

Consolidated half-year report
at 30 June 2015



CORPORATE MISSION AND VALUES

Snam is a European leader in the construction and integrated management of natural gas infrastructure. It favours the right conditions for fair energy costs by managing the gas system efficiently, developing infrastructure and providing integrated services for the market. It promotes the integration of the European networks, including through strategic partnerships with the biggest operators in the sector, along the main continental energy corridors.

Snam follows an ethical and socially responsible business model, capable of generating value for the Company and for the communities in which it operates, with acknowledged professionalism and transparent dialogue with all its stakeholders, respecting the environment and the regions.

A clear and sustainable long-term development strategy, based on one of the most substantial investment programmes in the Italian industry, has enabled the Company to attract Italian and foreign capital, boosting growth and employment.

With over 6,000 employees, Snam is active in natural gas transportation, storage, regasification and urban distribution.

We manage a national transportation network that is more than 32,000 km long, including eight storage facilities, one regasification plant and a local distribution network that covers more than 56,000 km in total.

Consolidated half-year report at 30 June 2015

Disclaimer

This report includes forward-looking statements, especially in the "Outlook" section, relating to: natural gas demand, investment plans, future operating performance and project execution.

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 tensions, 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.

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Snam, the Snam Group or the Group refers to Snam S.p.A. and the companies within its scope of consolidation.

Interim directors' report



CORPORATE BODIES

BOARD OF DIRECTORS (*)

Chairman

Lorenzo Bini Smaghi ⁽¹⁾

Chief Executive Officer

Carlo Malacarne ⁽¹⁾

Directors

Sabrina Bruno ⁽²⁾⁽³⁾

Alberto Clô ⁽¹⁾⁽²⁾

Francesco Gori ⁽²⁾⁽³⁾

Andrea Novelli ⁽¹⁾

Elisabetta Oliveri ⁽²⁾⁽³⁾

Pia Saraceno ⁽¹⁾⁽²⁾

Yunpeng He ⁽⁴⁾

CONTROL AND RISK COMMITTEE

Francesco Gori - Chairman

Sabrina Bruno

Andrea Novelli

Pia Saraceno

REMUNERATION COMMITTEE

Elisabetta Oliveri - Chairman

Andrea Novelli

Pia Saraceno

INDEPENDENT AUDITORS (**)

Reconta Ernst & Young S.p.A.

BOARD OF STATUTORY AUDITORS (*)

Chairman

Massimo Gatto ⁽⁵⁾

Standing auditors

Leo Amato ⁽⁶⁾

Stefania Chiaruttini ⁽⁶⁾

Alternate auditors

Maria Gimigliano ⁽⁶⁾

Luigi Rinaldi ⁽⁵⁾

APPOINTMENTS COMMITTEE

Alberto Clô - Chairman

Lorenzo Bini Smaghi ⁽⁷⁾

Elisabetta Oliveri

(*) Appointed by the Shareholders' Meeting on 26 March 2013 and in office until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2015.

(**) Role conferred by the Shareholders' Meeting on 27 April 2010 for the period 2010-2018.

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

(2) Independent directors pursuant to the TUF and the Code of Corporate Governance.

(3) Candidate directors on the list presented jointly by minority shareholders.

(4) Co-opted by the Board of Directors on 26 January 2015 to replace Roberta Melfa, who resigned from office on 18 November 2014. Appointed by shareholder CDP Reti S.p.A. based on the shareholder agreements drawn up following the entry of State Grid Europe Limited into the shareholder structure of CDP Reti. In office until the date of the Shareholders' Meeting called to approve the financial statements at 31 December 2015.

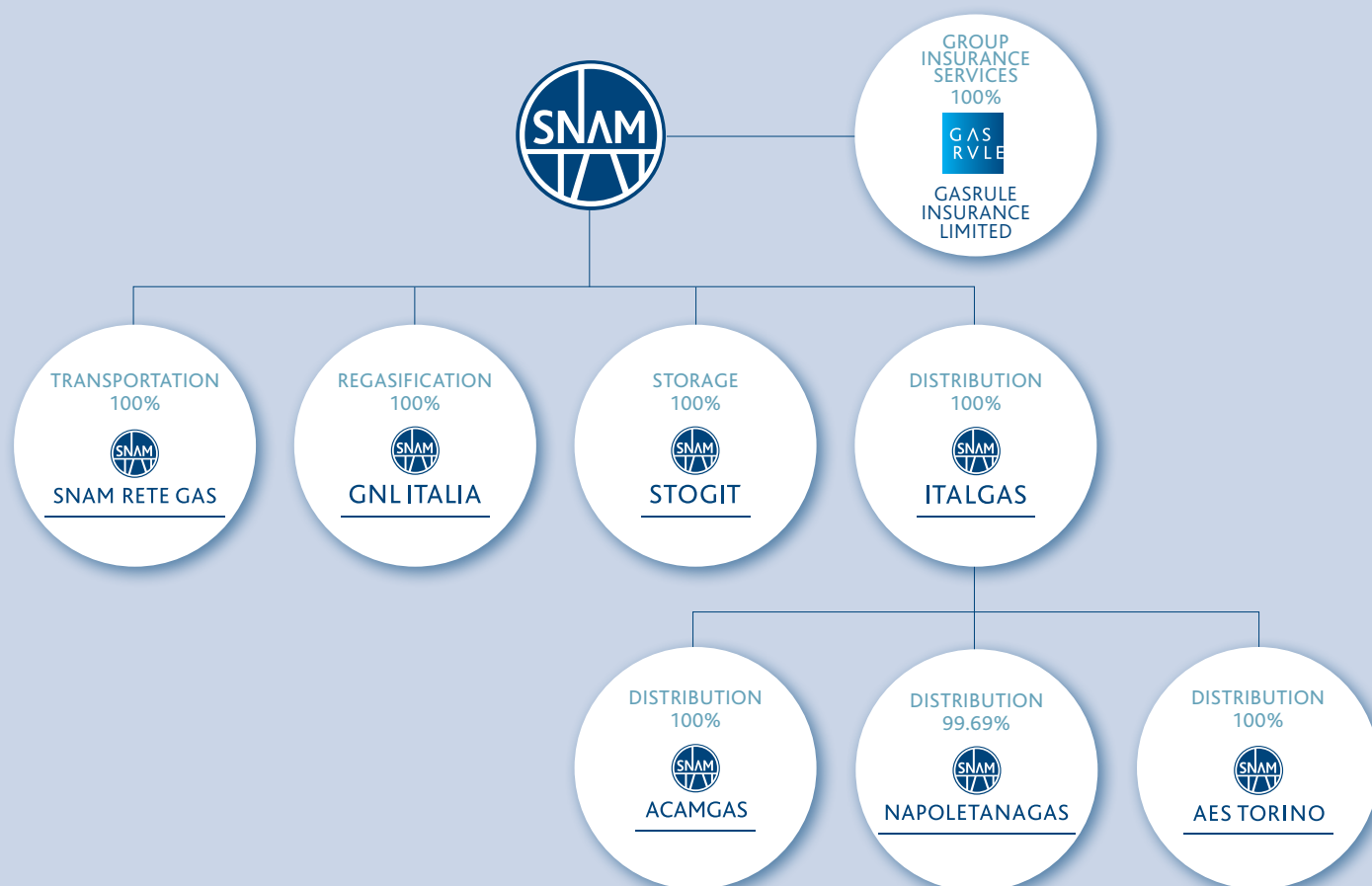
(5) Candidate statutory auditors on the list presented jointly by minority shareholders.

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

(7) Appointed by the Board of Directors on 17 December 2014 to replace Roberta Melfa, who resigned from office.

SCOPE OF CONSOLIDATION AT 30 JUNE 2015

The Snam Group's scope of consolidation as at 30 June 2015 can be represented as follows:



CONSOLIDATING COMPANY	SHAREHOLDERS	% OWNERSHIP
Snam S.p.A.	CDP Reti S.p.A. ¹	28.98
	CDP Gas S.r.l. ²	1.12
	eni S.p.A. ³	8.25
	Snam S.p.A.	0.03
	Other shareholders	61.62

¹ CDP S.p.A. owns 59.10% of CDP Reti S.p.A.

² Company wholly owned by CDP S.p.A.

³ eni is not entitled to vote at Shareholders' Meetings.

The changes in the Snam Group's scope of consolidation between 31 December 2014 and 30 June 2015 were due to the distribution segment, with Acam Gas S.p.A. entering the scope of consolidation following the acquisition by Italgas S.p.A. of the remaining 51% of the company's share capital. Following this acquisition, which took effect on 1 April 2015, Italgas S.p.A. holds 100% of the share capital of Acam Gas S.p.A.

As well as the above, the changes between 30 June 2014 and 30 June 2015 include Gasrule Insurance Ltd and A.E.S. Torino S.p.A., wholly owned subsidiaries of Snam S.p.A. and Italgas S.p.A. respectively, being added to the consolidation scope in July 2014.

HIGHLIGHTS

Financial highlights

- Snam's total revenue in the first half of 2015 was €1,837 million, an increase of €55 million (+3.1%) on the first half of 2014. The increase was due mainly to higher revenue from regulated activities (+€48 million; +2.7%) in the distribution segment, which benefited from the contribution of newly consolidated companies, and in the natural gas transportation segment, offset partly by a decline in revenue from the storage segment. Total revenue net of items offset in costs⁴ came to €1,763 million, an increase of €48 million (+2.8%) compared with the first half of 2014. The increase was due to higher revenue from regulated (+€41 million; +2.4%) and non-regulated (+€7 million; +20.6%) activities, brought about mainly by income from the sale of natural gas.
- In the first half of 2015, EBIT⁵ totalled €1,012 million, down by €32 million (-3.1%) compared with the first half of 2014. Higher revenue (+€48 million; +2.8%) was more than offset by higher operating costs (-€42 million; -14.6%), owing mainly to withdrawals from storage in order to sell natural gas in the transportation segment and to a lower portion of expense absorbed by investment activities in the distribution segment, as well as by higher amortisation and depreciation (-€38 million; -9.9%). The reduction in EBIT was attributable to the natural gas storage (-€29 million; -14.6%) and distribution segment (-€9 million; -3.5%). The reduction in EBIT in the storage segment was mainly due to lower regulated revenues, due to a different timing profile over the year, compared with 2014, and a reduction in non-regulated revenues. EBIT in the transportation segment was unchanged compared with the first half of 2014.
- Net profit in the first half of 2015 totalled €612 million, an increase of €51 million (9.1%) on the first half of 2014. The increase was mainly due to lower income taxes (+€45 million) after the additional corporate income tax known as the Robin Hood Tax was declared to be unconstitutional, and to higher net income from equity investments (+€20 million) thanks to the contribution from recently acquired assets. Net profit was also boosted by lower net financial expense (+€18 million) due mainly to a reduction in the average cost of borrowing. These effects were partially offset by the reduction in EBIT (-€32 million).
- The net cash flow from operating activities (€1,146 million) allowed us to fully cover the financial requirements associated with net investments for the period (€559 million) and to generate a free cash flow of €587 million. The net financial debt of €13,936 million, after the payment to shareholders of the 2014 dividend of €875 million, increased by €284 million compared with 31 December 2014.
- Technical investments in the first half of 2015 amounted to €487 million⁶ (compared with €526 million in the first half of 2014) and referred essentially to the natural gas transportation (€278 million), distribution (€142 million) and storage (€62 million) segments.

⁴ The main items offset in costs relate to the sale of natural gas for the purpose of balancing the gas system and to interconnection.

⁵ EBIT is analysed by considering only those components that have changed it, since the application of the gas sector tariff rules generates revenue and cost items that offset each other.

⁶ Notes on technical investments by business segment are provided in the "Business segment operating performance" section.

- The Snam stock ended the first half of 2015 with an official share price of €4.30, up by 4.6% compared with 31 December 2014. After a period of almost uninterrupted growth in the first quarter, Snam's share price reached a record high of €4.86 on 27 April; it subsequently declined gradually in line with the market. Driven by the ECB's government bond purchase programme, European equity markets rose considerably in the first half of the year, albeit with some profit-taking in the second quarter caused mainly by the deteriorating financial situation in Greece and the resulting concerns about the country possibly leaving the Eurozone. Owing to its notoriously defensive and anti-cyclical nature, the utilities sector underperformed in the general European index, with the STOXX Europe 600 Utilities down by -1.4% compared with an +11.3% gain for the STOXX Europe 600.

Operating highlights

- In the first half of 2015, 32.77 billion cubic metres of natural gas was injected into the national transportation network, unchanged from the first half of 2014. The increase in gas demand in Italy (+7.9% compared with the first half of 2014), owing mainly to higher consumption in the residential and tertiary sectors (+12.4%), was offset entirely by the use of gas from storage, with net withdrawals amounting to 2.52 billion cubic metres.
- During the first half of 2015, the Panigaglia LNG terminal regasified 0.020 billion cubic metres of natural gas (0.002 billion cubic metres in the first half of 2014). This LNG regasification was carried out as part of the completion of the peak shaving service, which ended on 31 March 2015.
- The storage capacity available for shippers as at 30 June 2015 was around 11.4 billion cubic metres, unchanged compared with 30 June 2014.
- As at 30 June 2015, the number of active meters located at end-user gas redelivery points stood at 6.518 million units (5.911 million units at 30 June 2014).

Main events

Italgas – Exit from judicial administration and reappointment of the company's Board of Directors

The activities relating to the revocation of the judicial administration order imposed on Italgas by the Court of Palermo were completed on 9 July 2015. In view of the outcome of the checks performed and the active cooperation of the Snam Group, the Court ordered the handover of the company on 29 June 2015.

Having acknowledged the revocation of the judicial administration order, on 9 July 2015 the Italgas Shareholders' Meeting reappointed all members of the Board of Directors, the term of which expires at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2015.

Italgas will comply with the obligation to provide the competent authorities with the information required pursuant to Article 34, paragraph 8 of Legislative Decree 159/2011 (judicial control), in relation to the relevant transactions, but it has appealed before the Palermo Court of Appeal against the provision of such information. Italgas S.p.A. will also provide the competent authorities with the results of the periodic reports by the Supervisory Body.

More details on this can be found in Note 18 "Guarantees, commitments and risks – Disputes and other measures" of the notes to the condensed interim consolidated financial statements.

Renewal of Euro Medium Term Notes (EMTN) programme to issue bonds

On 22 June 2015, the Snam Board of Directors approved the annual renewal of the EMTN programme, leaving the maximum bond issue value unchanged at €12 billion⁷. The renewal of the programme allows for the issue of bonds worth up to €1.3 billion, to be placed with institutional investors operating mainly in Europe by 30 June 2016.

⁷ On 23 June 2014, as part of the previous renewal of the EMTN programme, the Snam Board of Directors resolved to issue bonds worth a total of €12 billion in one or more tranches by 30 June 2015. As at that date, bonds worth a total of around €10.7 billion had been issued.

Declaration of control by CDP

In its 2014 annual report, the shareholder CDP S.p.A., which in letters dated 25 and 31 March 2015 notified its need to fully consolidate Snam, in accordance with IFRS 10 – Consolidated Financial Statements, declared that it had ascertained a de facto situation of control over Snam S.p.A., again in accordance with IFRS 10. No management or coordination activities were formalised or carried out.

The main events of the half-year that can be directly related to the operating segments are described in the “Business segment operating performance” section.

Post-balance sheet events

Deadline extended for the approval of natural gas storage, transportation and regasification service tariff proposals for 2016

By means of Resolution 321/2015/R/gas of 3 July 2015, the Electricity, Gas and Water Authority extended the deadline for the approval of natural gas storage, transportation and regasification service tariff proposals for 2016 to the seventh day after the adoption of the measure following the conclusion of the proceedings launched by Resolution 597/2014/R/com, aimed at redefining the ways in which the WACC is calculated and updated. The Authority made no changes to the deadlines provided for in current regulations for investigations into these tariff proposals.

Ratings

On 23 July 2015, Fitch has assigned Snam BBB+ rating with a stable outlook.

This rating can be added to those previously awarded by Moody's (currently Baa1 with a stable outlook) and Standard & Poor's (currently BBB with a stable outlook).

KEY FIGURES

To improve the economic and financial review, in addition to conventional IAS/IFRS indicators and financial statements, the interim directors' report also contains reclassified financial statements and several alternative performance indicators such as EBITDA, EBIT and net financial debt. The following tables, the explanatory notes thereto and the reclassified financial statements report these amounts; see the glossary for a definition of the terms used, where these are not specified.

KEY FINANCIAL FIGURES

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
3,566	Total revenue	1,782	1,837	55	3.1
3,506	- of which regulated	1,748	1,796	48	2.7
790	Operating costs	354	403	49	13.8
2,776	EBITDA	1,428	1,434	6	0.4
1,973	EBIT	1,044	1,012	(32)	(3.1)
1,198	Net profit (a)	561	612	51	9.1

(a) Net profit is attributable to Snam.

KEY BALANCE SHEET AND CASH FLOW FIGURES

Financial year		First half		Change	% change
		2014	2015		
2014	(€ million)				
1,313	Technical investments	526	487	(39)	(7.4)
20,824	Net invested capital at period end	19,786	20,889	1,103	5.6
7,172	Shareholders' equity including minority interests at period end	6,056	6,953	897	14.8
7,171	Shareholders' equity attributable to the Group at period end	6,055	6,952	897	14.8
13,652	Net financial debt at period end	13,730	13,936	206	1.5
297	Free cash flow	104	587	483	

KEY SHARE FIGURES

Financial year			First half		Change	% change
			2014	2015		
2014						
3,500.6	Number of shares in share capital	(millions)	3,381.6	3,500.6	119.0	3.5
3,499.5	Number of shares outstanding at period end	(millions)	3,380.5	3,499.5	119.0	3.5
3,384.7	Average number of shares outstanding during the period	(millions)	3,380.3	3,499.5	119.2	3.5
4.11	Official share price at period end	(€)	4.41	4.30	(0.11)	(2.5)

KEY PROFIT INDICATORS (a)

Financial year			First half		Change	% change
			2014	2015		
2014						
0.583	EBIT per share		0.309	0.289	(0.020)	(6.5)
0.354	Net profit per share		0.166	0.175	0.009	5.4

(a) Calculated based on the average number of shares in issue during the period.

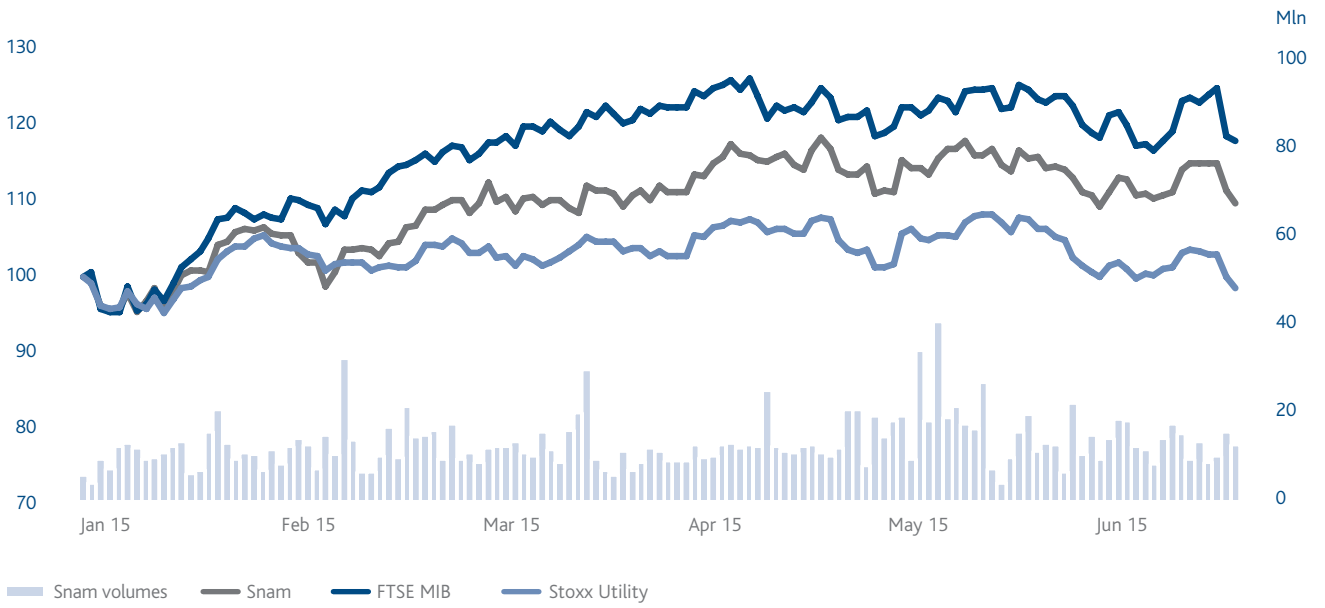
KEY OPERATING FIGURES (a)

Financial year		First half		Change	% change
		2014	2015		
2014					
	Natural gas transportation (b)				
62.28	Natural gas injected into the national gas transportation network (billions of cubic metres) (c)	32.78	32.77	(0.01)	(0.03)
32,339	Gas transportation network (kilometres in use)	32,303	32,354	51	0.2
893.9	Installed power in the compression stations (MW)	890	853	(37)	(4.2)
	Liquefied Natural Gas (LNG) regasification (b)				
0.01	LNG regasification (billions of cubic metres)	0.002	0.020	0.018	
	Natural gas storage (b)				
11.4	Available storage capacity (billions of cubic metres) (d)	11.4	11.4		
15.70	Natural gas moved through the storage system (billions of cubic metres)	9.51	11.96	2.45	25.8
	Natural gas distribution (e)				
6.408	Active meters (millions)	5.911	6.518	0.607	10.3
1,437	Gas distribution concessions (number)	1,435	1,472	37	2.6
55,278	Distribution network (kilometres) (f)	53,308	56,636	3,328	6.2
6,072	Employees in service at period end (number) (g)	6,035	6,219	184	3.0
	<i>by business segment:</i>				
1,874	- Transportation	1,941	1,912	(29)	(1.5)
77	- Regasification	80	75	(5)	(6.3)
291	- Storage	308	287	(21)	(6.8)
3,124	- Distribution (e)	3,001	3,221	220	7.3
706	- Corporate and other activities	705	724	19	2.7

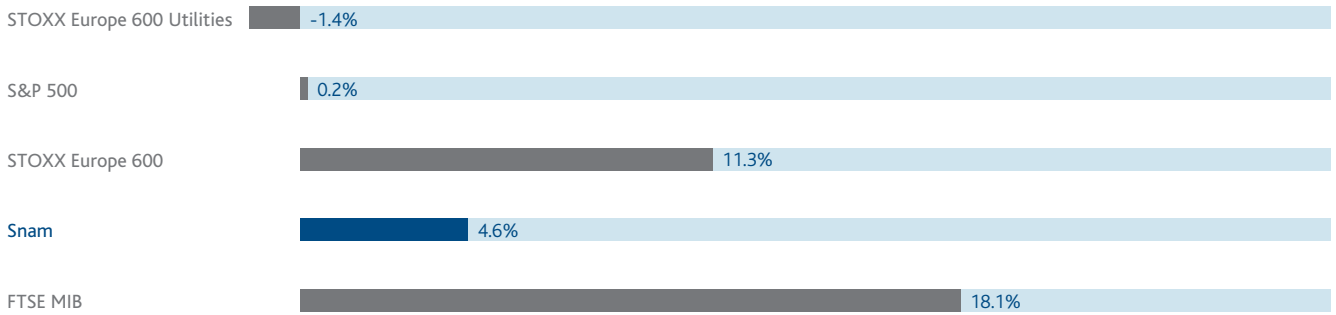
- (a) The changes indicated in the table, as well as those below in this report, must be considered changes from the first half of 2015 compared with the first half of 2014. Percentage changes, unless otherwise specified, are calculated in relation to the data indicated in the related tables.
- (b) With regard to the first half of 2015, gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 and 39.1 MJ/SCM respectively for the businesses of natural gas transportation, regasification and storage.
- (c) Data for the first half of 2015 are correct as at 2 July 2015. Data for 2014 have been aligned with the data from the national transportation network report.
- (d) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 June 2015 is that declared to the Electricity, Gas and Water Authority (hereinafter also "the Authority") at the start of the 2015-2016 thermal year, in compliance with Resolution ARG/gas 119/10.
- (e) Data for the first half of 2015 include Acam Gas S.p.A. and AES S.p.A., which were fully consolidated as at 1 April 2015 and 1 July 2014 respectively, and Metano Arcore S.p.A. and SETEAP S.p.A., which merged into Italgas S.p.A. and Napoletanagas S.p.A. respectively, with effect from 1 January 2015.
- (f) This figure refers to the kilometres of network operated by Italgas.
- (g) Fully consolidated companies.

