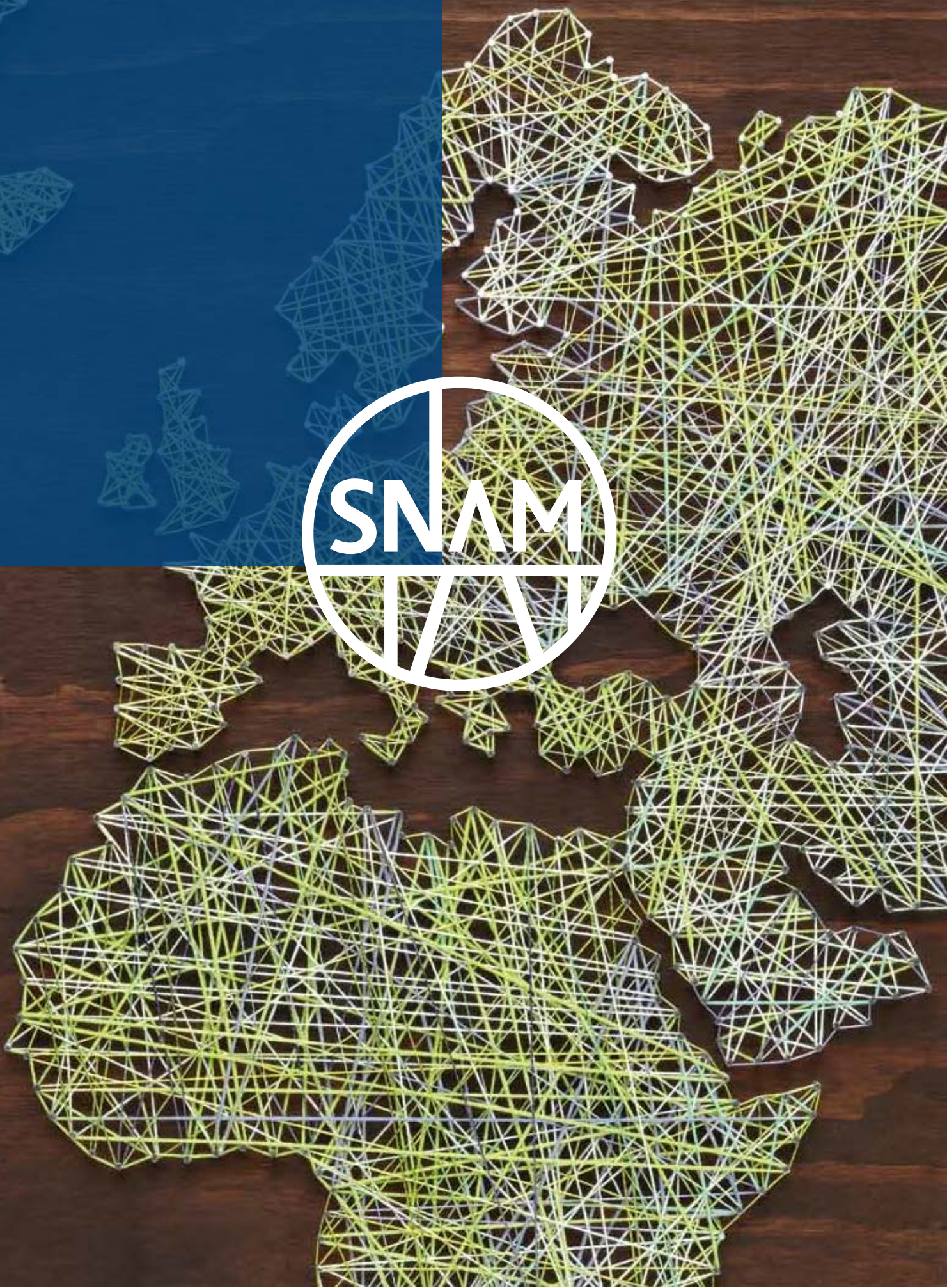


Annual Report
2015



Corporate Mission and Values

Snam is a European leader in the construction and integrated management of natural gas infrastructure. It fosters 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 that can create value for the Company and for the communities in which it operates, with acknowledged professionalism and transparent dialogue with all its stakeholders, while respecting the environment and the regions.

A clear and sustainable long-term development strategy, based on one of the most substantial investment programmes in 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, nine storage facilities, one regasification plant and a local distribution network that covers around 57,000 km in total.



Annual Report
2015

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)}

Yunpeng He ⁽⁴⁾

Andrea Novelli ⁽¹⁾

Elisabetta Oliveri ^{(2) (3)}

Pia Saraceno ^{(1) (2)}

Chief Operating Officer

Marco Alverà ⁽⁵⁾

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 ⁽⁶⁾

Statutory auditors

Leo Amato ⁽⁷⁾

Stefania Chiaruttini ⁽⁷⁾

Alternate auditors

Maria Gimigliano ⁽⁷⁾

Luigi Rinaldi ⁽⁶⁾

APPOINTMENTS COMMITTEE

Alberto Clô - Chairman

Lorenzo Bini Smaghi

Elisabetta Oliveri

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

(**) Engaged by the Shareholders' Meeting of 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 director Roberta Melfa, who stood down on 18 November 2014. Appointed by shareholder CDP Reti S.p.A. based on the shareholder agreements drawn up following the acquisition of an equity investment in CDP Reti by State Grid Europe Limited. Appointment confirmed by the Shareholders' Meeting of 29 April 2015.

(5) Appointed Chief Operating Officer by the Board of Directors on 8 January 2016.

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

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

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Disclaimer

The Annual 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 macro-economic 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.



Directors' Report

INFORMATION ABOUT THIS REPORT

This document is Snam's first Integrated Report, a single document that includes both financial and sustainability content in accordance with the Framework proposed by the International Integrated Reporting Council (IIRC).

The content of the Integrated Report is presented in a format known as integrated thinking, meaning that in addition to the annual operating results, it can present Snam's business sustainability and value creation model for the medium and long term. If we communicate this process effectively to our stakeholders, they will be able to understand not only our current performance but also, perhaps more importantly, how we will fare in the future.

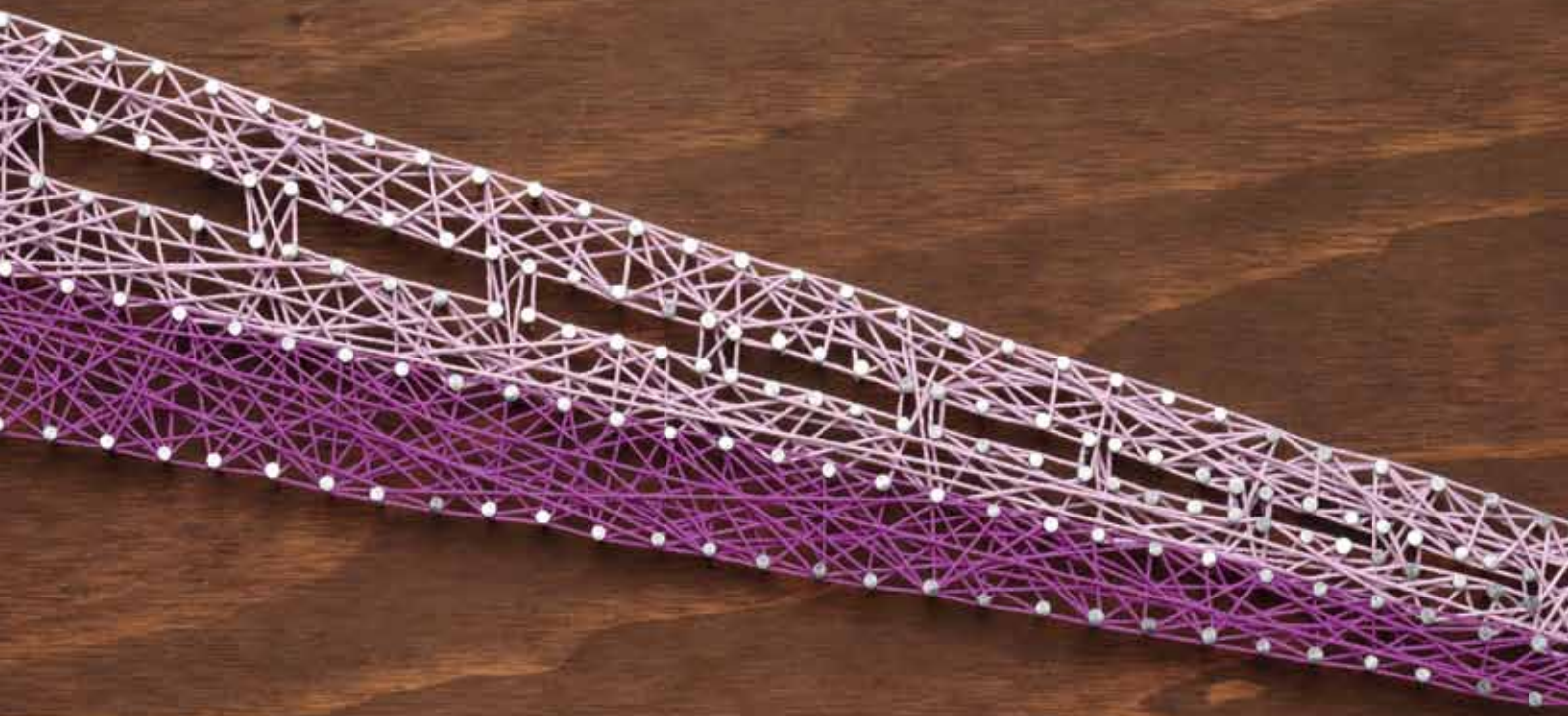
In compliance with EU Directive 2014/95/EU "Amending Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings", we have identified the aspects covered in the Report based on the main

factors that influence financial performance and sustainability issues. Starting with this first Report, we aim to make a continued effort to improve the quality of how we disclose non-financial information by following all the guiding principles that underpin the preparation of an integrated report:

- strategic focus and future orientation;
- stakeholder relationships;
- connectivity of information;
- materiality;
- conciseness;
- reliability and completeness;
- consistency and comparability.

The table below aims to help you see which headings in this Report relate to which of the IIRC Framework's content elements.

REPORT HEADINGS	IIRC FRAMEWORK CONTENT ELEMENTS
<ul style="list-style-type: none"> – The Snam Group – The business sustainability and value creation model 	<p>Organisational overview and external environment: what does the organisation do and what are the circumstances under which it operates?</p>
<ul style="list-style-type: none"> – The business sustainability and value creation model 	<p>Business model: what activities are performed by the organisation and how do they relate to the capitals used by the organisation to create value?</p>
<ul style="list-style-type: none"> – The business sustainability and value creation model 	<p>Governance: how does the organisation's governance structure support its ability to create value in the short, medium and long term?</p>
<ul style="list-style-type: none"> – The business sustainability and value creation model – Summary data and information 	<p>Strategy and resource allocation: where does the organisation want to go and how does it intend to get there?</p>
<ul style="list-style-type: none"> – Summary data and information – Business segment operating performance – Other operating information and results – Financial review 	<p>Performance: to what extent has the organisation achieved its strategic objectives for the period and what are the outcomes in terms of effects on the capitals?</p>
<ul style="list-style-type: none"> – Uncertainty and risk management 	<p>Risks and opportunities: what are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term?</p>
<ul style="list-style-type: none"> – Outlook 	<p>Outlook: what challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?</p>



Letter to the shareholders and stakeholders



Lorenzo Bini Smaghi
Chairman



Carlo Malacarne
CEO

To our Shareholders and Stakeholders,

In 2015, Snam took another significant step in the international growth strategy it began in 2012, with the aim of guaranteeing secure and diversified sources of natural gas. In December last year, we bought a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the project to transport gas from Azerbaijan to European markets. Together with both our acquisitions of stakes in TAG in Austria and TIGF in France, made in 2014 and 2013 respectively with the aim of strengthening our position along the East-West route, and the investments we have made in Italian pipelines to increase our export potential to northern Europe, the investment in TAP is in keeping with our strategy of transforming Italy from a market that only consumes gas into one that transports it too, capitalising on the strategic location of our country in the Mediterranean region. This latest acquisition, which involved a total outlay of around €0.2 billion, gives both Snam and Italy a greater role in Europe and a more crucial position in the geopolitics of European energy as a new gas supply corridor is built.

We also continued to optimise our debt structure in 2015 in line with our objectives. In November, Snam successfully concluded a complex liability management transaction involving the €1.0 billion buyback of outstanding bonds maturing in less than two years on average and the simultaneous issue of a new eight-year, fixed-rate bond worth €0.7 billion. This transaction, which we achieved in a favourable market in terms of yield, optimised our medium- and long-term debt maturities by extending their average duration and creating the conditions for us to reduce our average cost of borrowing.

As further evidence of our commitment to integrated sustainability in our business development model, something that in recent years has seen the Snam stock feature in a growing number of specialist indices based on financial, social and environmental performance criteria, as of 2015, Snam is presenting its operating performance in an Integrated Report. This Report, prepared in compliance with the IIRC Framework, combines financial information with sustainability content and highlights the existing connections between the environment outside the Group, the Group's strategy, the business model, the allocation of financial and

non-financial resources, integrated risk management and the adoption of a rigorous governance system.

The start of the fourth storage regulatory period on 1 January 2015 marked the completion of the updating of tariff criteria for all the Group's regulated activities. In addition, the Electricity and Gas Authority's recent resolution on the return on investments for regulated energy networks, published in December and applicable as of 1 January 2016, set out returns on capital that are consistent with our investment programme over the next three to four years.

In an environment where gas demand in Italy remained low, albeit increasing, at 67.4 billion cubic metres, we achieved excellent results in 2015. Adjusted EBIT was up by +0.9% on the previous year to €2 billion. Adjusted net profit climbed by 12.2% compared with the previous year, to €1.2 billion. The improved performance was due to better financial management, a growing contribution from subsidiaries and associates and lower taxes brought about by the elimination of the additional IRES charge. The operating cash flow of €2.1 billion – a five-year high – fully covered €1.3 billion of technical and financial investments and enabled us to reward Snam shareholders with a dividend of €0.9 billion.

Based on these results, the Board of Directors intends to propose to the Shareholders' Meeting a dividend of €0.25 per share, offering an attractive level of return, despite a more difficult environment than in previous years.

The Snam share price ended 2015 at an official price of €4.848, up 17.8% from the €4.114 recorded at the end of the previous year. In an environment of general and sustained growth on the stock markets, with the Stoxx Europe 600 ending 2015 up 6.8% and the FTSE MIB up 12.7% in anticipation of an economic recovery in Italy after the years of crisis, the Snam share price grew almost continually throughout the year, boosted initially by a general hike on the equity markets and a fall in sovereign bond yields. Prices were then sustained by a more optimistic forecast for the revision of returns on capital invested for regulatory purposes, as well as by attractive dividend yields and the business's defensive profile. Our shares hit a record high of €4.93 on 3 December 2015.

The challenges that lie ahead for Snam concern major objectives, both in the short term, with the imminent tenders for natural gas distribution concessions in Italy, and in the longer term, with our efforts to make the European gas system more connected and flexible and turn Snam into a market facilitator that can provide a more standout and innovative range of services to shippers and end users with ever-changing demands, all in keeping with the evolution of the European gas market.

16 March 2016

for the Board of Directors

The Chairman

The CEO



Snam in 2015

HIGHLIGHTS

Net profit:

€1,238 million
(+3.3%);
€1,209 million when
adjusted (+12.2%)

We obtained **ISO 14001 certification** for our environmental management system **across the whole Snam Group**

We supported our growth strategy with **€1.27 billion** of **technical investments**

Free cash flow:

€771 million,
an increase of €474 million
compared with 2014

We successfully completed our **liability management transaction**:
buying back outstanding bonds with a total nominal value of around **€1.0 billion** and an **average residual maturity of less than two years**, and simultaneously issuing a new **eight-year** bond worth **€0.75 billion**

Acquired 20% of TAP

for a total outlay
of €208 million

Around **85%** of our employees took part in training activities.
We provided an average of **about 26 training hours per employee**

The **Snam share price** ended 2015 at €4.848, **+17.8%** compared with the end of 2014

We proposed to award our shareholders a **dividend** of **€0.25 per share**

Signed **65 contracts** with customers to connect new gas delivery/redelivery points on the transportation network (+44.4% compared with 2014)

There was a further reduction in **contract worker accident frequency** (-27.7% compared with 2014)



The Snam Group

COMPANY PROFILE

Snam operates in a strategic sector for the country. With over 6,000 employees, it conducts regulated gas segment activities and is a leading European operator in terms of regulatory asset base (RAB) in its sector. As an integrated operator, Snam provides natural gas transportation and dispatching, storage and distribution services as well as LNG regasification services, and plays a leading role in the natural gas infrastructure system.

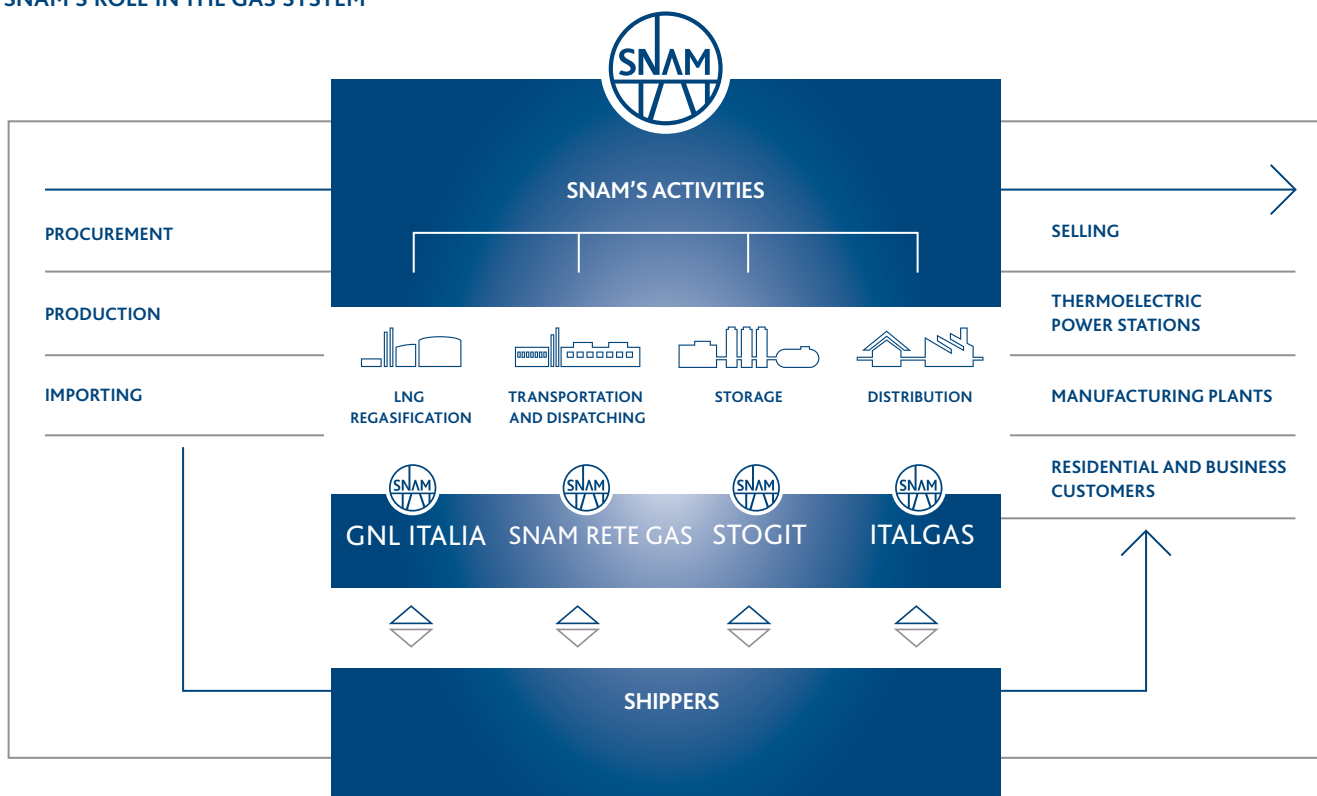
Snam conducts these activities throughout Italy, respectively, through its four subsidiaries wholly owned by Snam S.p.A.: Snam Rete Gas, Stogit, Italgas and GNL Italia.

Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players.

Snam's business is focused on regulated activities and is capital intensive. Regulation makes provision for tariff systems that cover the costs incurred by the operator and for a fair return on invested capital. Snam is therefore able to maintain a **limited risk profile** and to **provide its shareholders with attractive and sustainable returns**, while ensuring that it provides its services to all operators in a non-discriminatory manner and with **the highest standards of quality and safety**.

Snam has been listed on the Italian stock exchange since 2001. Its share price features not only on the FTSE MIB index but also on leading international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and the major sustainability indices.

SNAM'S ROLE IN THE GAS SYSTEM



A HISTORY OF SNAM

1941 – 1999

Italy turns to natural gas and builds import pipeline

Snam (Società Nazionale Metanodotti) has provided integrated natural gas procurement, transportation and sale services in Italy since 1941. It gradually put together an intricate system of natural gas pipelines, covering the whole of Italy, and built important pipelines that today allow the country to import from different areas: Russia, the Netherlands, Algeria, the North Sea and Libya. In 1971, Snam designed and built Italy's first liquefied natural gas (LNG) regasification plant at Panigaglia, in the Gulf of La Spezia.

2012

Snam operates with new ownership structure

On 1 January 2012, the Company changed its name from Snam Rete Gas to Snam and transferred the gas transportation business to a new company, which inherited the respected Snam Rete Gas name. Snam now wholly owns the four operating companies (Snam Rete Gas, GNL Italia, Stogit and Italgas). The ownership unbundling from Eni was completed on 15 October 2012 through the sale of approximately 30% of Snam's capital to CDP Reti S.r.l.

2000 – 2008

Snam Rete Gas is born from the unbundling of the transportation business

Snam Rete Gas was incorporated on 15 November 2000 to house all Snam's Italian transportation, dispatching and LNG regasification activities. The corporate unbundling of these activities was decided pursuant to the Letta Decree (164/100) which transposed the European Directive on the liberalisation of the gas market. On 6 December 2001, after the Electricity and Gas Authority issued a resolution establishing the criteria for defining transportation tariffs, Snam Rete Gas was floated on the stock exchange.

2013 – 2014

Snam expands its scope of activity to cover Europe

Having acquired 31.5% of Interconnector UK in 2012 as part of a joint venture with Fluxys, Snam (45%; 40.5% at 31 December 2015), alongside Singapore sovereign wealth fund GIC (35%) and EDF (20%), successfully completed the acquisition of TIFG from Total in July 2013. TIFG is active in the gas transportation and storage segment in south-west France, with a 5,000-km gas transportation network and two storage fields.

On 19 December 2014, the Company acquired from CDP Gas S.r.l. 84.47% (equivalent to 89.22% of the economic rights) of Trans Austria Gasleitung GmbH (TAG), the company that owns the Austrian section of the gas pipeline linking Russia and Italy.

These transactions, in line with the international development strategy launched by Snam in 2012, represent another step on Snam's pathway of international growth as it aims to maximise its industrial capabilities with regard to the integrated management of natural gas transportation and storage infrastructure.

2009 – 2011

Snam enters the storage and distribution business

In 2009, the Company acquired 100% of Stogit, Italy's largest natural gas storage field operator, and 100% of Italgas, the country's biggest gas distributor.

This added the other two regulated gas activities in Italy to Snam's offering: storage and distribution. The June 2009 transaction turned Snam into a key integrated regulated gas activities operator, and the largest by regulatory asset base (RAB) in mainland Europe.

2015

Snam's international development continues

Snam's international development continued with the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the pipeline that will run from the Turkey-Greece border to Italy along the Southern Corridor, enabling gas produced in Azerbaijan to reach European markets. Our investment in the project will consolidate the primary position of Snam and Italian infrastructure in improving competition between energy sources and securing gas supplies for Europe.

SNAM'S ROLE IN THE ITALIAN GAS SYSTEM

Business Segments

As an integrated operator in the natural gas infrastructure system, Snam is active in the following business segments:

SNAM RETE GAS

Transportation and Dispatching

Snam Rete Gas is the **leading Italian natural gas transportation and dispatching operator**, and owns almost all of the transportation infrastructure in Italy, with 32,534 km of high- and medium-pressure gas pipelines (**approximately 94% of the entire transportation system**).

Snam Rete Gas manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 11 compression stations and a new dispatching unit which has been extensively renovated in terms of structure and technology.

The gas from abroad is injected into the national network via entry points where the network joins up with the import methane pipelines (Tarvisio, Gorizia, Gries Pass, Mazara del Vallo and Gela) and with the LNG regasification terminals (Panigaglia, Cavarzere and Livorno). Once it has been imported or regasified, the gas is transported to the local distribution networks, the regional network redelivery points or large end users such as thermoelectric power stations or manufacturing plants.

Snam Rete Gas awards transportation capacity to applicant shippers. The service access conditions are contained in the Network Code, which is updated based on criteria laid down by the Electricity and Gas Authority.

GNL ITALIA

Regasification

The terminal at Panigaglia (La Spezia), which is owned by the subsidiary GNL Italia, was **the first regasification plant built in Italy**. It has a daily regasification capacity of 17,500 cubic metres of LNG, and can therefore, at maximum operating capacity, inject 3.5 billion cubic metres of natural gas into the transportation network every year.

The process for the extraction of natural gas from the deposits, its liquefaction for transportation by ship and subsequent regasification for use by the users, forms the 'LNG chain'.

The process begins in the country of the exporter, where the natural gas is brought to a liquid state by cooling it to -160°C and subsequently loaded onto tankers for shipping to the LNG regasification terminal. At the regasification terminal, the LNG is unloaded, then heated and returned to a gaseous state before being injected into the natural gas transportation network.

The regasification service includes unloading the LNG from the vessel and operating storage, i.e. the storage time required for vaporising the LNG, regasifying it and injecting it into the national network.

2015 HIGHLIGHTS

8 **NATIONAL NETWORK ENTRY POINTS**
for gas coming from abroad, located at connection points with the import pipelines (five entry points) and the LNG regasification terminals (three entry points)

67.25 **BILLION M³**
natural gas injected into the national transportation network

32,534 **KM OF PIPELINE NETWORK**
in operation at 31 December 2015

876.5 **MW**
installed power at the stations

2015 HIGHLIGHTS

17,500 **CUBIC METRES OF LNG**
maximum daily regasification capacity of the Panigaglia terminal

3.5 **BILLION M³**
maximum volume of natural gas that can be injected into the transportation network each year

SNAM'S ROLE IN THE ITALIAN GAS SYSTEM



STOGIT

Storage

Stogit is **the major storage operator in Italy and one of the largest in Europe**, with 11.5 billion cubic metres of available capacity (approximately 95% of the available space throughout Italy) and 4.5 billion cubic metres of strategic storage space. The natural gas storage business in Italy is carried out under a concession regime and it serves to offset the various demands of gas consumption and supply. In fact, procurement is broadly consistent throughout the year, while gas demand is characterised by high seasonal variability, with demand significantly higher in the winter than the summer. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system. The storage business makes use of integrated infrastructure comprising deposits, wells, gas treatment plants, compression stations and the operational dispatching system. Stogit has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one).



ITALGAS

Distribution

Italgas is **the leading Italian natural gas distributor**, with 1,472 municipal concessions, 56,717 km of medium- and low-pressure network and 6.526 million active meters at redelivery points (over 30% of the Italian market). The natural gas distribution business operates on a concession regime through the conferral of this service by local public entities; it consists of the service of gas distribution through local transportation networks from delivery points at the metering and reduction stations (city gates) to the gas distribution network redelivery points at the end users (households, businesses, etc.). The gas distribution service is carried out for sales companies authorised to market to end users by means of the transportation of the gas through city networks. Italgas undertakes natural gas distribution activities by making use of an integrated system of infrastructure, comprising stations for withdrawing gas from the transportation network, pressure reduction plants, the local transportation and distribution network, user derivation plants and redelivery points comprising technical equipment featuring meters at the end users.

