

Rating object	Rating information		
Snam S.p.A. Creditreform ID: 400981032 Incorporation: 15.11.2000 Based in: 30.10.1941 Main (Industry): Transportation, dispatching and storage of natural gas CEO: Marco Alverà <u>Rating objects:</u> Long-term Corporate Issuer Rating: Snam S.p.A. Long-term Local Currency (LT LC) Senior Unsecured Issues	Corporate Issuer Rating: BBB+ / negative	Type: Update Unsolicited Public rating	
	LT LC Senior Unsecured Issues: BBB+ / negative	Other: n.r.	
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Analysts

Natallia Berthold
Lead Analyst
N.Berthold@creditreform-rating.de

Rudger van Mook
Co-Analyst
R.vanMook@creditreform-rating.de

Neuss, Germany

Summary

Company

Snam S.p.A. (hereinafter also referred to as 'the Company' or 'Snam') is the leading Company on the Italian market for construction and integrated management of natural gas infrastructure. With approximately 3,100 employees, it provides natural gas transportation, dispatching and storage services, liquid natural gas (LNG) regasification services, as well as engineering and technical-operational services for gas operators. Through a range of subsidiaries, Snam also operates in Albania (AGSCo), Austria (TAG and GCA), China (Snam Gas & Energy Services), United Arab Emirates (ADNOC Gas Pipelines), France (Terëga), Greece (DESFA) and the United Kingdom (Interconnector UK), and is one of the main shareholders of TAP (Trans Adriatic Pipeline), the Company that will transport natural gas from the Caspian Sea to Europe. Most of the Company's revenues are generated on the regulated Italian market, in which Snam holds a natural monopoly position. The Company is also, on a smaller scale, involved in a few non-regulated businesses, such as the construction of biogas and biomethane plants, the provision of services relating to energy efficiency projects, specialized technical services to unconsolidated foreign companies, the rental and maintenance of fibre optic telecommunication cables, and the sale of CNG compressors for motor transport. The Company manages Europe's most extensive network of natural gas transport lines (more than 32,600 km in Italy, about 41,000 km with international subsidiaries) and also the continent's largest natural gas storage capacity (17 billion cubic meters in Italy, about 20 billion cubic meters including international subsidiaries). With a total pro rata regasification capacity of around 8.5 billion cubic meters per year, Snam is also one of the most important regasification operators in Europe.

In 2020, the Company managed to generate revenues of EUR 2,735 million (2019: EUR 2,635 million) and an EAT of EUR 1,101 million (2019: EUR 1,090 million).

Rating result

The current rating attests Snam S.p.A. a highly satisfactory level of creditworthiness, representing a low-to-medium default risk. The rating is based on the solid financial figures for the 2020 financial year and good cash flow generation, which comes almost exclusively from the Company's regulated activities, as well as an overall stable development in the first quarter of 2021. Snam is of strategic importance for Italy and has a profile with essentially low economic and financial risks, benefiting from an established regulatory framework in Italy. Moreover, the Company plays a pivotal role in the country's energy transition. Against this background, we

have assigned Snam a corporate rating of **BBB+**. However, taking into consideration the Company's focus on the Italian market, Snam's rating is constrained to two notches above the unsolicited sovereign rating of the Italian Republic (CRA: BBB- / negative as of 5 March 2021).

Outlook

The one-year outlook for the rating is **negative**. The Company operates mainly in Italy. Therefore, we see a significant dependence on the country's overall economic situation. Additionally, the government holds a significant share of the Group. Based on our assessment of the direct and indirect shareholder structure, and the systemic relevance of Snam S.p.A., the sub-rating methodology for "Corporate Issuer Ratings", "Government-Related Companies" was applied. The corporate issuer rating of Snam S.p.A is currently constrained to two notches above the rating of the Italian Republic (CRA: BBB- / negative as of March 2021). As our future ratings of Snam are constrained to two notches above the sovereign rating of the Italian republic, a downgrade of the Italian Republic would lead to a downgrade for the corporate issuer rating of Snam S.p.A.

Reference:

The relevant rating factors (key drivers) mentioned in this section are predominantly based on internal analyses, evaluations of the rating process, the derived valuations of the analysts participating in the rating and, if applicable, the assessments of other rating committee members. The fundamental external sources used are specified in the section "Regulatory requirements" and "Rules on the presentation of credit ratings and rating outlooks".

Excerpts from the financial key figures analysis 2020:

+ Increased revenues
+ Solid cash flows from operating activities
+ Low ratio of interest expenses to total debt

- Decrease in the equity ratio
- Deterioration in net total debt / EBITDA adj.
- Higher capital and short-term capital lock-up

General rating factors summarize the key issues that – according to the analysts as of the date of the rating – have a significant or long-term impact on the rating, whether positive (+) or negative (-).