Snam and the financial markets

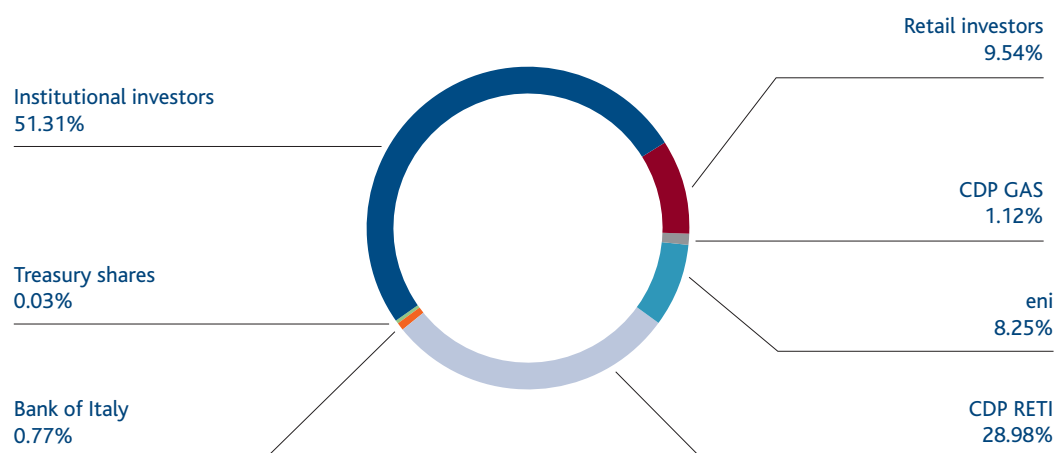
SNAM - COMPARISON OF PRICES OF SNAM SHARES, FTSE MIB AND STOXX EURO 600 UTILITIES (1 JANUARY 2015 - 30 JUNE 2015)



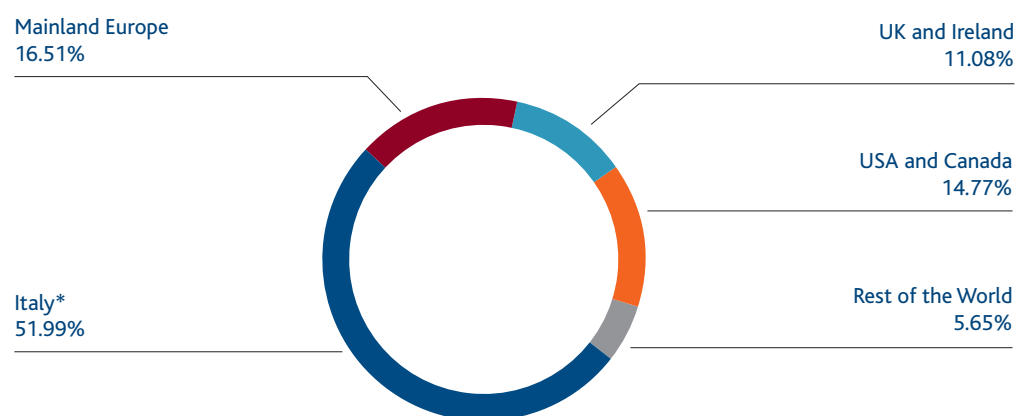
SNAM - COMPARISON OF SNAM'S PERFORMANCE WITH THE MAIN STOCK MARKET INDICES (1 JANUARY 2015 - 30 JUNE 2015)



SNAM OWNERSHIP STRUCTURE BY TYPE OF INVESTOR



SNAM OWNERSHIP STRUCTURE BY REGION



* The percentage for Italy includes the combined share of retail investors (9.54%) and treasury shares (0.03%), as well as the shareholdings of CDP RETI (28.98%), CDP GAS (1.12%) and eni (8.25%).

Business segment operating performance

NATURAL GAS TRANSPORTATION

KEY PERFORMANCE INDICATORS

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
2,087	Total revenue (*)	1,046	1,080	34	3.3
2,065	- of which regulated	1,036	1,047	11	1.1
402	Operating costs (*)	214	240	26	12.1
1,196	EBIT	591	591		
700	Technical investments	251	278	27	10.8
370	- of which with a greater return (**)	135	129	(6)	(4.4)
330	- of which with a basic rate of return	116	149	33	28.4
62.28	Natural gas injected into the national gas transportation network (billions of cubic metres) (***)	32.78	32.77	(0.01)	
32,339	Gas transportation network (kilometres in use)	32,303	32,354	51	0.2
9,559	- of which national network	9,475	9,560	85	0.9
22,780	- of which regional network	22,828	22,794	(34)	(0.1)
894	Installed power in the compression stations (MW)	890	853	(37)	(4.2)
1,874	Employees in service at period end (number)	1,941	1,912	(29)	(1.5)

(*) Before consolidation adjustments.

(**) Investments include a flat-rate WACC to offset the regulatory lag (1 percentage point higher than the base WACC of 6.3%).

(***) Data for the first half of 2015 are correct as at 2 July 2015. Data for the first half of 2014 have been aligned with data from the national transportation network report.

Results

Total revenue for the first half of 2015 was €1,080 million, an increase of €34 million (3.3%) on the first half of 2014. Net of items offset in costs⁸, total revenue was €980 million, up by €31 million (3.3%) compared with the same period of the previous year.

Regulated revenue amounted to €1,047 million for the first half - year, of which €1,012 million related to fees for the natural gas transportation service (+€11 million; 1.1%) and €35 million related to income from natural gas sales made in order to balance the gas network. Revenue from regulated activities, net of components offset in costs, amounted to €947 million, up by €8 million (0.9%) compared with the first half - year of 2014. The contribution from investments made in 2013 (+€38 million) was partially offset by tariff updating (-€29 million).

Non-regulated revenue (€33 million) refers mainly to €22 million of income from the sale of natural gas that is no longer needed for operations.

EBIT in the first half of 2015 came to €591 million, unchanged from the same period in 2014. Higher revenue (+€31 million) was offset by higher operating costs (-€23 million, net of items offset in revenue), attributable mainly to withdrawals of gas from storage as part of the sale of gas no longer needed for operations, and by higher amortisation and depreciation (-€8 million), owing essentially to the entry into service of new infrastructure.

⁸ The main items offset in costs relate to the sale of natural gas for the purpose of balancing the gas system, to modulation and to interconnection.

Operating review

TECHNICAL INVESTMENTS

Financial year			First half		Change	% change
			2014	2015		
2014	(€ million)		2014	2015		
	Type of investment	Greater return (%) (*)				
303	Development of new import capacity	2.0%	107	98	(9)	(8.4)
	Development of the national network	1.0%	1		(1)	(100.0)
67	Development of the regional network	1.0%	27	31	4	14.8
330	Replacement and other		116	149	33	28.4
700			251	278	27	10.8

(*) Compared with a real pre-tax WACC of 6.3% plus 1% to offset the regulatory lag.

Technical investments totalled €278 million in the first half of 2015, up by €27 million (10.8%) compared with the same period of the previous year (€251 million).

The investments were classified in accordance with Resolution 514/2013/R/gas of the Authority, which identified various categories of projects with different rates of return.

The breakdown of investments in 2014 and 2015 by category will be submitted to the Authority when the tariffs are approved for 2016 and 2017, respectively.

The main development investments subject to a **greater return of 2.0%** (€98 million) concern:

- as part of the initiative to support the market in the north - west of the country, and to make it possible to reverse the physical transportation flows at the interconnection points with northern Europe (€68 million), in the Po Valley: (i) the continuation of construction work on the Zimella - Cervignano natural gas pipeline; (ii) the construction work on the Minerbio - Poggio Renatico natural gas pipeline; (iii) the delivery of materials and continuation of construction work to upgrade the Poggio Renatico power station; (iv) the construction work relating to the new hub at Sergnano; and (v) the delivery of materials and continuation of construction work relating to the new hub at Minerbio;
- as part of the projects to upgrade the transportation network from the entry points in southern Italy (€28 million): (i) the continuation of construction work on the Biccari-Campochiaro pipeline in the Campania, Apulia and Molise regions; and (ii) the delivery of materials and renovation work at the Enna power station in Sicily.

The main development investments with a **greater return of 1.0%** (€31 million) relate to a number of works to upgrade the network and to connect to new regional and national redelivery points.

Investments with a **basic rate of return**⁹ (€149 million) concern works aimed at maintaining security and quality levels at plants (€110 million), the acquisition of other key operating assets (€13 million), including real estate investments (€11 million), projects relating to the development of new information systems and the implementation of existing ones (€15 million), compensation for third parties (€9 million) and metering apparatus (€2 million).

⁹ The basic rate of return includes the net invested capital rate (real pre-tax WACC) of 6.3%, plus 1% to offset the regulatory lag.

NATURAL GAS INJECTED INTO THE GAS TRANSPORTATION NETWORK¹⁰

Financial year	2014 (billion m ³)	First half		Change	% change
		2014 (*)	2015		
6.92	Domestic output	3.44	3.24	(0.20)	(5.8)
55.36	Entry points (**)	29.34	29.53	0.19	0.6
26.15	Tarvisio	16.05	14.45	(1.60)	(10.0)
6.78	Mazara del Vallo	4.39	3.63	(0.76)	(17.3)
11.43	Gries Pass	3.75	4.59	0.84	22.4
6.51	Gela	2.84	3.81	0.97	34.2
4.47	Cavarzere (LNG)	2.30	3.00	0.70	30.4
0.02	Panigaglia (LNG)	0.01	0.02	0.01	100.0
	Livorno (LNG)		0.03	0.03	
62.28		32.78	32.77	(0.01)	(0.03)

(*) Data for the first half of 2015 are correct as at 2 July 2015. Data for the first half 2014 have been aligned with data from the national transportation network report.

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

A total of 32.77 billion cubic metres of natural gas was injected into the national gas transportation network during the first half of 2015, in line with the amount injected during the corresponding period of the previous year (32.78 billion cubic metres). Gas demand in Italy (35.54 billion cubic metres) increased by 7.9% compared with the first half of 2014. This increase, owing to higher consumption in the residential and tertiary (+12.4%) and thermoelectric (+9.0%) sectors, was offset entirely by the use of gas from storage, with net withdrawals amounting to €2.52 billion cubic metres compared with marginal net injections of 0.05 billion cubic metres in the first half of 2014.

When adjusted to take account of temperature, natural gas demand was 36.30 billion cubic metres, in line with the first half of 2014.

Natural gas injected into the national network from domestic production fields or collection and treatment centres was equal to 3.24 billion cubic metres (3.44 billion cubic metres in the first half of 2014), down by 0.20 billion cubic metres (-5.8%) compared with the corresponding period of 2014.

Gas injected into the network at entry points (29.53 billion cubic metres) increased by 0.19 billion cubic metres (0.6%) compared with the first half of 2014. The increase was due to higher volumes being injected at the Gela (+0.97 billion cubic metres; +34.2%) and Gries Pass (+0.84 billion cubic metres; +22.4%) entry points and by the LNG regasification plants (+0.74 billion cubic metres; +32.0%), the effects of which were partly offset by lower volumes being injected at the Tarvisio (-1.60 billion cubic metres; -10.0%) and Mazara del Vallo (-0.76 billion cubic metres; -17.3%) entry points.

Other information

Council of State Ruling 2888/2015 – Confirmation of the illegitimacy of transportation tariffs for the period 2010 - 2013

By way of Ruling 2888/2015, filed on 12 June 2015, the Council of State (CoS) rejected the appeal submitted by the Authority to reform the ruling of the Lombardy Regional Administrative Court in Milan, which annulled the provisions of Resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 on natural gas dispatching and transportation tariffs for the period 2010 - 2013.

¹⁰ Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/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 CoS confirmed that the aforementioned provisions, which increase the weighting of the capacity component from 70% to 90% in calculating tariffs (representing the fixed costs and proportional to the distance between gas entry and exit points) and reduce the commodity component (commensurate with the volumes transported) to 10%, are likely to increase the costs incurred by operators for which business is concentrated at gas entry points in southern Italy, ruling that the Authority had not provided “adequate logical and/or regulatory supporting documents” in relation to the “accentuated imbalance between the two tariff components”.

The CoS also ruled that the mechanism used to determine the fee for gas earmarked for Snam’s compression stations, which changed from the price cap system (where costs are included under operating costs and charged back to end users in a uniform fashion across the country) to a criterion based on internal consumption (which involves a direct withdrawal in kind measured according to the uses of the transportation companies, for the purposes of operating the compression stations), was unlawful.

LIQUEFIED NATURAL GAS (LNG) REGASIFICATION

KEY PERFORMANCE INDICATORS

Financial year	2014	(€ million)	First half		Change	% change
			2014	2015		
28	Total revenue (*) (**)		14	13	(1)	(7.1)
25	- of which regulated		13	12	(1)	(7.7)
23	Operating costs (*) (**)		10	8	(2)	(20.0)
	EBIT		1	3	2	
7	Technical investments		2	1	(1)	(50.0)
0.01	Volumes of LNG regasified (billions of cubic metres)		0.002	0.020	0.018	
1	Tanker loads (number)					
77	Employees in service at period end (number)		80	75	(5)	(6.3)

(*) Regulated revenue includes the chargeback to customers of the natural gas transportation service supplied by Snam Rete Gas S.p.A. 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.

(**) Before consolidation adjustments.

Results

Total revenue for the first half of 2015 was €13 million, down by €1 million compared with the first half of 2014. Net of components offset in costs¹¹, total revenue stood at €12 million, up by €1 million compared with the same period of the previous year.

Regulated revenue in the first half of 2015 (€12 million) includes €11 million in fees for the regasification service (+€1 million; 10.0%) and €1 million in fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (-€2 million; 66.7%). Regulated revenue, net of components that are offset in costs, amounted to €11 million, up by €1 million, or 10.0%, compared with the first half of 2014.

EBIT for the period was €3 million, an increase of €2 million compared with the first half of 2014. This rise was due mainly to higher revenue (+€1 million).

¹¹ The components of revenue that are offset in costs relate mainly to the chargeback of the natural gas transportation service provided by Snam Rete Gas S.p.A.

Operating review

Volumes of LNG regasified

In the first half of 2015, the LNG terminal at Panigaglia (SP) regasified 0.020 billion cubic metres of natural gas, an increase of 0.018 billion cubic metres compared with the first half of 2014 (0.002 billion cubic metres). The LNG regasification activities were carried out in the context of the completion of the peak shaving service, which was concluded on 31 March 2015.

As a result of the increased attractiveness of natural gas prices in Japan and lower gas consumption in Europe due to the ongoing economic crisis, there were no tanker loads, as in the corresponding period of 2014.

Provision of an additional modulation (peak shaving) service¹²

The peak shaving service launched in December 2014 pursuant to Resolution 466/2014/R/gas of the Authority concluded on 31 March 2015, with no emergency having been declared by the Ministry of Economic Development.

NATURAL GAS STORAGE

KEY PERFORMANCE INDICATORS

Financial year	2014	(€ million)	First half		Change	% change
			2014	2015		
541		Total revenue (a) (b)	287	276	(11)	(3.8)
526		- of which regulated	273	276	3	1.1
163		Operating costs (a) (b)	60	71	11	18.3
318		EBIT	198	169	(29)	(14.6)
240		Technical investments	119	62	(57)	(47.9)
10		Concessions (number)	10	10		
8		- of which operational (c)	8	8		
15.70		Natural gas moved through the storage system (billions of cubic metres) (d)	9.51	11.96	2.45	25.8
8.13		- of which injected	4.75	4.76	0.01	0.2
7.57		- of which withdrawn	4.76	7.20	2.44	51.3
15.9		Total storage capacity (billions of cubic metres)	15.9	15.9		
11.4		- of which available (e)	11.4	11.4		
4.5		- of which strategic	4.5	4.5		
291		Employees in service at period end (number)	308	287	(21)	(6.8)

- (a) Regulated revenue in the first half of 2015 includes the chargeback to storage users of the costs relating to the natural gas transportation service provided by Snam Rete Gas S.p.A., recorded pursuant to Resolution 297/2012/R/gas as of 1 April 2013. For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within Stogit S.p.A. in order to represent the substance of the operation.
- (b) Before consolidation adjustments.
- (c) Working gas capacity for modulation, mining and balancing services.
- (d) Gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 39.1 MJ/SCM and 39.2 MJ/SCM respectively for the first halves of 2015 and 2014.
- (e) Working gas capacity for modulation, mining and balancing services. The figure shown represents the maximum available capacity and may not be in line with the maximum levels achieved.

¹² By means of Resolution 466/2014/R/gas – "Provisions for the management of the peak shaving service in the winter period of the 2014 - 2015 thermal year", published on 25 September 2014, which transposed the provisions introduced by the Decrees of the Ministry of Economic Development of 18 October 2013 and 27 December 2013, the Authority defined the procedures for the management of the peak shaving service for the winter period of the 2014-2015 thermal year by regasification companies and the Balancing Supervisor, also governing the procedures for amending the regasification codes and the procedures for estimating the costs to be incurred for performing the service.

Results

Total revenue for the first half of 2015 amounted to €276 million, down by €11 million, or 3.8%, compared with the first half of 2014. Total revenue, net of components offset in costs¹³, amounted to €236 million, a reduction of €21 million, or 8.2%, compared with the corresponding period of the previous year.

Regulated revenue for the first half of 2015 (€276 million) comprised €241 million in fees for the natural gas storage service (-€6 million; 2.4%) and €35 million in fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (+€9 million; 34.6%). Revenue from storage, net of components offset in costs, totalled €236 million, down by €7 million, or 2.9%, compared with the first half of 2014. This reduction was due to the different timing profile of the revenue over the course of the year compared with 2014, which moved from a seasonal to an essentially constant flow, due to the application of the provisions introduced by Resolutions 85/2014/R/gas and 295/2014/R/gas concerning the criteria for allocating storage capacity for the 2014-2015 thermal year by auction¹⁴.

Non-regulated revenue fell by €14 million compared with the first half of 2014 due to the expiry of additional storage fees in relation to the development of new storage capacity pursuant to Legislative Decree 130/10 (-€13 million).

EBIT for the first half of 2015 amounted to €169 million, down by €29 million, or 14.6%, compared with the first half of 2014. This fall was due mainly to lower revenue (-€21 million) and an increase in amortisation and depreciation (-€7 million), owing mainly to the entry into service of new infrastructure.

Operating review

TECHNICAL INVESTMENTS

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
126	Development of new fields	63	23	(40)	(63.5)
79	Capacity upgrades	41	24	(17)	(41.5)
35	Maintenance and other	15	15		
240		119	62	(57)	(47.9)

Technical investments amounted to €62 million in the first half of 2015, down by €57 million (-47.9%) compared with the corresponding period of the previous year (€119 million).

Investments in the **development of new fields** (€23 million) related essentially to the activities carried out at the Bordolano field.

Investments in **capacity upgrades** (€24 million) related primarily to the drilling of wells at the Fiume Treste field, as well as to the acquisition of materials and the execution of works on the facilities for the Minerbio field.

Investments in **maintenance** (€15 million) related mainly to restoration work at the compression stations at Cortemaggiore and to recovering the efficiency of the compression stations at Fiume Treste.

¹³ The components of revenue that are offset in costs relate mainly to the chargeback of the natural gas transportation service provided by Snam Rete Gas S.p.A.

¹⁴ Resolutions 49/2015/R/gas and 171/2015/R/gas set forth similar provisions for the 2015-2016 thermal year.

Natural gas moved through the storage system

During the first half of 2015, **natural gas moved through the storage system** totalled 11.96 billion cubic metres, an increase of 2.45 billion cubic metres (25.8%) on the first half of 2014 (9.51 billion cubic metres). This increase was attributable mainly to higher withdrawals from storage (+2.44 billion cubic metres; +51.3%) as a result of the considerable usage of storage by operators during the first quarter of 2015.

The total storage capacity as at 30 June 2015, including strategic storage, was 15.9 billion cubic metres, of which 11.4 billion cubic metres related to available storage capacity, which was allocated in full for the 2015-2016 thermal year, and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2014-2015 thermal year).

Tariff regulations

Resolution 49/2015/R/gas – “Provisions for the allocation of storage capacity for the 2015-2016 thermal year for storage and definition of storage tariffs”

By means of this resolution, published on 13 February 2015, the Authority set forth the procedures for organising the auction process to allocate storage capacity for the 2015-2016 thermal year, and defined the methods for calculating the tariffs for storage services allocated in accordance with non-market criteria.

Resolution 51/2015/R/gas – “Approval of company storage service revenue for 2015”

By means of this resolution, published on 13 February 2015, the Authority provisionally approved the base revenue for the storage service for 2015. The provisionally approved revenue is intended to provide a reference figure to determine the fees for the allocation of storage capacity. The proposed definitive base revenue, as determined using the definitive annual increases in the balance sheet figures for 2014, the deadline for presentation of which was 31 May 2015, will be approved by the Authority within 60 days.

Resolution 182/2015/R/gas – “Regulatory mechanisms for asymmetric incentives for the development of additional national gas system storage point services, implementing Article 37, paragraph 3 of Decree-Law 133/2014”

By means of this resolution, published on 29 April 2015, the Authority defined the mechanism for incentivising new gas storage point capacity, as provided for by Decree-Law 133/2015 (the 'Unlock Italy' decree). Access to the mechanism is allowed for investments that are not made to fulfil legal obligations and in relation to minimum services guaranteed by the new capacity. The mechanism also provides for an incentive that differentiates between new and existing operators, as well as penalties in cases in which the actual services do not comply with minimum thresholds or are not made available by the 2021-2022 thermal year. Applications for access to the mechanism must be submitted by storage operators by 30 September 2015.

NATURAL GAS DISTRIBUTION

KEY PERFORMANCE INDICATORS (*)

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
1,053	Total revenue (**) (***)	502	543	41	8.2
1,026	- of which regulated	489	532	43	8.8
331	Operating costs (**) (***)	136	163	27	19.9
477	EBIT	257	248	(9)	(3.5)
359	Technical investments	152	142	(10)	(6.6)
6,500	Gas distribution (millions of cubic metres)	3,521	4,431	910	25.8
55,278	Distribution network (kilometres) (****)	53,308	56,636	3,328	6.2
6.408	Active meters (millions)	5.911	6.518	0.607	10.3
3,124	Employees in service at period end (number)	3,001	3,221	220	7.3

(*) The figures relating to the first half of 2015 include Acam Gas S.p.A. and AES S.p.A., which were fully consolidated as of 1 April 2015 and 1 July 2014 respectively, and Metano Arcore S.p.A. and SETEAP S.p.A., which were merged by incorporation into Italgas S.p.A. and Napoletanagas S.p.A. respectively, with effect from 1 January 2015.

(**) Purely for the purposes of the reclassified income statement, total revenue is shown net of revenue relating to building and upgrading distribution infrastructures recorded pursuant to IFRIC 12, which is recorded in equal measure alongside the relevant costs incurred, and stated as a direct reduction in the respective cost item.