2015 HIGHLIGHTS

16.0 **BILLION M³**
total storage capacity (including strategic storage) at 31 December 2015

19.58 **BILLION M³**
gas moved through the storage system

9 **NUMBER OF OPERATING CONCESSIONS**

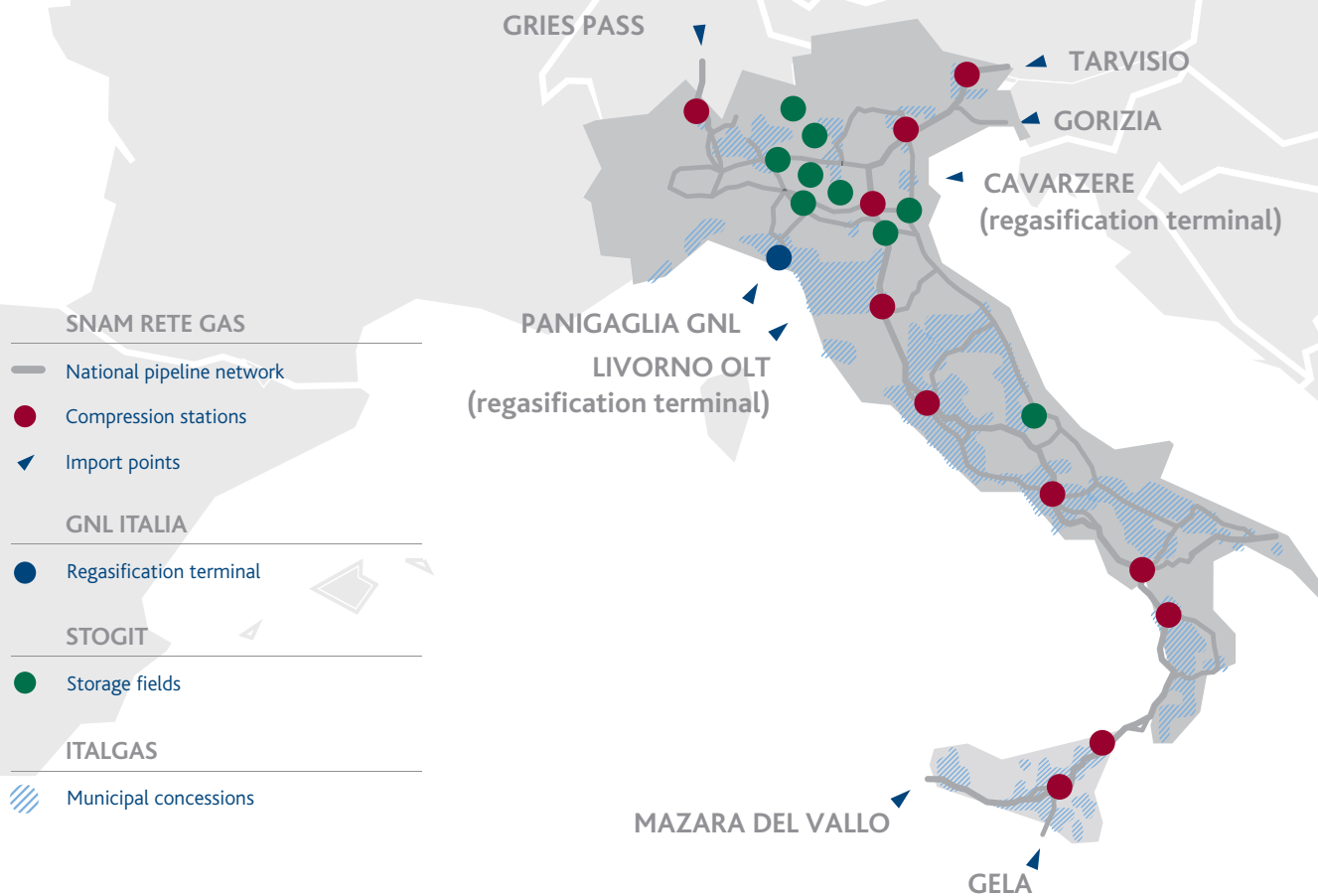
2015 HIGHLIGHTS

1,472 **DISTRIBUTION CONCESSIONS**
at 31 December 2015

56,717 **KM OF NETWORK IN OPERATION**
at 31 December 2015

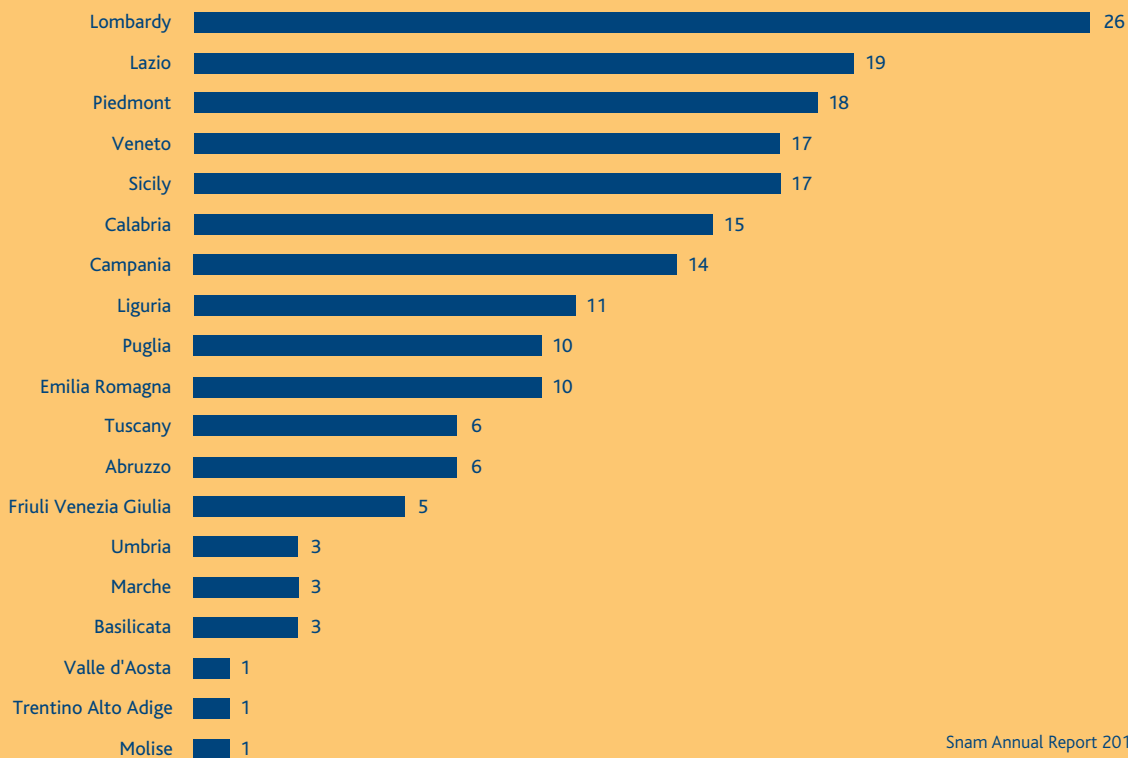
6.526 **MILLION**
active meters at 31 December 2015

PRESENCE IN ITALY



SNAM GROUP - OFFICES BY REGION

SNAM GROUP - REGIONAL OFFICES WITH PERSONNEL (NO.)



SNAM'S PATHWAY OF GROWTH IN EUROPE

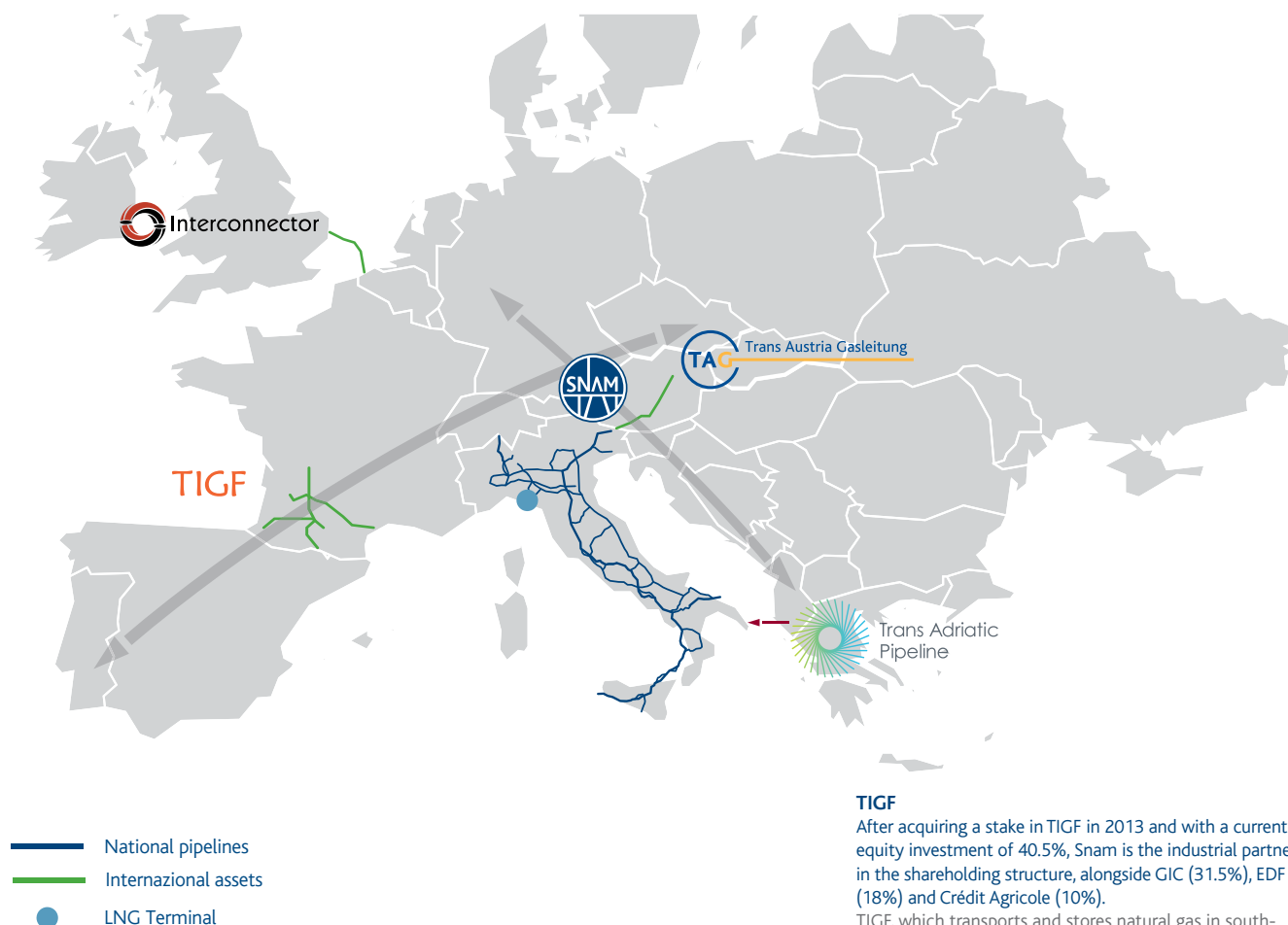
In line with the principles of the EU's Third Energy Package, which promotes the integrated development of infrastructure and shared network access regulations across the different countries, in recent years Snam has increasingly turned its eye to the international situation.

Our foreign growth strategy is founded on capitalising on the privileged position of our national network in the European gas corridors, and since 2012 has seen the Company invest in strategic partnerships and M&A operations along the two major European energy corridors: South-North and East-West. In 2015, Snam bought a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the Southern Gas Corridor as a key channel enabling gas produced in Azerbaijan to be transported to European markets.

This transaction marked a further significant step in the international growth strategy begun by Snam in 2012 with the acquisition of 31.5% of Interconnector UK in a joint venture with Fluxys, and continued in 2013 and 2014 with the respective acquisitions of 45% (now 40.5%) of TIGF in France, with a view to strengthening the Group's leading position among European infrastructure operators, and 84.47% of Trans Austria Gasleitung GmbH (TAG), the company that owns the Austrian section of the pipeline between Russia and Italy. TAG is a key asset in the East-West energy corridor, partly because of a potential reverse flow to Central Europe.

Snam is also a partner in PRISMA, an international project involving 37 European gas transmission operators from 16 countries. Its goal is to encourage harmonised service delivery and access rules and facilitate the creation of a single European natural gas market by offering transportation capacity through a single shared digital platform.

Snam's partnerships are founded on structured governance systems, primarily jointly controlled, where key decisions are taken by unanimous consent among shareholders, demonstrating Snam's desire to share know-how and expertise without losing sight of its strategic and financial objectives.



TAP

20% acquired in December 2015
 A strategic asset due to:

- diversification of supplies in the EU with imports of Azerbaijani gas
- helping to create a gas hub in Italy
- a portfolio of related initiatives along the southern corridor

ASSETS AND PERSONNEL:

- The asset is in development and will entail the creation of a connection between Greece and Italy through Albania, with 765 km onshore and 105 km offshore with an initial capacity of 10 bcm/year (scalable to 20 bcm/year)
- Employees in service: 196

TAG

Acquisition in 2014 of 84.47% of TAG (89.22% of economic rights), the company that owns the gas pipeline linking the Slovakian/Austrian border with the Tarvisio entry point.
 A strategic asset due to:

- integration in the east-west gas corridor
- the opportunity to create reverse flow capacity to southern Germany and eastern Europe.

ASSETS AND PERSONNEL:

- 3 parallel lines of pipelines of around 380 km each
- 5 compression stations
- Employees in service: 148

TIGF

After acquiring a stake in TIGF in 2013 and with a current equity investment of 40.5%, Snam is the industrial partner in the shareholding structure, alongside GIC (31.5%), EDF (18%) and Crédit Agricole (10%).
 TIGF, which transports and stores natural gas in south-west France, represents a strategic piece of infrastructure for the integration of the European gas markets, connecting the French and Spanish markets with those of central and northern Europe as part of increasing integration of energy infrastructure at the European level.

ASSETS AND PERSONNEL:

- 5,064 km of network with 6 compression stations (101 MW), or 13% of the total volume of transported gas in France
- 5.7 billion m³ of storage capacity (2.8 bcm of working gas), or around 25% of national capacity
- Employees in service: 582

INTERCONNECTOR UK

Acquisition in 2012 in 50-50 JV with Fluxys of: 31.5% of Interconnector UK, 51% of Interconnector Zeebrugge and 10% of Huberator.

A strategic asset because:

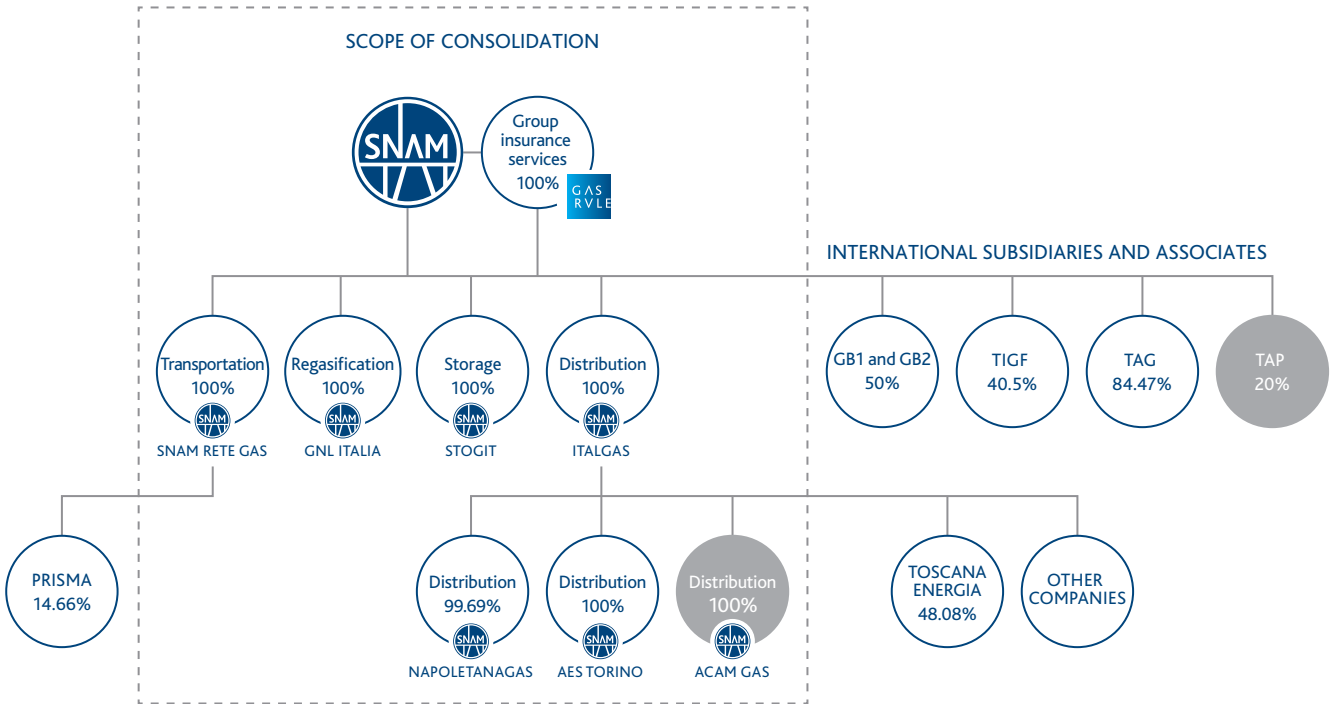
- it ensures security of supply in north-western Europe
- it represents the last section of the south-north corridor, linking one of the biggest gas markets in Europe to the continental network
- two-way flow allows for flexibility and diversification of sources between the UK and continental Europe.

ASSETS AND PERSONNEL:

- 235 km undersea pipeline between Bacton (UK) and Zeebrugge (Belgium)
- 1 terminal and 1 compression station at Bacton
- 1 terminal and 1 compression station at Zeebrugge
- Employees in service: 87

GROUP STRUCTURE AT 31 DECEMBER 2015

The structure of the Snam Group at 31 December 2015 is shown below:



CONSOLIDATING COMPANY	SHAREHOLDERS	% OWNERSHIP
Snam S.p.A.	CDP Reti S.p.A. (a)	28.98
	CDP GAS S.r.l. (b)	1.12
	Eni S.p.A. (c)	2.22
	Snam S.p.A.	0.03
	Other shareholders	67.65

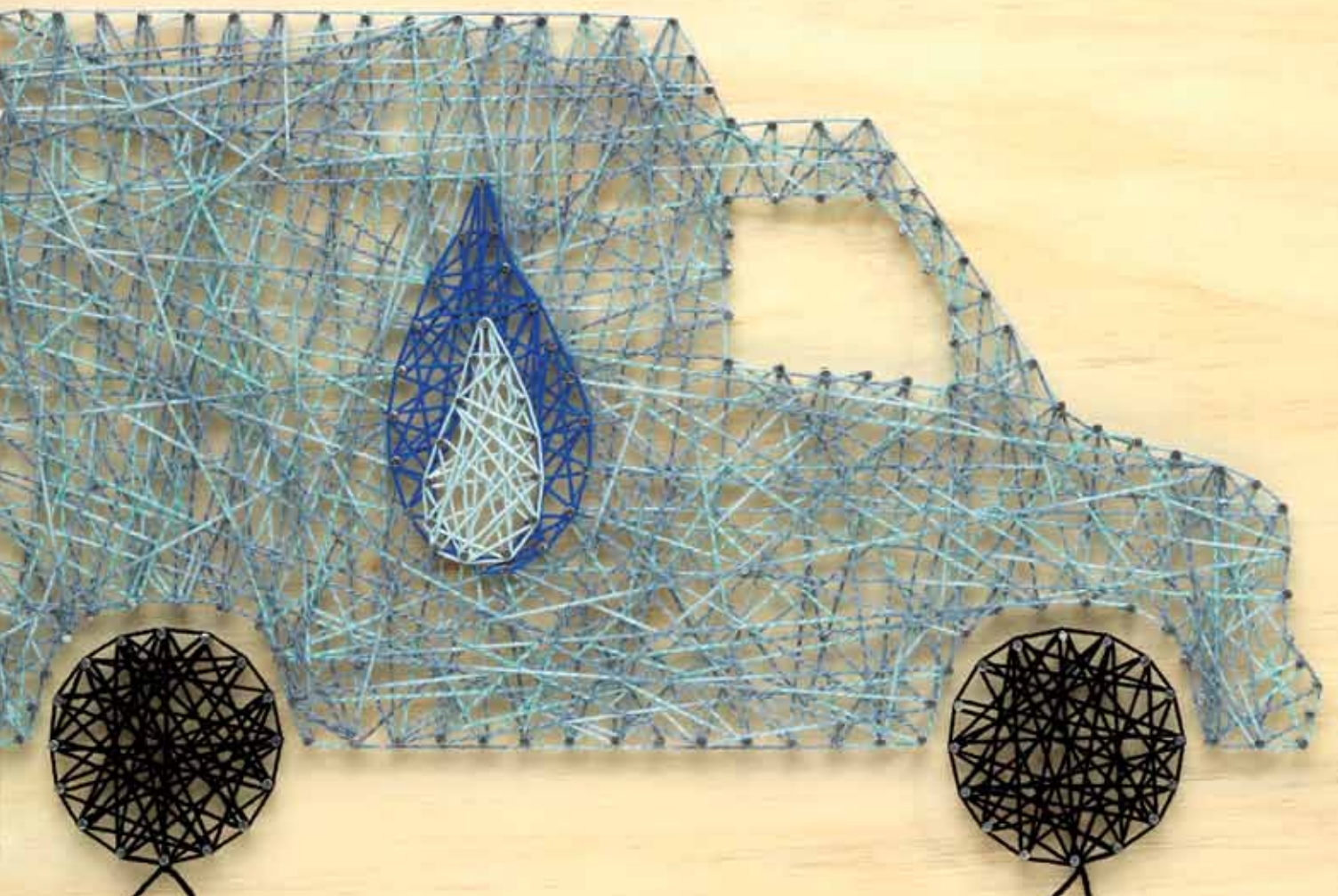
(a) CDP S.p.A. owns 59.10% of CDP Reti S.p.A.

(b) Company wholly owned by CDP S.p.A.

(c) As at 18 January 2016, the date on which the Eni bond convertible into Snam shares (which was issued in December 2013) matured, Eni S.p.A. held 792,619 ordinary Snam shares, equal to 0.02% of the share capital, while the share held by minority interests at that date increased to 69.85%.

The main changes in the structure of the Snam Group in 2015 were:

- in relation to the consolidation scope:
 - the addition of Acam Gas S.p.A. following the acquisition by Italgas S.p.A. of the remaining 51% of the company. Following that acquisition, effective as of 1 April 2015, Italgas S.p.A. now holds the entire share capital of Acam Gas S.p.A.;
 - the respective mergers by incorporation, effective as of 1 January 2015, of Metano Arcore S.p.A. (100% owned by Italgas) and Seteap S.p.A. (100% owned by Napoletanagas) into Italgas S.p.A. and Napoletanagas S.p.A.;
- in relation to international equity investments:
 - the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP).



The Business Sustainability and Value Creation Model

THE MODEL

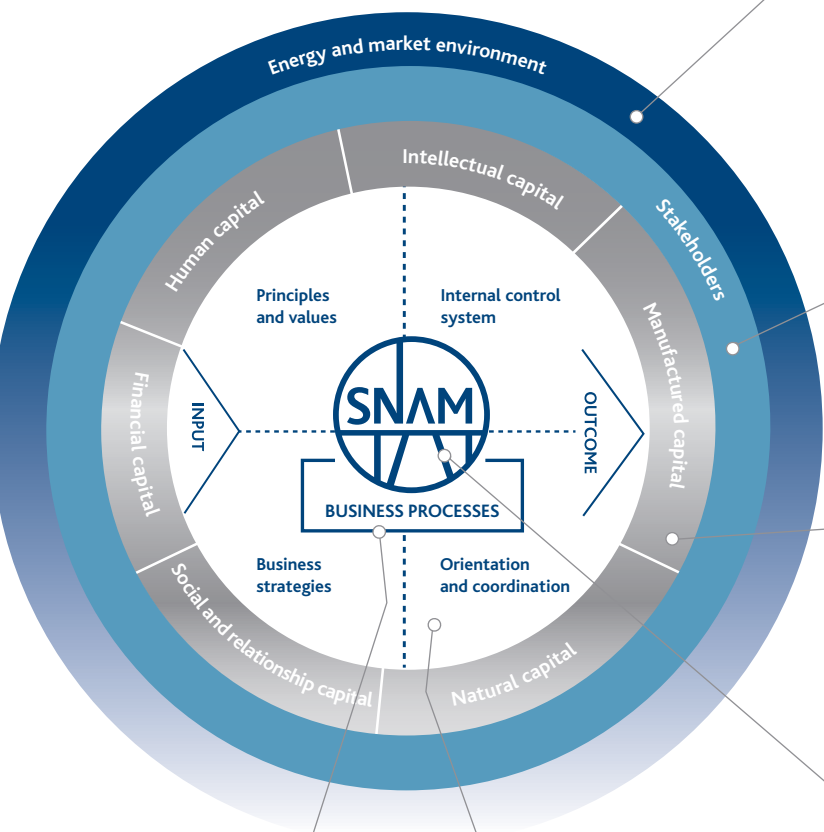
Snam's business model is designed to create value over the medium and long term for the shareholders and for all categories of stakeholders, by way of operating and financial efficiency and the pursuit of our strategic objectives.

External context in which the Company operates, including the energy environment, the economic situation of the industry, and economic and social dynamics

The Company's **stakeholders** (gas system operators, financial markets, regulatory authorities, shareholders, local communities, suppliers etc.) can influence the conditions in which the Company operates and are the beneficiaries of its value creation

The Company operates using input **capital** (such as resources) which is transformed by business activities

The Company oversees a value chain consisting mainly of regulated activities



The Company carries out its activities and creates value by means of business and **business support processes**

The Company operates within a governance system that establishes **principles and values, strategic direction and control systems**

VALUE-CREATION STRATEGIES

Snam helps **provide the energy** that the market needs – **safely, sustainably and at fair cost.**

Snam operates in a **regulated market**, and its business dynamics are affected by **complex, ever-changing energy scenarios**. In addition, we have to deal with the effects of the social and economic crisis that has blighted Italy in recent years.

The major research institutes believe that natural gas will remain a primary source of energy. It will do so in an industry governed by the EU's Third Energy Package which, as well as making provision for harmonised national regulations in order to create **a single European market** that is transparent and competitive, creates the conditions for the development of infrastructure to diversify energy sources and thus make **supplies secure**, and improve **connections between national markets**.

Snam's strategy is based on a **major programme of investment in Italy and abroad**, on developing new services in response to the emerging demands of the market, and on striving for **operating and financial efficiency**.

Our investments in Italy are promoting the organic growth of our regulated business and are completing the reverse flow projects that enable a bidirectional flow of gas at our national borders. In the distribution segment, the tenders for new concessions are an opportunity for the Group to consolidate its position.

Our investments in development in Europe are aimed at ensuring a greater interconnection between infrastructures and more diversified procurement sources, in accordance with European guidelines. We are also focusing on developing new services to meet the changing demands of shippers and end users, bearing in mind that an efficient market can improve liquidity and make the best use of the entire gas system.

Such a strategy contributes to the profitable and stable growth of the Group, **the creation of value for all stakeholders** and attractive and sustainable returns for our shareholders.

STAKEHOLDER RELATIONS AND THE CAPITALS MODEL

Shareholders, investors, the Authority and the gas system operators, employees, suppliers and all other corporate stakeholders have a central role in Snam’s business model.

In Snam’s business model, the stakeholders “interpret” the industry environment and can influence, sometimes decisively, the conditions that determine the availability of the different capitals that the business needs to be able to operate. These close ties with the capitals, which develop around material issues of mutual interest, enable the stakeholders to benefit from the value that the business creates through its activities.

Snam’s business is driven by the resources (financial capital), generated by its own operations and sourced on the market, that it transforms into the infrastructure (manufactured capital) and services required for the gas system to function using the decisive contribution of its human capital, comprising the people who work for the Company and the suppliers, with whom Snam, as an extended company, has very close ties. As such, the supply chain is an integral part of our business model and contributes to value creation by being directly involved in developing and maintaining the infrastructure network.

Our core activities are those that also have the most significant direct impacts (outcomes) in relation to workplace health and safety (accidents) and to the natural capital (use of energy and environmental resources).

In order to develop our business activities, internal cohesion, image and reputation are also important. As a result, it is essential to manage our long-term relations with stakeholders (social and relationship capital) by focusing on trust, listening, being universally open and transparent, and attempting to maintain and develop constructive dialogue both within and outside the Company.

The model also clearly shows how the business uses engagement to create value.

More detailed information on the definition of material issues and how we engage with all stakeholders can be found in “Sustainable Paths – Report on social Responsibility”, which was published online at www.snam.it at the same time as the Annual Report.

SNAM’S STAKEHOLDERS



Material issues

- **Financial/governance**
 - Creation of sustainable value
 - Corporate governance management
 - Risk and crisis management
 - Transparent management
 - Anti-corruption
 - Technological innovation
- **Environmental**
 - Protecting the local area and biodiversity
 - Climate change and energy efficiency
 - Protecting the atmosphere
- **Social**
 - Health and safety
 - Developing and promoting human capital
 - Employment and safeguarding jobs
 - Relations with regulatory authorities
 - Quality and development of services
 - Supply chain management
 - Stakeholder engagement

GOVERNANCE AND THE CONDUCT OF COMPANY ACTIVITIES

Snam operates within the framework of the **Universal Declaration of Human Rights**, the **fundamental conventions of the ILO** and the **OECD Guidelines for Multinational Enterprises**, and in compliance with its own **Code of Ethics**, which is also a key element of the **Organisational Model of Legislative Decree 231/2001**.

More detailed information on governance can be found in the "2015 Report on Corporate Governance and Ownership Structure", which was published online at www.snam.it at the same time as the Annual Report.

Snam's governance plays a crucial role in value creation dynamics. It helps to determine the conditions for the Company to interact properly and adequately with its reference environment, in particular by putting into practice the principles of integrity, transparency and compliance with internal and external rules, with the ultimate aim of reconciling the interests of our various stakeholders.

The governance system reflects the 'traditional' model and is developed in accordance with the applicable industry regulations (laws governing unbundling and listed companies), while also taking into account national and international best practice.

We manage our business in accordance with the **Corporate System Framework**, the organisational and procedural system applied across all Group companies in Italy and abroad, created to ensure that the system of rules governing the business is clear, simple and organic. Snam believes that being clear and transparent when defining roles and responsibilities, thereby reducing uncertainty and ambiguity, is essential in order to be able to correctly apply all the rules and regulations that govern all the Company's activities.

In order to successfully implement this system, managerial actions need to be based on the allocation of specific objectives to each position of responsibility and on the transparent assessment of results, thereby enabling continual improvements in the effectiveness and efficiency of corporate processes. Each manager receives a specific and coherent pay package, with positions that have a greater impact on the Company's results seeing more weight attached to the variable component of their pay, calculated on the basis of short- and long-term results.

More detailed information on remuneration can be found in the "2016 Remuneration Report", which was published online at www.snam.it at the same time as the Annual Report.

