



Italian energy operator Snam: setting a strategy to support the transition to sustainable energy

Snam (Borsa Italiana: SRG) is Europe's leader in natural gas transport and storage and renewable gases. It is one of the world's leading energy infrastructure operators and ranks among Italy's largest listed companies by market capitalisation. Snam has been listed on Borsa Italiana since 2001, and is part of the recently-launched MIB® ESG Index. Through a sustainable and technologically advanced network, Snam guarantees the security of supply and aims to be a key enabler in the energy transition. It believes strongly in making ESG a core corporate function at the heart of the business, creating a matrix structure to avoid siloed thinking.

Energy operator Snam has been building and managing **sustainable and technologically advanced infrastructure** guaranteeing energy security **for 80 years**. Environmental, social and governance (ESG) considerations now lie at the core of its strategy and influence the company's investment decisions and business practices. So how did it develop this comprehensive plan?

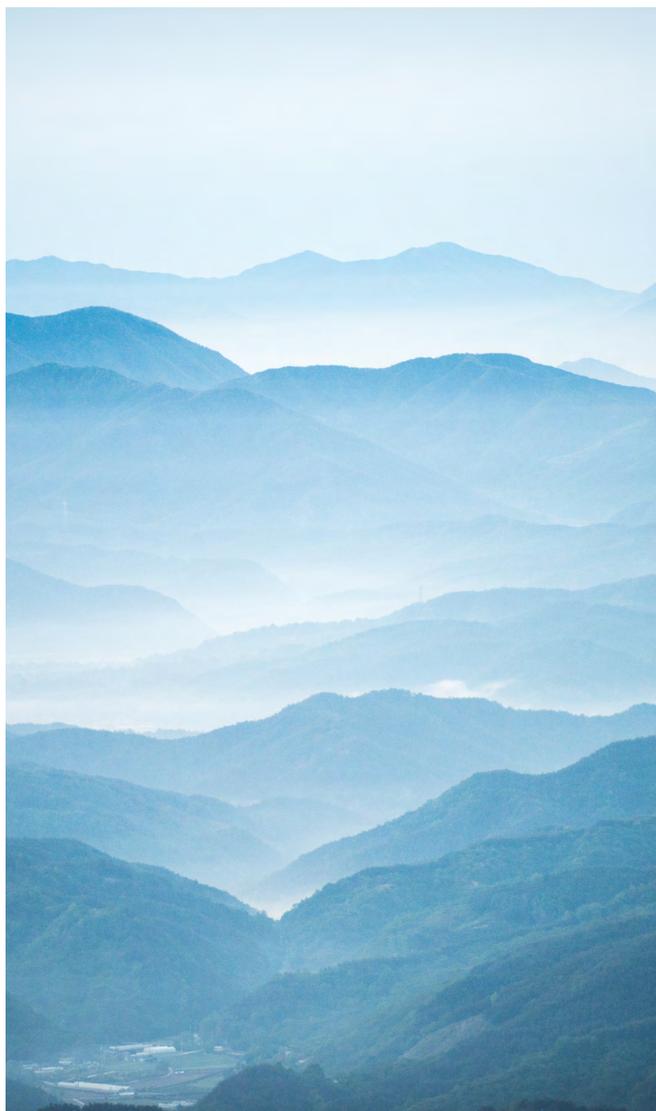
ESG: a strategy for energy transition

- The past years have been transformative for Snam. The company has considerably increased its investments in new businesses, exploring hydrogen-ready infrastructures and the potential of green gases. In 2021, it adopted a new roadmap for the next five and ten years which integrates the sustainability dimension even further into its industrial strategy, building on the UN 2030 Sustainable Development Goals (SDGs) and the Paris Agreement framework.
- Snam identified three areas of growth that will be subject to significant investments between now and 2030. The first two growth areas are energy networks and storage, where the firm's objective is to make its infrastructures compatible not only with natural gas but also with biomethane and hydrogen— all essential to the energy transition.
- Its third priority area concerns the development of integrated green energy projects along the entire value chain to foster market development and contribute to decarbonisation.
- In parallel, the company has strengthened its commitment to decarbonisation by setting a roadmap to achieve net zero in its operations by 2040, ahead of the European objective of 2050. It is also setting targets for emissions across its value chain with a new target in 2030 for indirect Scope 3 emissions, mainly involving its suppliers and associates.