Relevant rating factors

Table 1: Financials of Snam Group I Source: Snam S.p.A. annual report 2020, standardized by CRA

Snam S.p.A. Selected key figures of the financial statement analysis Basis: Consolidated Financial Statements of 31.12. (IFRS)	CRA standardized figures ¹	
	2019	2020
Revenues (million EUR)	2,635	2,735
EBITDA (million EUR)	2,204	2,153
EBIT (million EUR)	1,482	1,391
EAT (million EUR)	1,090	1,101
EAT after transfer (million EUR)	1,090	1,101
Total assets (million EUR)	24,049	25,611
Equity ratio (%)	26.5	25.5
Capital lock-up period (days)	111.8	137.9
Short-term capital lock-up (%)	186.6	231.9
Net total debt / EBITDA adj. (Factor)	6.8	7.4
Ratio of interest expenses to total debt (%)	1.2	0.9
Return on investment (%)	5.4	4.9

General rating factors

- + Strategic importance for Italy
- + Monopoly status as the owner of 94% of Italy's gas transportation network
- + Transparent and stable regulatory framework with guaranteed revenues and predictable cash flows
- + Good access to financial markets
- + High market entrance barriers

¹ For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. For example, when calculating the analytical equity ratio, deferred tax assets, goodwill (entirely or partly), and internally generated intangible assets are subtracted from the original equity, whilst deferred tax liabilities are added. Net total debt considers all balance sheet liabilities. Therefore, the key financial figures shown often deviate from the original values of the Company.

- Ageing network
- High capital intensity
- Dependent on regulatory changes
- High sensitivity to overall business activity and consumption levels
- Growing engagement in non-regulated activities

Current rating factors

- + Stable performance in 2020 and Q1 2021
- + Optimisation of debt structure and decreasing interest burden through bond buyback
- + Adequate liquidity reserves
- + Stable regulatory framework through confirmation of tariffs until 2021
- + Robustness in the face of pandemic
- Increasing net financial debt
- Equity ratio in need of improvement
- Negative free cash flow
- High dividend distribution

Prospective rating factors

- + Business diversification and growth potential in foreign undertakings
- + RAB: > 2.5% CAGR for 2020-2024
- + Improvement of Italy's sovereign rating
- High levels of Investment: net capex of EUR 7.4 billion over 2020-2024
- Negative changes in regulatory environment
- Dividend per share: 5% annual growth confirmed to 2022, with further 2.5% minimum annual growth to 2023-2024
- Lower sovereign rating of Italy

ESG-factors

CRA generally considers ESG factors (environment, social and governance) within its rating decisions. In the case of Snam S.p.A., we have not identified any ESG factor with significant influence.

Based on the sustainability report of Snam and the other documents available to us, we currently estimate the risks arising from ESG factors in relation to the rating object to be manageable. As a gas network operator, the Company shows relatively high CO₂ emissions, as well as energy and water consumption. In addition, due to its business model, the Group is dependent on environmentally harmful suppliers (gas producers).

Nonetheless, sustainability issues are central to the Snam Group's strategic and operational development in the short-term, but especially in the medium and long-term. In 2020, the Snam Group set itself the ambitious climate target of becoming carbon neutral by 2040. The Company aims to reduce the Group's direct and indirect emissions (scope 1 and 2) by 50% between 2018 and 2030. With regard to the reduction of indirect emissions (scope 3), new projects are being worked out with subsidiaries and suppliers. Through the increase in biomethane production,

Current rating factors are the key factors that, in addition to the underlying rating factors, have an impact on the current rating.

Prospective rating factors are factors and possible events which – according to the analysts as of the date of the rating – would most likely have a stabilizing or positive effect (+), or a weakening or negative effect (-) on future ratings, if they occurred. This is not an exhaustive list of possible future events with potential relevance for future ratings. Circumstances can arise that are not included in the list of prospective factors whose effects are impossible to assess at the time of the rating, either because these effects are uncertain or because the underlying events are deemed unlikely to occur.

ESG factors are factors related to environment, social issues and, governance. For more information, please see the "Regulatory requirements". CRA generally takes ESG relevant factors into account, when assessing the rating object and discloses them when they have a significant influence on the creditworthiness of the rating object, leading to a change in the rating result or the outlook.

energy efficiency initiatives and sustainable CNG and LNG mobility projects, the Company intends to contribute to the general reduction of over 600,000 tons of CO₂ equivalent reduce CO₂ equivalent in 2024.

Compared to the previous plan for the development of the system and the energy transition, Snam has increased its investments by almost EUR 1.0 billion to EUR 7.4 billion for the period 2020-2024. Most of the Company's investments are related to its sustainability goals. Approximately 40% of its planned investments are in line with the European Taxonomy criteria, which are currently being finalised. Snam is actively following the Taxonomy development process with the aim of including the planned disclosure indications. This proportion of sustainable financial resources is to be increased to over 60% in the course of the plan.

Even though we derive financial risks for the Snam Group from these goals, we see the Company as a whole on a satisfactory path. We believe that Snam S.p.A., due to its business model, will play an important role in the implementation of the Italian and European climate targets. Moreover, the Company's actions regarding CO₂ emissions seem to indicate, in our view, the right trend. The coming years will show whether or not this will have a material influence on the rating.

A general valid description of Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Best-case scenario: BBB+

In our best-case scenario for one year, we assume a rating of BBB+. Such a scenario would occur if the Company's good performance continued without a deterioration of the Group's financials, or a significantly increased debt burden. Only if our sovereign rating of Italy remains at BBB-level. An upgrade would only seem possible with an improvement in the sovereign rating of the Italian Republic, in tandem with a retention of Snam's current key figures. We currently see this as unlikely within one year.

Worst-case scenario: BBB

In our worst-case scenario for one year, we assume a rating of BBB. Such a scenario would materialize if the sovereign rating of the Italian Republic were downgraded, or if the level of general business activity and consumption behaviour of the population decreased, with negative consequences for Snam.

