IFRS 9", the provisions of which are effective for annual periods beginning on or after 1 January 2021, except for any subsequent deferral established upon endorsement by the European Commission. The main amendments relate to the final date for the temporary exemption in IFRS 4 'Insurance Contracts' from applying IFRS 9 'Financial Instruments', so that entities are required to apply IFRS 9 for annual periods beginning on or after 1 June 2023.

Again on 25 May 2020, the IASB issued the document “Amendments to IFRS 17”, the provisions of which will take effect from financial years starting on or after 1 January 2023, notwithstanding subsequent deferrals established upon approval by the European Commission. The main changes introduced concern clarifications and simplifications related to the application of IFRS 17 as well as the deferral of the date of initial application of IFRS 17 by two years, starting from financial years starting on or after 1 June 2023. The main changes include the introduction of a specific scope exclusion for credit card and similar contracts that provide additional insurance coverage, as well as an optional scope exclusion for loan contracts that transfer significant insurance risks.

On 28 May 2020, the IASB issued the document "Amendment to IFRS 16 Leases Covid 19-Related Rent Concessions", the provisions of which are effective for financial years beginning on or after June 1, 2020, except for any subsequent deferment established at the time of endorsement by the European Commission. The changes introduced through the new paragraphs 46A and 46B now allow a practical expedient in the section 'Lease amendments' that allows the lessee to disregard any concessions on rent payments resulting from the effects of Covid-19 as an amendment to the original contract. Such changes shall be accounted for as if the contract had not been amended by recognising in profit or loss the impacts of changes in lease payments due to

which the lessee has applied the practical expedient in paragraph 46A.
This expedient applies to COVID-19 incentives that reduce the payments of fees due by 30 June 2021 and does not affect lessors.
The amendment only applies to incentives for leases occurring as a direct consequence of the COVID-19 pandemic and only where a number of conditions set out in the new paragraph 46B are met.

In addition, the new paragraph 60A requires a lessor that adopts the practical expedient described above to provide appropriate disclosures in the financial statements.

Snam is analysing the standards and interpretations in question, where applicable, to assess whether their adoption will have a significant impact on the financial statements.

4) Cash and cash equivalents

Cash and cash equivalents, of Euro 3,104 million (Euro 2,851 million as at 31 December 2019) refer mainly to current accounts and on-call bank deposits (Euro 3,053 million) and cash held at the company Gasrule Insurance DAC (Euro 25 million) and Snam International BV (Euro 20 million).

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 period can be found in the statement of cash flows.

5) Trade receivables and other current and non-current receivables

Trade receivables and other current receivables equal to Euro 1,318 million (Euro 1,376 million at 31 December 2019) and *other non-current receivables* equal to Euro 317 million (Euro 3 million at 31 December 2019) break down as follows:

	31.12.2019			30.06.2020		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,217		1,217	1,267		1,267
Financial receivables		3	3	1	317	318
- long term		3	3	1	317	318
Receivables from investment/divestment activities	8		8	4		4
Other receivables	151		151	46		46
	1,376	3	1,379	1,318	317	1,635

Receivables are reported net of the provision for impairment losses of Euro 102 million (same as at 31 December 2019).

Trade receivables of Euro 1,267 million (Euro 1,217 million at 31 December 2019) relate mainly to the natural gas transportation (Euro 937 million, including Euro 175 million relating to gas balancing activities) and storage (Euro 202 million) business operating segments. The increase compared to 31 December 2019 is mainly due to the recognition of the receivable from the CSEA for the lower amounts invoiced to transport users in the first half of 2020, compared to the constraint established by the Regulatory Authority (Euro +45 million).

Long-term financial receivables (Euro 318 million; Euro 3 million at 31 December 2019) increased by Euro 315 million following the taking over of the residual share of a shareholders' loan from Iren S.p.A. in favour of OLT, against the acquisition of the 49.07% stake in the share capital of the company completed on 26 February 2020.

Other receivables of Euro 46 million (Euro 151 million at 31 December 2019) comprise:

(€ million)	31.12.2019	30.06.2020
IRES receivables for the national tax consolidation scheme	9	**9**
Other receivables:	142	**37**
- Energy and Environmental Services Fund (CSEA)	124	**15**
- Advances to suppliers	6	**13**
- Other	12	**9**
	151	**46**

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 remuneration conditions.

All receivables are in Euros.

Receivables from related parties are described in Note 28, "Related-party transactions".

Trade receivables and other receivables largely refer to activities carried out by Snam, within the regulated business segments, with customers of high credit standing. This exposes Snam to a very limited risk of expected losses on its receivables. In view of the assessments made, also in relation to the possible impacts of the COVID-19, no deterioration in the creditworthiness of counterparties was found; for these reasons, Snam has established the absence of impacts with reference to the recoverability of trade and other receivables at 30 June 2020.

6) Inventories

Inventories, which amount to Euro 485 million (Euro 475 million at 31 December 2019) are analysed in the table below:

	31.12.2019			30.06.2020		
(€ million)	Gross value	Provision for Impairment losses	Net value	Gross value	Provision for Impairment losses	Net value
Inventories (current assets)	157	(45)	**112**	**167**	**(45)**	**122**
- Raw materials, consumables and supplies	106	(13)	**93**	**107**	**(13)**	**94**
- Work in progress				**8**		**8**
- Finished products and merchandise	51	(32)	**19**	**52**	**(32)**	**20**
Compulsory inventories (non- current assets)	363		**363**	**363**		**363**
	520	**(45)**	**475**	**530**	**(45)**	**485**

Inventories are reported net of the provision for impairment losses of Euro 45 million (the same as at 31 December 2019). The provision essentially involves the impairment loss (Euro 30 million) recorded in 2014 for 0.4 billions of cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011[1].

7) Current income tax assets/liabilities and other current tax assets/liabilities

Current income tax assets/liabilities and *other current tax assets/liabilities* break down as follows:

(€ million)	31.12.2019	30.06.2020
Current income tax assets	**12**	**25**
IRES	9	**9**
- Other assets	3	**16**
Other current tax assets	**14**	**16**
- VAT	11	**14**
- Other taxes	3	**2**
	26	**41**
Current income tax liabilities	**(26)**	**(46)**
IRES	(22)	**(39)**
- IRAP	(4)	**(7)**
Other current tax liabilities	**(9)**	**(7)**
- IRPEF withholdings for employees	(7)	**(6)**
- VAT	(1)	
- Other taxes	(1)	**(1)**
	(35)	**(53)**

Taxes pertaining to the period under review are shown in Note 25 "Income taxes".

8) Other current and non-current assets

Other current assets, which amount to Euro 24 million (Euro 19 million at 31 December 2019) and *other non-current assets* of Euro 37 million (Euro 26 million at 31 December 2019) break down as follows:

[1] For further information regarding the progress of the lawsuits underway, see Note 26 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from users of the storage system" of the 2019 Annual Financial Report.

	31.12.2019			30.06.2020		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Regulated activities	1	1	**2**	**1**	**12**	**13**
Other assets:	18	25	**43**	**23**	**25**	**48**
- Prepaid expenses	9	10	**19**	**5**	**9**	**14**
- Security deposits		13	**13**		**13**	**13**
- Other	9	2	**11**	**18**	**3**	**21**
	19	**26**	**45**	**24**	**37**	**61**

The item "Other assets" (Euro 48 million; Euro 43 million at 31 December 2019) essentially comprises:

- prepaid expenses (Euro 14 million), mainly related to Up-Front Fee and the substitute tax on revolving credit lines (Euro 13 million). The current and non-current portions amount to Euro 5 and 9 million respectively (Euro 9 and 10 million at 31 December 2019);
- security deposits (Euro 13 million) provided to support operating activities, mainly in connection with the natural gas transmission operations.

The market value of the derivative financial instruments outstanding at 30 June 2020 is broken down in Note 15 "Other current and non-current liabilities".

9) Property, plant and equipment

Property, plant and equipment, which amounts to Euro 16,469 million (Euro 16,439 million at 31 December 2019) breaks down as follows:

(€ million)	Property, plant and equipment
Cost at 31.12.2019	**25,968**
Investments	381
Disposals	(6)
Other changes	(13)
Rights of use for leased assets	1
Cost at 30.06.2020	**26,331**
Provisions for amortisation and depreciation at 31.12.2019	**(9,429)**
Total amortisation and depreciation	(335)
Disposals	5
Rights of use for leased assets	(3)
Provisions for amortisation and depreciation at 30.06.2020	**(9,762)**
Provision for impairment losses at 31.12.2019	**(100)**
Provision for impairment losses at 30.06.2020	**(100)**
Net balance at 31.12.2019	**16,439**
Net balance at 30.06.2020	**16,469**

Investments[2] (Euro 381 million) refer mainly to the transportation (Euro 326 million) and storage (Euro 36 million) segments.

Divestments (Euro 1 million, net of the related provisions for depreciation and amortisation) mainly relate to assets of the transportation segment.

Other changes (Euro -13 million) relate essentially to: (i) the effects deriving from the adjustment of the present value of the disbursements against site decommissioning and restoration costs (Euro -12 million), following an increase in the expected discount rates; (ii) contributions on works for interference with third parties (so-called compensations, Euro -5 million); (iii) the change in inventories of piping and related materials used in plant construction activities, referring to the natural gas transportation sector (Euro +5 million).

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

The considerations given in the 2019 Annual Financial Report are therefore confirmed and reference is made thereto.

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 19 “Guarantees, commitments and risks”.