(***) Before consolidation adjustments.

(****) This figure refers to the kilometres of network managed by Italgas.

Italgas – Exit from judicial administration and reappointment of the company's Board of Directors

The activities relating to the revocation of the judicial administration order imposed on Italgas by the Court of Palermo were completed on 9 July 2015. In view of the outcome of the checks performed and the active cooperation of the Snam Group, the Court ordered the handover of the company on 29 June 2015.

Having acknowledged the revocation of the judicial administration order, on 9 July 2015 the Italgas Shareholders' Meeting reappointed all members of the Board of Directors, the term of which expires at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2015.

Italgas will comply with the obligation to provide the competent authorities with the information required pursuant to Article 34, paragraph 8 of Legislative Decree 159/2011 (judicial control), in relation to the relevant transactions, but it has appealed before the Palermo Court of Appeal against the provision of such information. Italgas S.p.A. will also provide the competent authorities with the results of the periodic reports by the Supervisory Body.

More details on this measure can be found in Note 18 "Guarantees, commitments and risks – Disputes and other measures" of the notes to the condensed interim consolidated financial statements.

Extraordinary transactions

Acquisition of control of Acam Gas S.p.A. – Effects of the transaction

On 1 April 2015, Italgas completed the acquisition from Acam of a 51% stake in Acam Gas, for a fee of €46 million. By means of this transaction, Italgas, which already owned 49% of Acam Gas, acquired the company's entire share capital, further consolidating its gas distribution business in the minimum geographical area (ATEM) of La Spezia. Acam Gas holds the concession to distribute gas in the city of La Spezia and another 28 municipalities in the same province, with around 112,000 active redelivery points and a network covering approximately 1,400 km.

The effects of the acquisition of control of Acam Gas on the company's income statement are recognised as of 1 April 2015¹⁵, or the second quarter of 2015, and can be summarised as follows:

(€ million)	1 April - 30 June 2015
Total revenue (*)	5
- of which regulated	5
Operating costs (*)	2
EBITDA	3
EBIT	2

(*) Net of the effects of IFRIC 12.

Mergers by incorporation

With effect from 1 January 2015, Metano Arcore S.p.A., which holds the concession to distribute natural gas in the municipality of Arcore through a network of more than 60 km and approximately 8,700 redelivery points, and SETEAP S.p.A.¹⁶ were merged by incorporation into Italgas S.p.A. and Napoletanagas S.p.A. respectively.

Results

Total revenue amounted to €543 million, up by €41 million, or 8.2%, compared with the first half of 2014.

Total revenue, net of components offset in costs, amounted to €539 million, an increase of €37 million, or 7.4%, compared with the corresponding period of the previous year.

Regulated revenue for the first half of 2015 (€532 million) related mainly to fees for the natural gas distribution service (€509 million; +€40 million) and to technical services (€12 million). Net of components offset in costs, regulated revenue amounted to €528 million, up by €39 million, or 8.0%, compared with the corresponding period of the previous year. This increase was due to the change in the scope of consolidation and to tariff updates.

EBIT totalled €248 million in the first half of 2015, down by €9 million, or 3.5%, compared with the corresponding period of 2014. The increase in revenue (+€37 million) was more than offset by: (i) higher amortisation and depreciation for the period (-€23 million), resulting mainly from the change in the scope of consolidation and the reduction (from 20 to 15 years) in the useful life of some metering facilities reviewed for tariff purposes by the Electricity, Gas and Water Authority; and (ii) the increase in operating costs (-€23 million, net of components offset in revenue), due mainly to the lower portion of expenses absorbed by investment activities and to the change in the scope of consolidation, the effects of which were partly offset by the changes in provisions for risks and charges.

¹⁵ The share attributable to Snam of the net profit generated by Acam Gas in the first half of 2015, before the acquisition, is included in the valuation of the investment using the equity method as at 31 March 2015.

¹⁶ The company holds distribution concessions in five municipalities on the Sorrento Peninsula in which the plants are under construction and therefore are not yet operational.

Operating review

TECHNICAL INVESTMENTS

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
231	Distribution	109	83	(26)	(23.9)
180	Network maintenance and development	83	69	(14)	(16.9)
51	Replacement of cast-iron pipes	26	14	(12)	(46.2)
88	Metering	31	42	11	35.5
40	Other investments	12	17	5	41.7
359		152	142	(10)	(6.6)

Technical investments in the first half of 2015 amounted to €142 million, down by €10 million, or 6.6%, compared with the first half of 2014 (€152 million).

Investments in distribution (€83 million) mainly involved development projects (extensions and new networks) and the renovation of sections of pipe, including the replacement of cast-iron pipes.

Investments in metering (€42 million) primarily concerned the meter replacement programme and the remote meter-reading project.

Other investments (€17 million) mainly concerned investments in IT, property and vehicles.

Gas distribution

In the first half of 2015, 4,431 million cubic metres of gas were distributed, an increase of 910 million cubic metres, or 25.8%, compared with the first half of 2014, mainly due to weather conditions.

At 30 June 2015, Snam had concessions for gas distribution services in 1,472 municipalities (1,437 at 31 December 2014; 1,435 at 30 June 2014), of which 1,392 were in operation (1,361 at 31 December 2014) and 80 had to complete and/or create networks (76 at 31 December 2014). It had 6.518 million active meters at gas redelivery points to end users (households, businesses, etc.), compared with 5.911 million at 30 June 2014.

Distribution network

At 30 June 2015, the gas distribution network covered 56,636 km, an increase of 1,358 km compared with 31 December 2014 (55,278 km).

Tariff regulations

Resolution 89/2015/R/gas – “Redetermination of the reference tariffs for gas distribution and metering services for 2009-2013 and correction of material errors”

By means of this resolution, published on 6 March 2015, the Authority re-determined the reference tariffs for the years 2009-2013, based on the adjustment requests received from some operators by 16 February 2015, and corrected some material errors in Resolution 634/2014/R/gas of 18 December 2014.

Resolution 90/2015/R/gas – “Determination of the definitive reference tariffs for gas distribution and metering services for 2014”

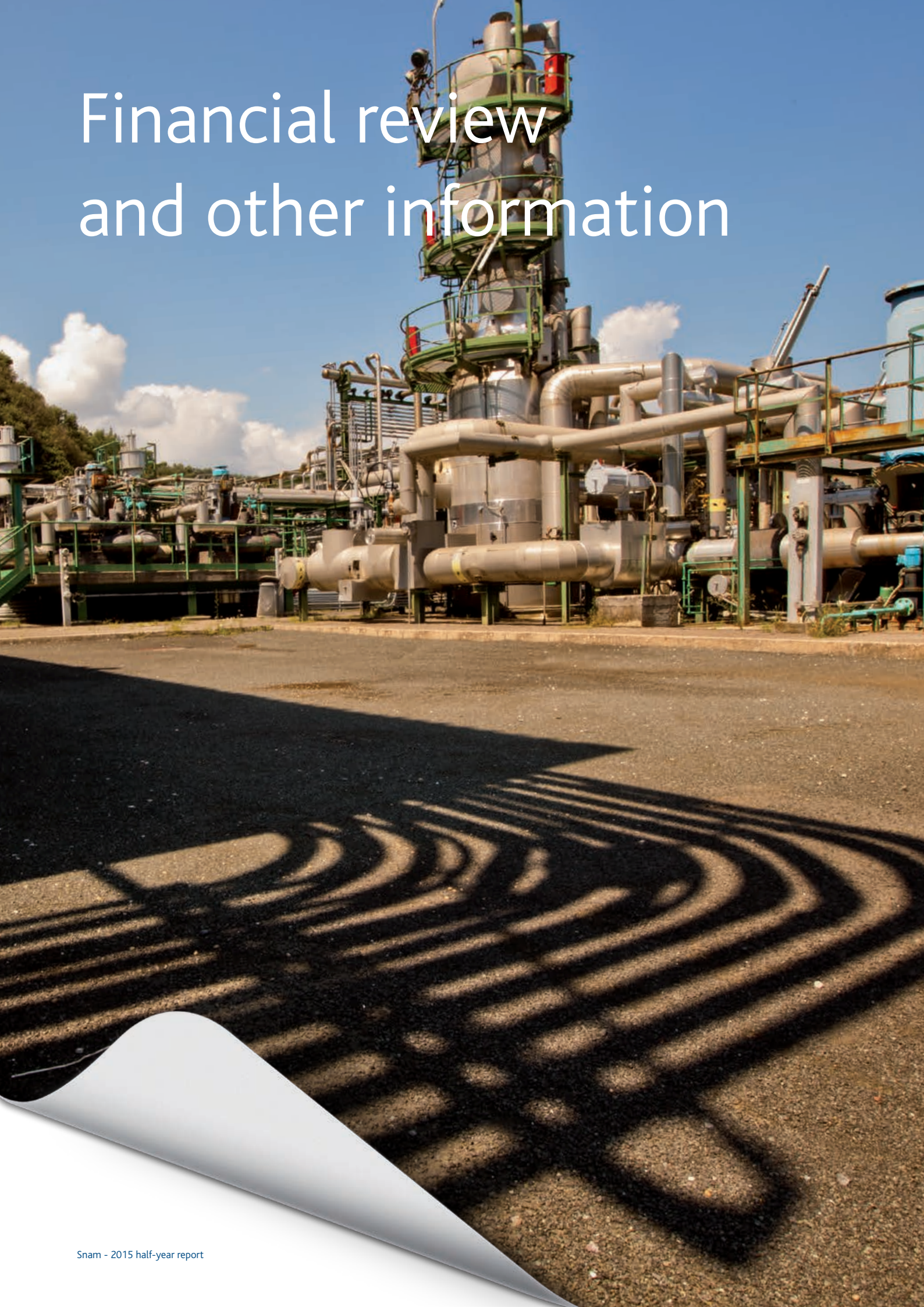
By means of this resolution, published on 6 March 2015, the Authority determined the definitive reference tariffs for 2014, based on the provisions of Article 3, paragraph 2, letter b) of the Gas Distribution Tariff Regulation, calculated based on the final balance sheet figures for 2013.

Resolution 147/2015/R/gas – “Determination of the provisional reference tariffs for gas distribution and metering services for 2015”

By means of this resolution, published on 2 April 2015, the Authority determined the provisional reference tariffs for 2015, based on the provisions of Article 3, paragraph 2, letter a) of the Gas Distribution Tariff Regulation, calculated based on the provisional balance sheet figures for 2014.



Financial review and other information



FINANCIAL REVIEW

INCOME STATEMENT

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
3,506	Regulated revenue	1,748	1,796	48	2.7
60	Non-regulated revenue	34	41	7	20.6
3,566	Total revenue (*)	1,782	1,837	55	3.1
(790)	Operating costs (*)	(354)	(403)	(49)	13.8
2,776	EBITDA	1,428	1,434	6	0.4
(803)	Amortisation, depreciation and impairment losses	(384)	(422)	(38)	9.9
1,973	EBIT	1,044	1,012	(32)	(3.1)
(397)	Net financial expense	(204)	(186)	18	(8.8)
131	Net income from equity investments	49	69	20	40.8
1,707	Pre-tax profit	889	895	6	0.7
(509)	Income taxes	(328)	(283)	45	(13.7)
1,198	Net profit (**)	561	612	51	9.1

(*) Purely for the purposes of the reclassified income statement, revenue relating to building and upgrading distribution infrastructures recorded pursuant to IFRIC 12, which is recorded in equal measure alongside the relevant costs incurred (€140 million and €122 million respectively in the first halves of 2014 and of 2015), is stated as a direct reduction in the respective cost items.

(**) Net profit is attributable to Snam.

Net profit

Net profit achieved in the first half of 2015 amounted to €612 million, an increase of €51 million, or 9.1%, compared with the first half of 2014. This increase was due to: (i) a reduction in income taxes (+€45 million) due mainly to the elimination of the additional corporate income tax known as the Robin Hood Tax, which was declared to be unconstitutional (+€44 million); (ii) higher net income from equity investments (+€20 million) thanks to the contribution from recently acquired assets; and (iii) a reduction in net financial expense (+€18 million) due mainly to the lower average cost of debt. These effects were partially absorbed by the reduction in EBIT (-€32 million).

Analysis of income statement items

TOTAL REVENUE

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
Business segments					
2,087	Transportation	1,046	1,080	34	3.3
28	Regasification	14	13	(1)	(7.1)
541	Storage (*)	287	276	(11)	(3.8)
1,053	Distribution	502	543	41	8.2
202	Corporate and other activities	91	102	11	12.1
(345)	Consolidation adjustments	(158)	(177)	(19)	12.0
3,566	Total revenue	1,782	1,837	55	3.1

(*) As of 1 April 2013, revenue in the storage sector includes the chargeback of the transportation service provided by Snam Rete Gas pursuant to Resolution 297/2012/R/gas of 19 July 2012 of the Authority. Revenue from these chargebacks, amounting to €26 million and €35 million respectively in the first halves of 2014 and 2015, is offset in operating costs related to the purchase of transportation capacity provided.

TOTAL REVENUE – REGULATED AND NON-REGULATED ACTIVITIES

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
3,506	Regulated revenue	1,748	1,796	48	2.7
Business segments					
2,058	Transportation	1,032	1,043	11	1.1
19	Regasification	10	11	1	10.0
403	Storage	217	210	(7)	(3.2)
1,026	Distribution	489	532	43	8.8
60	Non-regulated revenue	34	41	7	20.6
3,566	Total revenue	1,782	1,837	55	3.1

Regulated revenue (€1,796 million, net of consolidation adjustments) relates to transportation (€1,043 million; +1.1%), distribution (€532 million; +8.8%), storage (€210 million; -3.2%) and regasification (€11 million; +10.0%). Regulated revenue, net of components that are offset in costs, amounted to €1,722 million, up by €41 million, or 2.4%, compared with the first half of 2014.

Non-regulated revenue (€41 million, net of consolidation adjustments) mainly comprises: (i) income from the sale of natural gas no longer useful for transportation activities (€22 million); (ii) income from renting and maintaining fibre optic telecommunications cables (€6 million); and (iii) technical services relating to natural gas distribution activities (€2 million).

OPERATING COSTS

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
Business segments					
402	Transportation	214	240	26	12.1
23	Regasification	10	8	(2)	(20.0)
163	Storage (*)	60	71	11	18.3
331	Distribution	136	163	27	19.9
216	Corporate and other activities	92	98	6	6.5
(345)	Consolidation adjustments	(158)	(177)	(19)	12.0
790		354	403	49	13.8

(*) As of 1 April 2013, operating costs in the storage segment include the costs associated with purchasing the transportation capacity provided by Snam Rete Gas (€26 million and €35 million respectively in the first halves of 2014 and of 2015) pursuant to Resolution 297/2012/R/gas of 19 July 2012 of the Authority.

OPERATING COSTS – REGULATED AND NON-REGULATED ACTIVITIES

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
750	Costs of regulated activities	341	367	26	7.6
471	Controllable fixed costs	225	248	23	10.2
54	Variable costs	43	47	4	9.3
225	Other costs	73	72	(1)	(1.4)
40	Costs of non-regulated activities	13	36	23	
790		354	403	49	13.8

Operating costs of regulated activities

Controllable fixed costs (€248 million), which comprise the sum of personnel expenses and recurring external costs, rose by €23 million, or 10.2%, compared with the first half of 2014 (€225 million). This increase was due essentially to the lower portion of expenses absorbed by investment activities. The higher costs resulting from the changed scope of consolidation (€10 million) were absorbed by cost control on a comparable basis. Variable costs (€47 million; +€4 million, or +9.3%) mainly reflect withdrawals from storage for natural gas sales carried out for balancing purposes.

Other costs of €72 million (in line with the first half of 2014) relate mainly to interconnection costs (€30 million) offset in revenue and concession charges relating to natural gas distribution (€27 million).

Operating costs of non-regulated activities

Operating costs of non-regulated activities (€36 million) rose by €23 million compared with the first half of 2014, due mainly to withdrawals from storage for proprietary gas sales (€19 million).

Operating costs of regulated and non-regulated activities, net of components offset in costs, amounted to €329 million, up by €42 million, or 14.6%, compared with the corresponding period of the previous year.

The following table shows the employees in service at 30 June 2015 (6,219 people) by business segment and professional status.

Financial year		First half		Change	% change
		2014	2015		
2014	(number)				
Business segments					
1,874	Transportation	1,941	1,912	(29)	(1.5)
77	Regasification	80	75	(5)	(6.3)
291	Storage	308	287	(21)	(6.8)
3,124	Distribution	3,001	3,221	220	7.3
706	Corporate and other activities	705	724	19	2.7
6,072		6,035	6,219	184	3.0

Financial year		First half		Change	% change
		2014	2015		
2014	(number)				
Professional status					
124	Executives	118	127	9	7.6
602	Managers	592	607	15	2.5
3,280	Office workers	3,280	3,351	71	2.2
2,066	Manual workers	2,045	2,134	89	4.4
6,072		6,035	6,219	184	3.0

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

Financial year		First half		Change	% change
		2014	2015		
2014	(€ million)				
797	Amortisation and depreciation	384	422	38	9.9
Business segments					
483	Transportation	241	249	8	3.3
5	Regasification	3	2	(1)	(33.3)
60	Storage	29	36	7	24.1
245	Distribution	109	132	23	21.1
4	Corporate and other activities	2	3	1	50.0
6	Impairment losses (Reversals)				
803		384	422	38	9.9

Amortisation, depreciation and impairment losses (€422 million) rose by €38 million, or 9.9%, compared with the first half of 2014, due mainly to the entry into service of new infrastructure, the change in the scope of consolidation and the reduction (from 20 to 15 years) in the useful life of some metering facilities reviewed for tariff purposes by the Electricity, Gas and Water Authority.

EBIT

Financial year 2014 (€ million)		First half		Change	% change
		2014	2015		
Business segments					
1,196	Transportation	591	591		
	Regasification	1	3	2	
318	Storage	198	169	(29)	(14.6)
477	Distribution	257	248	(9)	(3.5)
(18)	Corporate and other activities	(3)	1	4	
1,973		1,044	1,012	(32)	(3.1)

EBIT¹⁷ achieved in the first half of 2015 amounted to €1,012 million, a reduction of €32 million, or 3.1%, compared with the first half of 2014. This reduction was due to¹⁸:

- the natural gas storage segment (-€29 million; -14.6%), due mainly to lower regulated revenue (-€7 million; -2.9%), in relation to a different timing profile over the year compared with 2014, the reduction in regulated revenue (-€14 million), and higher amortisation and depreciation (-€7 million);
- the natural gas distribution segment (-€9 million; -3.5%), due to the increase in operating costs (-€23 million) resulting from the lower portion of expenses absorbed by investment activities and the change in the scope of consolidation, as well as due to higher amortisation and depreciation for the period (-€23 million),
- which were partly offset by higher revenue (+€37 million), thanks to the change in the scope of consolidation.

The EBIT recorded in the transportation segment (€591 million) was unchanged compared with the corresponding period of the previous year.

¹⁷ EBIT was analysed by isolating only the elements that determined a change therein. To this end, applying gas segment tariff regulations generates revenue components that are offset in costs.

¹⁸ An analysis of EBIT by business segment is provided in the "Business segment operating performance" section of this report.

NET FINANCIAL EXPENSE

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
435	Financial expense (income) related to net financial debt	223	193	(30)	(13.5)
435	- Interest and other expense on short- and long-term financial debt (*)	223	196	(27)	(12.1)
	- Interest on financial receivables not held for operations		(3)	(3)	
(1)	- Other net financial expense (income)	(2)	7	9	
17	- Accretion discount	7	6	(1)	(14.3)
(18)	- Other net financial expense (income) (*)	(9)	1	10	
(37)	Financial expense capitalised	(17)	(14)	3	(17.6)
397		204	186	(18)	(8.8)

(*) In order to provide as accurate a representation of "Financial expense (income)" as possible, the economic effects attributable to the effective portion of hedging derivatives are recorded under the same item as those of the hedged elements. Any economic effects attributable to the ineffective portion of hedging derivatives are recorded under "Expense/(income) on hedging derivatives". Consistent with this, the corresponding value for the comparison year was reclassified.

Net financial expenses (€186 million) decreased by €18 million compared with the first half of 2014, due mainly to a lower average cost of debt, thanks partly to the initiatives to optimise the Group's financial structure implemented by Snam, which were partly offset by an increase in average debt in the period.

Financial expenses of €14 million was capitalised in the first half of 2015, compared with €17 million in the first half of 2014.

INCOME FROM EQUITY INVESTMENTS

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
79	Equity method valuation effect	49	70	21	42.9
52	Other net income (expense)		(1)	(1)	
131		49	69	20	40.8

Income from equity investments (€69 million) refers to the share of net profit for the period of investee companies valued using the equity method. The increase of €20 million compared with the first half of 2014 was due essentially to income from the valuation using the equity method of Trans Austria Gasleitung GmbH - TAG¹⁹, which was partly offset by the elimination of income from the valuation using the equity method of AES Torino, which was fully consolidated as of 1 July 2014.

¹⁹ The acquisition of the equity investment in TAG held by CDP GAS was completed on 19 December 2014.

INCOME TAXES

Financial year	2014 (€ million)	First half		Change	% change
		2014	2015		
731	Current taxes	368	310	(58)	(15.8)
	(Prepaid) deferred taxes				
(68)	Deferred taxes	(38)	(26)	12	(31.6)
(34)	Prepaid taxes	(2)	(1)	1	(50.0)
(102)		(40)	(27)	13	(32.5)
(120)	Adjustment of deferred taxes (special items)				
29,8	Tax rate (%)	36.9	31.6	(5.3)	
509		328	283	(45)	(13.7)

Income taxes for the first half of 2015 (€283 million) fell by €45 million, or 13.7%, compared with the corresponding period of 2014. This reduction is attributable mainly to the elimination of the additional corporate income tax known as the Robin Hood Tax (€44 million), which was declared to be unconstitutional, and to the increase in the economic growth assistance given to companies that strengthen their capital structure, which was introduced by Decree-Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011, as subsequently amended.

The tax rate for the first half of 2015 was 31.6% (36.9% in the first half of 2014).



Reclassified balance sheet

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: investment, operations and financing.

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

The reclassified balance sheet format is used by management to calculate the key leverage and profitability ratios (ROI and ROE).

RECLASSIFIED BALANCE SHEET (*)

(€ million)	31.12.2014	30.06.2015	Change
Fixed capital	21,813	21,970	157
Property, plant and equipment	15,399	15,451	52
Compulsory inventories	363	363	
Intangible assets	5,076	5,180	104
Equity investments	1,402	1,270	(132)
Net payables for investments	(427)	(294)	133
Net working capital	(864)	(958)	(94)
Provisions for employee benefits	(141)	(139)	2
Assets held for sale and directly related liabilities	16	16	
NET INVESTED CAPITAL	20,824	20,889	65
Shareholders' equity (including minority interests)			
- attributable to Snam	7,171	6,952	(219)
- attributable to minority interests	1	1	
	7,172	6,953	(219)
Net financial debt	13,652	13,936	284
COVERAGE	20,824	20,889	65

(*) 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.

Fixed capital (€21,970 million) rose by €157 million compared with 31 December 2014, mainly due to the reduction in net payables for investments (+€133 million).

Changes in property, plant and equipment (+€52 million) and intangible assets (+€104 million) are analysed below:

(€ million)	Property, plant and equipment	Intangible assets	Total
Balance at 31 December 2014	15,399	5,076	20,475
Technical investments	328	159	487
Amortisation, depreciation and impairment losses	(277)	(145)	(422)
Change in scope of consolidation	1	98	99
Transfers, eliminations and divestments	(6)	(5)	(11)
Other changes	6	(3)	3
Balance at 30 June 2015	15,451	5,180	20,631

Equity investments

Equity investments (€1,270 million)²⁰ include the valuation of equity investments using the equity method and refer to TIGF Holding S.A.S. (€503 million), Trans Austria Gasleitung GmbH, or TAG (€462 million), Toscana Energia S.p.A. (€174 million), and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€129 million in total).