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

Business development and outlook

In the 2020 financial year, the Snam Group achieved revenues of EUR 2,735 million (2019: EUR 2,635 million) and an EBIT of EUR 1,391 million (2019: EUR 1,482 million), with a total of almost 3,100 employees. Thus, the Company was able to achieve revenue growth of 3.8% compared to the previous year, but had to accept a decrease in the operating result of 6.1% compared to the previous year. Nevertheless, the Group's EAT of EUR 1,101 million was slightly above that of the previous year (2019: EUR 1,090 million). Key factors for the increase in revenue, in addition to the positive contribution by the new energy transition businesses, were higher regulated revenues related to the increase in the RAB base, which more than offset the impact of a decrease in transport volumes due to the COVID-19 pandemic. The continuation of the efficiency plan project and the cost reduction had a positive effect on operational business development. Compared to 2016 (starting year of the efficiency plan), a total of EUR 63 million has already been saved. In contrast, depreciation/amortization rose by 5.5% to EUR 762 million (2019: EUR 722 million), mainly due to growing asset base. In addition, other expenses increased significantly by 63% to EUR 111 million compared to the previous year, from EUR 68 million. This includes in particular CO₂ emission rights, allocations (uses) to the provision for impairment losses, and additional costs as a result of the COVID-19 pandemic, which were also the main reasons for the declining EBIT development of the Group. EAT rose from EUR 1,090 million to EUR 1,101 million, an increase of 1.0 % compared to the previous year. In addition to a higher result from participations, the optimization of the debt structure and the Company's cost of capital were decisive for this.

The following table shows the business development of the main corporate divisions in 2020 compared to 2019.

Table 2: The development of corporate divisions in 2020 before consolidation eliminations and adjustments
| Source: Snam S.p.A. annual report 2020

EUR million	Natural gas transportation		Storage of natural gas		LNG regasification	
	2019	2020	2019	2020	2019	2020
Net core business revenue	2,139	2,120	594	684	27	29
EBIT	1,157	1,139	337	314	1	
Total assets	14,694	15,268	4,053	4,141	124	120
Capital expenditure	813	981	112	134	19	20

The majority of revenue was generated by the transportation and dispatching of natural gas business (73.5%). Natural gas transportation is an integrated service providing transportation capacity and the actual transportation of gas. Through its subsidiaries Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas S.p.A., Snam is the leading natural gas transportation and dispatching operator in Italy, and owns over 32,600 kilometres of high and medium pressure gas pipelines, which together make up approx. 94% of the total natural gas transport infrastructure in Italy. Regulated revenues, mainly fees for natural gas transportation, accounted for more than 94.1% of the division's revenue in 2020.

Through its subsidiary Stogit S.p.A., the largest natural gas storage operator in Italy, Snam controls ten storage sites - under a concession regime. The storage of natural gas helps to manage disparities between gas demand and available supplies. The Company has a capacity of 17.0 billion cubic meters, of which 12.5 million cubic meters are readily available storage space and 4.5 billion cubic meters are used as strategic reserve capacity. Regulated revenues,

essentially the fees for natural gas storage services, accounted for 72.4% of the division's revenue in 2020.

Regasification services contributed 0.8% of the total net core business revenue in 2020. These services are performed by the Snam subsidiary GNL Italia S.p.A., and include the unloading of LNG from tankers, the provision of storage space, the regasification of LNG, and the injection of natural gas into the national network via its LNG terminal in Panigaglia. The LNG terminal has a regasification capacity of up to 17,500 cubic meters of LNG per day, projecting into more than 3.5 billion cubic meters of natural gas annually that can be supplied into the national gas transportation network. Regulated services, comprising mainly the fees for the regasification services, accounted for 67.7% of the division's total revenues.

In the 2020 financial year, Snam showed only minor impact from the COVID-19 pandemic. Since the majority of revenue (more than 95%) is generated from its regulated activities, thus enabling stable and predictable cash flow generation, Snam is not exposed to any significant price or volume risks. During the coronavirus crisis, the Company took many proactive measures to ensure both smooth operations and the energy security of the country. In addition, the Company has allocated EUR 20 million to initiatives supporting the healthcare system. Nonetheless, if the pandemic or its economic consequences persist, an indirect negative effect on Snam cannot be ruled out.

According to the first quarterly report 2021, the Company's revenue increased by 5.6% to EUR 717 million (Q1 2020²: EUR 679 million). In the same period, EBITDA rose by 0.7% to EUR 559 million (Q1 2020: EUR 555 million), which essentially reflects the increased profits from the new business areas. The 8.3% increase in net profit to EUR 313 million (Q1 2020: EUR 289 million) was positively impacted by a higher contribution of the associated companies, by the optimization of the financial structure, and the benefit of ACE (Aid to Economic Growth).

The operating cash flow amounted to EUR 243 million (31.12.2020: EUR 682 million), which partly covered technical investments of EUR 303 million (31.12.2020: EUR 387 million). After payments made for investments and financial receivables from OLT (Offshore LNG Toscana), the free cash flow stood at EUR -528 million (31.12.2020: EUR 91 million). After the equity cash flow from the payment of the 2020 interim dividend in the amount of EUR 323 million to shareholders, net financial debt recorded an increase of 822 million euros compared to December 31, 2020.