10) Intangible fixed assets

Intangible assets, which amount to Euro 1,031 million (Euro 990 million at 31 December 2019) break down as follows:

(€ million)	With a finite useful life	With an indefinite useful life	Total
Cost at 31.12.2019	**1,774**	**51**	**1,825**
Investments	76		76
Disposals	(19)		(19)
Other changes	1		1
Cost at 30.06.2020	**1,832**	**51**	**1,883**
Provisions for amortisation and depreciation at 31.12.2019	**(835)**		**(835)**
Total amortisation and depreciation	(36)		(36)
Disposals	19		19
Provisions for amortisation and depreciation at 30.06.2020	**(852)**		**(852)**
Net balance at 31.12.2019	**939**	**51**	**990**
Net balance at 30.06.2020	**980**	**51**	**1,031**

Intangible assets with a definite useful life (Euro 980 million) mainly concern: (i) concessions for the year of the natural gas storage business (Euro 656 million); (ii) industrial patent rights and intellectual property rights (Euro 159 million).

2 Investments by business segment are shown in the “Business segment operating performance” section of the Interim Directors' Report.

Investments[3] (Euro 76 million) mainly related to the natural gas transportation (Euro 61 million) segment, refer to information systems development projects, including the Cloud - Azure Consumption project.

Intangible fixed assets with an indefinite useful life (Euro 51 million) mainly refer to goodwill noted at acquisition: (i) from Edison of 100% of the share capital of Infrastrutture Trasporto Gas (Euro 27 million) on 13 October 2017; (ii) of 82.63% of Renerwasste on 20 November 2019 (Euro 8 million); (iii) of the Cubogas business unit on 25 July 2018 (Euro 7 million); (iv) of 70% of IES Biogas on 05 July 2018 (Euro 4 million); (v) 82% of TEP Energy Solution on 30 May 2018 (Euro 3 million). This goodwill was allocated to the CGUs identified by the same legal entities, respectively to the following businesses:

- regulated transport activities for Gas Transport Infrastructure;
- CNG for Cubogas, consisting of filling stations and compressors;
- biogas/biomethane for IES Biogas and Renewaste;
- energy efficiency for TEP Energy Solutions.

11) Investments valued using the equity method

Investments valued using the equity method, amounting to Euro 1,805 million (Euro 1,787 million at 31 December 2019) break down as follows:

(€ million)	
Value as at 31.12.2019	**1,787**
Acquisitions and subscriptions	17
Income (losses) from equity method valuation	107
Decrease owing to dividends	(87)
Exchange rate conversion differences	(4)
Other changes	(15)
Value as at 30.06.2020	**1,805**

Acquisitions and subscriptions (Euro 17 million) mainly relate to the future share capital increase of TAP, which Snam is obliged to invest in, in proportion to the shareholding owned, by virtue of the agreements signed during the acquisition of the equity investment (Euro 15 million).

Income (losses) from equity method valuation (Euro 107 million) refer mainly to the companies TAG (Euro 44 million), Italgas (Euro 21 million), Teréga (Euro 20 million) and Senfluga (Euro 17 million).

[3] Investments by business segment are shown in the "Business segment operating performance" section of the Interim Directors' Report.

The decrease in the dividend (Euro 87 million) essentially concerns the joint ventures TAG (Euro 39 million) and the associate Italgas (Euro 28 million).

Other changes (Euro -15 million) refer mainly to the affiliated companies TAP (Euro -15 million), Senfluga (Euro -5 million) and Italgas (Euro -1 million) for changes in the fair value of hedging derivatives.

There is no collateral established over equity investments with the exception of that reported in Note 19 "Guarantees, commitments and risks - Commitments, guarantees and pledges - TAP" of these notes.

The considerations given in the 2019 Annual Financial Report are therefore confirmed and reference is made thereto.

Consolidated companies, non-consolidated subsidiaries, joint ventures, associates and other significant equity investments are indicated separately in the annex "Subsidiaries of Snam S.p.A. at 30 June 2020", which is an integral part of these notes.

Impairment test of non-financial assets and equity investments (IAS 36)

Regulated business

The Snam Group's core business is represented by transport, storage and regasification activities carried out by companies operating under regulated regimes. The limited exposure of these segments to the effects of the COVID-19 allowed Snam not to detect impairment indicators at 30 June 2020 and for this reason the company did not consider it necessary to carry out the impairment test at 30 June 2020.

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 uninterruptedly throughout the entire half year. The construction activities of IES Biogas, have been affected to a minimal extent, mainly due to the temporary blockade that the containment measures by COVID-19 have imposed on the sites. The company has taken all necessary actions to absorb the slowdowns achieved in order to keep the plan's forecasts for 2020 results valid;
- In the Energy Efficiency business, the impacts due to the effects of COVID-19 were moderate and temporary; in particular, there were slowdowns linked to the containment measures imposed due to the emergency in March and April 2020. 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 society, 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 have already made it possible to absorb part of the delay.

The limited impact of the COVID-19 on the Energy Transition business allowed Snam not to identify impairment indicators at 30 June 2020 and for this reason the company did not deem it necessary to carry out the impairment test at 30 June 2020.

Foreign and Italian investees

The Snam Group's foreign and Italian investees operate mainly in the regulated sectors of natural gas transportation, storage, regasification and distribution (Terega, 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 nor under long-term contracts, the results for the first half of 2020 show an improvement over the forecasts made previously. The investee companies have not made any changes to their business plans, thus confirming the validity of the assumptions previously presented. As a result, there are no significant impacts related to the effects of COVID-19 at 30 June 2020.

The limited exposure of these sectors to the effects of the COVID-19 allowed Snam not to detect impairment indicators at 30 June 2020 and for this reason the company did not consider it necessary to carry out the impairment test at 30 June 2020.

Investments

With reference to the investments planned for the year 2020 in the regulated transport, storage and regasification segments, although temporarily slowed down by the containment measures imposed for the emergency by COVID-19, essentially in March and April 2020, all the necessary actions have been implemented to make up almost all the delays recorded and complete the 2020 investment programme. Forecasts for the completion of the 2020 investment programme in the regulated sectors make it possible to maintain the assumptions made by the Snam Group with reference to future periods.

Analysis of potential impacts from a second acute phase of COVID-19.

The reappearance in the autumn of an acute phase of COVID-19 in Italy, with a consequent strengthening of the containment measures imposed for the emergency, interruption of non-core production activities and temporary closure of the shipyards, could to some extent affect Snam's ability to fully complete the 2020 investment programme for its core business; this could have impacts at present that cannot be quantified in a precise manner, compared to the prospective 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 and TEP), slowing down the completion of the works and the consequent recognition of the corresponding revenues.

12) Other investments

Other investments total Euro 39 million (Euro 41 million at 31 December 2019) and regard mainly the minority share of 7.3% held by Snam S.p.A. in the capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG) valued at "Fair Value Through Other Comprehensive Income – FVTOCI"[4] in consideration of the fact that the Group intends to hold the equity investment in the portfolio in the near future.

13) Short-term financial liabilities, long term financial liabilities and short-term portions of long-term financial liabilities

Short-term financial liabilities, amounting to Euro 3,501 million (Euro 2,456 million at 31 December 2019), and *long-term financial liabilities*, including the short-term portion of long-term liabilities, totalling Euro 12,491 million (Euro 12,318 million at 31 December 2019), break down as follows:

	31.12.2019					30.06.2020				
		Long-term liabilities					Long-term liabilities			
(€ million)	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	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
Bonds		1,439	*3,800*	*3,809*	7,609		**827**	***3,938***	***3,917***	**7,855**
Bank loans	455	230	*1,798*	*1,221*	3,019	**1,501**	**772**	***1,856***	***1,162***	**3,018**
Euro Commercial Paper - ECP	2,001					**2,000**				
Financial payables for leased assets		6	*11*	*4*	15		**5**	***11***	***3***	**14**
	2,456	**1,675**	***5,609***	***5,034***	**10,643**	**3,501**	**1,604**	***5,805***	***5,082***	**10,887**

Short-term financial liabilities

Short-term financial liabilities, amounting to Euro 3,501 million (Euro 2,456 million at 31 December 2019), relate mainly to uncommitted floating rate

4 On the basis of this measurement criterion, changes to the related fair value are entered in a specific shareholders' equity reserve, which cannot be reclassified as profit and loss. Dividends are recorded on the income statement when they represent the return on the investment and not the recovery of part of the cost of the investment, in which case the dividend is also noted under Other Comprehensive Income.

lines of bank credit (Euro 1,500 million) and Euro Commercial Papers (Euro 2,000 million[5]).

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 Euro 12,491 million (Euro 12,318 million at 31 December 2019), of which Euro 1,604 million relative to the short-term portion and Euro 10,887 million relative to the long-term portion.

Financial liabilities for leased assets (Euro 19 million) refer to the financial liabilities entered in compliance with the accounting standard IFRS 16 "Leasing" in force since 01 January 2019. These liabilities represent the obligation to make the payments envisaged by the contract, for all leases with a term in excess of 12 months, of significant value.

The breakdown of bond loans (Euro 8,682 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table:

[5] At the date of this Report, the Euro Commercial Paper programme had been used for the entire amount of Euro 2 billion.