RISK OVERSIGHT AND THE CONTROL SYSTEM

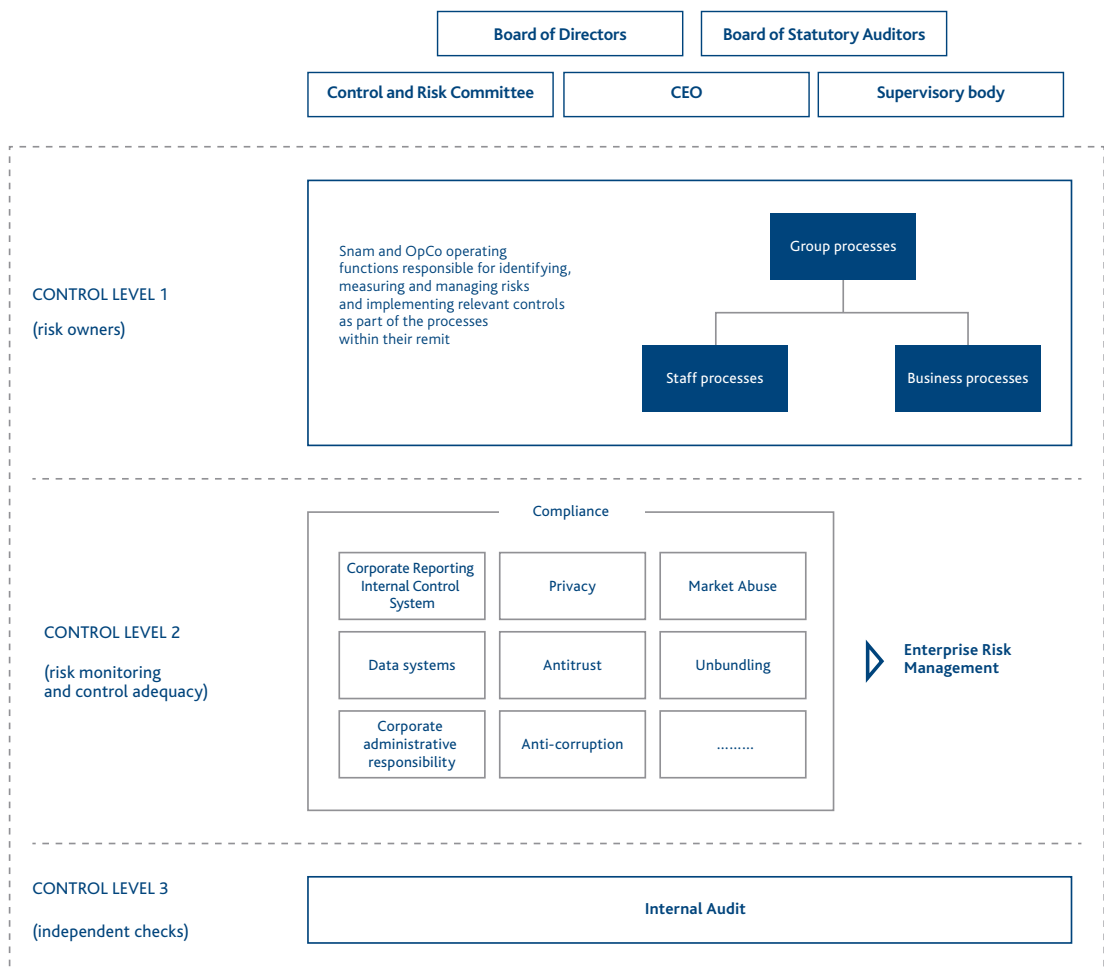
More information on how we manage and mitigate the major risks we face can be found on page 105 of this Report.

Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation.





















The system we use across the Group to identify, assess, manage and control risk has three levels, each with different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system.

We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to **the prevention of fraud and corruption** and **health, safety, environment and quality**.






These same controls form an integral part of the managerial processes. Management must therefore foster an environment that encourages controls, and must specifically manage “line controls”, consisting of all the control activities that individual operating units or companies perform over their own processes. Independent controls are performed by the Internal Audit department, which is responsible for checking that the system is functioning and adequate.















REFERENCES IN THE INTEGRATED REPORT TO MANAGEMENT OF THE CAPITALS

Type of capital	Description and specific reference to the Snam model	Reference in the Directors' Report
Financial 	The fundamental input for making investments in gas system infrastructure. We fund these investments using our own resources and debt capital obtained either on the financial markets or through our own operating income	   
Manufactured 	The network of infrastructure for transporting, storing and distributing natural gas and regasifying LNG, required to perform services for operators and users	 
Intellectual 	Unique to Snam, this consists mainly of the IT systems, procedures and good operating practices developed over time by managing the business	
Human 	This includes the specific skills and experience acquired by our staff, primarily by way of internal development programmes (this is essentially a self-made capital), and the business culture with its distinctive values, above all a culture of safety	  
Social and relationship 	This is the licence to operate that the stakeholders award to Snam, sustained by relations with these stakeholders at European and national levels, as well as by Snam's presence in the areas that host its infrastructure	 
Natural 	The land, air and biodiversity that Snam is committed to preserving through efficient and responsible environmental management, mitigating the environmental impacts and consequences generated predominantly during the construction of infrastructure	 






Legenda

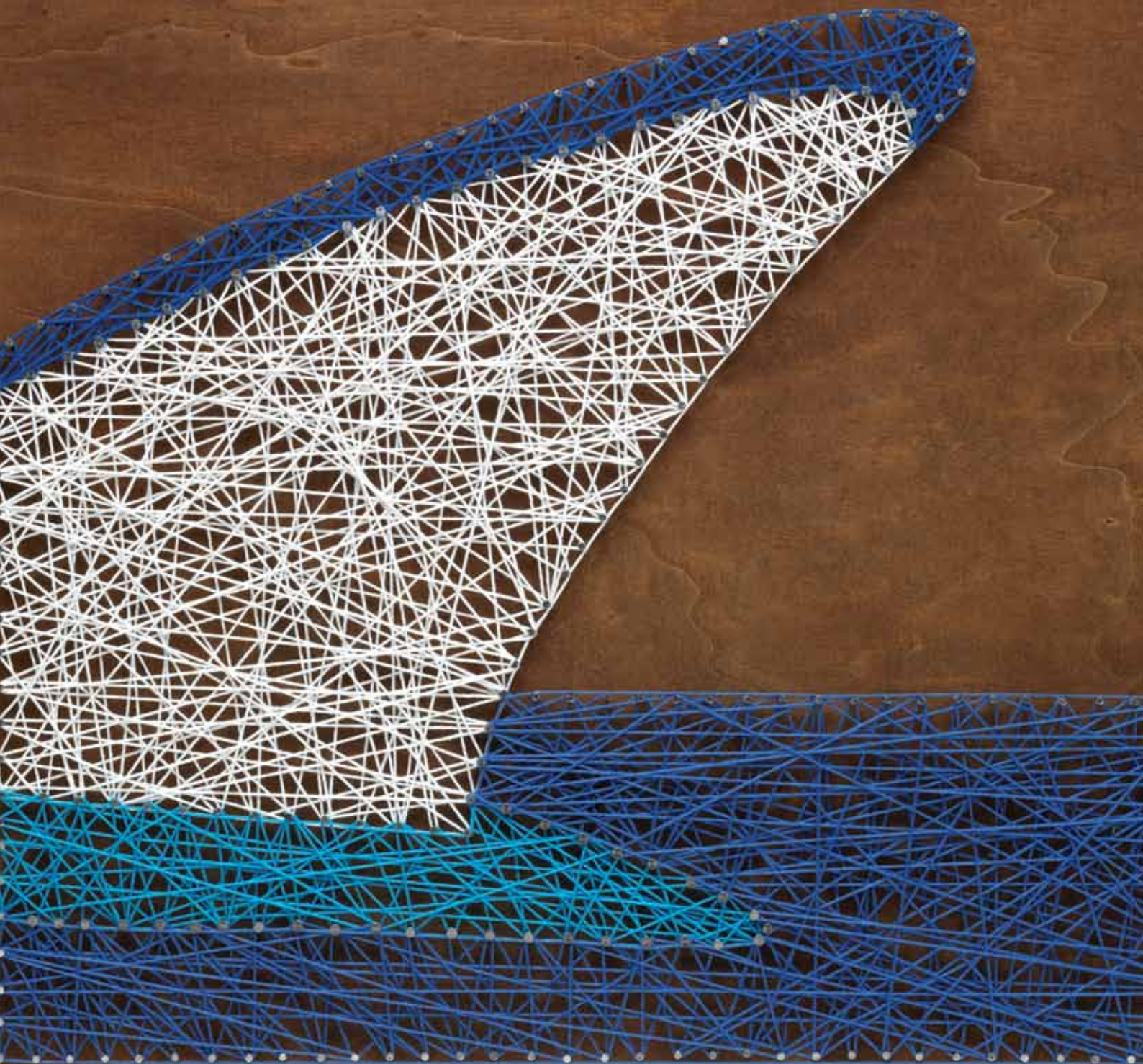
-  Summary data and information
-  Snam and the financial markets
-  Business segment operating performance
-  Uncertainty and risk management
-  Other operating information and results

REFERENCES IN THE INTEGRATED REPORT TO VALUE CREATION

Value dynamics and timelines	Value creation methods	Main operating activities	Reference in the Directors' Report
In the short term, value creation is tied to the ordinary performance of corporate activities in accordance with the methods prescribed by rules and procedures, particularly in relation to risk management the main point of reference is the annual budget.	Maintaining the efficiency and availability of the network	Executing the scheduled works Maintenance Controls and inspections	 
	Service quality and continuity	Compliance with the network codes	
In the medium term, the ability to carry out investment programmes, thereby ensuring a flow of resources and that favourable economic conditions are maintained, is also important. The main point of reference is the Business Plan, which covers a period of four years.	Preventing and mitigating risks and detrimental outside forces	Managing financial risks Managing operating risks Managing partnership portfolios Managing crises Preventing accidents Mitigating environmental impact	  
	Consistent investment flows	Planning infrastructure development Obtaining financial resources on the market Permissions	  
In the long term, it is vital that the investment decisions and strategic choices made have interpreted trends in the best way possible. The main point of reference is the infrastructure development plan submitted to the Authority, which covers a period of 10 years.	Maintaining and developing human and relationship capital	Relationships with the authorities Managing the supply chain in relation to the development of construction sites Developing roles and capabilities Managing relations with local communities	  
	Ensuring that strategic direction and development plans are consistent with the environment in the reference sector	Planning infrastructure development External growth	

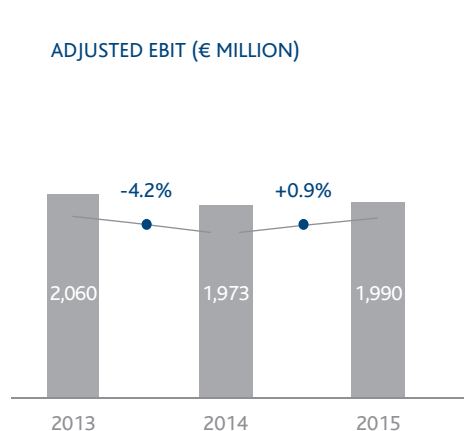
Legenda

-  Summary data and information
-  Snam and the financial markets
-  Business segment operating performance
-  Elements of risk management and uncertainty
-  Other operating information and results

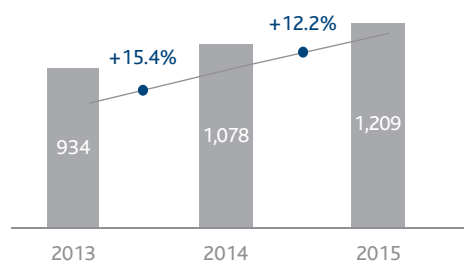


Summary data and information

ADJUSTED EBIT (€ MILLION)



ADJUSTED NET PROFIT (€ MILLION)



OVERVIEW OF THE YEAR

Financial results and assets

Snam once again delivered excellent results in 2015 thanks to robust operations, strict financial discipline and a growing contribution from our subsidiaries and associates. **Adjusted EBIT¹**, which excludes special items, came to €1,990 million, an increase of €17 million, or 0.9%, compared with 2014. Higher revenue (+€74 million), attributable mainly to the natural gas distribution (thanks in part to changes in the scope of consolidation) and transportation segments, were partially offset by higher operating costs (-€11 million), owing mainly to the effects of changes to the scope of consolidation², and by higher depreciation and amortisation (-€49 million) in all business segments.

A rise of +6.7% in adjusted EBIT in the distribution segment was offset by a decline of -2.6% in the transportation segment.

Adjusted net profit³, which excludes the positive effect of adjusting deferred taxes pursuant to the 2016 Financial Stability Law⁴ and the charges associated with the closure of the Gas Fund pursuant to the Law of 6 August 2015⁵, totalled €1,209 million, an increase of €131 million (+12.2%) on 2014. The rise was due essentially to higher adjusted EBIT (+€17 million), lower net financial expense (+€17 million), primarily as a result of lower borrowing costs thanks to Snam's efforts to optimise its debt structure, higher income from subsidiaries and associates valued using the equity method (+€47 million), and lower income taxes (+€93 million), due mainly to the elimination of the additional IRES charge, known as the Robin Hood Tax, from 1 January 2015.

- 1 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.
- 2 This refers to the natural gas distribution segment and, in particular, the effects of acquiring control of AES Torino (1 July 2014) and Acam Gas (1 April 2015).
- 3 The reconciliation of reported EBIT and net profit with their adjusted forms can be found on page 119 of this Report.
- 4 Among other fiscal measures, Law 208/2015 (2016 Financial Stability Law) on "Measures for the formation of the annual and multi-year government budgets", which was published in the Official Gazette of 30 December 2015 and came into force on 1 January 2016, made provision for reducing the IRES rate from 27.5% to 24% as of 1 January 2017.
- 5 As of 1 December 2015, Law 125 of 6 August 2015 closed the Supplementary Fund of compulsory general insurance for disability, old age and survivors for employees of private gas companies (hereinafter the "Gas Fund"), in which approximately 3,500 people from the Group were enrolled, particularly in the distribution segment. The Law established a series of additional employer contributions, estimated at €40 million on the basis of actuarial assumptions (€28 million net of tax).

Free cash flow +€771 million

Net financial debt was €13,779 million at 31 December 2015, compared with €13,652 million at 31 December 2014. The net cash flow from operating activities (€2,054 million), which benefited from the contribution received from investee companies valued using the equity method, allowed us to fully cover the financial requirements associated with net technical and financial investments and to generate a **free cash flow** of €771 million. Net financial debt, after the payment to shareholders of the 2014 dividend of €875 million, increased by €127 million compared with 2014.

2015 dividend €0.25 per share

Dividends

Thanks to its healthy results and solid business fundamentals, the Company will propose a dividend of **€0.25 per share** to the Shareholders' Meeting, to be paid from 25 May 2016, confirming Snam's commitment to an attractive and sustainable remuneration of its shareholders.

Main events

Feasibility study on possible separation of Italgas from Snam

As part of the ongoing process of analysis and evaluation of strategic options to maximise value for its shareholders, and taking into account development of the Group's various domestic and international businesses, Snam's Board of Directors identified the opportunity to launch a feasibility study on a possible industrial and corporate restructure to separate Italgas from Snam. This could be carried out through the partial and proportional spin-off of Snam involving all or a part of the equity investment in Italgas.

International growth

On 17 December 2015, Snam S.p.A. finalised the acquisition of the 20% stake held by Statoil Holding Netherlands B.V. in Trans Adriatic Pipeline AG (TAP) at a price of €130 million.

Furthermore, as a result of the acquisition, Snam took the place of Statoil in the shareholders' loan to TAP for an amount of €78 million as at the closing date, and all rights and commitments to complete the project.

TAP is the company involved in developing the pipeline that extends from the border between Turkey and Greece to Italy (Puglia region) along the southern corridor, making it possible to transport gas produced by the Shah Deniz II deposit in Azerbaijan to European markets under multi-year ship-or-pay agreements.

Snam's participation in the project will allow it to consolidate its leading role and that of Italian infrastructure in facilitating greater competition among energy sources and in enhancing supply security for European gas.

Investment of Crédit Agricole Assurances (CAA) in TIGF Holding

On 28 January 2015, Snam, GIC and EDF Invest (EDF) signed an agreement with CAA for the latter to acquire 10% in the share capital of TIGF.

The transaction closed on 26 February 2015. Based on a valuation of TIGF's entire share capital at over €1.8 billion (compared with over €1.3 billion in July 2013, when Snam first acquired shares in the company), Snam received a sum of more than €80 million.

Following the above transaction, Snam, GIC, EDF and CAA indirectly hold 40.5%, 31.5%, 18% and 10% respectively of TIGF's share capital (as at 31 December 2014, Snam, GIC and EDF held 45%, 35% and 20% respectively).

Optimisation of the Group's financial structure

Renewal of Euro Medium Term Notes (EMTN) programme

In 2015, the optimisation of the Group's financial structure continued, with a view to making it fit better with business requirements in terms of loan duration and exposure to interest rates, and at the same time reducing the overall cost of borrowing.

On 22 June 2015, the Snam Board of Directors approved the annual renewal of the EMTN programme, leaving unchanged the maximum bond issuance amount of €12 billion⁶.

⁶ On 23 June 2014, the Snam Board of Directors resolved to extend the EMTN programme for a total amount of €12 billion.

Liability Management transaction

In November 2015, Snam successfully launched and completed a Liability Management transaction involving the repurchase of outstanding bonds with an average fixed-rate coupon of 3.82% and **average remaining maturity of under two years** for a total nominal value of around €1.0 billion, and the concurrent issue of a new bond with a fixed rate of 1.375% and term of eight years totalling €0.75 billion.

The transaction's success, which was made possible by Snam's low risk profile and its high credit rating, made it possible to reduce the risk associated with refinancing maturing bonds and to extend the average term of the debt, thereby optimising Snam's liquidity profile.

Italgas – Revocation of judicial administration and confirmation of the Company's Board of Directors

On 9 July 2015, the activities related to the revocation of the judicial administration measure handed down by the Court of Palermo against Italgas were concluded. The Court, taking into account the outcomes of the checks carried out and the active collaboration of the Snam Group, ordered the revocation of the measure by means of a ruling on 29 June 2015.

Having acknowledged the revocation, on 9 July 2015 the Italgas Shareholders' Meeting reappointed all members of the Company's 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.

Following the revocation of the judicial administration measure handed down by the Court of Palermo and the confirmation of the Board of Directors by the Shareholders' Meeting, Italgas is putting in place the measures for implementation of the organisational and procedural plan and for monitoring and verifying the Company's activities. Italgas is also providing the competent authorities with the information flows provided for under Article 34, paragraph 8 of Legislative Decree 159/2011 (Judicial Control) relating to significant transactions. Italgas has filed an appeal against the provision of said information flows with the Palermo Court of Appeal, and is also providing the competent authorities with the results of the periodic reports of the Watch Structure. For more information, see Note 24, "Guarantees, commitments and risks – Disputes", of the Notes to the consolidated financial statements.

The main events relating directly to the operating segments are described in the "Business segment operating performance" section.

Post-balance sheet events

The main events relating to the operating segments are described in the "Business segment operating performance" section.

KEY FINANCIAL FIGURES

To improve the economic and financial review, in addition to conventional IAS/IFRS indicators and financial statements, the Directors' Report also contains reclassified financial statements and several alternative performance indicators such as EBITDA, EBIT, adjusted EBIT, adjusted net profit and net financial debt. The tables below, their explanatory notes and the reclassified financial statements describe how these amounts were determined. Unless otherwise specified, definitions of the terms used can be found in the glossary.

(€ million)	2013	2014	2015
Total revenue	3,529	3,566	3,649
- of which from regulated activities	3,491	3,506	3,573
Operating costs	726	790	850
EBITDA	2,803	2,776	2,799
EBIT	2,034	1,973	1,950
Adjusted EBIT (a)	2,060	1,973	1,990
Net profit (b)	917	1,198	1,238
Adjusted net profit (a) (b)	934	1,078	1,209

- (a) To reconcile net profit and reported EBIT with adjusted figures for these measures, see the section "Reconciliation of EBIT and net profit with adjusted EBIT and adjusted net profit" on page 119 of this Report.
- (b) Net profit is attributable to Snam.

KEY PROFIT AND FINANCIAL INDICATORS

		2013	2014	2015
EBIT per share (a)	(€)	0.602	0.583	0.557
Net profit per share (a)	(€)	0.271	0.354	0.354
Adjusted net profit per share (a)	(€)	0.276	0.318	0.345
Group shareholders' equity per share (a)	(€)	1.77	2.12	2.17
Pay-out (Dividends for the period/Net profit)	%	92.1	73.0	70.7
Adjusted pay-out (Dividends for the period/Adjusted net profit)	%	90.5	81.2	72.4
ROE (b)	%	15.4	18.2	16.8
ROI (c)	%	10.8	9.8	9.2
Dividend yield (dividend for the period/year-end official share price)	%	6.2	6.1	5.2
Price/Book value (Average official price per share/Group shareholders' equity per share)	(€)	2.06	2.00	2.08

- (a) Calculated considering the average number of shares outstanding during the year.
- (b) Return on equity (ROE) was calculated as the ratio of net profit to the average of the beginning and end shareholders' equity for the period.
- (c) Return on investment (ROI) was calculated as the ratio of EBIT to the average of the beginning and end net invested capital for the period.

KEY BALANCE SHEET AND CASH FLOW FIGURES

(€ million)	2013	2014	2015
Technical investments	1,290	1,313	1,272
Net invested capital at 31 December	19,320	20,824	21,365
Shareholders' equity including minority interests at 31 December	5,994	7,172	7,586
Group shareholders' equity at 31 December	5,993	7,171	7,585
Net financial debt at 31 December	13,326	13,652	13,779
Free cash flow	(92)	297	771

KEY SHARE FIGURES

		2013	2014	2015
Number of shares of share capital	(millions)	3,381.6	3,500.6	3,500.6
Number of shares outstanding at 31 December	(millions)	3,380.0	3,499.5	3,499.5
Average number of shares outstanding during the year	(millions)	3,379.5	3,384.7	3,499.5
Year-end official share price	(€)	4.04	4.11	4.85
Average official share price during the period	(€)	3.66	4.23	4.51
Market capitalisation (a)	(millions)	13,655	14,383	16,973
Dividend per share	(€ per share)	0.25	0.25	0.25
Dividends for the period (b)	(millions)	845	875	875
Dividends paid in the period (c)	(millions)	845	507	875

(a) The product of the number of shares outstanding (exact number) multiplied by the year-end official share price.

(b) The amount for 2015 was estimated on the basis of the number of shares outstanding at 31 December 2015.

(c) The dividend paid in 2014 refers to the balance of the 2013 dividend. Snam did not pay out an interim dividend in 2014 and 2015.

Breakdown of added value

At Snam, sustainability and the creation of value are strongly connected concepts. Sustainability creates value for the Company and stakeholders, and establishes a connection between the business and corporate social responsibility. The Company produces wealth by contributing to the economic growth of the society and environment in which it operates, and it measures this wealth in terms of added value produced and distributed to its key stakeholders. The table below is useful for understanding the Group's economic impact and makes it possible to read the consolidated financial statements from the standpoint of stakeholders.

In 2015, the added value produced by Snam was €2,535 million, which was in line with 2014 (€2,604 million).

ADDED VALUE PRODUCED

(€ million)	Reference in Notes to the consolidated financial statements	2013 (*)	2014 (*)	2015
Core business revenue	Note 25	3,735	3,784	3,856
Other revenue and income	Note 25	113	98	114
Net financial income/(expense) not related to debt	Note 28	(16)	1	(15)
Income from equity investments	Note 29	45	131	135
Less:				
Raw materials	Note 26	(91)	(123)	(180)
Services	Note 26	(401)	(404)	(389)
Lease and rental expense	Note 26	(88)	(89)	(99)
Capital losses	Note 26	(15)	(21)	(35)
Other operating expenses	Note 26	(25)	(70)	(28)
Increases for self-constructed assets – Cost of labour and financial expense	Note 26	94	100	95
Gross added value		3,351	3,407	3,454
Amortisation, depreciation and impairment	Note 27	(769)	(803)	(849)
Net added value		2,582	2,604	2,605

(*) Figures for 2013 and 2014 were recalculated to harmonise them with the exposure used in 2015.

The added value produced by the Snam Group in 2015 was distributed to stakeholders as follows:

DISTRIBUTION OF ADDED VALUE

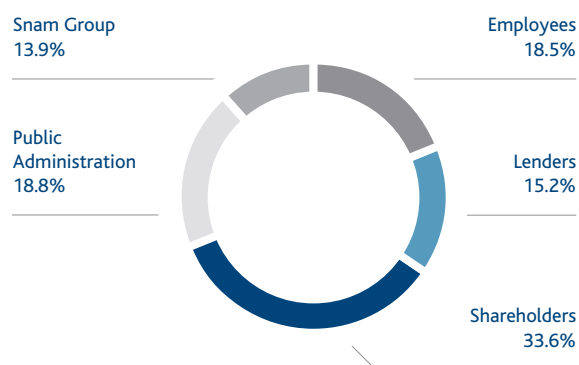
(€ million)	Reference in Notes to the consolidated financial statements	%	2013 (*)	%	2014 (*)	%	2015
Added value produced (A)			2,582		2,604		2,605
Added value produced (A)			2,510		2,281		2,242
Employees (**)	Note 26	17.9	461	16.7	436	18.5	483
Lenders		19.0	490	16.7	435	15.2	395
Bondholders	Note 28		290		350		364
Banks	Note 28		200		85		31
Shareholders (***)		32.7	845	33.6	875	33.6	875
Government		27.7	714	20.5	535	18.8	489
Direct taxes	Note 30		690		509		467
Indirect taxes	Note 26		24		26		22
Added value retained within the Group (A) - (B)		2.8	72	12.4	323	13.9	363

(*) Figures for 2013 and 2014 were recalculated to harmonise them with the exposure used in 2015.

(**) Includes staff-related service costs.

(***) The 2015 figure refers to the dividend proposed by the Board of Directors subject to the approval of the Shareholders' Meeting called for 27 April 2016.

DISTRIBUTION OF ADDED VALUE



In 2015 the percentage of added value distributed to **shareholders** through dividends distributed remained stable (33.6%; unchanged from 2014), while there was a reduction in the value paid to the **Government** through the payment of direct and indirect taxes (18.8%; -1.7% from 2014), resulting from the adjustment of deferred taxes due to the reduction, as of 1 January 2017, of the IRES tax rate from 27.5% to 24%, and a reduction in the value distributed to **lenders** (15.2%; -1.5% compared to 2014) partly due to measures taken to optimise the Group's financial structure. However, there was an increase in added value distributed to **employees** (18.5%; +1.8% compared to 2014) in the form of direct compensation consisting of wages, salaries and severance pay and indirect compensation consisting of social security contributions and staff-related service costs (canteen services, reimbursement of travel expenses) attributable mainly to costs associated with the Gas Fund closure. The **Group** retained 13.9% of added value produced (+1.5% over 2014).

Changes in business environment

Changes in demand and availability of gas in Italy⁷

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.

Gas demand in Italy in 2015 was **67.44 billion cubic metres**, up 5.53 billion cubic metres (**+8.9%**) compared with 2014. The increase was due to higher consumption in the thermoelectric sector (+3.01 billion cubic metres; +16.8%), an increase in the demand for electricity and a concurrent reduction in the production of hydroelectric power, which were partially offset by the growing production of energy from other renewable sources (in particular, photovoltaic panels, wind turbines and bioenergy sources), and higher consumption in the residential and tertiary sectors (+2.95 billion cubic metres; +11.5%), largely due to climate conditions.

Adjusted for the weather effect, gas demand was estimated at 68.56 billion cubic metres, up by 1.83 billion cubic metres (+2.7%) compared with 2014 (66.73 billion cubic metres).

⁷ Figures for natural gas volume for 2015 are updated to 14 January 2016. The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

GAS DEMAND IN ITALY

The changes indicated in the following tables in this report are to be seen as changes from financial year 2014 to 2015. Unless otherwise indicated, percentage changes were calculated using the figures indicated in the related tables.

(billion m ³)	2013	2014 (*)	2015	Change	% change (**)
Residential and tertiary	31.09	25.66	28.61	2.95	11.5
Thermoelectric	20.60	17.88	20.89	3.01	16.8
Industrial (***)	16.51	16.32	15.97	(0.35)	(2.1)
Other (****)	1.87	2.05	1.97	(0.08)	(3.9)
	70.07	61.91	67.44	5.53	8.9

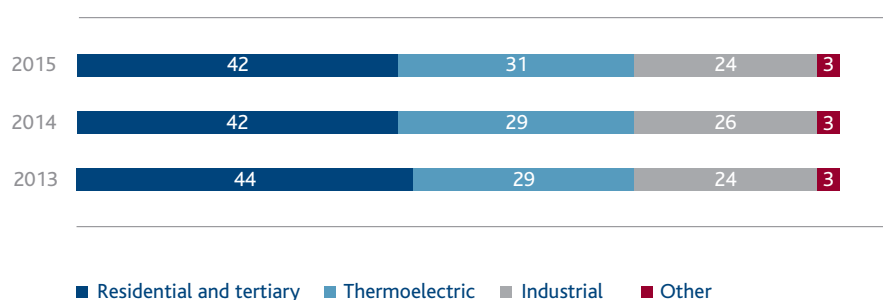
(*) The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(**) The percentage changes were calculated with reference to the figures in cubic metres.

(***) Includes the consumption of the Industrial, Agricultural and Fishing, Chemical Synthesis and Automotive sectors.

(****) Consumption and losses relating mainly to the natural gas transportation system, the energy system, the upstream sector, storage and LNG plants.