NET WORKING CAPITAL

(€ million)	31.12.2014	30.06.2015	Change
Trade receivables	1,728	1,389	(339)
Inventories	155	160	5
Tax receivables	90	65	(25)
Other assets	217	286	69
Provisions for risks and charges	(1,014)	(1,026)	(12)
Trade payables	(816)	(617)	199
Deferred tax liabilities	(513)	(483)	30
Tax payables	(22)	(96)	(74)
Net liabilities from regulated activities	(36)	(71)	(35)
Net derivative liabilities	(4)	(7)	(3)
Other liabilities	(649)	(558)	91
	(864)	(958)	(94)

Net working capital fell by €94 million compared with 31 December 2014 to €958 million, owing mainly to: (i) a decrease in trade receivables (-€339 million) relating mainly to the natural gas transportation sector (-€184 million), due to lower receivables arising from the balancing service (-€107 million) and the natural

20 Information relating to changes in the equity investments item are provided in Note 10 "Equity-accounted investments" in the notes to the condensed interim consolidated financial statements.

gas distribution sector (-€133 million) due essentially to the seasonal trend in distributed volumes; and (ii) an increase in tax payables (-€74 million) due to a change in payments on account.

These factors were partly offset by the reduction in trade payables (+€199 million), relating mainly to the natural gas transportation segment (+€153 million), as a result mainly of lower payables arising from the balancing service (+€108 million), and the reduction of other liabilities (+€91 million) due to lower payables to the Electricity Equalisation Fund (+€96 million), chiefly relating to the natural gas transportation and distribution segments.

STATEMENT OF COMPREHENSIVE INCOME

(€ million)	First half 2014	First half 2015
Net profit	561	612
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives (effective share)	(2)	
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	3	11
	1	11
<i>Components that cannot be reclassified to the income statement:</i>		
Actuarial (losses)/gains from re-measurement on defined-benefit obligations – IAS 19		2
Tax effect		(1)
Total other components of comprehensive income, net of tax effect	1	12
Total comprehensive income	562	624
attributable to:		
- Snam	562	624
- Minority interests		
	562	624

SHAREHOLDERS' EQUITY

(€ million)

Shareholders' equity at 31 December 2014		7,172
<i>Increases owing to:</i>		
- Comprehensive income for first half 2015	624	
- Other changes (*)	32	
		656
<i>Decreases owing to:</i>		
- Distribution of 2014 dividend	(875)	
		(875)
Shareholders' equity including minority interests at 30 June 2015		6,953
attributable to:		
- Snam		6,952
- Minority interests		1
		6,953

(*) The other changes mainly relate to the effects of the entry of a new shareholder to TIGF's shareholding structure.

At 30 June 2015, Snam held 1,127,250 treasury shares (the same number as at 31 December 2014), equal to 0.03% of its share capital, with a book value of €5 million. Their market value at 30 June 2015 was approximately €5 million²¹.

NET FINANCIAL DEBT

(€ million)

	31.12.2014	30.06.2015	Change
Financial and bond debt	13,942	14,181	239
Short-term financial debt (*)	2,057	3,152	1,095
Long-term financial debt	11,885	11,029	(856)
Financial receivables and cash and cash equivalents	(290)	(245)	45
Financial receivables not held for operations	(216)	(221)	(5)
Cash and cash equivalents	(74)	(24)	50
	13,652	13,936	284

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

Net financial debt was €13,936 million at 30 June 2015, compared with €13,652 million at 31 December 2014. The net cash flow from operating activities (€1,146 million) allowed us to fully cover the financial requirements associated with net investments for the period (€559 million) and to generate a free cash flow of €587 million. The net financial debt of €13,936 million, after the payment to shareholders of the 2014 dividend of €875 million, increased by €284 million compared with 31 December 2014.

²¹ Calculated by multiplying the number of treasury shares by the period-end official price of €4.30 per share.

Financial debt and bonds payable at 30 June 2015, amounting to €14,181 million (€13,942 million at 31 December 2014), are denominated in euro²², and relate mainly to bonds (€10.8 billion, equal to 76.3%), bank loans (€2.2 billion, equivalent to 15.5%) and loan agreements in respect of European Investment Bank (EIB) funding (€1.1 billion, equal to 8.0%).

As part of measures aimed at improving the group's financial structure, on 16 February 2015 the European Investment Bank (EIB) granted a new loan of €200 million. In March 2015, Snam made provision for the early repayment of two loans from the EIB totalling €300 million.

Short-term financial debt (€3,152 million) was €1,095 million higher than at 31 December 2014. The increase includes the effects of the reclassification (€848 million) from long-term financial debt to short-term financial debt of some loans outstanding with the EIB, which took place after the provision by the Palermo Court to Italgas of the information flows required under Article 34, paragraph 8 of Legislative Decree 159/2011 (judicial control) relating to the revocation of the judicial administration order imposed on this subsidiary. Specifically, with respect to these obligations and only for certain loans granted by the EIB for a total principal amount of €848 million at 30 June 2015, the bank has the power to request early repayment from Snam, making use of and in compliance with contractual provisions relating to early voluntary repayment within 60 days of any request.

Financial receivables not held for operations (€221 million) relate to receivables from jointly controlled company TAG²³.

Cash and cash equivalents (€24 million) mainly relate to cash held by Gasrule Ltd to exercise the group's insurance business (€19 million).

The breakdown of debt by type of interest rate at 30 June 2015 is as follows:

(€ million)	31.12.2014	%	30.06.2015	%	Change
Fixed rate	9,681	69	9,884	70	203
Floating rate	4,261	31	4,297	30	36
	13,942	100	14,181	100	239

Fixed-rate financial liabilities (€9,884 million) increased by €203 million, due mainly to a new bond issue with a nominal value of €250 million, partly offset by lower accrued interest at 30 June 2015 (€57 million).

Floating-rate financial liabilities (€4,297 million) increased by €36 million compared with 31 December 2014, due essentially to the assumption of a new loan of €200 million granted by the EIB, and larger net utilisations of bank credit lines (+€158 million). These effects were partly offset by the early repayment of two loans contracted with the EIB (-€300 million).

At 30 June 2015, Snam had unused committed long-term credit lines worth €3.9 billion.

Covenants

As at 30 June 2015, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these agreements are subject, *inter alia*, to the usual covenants imposed in international market practice, e.g. negative pledge, pari passu and change of control clauses. Information on financial covenants and contractual provisions can be found in Note 11 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the notes to the condensed interim consolidated financial statements.

²² Except for a fixed-rate bond amounting to ¥10 billion, fully converted into euros through a cross-currency swap (CCS) hedging derivative.

²³ The contractual agreements drawn up between Snam, TAG and Gas Connect Austria GmbH (GCA) stipulate that if TAG is not capable of self-financing for new investments and asset substitution, the other companies must finance it according to the equity investment held by each of them. On 19 December 2014, Snam and TAG agreed a shareholders' loan in the form of a revolving credit line for a maximum of €285.5 million, currently scheduled to mature in September 2015.

Reclassified statement of cash flows

The reclassified statement of cash flows set out below summarises the legally required format. It 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 (*)

(€ million)	First half 2014	First half 2015
Net profit	561	612
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	337	351
- Net capital losses on asset sales and eliminations	5	10
- Dividends, interest and income taxes	495	452
Change in working capital due to operating activities	(194)	30
Dividends, interest and income taxes collected (paid)	(557)	(309)
Net cash flow from operating activities	647	1,146
Technical investments	(512)	(454)
Companies included in the scope of consolidation and business units		(45)
Equity investments		(14)
Divestments	7	87
Other changes relating to investment activities	(38)	(133)
Free cash flow	104	587
Change in financial receivables not held for operations		(5)
Change in short- and long-term financial debt	401	243
Equity cash flow	(505)	(875)
Net cash flow for the period	0	(50)

(*) For the reconciliation of the reclassified statement of cash flows with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

CHANGE IN NET FINANCIAL DEBT

(€ million)	First half 2014	First half 2015
Free cash flow	104	587
Adjustment to fair value of financial debt		(4)
Exchange rate differences on financial debt	(3)	8
Equity cash flow	(505)	(875)
Change in net financial debt	(404)	(284)

RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS WITH THE COMPULSORY FORMATS

RECLASSIFIED BALANCE SHEET

(€ million)

Reclassified balance sheet items (Where not expressly stated, the component is taken directly from the legally required format)	Reference to notes to consolidated financial statements	31.12.2014		30.06.2015	
		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			15,399		15,451
Compulsory inventories			363		363
Intangible assets			5,076		5,180
Equity-accounted investments			1,402		1,270
<i>Net payables for investments, consisting of:</i>			(427)		(294)
- Payables for investment activities	(note 12)	(440)		(306)	
- Receivables from investment/divestment activities	(note 4)	13		12	
Total fixed capital			21,813		21,970
Net working capital					
Trade receivables	(note 4)		1,728		1,389
Inventories			155		160
<i>Tax receivables, consisting of:</i>			90		65
- Current income tax assets and other current tax assets		58		33	
- IRES receivables for national tax consolidation scheme	(note 4)	32		32	
Trade payables	(note 12)		(816)		(617)
<i>Tax payables, consisting of:</i>			(22)		(96)
- Current income tax liabilities and other current tax liabilities		(21)		(96)	
- IRES payables for national tax consolidation scheme	(note 12)	(1)			
Deferred tax liabilities			(513)		(483)
Provisions for risks and charges			(1,014)		(1,026)
Derivatives	(notes 7 and 13)		(4)		(7)
<i>Other assets, consisting of:</i>			217		286
- Other receivables	(note 4)	92		183	
- Other current and non-current assets	(note 7)	125		103	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(36)		(71)
- Regulated assets	(note 7)	144		133	
- Regulated liabilities	(note 13)	(180)		(204)	
<i>Other liabilities, consisting of:</i>			(649)		(558)
- Other payables	(note 12)	(512)		(390)	
- Other current and non-current liabilities	(note 13)	(137)		(168)	
Total net working capital			(864)		(958)
Provisions for employee benefits			(141)		(139)
Assets held for sale and directly related liabilities, consisting of:			16		16
- Assets held for sale		23		23	
- Liabilities directly associated with assets held for sale		(7)		(7)	
NET INVESTED CAPITAL			20,824		20,889
Shareholders' equity including minority interests			7,172		6,953
Net financial debt					
<i>Financial liabilities, consisting of:</i>			13,942		14,181
- Long-term financial liabilities		11,885		11,029	
- Current share of long-term financial liabilities		999		1,940	
- Short-term financial liabilities		1,058		1,212	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			(290)		(245)
- Financial receivables not held for operations	(note 4)	(216)		(221)	
- Cash and cash equivalents		(74)		(24)	
Total net financial debt			13,652		13,936
COVERAGE			20,824		20,889

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)

Items from the reclassified statement of cash flows and reconciliation with the legally required format	First half 2014		First half 2015	
	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net profit		561		612
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		337		351
- Amortisation and depreciation	384		422	
- Equity method valuation effect	(49)		(70)	
- Change in provisions for employee benefits	2		(2)	
- Other changes			1	
Net capital losses on asset sales and eliminations		5		10
- Interest and income taxes		495		452
- Interest income	(11)		(7)	
- Interest expense	178		176	
- Income taxes	328		283	
Change in working capital due to operating activities:		(194)		30
- Inventories	21		37	
- Trade receivables	509		350	
- Trade payables	(420)		(205)	
- Change in provisions for risks and charges	(16)		(20)	
- Other assets and liabilities	(288)		(132)	
Dividends, interest and income taxes collected (paid):		(557)		(309)
- Dividends collected	39		99	
- Interest collected	4		4	
- Interest paid	(176)		(172)	
- Income taxes (paid) received	(424)		(240)	
Net cash flow from operating activities		647		1,146
Technical investments:		(512)		(454)
- Property, plant and equipment	(363)		(313)	
- Intangible assets	(149)		(141)	
Investments in companies included in the scope of consolidation and business units:				(45)
Equity investments				(14)
Divestments:		7		87
- Property, plant and equipment			1	
- Intangible assets				
- Equity investments	7		86	
Other changes relating to investment activities:		(38)		(133)
- Change in net payables for investments	(38)		(133)	
- Change in net payables for divestments				
Free cash flow		104		587
Change in financial receivables not held for operation				(5)
Change in financial payables:		401		243
- Taking on long-term financial debt	1.375		591	
- Repaying long-term financial debt	(530)		(502)	
- Increase (decrease) in short-term financial debt	(444)		154	
Equity cash flow		(505)		(875)
- Transfer of treasury shares for stock options	2			
- Dividends paid to Snam shareholders	(507)		(875)	
Net cash flow for the period		0		(50)

ELEMENTS OF RISK AND UNCERTAINTY

The main risks identified and monitored by Snam as part of the Enterprise Risk Management process are described below.

Market risk

Interest rate risk

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

At 30 June 2015, 70% of financial debt was fixed rate (69% at year-end 2014) and the remaining 30% was floating rate (31% at year-end 2014).

At 30 June 2015, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to benchmark market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.

Exchange rate risk

Snam's exposure to exchange rate risk relates to both transaction risk and translation risk. Transaction risk is generated by the conversion of commercial 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 carried out and the time it is settled (collection/payment). Translation risk relates to 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 transaction risk through measures such as the use of derivatives.

As at 30 June 2015, Snam's foreign currency items consisted essentially of a bond worth ¥10 billion, maturing in 2019, which was worth around €75 million as at the issue date and was fully converted into euros via a cross-currency swap. Snam does not have any cross-currency swaps in place for speculative purposes.

Natural gas price risk

Since 1 January 2010, the Authority has defined methods of payment in kind, by users of the service to the leading transportation firm, for the quantities of gas covering fuel gas²⁴, network losses and gas not accounted for (GNC). Consequently, the change in the price of natural gas covering fuel gas and network losses is no longer a risk factor for Snam.

Since 1 January 2014, at the start of the fourth regulatory period (1 January 2014 - 31 December 2017), the Authority has changed the procedure for payment in kind, by users of the service to the leading transportation firm, of the quantities of gas covering GNC. Specifically, with Resolution 514/2013/R/gas, the Authority defined the permitted level of GNC based on a fixed amount for the entire regulatory period, in order to encourage the leading transportation company to deliver further efficiency improvements. In view of the aforementioned mechanism for the payment in kind of GNC, there is still uncertainty about the quantities of GNC withdrawn over and above the quantities paid in kind by the users of the service.

²⁴ It should be noted that, by means of Judgement 2888/2015, the Council of State declared the method for calculating the contribution for gas destined for Snam's compression plants to be illegitimate. For more information, please see the "Business segment operating performance – Natural gas transportation – Other provisions" section of this report.

Credit Risk

Credit risk is the company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the financial balance and results of Snam.

For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any disputes are handled by the business units and the centralised Snam departments. Guidelines and methods for quantifying and controlling client riskiness are drawn up at corporate level.

The rules for client access to the services offered are established by the Authority 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 providing said services and contain contractual clauses which reduce the risk of non-compliance by the clients. In certain cases, the Codes require guarantees to be provided to partly cover obligations where the client does not possess a credit rating issued by one of the leading international agencies. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, balancing gives Snam Rete Gas an obligation to acquire, according to criteria of financial merit, the resources necessary to guarantee the safe and efficient movement of gas from entry points to withdrawal points, in order to maintain a constant balance in the network, procure the necessary storage resources to cover imbalances for individual users and adjust the relevant income statement entries.

Snam provides business services to a small number of operators in the gas sector, the largest of which by revenue is eni S.p.A. It cannot be ruled out, however, that Snam may incur liabilities and/or losses due to its customers' failure to honour payment obligations, including as a result of the current economic and financial situation, which makes the collection of receivables more complex and critical.

Liquidity risk

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

Snam's risk management system aims to establish, under the financial plan, 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.

As shown in the section "Interest rate risk", when implementing the debt refinancing programme, the company had access to a wide range of funding sources through the credit system and the capital markets (bond loans, bilateral contracts, pool financing with major domestic and international banks, and loan contracts with the EIB).

Snam's objective is to maintain a balanced debt structure, in terms of the composition of the bonds and the 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 2015, Snam had unused committed long-term credit lines worth approximately €3.9 billion. At the same date, in addition to the funding from the banking system, the renewal of the Euro Medium Term Notes (EMTN) programme²⁵, approved by Snam's Board of Directors on 22 June 2015, permitted the issue, by 30 June 2016, of additional bonds worth up to €1.3 billion, to be placed with institutional investors.

25 More information on the renewal of the EMTN programme is provided in the "Highlights - Key events" section of this report.

Rating risk

Moody's confirmed a Baa1 rating with a stable outlook for Snam's long-term debt on 19 February 2015.

On 9 December 2014, the rating agency Standard & Poor's downgraded Snam's long-term credit rating by one notch, from BBB+ to BBB, with a stable outlook.

This followed the one-notch downgrade of Italy's sovereign debt rating on 5 December 2014 from BBB to BBB-, with a stable outlook.

On 23 July 2015, Fitch has assigned Snam BBB+ rating with a stable outlook.

Snam's long-term rating from Moody's and S&P's is a notch higher than that of Italian sovereign debt.

Based on the methodology adopted by the rating agencies, the downgrade of the current rating of Italian sovereign debt would probably trigger a downward adjustment of Snam's current rating.

Risk of default and the debt covenant

The risk of default consists of the possibility that the loan contracts concluded contain provisions that provide the lender with the ability to activate contractual protections that could result in the early repayment of the loan in the event of the occurrence of specific events, thereby generating a potential liquidity risk.

As at 30 June 2015, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts provide, *inter alia*, for the following: (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.

For only some of the loans granted by the EIB, for a total principal amount of €848 million at 30 June 2015, and in relation to the information flows required under Article 34, paragraph 8 of Legislative Decree 159/2011 (judicial control), provided by the Court of Palermo in connection with the revocation of the judicial administration order imposed on Italgas, the bank has the power to request early repayment by Snam, making use of and in compliance with contractual provisions relating to early voluntary repayment within 60 days of any request.

The bonds issued by Snam as at 30 June 2015 as part of the Euro Medium Term Notes programme 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, some of which are subject to specific threshold values, such as cross-default events, may result in Snam's failure to comply and could trigger the early repayment of the relative loan. Exclusively for the EIB loans, the creditor has the option to request additional guarantees if Snam's rating is downgraded to BBB- (Standard & Poor's) or Baa3 (Moody's).

Operating risk

Snam is required to comply with rules and regulations at EU, national, regional and local level.

The expenses associated with the actions required to fulfil its obligations constitute a significant cost item now and for the years ahead.

In addition to minimising the risks from its activities, compliance with rules and regulations is required in order to obtain authorisations and/or permits relating to health, safety and the environment. Violation of current regulations may result in criminal and/or civil sanctions and, in specific cases where safety and environmental rules are violated, companies may be liable on the basis of a European model of corporate social responsibility adopted in Italy by Legislative Decree 231/01. The possibility of Snam incurring significant costs or liability cannot be entirely ruled out.

Current regulations highlight the value of organisational models aimed at preventing offences in the event of the violation of environmental and workplace health and safety laws, specifying corporate liability.

Snam uses organisational tools and internal regulations to establish the responsibilities and procedures to be adopted within the Group when planning, constructing, operating and disposing of all corporate assets, thereby ensuring compliance with laws and internal regulations on health, safety and the environment.

Snam and the companies it controls have implemented environmental and workplace health and safety management systems based on the principles of its own Health, Safety, Environment and Quality Policy, which has been consolidated in the company for several years.

The documentation and application of the Snam Management Systems are certified according to international regulations.

During the year, regular visits were made by the certification body, leading to the confirmation of all the certifications already held by the Group companies.

By adopting management systems and procedures that take into account the specific characteristics of its business, and by continually improving and modernising its facilities, Snam ensures that it can identify, assess and mitigate risks as part of a cycle of continual improvement.

Snam pays the utmost attention to all its operational processes worldwide: from designing and constructing plants to operating and maintaining them. For the purposes of business management and operational control, the company uses specific techniques that are continually being updated and are developed in compliance with international best practices.

Snam develops and maintains technical regulations and management systems for the environment and workplace health and safety based on an annual cycle of planning, implementation, control, reviewing results and setting new objectives.

Management system control is conducted by monitoring health, safety and environmental indicators, periodic reporting and inspections of operating sites and the registered office, which involve:

- a technical audit, designed to ensure that the management systems are applied correctly in compliance with the Code of Ethics and Organisational Model 231;
- management system checks on certification, maintenance and renovation (conducted at least annually by an external certifying body);
- health, safety and environment checks on outsourced activities.

The findings are examined together with the results of the operating checks, providing basic information for planning future activities and setting new objectives, in accordance with Snam principles.

Snam has adopted organisational and regulatory measures for preventing (availability, goods and services contracts, training, etc.) and managing any operational crises which may impact assets, people and the environment, identifying the actions required to limit damage.

Snam participates in national and international working groups engaged in benchmarking activities, the drawing up of guidelines, legislative proposals and research, in order to improve processes relating to the gas industry from a technical, health and safety, environmental and quality point of view.

In addition to the risk response, monitoring and management system and the HSE measures adopted across the Group, Snam has taken out insurance to limit the possible negative effects on its assets of damage caused to third parties and to industrial property, whether onshore or offshore (Messina strait, Offshore LNG Toscana (OLT) connection at Livorno), that could occur during operations and/or investment works. The insured amount varies according to the type of event and is determined by current market best practice in risk assessment.

Risks connected with failing to meet infrastructure development objectives

Snam's effective ability to develop its infrastructure is subject to many unforeseeable events linked to operating, economic, regulatory, authorisation and competition factors which are outside of its control. 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 timeframes than those originally planned, affecting Snam's financial position and results.

Risks arising from the malfunctioning of plants

Managing regulated gas activities involves a number of risks of malfunctioning and unforeseeable service disruptions due to factors which are outside of Snam's control, such as accidents, breakdowns or the malfunctioning of equipment or control systems; the underperformance of plants; and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events. These events could also cause significant damage to people, property or the environment.

Any service interruptions and subsequent compensation obligations could lead to a decrease in revenue and/or an increase in costs. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

Risks arising from the need to manage a significant flow of information to operate regulated services

The regulatory framework in which Snam operates involves continually collecting and processing a significant flow of information from its service clients. The information received by Snam includes, *inter alia*, capacity bookings, details of where gas is coming from and going to each day, physical and commercial balancing mechanisms and forecasts on demand and transportation capacity usage. This flow of information, partly managed by the extensive use of IT systems, is broad and complex. Therefore Snam cannot guarantee that its management will not lead to operating and planning difficulties which could affect its business.

Risks arising from the seasonal nature of the business

Based on the current regulatory framework, Snam's overall business is not affected by seasonal or cyclical factors which could have a significant impact on its annual or interim financial position and results.

Risks specific to the sectors in which Snam operates***Risks related to regulatory changes***

Snam operates in the regulated gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the Authority and, more generally, changes to the regulatory framework, may have a significant impact on Snam's operating activities, financial position and results. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant. To this end, it should be noted that, by means of Resolutions 438/2013/R/gas, 514/2013/R/gas and 573/2013/gas, the Authority defined the criteria for determining benchmark tariffs for liquefied natural gas regasification, natural gas transportation and natural gas distribution services respectively for the fourth regulatory period (1 January 2014 - 31 December 2017). In 2014, by means of Resolution 531/2014/R/gas, the Authority defined the criteria for determining reference tariffs for the natural gas storage service's fourth regulatory period (1 January 2015 - 31 December 2018).