(€ million)

Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 30.06.2020	Rate (%)	Maturity (year)
Euro Medium Term Notes (EMTN)							
SNAM S.p.A. (b) (c) (d) (e)	2012	€	602	22	624	5.25	2022
SNAM S.p.A. (c) (d) (e)	2013	€	259	3	262	3.375	2021
SNAM S.p.A. (c) (d) (e)	2014	€	390	3	393	3.25	2024
SNAM S.p.A. (c) (d) (e) (g)	2014	€	246	1	247	1.5	2023
SNAM S.p.A. (c) (d) (e) (h)	2015	€	195	(13)	182	1.375	2023
SNAM S.p.A.	2016	€	1,250	2	1,252	0.875	2026
SNAM S.p.A.	2016	€	500		500		2020
SNAM S.p.A. (e)	2017	€	393		393	1.25	2025
SNAM S.p.A. (i)	2017	€	300		300	0.641	2022
SNAM S.p.A. (i)	2017	€	350		350	0.836	2024
SNAM S.p.A.	2017	€	650	2	652	1.375	2027
SNAM S.p.A. (l) (e)	2018	€	595		595	1	2023
SNAM S.p.A.	2019	€	500	2	502	1.25	2025
SNAM S.p.A.	2019	€	250		250	1.625	2030
SNAM S.p.A.	2019	€	700	(4)	696		2024
SNAM S.p.A.	2019	€	600	(7)	593	1	2034
SNAM S.p.A.	2020	€	500	(2)	498	0.75	2030
			8,280	**9**	**8,289**		
Convertible bonds							
SNAM S.p.A.	2017	€	400	(7)	393		2022
			8,680	**2**	**8,682**		

(a) Includes: (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 loan tapped in September 2013 for an incremental amount of Euro 500 million, with the same interest rate and maturity as the original placement.
(g) Bond loan tapped in January 2015 for an incremental amount of Euro 250 million, 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 Euro 300 million, with the same interest rate and maturity as the original placement.

Payables for bank loans (Euro 5,291 million) relate to maturing loans (term loans), of which Euro 1,648 million 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 0.42%.

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

Snam has unused committed credit lines of Euro 3.2 billion.

Financial covenants and negative pledge commitments

As at 30 June 2020, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions.

Part of such contracts envisages, inter alia, compliance with commitments typical of international practice, of which some are subject to specific materiality thresholds, such as: (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 be classed as Snam default and trigger early repayment of the relevant loan. Exclusively for the EIB loans, the lender may request additional guarantees if Snam’s rating is lower than BBB (Standard & Poor’s/Fitch Ratings Limited) or lower than Baa2 (Moody’s) with at least two of the three rating agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on the Snam Group’s business and economic, equity and financial position, resulting in additional costs and/or liquidity issues.

At 30 June 2020, the financial liabilities subject to these restrictive clauses amounted to approximately Euro 3.8 billion.

Bond loans, issued by Snam as at 30 June 2020, with a nominal value of Euro 8.7 billion, refer mainly to securities issued under the Euro Medium Term Notes programme. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

Breakdown of net financial debt

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

	31.12.2019			30.06.2020		
(€ million)	Current	Non current	Total	Current	Non current	Total
A. Cash and cash equivalents	2,851		2,851	**3,104**		**3,104**
B. Securities available for sale and held to maturity						
C. Cash (A+B)	**2,851**		**2,851**	**3,104**		**3,104**
D. Short-term financial receivables						
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	**772**	**3,018**	**3,790**
G. Bonds	1,439	7,609	9,048	**827**	**7,855**	**8,682**
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	**2,000**		**2,000**
M. Other long-term financial liabilities (*)	6	15	21	**5**	**14**	**19**
N. Gross financial debt (E+F+G+H+I+L+M)	**4,131**	**10,643**	**14,774**	**5,105**	**10,887**	**15,992**
O. Net financial debt (N-C-D)	**1,280**	**10,643**	**11,923**	**2,001**	**10,887**	**12,888**

(*) The value includes the financial payables for leased assets entered in accordance with IFRS 16 "Leasing".

14) Trade payables and other payables

Trade payables and other payables, which amount to Euro 1,222 million (Euro 1,801 million at 31 December 2019) comprise the following:

(€ million)	31.12.2019	30.06.2020
Trade payables	487	**312**
Payables for investments	320	**256**
Other payables	994	**654**
	1,801	**1,222**

Trade payables of Euro 312 million (Euro 487 million at 31 December 2019) relate mainly to the natural gas transportation segment (Euro 173 million, including Euro 92 million relating to system balancing and settlement activities).

Payables for investment activities of Euro 256 million (Euro 320 million at 31 December 2019) relate mainly to the natural gas transportation (Euro 210 million) and storage (Euro 27 million) business segments.

Other payables of Euro 654 million (Euro 994 million at 31 December 2019) break down as follows:

(€ million)	31.12.2019	30.06.2020
Other payables		
- Payables to the Electricity Equalisation Fund (CSEA)	597	**580**
- Payables to employees	35	**22**
- Payables to pension and social security institutions	19	**16**
- Payables to shareholders for dividends		**8**
- Consultants and professionals	8	**7**
- Interim dividend	313	
- Other	22	**21**
	994	**654**

Amounts owed to the CSEA (Euro 580 million) mainly relate to accessory tariff components applied to transport service users, to be repaid to the system.

Note 28 “Related-party transactions” contains information about payables due to related parties.

The book value of trade and other payables is close to the relative fair value measurement, given the short period of time between when the payable arises and its due date.

15) Other current and non-current liabilities

Other current liabilities, amounting to Euro 94 million (Euro 97 million at 31 December 2019), and other *non-current liabilities*, amounting to Euro 261 million (Euro 213 million at 31 December 2019), break down as follows:

	31.12.2019			30.06.2020		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Regulated liabilities	49	98	147	**48**	**111**	**159**
Market value of derivative financial instruments	7	56	63	**7**	**72**	**79**
Other liabilities	41	59	100	**39**	**78**	**117**
- Security deposits		47	47		**69**	**69**
- Prepaid revenue and income	26	6	32	**18**	**3**	**21**
- Prepaid contributions for connecting to the transportation network		6	6		**6**	**6**
- Other	15		15	**21**		**21**
	97	**213**	**310**	**94**	**261**	**355**

Liabilities from regulated activities, amounting to Euro 159 million (Euro 147 million at 31 December 2019), mainly relate to:

- the transportation segment (Euro 129 million) mainly made up of penalties charged to users that have exceeded the capacity committed. The current and non-current portions amount to Euro 48 million and Euro 81 million respectively (Euro 49 million and Euro 69 million at 31 December 2019);
- the storage segment (Euro 29 million) 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 (Euro 29 million, fully attributable to the non-current portion at 31 December 2019).

The market value of derivative financial instruments outstanding at 30 June 2020 is as follows:

	31.12.2019			30.06.2020		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other liabilities	**7**	**56**	**63**	**7**	**72**	**79**
Cash flow hedging derivative financial instruments:						
- Fair value interest rate hedging derivatives	6	56	**62**	**6**	**72**	**78**
- Accrued expenses on derivatives	1		**1**	**1**		**1**

The liabilities arising from measurement at market value of the derivative financial instruments used as cash flow hedges (Euro 79 million) refer to:

- two derivative Interest Rate Swap "Forward Start" contracts with Mandatory Early Termination, stipulated in July 2017 and August 2018 to cover the risk of interest rate fluctuations of long-term bond issues scheduled for FY 2021, of nominal total value of Euro 500 million and a total market value of Euro 58 million;
- an Interest Rate Swap derivative, stipulated in August 2017, with a market value of Euro 13 million. The IRS is used to hedge against the risk of interest rate fluctuation for a floating-rate bond of Euro 350 million. The 7-year bond has a maturity of 2 August 2024 and floating rate linked to 3-month Euribor + 40 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.436%;
- an Interest Rate Swap derivative, stipulated in February 2017, with a market value of Euro 3 million. The IRS is used to hedge against the risk of interest rate fluctuation resulting from a long-term bond issue of Euro 300 million. The loan, which has a duration of five years and matures on 21 February 2022, pays a floating rate linked to 3-month Euribor plus 60 bps. Through the IRS, the floating rate liability is converted into an equivalent fixed-rate liability with a reference rate of 0.0408%;
- an Interest Rate Swap derivative, stipulated in July 2018, with a market value of Euro 2 million. The IRS is used to hedge against the risk of interest rate fluctuation resulting from a 50% portion of the long-term floating rate loan of Euro 500 million. The 3-year term loan has a maturity of 31 October 2021 and floating rate linked to 3 month Euribor + 45 bps. Through the derivative contract, the floating rate

liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.0570%;

- an Interest Rate Swap derivative, stipulated in July 2018, with a market value of Euro 2 million. The IRS is used to hedge against the risk of interest rate fluctuation on a floating rate term loan of Euro 150 million. The 5-year term loan has a maturity of 31 July 2022 and floating rate linked to 3 month Euribor + 58 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.1250%;
- an Interest Rate Swap derivative, stipulated in December 2018, with a market value of Euro 1 million. The IRS is used to hedge against the risk of interest rate fluctuation resulting from the remaining 50% portion of the long-term floating rate loan of Euro 500 million. The 3-year term loan has a maturity of 31 October 2021 and floating rate linked to 3 month Euribor + 45 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of - 0.0440%;

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

Interest Rate Swap - Forward Start

(€ million)

Type of derivative	Contract start date	Maturity date	Early extinguishment date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2019	Nominal value 30.06.2020	Market value 31.12.2019	Market value 30.06.2020
IRS - Forward start	29/10/2020	29/10/2027	29/01/2021	7.3	1.4225%	Euribor 6 m	250	250	(23)	(30)
IRS - Forward start	15/04/2021	15/04/2028	15/07/2021	7.8	1.3130%	Euribor 6 m	250	250	(20)	(28)

Interest rate swap

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	Snam pays	Snam receives	Nominal value 31.12.2019	Nominal value 30.06.2020	Market value 31.12.2019	Market value 30.06.2020
Interest rate swap	02/08/2017	02/08/2024	4.1	0.4360%	3 month Euribor	350	350	(11)	(13)
Interest rate swap	21/02/2017	21/02/2022	1.6	0.0408%	3 month Euribor	300	300	(3)	(3)
Interest rate swap	30/07/2018	31/10/2021	1.3	0.0570%	3 month Euribor	250	250	(2)	(2)
Interest rate swap	31/07/2018	31/07/2022	2.1	0.1250%	3 month Euribor	150	150	(2)	(2)
Interest rate swap	31/10/2018	31/10/2021	1.3	-0.0440%	3 month Euribor	250	250	(1)	(1)
Interest Rate Swap (*)	31/12/2015	30/06/2028	8.0	1.0400%	6 month Euribor	9	9	(1)	
Interest Rate Swap (*)	07/08/2013	30/06/2028	8.0	2.1600%	6 month Euribor	1	1		

(*) Derivative closed in the first half of 2020.