GAS DEMAND BY SECTOR (% OF TOTAL GAS DEMAND)



The **availability of natural gas in Italy** (66.94 billion cubic metres) is equal to the sum of gas injected into the national transportation network and the net balance of withdrawals from and injections into the storage system, and was up by 5.55 billion cubic metres (+9.0%) compared with 2014. The increase was due to higher volumes of gas injected into the network by entry point (+5.46 billion cubic metres; +9.9%) and lower net injections into the storage system (+0.55 billion cubic metres), which were partially offset by lower domestic production (-0.46 billion cubic metres; -6.7%).

AVAILABILITY OF NATURAL GAS

(billion m ³)	2013	2014(*)	2015	Change	% change
Gas injected into the network by entry point	61.54	55.36	60.82	5.46	9.9
Domestic output	7.46	6.89	6.43	(0.46)	(6.7)
Total gas injected into the network	69.00	62.25	67.25	5.00	8.0
Net balance of withdrawal/injection into storage (**)	0.48	(0.86)	(0.31)	0.55	(64.0)
Total availability of natural gas	69.48	61.39	66.94	5.55	9.0

(*) The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(**) Understood as the balance between the withdrawals from (+) and injections into (-) the storage system expressed gross of consumption for injection/withdrawal.

The natural gas withdrawn from the National Transportation Network in 2015 (66.94 billion cubic metres) was mainly for: (i) redelivery to users at network exit points (66.46 billion cubic metres; +9.0%); (ii) exports and transit (0.27 billion cubic metres); and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.18 billion cubic metres).

WITHDRAWALS OF NATURAL GAS

(billion m ³)	2013	2014	2015	Change	% change
Redelivery to the domestic market	69.05	60.97	66.46	5.49	9.0
Exports and transit (*)	0.28	0.28	0.27	(0.01)	(3.6)
Consumption and emissions attributable to Snam Rete Gas	0.25	0.18	0.18		
Gas not accounted for and other changes (**)	(0.10)	(0.04)	0.03	0.07	
Total withdrawals of natural gas	69.48	61.39	66.94	5.55	9.0

(*) Includes exports to the Republic of San Marino.

(**) Includes the change in network capacity. In the energy report compiled by Snam Rete Gas, the natural difference between the quantity of gas metered at the entrance to the network and the quantity of gas metered at the exit, due to the technical tolerance of the metering devices, is traditionally defined as unaccounted-for gas (UFG).

RECONCILIATION OF THE GAS WITHDRAWN FROM THE NETWORK AND ITALIAN DEMAND

(billion m ³)	2013	2014(*)	2015	Change	% change (**)
Quantities withdrawn	69.48	61.39	66.94	5.55	9.0
Exports (-) (***)	(0.28)	(0.28)	(0.27)	0.01	(3.6)
Gas injected into the regional networks of other operators	0.05	0.05	0.03	(0.02)	(40.0)
Other consumption (****)	0.82	0.75	0.74	(0.01)	(1.3)
Total Italian demand	70.07	61.91	67.44	5.53	8.9

(*) The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(**) The percentage changes were calculated with reference to the figures in cubic metres.

(***) Includes transit and exports to the Republic of San Marino.

(****) Includes the consumption of the LNG regasification terminals, the consumption of the compression stations for storage and the production treatment stations.

Main elements of the pricing framework

By means of Resolutions 514/2013/R/gas, 438/2013/R/gas and 573/2013/R/gas, the Authority defined the tariff criteria for the fourth regulatory period, in force from 1 January 2014, for natural gas transportation, regasification and distribution, respectively. With regard to storage activities, the fourth regulatory period runs from 1 January 2015 according to tariff criteria established by the Authority by means of Resolution 531/2014/R/gas.

FOURTH REGULATORY PERIOD

Transportation	4 years	January 2014	December 2017
Regasification	4 years	January 2014	December 2017
Storage	4 years	January 2015	December 2018
Distribution	6 years	January 2014	December 2019

Below are the key tariff components for each of the regulated activities performed by Snam based on regulations in force at 31 December 2015. Additional information on the main new tariff provisions introduced in 2015 are provided in the section "Business segment operating performance – Tariff regulations" in this Report.

	TRANSPORTATION	REGASIFICATION	STORAGE	DISTRIBUTION
End of regulatory period (TARIFFS)	31 December 2017	31 December 2017	31 December 2018	31 December 2019
Calculation of net invested capital recognised for regulatory purposes (RAB)	Revalued historical cost	Revalued historical cost	Revalued historical cost Deduction of restoration costs	Revalued historical cost Parametric centralised asset method
Return of net invested capital recognised for regulatory purposes (pre-tax WACC)	6.3% 2015 5.4% 2016-2017 (*)	7.3% 2015 6.6% 2016-2017 (*)	6.0% 2015 6.5% 2016-2018 (*)	Distribution 6.9% 2015 6.1% 2016-2018 (*) Metering 7.2% 2015 6.6% 2016-2018 (*)
Incentives on new investments	+1% for 7 years (regional network development investments) +1% for 10 years (national network development investments) +2% for 10 years (entry point development investments) Wacc +1% on new investments made after 31 December 2013 to offset regulatory time lag	+2% for 16 years (new terminals or expanding existing terminal capacity >30%) Wacc +1% on new investments made after 31 December 2013 to offset regulatory time lag	20% withholding for 8 years for revenues in excess of revenue recognised resulting from insolvency procedures Return on investments t-1 to offset the regulatory time lag (from 2014)	Return on investments t-1 to offset the regulatory time lag (from 2013)
Efficiency factor (X FACTOR)	2.4% - on operating costs	0%	To be defined by the next provision from the Authority	1.7% - on distribution operating costs 0.0% - on metering operating costs

(*) The rate of return on net invested capital (WACC) in force as of 1 January 2016 was set by the Authority by means of Resolution 583/2015/R/com of 2 December 2015, "Rate of return on invested capital for infrastructural services in the electricity and gas sectors: calculation and updating criteria". The duration of the WACC regulatory period for infrastructural regulations in the gas sector is set at six years (2016-2021), and a mechanism is provided to update the rate halfway through the period according to the economic situation.



Technical investments

Technical investments totalling €1,272 million (€1,313 million in 2014) referred mainly to the natural gas transportation (€693 million), distribution (€393 million) and storage (€170 million) business segments.

Infrastructure development and integration

The main investments for the development of new infrastructure mainly involved work for the **reversal of physical transportation flows at interconnection points with northern Europe** (€176 million), the **upgrade of the transportation network from entry points in southern Italy** (€63 million) and the upgrade of the network and connection of new regional and national redelivery points (€79 million). An investment of €76 million was made to **develop new storage fields**, while €41 million was invested to **upgrade capacity**. An investment of €89 million was made to **extend distribution**

networks and €132 million was invested to **improve service quality**, enhancing the technology of metering activities by developing the remote reading system through the installation of digital meters.

As a result of the work completed and disposals, **the pipeline network in operation grew by a total of 195 km** (+0.6% compared with 31 December 2014), while **installed capacity in compression stations dropped by 17 MW** (-1.9%). Available **storage capacity** rose by 0.1 billion cubic metres to a level of 11.5 billion cubic metres.

Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled €253 million for transportation and €53 million for storage, while €110 was spent on modernising the distribution network.

In 2015, pipelines were regularly inspected by foot, vehicle and helicopter to detect hazardous situations that could have had an impact on the integrity of the infrastructure, and an inspection was carried out on the pipeline conditions by inserting smart devices in them to detect any defects.

CONTROL AND INSPECTION OF TRANSPORTATION ACTIVITIES

	2013	2014	2015
Network inspected using smart pigs (km)	2,342	1,950	1,315
Network inspected by helicopter (km)	15,400	15,700	16,330

With regard to distribution, monitoring is conducted through the cathodic protection of steel pipes at 9,100 significant points that are continuously metered remotely. In addition, in 2015 a total of about 25,000 manual measurements were taken.

A major source of information on the status of the distribution network is provided by searching for leaks of gas into the atmosphere from street pipes. In 2015, around 27,000 km of the pipes of Italgas and its subsidiaries were inspected.

Operating review

Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2015 was 371.6 million cubic metres/day on average, which was in line with 2014 (-0.6%), while transferred capacity totalled 293.8 million cubic metres/day on average. Network saturation⁸ was 79.1%, a decrease compared with 2014 (84.7%). The number of active transportation users rose from 134 in 2014 to 139 (+3.7%). During the year, 65 connection agreements were entered into for the creation of new delivery/redelivery points. Overall storage capacity, including strategic storage, was 16.0 billion cubic metres at 31 December 2015, an increase of 0.1 billion cubic metres over 2014, of which 11.5 was available capacity that was fully transferred for the 2015-2016 thermal year, and the remaining 4.5 billion cubic metres was for strategic storage.

There were 118 active storage customers (107 in 2014; +10.3%).

8 Ratio of capacity transferred to available capacity.

**+5.00 billion m³
of gas injected
into the network**

Business volume

A total of 67.25 billion cubic metres of gas was injected into the transportation network, an increase of 5.00 billion cubic metres (+8.0%) compared with 2014. The increase was mainly due to the increase in demand for natural gas in Italy (+5.53 billion cubic metres compared with 2014; +8.9%), largely attributable to greater consumption in the thermoelectric (+16.8%) and residential and tertiary (+11.5%) sectors, partially offset by higher usage of storage facilities (-0.53 billion cubic metres).

**+3.88 billion m³
of gas moved through
the storage system**

The volume of gas moved through the storage system in 2015 totalled 19.58 billion cubic metres, an increase of 3.88 billion cubic metres (24.7%) on 2014. The increase was mainly attributable to higher withdrawals from storage (+2.17 billion cubic metres; +28.7%) due to substantial use of stocks by system operators, as well as to higher injections to replenish stocks (+1.71 billion cubic metres; +21.0%).

In 2015, the LNG terminal in Panigaglia (SP) regasified 0.03 billion cubic metres of natural gas (0.01 billion cubic metres in 2014). The LNG regasification activity was carried out in the context of the peak shaving service.

**+118 million
active meters**

At 31 December 2015, Snam had concessions for gas distribution services in 1,472 municipalities (1,437 as at 31 December 2014), of which 1,401 had operational networks (1,361 as at 31 December 2014). It had 6.526 million active meters at gas redelivery points to end users (households, businesses, etc.), compared with 6.408 million at 31 December 2014 (+1.8%).

KEY OPERATING FIGURES

	2013	2014	2015	Var.ass.	Var.%
Natural gas transportation (a)					
Natural gas injected into the national gas transportation network (billions of cubic metres) (b)	69.00	62.25	67.25	5.00	8.0
Transportation network (kilometres in use)	32,306	32,339	32,534	195	0.6
Installed power in the compression stations (MW)	866.9	893.9	876.5	(17.4)	(1.9)
Liquefied natural gas (LNG) regasification (a)					
LNG regasification (billions of cubic metres)	0.05	0.01	0.03	0.02	
Natural gas storage (a)					
Available storage capacity (billions of cubic metres) (c)	11.4	11.4	11.5	0.1	0.9
Natural gas moved through the storage system (billions of cubic metres)	18.42	15.70	19.58	3.88	24.7
Natural gas distribution (d)					
Active meters (millions)	5,928	6,408	6,526	0.118	1.8
Gas distribution concessions (number)	1,435	1,437	1,472	35	2.4
Distribution network (kilometres) (e)	52,993	55,278	56,717	1,439	2.6
Employees in service at period end (number) (f)					
by business segment:					
- Transportation	1,952	1,874	1,918	44	2.3
- Regasification	79	77	73	(4)	(5.2)
- Storage	303	291	299	8	2.7
- Distribution (d)	3,008	3,124	3,298	174	5.6
- Corporate and other activities	703	706	715	9	1.3

(a) With regard to 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.

(b) Figures for 2015 were updated to 14 January 2016. The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) Working gas capacity for modulation, mining and balancing services, allocated in full as at 31 December 2015.

(d) The data relating to 2015 include the company Acam Gas S.p.A., which has been fully consolidated since 1 April 2015, and the companies Metano Arcore S.p.A. and SETEAP S.p.A., which merged with Italgas S.p.A. and Napoletanagas S.p.A., respectively, effective as of 1 January 2015.

(e) This figure refers to the kilometres of network operated by Italgas.

(f) Fully consolidated companies.



Number of employees and operating efficiency

The number of employees in service at 31 December 2015 was 6,303 (6,072 at 31 December 2014), an increase of 231 (+3.8%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation was 6,213 (6,116 in 2014).

2015 was characterised by both a major initiative to change the employment mix, and by the development and consolidation of systems and policies for leadership and performance orientation. Specifically, the employment figures recorded during 2015 were as follows:

- an increase of 382 employees, of whom 273 were hired from the market (of whom 38% held university degrees, 55% held diplomas from technical institutions and 7% held lower qualifications), and 109 were other new employees resulting from an increase of 95 employees at Italgas and subsidiaries following the consolidation of Acam Gas (91) and Metano Arcore (4), the return of 9 employees to work from leave, and 5 transfers from unconsolidated companies;

- a decrease of 151 employees, of whom 91 were the result of the termination of employment, 9 were terminated unilaterally and another 51 employees left.

With respect to the Group's national distribution, 3,544 people are employed in the northern regions of Italy, 1,183 in the central regions and 1,573 in the south. Furthermore, 3 individuals are permanently employed abroad.

As regards industrial relations, in 2015 there was a consolidation of second-level negotiations that led to the parties establishing productivity and profitability indicators for the 2015 bonus for all Snam Group companies.

The cost of labour and related expenses totalled €454 million (before the capitalised portion), an increase of €40 million on 2014 (€406 million). This increase was mainly due to the closure of the Gas Fund by State law (a pension fund that used compensation-based rather than contribution-based calculations), and the re-establishment of supplementary employee pensions by distribution companies. Net of this impact and the growth in employment generated, including as a result of recent acquisitions in the distribution area, the impact of policies aimed at revising and improving operating efficiency made it possible to mitigate the inflationary growth of labour contracts.

Supply chain management

In 2015, supply chain management focused on the streamlining of supplies and the optimisation of the supplier base.

The introduction of new, more stringent procedures during the qualification process (ethical and reputational checks) and the departure from the market of certain suppliers due to the ongoing domestic economic crisis further contributed to a reduction in the number of suppliers on the Group's vendor list, thereby further strengthening the activities more directly connected to the Company's core business.

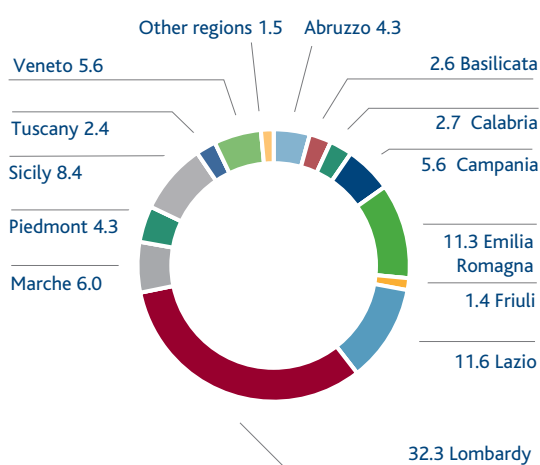
Snam provided work to 910 companies including 619 in the small and medium-sized enterprise category (SME), under 1,386 supply agreements (-11.9% compared with 2014), of which 62% were entered into with SMEs valued at a total of €1.89 billion (+61.5% over 2014), broken down by work (38.5%), goods (22.4%) and services (39.1%). Domestic companies accounted for 93% of these agreements.

The significant increase in the amount of purchases was mainly the result of investment planning. The reorganisation of the businesses of the subsidiary Italgas and the renewal of significant Group framework agreements in the service area also contributed to this.

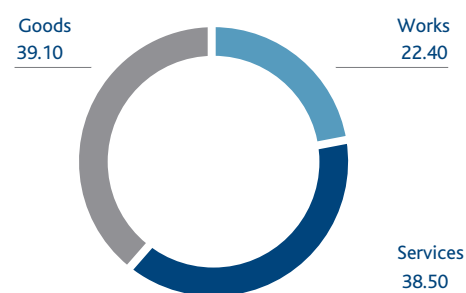
At 31 December, the vendor list included 2,547 qualified suppliers, and 295 suppliers were in the process of being renewed or obtaining new qualifications. The supply chain was checked and monitored with 19 audits during the qualification phase of critical suppliers, 1,300 feedback reports collected on services rendered by 243 suppliers and the issue of 92 sanctions for defaults including notices, suspensions and revocation of qualifications.

For the supply of work, which is the most significant category since it is related to core activities, critical suppliers (criticality levels A and B) all had quality and environmental management systems certified according to ISO 9001 and ISO 14001 standards. In addition, in 2015 the goal of having nearly all (90%) of these suppliers obtain OHSAS 18001 certification (worker health and safety) was achieved and surpassed with a significant increase over 2014 when this level was 60%.

GEOGRAPHIC BREAKDOWN OF PROCUREMENT IN ITALY (%)



PROCUREMENT BY GOODS TYPE (%)



Accidents

In 2015 a total of 34 accidents occurred, including 22 involving employees and 12 involving contracting suppliers. There were no fatalities in the case of contract workers. In the case of employees, there were two fatal accidents in the distribution area, and one in the transportation area.

ACCIDENTS AT WORK (NO)

	2013	2014	2015
Total employee accidents	15	15	22
Total contract worker accidents	22	16	12

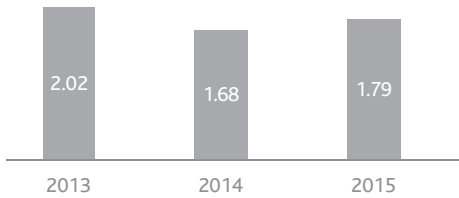
ACCIDENT INDICES

	2013	2014	2015
Employees and contract workers			
Frequency index	2.02	1.68	1.79
Severity index	0.12	0.09	0.11
Employees			
Frequency index	1.51	1.49	2.14
Severity index	0.09	0.08	0.10
Contract workers			
Frequency index	2.63	1.91	1.38
Severity index	0.16	0.10	0.11

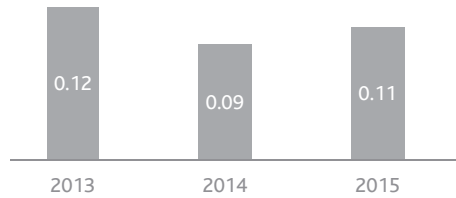
Frequency index: number of accidents at work resulting in absence of at least one day, per million hours worked.
Severity index: number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. Data do not reflect fatal accidents.

EMPLOYEE AND CONTRACT WORKER ACCIDENT GRAPHS

ACCIDENTS AT WORK - EMPLOYEE AND CONTRACT WORKER FREQUENCY INDEX



ACCIDENTS AT WORK - EMPLOYEE AND CONTRACT WORKER SEVERITY INDEX



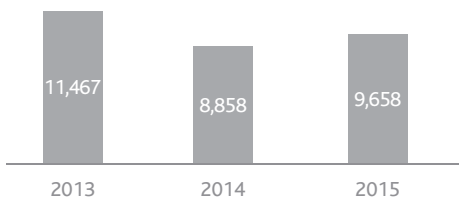
Energy consumption

In 2015 energy consumption totalled around 9,658 terajoules (TJ), an increase of 9% over 2014. The increase is attributable to the higher amount of gas transported (+8% compared with 2014) and stored (up over 20% compared with 2014). In particular, the increase in gas stored is significantly higher than the increase in consumption due to the growing use of high-efficiency turbines that improve energy performance.

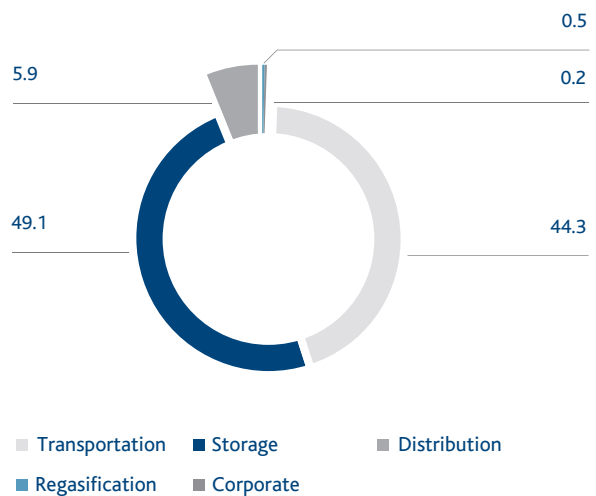
The most heavily used energy source was natural gas, which covered 93.8% of total energy needs. Other sources used are electricity (4.2%) and other fuels (diesel fuel, gasoline, LPG and heat), which together represent 2% of consumption.

ENERGY CONSUMPTION DATA

ENERGY CONSUMPTION (TJ)

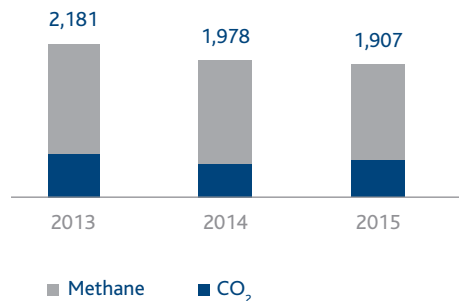


ENERGY CONSUMPTION BY BUSINESS SEGMENT (%)



Greenhouse gas emissions

DIRECT CO_{2eq} EMISSIONS -SCOPE 1 (10³ T) (*) (**)



- (*) In 2015 CO_{2eq} emissions were calculated with a methane GWP of 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".
- (**) Data for CO_{2eq} emissions in 2015 are not directly comparable with previous years since methane emissions were calculated using a GWP of 25, and in distribution activities, specific emission indices were updated following a methodological revision supported by a specific experiment.

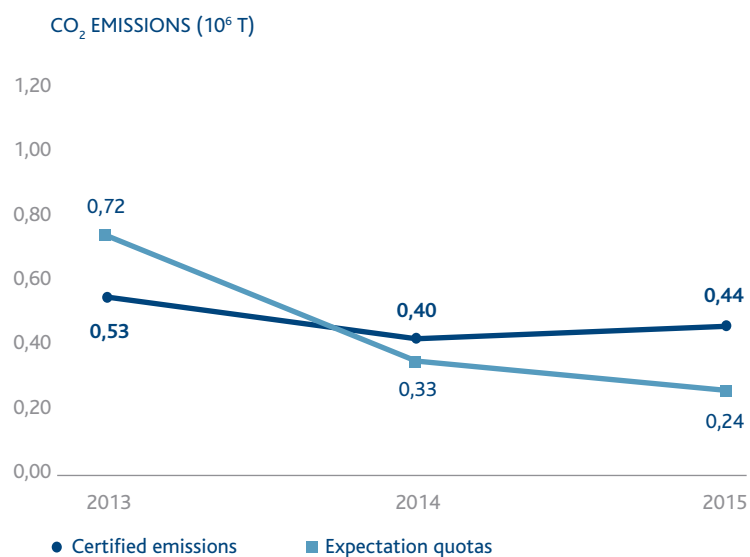
In 2015, direct emissions of CO_{2eq} totalled about 1.91 million tonnes, direct emissions of CO₂ from combustion were about 0.52 million tonnes, while emissions of CO_{2eq} from methane emissions were about 1.39 million tonnes.

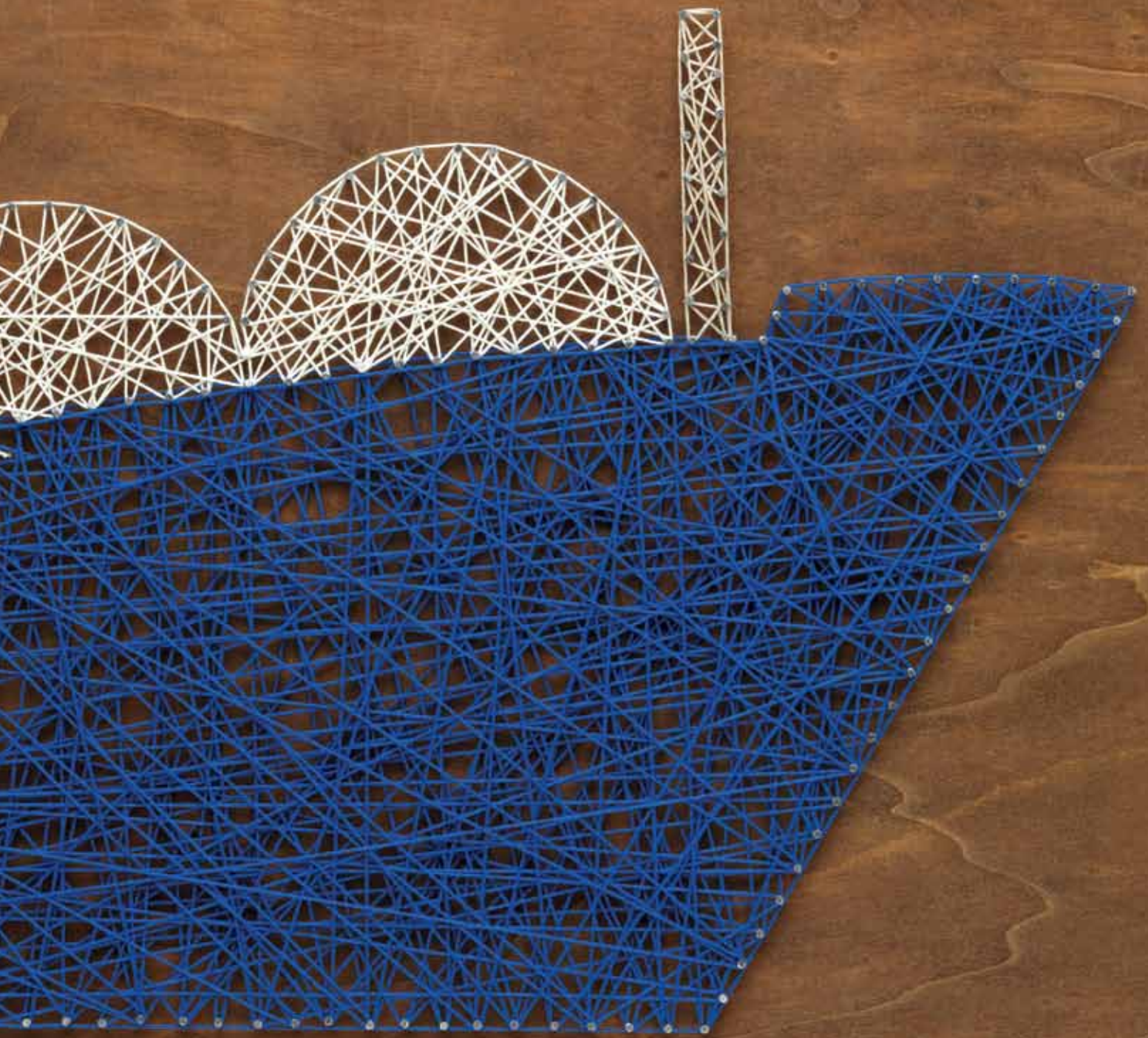
In 2015, the Snam Group's total CO₂ plant emissions subject to the ETS Directive, and certified by an accredited body according to the provisions of the competent national authority, amounted to 0.44 million tonnes, out of total annual allowances of 0.24 million issued by the Ministry of the Environment and Protection of Land and Sea (negative balance of 0.20 million allowances). This deficit is amply offset by the allowances already present in the registers for the individual plants, accumulated thanks to the surplus from previous years.

With the start of the third regulatory period (2013-2020), the system for the authorisation to emit greenhouse gas, which was previously regulated by Legislative Decree 216/2006, was updated and revised by Legislative Decree 30 of 13 March 2013, in force since 5 April 2013. According to the new provisions, the main goal of the decree was to update regulations concerning authorisations to emit greenhouse gas, and to constantly reduce emission allowances issued free of charge. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant (as in the second regulatory period), and will also depend on the actual functionality of the plants.

PLANTS SUBJECT TO ETS DIRECTIVE

Business	Number of plants	Name of plants
Transportation	11	Gas compression stations in Enna, Gallese, Istrana, Malborghetto, Masera, Melizzano, Messina, Montesano, Poggio Renatico, Tarsia, Terranuova Bracciolini
Storage	8	Storage gas compression stations in Cortemaggiore, Fiume Treste, Minerbio, Ripalta, Sabbioncello, Sergnano, Settala and Bordolano
Regasification	1	Liquefied natural gas plant in Panigaglia





Snam and the financial markets

In 2015, European equity markets continued to be highly volatile. The first half of the year saw a sharp rise supported by expectations, by the ECB announcement of quantitative easing and an overall improvement in the economic cycle. This was followed by the second half of the year with an overall retreat of equity indices due at first to the possible exit of Greece from the single currency, and then to fears of a global slowdown resulting from Chinese macroeconomic data below expectations and the continuing drop in the price for crude oil and other commodities, which put several emerging countries that export raw materials into a recession.

The Stoxx Europe 600 index ended 2015 with a 6.8% increase over the end of 2014, while in terms of domestic indices, the best performance was reported by the FTSE MIB, which was up by 12.7% based on expectations of a recovery of the Italian economy after years of crisis. Despite the positive performance of regulated securities, the Stoxx Europe 600 Utilities index ended 2015 down 3.7% due to the weak performance of securities of integrated companies, resulting from the reduction in electricity prices brought about by the decrease in prices for energy raw materials.

The ECB purchase programme resulted in a compression of the BTP-BUND spread from about 135 bps at the beginning of 2015 to about 97 bps at the end of the same year, although the yield of the BUND remained essentially unchanged. On the other hand, the quantitative easing programme, which largely focused on sovereign securities, produced a larger spread relative to corporate yields.