In addition, Decree-Law 138 of 13 August 2011, converted into Law 148 of 14 September 2011, extended the application of additional corporate income tax to the natural gas transportation and distribution business segments, with a tax rise of 10.5% for 2011-2013 and 6.5% as at 2014. It also prohibited companies from passing on the tax rise to customers via tariff increases and mandated the Authority to enforce this rule. The Constitutional Court declared the additional corporate income tax to be unconstitutional in Ruling 10/2015 of 9 February 2015. As laid down by the ruling, the tax was unconstitutional with effect from 12 February 2015.

Future changes to European Union or Italian legislative policies, which may have unforeseeable effects on the relevant legislative framework and, therefore, on Snam's operations and results, cannot be ruled out.

Risks associated with the end of gas distribution concessions held by Italgas and its subsidiaries and associates

Risks relating to tenders for new gas distribution concessions

As at 30 June 2015, Snam, through Italgas, managed 1,472 natural gas distribution concessions throughout Italy. In accordance with the provisions of the legislation applicable to Snam's concessions, tenders for new gas distribution concessions will no longer be issued by each municipality but exclusively by the minimum geographical areas known as ATEMs. As the tender process unfolds, Snam may not be awarded one or more of the new concessions, or it may be awarded them on less favourable terms than is currently the case. This could have a negative impact on Snam's operations, results, balance sheet and cash flow, notwithstanding, should the company not be awarded concessions for municipalities it currently manages, the reimbursement to the outgoing operator.

Risks relating to quantifying repayment to the outgoing operator

With regard to the gas distribution concessions where Italgas also owns the networks and plants, Legislative Decree 164/00, as subsequently supplemented and amended on several occasions, provides that the amount reimbursed to the outgoing service operators in possession of the ongoing contracts and concessions is calculated based on what has been established in the agreements or contracts, provided that these were entered into before the date on which the regulation pursuant to Ministerial Decree 226 of 12 November 2011 came into effect (i.e. before 11 February 2012), and, for the portion that cannot be inferred from the will of the parties, as well as the aspects not governed by the aforementioned agreements or contracts, based on the guidelines on the operating criteria and methods for measuring the repayment amount, which were subsequently made available by the Ministry of Economic Development in a document dated 7 April 2014 and approved by a Ministerial Decree of 22 May 2014²⁶. In any case, private contributions relating to local assets, as valued according to the current tariff regulation methodology, shall be subtracted from the amount to be reimbursed.

Where there is a disagreement between the local authority and the outgoing operator with regard to the reimbursement amount, the public notice contains a reference amount to be used for the purpose of the tender. This reference amount is the estimate of the contracting local authority or the RAB, whichever is greater.

²⁶ In other words, the specific methods provided for in the individual concession agreements entered into and effective prior to 11 February 2012 take precedence over the guidelines, albeit subject to the limitations set forth in the guidelines and in the tender criteria regulation mentioned in Ministerial Decree 226/11.

Decree 226 of the Minister of Economic Development of 12 November 2011 on tender and offer evaluation criteria stipulates that the incoming operator will acquire ownership of the system by paying the outgoing operator the reimbursement amount, with the exception of any parts owned by the local municipality. Eventually, i.e. in subsequent periods, the reimbursement to the outgoing operator shall be the value of local net fixed assets, net of government grants for capital expenditure and private contributions relating to local assets, calculated on the basis of criteria used by the Authority to determine distribution tariffs (RAB). In light of new legal provisions, it therefore remains possible that the reimbursement amount will be less than the RAB.

Risks relating to gas storage concession ownership

Through Stogit, Snam holds ten gas storage concessions. Of these, eight (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) will expire in December 2016, one (Bordolano) will expire in November 2031 and the other (Fiume Treste), which was extended for a decade for the first time in 2011, will expire in June 2022. Each Stogit concession issued before Legislative Decree 164/2000 came into force may be extended by the Ministry of Economic Development no more than twice for a duration of ten years at a time, pursuant to Article 1, paragraph 61 of Law 239/2004. Pursuant to Article 34, paragraph 18 of Decree-Law 179/2012, converted by Law 221/2012, each Stogit concession issued after Legislative Decree 164/2000 came into force (Bordolano) has a duration of 30 years and can be extended by 10 years. 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.

Risks connected with certain socio-political situations in natural gas production and transit countries

A large part of the natural gas which travels through the Snam transportation network does, or may, come from or travel through countries which present risks arising from certain socio-political situations. Importing and transiting natural gas from or through such countries may present risks such as: higher taxes and excise duties; production, export or transportation limits; enforced contract renegotiations; nationalisation or renationalisation of assets; changes to national political and governing systems; changes to commercial policies; monetary restrictions; and loss or damage owing to the actions of rebel groups. If shippers are unable to access the natural gas available in these countries as a result of the aforementioned or similar situations, or if they are damaged in any other way by said situations, there may be a risk of the shippers being unable to fulfil their contractual obligations to Snam or there may be a reduction in volumes of gas transported. Such events may therefore have a negative effect on operations, results, the balance sheet and cash flow.

The European Community, through Regulation (EU) No 994/2010 of the European Parliament and of the Council of 20 October 2010 ("Regulation SOS"), established an obligation for each Member State to identify, through predetermined guidelines, measures intended to guarantee the security of its gas supply or to meet demand for gas. In implementation of the aforementioned Regulation, in accordance with the provisions of Legislative Decree 93 of 1 June 2011, (Legislative Decree 93/11), the Ministry of Economic Development shall carry out a risk assessment every two years on the security of the domestic natural gas system, and define a preventive action plan and an emergency and monitoring plan for the security of natural gas procurement.

OUTLOOK

Gas demand

Based on currently available information, when standardised to take account of temperature, demand for natural gas at the end of 2015 is expected to be much the same as in 2014.

Investments

Snam is continuing its commitment to the development of infrastructure for the transportation, storage and distribution of natural gas, confirming its substantial programme of investments for 2015.

Efficiency

In 2015, Snam has again confirmed its commitment to maximising the creation of value through both operating efficiency and an efficient capital structure.



Other information



Relationships with related parties

Given the existence of a de facto situation of control by CDP S.p.A.²⁷ over Snam S.p.A., in accordance with IFRS 10 – Consolidated Financial Statements, Snam's related parties, based on the group's current ownership structure, include not only Snam's associates and joint ventures, but also the parent company CDP S.p.A. and its subsidiaries and associates, as well as the companies directly or indirectly controlled by the Ministry of Economy and Finance (MEF). Transactions carried out by Snam with these entities mainly relate to the exchange of assets and the provision of services – and, as an integrated operator within the gas sector, the provision of regulated services – to companies directly or indirectly controlled by the MEF.

These transactions are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions which would be applied for two independent parties, and, in the case of regulated services, are based on tariffs established by the Authority. All the transactions carried out were in the interest of the Snam Group companies.

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 CEO (or the Chairman, in the case of the CEO), 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.

At 30 June 2015, 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, income statement and cash flows, are provided in Note 27 of the notes to the condensed interim consolidated financial statements.

Post-balance sheet events

The post-balance sheet events are described in the previous points of this report.

²⁷ No management or coordination activities were formalised or carried out.

Glossary

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at www.snam.it. The most common terms are described below.

ECONOMIC AND FINANCIAL TERMS

Amortisation

The process by which the cost of fixed assets is spread over the period in which the company benefits from the assets, usually corresponding to the entire useful life of the asset.

Cash flow

Net cash flow from operating activities is represented by the cash generated by a company over a certain period of time. Specifically, the difference between current inflows (mainly cash revenue) and current cash outflows (costs in the period that generated cash outflows).

Comprehensive income

Includes both net income for the period and changes in equity, which are recognised in equity in accordance with IFRSs (Other components of comprehensive income).

Controllable fixed costs

Fixed operating costs of regulated activities, represented by the sum of "Total recurring personnel expense" and "Recurring external operating costs".

Core business revenue

Income from selling goods and/or providing services that are integral to the core business, including all recurring economic values linked to a company's typical field of business.

Derivatives

A financial instrument is defined as a derivative when its price/yield profile derives from the price/yield parameters of other major instruments – known as underlyings – such as commodities, currencies, interest rates, securities and share indices.

Dividend

Payment to shareholders voted for by the Shareholders' Meeting and proposed by the Board of Directors.

EBIT

Difference between sales and services revenues, other revenues, operating costs, amortisation, depreciation and impairment losses over a given period. It is therefore the operating profit before financial revenue and costs and taxes.

EBITDA

Used by Snam in its internal (business plan) and external (to analysts and investors) presentations. Unit of measurement to assess the Group's operating performance, as a whole and in the individual business segments, in addition to EBIT. Determined by the difference between revenue and operating costs.

Excise duty

Indirect tax for immediate payment, applied to the production or consumption of certain industrial goods (including oil products and natural gas).

Investments

Costs incurred for the acquisition of long-term assets where the useful life does not expire over one reporting period.

Net financial debt

A valid indicator of the ability to meet financial obligations. Net financial debt is represented by gross financial debt minus cash and cash equivalents as well as other financial receivables not held for operations.

Net financial expense

Net cost incurred for using third-party capital. Includes other net expense related to financial operations.

Net invested capital

Net investments of an operational nature, represented by the sum of net working capital, fixed assets, provisions for employee benefits and assets and liabilities held for sale.

Net profit

EBIT minus the result from financial operations and income taxes.

Net working capital

Capital which is invested in short-term assets and is an indicator of a company's short-term financial position. Calculated using all short-term, non-financial assets and liabilities.

Non-current assets

Balance sheet item which shows long-lasting assets, net of amortisation, depreciation and impairment losses. These are divided into the following categories: "Property, plant and equipment", "Compulsory inventories", "Intangible assets", "Equity investments", "Financial assets" and "Other non-current assets".

Operating costs

Costs incurred in carrying out a company's core business. These include purchases, services, energy, consumables, maintenance and personnel expense.

Shareholders' equity

Total resources contributed by shareholders, plus retained profits and minus losses.

NATURAL GAS TRANSPORTATION AND REGASIFICATION

COMMERCIAL TERMS

Network Code

Document governing the rights and obligations of those involved in providing the transportation service.

Network entry point

Each point or a localised group of physical points on the national gas transportation network at which gas is delivered from the user to the transporter.

Redelivery point

This is the physical network point, or local combination of physical points, at which the transporter redelivers gas transported to the user, and where such gas is metered.

Regasification Code

Document which sets out the rules and processes characteristic of the natural gas regasification service.

Regasification tariffs

Unit prices applied for regasification. These include capacity and commodity tariffs, related to the required regasification capacity by users and to the volumes of gas actually unloaded from tankers, respectively. With regard to the tariff structure, as of 1 January 2014, 100% of total revenue is allocated to the capacity component.

Regulatory period

Period of time (usually four years) for which criteria are defined for setting tariffs for transporting and dispatching natural gas and for regasifying liquefied natural gas. For transportation and regasification activities, the third regulatory period ended on 31 December 2013. The fourth regulatory period, which began on 1 January 2014 and will end on 31 December 2017, is now under way.

Thermal year

Period of time into which the regulatory period is divided, running from 1 October to 30 September of the following year.

Transportation capacity

Transportation capacity is the maximum quantity of gas that can be injected into the system (or withdrawn from it) during the course of a gas day, at a specific location, in compliance with the technical and operating restrictions established for each section of pipeline and the maximum performance of plants located along such pipelines. These capacities are assessed using hydraulic network simulations carried out in appropriate transportation scenarios and in accordance with recognised technical standards.

Transportation tariffs

Unit prices applied for transporting and dispatching natural gas. These include capacity and commodity tariffs, related to the required transportation capacity by users and to the volumes of gas actually injected into the network, respectively.

User

The user of the gas system, which, by confirming the capacity granted, acquires transportation capacity for its own use or assignment to others.

Virtual exchange point (VEP)

A virtual point located between the Points of Entry and Points of Exit of the national gas transportation network where users and other authorised entities may, on a daily basis, exchange and sell gas injected into the network.

TECHNICAL TERMS**Liquefied natural gas (LNG)**

Natural gas mainly comprising methane liquefied by cooling at around -160°C, at atmospheric pressure, to make it suitable for methane tanker transportation or reservoir storage. In order to be injected into the transportation network, the liquid must be reconverted into gas at regasification plants and brought to the operating pressure of the pipelines.

LNG regasification

Industrial process whereby natural gas is converted from a liquid to a gas.

Natural gas

Hydrocarbon mixture consisting mainly of methane, and to a lesser degree, ethane, propane and higher hydrocarbons. Natural gas injected into the gas pipeline network must comply with a single quality specification to ensure that the gas in transit is interchangeable.

National gas transportation network

This consists of the gas pipelines indicated in Article 2 of the Ministerial Decree of 22 December 2000, as updated annually. It is the aggregate of gas pipelines and plants which have been assessed and checked taking into account restrictions imposed by imports, exports, key national production and storage facilities, and is used to transfer significant quantities of gas from these network injection points to major areas of consumption. Several inter-regional gas pipelines as well as smaller pipelines which serve to close network links formed by the above pipelines are also included for the same purpose. The national gas transportation network also includes compression stations and plants connected to the pipelines described above.

Natural gas transportation network

The aggregate of gas pipelines, line plants, compression stations and infrastructure, which, at the national and regional level, provide the transportation of gas by interconnecting with international transportation networks, production and storage points and redelivery points for the purposes of distribution and use.

Regional transportation network

This consists of gas pipelines not included in the list in Article 2 of the Ministerial Decree of 22 December 2000, as updated annually, and its main function is to move and distribute gas in demarcated local areas, which are typically regional in scale.

Regulatory Asset Base (RAB)

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated based on the rules defined by the Electricity, Gas and Water Authority (the Authority) to determine base revenues for the regulated businesses.

NATURAL GAS STORAGE

COMMERCIAL TERMS

Injection phase

Period from 1 April to 31 October of the same year.

Regulatory period

Period of time (usually four years) for which criteria are defined for setting tariffs for natural gas storage services. We are currently in the fourth regulatory period, which began on 1 January 2015 and will end on 31 December 2018.

Thermal year

Period of time into which the regulatory period is divided, running from 1 April to 31 March of the following year.

Withdrawal phase

Period from 1 November of one year to 31 March of the following year.

TECHNICAL TERMS

Mining storage

Mining storage is necessary for technical and economic reasons in order to enable the optimum cultivation of Italy's natural gas fields.

Modulation storage

Aims to respond to changing hourly, daily and seasonal demands.

Regulatory Asset Based (RAB)

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated based on the rules defined by the Electricity, Gas and Water Authority (the Authority) to determine base revenues for the regulated businesses.

Strategic storage

Aims to compensate for a lack of or reduction in imported supplies, or for crises in the gas system.

NATURAL GAS DISTRIBUTION

COMMERCIAL TERMS

Distribution Code

The document governing the rights and obligations of those involved in providing the gas distribution service.

Concession

The deed by which a local authority entrusts to a company the management of a service which falls within the remit of said authority, and for which said company assumes the operational risk.

End client

The consumer who buys gas for their own use.

Gas distribution service

Service of transporting natural gas through networks of local pipelines from one or more delivery points to redelivery points, generally at low pressure and in urban areas, for delivery to end clients.

Redelivery point

This is the point of demarcation between the gas distribution plant and the plant owned or managed by the end customer at which the distribution company redelivers gas transported for supply to the end customer, and at which metering occurs.

Regulatory period

Period of time (usually four years) for which criteria are defined for setting tariffs for gas distribution services. The third regulatory period ended on 31 December 2013. We are now in the fourth regulatory period, which began on 1 January 2014 and will end on 31 December 2019.

Retail company

Company which, by way of a contract giving it access to the networks managed by a distributor, sells the gas.

Tariff area

The area used to determine distribution tariffs and consists of all communities served by the same distribution plant. If several local authorities collectively designate an operator to perform the distribution service, or declare themselves a single tariff area, the tariff area coincides with the group of municipalities served through several distribution plants by one or more operators.

Thermal year

Period of time into which the regulatory period is divided. As of the third regulatory period, the thermal year coincides with the calendar year.

TECHNICAL TERMS**Equalisation**

Difference between revenues for the period (annual TRL) and those invoiced to retail companies on the basis of volumes distributed. The net position with the Equalisation Fund is established at the end of the thermal year and settled over the course of the year on the basis of advanced payments.

Gas distributed

Amount of gas delivered to users of the distribution network at the redelivery points.

Regulatory Asset Base (RAB)

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated based on the rules defined by the Electricity, Gas and Water Authority (the Authority) to determine base revenues for the regulated businesses.

TRL (Total Revenue Limit)

Total revenue allowed for distribution companies by the regulatory body to cover costs for providing distribution and metering services.



Condensed interim consolidated financial statements

STATEMENT OF FINANCIAL POSITION

(€ million)

	Notes	31.12.2014		30.06.2015	
		Total	of which with related parties	Total	of which with related parties
ASSETS					
Current assets					
Cash and cash equivalents	(3)	74		24	
Trade and other receivables	(4)	2,081	787	1,837	662
Inventories	(5)	155		160	
Current income tax assets	(6)	48		23	
Other current tax assets	(6)	10		10	
Other current assets	(7)	108		67	
		2,476		2,121	
Non-current assets					
Property, plant and equipment	(8)	15,399		15,451	
Compulsory inventories	(5)	363		363	
Intangible assets	(9)	5,076		5,180	
Equity-accounted investments	(10)	1,402		1,270	
Other non-current assets	(7)	167		170	
		22,407		22,434	
Non-current assets held for sale		23		23	
TOTAL ASSETS		24,906		24,578	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(11)	1,058	13	1,212	9
Short-term portion of long-term financial liabilities	(11)	999		1,940	
Trade and other payables	(12)	1,769	202	1,313	171
Current income tax liabilities	(6)	1		46	
Other current tax liabilities	(6)	20		50	
Other current liabilities	(13)	51		61	
		3,898		4,622	
Non-current liabilities					
Long-term financial liabilities	(11)	11,885		11,029	
Provisions for risks and charges	(14)	1,014		1,026	
Provisions for employee benefits		141		139	
Deferred tax liabilities	(15)	513		483	
Other non-current liabilities	(13)	276		319	
		13,829		12,996	
Liabilities directly associated with assets held for sale		7		7	
TOTAL LIABILITIES		17,734		17,625	
SHAREHOLDERS' EQUITY					
Snam shareholders' equity	(16)				
Share capital		3,697		3,697	
Reserves		2,281		2,648	
Net profit		1,198		612	
Treasury shares		(5)		(5)	
Total Snam shareholders' equity		7,171		6,952	
Minority interests		1		1	
TOTAL SHAREHOLDERS' EQUITY		7,172		6,953	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,906		24,578	

INCOME STATEMENT

(€ million)

	Notes	First half 2014		First half 2015	
		Total	of which with related parties	Total	of which with related parties
REVENUE					
Core business revenue	(19)	1,867	1,132	1,886	1,351
Other revenue and income		55	11	73	29
		1,922		1,959	
OPERATING COSTS					
Purchases, services and other costs	(20)	(324)	(22)	(351)	(23)
Personnel expense		(170)		(174)	
		(494)		(525)	
DEPRECIATION, AMORTISATION AND IMPAIRMENT LOSSES	(21)	(384)		(422)	
EBIT		1,044		1,012	
FINANCIAL INCOME (EXPENSE)					
Financial expense		(215)	(3)	(193)	
Financial income		11		7	3
		(204)		(186)	
INCOME (EXPENSE) FROM EQUITY INVESTMENTS					
Equity method valuation effect		49		70	
Other expense on equity investments				(1)	
		49		69	
PRE-TAX PROFIT					
		889		895	
Income taxes	(24)	(328)		(283)	
NET PROFIT		561		612	
Attributable to					
- Snam		561		612	
- Minority interests					
Net profit per share (€ per share)					
- basic	(25)	0.17		0.17	
- diluted		0.17		0.17	

STATEMENT OF COMPREHENSIVE INCOME

(€ million)

	Notes	First half 2014	First half 2015
Net profit		561	612
Other components of comprehensive income			
<i>Components that can be reclassified to the income statement:</i>			
Change in fair value of cash flow hedging derivatives (effective portion)		(2)	
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"		3	11
Tax effect		1	11
<i>Components that cannot be reclassified to the income statement:</i>			
Actuarial gains from remeasurement on defined-benefit obligations – IAS 19			2
Tax effect			(1)
			1
Total other components of comprehensive income, net of tax effect		1	12
Total comprehensive income for the period	(16)	562	624
attributable to:			
- Snam		562	624
- Minority interests			
		562	624

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Equity pertaining to shareholders of the parent company

(€ million)	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Cash flow hedge reserve	Reserve for remeasurement of defined-benefit plans – IAS 19	Other reserves	Retained earnings	Net profit for the period	Treasury shares	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2013	3,571	(1,701)	1,322	714	(1)	(9)	5	1,520	917	(7)	(338)	5,993	1	5,994
Profit for first half of 2014									561			561		561
Other components of comprehensive income:														
Components that can be reclassified to the income statement:														
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"							3					3		3
- Change in fair value of cash flow hedge derivatives					(2)							(2)		(2)
Total net comprehensive income for the first half of 2014					(2)		3		561			562		562
Transactions with shareholders:														
- Allocation of 2013 dividend (€0.15 per share as the balance of the 2013 interim dividend of €0.10 per share)								72	(917)		338	(507)		(507)
- Shares disposed of for stock option plans			2				(2)			2		2		2
Total transactions with shareholders			2				(2)	72	(917)	2	338	(505)		(505)
Other changes in shareholders' equity							5					5		5
Balance at 30 June 2014	3,571	(1,701)	1,324	714	(3)	(9)	11	1,592	561	(5)		6,055	1	6,056
Profit for second half of 2014									637			637		637
Other components of comprehensive income:														
Components that can be reclassified to the income statement:														
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"							3					3		3
Components that cannot be reclassified to the income statement:														
- Actuarial losses on remeasurement of defined-benefit plans – IAS 19						(11)						(11)		(11)
Total net comprehensive income for the second half of 2014						(11)	3		637			629		629
Transactions with shareholders:														
- Capital increase	126		376									502		502
Total transactions with shareholders	126		376									502		502
Other changes in shareholders' equity							(15)					(15)		(15)
Balance at 31 December 2014	3,697	(1,701)	1,700	714	(3)	(20)	(1)	1,592	1,198	(5)		7,171	1	7,172

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Equity pertaining to shareholders of the parent company

(€ million)	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Cash flow hedge reserve	Reserve for remeasurement of defined-benefit plans – IAS 19	Other reserves	Retained earnings	Net profit for the period	Treasury shares	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2014 (a) (Note 16)	3,697	(1,701)	1,700	714	(3)	(20)	(1)	1,592	1,198	(5)		7,171	1	7,172
Net profit for first half of 2015									612			612		612
Other components of comprehensive income:														
<i>Components that can be reclassified to the income statement:</i>														
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"							11					11		11
<i>Components that cannot be reclassified to the income statement:</i>														
- Actuarial gains on remeasurement of defined-benefit plans – IAS 19						1						1		1
Total comprehensive income for the first half of 2015 (b)						1	11		612			624		624
Transactions with shareholders:														
- Reclassification to legal reserve			(25)	25										
- 2014 dividend distribution (€0.25 per share)			(72)					(333)	(470)			(875)		(875)
- Allocation of 2014 residual net profit								728	(728)					
Total transactions with shareholders (c)			(97)	25				395	(1,198)			(875)		(875)
Other changes in shareholders' equity (d)							32					32		32
Balance at 30 June 2015 (e=a+b+c+d) (Note 16)	3,697	(1,701)	1,603	739	(3)	(19)	42	1,987	612	(5)		6,952	1	6,953

STATEMENT OF CASH FLOWS

(€ million)	Notes	First half 2014	First half 2015
Net profit		561	612
Adjustments for reconciling net profit with cash flows from operating activities:			
Amortisation and depreciation	(21)	384	422
Equity method valuation effect		(49)	(70)
Net capital losses on asset sales, cancellations and eliminations		5	10
Interest income		(11)	(7)
Interest expense		178	176
Income taxes	(24)	328	283
Other changes			1
Changes in working capital:			
- Inventories		21	37
- Trade receivables		509	350
- Trade payables		(420)	(205)
- Provisions for risks and charges		(16)	(20)
- Other assets and liabilities		(288)	(132)
<i>Working capital cash flows</i>		(194)	30
Change in provisions for employee benefits		2	(2)
Dividends collected		39	99
Interest collected		4	4
Interest paid		(176)	(172)
Income taxes paid net of reimbursed tax credits		(424)	(240)
Net cash flow from operating activities		647	1,146
- of which with related parties	(27)	1,219	1,619
Investments:			
- Property, plant and equipment	(8)	(363)	(313)
- Intangible assets	(9)	(149)	(141)
- Companies included in the scope of consolidation and business units			(45)
- Equity investments			(14)
- Change in payables and receivables relating to investments		(38)	(133)
<i>Cash flow from investments</i>		(550)	(646)
Divestments:			
- Property, plant and equipment			1
- Equity investments		7	86
<i>Cash flow from divestments</i>		7	87
Net cash flow from investment activities		(543)	(559)
- of which with related parties	(27)	10	(52)
Assumption of long-term financial debt		1,375	591
Repayment of long-term financial debt		(530)	(502)
Increase (decrease) in short-term financial debt		(444)	154
Financial receivables not held for operations			(5)
		401	238
Dividends paid to Snam shareholders		(507)	(875)
Sale of treasury shares		2	
Net cash flow from financing activities		(104)	(637)
- of which with related parties	(27)	(602)	(345)
Net cash flow for the period			(50)
Cash and cash equivalents at the beginning of the period	(3)	2	74
Cash and cash equivalents at the end of the period	(3)	2	24

NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

COMPANY INFORMATION

The Snam Group, consisting of Snam S.p.A. and its subsidiaries (hereafter “Snam”, the “Snam Group” or the “group”), is an integrated group at the forefront of the regulated gas sector (transportation, dispatching, storage and distribution of natural gas and regasification of liquefied natural gas (LNG)) and a major player in terms of its regulatory asset base (RAB)¹.