The fair value of 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 being hedged by the derivative financial instruments and on hedging policies adopted by the Company against these risks is provided in Note 19 “Guarantees, commitments and risks - Management of financial risks”.

Other liabilities of Euro 117 million (Euro 100 million at 31 December 2019) include mainly: (i) security deposits (Euro 69 million; Euro 47 million as at 31 December 2019 corresponding entirely to the non-current share) paid by way of guarantee by balancing service users in accordance with the resolution ARG/gas 45/11 and by users of storage for the auctions at the beginning of the thermal year; (ii) liabilities for revenues and prepaid income (Euro 21 million), essentially regarding revenues anticipated to TAP for the provision of the design services (Euro 13 million corresponding entirely to the current portion) and the prepaid charges for the concession to use fibre-optic cable to a telecommunications operator (5 million, of which Euro 2 million current portion and Euro 3 million non-current portion).

16) Provisions for risks and charges

Provisions for risks and charges, which amount to Euro 696 million (Euro 713 million at 31 December 2019) are analysed in the table below:

	30.06.2020						
				Utilisations			
(€ million)	Opening balance	Provisions	Increases due to passing of time	Against charges	for excess	Other changes	Final balance
Provision for site dismantlement and restoration	647		4	(6)		(12)	**633**
Provision for litigation	18				(1)		**17**
Provision for tax litigation	6			(1)			**5**
Other provisions	42			(1)			**41**
	713		4	(8)	(1)	(12)	**696**

The provision for site dismantling and restoration (Euro 633 million) includes the discounted estimate of costs expected to be incurred for the removal of infrastructures and the restoration of sites mainly in the natural gas storage (Euro 510 million) and transportation (Euro 118 million) business operating segments. Other changes (Euro -12 million) refer to the change in estimate as a result of the increase in expected discounting rates.

17) Deferred tax liabilities

Deferred tax liabilities, amounting to Euro 536 million (Euro 548 million at 31 December 2019) are shown net of assets for offsettable prepaid tax of Euro 451 million (Euro 442 million at 31 December 2019).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2019	Provisions	Utilisations	Other changes	30.06.2020
Deferred tax liabilities	548		(8)	(4)	536
Prepaid tax assets	(442)	(13)	4		(451)
	106	(13)	(4)	(4)	85

18) Shareholders' equity

Shareholders' equity, which amounts to Euro 6,224 million (Euro 6,258 million at 31 December 2019) breaks down as follows:

(€ million)	31.12.2019	30.06.2020
Share capital	2,736	2,736
Share premium reserve	746	746
Legal reserve	547	547
Other reserves	64	46
Reserve for fair value of minority equity investments	5	5
Retained earnings	2,513	2,824
Net profit	1,090	572
less		
- Consolidation reserve	(674)	(674)
- Negative reserve for treasury shares held in the portfolio	(389)	(500)
- Reserve for fair value of cash flow hedging derivative financial instruments net of tax effect	(62)	(73)
- Reserve for defined-benefit plans for employees net of tax effect	(8)	(8)
- Interim dividend	(313)	
Snam Shareholders' equity	6,255	6,221
Minority interests	3	3
Total shareholders' equity	6,258	6,224

Below is a breakdown of the main shareholders' equity of Snam at 30 June 2020.

Share capital

The share capital at 30 June 2020 consisted of 3,394,840,916 shares[6] without nominal value (unchanged from 31 December 2019), as compared with a total value of Euro 2,735,670,475.56 (also at 31 December 2019).

6 With reference to the cancellation of 33,983,107 treasury shares in portfolio on 6 July 2020, please refer to the chapter "Other information" in the Interim Directors' Report.

Share premium reserve

The share premium reserve stood at Euro 746 million at 30 June 2020 (same at 31 December 2019).

Legal reserve

The legal reserve stood at Euro 547 million at 30 June 2020 (unchanged from 31 December 2019).

Other reserves

Other reserves of Euro 46 million (Euro 64 million as at 31 December 2019) mainly refer to the effects deriving from the measurement of equity investments using the net equity method.

Retained earnings

Retained earnings totalled Euro 2,824 million (Euro 2,513 million at 31 December 2019). The increase of Euro 311 million was due to the allocation of 2019 residual profit.

Consolidation reserve

The negative consolidation reserve of Euro 674 million (unchanged from 31 December 2019) includes the value derived from the difference between the acquisition cost of the Italgas and Stogit equity investments (Euro 1,597 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the relative shareholders' equity attributable to the Group on the transaction completion date (Euro 923 million).

Negative reserve for treasury shares held in the portfolio

Negative reserve holds a purchase cost of no. 125,483,107 treasury shares as at 30 June 2020 (102,412,920 as at 31 December 2019), as a total amount of Euro 500 million (Euro 389 million at 31 December 2019). The increase of Euro 111 million is due to the purchase of 23,070,187 treasury shares in the portfolio, approved by the Snam Shareholders' Meeting of 2 April 2019.

Reserve for fair value of cash flow hedging derivative financial instruments net of tax effect

The cash flow hedge reserve, negative for Euro 73 million (Euro -62 million at 31 December 2019) includes the fair-value measurement of cash flow hedging derivatives, net of the tax effect. The measurement relates to five Interest Rate Swaps described in Note 15 “Other current and non-current liabilities”.

Reserve for defined-benefit plans for employees net of tax effect

At 30 June 2020, the reserve for remeasurement of employee benefit plans (negative for Euro 8 million; unchanged at 31 December 2019) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

Dividends

The Ordinary Shareholders' Meeting of Snam S.p.A. resolved on 18 June 2020 to distribute a dividend of Euro 0.2376 per share, of which Euro 0.095 per share, for an amount of Euro 313 million, already distributed by way of interim dividend. The balancing dividend of Euro 0.1426 per share, for an amount of Euro 466 million, will be paid from 24 June 2020, with an ex-dividend date of 22 June 2020 and a record date of 23 June 2020.

19) Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to Euro 4,136 million (Euro 4,467 million at 31 December 2019) comprise:

(€ million)	31.12.2019	30.06.2020
Guarantees given in the interest of:	**1,230**	**1,265**
- subsidiaries	101	**136**
- associates	1,129	**1,129**
- of which Trans Adriatic Pipeline	*1,129*	***1,129***
Financial commitments and risks:		
Commitments	**1,126**	**1,442**
Commitments for the purchase of goods and services (*)	892	**1,060**
Commitments to purchase or subscribe to equity investments		**211**
Commitments in associates (**)	234	**171**
- of which Trans Adriatic Pipeline	*234*	***171***
Risks	**2,111**	**1,429**
- third- party assets on deposit	2,073	**1,386**
- compensation and litigation	38	**43**
	4,467	**4,136**

(*) The value includes the legally binding orders as at reference date.

(**) The value shown in the table refers to the residual commitment.

Guarantees

Guarantees given in the interests of subsidiaries (Euro 136 million; Euro 101 million at 31 December 2019) essentially relate to: (i) guarantees given in the favour of the Revenue Agency in the interests of the subsidiaries Stogit, GNL, Snam4Mobility and Enura (Euro 72 million); (ii) waivers issued in the favour of third parties as a performance guarantee (Euro 41 million); (iii) bank surety in the favour of INPS as a guarantee of the fulfilment of obligations accepted with regards to the same institute under the scope of the provisions connected with early retirement, regulated by Art. 4, paragraph 1-7 of Italian Law 92/2012 - the Fornero Law (Euro 22 million).

Other personal guarantees given in the interests of associates (Euro 1,129 million; same at 31 December 2019) refer to the guarantee given in the interest of

TAP in connection with the project loan for the development of the gas pipeline (for further information see the paragraph below on "Commitments, guarantees and pledges - TAP").

Commitments

The commitments for the purchase of goods and services (Euro 1,060 million; Euro 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.

The commitments for the purchase or subscription of equity investments (Euro 211 million)[7] relate to the commitments undertaken with ADNOC on 23 June 2020 as part of the contract that led Snam, in consortium with five international funds, to complete the acquisition of 49% of ADNOC Gas Pipeline Assets LLC (ADNOC Gas Pipelines) on 15 July 2020. Reference should be made to the paragraph "Main events - International business development" in the Interim Directors Report for more details on the transaction.

Commitments in associates (Euro 171 million; Euro 234 million as at 31 December 2019) refer to the commitment made by Snam S.p.A. to the company TAP by virtue of the share held (for further information, see the paragraph "Commitments, guarantees and pledges - TAP" below).

Commitments, guarantees and pledges - TAP

Commitments in associates (Euro 171 million) 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%, with regards to the company Trans Adriatic Pipeline AG (TAP). The commitment relates to the total project costs, including the financial expenses envisaged during the development of the work deriving from the loan agreement stipulated by TAP in December 2018. It is specified that, following the finalisation of the TAP Project Financing, the cost of the project will be financed for approximately 75% by the lenders. On the basis of the project financing concluded, Snam S.p.A.'s commitment toward TAP will progressively decline due to the disbursement to TAP of the financing by the lenders. 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 Euro 1,129 million. As at 30 June 2020, the effective value of the guarantee relating to the above loan is approximately Euro 719 million. The guarantee will be released when certain requirements are met, as agreed with the lenders, including, in particular, the completion and commissioning 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 project financing structure stipulated for TAP envisages some limits for shareholders typical of transactions of this type, including: (i) the restriction of the possibility of freely disposing of the shares in TAP according to certain timing; (ii) the establishment in pledge of the shares held by Snam in TAP in the favour of the lenders for the entire duration of the loan.