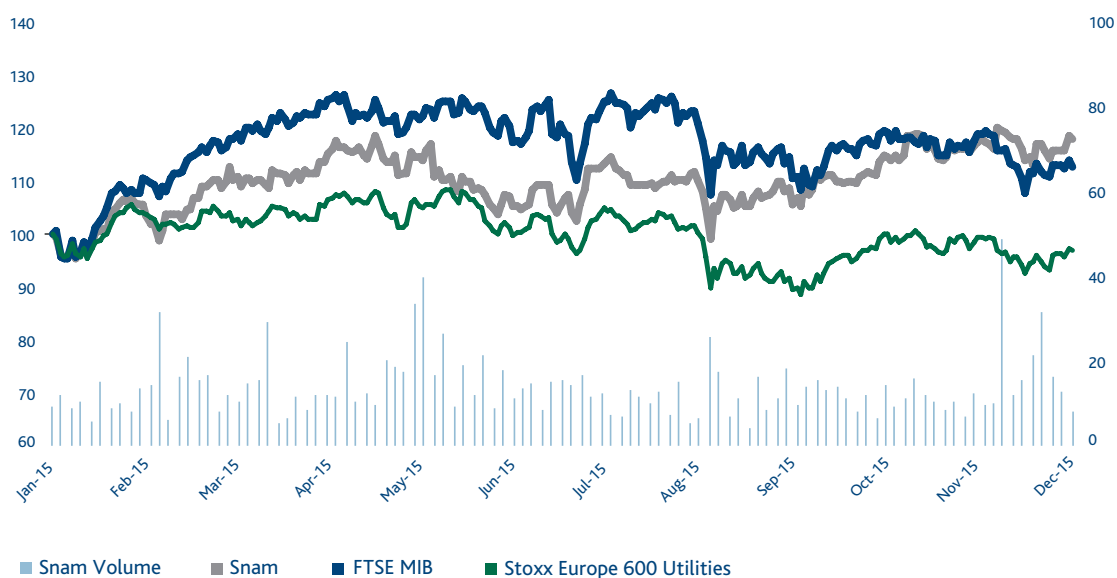
SNAM SHARE PERFORMANCE

The Snam share price closed 2015 at an official price of €4.848, up 17.8% from the €4.114 recorded at the end of the previous year. The stock appreciated in value almost continually during the entire year, driven initially by the overall rise in equity markets and the contraction in sovereign yields. Later, prices were bolstered by improved expectations concerning the revision in the return recognised on invested capital for regulatory purposes and by the attractive dividend yield and the business's defensive profile. In 2015 the stock hit a historical high of €4.93 on 3 December.

Around 3.3 billion Snam shares were traded on Borsa Italiana's electronic market (MTA) in 2015, with an average of 13.1 million shares traded daily, an increase over the average of 10.2 million reported in 2014.

SNAM - COMPARISON OF PRICES OF SNAM, FTSE MIB AND STOXX EUROPE 600 UTILITIES

(1 January 2015 - 31 December 2015)



SHAREHOLDERS

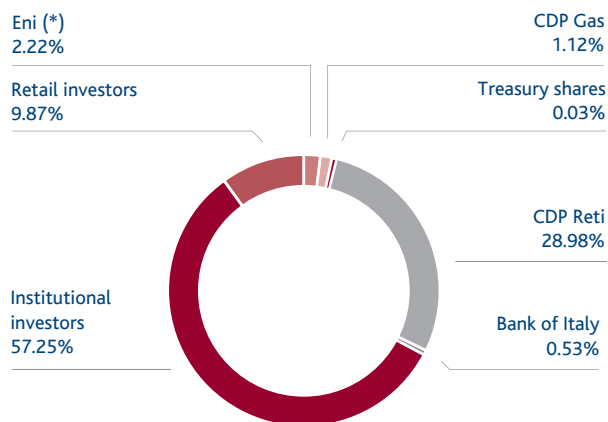
The share capital as at 31 December 2015 consisted of 3,500,638,294 shares with no indication of nominal value (unchanged from 31 December 2014), with a total value of €3,696,851,994 (unchanged from 31 December 2014).

As at 31 December 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 about €5 million.

At year end, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 28.98% of share capital, Eni S.p.A. held 2.22%⁹, CDP Gas S.r.l. held 1.12%, Snam S.p.A. held 0.03% in the form of treasury shares, and the remaining 67.65% was in the hands of other shareholders.

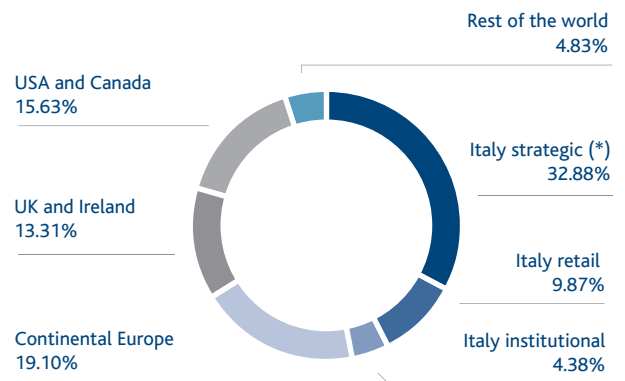
⁹ As at 18 January 2016, the maturity date of the Eni bond convertible to Snam shares, which was placed in December 2013, Eni S.p.A. held 792,619 ordinary Snam shares, equal to 0.02% of share capital, resulting in an increase in minority interests, which at that date totalled 69.85%.

COMPOSITION OF SNAM SHAREHOLDERS



(*) Eni's allowance was further reduced to 0.02% on 18 January 2016, following the conversion of the bond loan.

SNAM OWNERSHIP STRUCTURE BY REGION



(*) Includes treasury shares, Bank of Italy, CDP Reti, CDP Gas and Eni shares.



Relations with the financial community and investor relations policy

Snam's communications policy has always focused on an ongoing dialogue with the entire financial community. The company's goal is to establish a relationship of trust with shareholders, investors, analysts and all financial market operators, and to provide them with regular, complete and prompt information to ensure an excellent understanding of the Group's performance and strategy.

An active policy of engaging investors, supported by clear and transparent communications, contributes to the enhancement of the Company's reputation, and Snam considers this a strategic factor in creating value in terms of shareholder satisfaction, understanding their expectations concerning corporate governance and enhancing the knowledge of all stakeholders who are called upon to make decisions that impact the Company.

This communications policy takes the form of many economic and financial publications concerning business performance and sustainability developments, in addition to ongoing meetings and events, which throughout 2015 included the following:

- 19 roadshows to meet shareholders and institutional investors in the major financial centres of Europe and North America;
- 7 industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet the Company's senior management;
- 108 one-to-one meetings between management and investors, in addition to numerous group meetings (42);
- conference calls upon the publication of the Company's results (annual, semi-annual and quarterly) and the presentation of the Business Plan.

Inclusion of Snam stock in sustainability indices

In 2015, for the seventh consecutive year, Snam stock was again included by **RobecoSAM** (one of the most important sustainability rating agencies at global level) in the **Dow Jones Sustainability World Index**, the main international equity index formed on the basis of the performance of companies in the area of economic, social and environmental sustainability.

In January 2016, for the second consecutive year, RobecoSAM placed Snam in the **Silver Class** of the Sustainability Yearbook 2016, a distinguished group of companies, which in the industrial sector concerned includes companies with a high score in terms of sustainability.

Further confirmation came from a prestigious number of **FTSE4Good indices**, in which the company has been included since 2002, and for the third consecutive year, from the **CDP Italy Climate Disclosure Leadership Index**, a sustainability index. In July 2015, for the second consecutive year, Snam stock was again included in the two indices **MSCI World ESG** and **MSCI ACWI ESG**.



FTSE4Good



Snam stock is also included in the following sustainability indices:



Debt management and credit rating

At 31 December 2015, the Group's net financial position was €13,779 million, resulting from financial debt of €13,796 million and liquid assets of €17 million. Snam's goal is to achieve a debt structure consistent with business requirements in terms of loan term and interest rate exposure.

In 2015, the strategy of optimising the Group's financial structure continued through the renegotiation of the terms of a syndicated loan totalling €3.2 billion.

With regard to the capital market, in November 2015, Snam successfully completed a liability management transaction involving the repurchase of outstanding fixed-rate bonds with an average remaining maturity of under two years for a total nominal value of around €1.0 billion, and the concurrent issuance of a new fixed-rate bond with a term of eight years totalling €0.75 billion.

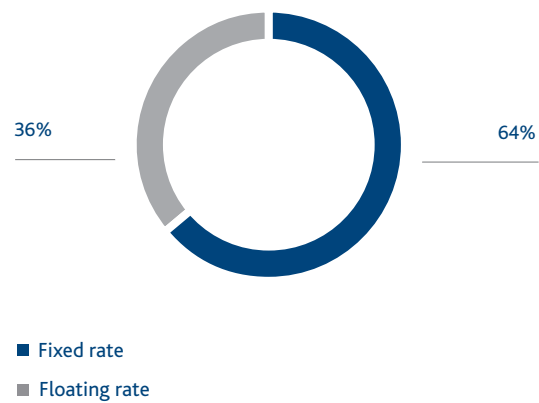
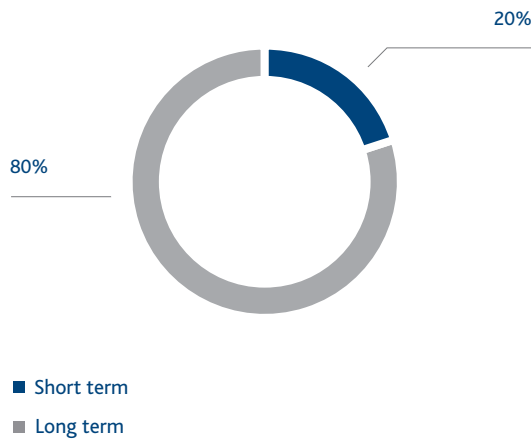
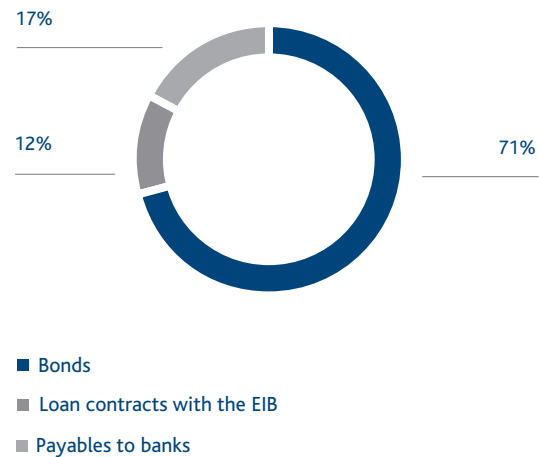
This transaction made it possible to optimise medium- and long-term debt maturities by extending their average term and creating conditions for a reduction in average borrowing costs. In addition, the EIB made three loans to Snam to fund projects promoted by Snam Rete Gas (€573 million) and Italgas (€124 million). Loans with the EIB fall under the Group's policy to optimise its financial structure since they complement bonds and bank loans and have longer terms (up to 20 years) and competitive costs.

At 31 December 2015, Snam had unused long-term committed credit lines totalling around €3.95 billion, in addition to the amount available (€2.3 billion) in terms of bond issues under the Euro Medium Term Note programme (EMTN).

At the same time, the Group continued to work with the rating agencies Standard & Poor's and Moody's and maintained its "investment grade" credit rating from Moody's (Baa1) and Standard & Poor's (BBB), both with a stable outlook.

In addition, on 23 July 2015 the Fitch rating agency assigned Snam a rating of BBB+ with a stable outlook.

Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt.



MOODY'S

LATEST UPDATE
9 September 2015
LONG-TERM DEBT RATING
Baa1
SHORT-TERM DEBT RATING
Unassigned
OUTLOOK
Stable

STANDARD & POOR'S

LATEST UPDATE
8 October 2015
LONG-TERM DEBT RATING
BBB
SHORT-TERM DEBT RATING
A-2
OUTLOOK
Stable

FitchRatings

LATEST UPDATE
24 September 2015
LONG-TERM DEBT RATING
BBB+
SHORT-TERM DEBT RATING
F2
OUTLOOK
Stable



Business segment operating performance

NATURAL GAS TRANSPORTATION

KEY PERFORMANCE INDICATORS

(€ million)	2013	2014	2015	Change	% change
Total revenue (*)	2,075	2,087	2,145	58	2.8
- of which from regulated activities	2,066	2,065	2,094	29	1.4
Operating costs (*)	375	402	485	83	20.6
EBIT	1,217	1,196	1,165	(31)	(2.6)
Technical investments	672	700	693	(7)	(1.0)
- of which with a greater return (**)	516	370	328	(42)	(11.4)
- of which with a basic rate of return	156	330	365	35	10.6
Net invested capital at 31 December	11,370	11,877	12,011	134	1.1
Natural gas injected in the national gas transportation network (billions of cubic metres) (***)	69.00	62.25	67.25	5.00	8.0
Transportation network (kilometres in use)	32,306	32,339	32,534	195	0.6
- of which national network	9,475	9,559	9,630	71	0.7
- of which regional network	22,831	22,780	22,904	124	0.5
Installed capacity in the compression stations (MW)	866.9	893.9	876.5	(17.4)	(1.9)
Employees in service at 31 December (number)	1,952	1,874	1,918	44	2.3

(*) Before consolidation adjustments.

(**) Investments in 2014 and 2015 include a flat-rate increase in WACC to offset the regulatory lag (+1% compared with the base WACC of 6.3%).

(***) Figures for 2015 were updated to 14 January 2016. The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.



Results

Total revenue amounted to €2,145 million, up by €58 million, or 2.8%, compared with 2014 (€2,087 million). Net of components offset in costs¹⁰, total revenue amounted to €1,963 million, up by €46 million, or 2.4%, compared with the previous year.

Revenue from regulated activities amounted to €2,094 million, largely related to fees for the natural gas transportation service (€2,044 million) and €49 million related to income from natural gas sales made in order to balance the gas system. Revenue from regulated activities, net of components that are offset in costs, amounted to €1,912 million, up by €17 million, or 0.9%, compared with 2014. The increase was due to the contribution of investments made in 2013 (+€76 million), which was partially absorbed by the tariff adjustment (-€63 million).

Revenue from non-regulated activities (€51 million) was up by €29 million compared with 2014. The increase was mainly due to income from the sale of natural gas (+€22 million).

¹⁰ Applying gas segment tariff regulations generates revenue components that are offset in costs: modulation, interconnection and balancing. Specifically, balancing revenue that is offset in the operating costs related to withdrawals of gas from storage totalled €49 million (€45 million in 2014) and referred to sales of natural gas for the purpose of balancing the gas system.

EBIT amounted to €1,165 million, down by €31 million, or 2.6%, compared with the previous year. Higher revenue (+€46 million, net of components offset in costs) was more than offset by the increase in operating costs (-€71 million, net of components that are offset in revenues), mainly attributable to the impact of the change in inventories of natural gas resulting from higher withdrawals and sales (-€42 million overall) and the increase in amortisation, depreciation and impairment losses (-€6 million) primarily due to new infrastructure entering into service.



Technical investments

Third regulatory period		2013	Fourth regulatory period		2014	2015
Type of investment	Higher compensation in third regulatory period (%) (*)	€/million	Type of investment	Higher compensation in fourth regulatory period (%) (**)	€/million	€/million
Development of new import and export capacity	3.0%	277	Development of new import and export capacity	2.0%	303	249
Development of the national network	2.0%	3	Development of the national network	1.0%		
Development of the regional network	2.0%	87	Development of the regional network	1.0%	67	79
Security and quality	1.0%	149	Replacement and other		330	365
Replacement and other		156				
		672			700	693

(*) Compared with a real pre-tax WACC of 6.3%.

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

In 2015 **technical investments** totalled €693 million, which was essentially in line with 2014 (€700 million; -€7 million or 1.0%) and fully in line with investments projected for 2015 in the Business Plan for the four-year period 2015-2018.

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 main investments for the **development of new transportation capacity on the national network to bolster import and export capacity**, for which a **higher return of 2.0%** (€249 million) is projected, concern the following:

- in terms of building infrastructure in the area of the Po Valley plain to increase transportation capacity in the north-west of the country and for the reversal of physical transportation flows to enable physical exports from interconnection points with northern Europe (€176 million): (i) the continuation of

construction works for the Zimella-Cervignano pipeline; (ii) the continuation of construction works for the Minerbio-Poggio Renatico pipeline; (iii) the delivery of materials and the continuation of construction works for upgrading the Poggio Renatico plant; (iv) the delivery of materials and the continuation of construction works relating to the new hub at Minerbio; (v) the delivery of materials for the Cervignano-Mortara pipeline; (vi) the continuation of construction works relating to the new hub at Sergnano; and (vii) the allocation of the order for turbo compressors relating to the new plants at Sergnano and Minerbio;

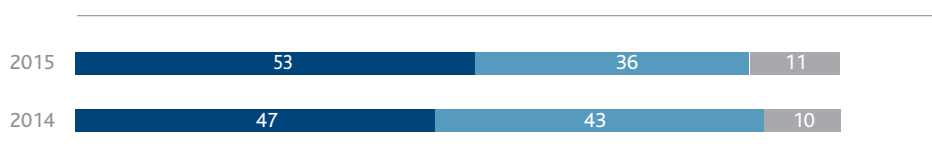
- as part of the projects to upgrade the transportation network from the entry points in southern Italy (€63 million): (i) the continuation of construction works for the Biccari-Campochiaro pipeline, in Campania-Puglia-Molise; and (ii) the delivery of materials and the continuation of renovation works on the Enna plant in Sicily.

The main investments for the **development of new transportation capacity on the regional network** with a **greater return of 1.0%** (€79 million) relate to a numerous works to upgrade the network and to connect to new regional and national redelivery points, including:

- the continuation of construction works relating to the upgrading of the Gavi-Pietralavezzara pipeline in Piedmont-Liguria (€25 million);
- the continuation of the construction of pipelines and connections related to the initiative for the methane conversion of the Calabria region (€9 million).

Investments in **replacements and other investments** with a **basic rate of return** (€365 million) mainly concern works to maintain plant security and quality levels (€253 million); the purchase of other assets to support operational activities (€45 million), including real estate investments (€36 million) that incorporate the Green Data Centre (the complex where Snam's entire IT infrastructure is located); projects for the development of new IT systems and for the implementation of existing systems (€42 million) and works with recourse to third parties (€18 million).

INVESTMENT PROPORTIONS BY TYPE OF RETURN (%)



- Substitution and other: basic rate of return of 7.3% including 1% for regulatory lag
- Development of new import capacity: basic rate of return of 7.3% +2%
- Regional network development: basic rate of return of 7.3% +1%

Progress of work to obtain permits

EIA DECREES OBTAINED DURING THE YEAR

Name	Length (km)	Regions affected	Authority	Date of decree
Upgrade of Raldon-Legnago pipeline: Isola della Scala-Cerea DN 250 (10") - DP 75 bar; Spina di Cerea DN 250 (10") - DP 12 bar; related connections and disposals.	29.50	Veneto	Province of Verona	05/03/2015
Recanati-Foligno pipeline: DN 1050 (42") - DP 75 bar	113.03	Umbria; Marche	Ministry of the Environment and Protection of Land and Sea	06/03/2015
Agrigento-Piazza Armerina pipeline: DN 1200 (48") - DP 75 bar	75.10	Sicily	Ministry of the Environment and Protection of Land and Sea	16/03/2015
Pontremoli-Cortemaggiore pipeline: DN 900 (36") - DP 75 bar and related works.	130.73	Tuscany; Emilia - Romagna	Ministry of the Environment and Protection of Land and Sea	07/08/2015
Pipeline: Diversion to Manfredonia variant: DN 500 (20") - DP 64 bar	2.30	Puglia	Province of Foggia	03/12/2015

ORDERS RECEIVED DURING THE YEAR TO CHECK EIA REQUIREMENTS

Name	Length (km)	Regions affected	Authority	Date of decree
Pezzan-Lancenigo pipeline connection: DN 200 (8") - DP 24 bar; upgrade of Spina di Treviso Nord: DN 250 (10") - DP 12 bar and related works.	5.75	Veneto	Province of Treviso	23/03/2015
Pipeline connection Ital Gas Storage at Cornegliano Laudense: DN 1050 (42") - DP 75 Bar	9.80	Lombardy	Ministry of the Environment and Protection of Land and Sea	03/06/2015
Pipeline: Spina di Corato variant: DN 150 (6") - DP 75 bar	5.10	Puglia	Province of Bari	08/07/2015
Spina per Polignano a Mare pipeline: DN 150 (6") - DP 24 bar and related works.	2.29	Puglia	Province of Bari	12/11/2015

EIA APPLICATIONS SUBMITTED TO MINISTRY OF THE ENVIRONMENT AND MINISTRY OF CULTURAL HERITAGE AND ACTIVITIES

Name	Length (km)	Regions affected	Date of decree
Pipeline - TAP interconnection: DN 1400 (56") - DP 75 bar	55.09	Puglia	10/11/2015

EIA APPLICATIONS SUBMITTED TO REGIONS OR PROVINCES

Name	Length (km)	Regions affected	Date of decree
Pipeline: Diversion to Manfredonia variant: DN 500 (20") - DP 64 bar	2.30	Puglia/Province of Foggia	31/03/2015

APPLICATIONS SUBMITTED TO REGIONS OR PROVINCES TO CHECK EIA REQUIREMENTS

Name	Length (km) Capacity (MW)	Authority	Date of decree
Cortemaggiore-Genoa pipeline: DN 400 (16") - DP 12 bar and related works: variant in municipalities of Rottofreno, Calendasco and Piacenza.	11.90	Emilia-Romagna/ Province of Piacenza	26/03/2015
Osio Sopra pressure reduction station	1.8 MW	Lombardy/Province of Bergamo	10/04/2015
Pipeline double connection of Agip Falconara wells at Ravenna-Chieti: DN 500 (20") - DP 70 bar and pipeline connection of Agip Falconara wells at Ravenna-Chieti: DN 250 (10") - DP 70 bar - variants for installation of traps and filters and related works.	0.75	Marche	01/07/2015
Pipeline downgrading Chieti-Rieti: DN 400 (16") - DP 24 bar	14.66	Abruzzo; Lazio	20/07/2015

Operating review

Injections and withdrawals of gas in the transportation network

In 2015 a total of 67.25 billion cubic metres of gas was injected into the network, an increase of 5.00 billion cubic metres (+8.0%) compared with 2014.

Injections into the network from domestic production fields or their collection and treatment centres totalled 6.43 billion cubic metres, down by 0.46 billion cubic metres (-6.7%) compared with 2014.

The volume of gas injected by entry point totalled 60.82 billion cubic metres, an increase of 5.46 billion cubic metres (9.9%) on 2014. The increase was primarily attributable to higher volumes injected from the Tarvisio entry point (+3.76 billion cubic metres; +14.4%); from LNG regasification plants (+1.40 billion cubic metres; +31.2%), and especially from the Cavarzere entry point; from the Gela entry point (+0.60 billion cubic metres; +9.2%) and from the Mazara del Vallo entry point (+0.47 billion cubic metres; +6.9%). This increase was partially offset by the reduction in volume injected from Gries Pass (-0.80 billion cubic metres; -7.0%).

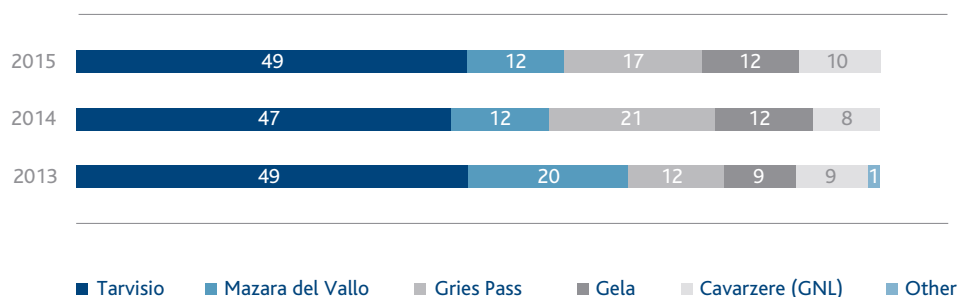
GAS INJECTED INTO THE NETWORK

(billion m ³)	2013	2014 (*)	2015	Change	% change
Domestic output	7.46	6.89	6.43	(0.46)	(6.7)
Entry points (**)	61.54	55.36	60.82	5.46	9.9
Tarvisio	30.26	26.16	29.92	3.76	14.4
Gries Pass	7.49	11.43	10.63	(0.80)	(7.0)
Mazara del Vallo	12.46	6.77	7.24	0.47	6.9
Gela	5.70	6.51	7.11	0.60	9.2
Cavarzere (GNL)	5.35	4.47	5.80	1.33	29.8
Panigaglia (GNL)	0.06	0.02	0.05	0.03	
Livorno (GNL)	0.21		0.04	0.04	
Gorizia	0.01		0.03	0.03	
	69.00	62.25	67.25	5.00	8.0

(*) Figures for 2015 were updated to 14 January 2016. The update of 2014 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

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

NATURAL GAS INJECTED INTO THE NETWORK BY IMPORT POINT (% OF TOTAL GAS INJECTED)



The natural gas withdrawn from the National Transportation Network in 2015 (66.94 billion cubic metres) was mainly for: (i) redelivery to users at network exit points (66.46 billion cubic metres; +9.0%); (ii) exports and transit (0.27 billion cubic metres); and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.18 billion cubic metres).

WITHDRAWALS OF NATURAL GAS

(billion m ³)	2013	2014	2015	Change	% change
Redelivery to the domestic market	69.05	60.97	66.46	5.49	9.0
Exports and transit (*)	0.28	0.28	0.27	(0.01)	(3.6)
Consumption and emissions attributable to Snam Rete Gas	0.25	0.18	0.18		
Gas not accounted for and other changes (**)	(0.10)	(0.04)	0.03	0.07	
Total withdrawals of natural gas	69.48	61.39	66.94	5.55	9.0

(*) Includes exports to the Republic of San Marino.

(**) Includes the change in network capacity. In the energy report compiled by Snam Rete Gas, the natural difference between the quantity of gas metered at the entrance to the network and the quantity of gas metered at the exit, due to the technical tolerance of the metering devices, is traditionally defined as unaccounted-for gas (UFG).

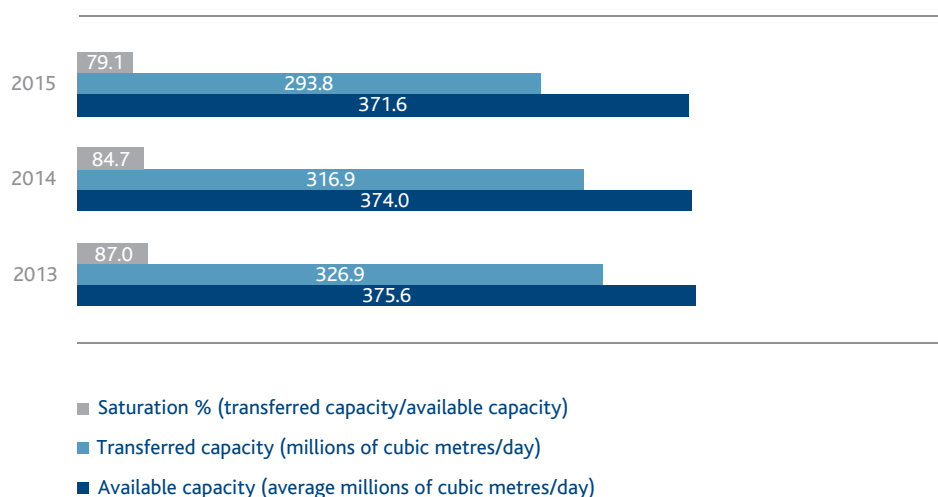
The transportation capacity of the network again covered all user demand in 2015. Average transportation capacity provided in 2015 was 371.6 million cubic metres on average per day. In addition to the aforementioned capacities, which concern the entry points interconnected with foreign countries and the LNG terminals, a transportation capacity totalling 29.6 million cubic metres on average per day is available at the domestic production entry points.

TRANSPORTATION CAPACITY

Entry points (millions of m ³ /day)	Calendar year 2013			Calendar year 2014			Calendar year 2015		
	Transportation capacity	Capacity transferred	Saturation (%)	Transportation capacity	Capacity transferred	Saturation (%)	Transportation capacity	Capacity transferred	Saturation (%)
Tarvisio	113.6	105.8	93.2	112.8	99.1	87.9	111.8	97.9	87.6
Mazara del Vallo	102.9	86.7	84.3	102.5	86.6	84.5	101.1	85.9	85.0
Gries Pass	64.4	57.4	89.1	64.4	53.7	83.4	64.4	36.6	56.8
Gela	35.5	29.9	84.2	35.1	30.9	88.0	35.3	29.3	83.0
Cavarzere (LNG)	26.4	21.0	79.5	26.4	24.4	92.4	26.4	24.4	92.5
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	15.0	15.0	100.0
Panigaglia (LNG)	13.0	11.0	84.6	13.0	7.1	54.6	13.0	4.6	35.2
Gorizia	4.8	0.1	2.1	4.8	0.1	2.1	4.6	0.1	1.9
	375.6	326.9	87.0	374.0	316.9	84.7	371.6	293.8	79.1



TRANSPORTATION CAPACITY AND SATURATION



PROVISION AND DEVELOPMENT OF TRANSPORTATION SERVICES

	2013	2014	2015
Active customers (shippers)	108	134	139
New connection agreements for delivery/redelivery points	35	45	65

An average of over 370 million cubic metres of transportation capacity was made available to customers daily at network entry points during the year. Access to the service was provided to all operators.

In 2015, there was an increase in both the number of customers (from 134 to 139; +3.7%) and the number of connection agreements for the creation of new delivery/redelivery points or the upgrading of existing points (65 compared with 45 for an increase of about 44%).