The budget for capex for the period between 2020 and 2024 will be EUR 7.4 billion according to Snam's updated strategic plan, an increase of 14% compared to the previous plan. EUR 6.7 billion will be provided for the core business of regulated infrastructure and EUR 0.7 billion for the energy transition. The investments will mainly serve to strengthen and expand the national network, the completion of connections in the north-west, the network in Sardinia, and the launch of the conversion of six compression and storage plants into hybrid gas-electricity facilities. In addition, investments will be made in energy efficiency initiatives, as well as in the hydrogen and bio-methane production infrastructure and their end-use, with a focus on mobility. With the OLT- and ADNOC-transactions carried out in 2020, which are in line with the Company's future-oriented strategies, we see good opportunities for Snam to strengthen its resilience as well as to promote growth and market importance at an international level. While OLT is the second-largest LNG (liquefied natural gas) terminal in Italy, with a maximum annual regasification capacity of 3.75 billion cubic meters, thus strengthening the infrastructure activities of the Snam Group, ADNOC owns the tariff-based rights for the 38 pipelines, and thereby provides entry into the networks of the United Arab Emirates.

² Pro-forma data has been used for the first quarter of 2020. For more information see Snam: 2021 First quarter results.

Moreover, with the new plan, Snam wants to strengthen its role in decarbonisation processes and contribute to development projects for the use of hydrogen as a clean energy source. To this end, in November 2020, Snam signed an agreement with funds managed by Blackstone Tactical Opportunities to acquire 33% of the shares in Industrie De Nora S.p.A. ('De Nora'), an Italian company founded in 1923. The transaction was completed in January 2021 and cost Snam approximately EUR 0.4 billion, valuing the whole group at EUR 1.2 billion. De Nora is a leading manufacturer of electrodes that can be used to produce green hydrogen, which is made from renewable energy sources using electrolyzers. De Nora holds a 34% stake in ThyssenKrupp Uhde Chlorine Engineers, which is involved in several large global hydrogen projects. In addition, De Nora also works with AFC Energy Plc, a British manufacturer specializing in alkaline fuel cells. This will improve Snam's technological positioning in hydrogen projects, as the Company has recently invested roughly EUR 33 million in a minority stake in ITM Power Plc, a manufacturer of electrolyzers. Thus, both sectors (alkaline electrolyzers and membrane electrolyzers) will complement each other, which could give Snam a competitive edge. In addition, this acquisition provides for a new investment platform on the energy transition with a focus on hydrogen in 2021. In Snam's view, De Nora is well positioned to be a global technology-based listed company. It is envisaged that Snam will be the platform's anchor investor and will participate in energy transition projects in a targeted and disciplined manner. The Company strives to maintain its current risk profile and the metrics included in its rating, and continues to focus on its core business.

Considering the strong market position of Snam as the owner of almost the entire Italian gas transportation network, and its significant share of the market for gas transportation, storage and regasification services in Italy, we believe that the Company will meet its growth targets over the medium to long term. Most of the Group's revenues are derived from transparent and stable cash flows generated through regulated business activities. Nevertheless, the business requires substantial investment in order to adapt to the energy transition, which is associated with high operational risks and financial requirements.

Structural risk

Snam S.p.A. (società per azioni, public limited company) was established on 15 November 2000 under the laws of the Republic of Italy, and was entered in the Register of Enterprises in Milan under the Company number 13271390158. Snam's shares have been listed on the Italian Stock Exchange since 2001. Its shares are included in the Italian FTSE MIB Index, as well as in some international indexes such as the Stoxx Europe 600 and Stoxx Europe 600 Utilities.

The main shareholder of Snam is CDP Reti S.p.A., with an interest of 31.35% in the Company's ordinary share capital and the respective voting control rights. CDP Reti S.p.A. is a limited liability Company, 59.1% of which belongs to CDP (Cassa Depositi e Prestiti), a financial institution controlled by the Italian Ministry of the Economy and Finance (82.77% of shares). CDP is engaged in the promotion and development of the Italian economic and industrial system. The second largest shareholder is Mr. Romano Minozzi with an overall interest of 7.46%. As of 31 December 2020, Snam itself holds 2.70% of its share capital in the form of treasury shares. The remaining 58.49% of the shares are in free float and owned by a variety of shareholders, mainly institutional investors.

The Company is managed by the Board of Directors (currently featuring 9 members) and the Board of Statutory Auditors (currently featuring 5 members). The Chairperson of the Board of Directors was elected on the proposition of the main shareholder CDP Reti S.p.A.

Snam S.p.A is a holding Company, which owns 100% of the share capital of the operating companies and which is responsible for the management and development of their respective businesses (see also the chapter on Business Development and Outlook).

Furthermore, the Company owns interests in the following foreign infrastructure companies and projects:

- TERECA S.A., former TIGF S.A. (40.5%), the second-largest French transport and storage operator
- Interconnector UK Limited "IUK" (23.68%), the owner and operator of a pipeline between the UK and continental Europe for the transport of natural gas
- Interconnector Zeebrugge Terminal B.V. "IZT" (25%), a subsidiary of IUK, operating the connection between Zeebrugge with Bacton and running under the southern North Sea
- Trans Austria Gasleitung GmbH "TAG" (84.47%) the independent owner and operator of the Austrian section of the pipeline that connects Russia to Italy
- Trans Adriatic Pipeline AG "TAP" (20%), a pipeline across Greece, Albania and the Adriatic Sea to connect the EU/Turkey border with Italy
- Gas Connect Austria GmbH "GCA" (19.6%), an Austrian independent transmission system operator in both the transmission and distribution sectors
- Hellenic Gas Transmission System Operator S.A. "DESFA" (35.64%), owner and operator of the regulated high-pressure gas transport network and LNG re-gasification facilities in Greece
- Albanian Gas Service Company Sh. a. "AGS" (25%), provider of management and maintenance services on the Albanian section of the TAP pipeline
- ADNOC Gas Pipeline Assets LLC "ADNOC Gas Pipeline" (49% in consortium with other members), which holds, for a period of 20 years, the tariff-based rights for the 38 pipelines that connects ADNOC upstream activities to Abu Dhabi's consumption points and the export and interconnection terminals to United Arab Emirates