Risks

Risks related to third party assets on deposit, equal to Euro 1,386 million (Euro 2,073 million at 31 December 2019) relate to approximately 98 billion cubic metres of natural gas deposited in the storage plants by service customers. This amount was determined by valuing the estimated unit repurchase cost[8] of approximately Euro 0.15 per standard cubic metre to the quantities of gas deposited (0.23 at 31 December 2019).

Risks concerning compensation and litigation of Euro 43 million (Euro 38 million at 31 December 2019) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a small probability that the pertinent economic risk will effectively be incurred.

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7 The commitment, contractually settled in United States dollars, was converted into euros at the exchange rate of 30 June 2020. In order to complete the transaction, the total disbursement made by Snam from its own resources included, in addition to this amount, the share of transaction costs and upfront fees to the pool of international banks that financed the transaction.

8 The value is calculated based on the CCI tariff, i.e. the wholesale price established every quarter by ARERA.

FINANCIAL RISK MANAGEMENT

Introduction

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

- risk arising from exposure to exchange rate fluctuations;
- credit risk deriving from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Snam's policies and principles for the management and control of the financial risks. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from financial instruments.

Information on other risks affecting the company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) and the possible impacts caused by the COVID-19 on risk factors, can be found in the "Elements of risk and uncertainty" chapter of the Interim Report on Operations.

Interest rate risk

Interest rate risk 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 aims to optimise interest rate risk while pursuing its objectives, as defined and approved in the financial plan.

The 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 30 June 2020, the Snam Group used external financial resources in the form of debenture loans and bilateral and syndicated funding with banks and other financial institutions, in the form of medium- to long-term financial payables and bank credit facilities at interest rates index-linked to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates. The exposure to interest rate risk at 30 June 2020 is about 29% of the group's total exposure (24% at 31 December 2019). As at 30 June 2020, Snam has interest rate swaps (IRSs) in place for a total amount of Euro 1,300 million, referring to the hedge of the entire notional amount of two floating-rate bonds for a total value of Euro 650 million, maturing in 2022 and 2024 and forms of bilateral floating-rate funding for a total value of 650 million, maturing in 2021 and 2023. The IRS derivative contracts are used to convert variable rate loans to fixed rate loans.

Moreover, as at 30 June 2020, Snam has forward starting IRS derivatives in place of a notional amount totalling Euro 500 million, maturing in the medium to long-term, for highly probable future financial liabilities to be undertaken up to 2021, for coverage of financial requirements. Although the Snam Group has an active risk management policy, the rise in interest rates relating to variable rate debt not hedged against the interest rate risk, could negatively impact the Snam Group's business and financial position.

Exchange rate risk

Snam's exposure to foreign exchange risk relates to both transaction risk and translation risk. The transaction foreign exchange risk is generated by the conversion of trade or financial receivables (payables) into currencies other than the functional currency and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is implemented and the time it is settled (collection/payment).

Translation exchange rate risk relates to rate fluctuations in the exchange rates of currencies other than the consolidation currency (the Euro), which can result in changes to consolidated shareholders' equity. Snam's risk management system aims to minimise the transaction foreign exchange risk through measures such as the use of derivatives. It cannot be ruled out that significant future changes in exchange rates may negatively impact Snam Group's business and equity and financial position, regardless of the hedging policies for the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.

With regard to both transactional and translational exchange rate risk exposures:

- as regards the investment in the associate Interconnector UK, there is a euro/sterling exchange rate risk;
- with regard, however, to the recent acquisition, in a consortium consisting of Snam and five investment funds, of 49% of ADNOC Gas Pipeline Assets (ADNOC Gas Pipeline), a company that holds for 20 years the management rights for 38 pipelines in the United Arab Emirates, announced on 23 June 2020 and completed on 15 July 2020, there is a Euro/Dollar exchange rate risk.

Snam believes, however, without prejudice to the minimisation of transactional exchange rate risk, that the aforementioned risks, of a translation nature, can be considered limited, mainly due to the low historical medium/long-term volatility of Euro/Sterling and Euro/Dollar exchange rates.

With reference to Snam's investment in the associate TAP, there is a settlement euro/CHF exchange rate risk on the equity cash call on the basis of the contractual commitments made by shareholders with the company, moreover the latter are limited in amount following the positive conclusion of the project financing. This risk is suitably hedged through the use of derivative financial instruments (e.g. forward contracts).

Credit Risk

The credit risk is the company’s exposure to potential losses arising from counterparties failing to fulfil their obligations. Default on or delayed payment of fees may have a negative impact on Snam's economic results and financial balance. For the risk of counterparty breach of commercial contracts, debt collection and any possible disputes are handled by the relevant business units and the centralised Snam departments. Snam, as regards the regulated business, which currently account for almost all its business, provides its business services to approximately 200 operators in the gas sector, with 10 operators representing approximately 70% 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 require guarantees in coverage of the commitments assumed. In specific cases, if the customer has a credit rating issued by major international organizations, the issue of these guarantees may be mitigated. The regulations also contain specific clauses guaranteeing the neutrality of the entity in charge of balancing, an activity carried out from 01 December 2011 by Snam Rete Gas as major transmission company. In particular, the current balancing rules require that based on financial rating criteria, Snam shall make its purchases and sales on the GME balancing platform to ensure availability of the resources required for secure and efficient movement of the gas from the entry points to the withdrawal points and therefore constant balancing of the network. The aforementioned discipline also requires additional usage by Snam of the storage resources of the users to cover system imbalances and ensure the relative financial settlement.

Snam's maximum exposure to credit risk at 30 June 2020 is the book value of the financial assets on its balance sheet.

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 economic results 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 constant growth of sources of financing for companies able to improve the environmental impact of their investments. The interest of investors is linked and subordinate to the ability of the companies themselves to achieve certain objectives in terms of environmental sustainability.

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

Similarly, for Snam, the failure to achieve certain KPIs in the ESG area, as part of the Group's overall objective of making its business more sustainable in the medium to long term, could lead to higher financing costs or lack of access to certain sources of financing.

Mitigation of this risk is based on Snam's extreme attention to ESG issues, traditionally a significant and structured part of the company's 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 envisages bonus/malus mechanisms according to the achievement of certain ESG (Environment, Social, Governance) KPIs. In addition, Snam issued its first Euro 500 million Climate Action Bond in February 2019 and in June 2020 its first Transition Bond, the second in Europe and the first by a gas transportation utility, for a further Euro 500 million. These two bonds are aimed at financing investments in environmental sustainability and energy transition.

As shown in the “Interest rate risk” section, 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 Investments Bank (EIB) bonds and Commercial Papers).

Snam's objective is to maintain a debt structure that is balanced in composition between bonds 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 30 June 2020, Snam had unused committed long term lines of credit worth around Euro 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 Euro 8.3 billion and a Euro Commercial Paper Programme (ECP) for a maximum total nominal value of Euro 2 billion, used in full as at 30 June 2020.

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

Although the Snam Group entertains relations with diversified counterparties of high credit standing, on the basis of a policy for the active management and continuous monitoring of its credit risk, the default of an active counterparty or difficulty in liquidating assets on the market may have negative effects on the assets and balance sheet situation of the Snam Group.

Rating risk

With reference to the rating risk, Snam's long-term rating is: (i) Baa2 with stable outlook, confirmed on 09 June 2020 by Moody's Investor Services; (ii) BBB+ with negative outlook, confirmed on 17 January 2020 by Standard & Poor's Global Rating (“S&P”); (iii) BBB+ with stable outlook, confirmed on 30 April 2020 by Fitch Ratings (“Fitch”). Snam’s long-term rating by Moody’s, Standard & Poor’s and Fitch is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by Moody's and S&P, 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 under the scope of the Snam Commercial Paper programme, is P-2 for Moody's, A-2 for S&P and F2 for Fitch.

Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, negatively impacting Snam Group’s operations and its economic, equity and financial position.

Risk of default and the debt covenant

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk.

As at 30 June 2020, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions.

Part of such contracts envisages, inter alia, compliance with commitments typical of international practice, of which some are subject to specific materiality thresholds, such as: (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; and (iii) limitations on certain extraordinary transactions that the company and its subsidiaries may carry out; and (iv) limits to the debt of subsidiaries.

The bonds issued by Snam as at 30 June 2020 provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

Failure to comply with these covenants, and the occurrence of other events, such as cross-default events could 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 rating is lower than BBB (Standard & Poor's/Fitch) or lower than Baa2 (Moody's) with at least two of the three rating agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on the Snam Group’s business and economic, equity and financial position, resulting in additional costs and/or liquidity issues. These commitments do not carry any comments that provide for compliance with ratios of an economic and/or financial nature.

Market value of financial instruments

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 listed (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 listed 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 foregoing, the classification of the assets and liabilities measured at fair value in the statement of financial position, according to the fair value hierarchy, regarded: (i) derivative financial instruments as at 30 June 2020, classified at level 2 and entered under Note 15 “Other current and non-current liabilities” (Euro 79 million); (ii) the minority share in Adriatic LNG, measured at FVTOCI, classified as level 3 and explained at Note 12 “Other equity investments” (Euro 37 million).