Furthermore, for the development of greater market liquidity, based on the new rules, operators may carry out gas exchanges by acquiring transportation capacity not only over an annual or multi-year time scale, but also on a daily or intra-daily basis, thereby increasing transaction frequency.

In order to manage exchanges among operators and relationships with them, over time Snam has developed IT systems and web portals that now represent a unique feature of the company that is regularly upgraded.

During the year, the following developments took place:

- as of 1 November 2015, at network entry/exit points connected with EU Member States and with Switzerland, gas system users may reserve intra-day transportation capacity by auction procedures arranged by the PRISMA platform following the timing in the shared European calendar published by ENTSOG;
- since February 2015, Snam Rete Gas has gradually provided users with the Logistica Gas application, a new IT platform to manage commercial processes of daily scheduling, allocation and provisional and final financial statements. The new platform also manages the megawatt hour (MWh), the new unit of measure employed instead of gigajoules (GJ), and it can also manage, as soon as the Authority arranges its starting date, the intra-day rescheduling process that will allow users to balance their balancing positions and to fully exploit the potential transfer of intra-day capacity as soon as the regulatory framework for balancing is completed;
- as of 1 October 2015, the Virtual exchange point (VEP) application was adapted to allow market operators to deliver to the Italian VEP gas futures contracts entered into at a third-party exchange, thereby expanding the supply of derivative products and making the Italian market more liquid and integrated with European markets.

These innovations are a part of the project shared at the European level to harmonise rules of various gas systems with the aim of promoting a single European market.

The process of determining all transportation capacities has been ISO 9001 certified since 2011. This certification was confirmed during the year.

In this regard, a project is under way aimed at obtaining ISO 9001 certification for all processes related to transportation activities managed by Snam Rete Gas.

Network codes list a number of indicators for monitoring the quality of service offered by the companies. Snam companies continued to maintain excellent performance with respect to these indicators in 2015, some of which, relating to specific levels of commercial quality, lead to the automatic compensation of customers if service quality standards are not met.

	2013	2014	2015
Contracted transportation capacity/Available transportation capacity (foreign entry/interconnection points) (%)	87	85	86
Compliance with deadlines for issuing connection offers (%)	100	100	100
Compliance with deadlines for performing services subject to specific commercial quality standards (%)	100	100	100
Interruptions carried out with sufficient advance notice (%)	93	95	92



Organisational changes related to operational activities

At 31 December 2015 there were 1,918 employees in service in the transportation segment, an increase of 44 employees compared with 31 December 2014.

In 2015 in the area of transportation activities, the Group took measures to consolidate the organisational structure, and especially operating mechanisms to promote the optimisation of various processes in the area of Operations and Commercial Development. These measures included:

- the continuing development of the new IT solution for managing the commercial processes of gas scheduling and balancing, in line with the new requirements imposed by the constant changes in the regulatory and business scenario;
- in the Operations area: (i) enhancement of the unit dedicated to technical activities through the establishment of a unit dedicated to maintenance investments; (ii) enhancement of centralised coordination activities related to compression stations; (iii) continuation of the activities of the SmartGas project aimed at amending regulations and standards for pipeline and plant maintenance, the development of professional positions in local areas and the development and implementation of more advanced IT solutions for managing operating processes;
- optimisation of the internal unit dedicated to procurement, with the creation of a unit for purchasing operating services and another unit focused on staff and ICT services.

Accidents

In 2015, the number of accidents dropped significantly for both employees and contract workers, although unfortunately one employee was involved in a fatal accident.

ACCIDENTS AT WORK (NO)

	2013	2014	2015
Total accidents involving employees	10	7	3
Total accidents involving contract workers	20	11	7

ACCIDENT INDICES

	2013	2014	2015
Employees			
Frequency index (*)	3.19	2.23	0.97
Severity index (**)	0.20	0.17	0.05
Contract workers			
Frequency index (*)	3.53	1.84	1.13
Severity index (**)	0.23	0.08	0.05

(*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked.
Data do not reflect fatal accidents.



Energy consumption and emissions

In order to limit natural gas emissions from the transportation network, measures continued to recover gas through on-line gas recompression interventions in the network upgrading phase and in compression stations (3.6 million cubic metres of natural gas was recovered, equal to around 63,600 tonnes of CO₂eq) and to replace pneumatic equipment in certain plants.

In 2015 a new low-emission turbine (DLE) entered into service at the Enna compression station (TC3).

In 2015, nitrous oxide emissions totalled 225 tonnes (-5.1% compared with 2014). The decrease was due to the increasingly widespread use of DLE turbines that were used for 88% of operating hours. This reduction is even more significant given that the gas fuel used to operate the gas turbines, which is responsible for the largest share of emissions, was up by +4.6%.

	2013	2014	2015
Energy consumption (TJ)	6,434	4,153	4,278
CO ₂ eq emissions - Scope 1 (tonnes) (*)	984,640	810,408	883,826
Natural gas emissions (10 ⁶ m ³)	40	37.2	37.0
Natural gas recovered (10 ⁶ m ³)	5.4	3.0	3.6
NO _x emissions (tonnes)	455	237	225

(*) In 2015 emissions of CO₂eq were calculated with a methane GWP of 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

	2013	2014	2015
Energy consumption/compressed energy (%)	0.25	0.23	0.23
CO ₂ emissions/compressed gas (kg/10 ⁶ m ³)	5,834	5,941	5,805
Natural gas emissions/km of network (m ³ /km)	1,238	1,151	1,138
NO _x emissions/compressed gas (kg/10 ⁶ m ³)	7.5	6.3	5.7



Regulations concerning the business segment

Relations with the regulatory authority

	2013	2014	2015
Responses to reference documents	9	5	7
Responses to consultations/observations through associations (*)	13	9	11
Tariff proposals	4	3	3
Data collections	90	100	87
Preliminary investigations (**)	3	5	3
Proposal to amend/update contractual documents and codes (***)	15	28	16
Proposal to amend/update contractual documents and codes (approved)	11	13	9

(*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

On one occasion, the Company took part in a technical round table between associations and the Authority, which was launched during the year.

(**) Includes fact-finding investigations in the transportation area.

(***) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Tariff regulations for 2015

By means of Resolution 584/2014/R/gas published on 28 November 2014, the Authority approved revenue recognised for the transportation, dispatching and metering services for 2015. Revenue recognised for natural gas transportation, dispatching and metering services for 2015 totalled €1,985 million compared with a RAB of €14.9 billion at 31 December 2013 for transportation, dispatching and metering activities.

Tariff regulations for 2016

By means of Resolution 587/2015/R/gas published on 4 December 2015, the Authority approved revenue recognised for natural gas transportation, dispatching and metering services for 2016. Revenue recognised for natural gas transportation, dispatching and metering services for 2016 total €1,850 million. The RAB as at 31 December 2014 for transportation, dispatching and metering activities amounted to €15 billion.

Other provisions

Council of State – Ruling 3735/2015 concerning natural gas transportation and dispatching tariffs for the 2014-2017 period

By means of ruling 3735/2015, filed on 28 July 2015, the Council of State (hereinafter the “CoS”) upheld the judgement of the Lombardy Regional Administrative Court regarding the partial quashing of the Authority’s Resolution 514/2013/R/gas, concerning the determination of “Regulation criteria for natural gas transportation and dispatching tariffs for the 2014-2017 period” and of the subsequent Resolutions 603/2013/R/gas and 641/2013/R/com, due to the lack of any provision in the relevant rules for a decreasing-scale mechanism for the benefit of end users with high levels of gas consumption.

By means of Resolution 429/2015/R/gas published on 3 September 2015, the Authority launched a procedure, which should have been completed by 31 December 2015, to comply with the aforementioned ruling. This procedure is still pending, and thus the Group is still waiting for the final ruling.

Council of State – Ruling 2888/2015 concerning natural gas transportation and dispatching tariffs for the 2010-2013 period

By means of ruling 2888/2015, filed on 12 June 2015, the CoS rejected the appeal filed by the Authority for review of the judgement of the Lombardy-Milan Regional Administrative Court, which had annulled the provisions contained in Resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 regarding natural gas transportation and dispatching tariffs for the 2010-2013 period.

With regard to the determination of tariffs, the CoS acknowledged that the Authority had apparently not provided "sufficient logistical/regulatory support" with respect to the breakdown of the capacity and commodity components in the amount of 90% and 10%.

The CoS also declared that the mechanism was unlawful for determining the contribution for gas intended for Snam's compression stations according to the criterion based on in-house consumption (entailing a direct withdrawal in kind of fuel metered on the basis of the utilisation of transportation companies for the purposes of the operation of compression stations).

By means of Resolution 428/2015/C/gas, the Authority decided to file an appeal for the aforementioned ruling to be overturned on the grounds of factual error. The appeal was notified to Snam Rete Gas on 7 October 2015. At the same time, by means of Resolution 430/2015/R/gas, the Authority launched a procedure for compliance with CoS ruling 2888/2015, which should have been completed by 31 December 2015. As a part of this procedure, by means of the subsequent Resolution 607/2015/R/gas, consultations were announced to determine the final action, which is still pending.

Balancing activities – Resolution 608/2015/R/gas

By means of Resolution 608/2015/R/gas published on 17 December 2015, the Authority closed the procedure launched by means of Resolution 145/2013/R/gas regarding the portion of charges to be paid to the balancing supervisor (Snam Rete Gas) with respect to uncollected receivables relating to income statement items from balancing operations that arose from 1 December 2011 to 23 October 2012.

By means of this resolution, the Authority ruled that it would not recognise the portion of uncollected receivables in relation to the specific situations covered by the preliminary investigation in an amount totalling around €130 million including VAT, but, in any case, respecting the right of Snam Rete Gas to retain any receivables already recovered related to income statement items from balancing operations as a result of legal action taken against shippers in default to the extent corresponding to amounts not paid. In addition, the Authority acknowledged the right of Snam Rete Gas to the remainder of uncollected receivables for the period from 1 December 2011 to 23 October 2012. Since the company believes that the prerequisites were met for recognising the portion of charges that resulted from the uncollected receivables and that were the subject of the procedure in question, it contested the resolution before the competent judicial authority¹¹.

¹¹ For additional information, see Note 24 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system" in the Notes to consolidated financial statements.

LIQUEFIED NATURAL GAS (LNG) REGASIFICATION

KEY PERFORMANCE INDICATORS

(€ million)	2013	2014	2015	Var.ass.	Var.%
Total revenue (*)	31	28	25	(3)	(10.7)
- of which from regulated activities	31	25	19	(6)	(24.0)
Operating costs (**)	21	23	19	(4)	(17.4)
EBIT	5		1	1	
Net invested capital at 31 December	75	84	89	5	6.0
Technical investments (***)	5	7	7		
Volumes of LNG regasified (billions of cubic metres)	0.05	0.01	0.03	0.02	
Tanker loads (number)	1	1	1		
Employees in service at 31 December (number)	79	77	73	(4)	(5.2)

(*) Revenue from regulated activities includes the chargeback to customers of costs related to the natural gas transportation service provided 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.

(***) Investments in 2014 and 2015 include a flat-rate increase in WACC to offset the regulatory lag (+1% compared with the base WACC of 7.3%).



Results

Total revenue amounted to €25 million, down by €3 million, or 10.7%, compared with 2014. Total revenue, net of components that are offset in costs¹², amounted to €24 million, up by €2 million, or 9.1%, compared with the previous year, largely due to higher income from gas sales.

Revenue from regulated activities, which totalled €19 million, included the fees for the regasification service (€18 million; -€1 million) and the recharging to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€1 million; -€5 million)¹³.

EBIT was up by €1 million over the previous year. The increase was mainly due to higher revenue (+€2 million).



Technical investments

Technical investments in 2015 totalled €7 million (the same as in 2014) and involved maintenance projects aimed at guaranteeing plant system safety.

These include: (i) the completion of the installation of eight cryogenic pumps, begun in 2013; (ii) the renovation of vaporisers; and (iii) work on IT infrastructure.

Operating review

During 2015, the Panigaglia (SP) LNG terminal regasified 0.03 billion cubic metres of natural gas, an increase of 0.02 billion cubic metres compared with 2014. The LNG regasification was carried out as part of the peak shaving service.

¹² Revenue that is offset in costs refers to revenue generated by the transportation service provided by Snam Rete Gas, which GNL recharges to its customers (€1 million, compared with €6 million in 2014).

¹³ 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.

Provision and development of regasification services

	2013	2014	2015
Active customers (shippers)	3	3	4
Compliance with the maximum period of interruption/reduction in capacity at the terminal due to maintenance works (%)	100	100	100



Organisational changes related to operational activities

A total of 73 people were employed in the regasification sector as at 31 December 2015. During 2015, the number of employees fell by four, with two contracts being terminated and a net loss of two employees due to transfers within the Snam Group.

Accidents

ACCIDENTS AT WORK (NO)

	2013	2014	2015
Total accidents involving employees	0	0	0
Total accidents involving contract workers	0	1	0

ACCIDENT INDICES

	2013	2014	2015
Employees			
Frequency index (*)	0.00	0.00	0.00
Severity index (**)	0.00	0.00	0.00
Contract workers			
Frequency index (*)	0.00	32.72	0.00
Severity index (**)	0.00	0.43	0.00

(*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per thousand hours worked.



ENERGY CONSUMPTION AND EMISSIONS

	2013	2014	2015
Energy consumption (TJ)	45	31	52
Emissions of CO _{2eq} – Scope 1 (tonne) (*)	53,654	32,169	38,659
Emissions of natural gas (10 ⁶ m ³)	3.4	1.9	2.0
Emissions of NO _x (tonne)	1.1	0.3	1.1

(*) In 2015, CO_{2eq} emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".



Regulations concerning the business segment

Relations with the regulatory authority

	2013	2014	2015
Responses to consultation documents	1	3	4
Responses to consultations/observations through associations (*)	1	3	6
Tariff proposals	2	2	2
Data collections	29	28	25
Proposals to amend/update contractual documents and codes (**)	2	1	3
Proposals to amend/update contractual documents and codes (approved)	1	1	2

(*) Responses to consultations (Authority, Ministry of Economic Development and Energy Market Operator) through trade associations. On one occasion, the Company took part in a technical round table between associations and the Authority, which was launched during the year.

(**) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Tariff regulations for 2015

By means of Resolution 335/2014/R/gas, published on 11 July 2014, the Authority approved tariffs for the regasification service provided by GNL Italia for 2015.

The tariffs were set on the basis of base revenue of €28.1 million. The actual revenue was calculated based on the capacities actually allocated. The net invested capital as at 31 December 2013 (RAB) was around €0.1 billion.

Peak shaving service for the 2015-2016 thermal year

By means of Resolution 488/2015/R/gas, "Provisions for the management of the peak shaving service in the winter of the 2015-2016 thermal year", published on 15 October 2015, which incorporates the provisions of 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 by regasification companies and by the Balancing Supervisor, in the event that it is activated during the winter of the 2015-2016 thermal year, and the procedures for covering the expenses associated with providing the service.

Tariff regulations for 2016

By means of Resolution 625/2015/R/gas, "Determination of tariffs for the LNG regasification service for 2016", published on 18 December 2015, the Authority set the tariffs for the LNG regasification service for 2016. The tariffs were calculated based on base revenues of €27.1 million and an RAB of around €0.1 billion as at 31 December 2014.

NATURAL GAS STORAGE

KEY PERFORMANCE INDICATORS

(€ million)	2013	2014	2015	Change	% change
Total revenue (a) (b)	489	541	535	(6)	(1.1)
- of which from regulated activities	486	526	534	8	1.5
Operating costs (a) (b)	110	163	145	(18)	(11.0)
EBIT	315	318	319	1	0.3
Technical investments	251	240	170	(70)	(29.2)
Net invested capital at 31 December	3,071	3,286	3,365	79	2.4
Concessions (number)	10	10	10		
- of which operational (c)	8	8	9	1	12.5
Natural gas moved through the storage system (billions of cubic metres) (d)	18,42	15,70	19,58	3,88	24,7
- of which injected	8,92	8,13	9,84	1,71	21,0
- of which withdrawn	9,50	7,57	9,74	2,17	28,7
Total storage capacity (billions of cubic metres)	15,9	15,9	16,0	0,1	0,6
- of which available (e)	11,4	11,4	11,5	0,1	0,9
- of which strategic	4,5	4,5	4,5		
Employees in service at 31 December (number)	303	291	299	8	2,7

- (a) Regulated revenue 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 derecognised, 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 services. The 2015 figure includes the Bordolano concession, which has been operational since the end of 2015, with regard only to a portion of assets forming part of the overall plant, such as to guarantee the performance of storage activities.
- (d) Gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 39.2 and 39.1 MJ/SCM respectively for 2014 and 2015.
- (e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full as at 31 December 2015.



Results

Total revenue amounted to €535 million, down by €6 million, or 1.1%, compared with 2014. Total revenue, net of components offset in costs¹⁴, amounted to €455 million, a reduction of €18 million, or 3.8% compared with 2014.

Regulated revenue (€534 million) comprised €464 million in fees for the natural gas storage service and €70 million in fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. Storage revenue, net of components offset in costs, amounted to €454 million, down by €4 million, or 0.9%, compared with 2014. This reduction was due to tariff updating mechanisms.

Non-regulated revenue fell by €14 million compared with 2014, due to the termination of the supplementary storage fees arising from contractual agreements between Eni and Stogit as part of activities related to Legislative Decree 130/2010 (€13 million).

EBIT totalled €319 million in 2015, in line with the figure for 2014 (+€1 million, or 0.3%). Lower operating costs (+€30 million, net of components offset in revenue), due essentially to the impairment recorded in 2014 in relation to strategic gas unduly withdrawn by some users in 2010 and 2011, were offset by higher depreciation and amortisation (-€11 million), due mainly to the entry into service of new infrastructure, and by lower revenue (-€18 million).

¹⁴ These components refer mainly to revenue from the chargeback to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A., pursuant to Resolution 297/2012/R/gas of the Authority.

¹⁵ On 26 January 2015, the Ministry set the strategic storage volume at 4.62 billion cubic metres for the contractual storage year 2015-2016 (1 April 2015 - 31 March 2016), which is unchanged from the previous year (1 April 2014 - 31 March 2015). The Stogit share was unchanged at 4.5 billion cubic metres. On 21 January 2016, the Ministry confirmed the total volume of strategic storage for the contractual year 2016-2017 (1 April 2016 - 31 March 2017) at 4.62 billion cubic metres.



Technical investments

(€ million)	2013	2014	2015	Change	Change %
Development of new fields and upgrading of capacity	216	205	117	(88)	(42.9)
Maintenance and other	35	35	53	18	51.4
	251	240	170	(70)	(29.2)

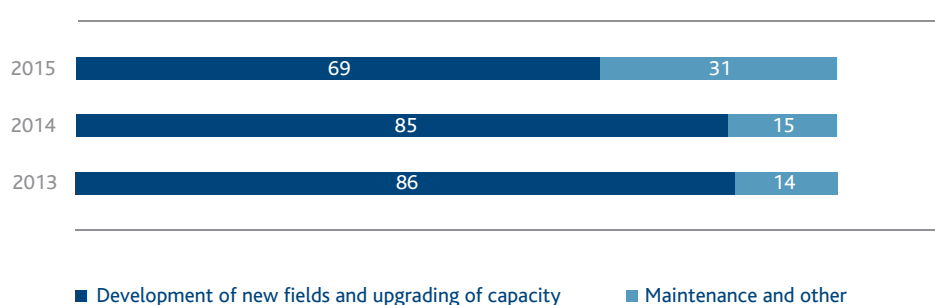
Technical investments in 2015 amounted to €170 million, a reduction of €70 million, or 29.2%, compared with the previous year (€240 million).

The main investments in the **development of new fields and upgrading of capacity** (€117 million) primarily concerned the following initiatives:

- Bordolano (€73 million): the first execution phase of the project was completed, and part of the plant subsequently became operational;
- Minerbio (€17 million): purchase of materials, execution of works and repowering at the plants;
- Fiume Treste (€13 million): drilling at the new well to upgrade the plant's peak services.

Maintenance and other investments (€53 million) mainly concerned the injection of cushion gas at Sabbioncello (€10 million), the project for renovating the compression units at Cortemaggiore (€6 million), and projects involving the development of new IT systems.

INVESTMENT PROPORTIONS BY TYPE (% OF TOTAL INVESTMENTS)



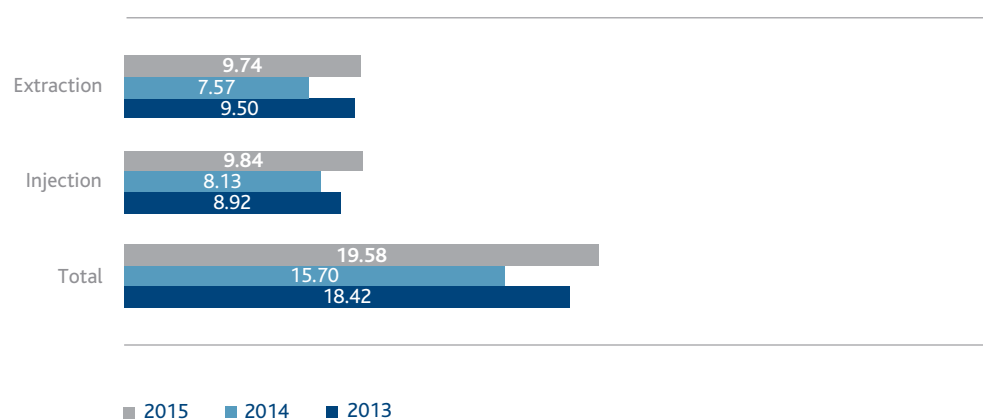
Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity. Total storage capacity as at 31 December 2015, including strategic storage, was 16.0 billion cubic metres (+0.1 billion cubic metres compared with 2014), of which 11.5 billion cubic metres related to available capacity fully allocated for the 2015-2016 thermal year (11.4 billion cubic metres in the 2014-2015 thermal year), and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2014-2015 thermal year)¹⁵.

Operating review

Gas moved through the storage system

In 2015, 19.58 billion cubic metres of natural gas was moved through the storage system, an increase of 3.88 billion cubic metres, or 24.7%, compared with 2014 (15.70 billion cubic metres). The increase was mainly attributable to higher withdrawals from storage (+2.17 billion cubic metres; +28.7%) due to the substantial use of stocks by the operators during the first quarter of 2015, due mainly to weather conditions and to higher injections to replenish stocks (+1.71 billion cubic metres; +21.0%).

NATURAL GAS MOVED THROUGH THE STORAGE SYSTEM (BILLIONS OF CUBIC METRES)



Provision and development of storage services

	2013	2014	2015
Active customers (shippers)	118	107	118

In 2015, the available storage capacity increased from 11.4 billion standard cubic metres in 2014 to 11.5 billion cubic metres (16.0 including strategic storage), thanks to the availability of the first 100 million cubic metres of the Bordolano deposit. In the 2015-2016 thermal year, the total space allocated was the same as that offered. Although allocation auctions were scheduled for the period April-September (four successive monthly auctions), the capacity offered had already been allocated in full at the auctions in June 2015.

The network codes list a series of indicators for monitoring the quality of the service offered by companies. When compared against these indicators, the Snam companies maintained a high level of performance in 2015. One part of these indicators, which refer to specific levels of commercial quality, gives rise to the indemnification of customers in the event of failure to comply with the service quality standard.

	2013	2014	2015
Contractual storage capacity/Available storage capacity (%)	86	100	100
Compliance with execution times for services subject to specific commercial quality standards (%)	100	100	100
Connection flow lines subject to supervision (%)	76	76	100
Total capacity not made available following interruptions/reductions to the service (%)	0	0	0

Specifically, during 2015, the IT systems continued to be developed with a view to ongoing improvement of the quality and fluidity of the service, and as a result of the regulations issued by the Authority.

The Stogit Capacity Portal, which manages all information exchanges with customers, in accordance with the provisions of the Storage Code, was further refined with regard to auction allocation processes for Peak and Uniform Modulation Storage services. Processes concerning the assignment of capacity, contracts and billing previously implemented and currently used by all customers were also established, optimised and consolidated.

During 2015, the functionalities for the management of several daily renomination cycles were also developed (to date only one is scheduled per day), in compliance with the provisions of Regulation (EU) No 312/2014, which introduces the new gas balancing service, which was initially scheduled to be applied as of 1 October 2015 and was deferred until a date still to be determined (in any case no later than 1 October 2016).



Organisational changes related to operational activities

The number of employees in the storage sector as at 31 December 2015 was 299, 8 more than as at 31 December 2014.

The period saw the launch of the SmartGas project, an initiative aimed at revising maintenance standards and regulations, in order to ensure the necessary evolution of professional roles operating at the hubs and the development and implementation of more highly developed IT solutions to manage operating processes.

Accidents

The number of accidents reduced in 2015, for both employees and contract workers.

ACCIDENTS AT WORK (NO)

	2013	2014	2015
Total accidents involving employees	0	1	0
Total accidents involving contract workers	2	2	1

ACCIDENT INDICES

	2013	2014	2015
Employees			
Frequency index (*)	0.00	2.02	0.00
Severity index (**)	0.00	0.01	0.00
Contract workers			
Frequency index (*)	2.07	1.98	0.89
Severity index (**)	0.01	0.17	0.18

(*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per million hours worked.



Energy consumption and emissions

Activities aimed at reducing energy consumption and controlling atmospheric emissions continued. In 2015, a new Dry Low Emission (DLE) turbine came into operation at the Cortemaggiore compression plant (TC1).

Total emissions of nitrogen oxides in 2015 amounted to 175 tonnes (-22.9% compared with 2014). The reduction was due to the increasingly wide use of DLE turbines, which were employed for 89% of operating time. This reduction is even more significant when taking into account that the gas fuel used to operate the gas turbines, which is responsible for the largest share of emissions, actually increased (+15.1%).

	2013	2014	2015
Energy consumption (TJ)	4,410	4,117	4,740
Emissions of CO ₂ eq – Scope 1 (tonne) (*)	424,042	410,728	450,162
Emissions of natural gas (10 ⁶ m ³)	11.7	11.7	10.7
Emissions of NO _x (tonne)	349	227	175

(*) In 2015, CO₂eq emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".

	2013	2014	2015
Emissions of natural gas for storage/gas stored (%)	0.061	0.067	0.051
Emissions of NO _x /gas stored (kg/10 ⁶ m ³)	39.1	28.0	17.8
Average emissions of NO _x per turbine/installed capacity ([mg/Nm ³]/MW)	9.6	6.2	5.6



Regulations concerning the business segment Relations with the regulatory authority

	2013	2014	2015
Responses to consultation documents	1	9	4
Responses to consultations/observations through associations (*)	2	8	6
Tariff proposals	2	1	6
Data collections	53	81	75
Investigations	1		
Proposals to amend/update contractual documents and codes (**)	3	1	4
Proposals to amend/update contractual documents and codes (approved)	2	4	2

(*) Responses to consultations (Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

On one occasion, the Company took part in a technical round table between associations and the Authority, which was launched during the year.

(**) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Tariff regulations for 2015

By means of Resolution 51/2015/R/gas, published on 13 February 2015, the Authority approved the provisional base revenue for the storage service relating to 2015, aimed at providing a base figure for calculating the fees for the allocation of storage capacity. Subsequently, by means of Resolution 27/2016/R/gas, published on 29 January 2016, the Authority approved the definitive base revenue for 2015, which amounted to €455.3 million (€453 million for 2014). The RAB for storage activities, calculated using the total annual increases in assets relating to 2014, was €4.0 billion.

Tariff regulations for 2016

By means of Resolution 46/2016/R/gas, published on 12 February 2016, the Authority provisionally approved the corporate base revenue for the storage service for 2016, as per the tariff proposal presented by Stogit on 22 January 2016. The provisionally approved revenue is aimed at providing a base figure for calculating the fees for the allocation of storage capacity. By 31 May 2016, storage companies will submit their final base revenue proposals to the Authority, calculated using the total annual increases in assets relating to 2015. These proposals will be approved by the Authority within 60 days.

Ministerial Decree of 6 February 2015 – Determination and procedures for allocation of modulation storage capacity for the 2015-2016 contractual period (Official Gazette no 44 of 23 February 2015)

The Ministry of Economic Development used this decree to set the modulation storage capacity for the thermal year 1 April 2015 - 31 March 2016 at 6,843 million cubic metres, to be allocated as a priority to entities directly or indirectly supplying civilian customers. The decree provides for this capacity, together with additional available storage capacity of approximately 1,122 million cubic metres, to then be allocated by means of successive tenders held throughout the injection period, as a continuation of the procedure carried out in the 2014-2015 thermal year.

As of the 2015-2016 thermal year, the decree introduces a multi-year storage service with a minimum duration of two years, with a possible option to extend it for another two years. The decree reserves 500 million cubic metres of capacity, to be allocated by the leading storage company through a tender process, for this service, and provides for any capacity not allocated to be offered under tender processes for the modulation service characterised by a uniform withdrawal profile.

In implementation of Article 14 of Decree-Law 1/12, the decree also provides for a natural gas storage capacity of 500 million cubic metres to be reserved for the offering of integrated regasification services, including natural gas storage, aimed at allowing the direct procurement of LNG from abroad to industrial companies. Any capacity not allocated to industrial companies is offered under open auctions to all applicants for the modulation service characterised by a withdrawal profile that permits the maximum availability of services in January and February.

Lastly, the Ministerial Decree establishes the procedures for withdrawing natural gas from the storage system in order to ensure the secure functioning of the natural gas system.

NATURAL GAS DISTRIBUTION

KEY PERFORMANCE INDICATORS

The data for 2015 include the company Acam Gas S.p.A., fully consolidated as of 1 April 2015, and the companies Metano Arcore S.p.A. and SETEAP S.p.A., respectively merged by incorporation into Italgas S.p.A. and Napoletanagas S.p.A. as of 1 January 2015. With regard to the full consolidation of AES Torino S.p.A. as of 1 July 2014, the economic impact is seen respectively throughout 2015 and in six months of 2014.