According to Italian law, the Company is obligated to seek government approval (on the level of the Prime Minister) for any planned change of control over its assets, including acquisitions of assets by non-EU-domiciled persons or legal entities, and any planned change of their destination. The Government can veto any such change if it is deemed to represent a potential threat to the fundamental interests of the state.

The Company reports its financial statements in accordance with IFRS, and employed an average of 3,121 people over the course of the business year 2020.

After the reorganisation of the corporate structure for more transparency and efficiency, in particular in connection with energy transition and decarbonisation in 2019, the Company's structure consists of the following four business units:

- International development
- Management of Italian subsidiaries (transportation, storage, regasification)
- Energy transition business development (mobility, biomethane, energy efficiency)
- Hydrogen business development

Due to its national systemic importance and its relevance for the capital market, the Company has to comply with high legislative, regulative and corporate governance standards. We do not see any core risks in connection with the Company's structure.

Business risk

The key services of Snam - the transportation and dispatching of natural gas, LNG regasification, and the storage of natural gas - must be offered to third parties on equal terms and conditions at regulated tariffs. According to Italian law, these services are subject to the regulation and control of the independent Italian Authority for Energy, Networks and the Environment (ARERA, Autorità di Regolazione per Energia Reti e Ambiente). The Italian Ministry of Economic Development (MED) is responsible for defining strategic guidelines for the gas industry and for ensuring operating safety and economic development in accordance with Italian and European legislation. The tariff system is designed to cover capital and operational costs that are directly related to the respective business activities, i.e. remunerations on net invested capital, depreciation allowances, and authorized operating costs. Based on the RAB, the regulator determines the tariffs on an annual basis. The Company is permitted to earn a certain maximum weighted average cost of capital; each regulatory period for any of the business segments has a duration of four years. The revenues are updated mostly annually, and approximately 95% of them are guaranteed through correction mechanisms. Snam's foreign interests are also subject to domestic and European regulations.

On 1 January 2020, the fifth regulatory period began for transportation and regasification activities for the period 2020-2023, as well as for storage for the period 2020-2025. The valuation of the net capital invested (RAB) is based on the revalued historical cost method. The net invested capital remuneration rate Beta parameter (WACC) has been confirmed for all sectors, with the WACC remaining unchanged for the years 2020-2021, in accordance with the TIWACC³ regulations. On 15 October 2020, ARERA launched proceedings to determine the remuneration rate for capital invested (WACC) for the second regulatory period from 1 January 2022 (II PWACC). Changes in the Italian and European regulatory systems and legislations could have a significant impact on the operating activities and the financial position of the Company. Given the systemic national importance of Snam, we consider extremely negative changes in the tariff system to be rather unlikely.

The Group's storage services are provided by the subsidiary Stogit S.p.A. on a concession basis. Eight out of ten concessions expired on 31 December 2016. Applications for their renewal were submitted to the authorities and are currently pending. Generally, the concessions can be renewed no more than twice for a duration of ten years at a time. Stogit will continue to manage the concessions in accordance with the specific legal requirements until the approval process is completed. One concession (Fiume Trieste) expires in June 2022 and was extended in 2011 for the first ten-year period, while another concession (Bordolano) expires in November 2031 and can be extended for a further ten years. If Snam proves to be unable to retain its storage concessions or if the concessions are renewed under less favourable conditions, this could affect the Company's revenues and operations.

Most of the natural gas transported in Italy is imported from countries that are politically and economically unstable, thus creating significant price and supply security risks. Snam's revenues correlate with the usage of the infrastructure and the overall economic situation. Any changes in overall business activities and consumption behaviour, as well as weather conditions, have an immediate impact on the Group's revenues. Changes in the climate could have an impact on the Group's operations via changes in regulatory systems and restrictions related to emissions, or due to changes in the general behaviour of the population and trends of using alternative

³ TIWACC is the Document containing the criteria for the calculation and updating of the rate of return on invested capital for infrastructure services in the electricity and gas sectors for the period 2016-2021 (TIWACC 2016-2021), approved through resolution 583/2015/R/COM, as later amended and supplemented.

energy sources. Extreme weather events could damage existing gas transportation networks and negatively affect the ability of the Company to provide reliable services.

As far as we can assess, the Group operates a well-developed and constantly evolving business risk management system which is in line with current market and regulatory requirements, and supported by many years of experience in the industry.

Financial risk

For analytical purposes, CRA adjusted the original values in the financial statements in the context of its financial ratio analysis. The following descriptions and indicators are based solely on those adjustments.

The Company is highly capital intensive. Approximately 81% of the Company's balance sheet total is tied up in long-term assets, reflecting the specific conditions of the business and emphasising the importance and high levels of investment required for the development and maintenance of gas transportation networks as well as storage and regasification utilities. The asset coverage ratio of 60.6% as of 31 December 2020 could be improved in our view, given the Group's high degree of fixed assets intensity.