Litigation and other measures

Snam is involved in civil, administrative and criminal proceedings and lawsuits related to the normal pursuit of its business. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements. The following is a summary of the most important proceedings for which significant changes to the situation reported in the 2019 Annual Financial Report occurred, including the new proceedings and closed proceedings. Unless indicated otherwise, no provision has been made for the litigation described below because the company believes it unlikely that these proceedings will have an unfavourable outcome or because the amount of the provision cannot be reliably estimated.

Criminal disputes

IES Biogas - Criminal sentencing decree

On 02 November 2018, a criminal sentencing decree was notified, issued by the Court of Venice against a Manager of IES Biogas, following the injury at work that took place on 29 September 2016, to a company employee, during maintenance of a silos shaker. On 16 November 2018, a deed was filed opposing the criminal sentencing decree, whereby it was asked that the proceedings be settled in the conditional abridged judgement manner. At the hearing of 25 September 2019, the Judge, upholding the request for a postponement submitted both by the defendant's defence and by the defendant's defence, granted by the injured party, adjourned the hearing by ordering the hearing of the witness requested by the Company in the act of opposition to the decree. The hearing in chambers was ultimately postponed until November 2020. In the meantime, the insurance process in favour of the injured party has been successfully concluded.

Other commitments and risks

The other unevaluated commitments and risks are:

Commitments arising from the contract for the acquisition of Stogit from Eni

As at 30 June 2020, the residual commitments resulting from said agreements concern hedging mechanisms aimed at keeping within Eni the risks and/or benefits that may derive from: (i) a potential valuation of the gas owned by Stogit at the time of the share transfer, which differs from the valuation currently recognised by the

Italian Regulatory Authority for Energy, Networks and Environment (ARERA) in the event of even only a partial transfer thereof when given quantities may no longer be instrumental to the regulated concessions and thus become available for sale; and (ii) transfer of storage capacity that may eventually become freely available on a negotiated basis and no longer a regulated basis, or else from a transfer of concessions including those pertaining to Stogit at the time of the transfer of the shares which may eventually be dedicated predominantly to storage business no longer subject to regulation.

Commitments arising from the contract through which Edison acquired Terminale GNL Adriatico S.r.l.

The price determined for the acquisition of Terminale GNL Adriatico S.r.l. is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

As at 30 June 2020, the commitment arising from the aforementioned agreement refers to the hedging mechanisms established to maintain the risks and/or benefits arising from conclusion of new contracts for usage of the terminal capacity under Edison.

Commitments arising from the purchase contract of TEP Energy Solutions S.r.l.

The price determined for the acquisition of TEP Energy Solution S.r.l. is subject to adjustment mechanisms based on contractual commitments made, which were also intended to apply after the date of execution.

As at 30 June 2020, the commitment resulting from the agreement regards hedging mechanisms based on the economic results achieved by TEP in the financial years 2018-2020, to be regulated contractually for cash, for an amount that cannot in any case exceed Euro 2.5 million.

Commitments arising from the purchase contract of Renerwaste S.r.l.

On the basis of the contractual provisions, Snam, if certain conditions are met, by 2022, has the right to acquire two SPVs which will be granted the authorisations for the construction of two additional Biogas/Biomethane production plants.

20) Revenue

The breakdown of *revenue* for the first half 2020, which totalled Euro 1,346 million (Euro 1,332 million in 2019), is shown in the following table.

	First half	
(€ million)	2019	2020
Core business revenue	1,318	**1,330**
Other revenue and income	14	**16**
	1,332	**1,346**

The reasons for the most significant changes are described in the "Financial review and other information " chapter of the Interim Directors Report .

Below is a breakdown of revenues from customer contracts , broken down by existing operating segments[9]:

	First half	
(€ million)	2019	2020
Natural gas transportation (*)	1,024	**1,017**
Liquefied Natural Gas (LNG) regasification	11	**11**
Natural gas storage (*)	254	**248**
Corporate and other activities	43	**70**
	1,332	**1,346**

(*) 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.

The Group generates most of its revenue in Italy. An analysis of revenue by business segment, highlighting consolidation eliminations and adjustments, can be found in Note no. 27 - "Information by business segment".

Snam's business is not affected by seasonal factors which would have a significant impact on its annual or interim economic-financial results.

Core business revenue

Core business revenue of Euro 1,330 million mainly consists of regulated revenue from the transportation segment (Euro 1,003 million), natural gas storage (Euro 247 million) and LNG regasification (Euro 11 million).

9 In accordance with the accounting standard IFRS 15 "Revenue from contracts with customers", paragraph 114, Snam has chosen to unbundle revenue according to existing operating business segment. This representation takes into account information subject to regular review at the highest operative decision-making level, in order to assess the financial performance of the operating segments and information used by the entity or users of the entity's financial statements to assess the entity's financial performance.

Core business revenue is reported net of the tariff components, relating to the transportation sector, additional to the tariff, and tariff surcharges applied to cover expenses of a general nature of the gas system (Euro 522 million, Euro 647 million in the first half 2019). Amounts received from Snam are paid in full to the Energy and Environmental Services Fund (CSEA).

In addition, as of 1 January 2020, core business revenue is shown net of revenues attributable to operators connected to the infrastructures managed by Snam[10].

In particular, with Resolution no. 114/2019/R/GAS, which launches the fifth regulatory period (as of 1 January 2020), the main transport company is required to adjust annually 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 revenue is shown net of revenues attributable to operators connected to the infrastructures managed by Snam.

Other revenue and income

Other revenue and income, totalling Euro 16 million (Euro 14 million in the first half of 2019) refers mainly to income for the incentives of the Balancing Manager (RdB) in accordance with ARERA resolution 554/2016/R/gas (Euro 11 million; Euro 8 million in the first half 2019).

21) Operating costs

The breakdown of *operating costs* for the period, which totalled Euro 248 million (Euro 221 million in first half 2019), is shown in the following table:

	First half	
(€ million)	**2019**	**2020**
Purchases, services and other costs	135	**158**
Personnel cost	86	**90**
	221	**248**

The reasons for the most significant changes are described in the “Financial review and other information” section of the Interim Directors' Repors.

Operating costs for the first half of 2020 include the costs incurred as a result of the state of emergency related to the COVID-19 pandemic for a total amount of Euro 9 million, relating mainly to donations of health equipment (Euro 5 million) and money (Euro 2 million) to the Italian health system and the third sector, purchases of personal protection equipment for internal use and costs for services.

10 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.

Purchases, services and other costs

Purchases, services and other costs, which amounted to Euro 158 million (Euro 135 million in the first half 2019), can be broken down as follows:

	First half	
(€ million)	2019	2020
Costs for purchase of raw materials, consumables, supplies and goods	83	**116**
Costs for services	138	**139**
Costs for the use of third-party assets	15	**17**
Changes in raw materials, consumables, supplies and goods	(18)	**(10)**
Net accrual to (utilisation of) provisions for risks and charges	2	**(1)**
Other operating expenses	18	**23**
	238	**284**
Less:		
Increase on internal work - property, plant and equipment	**(103)**	**(126)**
- of which costs for purchase of raw materials, consumables, supplies and goods	(50)	**(46)**
- of which costs for services	(53)	**(80)**
	135	**158**

Personnel cost

Personnel cost, which amounted to Euro 90 million (Euro 86 million in the first half 2019), can be broken down as follows:

	First half	
(€ million)	2019	2020
Wages and salaries	78	**81**
Social security contributions (pensions and healthcare assistance)	22	**22**
Employee benefits	5	**7**
Other expenses	4	**5**
	109	**115**
Less:		
Increase on internal work	**(23)**	**(25)**
	86	**90**

Average number of employees

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

Professional status	30.06.2019	31.12.2019	30.06.2020
Executives	111	116	**122**
Managers	489	494	**510**
Office workers	1,708	1,699	**1,697**
Manual workers	745	733	**736**
	3,053	**3,042**	**3,065**

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

Personnel in service as at 30 June 2020 numbered 3,048 resources (3,014 and 3,025 resources respectively at 30 June 2019 and 31 December 2019) with an increase of 34 resources on 30 June 2019, mainly due to the entrance of new companies into the consolidation perimeter and an increase of 23 resources with respect to 31 December 2019.

22) Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses, which amounted to Euro 374 million (Euro 355 million in the first half 2019), can be broken down as follows:

	First half	
(€ million)	2019	2020
Total amortisation and depreciation	**355**	**374**
- Property, plant and equipment	323	**338**
- Intangible assets	32	**36**
Impairment losses		
	355	**374**

For more details about amortisation, depreciation and impairment losses relating to tangible and intangible fixed assets, please see Note no. 9 “Property, plant and equipment”, and Note no. 10 “Intangible fixed assets".

An analysis of amortisation, depreciation and impairment by business segment can be found in Note 27 “Information by business segment”.

23) Financial expense (income)

Financial expense (income), which amounted to Euro 67 million (Euro 85 million in the first half 2019), can be broken down as follows:

	First half	
(€ million)	2019	2020
Financial expense (income)	76	66
Financial expense	80	71
Financial income	(4)	(5)
Other financial expense (income)	8	
Other financial expense	9	5
Other financial income	(1)	(5)
Losses (Gains) on hedging derivatives - ineffective portion	1	1
Losses from derivative contracts	1	1
	85	67

	First half	
(€ million)	2019	2020
Financial expense (income)	76	66
Expense on financial debt:	85	77
- Interest and other expenses on bond loans	75	69
- Fees on loans and bank credit lines	4	3
- Interest expense on credit lines and loans due to banks and other lenders	6	5
Financial expense capitalised	(5)	(6)
Income from financial receivables	(4)	(5)
- Bank interest income	(4)	(5)
Other financial expense (income):	8	
- Accretion discount (*)	4	3
- Other expenses	5	2
- Other income	(1)	(5)
Losses (Gains) on hedging derivatives - ineffective portion	1	1
	85	67

(*) This item refers to the increase in provisions for risks and charges, which are reported at discounted value under Note 16 “Provisions for risks and charges”.