(€ million)	2013	2014	2015	Change	% change
Total revenue (*) (**)	1,038	1,053	1,098	45	4.3
- of which from regulated activities	1,008	1,026	1,071	45	4.4
Operating costs (*) (**)	319	331	356	25	7.6
EBIT	505	477	469	(8)	(1.7)
- of which special items	11		40	40	
Adjusted EBIT	516	477	509	32	6.7
Technical investments	358	359	393	34	9.5
Net invested capital at 31 December	4,019	4,368	4,572	204	4.7
Gas distribution (millions of cubic metres)	7,352	6,500	7,599	1,099	16.9
Distribution concessions (number)	1,435	1,437	1,472	35	2.4
Distribution network (kilometres) (***)	52,993	55,278	56,717	1,439	2.6
Active meters (millions)	5,928	6,408	6,526	0.118	1.8
Employees in service at 31 December (number)	3,008	3,124	3,298	174	5.6

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

(**) Before consolidation adjustments.

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



Results

Total revenue amounted to €1,098 million in 2015, up by €45 million, or 4.3%, compared with 2014. Total revenue, net of components offset in costs¹⁶, amounted to €1,090 million, an increase of €46 million, or 4.4%, compared with the previous year.

Regulated revenue amounted to €1,071 million, and related mainly to fees for the natural gas distribution service (€1,027 million) and to technical services connected to the distribution service (€24 million). Net of components offset in costs, regulated revenue totalled €1,063 million, up by €46 million, or 4.5%, compared with 2014. This increase was due essentially to the change in the scope of consolidation.

¹⁶ These components refer to the revenue resulting from the repayment by the Electricity Equalisation Fund or CCSE (Energy and Environmental Services Fund – CSEA as of 1 January 2016) of charges relating to the interruptions to the supply at redelivery points requested by retail companies pursuant to Article 12-bis, Appendix A of the Consolidated Gas Arrears Act (TIMG).

Adjusted EBIT for 2015 totalled €509 million, up by €32 million, or 6.7%, compared with 2014. The increase was due to higher revenue (+€46 million) and reduced operating costs (+€14 million, net of components offset in revenue) associated mainly with the changes in provisions for risks and charges, the effects of which were partly offset by the change in the scope of consolidation. The lower portion of expenses absorbed by investment activities was offset by the operating efficiency and savings measures put in place during the year. The change in adjusted EBIT was also due to higher depreciation and amortisation for the period (-€28 million), due mainly to the change in the scope of consolidation (-€21 million). This was offset by the effects of the change made in 2014 of the useful life (from 20 to 15 years) of some metering equipment in the natural gas distribution sector (-€11 million), which was subject to a revision for tariff purposes by the Authority.

Main events

Italgas – Revocation of judicial administration and confirmation of the Company's Board of Directors

On 9 July 2015, the activities related to the revocation of the judicial administration measure handed down by the Court of Palermo against Italgas were concluded. The Court, taking into account the outcomes of the checks carried out and the active collaboration of the Snam Group, ordered the revocation of the measure by means of a ruling on 29 June 2015.

Having acknowledged the revocation, the Italgas Shareholders' Meeting of 9 July 2015 appointed the Company's Board of Directors, with a term of office due to expire upon the approval of the financial statements as at 31 December 2015, confirming all the outgoing members.

Following the revocation of the judicial administration measure handed down by the Court of Palermo and the confirmation of the Board of Directors by the Shareholders' Meeting, Italgas is putting in place the measures for implementation of the organisational and procedural plan and for monitoring and verifying the Company's activities¹⁷. Italgas is also providing the competent authorities with the information flows provided for under Article 34, paragraph 8 of Legislative Decree 159/2011 (Judicial Control) relating to significant transactions. Italgas has filed an appeal against the provision of said information flows with the Palermo Court of Appeal, and is also providing the competent authorities with the results of the periodic reports of the Watch Structure. For more information, see Note 24, "Guarantees, commitments and risks – Disputes", of the Notes to the consolidated financial statements.

Corporate transactions and business development

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

On 1 April 2015, Italgas completed the acquisition from Acam of a 51% stake in Acam Gas, for a price of €46 million. By means of this transaction, Italgas, which already held 49% of Acam Gas, acquired the company's entire share capital, further consolidating its gas distribution activities in the minimum geographical area (ATEM) of La Spezia. Acam Gas operates the gas distribution service in the city of La Spezia and in another 28 municipalities located in the La Spezia province, with around 112,000 active redelivery points.

¹⁷ The costs incurred by Italgas for remuneration of assistants and reimbursement of expenses to assistants and judicial administrators as part of the judicial administration measure amount to €6 million, of which €3.5 million pertains to 2015 and €2.5 million pertains to 2014.

The economic impact of the acquisition of control of Acam Gas can be seen as of 1 April 2015¹⁸, and can be summarised as follows:

(€ million)	1 April - 31 December 2015
Total revenue (*)	15
- of which from regulated activities	14
Operating costs (*)	6
EBITDA	9
EBIT	6

(*) Net of the effects of IFRIC 12.

Merger by incorporation of AES Torino S.p.A.

On 21 December 2015, the deed was drawn up for the merger by incorporation of AES Torino S.p.A. (wholly owned by the surviving company) into Italgas S.p.A., with accounting and fiscal effect from 1 January 2016, at the conclusion of the acquisition, by the latter, of the entire share capital of AES in July 2014. Pursuant to the transaction, as of 1 January 2016, all operating activities pertain directly to Italgas.



Technical investments

(€ million)	2013	2014	2015	Change	Change
Distribution	239	231	199	(32)	(13.9)
Network maintenance and development	187	180	169	(11)	(6.1)
Replacement of cast-iron pipes	52	51	30	(21)	(41.2)
Metering	83	88	134	46	52.3
Other investments	36	40	60	20	50.0
	358	359	393	34	9.5

Technical investments in 2015 amounted to €393 million, an increase of €34 million, or 9.5%, compared with 2014 (€359 million).

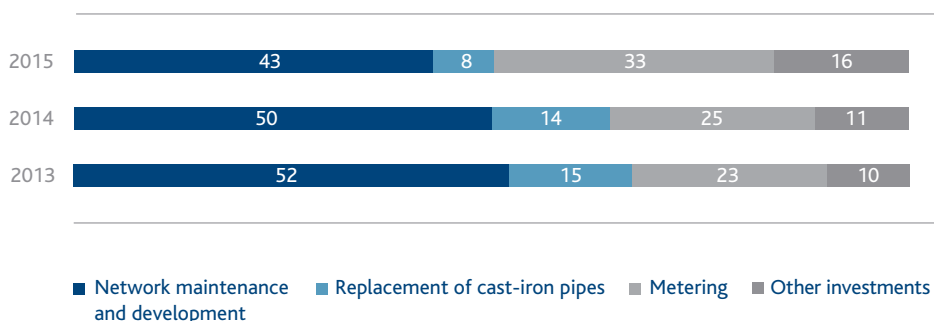
Investments in distribution (€199 million) mainly related to development projects (extensions and new networks) and the renovation of old sections of pipe, including the replacement of cast-iron pipes.

Investments in metering (€134 million) related primarily to expenditure on remote reading.

Other investments (€60 million) mainly concerned investments in IT, property and vehicles.

¹⁸ The share attributable to Snam of the net profit generated by Acam Gas before the acquisition of control is included in the valuation of the investment using the equity method as at 31 March 2015.

INVESTMENT PROPORTIONS BY TYPE (% OF TOTAL INVESTMENTS)



Operating review

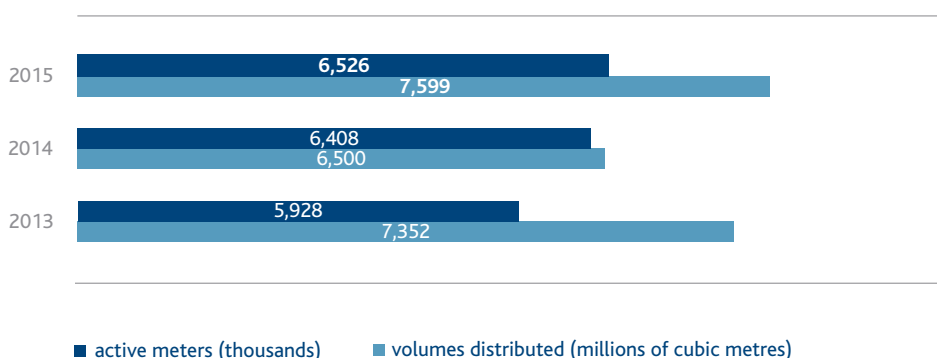
Gas distributed and infrastructure

In 2015, 7,599 million cubic metres of gas were distributed, an increase of 1,099 million cubic metres, or 16.9%, compared with 2014, due mainly to the change in the scope of consolidation and to weather conditions.

At 31 December 2015, Snam had concessions for gas distribution services in 1,472 municipalities (compared with 1,437 as at 31 December 2014), of which 1,401 were operational. It had 6.526 million active meters at gas redelivery points to end users (households, businesses, etc.), compared with 6.408 million at 31 December 2014.

As at 31 December 2015, the gas distribution network covered 56,717 km (55,278 km as at 31 December 2014), an increase of 1,439 km compared with 31 December 2014.

ACTIVE METERS AND GAS VOLUMES



Provision and development of distribution services

	2013	2014	2015
Active customers	218	249	260

The Company continued to implement its remote gas meter reading plan, which was launched in late 2010 for meters for large-scale users (calibres higher than G6), and subsequently extended in 2014 to include the mass market area (G4 and G6 calibre readers), with point-to-point communication. As at 31 December 2015, the number of redelivery points with a G4- or G6-calibre meter equipped with the remote-reading function was around 455,000, of which 206,000 had activated remote reading. At the same date, approximately 85,000 meters with a calibre higher than G6 were equipped with the remote-reading function, which was activated in all of them.

The Network Codes list a series of indicators for monitoring the quality of the service offered by companies. When compared against these indicators, the Snam companies maintained a high level of performance in 2015. One part of these indicators, which refer to specific levels of commercial quality, gives rise to indemnification of customers in the event of failure to comply with the service quality standard.

Distribution	2013	2014	2015
Compliance with the maximum time set for services subject to specific commercial quality standards (%)	99.3	99.1	98.0
Punctuality in appointments with customers (%)	99.3	99.0	98.4
High- and medium-pressure networks subject to inspection (%)	46.3	54.6	49.2
Low-pressure networks subject to inspection (%)	44.4	34.5	45.5
Compliance with the maximum time for reaching the call-out site for emergency assistance (%)	98.3	97.2	96.1



Organisational changes related to operational activities

As at 31 December 2015, the distribution sector had 3,298 employees, compared with 3,124 a year earlier, an increase of 174. This was due mainly to new hires, acquisitions and internal transfers within the Group.

With effect from 13 July 2015, following the revocation of the judicial administration measure handed down by the Court of Palermo, Italgas made changes to its organisational structure, which has been updated in response to the growing managerial and operational difficulties that the Company will have to tackle as a result of developments in the gas distribution business in Italy and the imminent launch of tender processes.

As a result, the Business Services department was created (reporting directly to management), incorporating the HSEQ and Procurement units and the new Human Resources unit, in order to guarantee a certain level of direction and control of the relevant processes, promote interaction and mutual cohesion between the different areas, ensure a more effective and coordinated response to expected market developments, and guarantee coordination between Italgas and the Group.

The Company also combined its Budget and Administration department, its Planning, Control and Business Analysis department and its new Project Control department (which was created to guarantee close coordination between the centre and the regions for the direction and control of the corporate investment plan) into a single unit, reporting directly to management.

Lastly, the Operations department underwent changes with a view to further upgrading engineering expertise and reinforcing operational control, ensuring, at both Headquarters and District levels, the presence of teams dedicated to providing specialist support on monitoring and engineering processes.

To that end, the Headquarters Engineering unit was set up, representing the hub of excellence that brings together Italgas's expertise in technical regulations, planning, coordination of work, and verification that the networks comply with the technical specifications. At Headquarters level, a Network Management unit has also been created, to which the Districts and the new Network Coordination and Operational Control unit shall report. The latter is responsible for directing, monitoring and controlling contractual management and site management activities. Lastly, the Districts have been equipped with a new Works Coordination and Engineering Staff unit, which is responsible for coordinating the Operational Centres in executing and monitoring works and in contractual management activities, as well as offering specialist technical support for the design of works in coordination with the Headquarters Engineering department.

Accidents

During the course of 2015, the number of accidents increased considerably for both employees and contract workers, due partly to the expansion of the Company's scope. There were two fatal accidents involving employees: one while looking for a gas leak in an urban centre, and the other during works on a gas pipe.

ACCIDENTS AT WORK (NO)

	2013	2014	2015
Total accidents involving employees	5	6	18
Total accidents involving contract workers	0	1	4

ACCIDENT INDICES

	2013	2014	2015
Employees			
Frequency index (*)	0.98	1.15	3.34
Severity index (**)	0.04	0.06	0.16
Contract workers			
Frequency index (*)	0.00	0.76	3.13
Severity index (**)	0.00	0.13	0.35

(*) Number of accidents at work resulting in absence of at least one day, per million hours worked.

(**) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per million hours worked. These data do not include fatal accidents.



Energy consumption and emissions

Energy management activities were continued with a view to streamlining and reducing energy consumption. These included the installation of photovoltaic plants in buildings and network plants, the installation of more efficient heat generators and activities intended to control natural gas emissions. To that end, 2015 saw the continuation of the replacement of grey cast-iron pipes with better-performing pipes (approximately 29 km of network was replaced).

	2013	2014	2015
Energy consumption (TJ)	521	527	571
Emissions of CO _{2eq} – Scope 1 (tonne) (*)	718,380	724,588	534,192
Emissions of natural gas (10 ⁶ m ³) (**)	43.7	44.2	28.7

(*) In 2015, CO_{2eq} emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".

(**) In 2015, data on natural gas emissions were calculated using specific emission indices that had been updated, compared with previous years, following a methodological revision supported by a specific experimental activity.

	2013	2014	2015
Emissions of natural gas/km of network (m ³ /km)	828	813	511
Emissions of CO _{2eq} /gas distributed (kg/10 ⁶ m ³)	97,712	111,745	70,298



Regulations concerning the business segment Relations with the regulatory authority

	2013	2014	2015
Responses to consultation documents (*)	7	4	9
Responses to consultations/observations through associations	14	13	11
Tariff proposals	3	6	8
Data collections	131	113	136
Investigations	1		2
Proposals to amend/update contractual documents and codes (**)			1

(*) Responses to consultations (Authority, Ministry of Economic Development and Energy Market Operator) through trade associations. On one occasion, the Company took part in a technical round table between associations and the Authority, which was launched during the course of the year.

(**) Also includes proposals still being evaluated by the Authority, including contractual documents and agreements with operators in the context of regulated services.

Tariff regulations for 2015

Determination of provisional reference tariffs for 2015

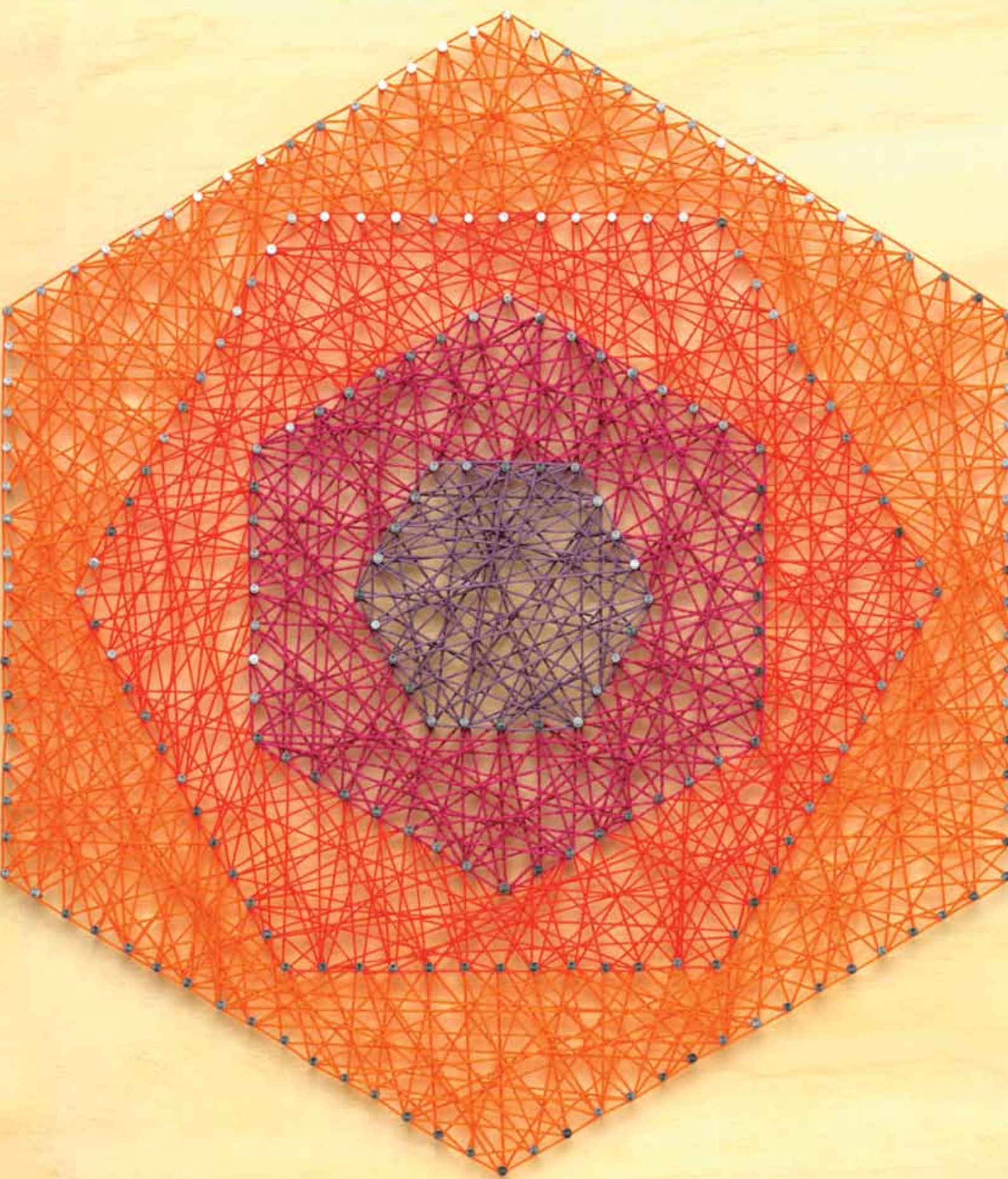
By means of Resolution 147/2015/R/gas, published on 2 April 2015, the Authority set the provisional reference tariffs for gas metering and distribution services for 2015, in accordance with the provisions of Article 3, paragraph 2, letter a) of the Gas Metering and Distribution Service Tariff Regulations (RTDG). The tariffs were calculated based on the preliminary balance sheet data for 2014.

Determination of definitive reference tariffs for 2015

By means of Resolution 99/2016/R/gas, published on 11 March 2016, the Authority set the definitive reference tariffs for gas metering and distribution services for 2015, calculated based on the preliminary balance sheet data for 2014. The Company is analysing the impact of the change in base revenue from provisional to definitive for 2015, which to date is estimated to be insignificant.

Redetermination of reference tariffs for 2009-2014

By means of Resolution 98/2016/R/gas, published on 11 March 2016, the Authority redetermined the reference tariffs for gas metering and distribution services for the years 2009-2014. The Company is analysing the impact on the base revenue, which to date is estimated to be insignificant.



Other operating information and results

DEVELOPMENT OF HUMAN, SOCIAL AND RELATIONSHIP, AND INTELLECTUAL CAPITAL

This section of the report deals with activities and initiatives that have an impact on aspects that do not relate directly to core business processes, but contribute to the creation of value for the Company and its stakeholders.



Job stability

To operate, Snam needs reliable employees with specialised expertise in managing technology, control systems, procedures and IT systems that are increasingly intricate and integrated.

In light of this, it creates value through the establishment and maintenance of stable, lasting working relationships. At 31 December 2015, out of a total of 6,303 employees, approximately 97% of Snam personnel have permanent employment contracts. The remaining 3% have apprenticeship contracts that, by law, are temporary (although historically, nearly all apprenticeship contracts have become permanent contracts at expiration, demonstrating the stability that Snam offers by providing lasting employment).

The average age of Group employees is 49, while the average length of employment is around 24 years, unchanged from the previous year. In 2015, 329 employees reached the landmark of 25 years' service: 30 were employees of Snam, 97 of Snam Rete Gas, 160 of Italgas, 12 of Stogit, 1 of GNL Italia, 25 of Napoletanagas and 4 of AES.

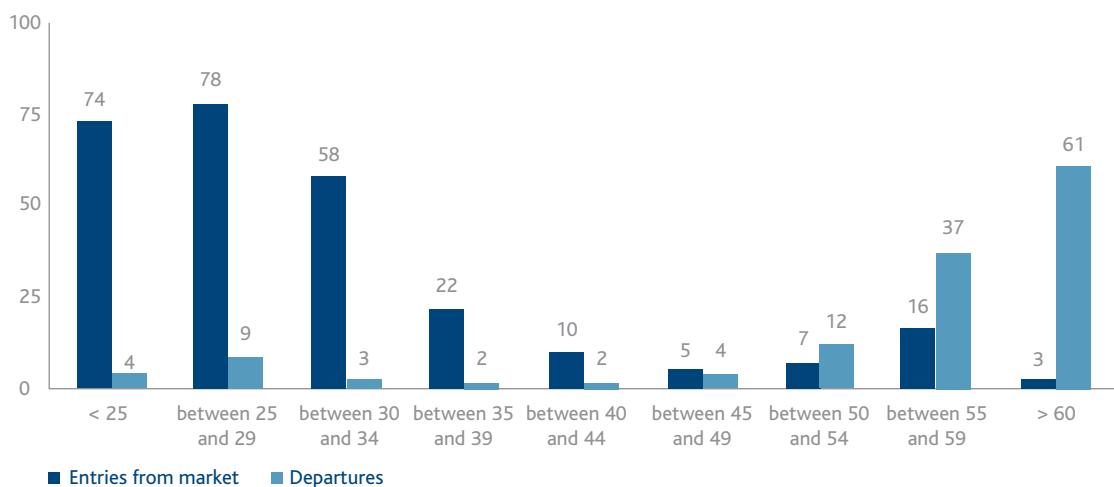
PERSONNEL BROKEN DOWN BY TYPE OF CONTRACT (NO)

	2013	2014	2015
Permanent contract	5,748	5,749	5,995
Apprenticeship or internship contract	202	229	215
Fixed-term contract	0	1	1
Part-time contract	95	93	92

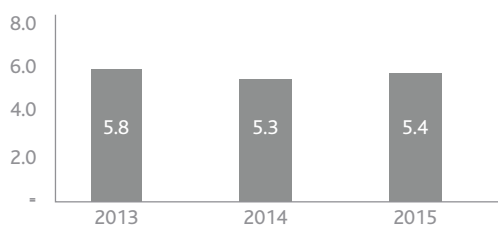
PERSONNEL HIRED DURING THE YEAR (NO)

	2013	2014	2015
Hired from the market (total)	67	185	273
- of which university graduates	46	75	105
- of which school graduates	21	110	150
- of which women	17	34	40
Other new employees (non-consolidated companies, tender acquisitions, etc.)	16	213	109

ENTRIES FROM MARKET AND DEPARTURES IN 2015 BY AGE GROUP (NO.)

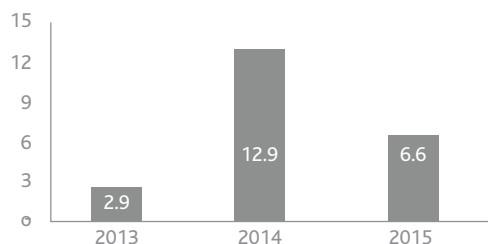


ABSENTEEISM RATE (%)



Absenteeism rate = (hours of absence/workable hours)*100

PERSONNEL TURNOVER (%)



Turnover rate = ((entries+departures)/average headcount in service)*100

Development of roles and skills

The system of developing employees’ professional and managerial skills plays a key role in creating value, since it allows human capital to evolve in harmony with changes in the context and the Company’s needs, particularly with a view to facing the new difficulties that are inherent in strategic projects to develop European networks.

In this sense, over time, Snam has developed its own repertoire of capacities and skills, as well as a set of indicators for evaluating potential. These tools, which are integrated into the performance evaluation process, allow the Company to support the development of its staff from the selection stage onwards.

In 2015, an additional step was completed with the implementation of the Snam Managerial Skills Model, which was developed in collaboration with Group managers. The model identifies the seven managerial skills deemed to be critical, describing them with reference in particular to activities that are specifically required due to the corporate context.

Launched in 2014, the performance management process has already involved some 1,000 people (including both evaluators and those being evaluated). All employees involved have access to a dedicated web space that provides all the operational and didactic tools they need to support them during the allocation, finalisation and feedback stages.

Professional enhancement

Training is another essential element for supporting the processes of organisational integration and change management, and for enriching the employment opportunities of Snam personnel.

In 2015, a total of 160,400 hours of training were provided (an average of 25.5 hours per employee), with 15,716 participants and a participation rate of 84.7%, testimony to Snam's ongoing and wide-reaching commitment to updating and developing its employees' expertise.

Special attention is paid to the oversight and transfer of technical and specialist skills, including within operational units, where it is essential to be able to rely on technicians and manual workers with expertise in maintenance and implementation activities. Specific training initiatives are designed for professional families and new hires.

With a view to opening up to international activities, Snam continued to offer advanced linguistic training via half-year courses, with individual lessons and study periods abroad, in which some 80 employees took part in 2015.

As regards training on the Code of Ethics, Model 231 and anti-corruption, a total of 3,025 hours of training were provided to 1,920 participants in 2015.

STAFF TRAINING HOURS BROKEN DOWN BY POSITION (NO)

	2013	2014	2015
Executives	6,133	4,974	3,943
Managers	23,699	14,509	18,814
Office workers	117,942	73,404	86,010
Manual workers	50,584	82,029	51,638
Total	198,358	174,916	160,405

KEY TRAINING INITIATIVES

Description	Hours provided (no)	Participants (no)	Recipients
Managerial training: initiatives to support the new development systems (managerial skills), new courses for the improvement of critical soft skills, etc.	4,768	639	Executives, managers and office workers
Managerial training: leadership development programme	2,990	284	Employees with high potential, experts, managers
Managerial training: young graduate schemes	2,748	187	New graduates who joined the Group in 2015
Training dedicated to plant maintenance and knowledge of technical systems	91,641	5,180	Technical and operational office and manual workers
Foreign languages	13,424	453	Executives, managers, office workers and technicians

Evolution of corporate welfare

In 2015, it launched a project aimed at expanding its traditional welfare system, based on three development guidelines partly inspired by the results of employee research conducted in 2012: introduce new initiatives for emerging needs; draw up specific measures based on the needs of the Company's various employees; and ensure that employees are aware, informed and involved.

One of the most significant outcomes in terms of perceived value has been the launch of the 'smart working' experiment. The experiment, which is currently limited to certain Snam departments, will be concluded in 2016 and, following analysis of the results, may be extended to all Group companies.

One of the most significant impacts of the corporate welfare ethos can be seen in the rising proportion of female employees, whose presence within the Company has historically been a small one, due partly to the nature of the work involved.

In 2015, 15% of new hires were women, whose proportion of the corporate population as a whole rose to 11.3%. Women account for 13.3% of managers and 7% of executives, with one of the three new executives appointed in 2015 being female.



Market reputation

Though in regulated sectors Snam has a natural monopoly, when dealing with its customers it adopts an approach based on a competitive market, in which it is essential to understand how the customer perceives value.

To that end, it carries out annual customer satisfaction surveys to gauge users' level of satisfaction with regard to the clarity of the code, the availability and efficiency of IT services, and commercial management. These surveys are used to gather users' suggestions for improving the services covered in the questionnaire. The surveys conducted in 2015 involved 73 customers in the storage sector (with responses received from 68%) and 126 customers in the transportation sector (with a response rate of more than 83%). Assessments of the responses provided by customers indicate general satisfaction in both cases.

Relations with local communities

Snam is present, through its infrastructure, in almost all the country's regions, in areas and communities that are varied in terms of culture, traditions and economic, social and environmental conditions.

The Company always seeks to ensure that its facilities are compatible with the environment, and the relations that link it to the local community are an asset that must be managed through a rigorous, transparent and collaborative approach.

To that end, the Company collaborates with local and national authorities to best illustrate its work execution plans to both the authorities and the affected communities. During the year, 129 meetings were held with local authorities and regional associations.

Total expenditure on donations, sponsorship and initiatives to benefit local communities, not including environmental compensation, amounted to around €753 thousand, in line with the figures from 2014.

Snam also carries out 'shared value' projects, which involve making its knowledge, expertise, unused space and assets available to local stakeholders (representatives from communities, regions and schools, suppliers, customers, etc.), testimony to the Company's commitment to sharing its resources in order to better meet some of the communities' needs.