As of 31 December 2020, the Snam Group displayed an adequate capital structure. From an analytical point of view, we consider the equity ratio of 25.5% (2019: 26.5%) to be in need of improvement. The increase in the capital lock-up period to 137.9 days (2019: 111.8 days) as a result of higher short-term trade payables must also be viewed critically, since it is primarily indicative of a weakness of margin in the Group's business operations. Furthermore, the increase in short-term capital lock-up to 231.9% (2019: 186.6%) indicates a significant outflow of liquidity in the following financial year - or rather, a high refinancing requirement. Long-term and medium-term liabilities accounted for 59.6% of the Group's total liabilities (EUR 11,369 million of EUR 19,081 million). CRA's adjusted ratio of net total debt to EBITDA was 7.4 (2019: 6.8), in our view still adequate given the Group's solid and predictable cash flows from its regulated business.

Snam has financed itself mainly through bank loans and bonds. As of 31 December 2020, bonds fell by EUR 908 million to EUR 8,140 million. The year-on-year decline essentially reflects the fixed-interest bonds repaid in the 2020 financial year with a total amount of EUR 1,376 million and fixed-interest bonds repurchased on the market with a total nominal value of EUR 629 million. The bond buy-back was carried out as part of the debt structure optimisation programme, which mainly aims to improve the cost of financing and extend the average maturities. With this operation, Snam proposes to continue the process of optimising its debt structure and continuously improving its cost of capital in line with its objectives. The issuance of the new fixed-income transitional bonds with a total nominal value of EUR 1,100 million partially offset the reduction in the Group's bonds. Most of the bonds (with a total volume of EUR 7.8 billion as of 31 December 2020) are part of the EMTN Programme initiated in 2012 and renewed in October 2020, with a maximum total amount of up to EUR 11 billion.

The book value of the bank loans increased by EUR 1,569 million to EUR 5,273 million as of 31 December 2020. EUR 1,501 million represented uncommitted variable rate credit lines and EUR 3,772 was associated with term loans, of which EUR 1,620 million had been allocated for the funding of the European Investment Bank (EIB). The unsecured short-term bond (Euro Commercial Papers) also increased by EUR 502 million as of 31 December 2020 to EUR 2,503 million. For the EIB loans only, the bank has the option to request additional guarantees if Snam's rating falls below BBB or Baa2 at two or all three of the three global rating agencies (S&P, Moody's and Fitch). Failure to comply with this covenant could limit the Company's ability to attract new

capital, and could result in an increase in the cost of raising funds, or result in the obligation to repay loans before maturity.

Almost all debt is denominated in EUR. As of 31 December 2020, the fixed-rate financial debt had a volume of approx. 67%, a variable rate of 33% of the volume of gross financial debt. As of 31 March 2021, net financial debt rose by 6.4% to EUR 13,709 million (31.12.2020: EUR 12,887 million), mainly due to an increase in bonds of EUR 499 million and a decrease in cash and cash equivalents of EUR 388 million. This effect was partially offset by the reduction in bank loans of EUR 66 million.

The Company has an adequate liquidity position, taking into consideration its reliable, highly predictable and stable cash flows, the fact that these cash flows are predominantly generated by a highly-regulated business, its good liquidity reserves, and good access to financial markets. The cash flow from operating activities had a volume of EUR 1,597 million in 2020 (2019: EUR 1,486). At the end of 2020, the Company had cash and cash equivalents with a volume of EUR 3,044 million. In addition to the unused part of the EMTN Programme, the Group also had access to unused committed long-term credit facilities ("sustainable loan") with a total volume of EUR 3.2 billion. In addition, the share of sustainable financing in the total available funds was increased by extending the ECP Program from EUR 2.0 billion to EUR 2.5 billion. As of 31 December 2020, sustainable funding sources were approximately EUR 7 billion, accounting for roughly 40% of Snam's committed funding.

Overall, we assess Snam's financial risks as moderate and manageable, despite the high investment requirements. The Group has diversified sources of finance and sufficient liquidity, which should enable Snam to pursue its strategic plan. The Group also has a solid capital structure and generates stable operating cash flows. In addition, the Company benefits from proven access to the capital markets. However, further significant increases in net debt could have a negative impact on the rating.

Issue rating

Issue rating details

The rating objects of this issue rating are exclusively the long-term senior unsecured issues, denominated in Euro, issued by Snam S.p.A. and which are included in the list of ECB-eligible marketable assets. The ECB list of eligible marketable assets can be found on the website of the ECB.

The Notes have been issued within the framework of the EMTN Programme launched by Snam in 2012 and most recently renewed in November 2020. According to the Company's press re-release, on 12 October 2020 Snam's Board of Directors approved the annual renewal of the EMTN Programme, to be carried out by 12 October 2021 for a maximum total value of Euro 11 billion. As part of the EMTN Programme, bonds have been issued for approximately Euro 7.8 billion, net of the Euro 500 million bond repaid on 26 October 2020. The notes and coupons under the EMTN Programme constitute direct, unconditional, unsubordinated, unsecured obligations of the Issuer, and rank at least pari passu among themselves and with all other present and future unsecured obligations of the issuer. Additionally, the notes benefit from a negative pledge pro-emption, a change of control clause, and a cross default mechanism.