Expense on financial payables (Euro 77 million) related to: (i) interest expense and other charges on bonds (Euro 69 million), mainly related to interest on 18 bond issues; (ii) interest paid to banks on revolving credit lines and maturing loans for a total of Euro 5 million; (iii) commissions on non-utilisation of credit lines (Euro 2 million) and the portion attributable to the year of Up-Front Fee commissions on revolving credit lines (Euro 1 million).

Financial expense capitalised (Euro 6 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial expenses mainly concern: (I) income on long-term financial receivables in favour of OLT against the acquisition of the 49.07% stake in the company's share capital (Euro 4 million); (ii) charges related to the passage of time for the decommissioning and site restoration provisions for the storage and transport sectors (Euro 3 million in total).

24) Income from equity investments

Income on equity investments, which amounted to Euro 110 million (Euro 118 million in the first half 2019), can be broken down as follows:

	First half	
(€ million)	**2019**	**2020**
Effect of valuation using the equity method	116	**107**
Dividends	2	**2**
Other income		**1**
	118	**110**

Details of capital gains and capital losses from the valuation of equity investments using the net equity method can be found in Note 11 “Equity-accounted investments”. Dividends (Euro 2 million) relate to the minority share held in the company Terminale GNL Adriatico S.r.l., measured at fair value with equivalent entry under shareholders' equity “Fair Value Through Other Comprehensive Income - FVTOCI”.

25) Income taxes

Income taxes for the period, which amounted to Euro 195 million (Euro 208 million in the first half 2019), can be broken down as follows:

	First half					
(€ million)	2019			2020		
	IRES	**IRAP**	**Total**	**IRES**	**IRAP**	**Total**
Current taxes	**191**	**32**	**223**	**181**	**31**	**212**
Current taxes for the period	189	32	**221**	**180**	**31**	**211**
Adjustments for current taxes relating to previous years	2		**2**	**1**		**1**
Deferred and prepaid taxes	**(15)**		**(15)**	**(17)**		**(17)**
Deferred taxes	(27)	(3)	**(30)**	**(8)**		**(8)**
Prepaid taxes	12	3	**15**	**(9)**		**(9)**
	176	**32**	**208**	**164**	**31**	**195**

The impact of taxes on pre-tax profit for the period (tax rate) is 25.4% (26.4% in the first half of 2019) in view of the theoretical tax rate of 27.7% (27.8% in the first half of 2019), which is obtained by applying the statutory tax rate of 24.0% (IRES) to pre-tax profit and 3.9% (IRAP) to the net value of production. The reduction in the tax rate with respect to the theoretical rate is mainly due to the valuation of the equity investments using the equity method and the re-introduction of the ACE - Aid to Economic Growth benefit[11], the effects of which were partly offset by the tax on the dividend.

26) Earnings per share

Basic earnings per share, at Euro 0.174 per share (Euro 0.176 per share in the first half 2019), are calculated by dividing the net profit held by Snam (Euro 572 million; Euro 581 million in the first half 2019) by the weighted average number of Snam shares outstanding during the period, excluding treasury shares.

Diluted earnings per share are calculated by dividing net profit, increased by the net dilution effect deriving from the convertible bond, by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be added to the outstanding shares. For the first half 2020, the diluted earnings per share takes into account the potential effects from assignment of treasury shares in portfolio against the issuing of the bond convertible into ordinary Snam shares and those from the long-term share based incentive plan, with reference to 2017, 2018 and 2019 assignments.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,378,547,365 and 3,385,643,532 respectively for the first half of 2020 and the first half of 2019.

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

		First half	
		2019	2020
Weighted average number of outstanding shares used to calculate basic earnings per share		**3,300,840,916**	**3,292,086,269**
Number of shares with potential dilution effect		84,802,616	**86,461,096**
Weighted average number of outstanding shares used to calculate diluted earnings per share		**3,385,643,532**	**3,378,547,365**
Net profit is attributable to Snam	(€ million)	**581**	**572**
Dilution effect of the convertible bond	(€ million)	1	**1**
Net profit for diluted earnings	(€ million)	**582**	**573**
Basic earnings per share (€ per share)	(amounts in € per share)	0.176	**0.174**
Diluted earnings per share (€ per share)	(amounts in € per share)	0.172	**0.170**

11 This measure, introduced by Decree-Law no. 201 of 6 December 2011 converted into Law no. 214 of 22 December 2011 and subsequent additions and amendments, was repealed by the 2019 Budget Law and reinstated by the 2020 Budget Law with a reduced rate from 1.5% to 1.3%.

27) Information by business segment

The information by 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 business segments and the information presented are defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

In the first half 2020, the business segments for which information is provided coincide with those in place as at 31 December 2019, namely natural gas transportation (“Transportation”), LNG regasification (“Regasification”) and natural gas storage (“Storage”).They relate to activities carried out predominantly by Snam Rete Gas and ITG and Enura, GNL Italia and Stogit respectively.

To this end, it notes that the new companies of the Energy Transition, are included within the "Corporate and other activities" sector, which is not operational in accordance with IFRS 8.

(€ million)	Corporate and other activities	Transportation	Storage	Regasification	Consolidation eliminations and adjustments	Total
First half 2019						
Net core business revenue (a)	132	1,080	297	15		**1,524**
to deduct: infra-segment revenues (b)	*(89)*	*(68)*	*(43)*	*(6)*		***(206)***
Revenue from third parties	43	1,012	254	9		**1,318**
Other revenue and income		12		2		**14**
Net accrual to provisions for risks and charges	(4)	2				**(2)**
Amortisation, depreciation and impairment losses	(8)	(295)	(50)	(2)		**(355)**
EBIT	(22)	607	169	2		**756**
Effect of valuation using the equity method	116					**116**
Total assets	4,656	14,112	4,119	126		**23,013**
- of which investments with valuation using the equity method	1,745					**1,745**
Total liabilities	14,286	9,792	2,750	64	(9,944)	**16,948**
Investments in tangible and intangible fixed assets	3	340	60	5		**408**

(€ million)	Corporate and other activities	Transportation	Storage	Regasification	Consolidation eliminations and adjustments	Total
First half 2020						
Net core business revenue (a)	188	1,065	340	14		1,607
to deduct: infra-segment revenues (b)	*(119)*	*(62)*	*(93)*	*(3)*		*(277)*
Revenue from third parties	69	1,003	247	11		1,330
Other revenue and income		14	1	1		16
Net accrual to provisions for risks and charges		(1)				(1)
Amortisation, depreciation and impairment losses	10	309	53	3	(1)	374
EBIT	(19)	579	163	1		724
Effect of valuation using the equity method	107					107
Total assets	5,855	14,567	4,109	139		24,670
- of which investments with valuation using the equity method	1,805					1,805
Total liabilities	16,375	10,183	2,711	77	(10,900)	18,446
Investments in tangible and intangible fixed assets	18	388	43	8		457

(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 the first half of 2019 have been restated.

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

28) Related-party transactions

With effect from 1 August 2019, CDP S.p.A. reclassified its equity investment in Snam, already qualified as a de facto control under IFRS 10 - Consolidated financial statements from 2014, as a de facto control also pursuant to Article 2359, paragraph 1, of the Italian Civil Code and Article 93 of the Consolidated Law on Finance.

Considering the de facto control of CDP S.p.A. over Snam S.p.A., based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and companies under joint control with the Ministry of Economy and Finance (MEF). Members of the Board of Directors, Statutory Auditors and managers with strategic responsibilities, and their relatives, are also regarded as related parties of Snam Group and CDP.

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 applicable 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 auditors declare their interests affecting 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), who in turns 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 management and coordination. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In the context of transactions with related parties, pursuant to the disclosure requirements of Consob Regulation no. 17221 of 12 March 2010, we point out the stipulation between Snam Rete Gas S.p.A. and Eni S.p.A. of the natural gas transportation contract for the Thermal Year 2019-2020. On 5 February 2020, the value of the transport contract exceeded the threshold of Euro 140 million identified in Snam's "Transactions with directors' and statutory auditors' interests and related party transactions" guideline.

This contract is 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.

This contract constitutes an ordinary transaction concluded at arm's length or equivalent conditions insofar as, in accordance with paragraph 2 of the Guidelines (published on the website www.snam.it): (i) come under the scope of core business and related financial assets; (ii) the conditions applied are based on regulated tariffs.

The amounts involved in commercial, financial and other transactions with the related parties, as defined above, are shown below, for the current year and the previous year by way of comparison. The nature of the most significant transactions is also stated.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

	30 June 2019				First half 2019				
					Costs (a)			Revenue (b)	
(€ million)	Receivables	Other assets	Payables	Other liabilities	Goods	Services	Other	Services	Other
Unconsolidated subsidiaries, associates and companies under joint control									
- Interconnector (UK) Ltd								2	
- Senfluga Energy Infrastructure Holding S.A.	3								
- TAG GmbH	1							1	
- Teréga S.A.S.	1								
- Trans Adriatic Pipeline AG (TAP)	1			25				8	
	6			**25**				**11**	
Snam Foundation	**1**								
Parent company									
- Cassa Depositi e Presiti S.p.A.			1						
			1						
Companies controlled by the parent company Cassa Depositi e Presiti									
- Italgas Group	1		1				1		
	1		**1**				**1**		
Companies under joint control by the parent company Cassa Depositi e Presiti									
- Saipem Group			17			9			
- Valvitalia Finanziaria S.p.A.			1		1	2			
			18		**1**	**11**			
Companies owned or controlled by the State									
- Gestore dei mercati energetici S.p.A.	4		6		3				
- Anas group	1	1	3					1	
- Enel Group (c)	70		21					192	
- Eni Group (c)	248		19			10		650	
- Ferrovie dello Stato group	1		1					2	
- Finmeccanica group						1			
	324	**1**	**50**		**3**	**11**		**845**	
Total	**332**	**1**	**70**	**25**	**4**	**22**	**1**	**856**	

(a) Includes costs for goods and services to be used in investment activities.