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

The shareholder CDP S.p.A., which, with letters dated 25 and 31 March 2015, informed Snam of the need to fully consolidate the Snam Group, pursuant to IFRS 10 – “Consolidated Financial Statements”, declared in the 2014 annual report that it had ascertained the existence of de facto control vis-à-vis Snam S.p.A. pursuant to the aforementioned IFRS 10.

CDP S.p.A. holds, via CDP Reti S.p.A.² (28.98%) and CDP GAS S.r.l.³ (1.12%), 20.53% of the share capital. No management or coordination activities were formalised or carried out.

1) Basis of presentation and accounting principles

The condensed interim consolidated financial statements at 30 June 2015 were prepared under the going-concern principle and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and approved by the European Union, as well as with the legislative and regulatory provisions in force in Italy.

The condensed interim consolidated financial statements at 30 June 2015 were prepared in accordance with the provisions of IAS 34 – “Interim Financial Statements”. Pursuant to IAS 34, 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 2014.

The financial statements are the same as those adopted for the annual report. In the condensed interim consolidated financial statements, the same consolidation principles and accounting policies have been used as those used to prepare the annual report, except for IFRSs which have entered into force since 1 January 2015⁴, as described in Note 6 to the 2014 annual report, “Recently issued accounting standards”. The amendments made concern cases that are currently not applicable to the Snam Group.

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 prevailing tax regulations or those essentially approved at the reporting date and the rates estimated on an annual basis. Consolidated companies, 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 amended, are indicated separately in the appendix “Significant shareholdings, associates and equity investments of Snam at 30 June 2015”, which is an integral part of these notes.

¹ The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated based on the rules defined by the Electricity, Gas and Water Authority (the Authority) to determine base revenues for the regulated businesses.

² CDP S.p.A. holds 59.10%.

³ Company wholly owned by CDP S.p.A.

⁴ On 1 January 2015, the provisions of the document “Annual improvements to IFRS 2011-2013 cycle” came into force, as approved by means of Regulation 1361/2014 of the European Commission of 18 December 2014. The main amendments refer to the following standards: IFRS 1 – “First-time Adoption of International Financial Reporting Standards”, IFRS 3 – “Business Combinations”, IFRS 13 – “Fair Value Measurement”, and IAS 40 – “Investment Property”.

The condensed interim consolidated financial statements at 30 June 2015, approved by the Board of Directors of Snam S.p.A. at its meeting of 28 July 2015, have undergone a limited audit by Reconta Ernst & Young S.p.A. The limited audit has a much smaller scope than a full audit carried out in accordance with established auditing principles.

The condensed interim financial statements are presented in euros. Given their size, amounts in the financial statements and respective notes are expressed in millions of euros.

2) Use of estimates

For a description of the use of accounting estimates, please see the 2014 annual report.

3) Cash and cash equivalents

Cash and cash equivalents, which totalled €24 million (€74 million at 31 December 2014), related mainly to cash held by Gasrule Insurance Ltd for the exercise of the Group's insurance activities. The reduction compared with 31 December 2014 was due mainly to the use of the deposit account (€47 million) set up when completing the acquisition by Italgas S.p.A. of 51% of Acam Gas S.p.A.⁵

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.

4) Trade and other receivables

Trade and other receivables of €1,837 million (€2,081 million at 31 December 2014) can be broken down as follows:

(€ million)	31.12.2014 Maturity			30.06.2015 Maturity		
	Within 1 year	Beyond 1 year	Total	Within 1 year	Beyond 1 year	Total
Trade receivables	1,620	108	1,728	1,279	110	1,389
Financial receivables	216		216	221		221
- not held for operations	216		216	221		221
Receivables from investment/divestment activities	13		13	12		12
Other receivables	124		124	215		215
	1,973	108	2,081	1,727	110	1,837

These are reported net of the provision for impairment losses of €37 million (€34 million at 31 December 2014). Trade receivables of €1,389 million (€1,728 million at 31 December 2014) relate mainly to the natural gas transportation (€884 million, including €393 million relating to gas balancing activities), distribution (€266 million) and storage (€227 million) business segments.

⁵ For more information on the acquisition, please see "Business segment operating performance – Natural gas distribution" in the interim directors' report.

Financial receivables not held for operations (€221 million; €216 million at 31 December 2014) refer to Snam S.p.A. awarding a short-term revolving credit line to Trans Austria Gasleitung GmbH (TAG) following contractual agreements regarding the acquisition of CDP GAS S.r.l.'s equity investment in TAG⁶.

Receivables from investment/divestment activities (€12 million; €13 million at 31 December 2014) concern receivables for public and private grants for investment activities (€7 million) and receivables from the sale of assets (€5 million).

Other receivables of €215 million (€124 million at 31 December 2014) can be broken down as follows:

(€ million)	31.12.2014	30.06.2015
IRES receivables for the national tax consolidation scheme	32	32
Other receivables:	92	183
- Electricity Equalisation Fund (EEF)	49	118
- Advances to suppliers	6	3
- Other	37	62
	124	215

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 terms.

All receivables are in euros.

Receivables from related parties are described in Note 27 "Related-party transactions".

5) Inventories

Inventories of €523 million (€518 million at 31 December 2014) are analysed in the table below:

(€ million)	31.12.2014			30.06.2015		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
Inventories (current assets)	191	(36)	155	196	(36)	160
- Raw materials, consumables and supplies	131	(6)	125	136	(6)	130
- Finished products and merchandise	60	(30)	30	60	(30)	30
Compulsory inventories (non-current assets)	363		363	363		363
	554	(36)	518	559	(36)	523

Inventories (current assets)

These are reported net of the provision for impairment losses of €36 million (the same as at 31 December 2014).

This provision relates mainly to the impairment loss (€30 million), recorded in 2014, on 0.4 billion cubic metres of natural gas used as part of the storage activities in relation to strategic gas unduly withdrawn by some users of the service during 2010 and 2011.

⁶ The contractual agreements drawn up between Snam, TAG and Gas Connect Austria GmbH (GCA) stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder. On the closing date, Snam and TAG agreed a shareholders' loan in the form of a revolving credit line for a maximum of €285.5 million, which is currently due to mature in September 2015.

6) 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)	31.12.2014	30.06.2015
Current income tax assets	48	23
- IRES	35	20
- IRAP	13	3
Other current tax assets	10	10
- VAT	2	2
- Other taxes	8	8
	58	33
Current income tax liabilities	(1)	(46)
- IRES	(1)	(42)
- IRAP		(4)
Other current tax liabilities	(20)	(50)
- VAT	(6)	(37)
- IRPEF withholdings for employees	(13)	(10)
- Other taxes	(1)	(3)
	(21)	(96)

For taxes pertaining to the period under review, see Note 24 "Income taxes".

7) Other current and non-current assets

Other current assets of €67 million (€108 million at 31 December 2014) and other non-current assets of €170 million (€167 million at 31 December 2014) break down as follows:

(€ million)	31.12.2014			30.06.2015		
	Current	Non-current	Total	Current	Non-current	Total
Regulated assets	47	97	144	28	105	133
Market value of derivative financial instruments	1	5	6	1		1
Other assets:	60	65	125	38	65	103
- Prepayments	13	25	38	15	25	40
- Security deposits		15	15		16	16
- Other	47	25	72	23	24	47
	108	167	275	67	170	237

Regulated assets (€133 million; €144 million at 31 December 2014) related to the natural gas transportation service and mainly concerned the amounts invoiced below the restriction established by the Regulator (€131 million, of which €28 million related to the current portion and €103 million related to the non-current portion).

The market value of the derivatives in place at 30 June 2015 is analysed in Note 13 "Other current and non-current liabilities".

Other assets (€103 million; €125 million at 31 December 2014) relate mainly to:

- prepayments (€40 million, including a current portion of €15 million and a non-current portion of €25 million) relating mainly to upfront fees and to the substitute tax on revolving credit lines⁷;
- security deposits (€16 million), relating mainly to the natural gas transportation segment;
- other assets (€47 million, including a current portion of €23 million and a non-current portion of €24 million), recorded mainly in relation to lower quantities of fuel gas allocated by users of the transportation services in previous years pursuant to Resolution ARG/gas 184/09 than the quantities actually used in said years, which will be equalised in the coming years by increasing the quantities to be allocated by said users (€46 million, including a current portion of €23 million and a non-current portion of €23 million).

8) Property, plant and equipment

Property, plant and equipment of €15,451 million (€15,399 million at 31 December 2014) breaks down as follows:

(€ million)	Property, plant and equipment
Cost at 31.12.2014	22,326
Investments	328
Change in scope of consolidation	1
Disposals	(59)
Other changes and reclassifications	6
Cost at 30.06.2015	22,602
Provisions for amortisation and depreciation at 31.12.2014	(6,900)
Amortisation and depreciation	(277)
Change in scope of consolidation	
Disposals	53
Other changes and reclassifications	
Provisions for amortisation and depreciation at 30.06.2015	(7,124)
Provision for impairment losses at 31.12.2014	(27)
Provision for impairment losses at 30.06.2015	(27)
Net balance at 31.12.2014	15,399
Net balance at 30.06.2015	15,451

Investments⁸ (€328 million) refer mainly to the transportation (€264 million), storage (€60 million) and distribution (€2 million) segments.

Disposals (€6 million) concerned assets related to the transportation segment.

⁷ Upfront fees and the substitute tax are to be considered as "Transaction costs" pursuant to IAS 39 – "Financial instruments: Recognition and Measurement"; the relevant charges are spread over the expected lifetime of the financial instrument.

⁸ Investments by business segment are shown in the "Business segment operating performance" section of the interim directors' report.

Other changes and reclassifications (+€6 million) relate to: (i) the change in estimated (discounted) costs for site restoration and dismantling (+€21 million) in the natural gas storage and transportation segments, which were offset by the recognition of a specific provision; (ii) the change in stocks of pipes and related accessory materials purchased for investment purposes and not yet used in the construction of plants in the natural gas transportation segment (-€10 million); and (iii) grants for the period (-€5 million).

No impairment indicators or significant changes to the valuation of the recoverability of the book value for property, plant and equipment were recorded during the period. The considerations set out in the annual report were therefore confirmed.

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 18 "Guarantees, commitments and risks".

9) Intangible assets

Intangible assets of €5,180 million (€5,076 million at 31 December 2014) break down as follows:

(€ million)	With a finite useful life	With an indefinite useful life	Total
Cost at 31.12.2014	8,505	9	8,514
Investments	159		159
Change in scope of consolidation	131		131
Disposals	(13)		(13)
Other changes and reclassifications	2		2
Cost at 30.06.2015	8,784	9	8,793
Provisions for amortisation and depreciation at 31.12.2014	(3,437)		(3,437)
Amortisation and depreciation	(145)		(145)
Change in scope of consolidation	(33)		(33)
Disposals	8		8
Other changes and reclassifications	(5)		(5)
Provisions for amortisation and depreciation at 30.06.2015	(3,612)		(3,612)
Provision for impairment losses at 31.12.2014	(1)		(1)
Provision for impairment losses at 30.06.2015	(1)		(1)
Net balance at 31.12.2014	5,067	9	5,076
Net balance at 30.06.2015	5,171	9	5,180

Intangible assets with a finite useful life (€5,171 million) mainly concern: (i) assets recognised in relation to concession agreements pursuant to IFRIC 12 relating to the natural gas distribution business segment (€4,288 million); and (ii) concessions for natural gas storage (€655 million).

Intangible assets with an indefinite useful life consist only of the goodwill recognised in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas (€9 million, unchanged from 31 December 2014).

Investments⁹ (€159 million) relate mainly to the construction and upgrading of natural gas distribution infrastructure (€122 million).

Changes in the scope of consolidation of €98 million relate to the acquisition by Italgas S.p.A. of control of Acam Gas S.p.A.¹⁰

Disposals (€5 million) related mainly to sections of network and metering facilities pertaining to the distribution segment.

Other changes and reclassifications (-€3 million) relate to: (i) grants for the period (-€18 million); (ii) the effects of the merger by incorporation of Metano Arcore S.p.A. and SETEAP S.p.A. into Italgas S.p.A. and Napoletanagas S.p.A. respectively, with effect from 1 January 2015 (+€15 million).

No impairment indicators or significant changes to the valuation of the recoverability of the book value for goodwill and other intangible assets were recorded during the half-year. The considerations set out in the annual report were therefore confirmed.

10) Equity-accounted investments

Equity-accounted investments of €1,270 million (€1,402 million at 31 December 2014) break down as follows:

(€ million)	30.06.2015
Value at 31.12.2014	1,402
Acquisitions and subscriptions	60
Net capital gains from measurement using the equity method	70
Sales and repayments	(86)
Decrease owing to dividends	(114)
Exchange rate conversion differences	10
Other changes	18
Change in scope of consolidation	(90)
Value at 30.06.2015	1,270

Acquisitions and subscriptions (€60 million) relate to: (i) the acquisition by Italgas S.p.A. of 51% of Acam Gas S.p.A., for a fee of €46 million; (ii) the cash adjustment to the fee relating to the acquisition from CDP GAS of the equity investment in Trans Austria Gasleitung GmbH - TAG (€14 million), which was completed in December 2014, in order to take into account the changes in the contractual parameters between the reference date and the completion date of the acquisition.

Capital gains from measurement using the equity method (€70 million) relate to TAG (€39 million), TIGF (€15 million), Toscana Energia S.p.A. (€11 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€5 million in total).

Sales and repayments (€86 million) mainly relate to the effects of the entry of a new shareholder to TIGF's shareholding structure (€84 million).

The change in the scope of consolidation was due to the acquisition of control of Acam Gas S.p.A., which was valued up to 31 March 2015 using the equity method.

The decrease owing to dividends (€114 million) relates mainly to TAG (€77 million), TIGF (€26 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€11 million in total).

⁹ Investments by business segment are shown in the "Business segment operating performance" section of the directors' report.

¹⁰ For further information, see Note 17 "Business combinations".

No impairment indicators or significant changes to the valuation of the recoverability of the book value for equity-accounted investments were recorded during the half-year. The considerations set out in the annual report were therefore confirmed.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the annex "Significant shareholdings, associates and equity investments of Snam S.p.A. at 30 June 2015", which is an integral part of these notes.

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

Short-term financial liabilities, amounting to €1,212 million (€1,058 million at 31 December 2014), and *long-term financial liabilities*, including short-term portions of long-term liabilities totalling €12,969 million (€12,884 million at 31 December 2014), break down as follows:

(€ million)	31.12.2014					30.06.2015				
	Long-term financial liabilities					Long-term financial liabilities				
	Short-term financial 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 financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bank loans	1,045	23	1,168	1,060	2,228	1,203	871	1,100	170	1,270
Bonds		975	5,821	3,835	9,656		1,068	6,922	2,836	9,758
Other lenders	13	1	1		1	9	1	1		1
	1,058	999	6,990	4,895	11,885	1,212	1,940	8,023	3,006	11,029

Short-term financial liabilities

Short-term financial liabilities, amounting to €1,212 million (€1,058 million at 31 December 2014), relate mainly to uncommitted floating-rate bank credit lines (€1,203 million).

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

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

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, totalled €12,969 million (€12,884 million at 31 December 2014), including a short-term portion of €1,940 million and a long-term portion of €11,029 million.

The short-term portion of long-term liabilities includes the effects of the reclassification (€848 million), from the long-term portion to the short-term portion, of some EIB financing¹¹.

¹¹ For more information, see "Financial covenants and negative pledge commitments".

The increase of €85 million compared with 31 December 2014 is due mainly to the new bond issues, new loans taken out and repayments analysed below:

New issues/New bank loans

The new bond issues relate to the reopening, on 28 January 2015, of a bond already in circulation for an incremental nominal value of €250 million. The bond has a maturity of 21 April 2023 and an annual fixed-rate coupon of 1.5%. The new loans taken out relate to EIB financing with a nominal value of €200 million and a maturity of 16 February 2035, relating to an investment project promoted by Snam Rete Gas.

Repayments

Repayments related to the early extinguishment of two EIB loans worth a total of €300 million.

The breakdown of bond loans (€10,826 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(€ million)

Issuing company	Issue (year)	Currency	Notional amount	Adjustments (a)	Balance at 30.06.2015	Rate (%)	Maturity (year)
Euro Medium Term Notes							
SNAM S.p.A.	2012	€	1,500	11	1,511	3.875	2018
SNAM S.p.A. (b)	2012	€	1,250	18	1,268	3.5	2020
SNAM S.p.A.	2012	€	1,000	19	1,019	5	2019
SNAM S.p.A.	2012	€	1,000	41	1,041	4.375	2016
SNAM S.p.A.	2012	€	1,000	34	1,034	5.25	2022
SNAM S.p.A.	2012	€	750	9	759	2	2015
SNAM S.p.A. (c)	2013	€	1,250	(2)	1,248	2.375	2017
SNAM S.p.A.	2013	€	500	4	504	3.375	2021
SNAM S.p.A.	2013	€	300	1	301	Eur 3m + 0.85	2016
SNAM S.p.A.	2013	€	70	1	71	2.625	2018
SNAM S.p.A. (d)	2013	Yen	73		73	1.115	2019
SNAM S.p.A.	2014	€	600	2	602	3.25	2024
SNAM S.p.A.	2014	€	500	(3)	497	1.5	2019
SNAM S.p.A. (e)	2014	€	500	(5)	495	Eur 12m + 0.5645	2023
SNAM S.p.A.	2014	€	150		150	Eur 3m + 0.65	2016
SNAM S.p.A.	2015	€	250	3	253	1.5	2023
			10,693	133	10,826		

- (a) Includes issue premium/discount, accrued interest and adjustment to the fair value of the bond loan, converted to floating rate through an IRS hedging derivative.
- (b) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.
- (c) Bond tapped for an incremental amount of €250 million, with the same interest rate and maturity as the original placement.
- (d) Bond with a nominal value of ¥10 billion, converted into euros through a cross-currency swap (CCS). The indicated nominal value is obtained by converting into euros at the year-end spot exchange rate.
- (e) Fixed-rate bond, converted into floating rate through an IRS hedging derivative.

The market value of the bonds, calculated using official listed prices at the end of the period, is approximately €11,588 billion.

Payables for bank loans (€2,141 million) relate to term loans, of which €1,141 million concerns EIB funding. There are no long-term bank loans denominated in currencies other than the euro, and there were no breaches of loan agreements. Financial liabilities to banks are all at floating rate, with the corresponding market value taken as the nominal repayment value.

Snam has unused committed and uncommitted credit lines of €3.9 billion and €0.7 billion, respectively.

Financial covenants and negative pledge commitments

At 30 June 2015, Snam had medium- and long-term loans from a pool of national and international banks. Some bilateral loan agreements were also entered into with these banks. The main medium-/long-term financial payables are subject, *inter alia*, to the usual covenants imposed by international market practice, e.g. negative pledges, *pari passu* and change of control clauses.

In particular, the syndicated and bilateral loans are subject, *inter alia*, to a negative pledge commitment 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, and/or documents representing merchandise; this covenant is subject to specific threshold values and to exceptions on restrictions for which the creation and/or existence is explicitly permitted.

At 30 June 2015, Snam also had medium-/long-term loans taken out with the European Investment Bank (EIB), the contractual clauses of which are broadly in line with those described above. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam's rating is downgraded to BBB- (Standard & Poor's) or Baa3 (Moody's).

At 30 June 2015, the financial liabilities subject to these restrictive clauses amounted to approximately €2.1 billion.

Failure to comply with the covenants established for these loans – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.

In relation to only some of the loans disbursed by the EIB, for a total principal amount of €848 million at 30 June 2015, and with regard to the order given by the Court of Palermo to Italgas concerning the information required pursuant to Article 34, paragraph 8 of Legislative Decree 159/2011 (judicial control) in relation to the revocation of the judicial administration order imposed on Italgas, the bank is entitled to request early repayment to be made by Snam, making use of and in compliance with the contractual provisions relating to voluntary early repayment, within 60 days of any such request.

Bonds, worth a nominal €10.7 billion, refer to securities issued under the Euro Medium Term Notes programme¹². 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.

Failure to comply with these covenants – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.

¹² On 22 June 2015, the Snam Board of Directors resolved to renew the EMTN programme, leaving the maximum value of bonds issued unchanged at €12 billion. The renewal of the programme allows for the issue, by 30 June 2016, of bonds worth up to €1.3 billion to be placed with institutional investors operating mainly in Europe.

Breakdown of net financial debt

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

(€ million)	31.12.2014			30.06.2015		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	74		74	24		24
B. Securities available for sale and held to maturity						
C. Cash (A+B)	74		74	24		24
D. Financial receivables not held for operating activities	216		216	221		221
E. Short-term financial liabilities to banks	1,045		1,045	1,203		1,203
F. Long-term financial liabilities to banks	23	2,228	2,251	871	1,270	2,141
G. Bonds	975	9,656	10,631	1,068	9,758	10,826
H. Short-term financial liabilities to related parties	13		13	9		9
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities						
M. Other long-term financial liabilities	1	1	2	1	1	2
N. Gross financial debt (E+F+G+H+I+L+M)	2,057	11,885	13,942	3,152	11,029	14,181
O. Net financial debt (N-C-D)	1,767	11,885	13,652	2,907	11,029	13,936

12) Trade and other payables

Trade and other payables of €1,313 million (€1,769 million at 31 December 2014) comprise the following:

(€ million)	31.12.2014 Maturity			30.06.2015 Maturity		
	Within 1 year	Beyond 1 year	Total	Within 1 year	Beyond 1 year	Total
Trade payables	816		816	617		617
Payables for investment activities	440		440	306		306
Other payables	513		513	390		390
	1,769		1,769	1,313		1,313

Trade receivables of €617 million (€816 million at 31 December 2014) relate mainly to the natural gas transportation (€421 million, including €348 million relating to gas balancing activities), distribution (€126 million) and storage (€28 million) business segments.

