

# Letter to Shareholders and Stakeholders



**Carlo Malacarne**  
Chairman



**Marco Alverà**  
Chief Executive Officer

To our Shareholders and Stakeholders,

In 2017 Snam celebrated its 75<sup>th</sup> anniversary as a company, a period during which it contributed to Italy's industrial, economic and social growth through the expansion of natural gas. Today's Snam strives to capitalise on these 75 years of experience by leading the "energy transition", which sees natural gas as a safe, flexible and sustainable source, a fundamental pillar of a long-term decarbonisation strategy.

To this end, Snam invests in research, decarbonisation, development and innovation, favouring alternative uses of gas.

The year 2017 also saw the launch of Snam 4 Mobility, a new company to develop sustainable transport, and the conclusion of the first framework agreement for the development of methane filling stations in Italy, which was signed with Eni in May. Last June, we connected the first biomethane plant to the network. The transformation of waste and agricultural residues into gas will allow meeting 10% of national consumption from renewable sources, enhancing thus the long-term value of gas infrastructure. To become leaders in a rapidly changing world, we seek to operate in an increasingly agile and efficient manner, to optimise transversal processes whilst enhancing specific skills. With this in mind, the "Integra" project, which redesigned the organisational structure of Snam, was completed in July 2017 as a further step towards Snam's "One company" vision. Thanks to the Efficiency Plan, which was designed to benefit final consumers, we obtained operating cost savings of approximately €19 million in 2017, reaching and exceeding the target set for said year in the Plan itself.

We intend to become increasingly international also through Snam Global Solutions, a transversal business unit that represents Snam's evolution in market services, as well as a new opportunity to capitalise our know-how abroad, with an existing contract portfolio from 2017 onwards of around €64 million.

We seek to develop the skills of our people through the Snam Academy, a training institute that is aimed at Snam people and the territory. In June, we launched the Snam Foundation, an additional channel to establish closer relations with the territory and better respond to the needs of the communities that host our infrastructures.

In a context of rising gas consumption in Italy for the twelfth consecutive quarter (+6.0% compared to 2016), and a general stability of the regulatory environment, with the extension of the fourth regulatory period up to 2019 for the transport, regasification and storage business, we have achieved very positive results that surpass our expectations. Adjusted operating profit amounted to €1,363 million, up €27 million (+2.0%) compared to the corresponding value of 2016, an increase that can be also attributed to the reduction in operating costs driven by the savings obtained with the Efficiency Plan. Adjusted net profit stood at €940 million, up €95 million (+11.2%) compared to the adjusted pro-forma net profit for 2016. The net cash flow from operating activities (€1,864 million) allowed us to fully cover the financial requirements associated with net investments for the period (€1,441 million), as well as to generate a free cash flow of €423 million. Net financial debt, after the payment to shareholders of the 2016 dividend (€718 million) and the cash flow deriving from the purchase of treasury shares (€210 million), shows an increase of €494 million compared to 31 December 2016.

In October 2017, Snam successfully completed a buyback on the market of bonds with a total nominal value of €607 million, with an average coupon of approximately 2.5% and a remaining maturity of approximately 4.4 years. The purchase was largely financed through a new bond issue with a nominal value of €650 million, with a coupon of 1.375% and a duration of 10 years.

This transaction shall enable Snam to continue along the path of optimisation of its debt structure in terms

of reducing the cost of capital, extending average debt maturity and reducing refinancing risk. In addition, with the aim of optimising the debt structure and supporting the overall remuneration for shareholders, as part of the share buyback program launched by Snam on 7 November 2016, we repurchased on 31 December 2017 a total of 84,788,366 treasury shares (28,777,930 as at 31 December 2016), equal to 2.45% of the share capital for a total cost of €313 million (€103 million at 31 December 2016).

In line with the strategic plan and seeking to strengthen the competitiveness and security of gas supplies, we invested €1,034 million in infrastructure in Italy, and made a €217 million investment with the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas and 7.3% of Adriatic LNG, further to the €220 million invested during the year in TAP, the company that will transport natural gas from the Caspian Sea to Europe.

In the past year, we continued to operate with the utmost care for the environment and the territory, maintaining values in line with previous years and avoiding, thanks to the actions implemented, CO<sub>2eq</sub> emissions for a total of 82,780 tonnes. We also reduced natural gas emissions (-3.2% compared to 2016) in line with the 10% reduction target by 2021 (compared to 2016 with the same perimeter). As confirmation of our continuous effort to enhance sustainability as an integral part of the business growth model, in October 2016 Snam was admitted to the exclusive CDP (formerly Carbon Disclosure Project) "A list", the index that represents an important benchmark to guide investors to enterprises with greater awareness of climate change issues, in which Snam has had a presence since 2012. Furthermore, in September 2017, Snam's stock was confirmed for the eighth straight year, by RobecoSAM on the Dow Jones Sustainability World Index, the most important stock market index in the world for the assessment of social responsibility. Looking at the future, which presents itself as equally

challenging, we confirm infrastructure investments of around €5.2 billion in Italy over the plan period.

We seek to become the leading company in the gas industry. And this means being increasingly global, more innovative as regards the creation and management of new business, more efficient whilst building stronger skills, as well as staying closer to the people and the territory and becoming greener and more renewable. We strive daily to meet these ambitious goals, spreading the spirit of entrepreneurship to help us transform future challenges into opportunities.

On the basis of the results achieved and the Company's prospects, the Board of Directors intends to propose to the Shareholders' Meeting the distribution of a dividend of €0.2155 per share, of which €0.0862 per share already distributed as an advance payment in January 2018, confirming Snam's commitment to ensuring an attractive and sustainable remuneration over time to shareholders.

13 March 2018  
for the Board of Directors

Chairman



The CEO