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

(c) Inclusive of amounts on the balance sheet relating to balancing activities.

	30 June 2020				First half 2020				
					Costs (a)			Revenue (b)	
(€ million)	Receivables	Other assets	Payables	Other liabilities	Goods	Services	Other	Services	Other
Unconsolidated subsidiaries, associates and companies under joint control									
- Albanian Gas Services Sh.a	1								
- Interconnector (UK) Ltd								1	
- Senfluga Energy Infrastructure Holding S.A.									
- TAG GmbH	1							1	
- Asset Company 4 S.r.l.	1								
- Teréga S.A.S.	1								
- Trans Adriatic Pipeline AG (TAP)	2			13				9	
	6			13				11	
Snam Foundation	1						1		
Parent company									
- Cassa Depositi e Presiti S.p.A.			1						
			1						
Companies controlled by the parent company Cassa Depositi e Presiti									
- Italgas Group	1		2						
	1		2						
Companies under joint control by the parent company Cassa Depositi e Presiti									
- Saipem Group			13			7			
- Valvitalia Finanziaria S.p.A.			1		2				
			14		2	7			
Companies owned or controlled by the State									
- Gestore dei mercati energetici S.p.A.	1		7						
- Anas group	1	1	3						
- Enel Group (c)	93		6			1		176	
- Eni Group (c)	225		18			11		465	
- Ferrovie dello Stato group	1		1						
- Finmeccanica group			1			1			
	321	1	36			13		641	
Total	329	1	53	13	2	20	1	652	

(a) Includes costs for goods and services to be used in investment activities.

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

(c) Inclusive of amounts on the balance sheet relating to balancing activities.

Jointly controlled companies and associates

The main commercial relations with companies under joint control and associates refer to:

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

Companies under joint control of the parent company Cassa Depositi e Presiti (Italian investment bank)

Among the main commercial relations with companies under joint control by Cassa Depositi e Presiti (Italian investment bank) we note the purchase from Saipem of design and supervision services for the realisation of natural gas transport and storage infrastructures, regulated by contracts concluded at arm's length.

Companies owned or controlled by the State

The key transactions with State-owned or controlled companies relate to:

- the provision to the Eni Group and the Enel Group of natural gas transport, regasification and storage services, which are settled on the basis of tariffs set by the Authority;
- purchase from the Eni Group of electricity used for operations.

Additionally, as at 30 June 2020, there were assets resulting from transactions with Eni as part of the national tax consolidation scheme in force until 31 July 2012.

Financial transactions

Financial transactions can be broken down as follows:

	30 June 2019			First half 2019
(€ million)	Receivables	Payables	Guarantees and commitments	Income
Jointly controlled companies and associates				
- Trans Adriatic Pipeline AG (TAP)			1,404	
			1,404	

	30 June 2020			First half 2020
(€ million)	Receivables	Payables	Guarantees and commitments	Income
Unconsolidated subsidiaries, associates and companies under joint control				
- Olt Offshore Lng Toscana	315			4
- Trans Adriatic Pipeline AG (TAP)			1,300	
	315		1,300	4

Jointly controlled companies and associates

Financial relations with companies under joint control and associates refer to:

- the first demand guarantee (so-called "Debt Service Guarantee") on the financing contract of the associated company TAP, in the phase relating to the construction and commissioning of the plant;
- 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%, with regards to TAP[12];
- the long-term financial credit 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.

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:

	31.12.2019			30.06.2020		
(€ million)	Total	Related Entities	% Share	Total	Related Entities	% Share
Statement of financial position						
Trade receivables and other current receivables	1,376	291	21.1	**1,318**	**329**	**25.0**
Other non-current receivables				**317**	**315**	**99.4**
Other non-current assets	26	1	3.8	**37**	**1**	**2.7**
Trade payables and other payables	1,801	189	10.5	**1,222**	**53**	**4.3**
Other current liabilities	97	22	22.7	**94**	**13**	**13.8**

	First half 2019			First half 2020		
(€ million)	Total	Related Entities	% Share	Total	Related Entities	% Share
Income Statement						
Core business revenue	1,318	856	64.9	**1,330**	**652**	**49.2**
Purchases, services and other costs	135	13	9.6	**158**	**12**	**7.6**
Financial income	5			**10**	**4**	**40.0**

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

[12] For further information, please refer to note 19 "Guarantees, commitments and risks - Commitments, guarantees and pledges - TAP".

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

(€ million)	First half 2019	First half 2020
Revenue and income	856	**652**
Cost and expense	(13)	**(12)**
Change in trade receivables and other receivables	79	**(38)**
Change in trade payables and other payables	(106)	**(33)**
Interest collected		**1**
Change in other current and non-current liabilities	(2)	**(9)**
Net cash flow from operating activities	**814**	**561**
Investments:		
- Tangible and intangible fixed assets	(14)	**(11)**
- Financial receivables		**(332)**
- Change in payables and receivables relating to investments	(2)	**(3)**
Cash flow from investments	**(16)**	**(346)**
Divestments:		
- Financial receivables		**18**
Cash flow from divestments		**18**
Net cash flow from investment activities	**(16)**	**(328)**

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

	First half 2019			First half 2020		
(€ million)	Related	Related Entities	% Share	Related	Related Entities	% Share
Cash flow from operating activities	1,221	814	66.7	**749**	**561**	**74.9**
Cash flow from investment activities	(427)	(16)	3.7	**(832)**	**(328)**	**39.4**

29) Significant events occurring after the half-year end

On 15 July 2020, the consortium consisting of Snam and the investment funds Global Infrastructure Partners (GIP), Brookfield Asset Management, GIC (the Singapore sovereign fund), Ontario Teachers' Pension Plan and NH Investment & Securities, following the fulfilment of all conditions precedent, completed the acquisition of 49% of ADNOC Gas Pipeline Assets LLC (ADNOC Gas Pipelines) from The Abu Dhabi National Oil Company (ADNOC), as had been announced on 23 June. For Snam, in particular, the disbursement from own resources amounted to approximately 250 million dollars.

For further details, please refer to the section "Main events - International business development" in the Interim Directors' Repors.

Certification of the Condensed Interim Financial Statements Pursuant to Article 154-bis, paragraph 5, of Legislative Decree no. 58/1998 (Consolidated Law on Finance)

1. The undersigned Marco Alverà and Luca Oglialoro, in their capacity as Chief Executive Officer and Manager appointed to prepare the company's accounting documents 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 in relation to the characteristics of the business, and
   - the effective application of the administrative and accounting procedures for the preparation of the condensed interim financial statements at 30 June 2020, during the first half of 2020.
2. The administrative and accounting procedures for the preparation of the condensed interim financial statements at 30 June 2020 have been defined and their adequacy assessed on the basis of the standards and methodologies defined in accordance with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a reference framework for the internal control system generally accepted at the international level.
3. The following is also certified:

   3.1 The condensed interim financial statements at 30 June 2020:

   a) have been prepared in compliance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and Council of 19 July 2002;

   b) correspond to the results in the books and accounting records;

   c) are able to provide a true and fair view of the balance sheet, profit and loss account and financial position of the issuer and all the companies included in the consolidation.

   3.2 The Interim Directors' Report includes a reliable analysis of references to important events that occurred in the first six months of the year and their impact on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim Directors' Report also includes a reliable analysis of information on significant transactions with related parties.

29 July 2020

/Signature/ Marco Alverà	/Signature/Luca Oglialoro
Marco Alverà	Luca Oglialoro
Chief Executive Officer	Manager charged with preparing the Company’s financial reports

Deloitte & Touche S.p.A.
Via Tortona, 25
20144 Milano
Italia

Tel: + 39 02 83322111
Fax: + 39 02 83322112
www.deloitte.it

REPORT ON REVIEW OF THE HALF-YEARLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Snam S.p.A.

Introduction

We have reviewed the accompanying half-yearly condensed consolidated financial statements of Snam S.p.A. and subsidiaries (the "Snam Group"), which comprise the statement of financial position as of June 30, 2020 and the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement for the six month period then ended, and a summary of significant accounting policies and other explanatory notes. The Directors are responsible for the preparation of the half-yearly condensed consolidated financial statements in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on the half-yearly condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with the criteria recommended by the Italian Regulatory Commission for Companies and the Stock Exchange ("Consob") for the review of the half-yearly financial statements under Resolution n° 10867 of July 31, 1997. A review of half-yearly condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying half-yearly condensed consolidated financial statements of the Snam Group as at June 30, 2020 are not prepared, in all material respects, in accordance with the International Accounting Standard applicable to the interim financial reporting (IAS 34) as adopted by the European Union.

Deloitte.

Other Matter

The consolidated financial statements of the Snam Group for the period ended as of December 31, 2019 and the half-yearly condensed consolidated financial statements as at June 30, 2019 have been respectively audited and reviewed by other auditors that on May 11, 2020 and on August 1, 2019 expressed an unmodified opinion and an unmodified conclusion on those consolidated financial statements.

DELOITTE & TOUCHE S.p.A.

Signed by
Paola Mariateresa Rolli
Partner

Milan, Italy
August 6, 2020

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

snam.it