Payables for investment activities of €306 million (€440 million at 31 December 2014) relate mainly to the natural gas transportation (€156 million), distribution (€69 million) and storage (€51 million) business segments.

Other payables of €390 million (€513 million at 31 December 2014) break down as follows:

(€ million)	31.12.2014 Maturity			30.06.2015 Maturity		
	Within the year	Beyond the year	Total	Within the year	Beyond the year	Total
IREs payables for the national tax consolidation scheme	1		1			
Other payables:	512		512	390		390
- Payables to the Electricity Equalisation Fund	340		340	244		244
- Payables to employees	66		66	42		42
- Payables to the government	38		38	43		43
- Payables to pension and social security institutions	36		36	31		31
- Payments on account and advances	4		4	4		4
- Other	28		28	26		26
	513		513	390		390

Payables to the Electricity Equalisation Fund (€244 million) relate mainly to accessory tariff components relating to the natural gas transportation (€221 million) and distribution (€19 million) business segments.

Payables to the government (€43 million) primarily involve payables to municipalities for concession fees for the distribution business.

Note 27 "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.

13) Other current and non-current liabilities

Other current liabilities, amounting to €61 million (€51 million at 31 December 2014), and *other non-current liabilities*, amounting to €319 million (€276 million at 31 December 2014), break down as follows:

(€ million)	31.12.2014			30.06.2015		
	Current	Non-current	Total	Current	Non-current	Total
Liabilities from regulated activities	43	137	180	45	159	204
Market value of derivative financial instruments	1	9	10	1	7	8
Other liabilities:	7	130	137	15	153	168
- Prepaid revenue and income	7	24	31	15	19	34
- Prepaid contributions for connecting to the transportation network		3	3		3	3
- Other		103	103		131	131
	51	276	327	61	319	380

Liabilities from regulated activities, amounting to €204 million (€180 million at 31 December 2014), relate to:

- the transportation segment (€160 million) due to the natural gas transportation revenue invoiced in excess of the restriction established by the Regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 166/05 of the Authority. The current and non-current portions amount to €19 million and €141 million respectively;
- the storage segment (€44 million) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution 50/06 of the Authority. The current and non-current portions amount to €26 million and €17 million respectively.

The market value of derivatives outstanding at 30 June 2015 is as follows:

(€ million)	31.12.2014			30.06.2015		
	Current	Non-current	Total	Current	Non-current	Total
Assets	1	5	6	1		1
Fair value hedging derivatives:						
- Fair value interest rate hedging derivatives	1	5	6			
- Accrued income from derivatives				1		1
Liabilities	(1)	(9)	(10)	(1)	(7)	(8)
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives		(9)	(9)	(1)	(4)	(5)
- Accrued expenses on derivatives	(1)		(1)			
Fair value hedging derivatives:						
- Fair value interest rate hedging derivatives					(3)	(3)

The liabilities arising from the market-value measurement of cash flow hedging derivatives (-€5 million) refer to a cross-currency swap (CCS) entered into in 2013. The CCS is used to hedge against fluctuations in the exchange rate in relation to a ¥10 billion long-term bond issue. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in euros with a fixed annual rate of 2.717%.

The liabilities arising from the market-value measurement of fair value hedge derivatives (-€3 million) refer to an interest rate swap (IRS) entered into in 2014. The IRS is used to hedge against fluctuations in the fair value of a fixed-rate liability arising from a €500 million long-term bond issue. The IRS has converted the fixed-rate liability into an equivalent floating-rate liability benchmarked to the 12-month Euribor +0.5645%.

The assets (+€1 million) relate to the interest income maturing on 30 June 2015 on the IRS.

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 half-year.

The other liabilities (€168 million; €137 million at 31 December 2014) essentially comprises:

- prepaid revenue and income (€34 million) relating mainly to the current and non-current portion of the prepaid fee for the concession to use fibre-optic cables given to a telecommunications operator (€2 million and €13 million respectively);
- other liabilities (€131 million) relating mainly to: (i) the higher quantities of fuel gas allocated by users of the transportation service in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, which will be equalised by reducing the quantities allocated by users (€70 million); and (ii) security deposits paid by users of the balancing service pursuant to Resolution ARG/gas 45/11 (€53 million).

14) Provisions for risks and charges

Provisions for risks and charges of €1,026 million (€1,014 million at 31 December 2014) are analysed in the table below:

(€ million)	30.06.2015							Final balance
	Opening balance	Changes in estimates	Provisions	Discount effect	Utilisations		Other changes	
					against charges	surplus		
Provision for site dismantling and restoration	650	5		21	(5)			671
Provision for environmental risks and charges	136				(1)		2	137
Provision for litigation	52		3		(5)	(17)		33
Other provisions	176		8		(1)	(7)	9	185
	1,014	5	11	21	(12)	(24)	11	1,026

15) Deferred tax liabilities

Deferred tax liabilities of €483 million (€513 million at 31 December 2014) are stated net of offsettable prepaid tax assets of €614 million (€596 million at 31 December 2014).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2014	Provisions	Utilisations	Other changes	30.06.2015
Deferred tax liabilities	1,109		(26)	14	1,097
Prepaid tax assets	(596)	(17)	16	(17)	(614)
	513	(17)	(10)	(3)	483

16) Shareholders' equity

Shareholders' equity of €6,953 million (€7,172 million at 31 December 2014) breaks down as follows:

(€ million)	31.12.2014	30.06.2015
Snam shareholders' equity	7,171	6,952
Share capital	3,697	3,697
Legal reserve	714	739
Share premium reserve	1,700	1,603
Consolidation reserve	(1,701)	(1,701)
Cash flow hedge reserve	(3)	(3)
Other reserves	(1)	42
Retained earnings	1,592	1,987
Reserve for remeasurement of defined-benefit plans – IAS 19	(20)	(19)
Net profit	1,198	612
<i>Less:</i>		
- Treasury shares	(5)	(5)
Shareholders' equity attributable to third parties	1	1
Napoletanagas	1	1
	7,172	6,953

Below is a breakdown of the shareholders' equity of Snam at 30 June 2015.

Share capital

The share capital as at 30 June 2015 consisted of 3,500,638,294 shares without nominal value (unchanged from 31 December 2014), with a total value of €3,696,851,994 (unchanged from 31 December 2014).

Legal reserve

The legal reserve at 30 June 2015 totalled €739 million (€714 million at 31 December 2014). The increase of €25 million relates to the reclassification, from the share premium reserve, of the amount necessary to reach the limit provided for by Article 2430 of the Italian Civil Code approved by the Shareholders' Meeting of 29 April 2015.

Share premium reserve

The share premium reserve at 30 June 2015 totalled €1,603 million (€1,700 million at 31 December 2014). The reduction of €97 million relates to the reclassification to the legal reserve (€25 million) approved by the Shareholders' Meeting of 29 April 2015 and to the use of part of the reserve for the payment to shareholders of the 2014 dividend (€72 million).

Consolidation reserve

The negative consolidation reserve of €1,701 million (unchanged from 31 December 2014) relates to the value derived from the difference between the acquisition cost of the Italgas and Stogit equity investments (€4,628 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 (€2,004 million and €923 million, respectively, for Italgas and Stogit).

Cash flow hedge reserve

The cash flow hedge reserve (-€3 million, unchanged compared with 31 December 2014) includes the fair-value measurement of cash flow hedging derivatives relating to a CCS described in Note 13 "Other current and non-current liabilities".

Other reserves

Other reserves (€42 million; -€1 million at 31 December 2014) relate to the effects of the valuation of the equity investments using the equity method.

Retained earnings

Retained earnings totalled €1,987 million (€1,592 million at 31 December 2014). The change of €395 million was due to the balance between: (i) the portion allocated to the payment to shareholders of the 2014 dividend (-€333 million); and (ii) the allocation of the residual profit for 2014 (+€728 million).

Reserve for remeasurement of defined-benefit plans – IAS 19

The reserve for remeasurement of employee benefit plans at 30 June 2015 (-€19 million; -€20 million at 31 December 2014) includes the actuarial losses, net of tax effect, recorded under other components of comprehensive income, pursuant to the provisions of IAS 19.

Treasury shares

At 30 June 2015, the total number of treasury shares held by the company was 1,127,250 (the same as at 31 December 2014), equal to 0.03% of the share capital. Their market value at 30 June 2015 was around €5 million¹³. At this date, all stock options had been exercised. There are therefore no remaining treasury shares committed to these plans.

Dividends

On 29 April 2015, the Ordinary Shareholders' Meeting of Snam S.p.A. resolved to distribute the 2014 ordinary dividend of €0.25 per share; the dividend (€875 million) was made available for payment as of 20 May 2015, with an ex-dividend date of 18 May 2015 and a record date of 19 May 2015.

17) Business combinations

On 1 April 2015, the acquisition from Acam of a 51% stake in Acam Gas was completed for a fee of €46 million (including additional expenses). By means of this transaction, Italgas, which already owned 49% of Acam Gas, acquired the company's entire share capital, further consolidating its gas distribution business in the minimum geographical area (ATEM) of La Spezia.

Consequently, as of 1 April 2015, the equity investment held by Italgas in Acam Gas, classified until 31 March 2015 as an associate company and valued using the equity method, is fully consolidated in accordance with IFRS 10 – "Consolidated Financial Statements". The acquisition of control over Acam Gas represents a "business combination", reported in accordance with IFRS 3 – "Business Combinations".

¹³ Calculated by multiplying the number of treasury shares by the official share price at 30 June 2015 (€4.30 per share).

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

(€ million)	Values after assignment of fair value
Fair value of net assets acquired	95
Value of assets acquired	117
Value of liabilities acquired	22

The main values of the assets and liabilities of Acam Gas S.p.A. at the acquisition date are summarised below:

(€ million)	Values after assignment of fair value
Current assets	12
Property, plant and equipment and intangible assets	99
Prepaid tax assets	6
Assets acquired	117
Current liabilities	11
Provisions for risks and charges	10
Provisions for employee benefits	1
Liabilities acquired	22
Shareholders' equity acquired	95

18) Guarantees, commitments and risks

Guarantees, commitments and risks of €3,384 million (€4,630 million at 31 December 2014) comprise:

(€ million)	31.12.2014			30.06.2015		
	Guarantees Sureties	Financial commitments and risks	Total	Guarantees Sureties (*)	Financial commitments and risks	Total
Guarantees given in the interest of:	134		134	127		127
- subsidiaries	134		134	127		127
Commitments		1,569	1,569		1,536	1,536
Commitments for the purchase of goods and services		1,512	1,512		1,526	1,526
Other		57	57		10	10
Risks		2,927	2,927		1,721	1,721
- third-party assets on deposit		2,613	2,613		1,628	1,628
- compensation and litigation		314	314		93	93
	134	4,496	4,630	127	3,257	3,384

(*) At 30 June 2015, hold-harmless letters issued to eni in favour of Snam amounted to €5 million.

Guarantees

Other personal guarantees issued in the interest of subsidiaries (€127 million) refer mainly to hold-harmless letters issued in favour of third parties for participation in tenders and concessions relating to the natural gas distribution service (€70 million) and performance bonds (€52 million).

Commitments

At 30 June 2015, commitments with suppliers for the purchase of assets under construction totalled €1,526 million (€1,512 million at 31 December 2014).

Other commitments (€10 million; €57 million at 31 December 2014) relate mainly to future minimum payments for non-cancellable operating leases (€8 million, including €3 million maturing within the next year and €5 million between one and five years).

With reference to TAG GmbH, the contractual agreements drawn up between Snam, TAG and Gas Connect Austria GmbH (GCA) stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held.

Risks

Risks related to third-party assets on deposit, equal to €1,628 million (€2,613 million at 31 December 2014) relate to approximately 5.8 billion cubic metres of natural gas deposited in the storage plants by customers of the service. This amount was determined by valuing the deposited gas quantities at the average stock cost of approximately €0.28 per standard cubic metre (€0.32 at 31 December 2014).

Risks related to compensation and litigation of €93 million (€314 million at 31 December 2014) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

The management and monitoring policies for key risk factors are described in the "Elements of risk and uncertainty" section of the interim directors' report.

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:

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

With regard to the above, the classification of financial assets and liabilities measured at fair value in the statement of financial position, according to the fair value hierarchy, concerned derivative financial instruments at 30 June 2015 classified at level 2 and registered in Note 13 "Other current and non-current liabilities" (€8 million).

Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects 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 2014 annual report occurred, including new and closed proceedings.

Criminal cases

Snam Rete Gas S.p.A. – Genoa event

The public prosecutor at the Court of Genoa has initiated criminal proceedings against unknown persons in relation to an incident that occurred on 20 March 2014 in the municipality of Serra Riccò (GE). Specifically, the matter concerns a gas leak from a section of the "Derivazione per Recco" natural gas pipeline. The pipeline section concerned has been seized.

The public prosecutor filed a request for dismissal.

The company is actively cooperating with the judicial authorities.

Snam Rete Gas S.p.A. – Ravenna event

On 10 December 2014, at the "Nodo di Ravenna" site owned by Snam Rete Gas, which sorts and distributes natural gas within the region, a fire broke out involving one of the gas preheating plants. On the same date, the public prosecutor sequestered the area in order to ascertain the causes of the fire.

The technical survey, carried out immediately after the incident by Snam Rete Gas technicians, showed that the tightening bolts on one of the two connecting flanges of the heater were missing. A complaint was subsequently filed with the public prosecutor at the Court of Ravenna.

The public prosecutor subsequently issued a notice of non-recurrent technical assessments, resulting in the inclusion of certain executives and managers on the register of persons under investigation. On 15 January 2015, the public prosecutor ordered the release from sequestration of the area. Snam Rete Gas is actively cooperating with the judicial authorities.

Italgas S.p.A. – Barletta event

On 25 April 2015, an explosion occurred due to a gas leak, killing one Italgas worker and injuring others, during an operation following a report of damage to the gas network by a third party resulting in leakage of gas. The competent public prosecutor has launched an investigation, with which the company is actively cooperating.

Electricity, Gas and Water Authority (the Authority)

Snam Rete Gas S.p.A. – Investigation into violations concerning natural gas metering with regard to Snam Rete Gas S.p.A. and request for information

Through Resolution VIS 97/11, notified on 15 November 2011, the Electricity, Gas and Water Authority (the Authority) started proceedings to look into whether there were any violations concerning natural gas metering, relating to alleged irregularities in gas metering with reference to 45 plants.

Through its subsequent Resolution 431/2012/S/gas of 25 October 2012, the Authority opened further proceedings to determine whether there had been violations concerning natural gas metering, simultaneously joining with the aforementioned investigative proceedings.

Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct, as well as an update on the situation at the regulating and metering facilities in question. By means of Resolution 332/2015/S/gas of 9 July 2015, the Authority declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Snam Rete Gas S.p.A. – Investigation into violation of the regulation on availability of natural gas higher heating value measurements

As a result of the formal investigation opened by Resolution VIS 85/09, the Authority, by way of Resolution VIS 12/11, issued a fine of €580,000 against Snam Rete Gas S.p.A. for violating the rules imposed on gas transportation companies with respect to the proper measurement and use of natural gas higher heating values (hereinafter "HHV"). That parameter is needed to determine the actual energy provided to operators on the market or individual sellers.

The Authority saw fit to penalise temporary interruption, in limited cases, of the mechanical and chemical reading of the HHV. The Authority also found that the violation did not involve any billing infraction and, when determining the amount of the fine, it took into consideration the corrective actions taken by Snam Rete Gas to improve the measurement service and to avoid similar negative reflections on its operations in the future. As well as paying the fine, Snam has appealed to the courts to have the order reviewed. By means of a ruling of 2 July 2015, the Lombardy Regional Administrative Court rejected the appeal, on the grounds that the offence was one of conduct only and that the fine imposed was commensurate with the Authority's categorisation of the offence as "non-serious".

Snam Rete Gas S.p.A. – Resolution 145/2013/R/gas – Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor

By way of Resolution 145/2013/R/gas of 5 April 2013, the Authority began "proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012".

The proceedings in question arose from the findings of the exploratory investigation, opened by way of Resolution 282/2012/R/gas, into the methods for regulating the economic aspects of balancing and the steps taken to protect the system relating to the period 1 December 2011 - 31 May 2012. By way of Resolution 444/2012/R/gas, the Authority extended the period under review for the exploratory investigation up to 23 October 2012. Through Resolution 351/2012/R/gas, the Authority also identified measures to manage the costs declared by Snam Rete Gas S.p.A., determining the share of costs owing to the Balancing Supervisor on the basis of the outcome of the exploratory investigation.

This investigation was concluded by way of Resolution 144/2013/E/gas, and the Authority used Resolution 145/2013/R/gas to rule that dedicated proceedings should be opened to determine the share of the costs owing to Snam Rete Gas S.p.A. with regard to "fully outstanding receivables" and to monitor the situation going forward. The results of the investigation were notified on 6 August 2014, with the finding that there were no grounds for recognition of the disputed charges. On 20 April 2015, the final hearing took place before the body overseeing the proceedings. A ruling by the Authority is pending.

The company had made an allocation to the provision for risks in 2014.

Italgas S.p.A. – Investigation into gas distribution service quality violations

On 18 September 2009, by way of Resolution VIS 92/09, the Authority opened a formal investigation into alleged breaches regarding gas distribution service quality. Specifically, the alleged breach, on the part of the distributors operating networks with cast-iron pipes featuring hemp- and lead-sealed joints (not yet reconditioned), consisted of the failure to replace, renew or decommission a minimum of 30% of said networks by 31 December 2008.

On completion of the investigation, Resolution VIS 41/11 of 24 March 2011 of the Authority: (i) confirmed that Italgas had complied with its replacement obligation across Italy; and (ii) found that the company was liable for failing to comply with said obligation in relation only to the distribution network in Venice, and imposed a fine of €51,000.

Italgas believes it was justified in not complying with the obligation in relation to the Venice network. It has made provision for payment of the fine subject to an appeal, which was submitted to the Lombardy Regional Administrative Court in Milan. By means of a ruling of 13 July 2015, the Regional Administrative Court rejected the appeal, on the grounds that difficulties associated with the specific features of the sites were enough to reduce but not completely exclude the liability of the appellant, and that the authorities would have taken these features into account in assessing the Venice situation and determining the amount of the fine.

Italgas S.p.A. – Gas distribution service violations relating to the billing of the "municipal fees" tariff component

By means of Resolution 104/2015/S/gas of 12 March 2015, the Authority began enforcement proceedings for violations relating to the billing of the "COLci" component.

The Authority specifically alleges that the billing procedures for this component stipulated under current regulations have not been complied with.

The duration of the investigation has been set at 180 days, while the deadline for the adoption of the provision is 90 days from the closing date of the investigation.

On 23 April 2015, the Authority requested the transmission of billing data for the COLci tariff component for the years 2009-2013, which the company provided.

Other provisions

Judicial administration of the subsidiary Italgas – Court of Palermo

On 11 July 2014, the Court of Palermo notified the subsidiary Italgas of a preventative measure of judicial administration, pursuant to Article 34, paragraph 2 of Legislative Decree 159/2011 ("Anti-mafia code and prevention measures, as well as new measures relating to anti-mafia documentation in accordance with Articles 1 and 2 of Law 136 of 13 August 2010"). Pursuant to the law, this measure protects the capital structure of Italgas from infiltration and/or collusion.

This is a temporary measure with a fixed maximum duration, which in this case is six months and may be extended by no more than six months pursuant to Legislative Decree 159/2011. As a result, the powers of administration for the economic and business activities and assets of Italgas have been assigned to a collective administrative body comprising four court-appointed members. The Italgas Board of Directors is suspended for the duration of the measure. Snam retains full ownership of the entire share capital of Italgas and all related rights.

For the purposes of the accounting principles adopted when drawing up the 2014 half-year report, it should be pointed out that Italgas had been notified of the measure on 11 July 2014, after the end of the first half-year and prior to the approval of the report. Furthermore, for the purposes of the Group's consolidated financial statements, the collective administrative body had authorised the transmission to Snam of the Italgas half-year report at 30 June 2014, together with the relevant management certifications involved in the Group procedures in place and subject to prior examination by the Italgas Board of Statutory Auditors. Therefore, in light of the control it exercised over Italgas for the entire first half of 2014 and the full availability of the company's information flows as at 30 June 2014, in accordance with the provisions of IFRS 10 – "Consolidated Financial Statements", Snam had retained the procedures used for consolidating the subsidiary within the Group.

At the same time, Consob had informed the company that it was investigating the possible effects of the Italgas matter on the accounting methods used in relation to the subsidiary in the reports pertaining to the period of the preventative measure.

Subsequently, with an order issued on 2 October 2014, the presiding judge gave a clearer definition of the scope of the judicial administration and the activities of the administrative body (hereinafter the "Order"). The Order specifies that the objectives of the judicial administration measure of which Italgas was notified are primarily related to inspection and focus on activities that may reveal whether there are indications of potential infiltration, with a view to taking the necessary steps. Based on this purpose and taking into account, in the case in question, that no action is being taken on the block of shares of the subsidiary and the fact that the preventive measure is a short-term, temporary measure, the Order states that there are no legal, operational or procedural grounds to call into question the parent company's powers, compliance with the Group's objectives and strategies, or observance of corporate procedures.

Confirming this, with regard to the activities of the administrative body, the Order also states that, without prejudice to compliance with the provisions of law, this more clearly defined scope and the specific instructions given to the judicial administrators are based on the following principles and activities:

1. The continuation by Italgas along the strategic lines defined in its previously adopted Business Plan and Budget, which, in line with the Snam Group's sustainability, confirm Italgas's position as a leading operator in the Italian natural gas distribution business;
2. The maintenance of the cash pooling services performed by Snam to cover Italgas's financial requirements by accessing the financial markets, in line with the objectives approved in the Business Plan;
3. The maintenance of the services provided centrally by the Snam Group for Italgas, in line with and without prejudice to the contracts in place and the powers granted (with the sole exception of limitations to some powers of attorney that have already been provided for);
4. The maintenance of Italgas within the scope of consolidation of the Snam Group for the purposes of the national tax consolidation scheme, since the conditions provided for by the relevant regulations have been fulfilled;
5. The availability to Snam of Italgas information flows in order to draw up periodic Group consolidated financial reporting, including a statement from the Italgas management to Snam and to the independent auditors, in continuation of current procedures (in order to avoid comments from the independent auditors);
6. The sharing and continuation by Italgas of obligations relating to Snam's reporting control system pursuant to Law 262/2005 (in line with the steps already taken to maintain the Corporate Reporting Internal Control System);
7. Continuity in relations between the control bodies of Snam and Italgas: continuity in carrying out the duties and meetings of the control and supervisory bodies of Italgas, without prejudice to any appropriate and necessary involvement with the judicial administration body in relation to the requirements of the preventative measure;
8. Continuity in executing the Group's Annual Audit Schedule, which consists of the steps taken by the Group Internal Audit department in relation to Italgas's activities (as already carried out pursuant to the strategy of not introducing any amendments or delays to the annual schedule);
9. Continuity in relation to the body of Group procedures adopted by Italgas and the related interaction with Snam departments and management (including the "Extraordinary Transactions" procedure).

In light of the above, and in view of the scope of the judicial administration, the Order concluded that there were no obstacles to the consolidation of the Italgas S.p.A. financial statements within the Snam Group, without prejudice to the subsidiary retaining full independence and responsibility with regard to the adoption of decisions under its sole competency.

Snam has continued to work closely with the judicial authorities and the administrative body. Within this context, and partly in the interests of Italgas, Snam has appointed a leading specialised international company to conduct a thorough independent investigation aimed at:

- reconstructing the circumstantial framework outlined in the Decree, particularly with regard to Italgas's relations with the counterparties mentioned in the Decree and to the control system in force at the time;
- assessing the overall stability of the current risk management and internal control system, particularly with regard to the risk of infiltration and facilitation of organised crime in tenders.