Corporate issue rating result

We have provided the debt securities issued by Snam S.p.A. with a rating of **BBB+**. The rating is based on the corporate rating of Snam S.p.A. Other types of debt instruments or issues denominated in other currencies of the issuer have not been rated by CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Overview

Table 3: Overview of CRA Ratings | Source: CRA

Rating Category	Details	
	Date	Rating
Snam S.p.A. (Issuer)	14.06.2021	BBB+ / negative
Long-term Local Currency (LC) Senior Unsecured Issues	14.06.2021	BBB+ / negative
Other	--	n.r.

Table 4: Overview of 2020 Euro Medium Term Note Programme | Source: Base Prospectus dated 9 November 2020

Overview of 2020 EMTN Programme			
Volume	EUR 11,000,000,000	Maturity	Depending on respective bond
Issuer	Snam S.p.A.	Coupon	Depending on respective bond
Arranger	BNP Paribas	Currency	Depending on respective bond
Credit enhancement	none	ISIN	Depending on respective bond

All future LT LC senior unsecured Notes issued by Snam S.p.A. with similar conditions to the current EMTN Programme, denominated in euros and included in the list of ECB-eligible marketable assets will, until further notice, receive the same ratings as the current LT LC senior unsecured notes issued under the EMTN Programme. Notes issued under the Programme in any currency other than euro, or other types of debt instruments, have not yet been rated by

CRA. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG. For the time being, other emission classes or programmes (such as the Commercial Paper Programme) and issues not denominated in euro will not be assessed. For a list of all currently valid ratings and additional information, please consult the website of Creditreform Rating AG.

Financial ratio analysis

Table 5: Financial key ratios of Snam Group | Source: Snam S.p.A. annual report 2020, structured by CRA

Asset structure	2017	2018	2019	2020
Fixed asset intensity (%)	84.63	84.77	81.36	79.18
Asset turnover	0.12	0.12	0.12	0.12
Asset coverage ratio (%)	66.74	57.70	62.14	60.56
Liquid funds to total assets	3.30	8.29	11.85	11.89
Capital structure				
Equity ratio (%)	29.10	27.09	26.52	25.50
Short-term debt ratio (%)	18.96	24.42	25.24	30.11
Long-term debt ratio (%)	27.38	21.82	24.04	22.45
Capital lock-up period (in days)	59.44	70.14	111.79	137.86
Trade-accounts payable ratio (%)	1.86	2.18	3.36	4.03
Short-term capital lock-up (%)	147.93	183.64	186.64	231.88
Gearing	2.32	2.39	2.32	2.46
Leverage	3.22	3.56	3.73	3.85
Financial stability				
Cash flow margin (%)	59.72	62.33	64.01	64.32
Cash flow ROI (%)	6.99	7.21	7.64	7.61
Total debt / EBITDA adj.	7.76	8.00	8.11	8.82
Net total debt / EBITDA adj.	7.40	7.09	6.80	7.41
ROCE (%)	7.31	7.62	7.83	7.11
Total debt repayment period	9.67	6.40	11.14	13.41
Profitability				
Gross profit margin (%)	88.13	90.06	90.59	88.37
EBIT interest coverage	4.63	5.49	6.96	7.99
EBITDA interest coverage	6.90	8.23	10.35	12.37
Ratio of personnel costs to total costs (%)	9.01	9.88	6.27	6.20
Ratio of material costs to total costs (%)	13.91	11.91	16.83	20.23
Cost income ratio (%)	49.11	48.69	53.81	60.43
Ratio of interest expenses to total debt (%)	1.88	1.53	1.21	0.91
Return on investment (%)	5.41	5.32	5.37	4.88
Return on equity (%)	13.76	15.42	17.45	17.06
Net profit margin (%)	35.15	36.75	37.98	36.34
Operating margin (%)	52.82	52.99	51.64	45.91
Liquidity				
Cash ratio (%)	17.40	33.97	46.97	39.47
Quick ratio (%)	66.42	58.26	70.20	61.49
Current ratio (%)	81.05	62.38	73.84	69.15

Appendix

Rating history

The rating history is available under <https://www.creditreform-rating.de/en/ratings/published-ratings.html>.

Table 6: Corporate Issuer Rating of Snam S.p.A. | Source: CRA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	22.10.2018	05.11.2018	Withdrawal of the rating	BBB+ / stable

Table 7: LT LC Senior Unsecured Issues issued by Snam S.p.A. | Source: CRA

Event	Rating created	Publication date	Monitoring until	Result
Initial rating	22.09.2018	05.11.2018	Withdrawal of the rating	BBB+ / stable

Regulatory requirements

The rating⁴ was not endorsed by Creditreform Rating AG (Article 4 (3) of the CRA Regulation).

The present rating is, in the regulatory sense, an unsolicited rating that is public. The analysis was carried out on a voluntary basis by Creditreform Rating AG, which was not commissioned by the Issuer or any other third party to prepare the present rating.

The rating is based on the analysis of published information and on internal evaluation methods for the assessment of companies and issues. The rating object was informed of the intention of creating or updating an unsolicited rating before the rating was determined.

The rating object participated in the creation of the rating as follows:

Unsolicited Corporate Issuer / Issue Rating	
With rated entity or related third party participation	No
With access to internal documents	No
With access to management	No

The rating was conducted based on the following information.