A tool to support the setting and monitoring of ESG objectives

- The ability to measure a company's impact on the planet and society is the most important driver when setting targets. In terms of monitoring, Snam has a long-standing experience since it has been publishing sustainability reports since 2006. More precisely, the sustainability report the company publishes is compliant with the "In Accordance - Comprehensive" reporting option of the Consolidated Set of Sustainability Reporting Standards (international Global Reporting Initiative (GRI) Standards). However, since 2020 Snam has gone one step further by introducing its net zero strategy and the ESG Scorecard, which aims to provide maximum disclosure on ESG aspects and assess Snam's performance in meeting defined targets. This new tool sets 23 three-year objectives by 2022 and 2025 in line with the business plan horizon covering social, governance and environmental aspects and monitors them annually with specific KPIs based on the main existing standards.



- Thus, on the environmental aspect, for instance, Snam identified four priority areas, each of them linked to one or more SDGs. It then defined a set of KPIs for these. Its first focus area relates to natural gas emissions, which link back to SGD 13 on climate action. KPIs for this focus area are the percentage of reduction of total natural gas emissions vs 2015 and the percentage of natural gas recovered from maintenance activities.
- Other examples of target areas and KPIs include, on the Social (S) aspect of ESG: employee engagement (KPI: percentage employee engagement index), gender diversity (KPI: percentage of women in executive and middle-management roles) and responsible supply (KPI: percentage spending to local suppliers on total procurement); and on the Governance (G) aspect: governance functioning and structure (KPI: percentage of Board of Directors' time dedicated to ESG matters in strategy meetings and introduction sessions) and sustainable finance (KPI: share of ESG financing out of the total committed funding).

Integrating ESG into key financing decisions

- Sustainable finance is one of the pillars of Snam's development strategy. It was among the first companies to place ESG at the core of its financing decisions.
- Snam started its journey towards sustainable finance in 2018 when it converted its existing Revolving Credit Facility into a Sustainability-Linked RCF.
- In 2019, Snam was the first European company to issue a €500 million Climate Action Bond, followed by several issues of Transition Bonds for an overall amount of 2.85bn€ in more recent months. More recently, in November 21 Snam has published a new Sustainable Finance Framework for the issue of both EU taxonomy aligned Transition bonds and Sustainable linked bond. The latter format has been adopted for the recent issuance in dual tranche for an overall amount of **1.5bn€** executed in January 22.
- Moreover, Snam further broadened the scope of its ESG funding to cover more instruments within its financial structure. At the end of 2020, the existing Euro Commercial Paper (ECP) Programme was converted into an ESG ECP programme for the issuance of ESG notes up to €2.5 billion, with an ESG rating published by Standard Ethics. In June 2021, Snam signed a new €150 million loan agreement with the EIB to support the Group's energy efficiency projects for residential and industrial sectors. In July and October, new Term Loans linked to ESG KPIs were secured with primary banks.

Today, ESG financing represents **60% of its total funding**. The target announced with Strategic Plan in November 2021 is to **increase this ratio to > 80% by 2025**.



- Snam management believes strongly in the development of the sustainable finance market, as evidenced by its various commitments with, for example, the UN Global Compact and CFO taskforce, the European Corporate Forum for Sustainable Finance and ICMA's Climate Transition Finance Working Group. The aim of all these initiatives is to explore together how to create an efficient market for SDG investments, provide guidelines on the ESG information that should be disclosed to investors and establish consistency in how to measure ESG KPIs.
- In terms of investor relations, Snam reports seeing growing interest in ESG from investors at all levels. They are increasingly integrating ESG into all their investment. Even generalist investors integrate ESG, whereas previously only specialists dealt with these topics.
- There is no conflict between profits and ESG, ultimately ESG leads to superior and sustainable growth in earnings and dividends and it has become part of the dialogue with the financial community.
- Growing interest on different ESG topics from investors is also reflected in new questions and new areas of assessment represented in the last years in the main ESG questionnaires.

Making ESG a core function

- For Snam, creating a matrix structure has been key to placing ESG at the core of its business and not looking at these issues in silos. While it has a team of six people dedicated to ESG topics, all business units are now involved and have ESG contact points in each of them. These subjects are very important to Snam as the company believes that ESG performance is as important as financial one. Snam has 3-month meetings for tracking and discussing the ESG Scorecard progress with the whole working group, and an annual meeting to update material areas, KPIs and targets.
- Defining a company purpose and working on the corporate culture has also been essential.

Snam newly introduced company purpose “Energy to inspire the world”. was included in February 2021 in its bylaws, so that it reflects Snam’s commitment to advancing the energy transition and formally establishes sustainable success as one of the objectives to be pursued by the company’s business activities.

- Finally, Snam points out that ESG performance is becoming as important as financial performance. Accordingly, it advises that companies should aim to make it a core function and not just a compliance function.

**ESG should not be seen
as just another KPI**