Following its technical work pertaining to accounts and records and to the internal control system, the appointed company drew the following conclusions, in summary: (i) the supply relations with the counterparties mentioned in the Decree accounted for less than 1% of Italgas's total cumulative expenditure (and 0.16% of the Snam Group's total expenditure) between 2009 and 2014; (ii) the current risk management and internal control system appears to be effective and suitable for the purpose of identifying, preventing or minimising the corporate operational risk of infiltration/facilitation of organised crime in business and economic activities. The findings of the thorough independent investigation have been submitted to the judicial authorities.

For the purposes of the interim directors' report at 30 September 2014, and taking into account the considerations set out in the Order, Italgas S.p.A. remained within the Group's scope of consolidation.

At the end of the six-month period, the Court extended the preventative measure for an additional six months, as provided for by Legislative Decree 159/2011. At the same time, the Court ordered the administrative body to draw up a programme of measures aimed at concluding the activities, including in relation to the findings of said body. On 8 January 2015, the presiding judge issued an order confirming authorisation for Italgas to be included in the Group's consolidated financial statements, and ruled that the programme of measures should be drawn up taking into account Snam's proposals and the staging of a technical round table.

With regard to the identification of the scope of consolidation for the purpose of the 2014 annual report, Snam obtained two opinions from leading independent experts, which confirmed that Italgas should be included in the Group's scope of consolidation.

Based on the above considerations, and taking into account the opinions obtained, the fact that the events of recent months confirm the continuity of Snam's single management structure and the full availability of Italgas's information flow regarding the 2014 financial statements, which were approved by the judicial authorities, supported by accompanying statements and subject to prior assessment by the Italgas Board of Statutory Auditors, Snam opted to keep Italgas and its subsidiaries within the Group's scope of consolidation, in line with the accounting principles adopted for the financial documents published in 2014.

The activities relating to the revocation of the judicial administration order imposed on Italgas by the Court of Palermo were completed on 9 July 2015. In view of the outcome of the checks performed and the active cooperation of the Snam Group, the Court ordered the handover of the company on 29 June 2015. The revocation refers, among other things, to the sharing of an organisational and procedural plan as well as a plan to monitor and verify the activities of Italgas S.p.A, achieved through the aforementioned technical round table.

Having acknowledged the revocation of the judicial administration order, on 9 July 2015 the Italgas Shareholders' Meeting reappointed all members of the Board of Directors, the term of which expires at the Shareholders' Meeting called to approve the financial statements for the year ended 31 December 2015.

Italgas will comply with the obligation to provide the competent authorities with the information required pursuant to Article 34, paragraph 8 of Legislative Decree 159/2011 (judicial control), in relation to the relevant transactions, but it has appealed before the Palermo Court of Appeal against the provision of such information. Italgas S.p.A. will also provide the competent authorities with the results of the periodic reports by the Supervisory Body.

The company has continually kept Consob informed of the progress of the measure and subsequent orders up to the revocation, as well as giving it advance notice of the accounting principles adopted.

19) Revenue

The breakdown of revenue for the first half of 2015, which totalled €1,959 million (€1,922 million in the first half of 2014), is shown in the following table.

(€ million)	First half 2014	First half 2015
Core business revenue	1,867	1,886
Other revenue and income	55	73
	1,922	1,959

The reasons for the most significant changes are described in the “Financial review” section of the interim directors’ report.

Core business revenue of €1,886 million consists of revenue from the transportation (€1,010 million), distribution (€650 million)¹⁴, storage (€209 million) and LNG regasification (€11 million) segments.

The Group generates all of its revenue in Italy. An analysis of revenue by business segment can be found in Note 26 “Information by business segment”.

Core business revenue is reported net of the following items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Snam are paid in full to the Electricity Equalisation Fund.

(€ million)	First half 2014	First half 2015
Additional fees for the transportation service	130	310
Additional fees for the distribution service	160	175
	290	485

Other revenue and income

Other revenue and income, which amounted to €73 million (€55 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014	First half 2015
Income from gas sales for the balancing service (*)	35	35
Income from sales of energy efficiency certificates	6	1
Income from property investments	2	2
Insurance compensation	2	
Plant safety inspection fee	2	1
Other income	8	34
	55	73

(*) Revenue from the balancing business, operational since 1 December 2011, in accordance with Resolution ARG/gas 45/11 of the Authority, relates to sales of natural gas made in order to balance the gas network. The revenue is matched to operating costs linked to withdrawals from the gas storage system.

¹⁴ Including revenue from the building and upgrading of distribution infrastructure recognised pursuant to IFRIC 12 (€122 million) and revenue arising from the change in the scope of consolidation (€47 million).

Other income (€34 million) mainly relates to sales of natural gas no longer used for transportation (€22 million). Snam's business is not affected by seasonal factors which would have a significant impact on its annual or interim financial results.

20) Operating costs

The breakdown of operating costs for the period, which totalled €525 million¹⁵ (€494 million in the first half of 2014), is shown in the following table:

(€ million)	First half 2014	First half 2015
Purchases, services and other costs	324	351
Personnel expense	170	174
	494	525

The reasons for the most significant changes are described in the "Financial review and other information" section of the interim directors' report.

Operating costs relating to the building and upgrading of natural gas distribution infrastructure linked to concession agreements under IFRIC 12 amounted to €122 million (€140 million in the first half of 2014).

Purchases, services and other costs

Purchases, services and other costs, which amounted to €351 million (€324 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014	First half 2015
Purchase costs for raw materials, consumables, supplies and goods	78	84
Costs for services	224	222
Costs for the use of third-party assets	44	49
Change in raw materials, consumables, supplies and goods	7	46
Net accrual to (utilisation of) provisions for risks and charges	(2)	(17)
Other operating expenses	23	32
	374	416
<i>Less:</i>		
Increase on internal work – property, plant and equipment	(50)	(65)
- of which purchase costs for raw materials, consumables, supplies and goods	(19)	(30)
- of which costs for services	(31)	(35)
	324	351

¹⁵ The item includes operating costs associated with the change in the scope of consolidation (€19 million).

Personnel expense

Personnel expense, which amounted to €174 million (€170 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014	First half 2015
Wages and salaries	137	144
Social security contributions (pensions and healthcare assistance)	43	45
Employee benefits	3	3
Other expenses	13	10
	196	202
<i>Less:</i>		
Increase on internal work	(26)	(28)
	170	174

Average number of employees

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

Professional status (number)	30.06.2014	31.12.2014	30.06.2015
Executives	120	123	130
Managers	587	595	607
Office workers	3,279	3,311	3,325
Manual workers	2,056	2,087	2,095
	6,042	6,116	6,157

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

The number of personnel in service at 30 June 2015 was 6,219 (6,072 at 31 December 2014), representing an increase of 147.

21) Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses, which amounted to €422 million¹⁶ (€384 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014	First half 2015
Amortisation	384	422
- Property, plant and equipment	264	277
- Intangible assets	120	145
	384	422

An analysis by business segment can be found in Note 26 "Information by business segment".

¹⁶ The item includes depreciation and amortisation arising from the change in the scope of consolidation (€15 million).

22) Financial expense (income)

Financial expense (income), which amounted to €186 million (€204 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014	First half 2015
Financial expense (income)	206	179
Financial expense (*)	206	182
Financial income		(3)
Other financial expense (income)	(2)	7
Other financial expense	9	11
Other financial income (*)	(11)	(4)
	204	186

(*) In order to provide as accurate a representation of "Financial (income)/expense" as possible, the economic effects attributable to the effective portion of hedging derivatives are recorded under the same item as those of the hedged elements. Any economic effects attributable to the ineffective portion of hedging derivatives are recorded under "Expense (income) on hedging derivatives". The corresponding value for the comparison period was reclassified accordingly.

(€ million)	First half 2014	First half 2015
Financial expense (income)	206	179
Expense on financial debt	223	196
- Interest expense on bonds	171	179
- Interest expense on credit lines and loans due to banks and other lenders	52	17
Financial expense capitalised	(17)	(14)
Income on financial receivables		(3)
Other financial expense (income)	(2)	7
- Accretion discount (*)	7	6
- Other expense	2	5
- Other income	(11)	(4)
	204	186

(*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note 14 "Provisions for risks and charges".

Expense on financial debt (€196 million) related to: (i) interest on 16 bonds (€179 million); (ii) the portion pertaining to the period of upfront fees on revolving credit lines (€5 million) and fees on unused credit lines (€4 million); and (iii) interest expense payable to banks relating to revolving credit lines, uncommitted credit lines and maturing loans totalling €8 million. Financial expense capitalised (€14 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other financial expense (income), amounting to €7 million, mainly refers to financial expense connected to the passage of time relating to provisions for the decommissioning and restoration of sites in the storage and transportation segments (€5 million) and provisions for employee benefits (€1 million).

The reasons for the most significant changes are described in the "Financial review and other information" section of the interim directors' report.

23) Income and expense from equity investments

Income and expense from equity investments, which amounted to €69 million (€49 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014	First half 2015
Equity method valuation effect	49	70
- Capital gains from measurement using the equity method	49	70
Other expense from equity investments		(1)
	49	69

Details of capital gains and capital losses from the measurement of equity investments using the equity method can be found in Note 10 "Equity-accounted investments".

24) Income taxes

Income taxes for the period, which amounted to €283 million (€328 million in the first half of 2014), can be broken down as follows:

(€ million)	First half 2014			First half 2015			
	IRES	IRAP	Total	IRES	IRAP	Other Taxes (*)	Total
Current taxes	318	50	368	255	43	12	310
Current taxes for the period	318	50	368	255	43	12	310
Deferred and prepaid taxes	(40)		(40)	(27)			(27)
Deferred taxes	(33)	(5)	(38)	(25)	(1)		(26)
Prepaid taxes	(7)	5	(2)	(2)	1		(1)
	278	50	328	228	43	12	283

(*) Other taxes relate to withholding taxes on dividends paid out by foreign subsidiaries.

The impact of taxes on pre-tax profit for the period is 31.6% (36.9% in the first half of 2014) in view of the theoretical tax rate of 31.0% (32.0% in the first half of 2014), which is obtained by applying the statutory tax rate of 27.5% (IRES) to pre-tax profit and 3.5% (IRAP) to the net value of production.

The reduction in the tax rate mainly reflects the elimination of the additional corporate income tax known as the Robin Hood Tax, which was declared to be unconstitutional.

25) Earnings per share

Basic earnings per share are determined by dividing net profit by the weighted average number of outstanding Snam shares during the year, excluding treasury shares.

Diluted earnings per share are determined by dividing net profit by the weighted average number of shares in issue during the period, excluding treasury shares, plus the number of shares that might be added to those in issue. At 30 June 2015, there were no potential shares in issue with a dilutive effect, and therefore basic earnings per share were equal to diluted earnings per share (as was the case at 30 June 2014).

	First half 2014	First half 2015
Weighted average number of outstanding shares used to calculate basic earnings per share	3,380,325,175	3,499,511,044
Weighted average number of outstanding shares used to calculate diluted earnings per share	3,380,325,175	3,499,511,044
Net profit for the period attributable to Snam (€ millions)	561	612
Basic earnings per share (€ per share)	0.17	0.17
Diluted earnings per share (€ per share)	0.17	0.17

26) Information by business segment

The information about business segments has been prepared in accordance with the provisions of IFRS 8 – “Operating segments”, which requires the information to be presented in a manner consistent with the procedures adopted by the company’s management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the company’s management for allocating resources to the different segments and for analysing the respective performances.

The business segments for which information is provided are natural gas transportation (“Transportation”), LNG regasification (“Regasification”), natural gas storage (“Storage”) and natural gas distribution (“Distribution”).

They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia, Stogit and Italgas, respectively.

(€ million)	Corporate and other activities	Transportation and dispatch	Distribution	Storage	Regasification	Consolidation adjustments and eliminations	Total
First half 2014							
Net core business revenue (a)	90	1,009	625	286	12		2,022
Less: inter-segment revenue	(84)	(11)	(1)	(57)	(2)		(155)
Revenue from third parties	6	998	624	229	10		1,867
Other revenue and income		36	16	2	1		55
Net accrual to (utilisation of) provisions for risks and charges		(1)	(1)				(2)
Amortisation, depreciation and impairment losses	2	241	109	29	3		384
EBIT	(3)	591	257	198	1		1,044
Equity method valuation effect	15		34				49
Total assets	793	13,333	4,936	4,418	101		23,581
Total liabilities	13,956	9,796	2,584	3,261	35	(12,107)	17,525
Investments in property, plant and equipment and intangible assets	2	251	152	119	2		526
First half 2015							
Net core business revenue (a)	101	1,021	650	275	12		2,059
Less: inter-segment revenue	(95)	(11)		(66)	(1)		(173)
Revenue from third parties	6	1,010	650	209	11		1,886
Other revenue and income		58	14	1			73
Net accrual to (utilisation of) provisions for risks and charges	3	(1)	(19)				(17)
Amortisation, depreciation and impairment losses	3	249	132	36	2		422
EBIT	1	591	248	169	3		1,012
Equity method valuation effect	59		11				70
Total assets	1,431	13,680	5,308	4,055	104		24,578
Total liabilities	14,412	9,908	2,553	2,854	38	(12,140)	17,625
Investments in property, plant and equipment and intangible assets	4	278	142	62	1		487

(a) Balances before elimination of intra-segment revenue.

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

27) Relationships with related parties

Given the existence of a de facto situation of control by CDP S.p.A. over Snam S.p.A., in accordance with the provisions of IFRS 10 - "Consolidated Financial Statements", Snam's related parties, based on the group's current ownership structure, include not only Snam's associates and joint ventures, but also the parent company CDP S.p.A. and its subsidiaries and associates, as well as the companies directly or indirectly controlled by the Ministry of Economy and Finance (MEF).

Members of the Board of Directors, Statutory Auditors and Group Snam managers with strategic responsibilities, and their families, are also regarded as related parties.

As explained in detail below, transactions with related parties mainly concern the purchase and/or exchange of assets 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 Snam Group companies.

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 CEO (or the Chairman, in the case of the CEO), 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 activities. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, financial and other transactions with related parties as defined above are shown below for the first halves of 2014 and 2015. The nature of the most significant transactions is also stated.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

(€ million)	30 June 2014			First half 2014					
	Receivables	Payables	Guarantees and commitments	Costs (a)			Revenue (b)		
				Goods	Services	Other	Goods	Services	Other
Jointly controlled entities, associates and non-consolidated subsidiaries									
- A.E.S. S.p.A.	1		99					1	
- ACAM Gas S.p.A.	1								
- Servizi Territori Aree Penisole S.p.A.	4								
- TIGF Investissements S.A.	26								
- Toscana Energia S.p.A.	13							1	
	45		99					2	
Companies owned or controlled by the State									
- Anas group	1	4						1	
- Cassa Depositi e Prestiti group	1	1		6					6
- Enel group	62	43						178	
- Eni group	363	173	8	4	33	1		950	5
- Ferrovie dello Stato group	1	1						1	
- Other						1			
	428	222	8	10	34	1		1,130	11
Total	473	222	107	10	34	1		1,132	11

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

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

(€ million)	30 June 2015			First half 2015					
	Receivables	Payables	Guarantees and commitments	Costs (a)			Revenue (b)		
				Goods	Services	Other	Goods	Services	Other
Jointly controlled entities:									
- TAG GmbH	1			5					6
- TIGF Holding	15								
- Toscana Energia S.p.A.	2							1	
- Umbria Distribuzione	1								
	19			5				1	6
Companies owned or controlled by the State									
- Gestore dei Mercati Energetici S.p.A. (GME)	1					1			22
- Anas group		4							
- Enel group	89	10						225	
- Eni group	332	156		5	30	5		1,125	1
- Ferrovie dello Stato group		1							
	422	171		5	31	5		1,350	23
Total	441	171		10	31	5		1,351	29

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

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

Jointly controlled entities

Relations with TIGF Holding mainly concern receivables for dividends for 2014, not yet paid out at 30 June 2015.

Transactions with TAG, which are governed by the Service Balance Agreement, concern the sale and purchase of gas with a view to ensuring the daily balance between the quantities metered and the quantities expected at the Tarvisio entry point. Transactions with other jointly controlled entities relate to the provision of IT services governed by contracts entered into under normal market conditions.

Companies owned or controlled by the State

Transactions with state-owned or -controlled companies relate mainly to the Eni group and the Enel group, and concern natural gas transportation, regasification, distribution and storage services, which are settled on the basis of tariffs set by the Authority.

The most significant passive commercial relations with the eni group include: (i) the planning and supervision of works to build natural gas transportation infrastructure, governed by contracts concluded under normal market conditions; (ii) the provision of electricity and the purchase of natural gas used in activities connected to the building of storage infrastructure, governed by contracts concluded under normal market conditions; and (iii) the provision of consultancy services and technical and operational assistance relating to storage reservoirs. These transactions are governed by service agreements on the basis of the costs incurred.

As at 30 June 2015, there were liabilities with Eni arising from price adjustment mechanisms, as established by the contract for the purchase of Italgas and Stogit from Eni signed on 30 June 2009, and assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

Transactions with GME relate to natural gas sales in the first half of 2015.

Financial transactions

Financial transactions can be broken down as follows:

(€ million)	30 June 2014		First half 2014
	Receivables	Payables	Expense
Companies owned or controlled by the State			
- Cassa Depositi e Prestiti			3
Jointly controlled entities:			
- Gasbridge 1 B.V. and Gasbridge 2 B.V.	7		
	7		3

(€ million)	30 June 2015		First half 2015
	Receivables	Payables	Income
Jointly controlled entities:			
- Gasbridge 1 B.V. and Gasbridge 2 B.V.		9	
- Trans Austria Gasleitung GmbH (TAG)	221		3
	221	9	3

Jointly controlled entities

Transactions with TAG GmbH refer to receivables arising from the granting of a short-term revolving credit line by Snam S.p.A. to TAG, pursuant to the contractual agreements relating to the acquisition from CDP GAS S.r.l.¹⁷ of its equity investment in TAG.

Transactions with Gasbridge 1 B.V. and Gasbridge 2 B.V. refer to payables for financing received and repayable on demand.

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

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

(€ million)	31.12.2014			30.06.2015		
	Total	Related entities	Share %	Total	Related entities	Share %
Statement of financial position						
Trade and other receivables	2,081	787	37.8	1,837	662	36.0
Short-term financial liabilities	1,058	13	1.2	1,212	9	0.7
Long-term financial liabilities (*)	12,884			12,969		
Trade and other payables	1,769	202	11.4	1,313	171	13.0

(*) Includes the short-term portions of long-term financial liabilities.

(€ million)	First half 2014			First half 2015		
	Total	Related entities	Share %	Total	Related entities	Share %
Income statement						
Core business revenue	1,867	1,132	60.6	1,886	1,351	71.6
Other revenue and income	55	11	20.0	73	29	39.7
Purchases, services and other costs	324	22	6.8	351	23	6.6
Financial expense	215	3	1.4	193		
Financial income	11			7	3	42.9

Transactions with related parties are generally governed on the basis of market conditions, i.e. the conditions which would be applied between two independent parties.

¹⁷ On 19 December 2014, Snam and TAG agreed a shareholders' loan in the form of a revolving credit line for a maximum of €285.5 million, currently scheduled to mature in September 2015.

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

(€ million)	First half 2014	First half 2015
Revenue and income	1,143	1,380
Cost and expense	(22)	(23)
Change in trade and other receivables	219	146
Change in trade and other payables	(157)	15
Dividends collected	39	98
Interest collected (paid)	(3)	3
Net cash flow from operating activities	1,219	1,619
Investments:		
- Property, plant and equipment and intangible assets	(23)	(23)
- Equity investments		(14)
- Change in payables and receivables relating to investments	26	(15)
Cash flow from investments	3	(52)
Divestments:		
- Equity investments	7	
Cash flow from divestments	7	
Net cash flow from investment activities	10	(52)
Repayment of long-term financial debt	(403)	
Increase (decrease) in short-term financial debt	(4)	(4)
Financial receivables		(5)
Dividends paid	(195)	(336)
Net cash flow from financing activities	(602)	(345)
Net cash flow for the period with related parties	627	1,222

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

(€ million)	First half 2014			First half 2015		
	Total	Related entities	Share %	Total	Related entities	Share %
Cash flow from operating activities	647	1,219	N.A.	1,146	1,619	N.A.
Cash flow from investment activities	(543)	10	(1.8)	(559)	(52)	9.3
Cash flow from financing activities	(104)	(602)	N.A.	(637)	(345)	54.2

28) Post-balance sheet events

Post-balance sheet events are described in the "Other information – post-balance sheet events" section of the interim directors' report.

CERTIFICATION OF THE CONDENSED INTERIM FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/1998 (CONSOLIDATED FINANCE ACT)

1. The undersigned Carlo Malacarne and Antonio Paccioretti, as Chief Executive Officer and Officer responsible for the preparation of the financial reports of Snam S.p.A. respectively, certify, taking into account Article 154-bis, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:
 - the adequacy, considering the company's characteristics, and
 - the effective implementation
 of the administrative and accounting procedures for the preparation of the condensed interim financial statements at 30 June 2015, during the first half of 2015.
2. The administrative and accounting procedures for the preparation of the condensed interim financial statements at 30 June 2015 and the assessment of their adequacy were carried out using the rules and methods set out in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission, a benchmark framework for the internal control system generally accepted internationally.
3. It is also certified that:
 - 3.1 The condensed interim financial statements at 30 June 2015:
 - a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002;
 - b) are consistent with the accounting records and ledgers;
 - c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.
 - 3.2 The interim directors' report includes a fair review of the references to important events which occurred during 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 fair review of the information about significant transactions with related parties.
4. The preventative measure of judicial administration, of which the subsidiary Italgas S.p.A. was notified by the Court of Palermo on 11 July 2014, was revoked by the same court on 29 June 2015; adequate information in this regard has been provided in Note 18 "Guarantees, commitments and risks" in the notes to the condensed interim consolidated financial statements. For the purposes of this certification, it should be noted that the assets and the economic and entrepreneurial activities of Italgas S.p.A. were administered by the court-appointed collective administrative body until 8 July 2015, and from 9 July 2015 by the new Italgas Board of Directors, appointed on the same date by the company's Shareholders' Meeting.
 When the administration measure ended, the Board of Directors asked the independent auditors, in view of the fact that the company was managed by the judicial authorities during the first half of 2015, and that the panel of judicial administrators did not issue certification for the activity carried out in the first six months of 2015, to carry out a full audit on accounting data for the first half of 2015. For this purpose, Italgas drew up a set of interim financial statements to 30 June 2015, using the same accounting criteria and standards used to prepare the annual financial statements. Accordingly, for the data of the first half-year, in addition to the controls usually performed, the controls that would normally be applied to the annual financial statements were implemented and assessed.

28 July 2015

/Signature/Carlo Malacarne

 Carlo Malacarne
Chief Executive Officer

/Signature/Antonio Paccioretti

 Antonio Paccioretti
Officer responsible for the preparation of the financial reports

INDEPENDENT AUDITORS' REPORT



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Review report on the interim condensed consolidated financial statements (Translation from the original Italian text)

To the Shareholders of
Snam S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes of Snam S.p.A. and its subsidiaries (the "Snam Group") as of June 30, 2015. The Directors of Snam S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim 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 on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Snam Group as of June 30, 2015 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Emphasis of Matter

We draw attention to the "Other Provisions" section of the Note 18 "Guarantees, commitments and risks" to the interim condensed consolidated financial statements as of June 30, 2015, where the Directors have described the developments related to the measure of judicial administration served on July 11, 2014 by the Court of Palermo on the subsidiary Italgas S.p.A.. Our conclusion is not qualified in respect of this matter.

Turin, August 4, 2015

Reconta Ernst & Young S.p.A.
Signed by: Stefania Boschetti, Partner

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

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