List of documents
Accounting and controlling
<ul style="list-style-type: none"> ▪ Annual report Snam 2020 ▪ 2021 First quarter results Snam ▪ 2020-2024 Strategic plan Snam ▪ Sustainability report 2020
Finance
<ul style="list-style-type: none"> ▪ Snam EMTN Base Prospectus dated 9 November 2020 ▪ Final terms of the outstanding notes
Additional documents
<ul style="list-style-type: none"> ▪ Press releases

⁴ In these regulatory requirements the term "rating" is used in relation to all ratings issued by Creditreform Rating AG in connection to this report. This may concern several companies and their various issues.

A management meeting did not take place within the framework of the rating process.

The documents submitted and information gathered were sufficient to meet the requirements of Creditreform Rating AG's rating methodologies.

The rating was conducted based on the following rating methodologies and the basic document.

Rating methodology	Version number	Date
Corporate Ratings	2.3	29.05.2019
Government-related Companies	1.0	19.04.2017
Non-financial Corporate Issue Ratings	1.0	October 2016
Rating Criteria and Definitions	1.3	January 2018

The documents contain a description of the rating categories and a definition of default.

The rating was carried out by the following analysts:

Name	Function	Mail-Address
Natalia Berthold	Lead analyst	N.Berthold@creditreform-rating.de
Rudger van Mook	Analyst	R.vanMook@creditreform-rating.de

The rating was approved by the following person (person approving credit ratings, PAC):

Name	Function	Mail-Address
Philipp Beckmann	PAC	P.Beckmann@creditreform-rating.de

On 14 June 2021, the analysts presented the rating to the rating committee and the rating was determined. The rating result was communicated to the Company on 14 June 2021. There has not been a subsequent change to the rating.

The rating will be monitored until Creditreform Rating AG withdraws the rating. The rating can be adjusted as part of the monitoring if crucial assessment parameters change.

In 2011, Creditreform Rating AG was registered within the European Union according to EU Regulation 1060/2009 (CRA-Regulation). Based on this registration, Creditreform Rating AG is allowed to issue credit ratings within the EU and is bound to comply with the provisions of the CRA-Regulation.

ESG-factors

Whether or not ESG factors were relevant to the rating can be seen in the upper section of this rating report "Relevant rating factors".

A general valid description for Creditreform Rating AG, as well as a valid description of corporate ratings for understanding and assessing ESG factors in the context of the credit rating process, can be found [here](#).

Conflicts of interest

No conflicts of interest were identified during the rating process that might influence the analyses and judgements of the rating analysts involved or any other natural person whose services are placed at the disposal or under the control of Creditreform Rating AG and who are directly involved in credit rating activities or in approving credit ratings and rating outlooks.

In the event of providing ancillary services to the rated entity, Creditreform Rating AG will disclose all ancillary services in the credit rating report.

Rules on the presentation of credit ratings and rating outlooks

The approval of credit ratings and rating outlooks follows our internal policies and procedures. In line with our "Rating Committee Policy", all credit ratings and rating outlooks are approved by a rating committee based on the principle of unanimity.

To prepare this credit rating, Creditreform Rating AG has used following substantially material sources:

Corporate issuer rating:

1. Annual report
2. Website
3. Internet research

Corporate issue rating:

1. Corporate issuer rating incl. information used for the corporate issuer rating
2. Documents on issues / instruments

There are no other attributes and limitations of the credit rating or rating outlook other than those displayed on the Creditreform Rating AG website. Furthermore, Creditreform Rating AG considers as satisfactory the quality and extent of information available on the rated entity. With respect to the rated entity, Creditreform Rating AG regarded available historical data as sufficient.

Between the time of disclosure of the credit rating to the rated entity and the public disclosure, no amendments were made to the credit rating.

The Basic Data Information Card indicates the principal methodology or version of methodology that was used in determining the rating, with a reference to its comprehensive description.

In cases where the credit rating is based on more than one methodology or where reference only to the principal methodology might cause investors to overlook other important aspects of the credit rating, including any significant adjustments and deviations, Creditreform Rating AG explains this fact in the credit rating report and indicates how the different methodologies or other aspects are taken into account in the credit rating. This information is integrated in the credit rating report.

The meaning of each rating category, the definition of default or recovery and any appropriate risk warning, including a sensitivity analysis of the relevant key rating assumptions such as mathematical or correlation assumptions, accompanied by worst-case scenario credit ratings and best-case scenario credit ratings are explained.

The date at which the credit rating was initially released for distribution and the date when it was last updated, including any rating outlooks, is indicated clearly and prominently in the Basic Data Information Card as a "rating action"; initial release is indicated as "initial rating", other updates are indicated as an "update", "upgrade" or "downgrade", "not rated", "confirmed", "selective default" or "default".

In the case of a rating outlook, the time horizon is provided during which a change in the credit rating is expected. This information is available within the Basic Data Information Card.

In accordance with Article 11 (2) EU-Regulation (EC) No 1060/2009, a registered or certified credit rating agency shall make available, in a central repository established by ESMA, information on its historical performance data including the rating transition frequency and information about credit ratings issued in the past and on their changes. Requested data are available at the [ESMA website](#).

An explanatory statement of the meaning of Creditreform Rating AG's default rates are available in the credit rating methodologies disclosed on the website.

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Creditreform Rating AG

Contact information

Creditreform Rating AG

Europadamm 2-6
D-41460 Neuss

Phone: +49 (0) 2131 / 109-626
Telefax: +49 (0) 2131 / 109-627

E-Mail: info@creditreform-rating.de
Web: www.creditreform-rating.de

CEO: Dr. Michael Munsch
Chairman of the Board: Dr. Hartmut Bechtold

HR Neuss B 10522