SHARED VALUE PROJECTS COMPLETED AND STARTED IN 2015

Scope for generation of Shared Value	Initiative
<p>Within the framework of supplier relationships, making corporate expertise available through a system of knowledge sharing, which will help companies in the supply chain in a process of continuous improvement that can increase both their own competitiveness and the dependability of their partnership with Snam, to the ultimate benefit of service quality.</p>	<p>Quality and transparency in relations between the Company and suppliers. Workshop organised by Snam in Milan: this initiative was part of the strong commitment that the Company is developing on the issue of sustainability within the supply chain, and offered a chance to look in depth at fundamental issues such as: the ethics and integrity agreement entered into with suppliers and transparent supplier relations, the new subcontract management project, the new IT system for classifying and evaluating suppliers, safety on site.</p> <p>Grow together: the Suppliers Portal In 2013, Snam launched its Suppliers Portal, a web platform designed to optimise the day-to-day operations of all those involved in managing the entire supply chain and to promote the exchange of culture and knowledge. In 2015, over 89,000 visitors accessed the Portal more than 234,000 times, a significant increase compared with the previous year.</p>
<p>As part of Snam's management and enhancement of sites and infrastructure, sharing space and knowledge with stakeholders in the area to encourage public acceptance of the legitimacy of the networks.</p>	<p>Cultivating value: the social land in Terranuova Bracciolini In 2014, Snam signed a contract with the social cooperative Betadue, giving it the free use, for four years, of a plot of land outside Snam's compressor station in Terranuova Bracciolini. The Betadue cooperative has used the land to grow vegetables, which in 2015 have already been part of short local supply chains. A photography exhibition on the initiative was also launched and presented in multimedia format at Expo 2015.</p> <p>Helicopter flyovers Snam has begun a collaboration with the University of Bergamo to give the university, free of charge, the aerial shots taken during flyovers carried out to monitor the network. This information will then be used and capitalised upon for a wide variety of purposes: educational, cultural and analytical.</p> <p>Tour of Italy in 80 bookshops This initiative, carried out in partnership with the Renewable Literature Association, helped to promote the Group's presence in local communities through a cultural and environmental cycling relay race between May and July that covered around 1,400 km along the Adriatic coast from Friuli-Venezia Giulia to Puglia.</p> <p>The Italgas Historical Archive and Museum: a historic asset for the community. In 2015, the 'M'illumino di libri' project was born. This cultural project was created to make the Italgas Historical Archive and Museum in Turin increasingly present within the fabric of the city and more involved in the region's cultural issues. The initiative comprises a series of events, meetings and performances centred on promoting books and reading, which will be held at the museum in the coming months. In this context, the Italgas Museum is also offering its spaces for a series of laboratories, workshops and events related to the 'Booksound' competition, a similar project aimed at promoting the reading of books out loud, promoted by the Renewable Literatures Association with help from LaAV (Letture ad Alta Voce, or Reading Out Loud) and aimed at junior and senior secondary school pupils.</p>
<p>As part of the implementation of new investments, sharing with local communities and disseminating among local protagonists the knowledge of best business practices in the application of naturalistic engineering techniques in particularly delicate areas with complex ecosystems, such as parks and protected areas.</p>	<p>Sustainable Paths – Parco della Majella – Parco del Ticino The third book in the Sustainable Paths series has been published, supported by the Ministry of the Environment and dedicated to the Parco della Majella. The fourth book, on the Parco del Ticino, is currently in publication. This book describes another significant example of constructive collaboration between Snam and a park body. The gas pipeline already present in the area, together with the new one being planned, the Cervignano-Mortara pipeline, which will cross the park for around 11 km, will help to strengthen the network and the connection with major routes across the border, to the future benefit of the country in energy terms.</p>

The value of communication

For Snam, proactive, balanced and transparent communication contributes to its relations with all its stakeholders, and has a direct impact on the visibility of its brand and the reputation of the Company. For this reason, over time it has developed a structured set of tools and channels, with a view to always offering high-value content, through both traditional methods and new media.

In 2015, Snam further refined its web identity by redesigning entire sections of its corporate website (www.snam.it) and seeking ever closer integration with all major social platforms on which it is present (Twitter, YouTube, LinkedIn, Google+, Flickr, Instagram, Slideshare, Facebook), in an attempt to reach an increasingly broad and more diverse audience. In order to achieve greater transparency, the "Ethics and Governance" section of the website, for example, was completely updated to include the topic of corporate ethics and how they are linked to governance and legislative compliance policies.

By way of recognition of the consistency and quality of its work, Snam retained third position in the KWD Webranking classification, which rewards those Italian companies that communicate most effectively online, and is compiled by independent specialist companies.

Throughout 2015, Snam was the subject of 275 articles in the national and international press.

The content and tone of these articles was judged positive or neutral in almost all cases (273), while the proportion of positive articles rose from 50% of the total in 2014 to 55%.



Innovation for business development

The Group's strategic evolution in an increasingly complex and challenging context will require it to rely more heavily on developing innovation and on the good use of technological assets to ensure that it makes the most of what has already been achieved, as well as developing innovative solutions, as a support for and source of business development.

In this context, at the end of 2015, Snam began activities aimed at setting up a specific governance structure through the launch of 'Project Innovate: Innovation Development & Technology Enhancement'. The project, which involves operational and business support departments, has the following objectives:

- Map the Group's different technological, technical and constructive innovations carried out internally and with the support of external partners;
- Systematise the network of scientific collaborations with major research institutions and national and international universities;
- Carry out a market analysis to evaluate potential spaces for applying corporate expertise;
- Define and implement a network innovation model to promote the development of innovative ideas to boost assets for internal or market use.

During the course of the year, various research and development activities launched in previous years were either continued or completed. At the same time, some new projects were launched with a potential impact on various areas of corporate operations.

Gas metering

A campaign was carried out to test alternative gas quality metering tools to chromatographs, based on an experimentation protocol set out by the Polytechnic University of Milan. In the light of the positive results of the experiment, these tools will be introduced gradually on the transportation network as of 2016.

In gas distribution, we continued work on the technological innovation project relating to large-calibre ultrasound meters installed at the regulating and metering stations (REMI). The readings from these meters were monitored and compared against those of traditional meters. We also continued to research innovative (ultrasonic and mass flow) and compact (with integrated remote reading and conversion system) meters.

In gas storage, following necessary trials, 2015 saw the installation of the first clamp-on ultrasonic natural gas metering system.

The Company continued its collaboration with the European Gas Research Group (www.gerg.info) and other European natural gas transporters and distributors, with reference in particular to the project for evaluating methods of estimating natural gas emissions, which was concluded by evaluating real gas leak measurements.

Governance and monitoring of the network and plants

The "Evolution of Remote Systems" project was launched, with the aim of ensuring the technological development of field apparatus for acquiring technical and process data and the methods through which they are connected and managed.

In gas storage, following a trial conducted on site, a project was launched to install phonometric systems to record any accidental leaks at plants and enable quick and effective blocking measures.

Physical integrity of pipes

The Company continued its collaboration with the research projects of the European Pipeline Research Group (www.eprg.net), together with major European operators in gas transportation and pipeline production, concerning:

- the experimental assessment of the resistance of curves created using cold bending;
- the study of a new model to assess the integrity of pipes subjected to mechanical damage;
- monitoring of the effects on underground pipes located in earth that presents instability of various kinds;
- preparation of criteria for the assessment of corrosion along the circumferential soldering;
- definition of test procedures to simulate the ageing of external facing and assess their resistance to the loss of adhesion.

In terms of distribution, with regard to anti-seismic measures taken to protect buildings, we continued work on the only project in Italy involving practical testing of a Japanese valve system that can intercept gas flows to important buildings in the event of seismic activity.ci.

Remote management of redelivery points

The Company continued to develop technological additions between workforce management systems and electronic meters, for both the launch of remote management of redelivery points and the optimisation of internal operating processes.

We also launched a new trial phase for point-to-multipoint radio technology, which will involve G4 electronic meters and radio concentrators, with the aim of generating the internal expertise needed to evaluate the benefits of its adoption, to supplement the current point-to-point meters.

Maintenance and checking of networks

The execution phase of the "Gas Transportation Network Asset Maintenance System" was launched, which is aimed specifically at completely overhauling work processes and regulations related to the transportation network, compression stations, storage, plants, metering and remote control. Specifically, during the year, the operators and technicians responsible for maintenance and metering activities were equipped with next-generation devices that use new maps and show real-time additional information about the surrounding environment (e.g. plant) using "augmented reality" technologies.

In terms of distribution, Italgas, due to the precise localisation and specific checking of pipe-laying conditions (layout, depth, etc.), makes use of the innovative equipment known as "georadar", a radar device for underground surveying that allows users to scan large areas in a short space of time and to reveal, in a non-destructive, non-invasive way, the presence and position of underground objects using the reflection of electromagnetic waves.

Efficiency of plants

A study in partnership with the Polytechnic University of Milan was completed on the application of high-efficiency cogeneration systems in compression stations, with a view to reducing electricity costs and increasing the overall energy efficiency of the gas compression process. Based on the conclusions reached, two pilot plants have been identified where the execution phase can be carried out.

With regard to distribution, a project was launched with the aim of field testing a system for managing the heat produced by the thermal power stations attached to the REMIs. This system allows the optimisation of the gas pre-heating process, with a consequent reduction in costs due to self-consumption. The project aimed at optimising the quantity of odouriser injected into the network was also continued. Also in this sector, a project was launched to field test a system for the equipartition of the flow of gas provided by pressure reduction facilities, with the aim of evaluating their effectiveness in terms of reducing noise emissions, *inter alia*.

MITIGATION OF ENVIRONMENTAL, HEALTH AND SAFETY IMPACTS

Accident prevention and environmental protection are areas of management in which the creation of value is linked to the ability to mitigate the most significant impacts caused by the Company's business activities. Safeguarding the physical integrity of staff and natural capital is an integral part of the definition of Snam's corporate policies and investment decisions.

On these issues, Snam adopts specific certified management systems, with the aim of overseeing the corporate processes and activities that have the biggest impacts, linked to the fight against climate change, the reduction of energy consumption and the protection of nature and biodiversity.

During the year, Snam obtained certification for its Environmental Management System, in compliance with Standard UNI EN ISO 14001, while Snam Rete Gas continued to implement the ISO 9001 quality certification project. Launched in 2014, the project aims to extend the management system to the entire Company and to obtain the relevant certification by 2016.

In order to maintain the certifications already in place, the Group companies have implemented all necessary activities, including checks by both internal and external parties. Specifically, the Snam Group has 43 qualified auditors, including those from outside the Group.

In 2015, 288 audits were carried out (218 internal audits conducted by specialist staff and 70 by external parties). In order to check the effectiveness of the management systems adopted, 337 health, safety and environment audits were also carried out on contractors working on Snam sites.

AUDIT

	2013			2014			2015		
	Internal	External	Total	Internal	External	Total	Internal	External	Total
Audits (no)	256	56	312	254	60	314	218	70	288

The reduction in the number of audits carried out was due mainly to the increase in the number of integrated audits carried out for the various management systems.

MANAGEMENT SYSTEMS

Company	Coverage certification	Type of certification and accreditation	Year of first certification
Snam	Company	ISO 14001	2015
		BS OHSAS 18001	2012
	Gas process systems	ISO 22301	2015
	Dispatching centre	ISO 22301	2015
	Information security management for natural gas dispatching and metering	ISO 27001	2014
	Company	ISO 14001	2013
Snam Rete Gas	Gas process systems	ISO 9001	2013
	Infrastructure planning unit	ISO 9001	2011
	Company	BS OHSAS 18001	2010
	Unit size	ISO 9001	2010
	Testing laboratory (LAB 764 conveyed gas flows)	ISO 17025	2007
	Dispatching centre	ISO 9001	2003
	Calibration laboratory (LAT 155 mixtures of natural gas)	ISO 17025	2002
	Company	BS OHSAS 18001	2012
GNL Italia	Company	ISO 14001	2000
		BS OHSAS 18001	2012
Stogit	Design and delivery of natural gas metering and accounting	ISO 9001	2008
	Company	ISO 14001	2002
	Company	ISO 50001	2012
Italgas	Company	ISO 14001	2001
		BS OHSAS 18001	2001
	Company	ISO 9001	1996
	Calibration laboratory (LAT 216)	ISO 17025	1994
	Testing laboratory (LAB 83)	ISO 17025	1994
	Inspection body (*)	ISO 17020	2014
Napoletanagas	Company	ISO 14001	2003
		BS OHSAS 18001	2003
	Company	ISO 9001	2000
AES	Company	ISO 9001	2008
		BS OHSAS 18001	2007
		ISO 14001	2004
Acam Gas	Company	ISO 9001	2010
		BS OHSAS 18001	2010
		ISO 14001	2010
		ISO 3834	2012

* Type C inspection body for "Periodic inspection of volume conversion devices associated with gas meters (Type 1) in accordance with the provisions of Ministerial Decree 75/2012".



Prevention of accidents and protection of health

The Snam Group has a long-term commitment to developing and promoting the protection of health and safety at its workplaces, as part of an ongoing process to improve its HSE performance in accordance with its Health and Safety, Environment and Quality Policy.

When managing health and safety issues, it is essential to implement standardised management systems developed and maintained in accordance with the OHSAS 18001 standard. Specifically, Snam's Worker Health and Safety Management System aims to carry out strategic guidance, coordination and monitoring for the Group's operating companies.

Accident prevention, the main health and safety objective, is carried out through the adoption of targeted actions aimed at eliminating or reducing risk factors inherent in employees' work.

In-depth analysis of the causes of accidents aims to identify any measures that can be taken to eliminate, mitigate or correct risk factors, implementing organisational, technical and managerial solutions on equipment, plants and workplaces, as well as operational and behavioural procedures in which suppliers are also heavily involved.

This issue is also covered by Project Objective Safety. Launched in 2010, this programme of activities, intended to foster a corporate culture of health and safety through staff involvement and participation, aims to further reduce incidents and accidents at work and to achieve the goal of "zero accidents".

At the same time, the launch of initiatives to involve and raise awareness among suppliers about the need to adopt best practices has helped the Company to bring about improvements in terms of managing health and safety issues in contracted activities.

The Company pays careful attention when selecting and subsequently monitoring suppliers, through the use of a feedback form and the performance of checks during the execution of works.

Periodically throughout the year, workshops are held with suppliers that focus on generating shared value between the Company and its suppliers.

HEALTH AND SAFETY TRAINING (HOURS)

	2013	2014	2015
Hours provided	34,641	53,433	20,722
Equity investments	4,255	5,886	3,629

Zero accidents	Sub-groups that achieved 365 days without accidents in 2015
Snam, Gasrule, Acam Gas	Not in force
SRG	North District, Central, Operations (San Donato headquarters), South-West District, Sicily District, North-West District, San Donato Staff, Centre-West District, South-East District
GNL Italia	Entire company
Stogit	Fiume Treste Operations Hub, Crema (headquarters), Ripalta-Sergnano Operations Hub, Cortemaggiore-Bordolano Operations Hub, Brugherio-Settala Operations Hub, Minerbio-Sabbioncello Operations Hub
Italgas	South Distribution Networks Project, North-East District, Rome Gas Distribution, North-West District, Turin Office Headquarters, Sicily District, Centre District
Napoletanagas	Entire company
AES	Entire company

The protection of workers' health is based on ongoing monitoring of risk elements analysed in corporate processes and the implementation of adequate prevention and protection measures.

Work environment inspections are periodically carried out by the Duty Doctor and the Prevention and Protection department, in order to evaluate adequate and appropriate working and environmental conditions and to identify possible measures for prevention or improvement.

Snam's workers are not exposed to a high risk of contracting occupational diseases (no cases have been recorded in the last three years). Staff who are exposed to specific risk factors undergo periodic health monitoring carried out by Duty Doctors based on specific health protocols defined according to the risk, as well as additional specialist visits. Employees whose work requires them to travel to non-European countries receive specific preventive care.

The various initiatives run by Snam to promote workers' health include: a flu vaccine campaign, an early-diagnosis plan to prevent cancer, agreements with specialist institutions, a ban on smoking in the workplace (which also includes e-cigarettes), and a ban on drinking alcohol in company canteens.

HEALTH MONITORING (NO)

	2013	2014	2015
Medical visits	2,674	2,630	2,766
Periodic medical visits	2,610	2,387	2,190
Environmental surveys	260	532	245



Energy efficiency and climate change

Streamlining and reducing energy consumption has a positive impact on the reduction of greenhouse gas emissions.

To that end, Snam continued carrying out specific activities, including: improving the energy efficiency of its gas turbine fleet; installing photovoltaic plants and connecting them to the electrical network; adopting LED lamps to light the plants; installing more efficient heat generators; installing a system for the equipartition of the flow of gas at gas reduction stations; and improving its buildings' energy classification.

THE SNAM GROUP'S RENEWABLE ENERGY PLANTS

Type	2013			2014			2015		
	(no)	Total power (kW)	Energy generated (kWh)	(no)	Total power (kW)	Energy generated (kWh)	(no)	Total power (kW)	Energy generated (kWh)
Wind power generators	1	1.5	202,259	1	1.5	477,213	1	1.5	740,082
Photovoltaic plants	802	478.5		951	611.5		1,043 (*)	818.5	
Thermal solar plants							1	151	
Total	803	480		952	613		1,045 (*)	971	

(*) Including 999 back-up plants.

Furthermore, in July 2015, the Snam Rete Gas compression station at Terranuova Bracciolini joined the three existing plants that generate electricity from renewable sources: the Messina compression station (Snam Rete Gas), the Brugherio compression station (Stogit) and the Panigaglia regasification facility (GNL Italia).

Environmental monitoring and restoration in the development of the gas pipeline network

The development of the gas pipeline network is the business segment that has the biggest impacts on the surrounding area.

The mitigation of these impacts begins in the design phase, where the layout is selected from several alternatives, seeking to avoid or minimise extension into areas of significant natural or cultural interest, archaeological areas, geologically unstable areas and man-made areas, or areas in which the construction of new housing is planned.

In some cases, during the construction phase (subject to technical feasibility), certain procedures and technologies are used to reduce interference with the surrounding environment. These include reducing the length of working shifts, minimising temporary building site infrastructure, and using trenchless execution techniques (tunnels and micro-tunnels) as an alternative to traditional digging. Having completed the works, a careful environmental restoration operation is carried out to return the land to its original condition.

Through monitoring projects, which concern the layouts of pipes that interfere – even if only marginally – with natural areas of ecological and wildlife value, checks are performed on the effectiveness of the process of restoring the areas affected by the works, based on comparisons between the conditions after the restoration and the original conditions.

ENVIRONMENTAL MONITORING AND RESTORATION (KM OF NETWORK)

	2013	2014	2015
Restoration	131	78	240
New reforestation (*)	22	16	11
Farmland care	135	124	140
Environmental monitoring	1,063	1,055	1,009

(*) Surface area covered by new reforestation: 143,700 m².

MAIN ENVIRONMENTAL MONITORING AND RESTORATION CARRIED OUT DURING THE YEAR

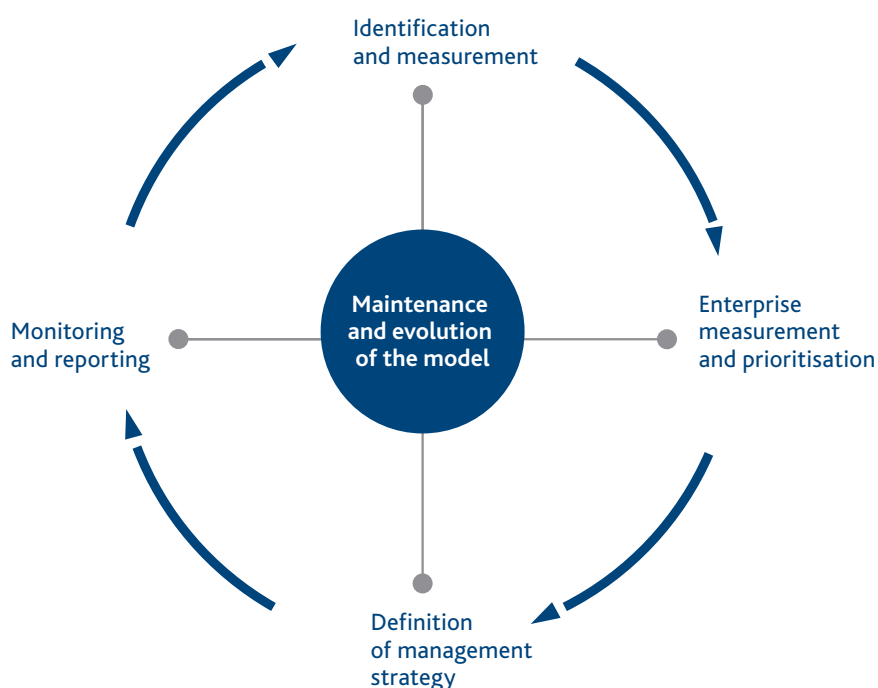
Reference body	Name	Activities carried out
Sicily Region	Bronte-Montalbano gas pipeline	Snam continued to collaborate with the State forests agency in Sicily to produce indigenous forest plants for reforestation along the layout of the pipeline within the Nebrodi Regional Park. In 2015, the last farmland care was carried out, as well as the replacement of the last plants that failed to take root. The replacement plants were also provided by the nurseries of the State forests agency.
Lombardy Region Veneto Region	Zimella-Cervignano gas pipeline	During 2015, restoration was carried out along the Zimella-Cervignano pipeline, an important gas pipeline covering 172 km (with underground pipes measuring 1,400 mm in diameter), which runs through agricultural plains between the Veneto and Lombardy regions. In this case, the environmental restoration mainly involved returning plots of land that had been affected by the laying of the pipeline to their original agricultural use, restoring their landscape and fertility.



Elements of uncertainty and risk management

Though it maintains a limited economic and financial risk profile, since its activities are concentrated in regulated business sectors, Snam adopts a structured, systemic approach to governing all risks that may affect the conditions that form the basis of its value creation.

Through its Enterprise Risk Management (ERM) and the new Risk Management Policy issued in 2015, it has worked to strengthen this area, introducing a structured method for identifying, evaluating, managing and monitoring risks, which is standardised for all Group companies. The ERM model, which is managed by a dedicated corporate department, is an iterative one that enables dynamic and integrated group-wide risk assessment that brings out the best of the existing management systems in individual corporate processes.



Monitoring and reporting:

the risk mapping is periodically updated according to the enterprise measurement, and at least once a year, including for low-priority risks. Periodic reporting guarantees, at the various corporate levels, the availability and representation of information relating to the management and monitoring of the relevant risks.

Definition of the management strategy:

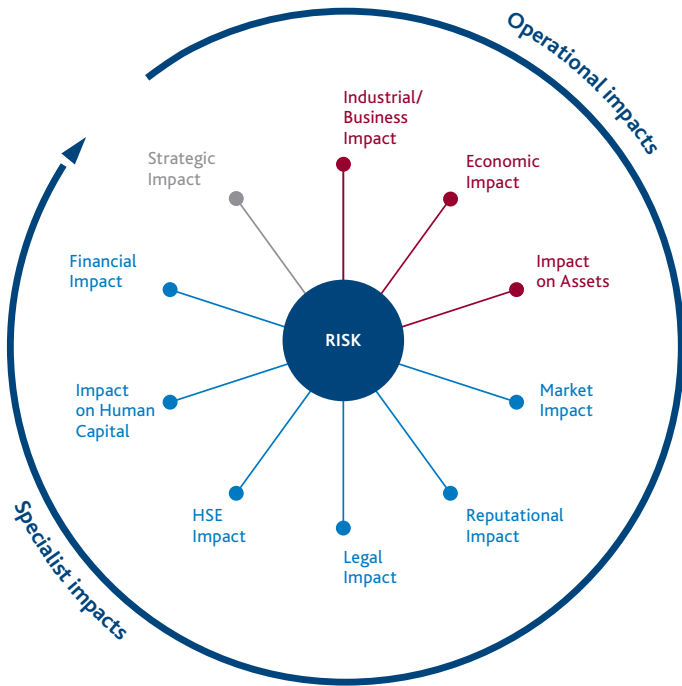
for all risks, management measures are identified, together with any specific interventions and the relevant implementation time frames, associated with a type of risk management from among those that have been codified. The management plans for the main risks are presented to the Control and Risk Committee.

Identification and measurement:

of risk events relating to corporate processes and external risk factors that could influence the achievement of corporate goals, either through direct impacts on results and corporate finances (lower revenue or higher costs) or through intangible negative effects on other types of capital, especially the licence to operate.

Enterprise measurement and prioritisation:

each event is assigned an "enterprise measurement", which summarises, for each risk, the different measurements carried out by the risk owner and by centralised units with specialist expertise. The prioritisation of risks is defined by combining the measurements of impact and probability.



Using the model described above, four risk assessment cycles were performed on the entire Snam Group in 2015. As at the end of 2015, 360 enterprise risks had been mapped and broken down between all corporate processes.

In addition to the ordinary activities of checking and monitoring the risks mapped, other measures were carried out with a view to continually improving the model adopted and supporting the risk managers. Specifically:

- analysis and classification of all causes of risks in order to better identify the root causes and the relevant management and/or mitigation measures. Classification was carried out by distinguishing between endogenous and exogenous causes, and further subdividing them into categories (people, processes, regulations, suppliers, etc.) and subcategories;
- preparation of an integrated intervention plan that combines all intervention measures and the relevant time frames for managing and/or mitigating risks;
- creation of a methodology for identifying and measuring the positive effects of events (suitability);
- production of an IT tool that allows cyclical checks on risk mapping to be carried out online.

One of the best features of Snam's ERM model is the wide-ranging nature of its impact measurement.

Any risk event may have 10 different types of impact, some determined by the risk owners (operational impacts) and others by specialist departments (e.g. the legal impact of an event is assessed by the Corporate and Legal Affairs and Compliance department). This means risk measurement from different perspectives and team risk prioritisation. The most common operational impact is industrial impact, consistent with the fact that risk identification begins with process analysis. The most prevalent specialist impacts include reputational and legal impacts, confirming the existence of an increasingly globalised external context subject to ever more complex regulations.

METHODS OF MANAGING THE MAIN RISKS

The main types of risks identified by Snam, as described below, are as follows:

- regulatory risk and legal and non-compliance risk;
- operating risks;
- specific risks associated in particular with market risk and competition in various sectors in which the Group operates;
- financial and liquidity risks, arising from exposure to interest rate fluctuations, medium- and long-term debt rating downgrades, and bad debts.

Regulatory risk, for Snam, is closely linked to the regulation of its activities in the 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 the Company'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.

Legal and non-compliance risk concerns the failure to comply, in full or in part, with rules and regulations at the European, national, regional and local levels to which Snam is subject in relation to the activities it performs. The infringement of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to the Company's balance sheet, financial position and/or reputation. As regards specific cases, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, *inter alia*, may also result in (possibly significant) sanctions on the Company based on the administrative responsibility of entities (Legislative Decree 231 of 8 June 2001).

Operating risks consist mainly of the *malfunctioning and unforeseen interruption of the service* determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. 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.

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

The most significant of the **market and competition risks** associated with the individual sectors in which Snam operates are those linked to the *expiry and renewal of distribution concessions and retaining storage concessions*. In accordance with the provisions of the legislation applicable to Italgas's concessions, tenders for new gas distribution concessions will no longer be issued by each municipality, but exclusively by the minimum geographical areas (ATEMs). As the tender process unfolds, Italgas may not be awarded concessions in the planned areas, or it may be awarded them on less favourable terms than is currently the case. This could have a negative impact on 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, calculated pursuant to Ministerial Decree 226 of 12 November 2011¹⁹. As a result of this regulation, there may be cases in which the value of the reimbursement may be lower than the value of the RAB.

With regard to storage activities, 8 of the 10 concessions held by Snam via Stogit (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) are due to expire in December 2016 and may be extended by the Ministry of Economic Development no more than twice, for a duration of 10 years each, one (Fiume Treste) will expire in June 2022 and underwent a first 10-year extension in 2011, and one (Bordolano) will expire in November 2031 and may be extended for another 10 years²⁰. 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.

- 19 Ministerial Decree 226 of 12 November 2011, on tender process criteria and offer evaluation, states that the incoming operator acquires ownership of the plant with the payment of the reimbursement to the outgoing operator, with the exception of any portions of the plant that are already municipally owned or which become municipally owned as a result of any free donations. 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). The value of the reimbursement to the outgoing operator, for concessions and contracts awarded that were drawn up prior to the date of entry into force of the regulation set out in Ministerial Decree 226 of 12 November 2011, and to the extent that it cannot be obtained from the parties' will, is calculated based on the guidelines on criteria and operational procedures for the valuation of the reimbursement, as subsequently drawn up by the Ministry of Economic Development with a document of 7 April 2014 and approved with the Ministerial Decree of 22 May 2014. 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.
- 20 The Stogit concessions issued prior to the entry into force of Legislative Decree 164/2000 may be extended by the Ministry of Economic Development no more than twice, for a duration of 10 years each, 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, the duration of the single Stogit concession issued after the entry into force of Legislative Decree 164/2000 (Bordolano) is 30 years, with the possibility of extension for another 10 years.

Market risks mainly concern the *risk associated with changes in the price of natural gas*. Specifically, in relation to transportation activities, the Authority has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by users of the service to the leading transportation company, of quantities of gas to cover unaccounted-for gas (UFG), due as a percentage of the quantities respectively injected into and withdrawn from the transportation network. Specifically, the Authority defines the permitted level of gas not accounted for based on a fixed amount for the entire regulatory period, with a view to encouraging the leading transportation company to deliver further efficiency improvements. The aforementioned procedures were confirmed by the Authority for the fourth regulatory period, by means of Resolution 514/2013/R/gas. In view of the aforementioned mechanism for the payment in kind of UFG, there is still uncertainty about the quantities of UFG withdrawn over and above the quantities paid in kind by the users of the service. Pursuant to the regulatory framework in force, the change in the price of natural gas covering fuel gas and network losses is not a significant risk factor for Snam.

Financial risks are described in Note 24, "Guarantees, commitments and risks – financial risk management", of the Notes to the consolidated financial statements.

The table below shows the mitigation and monitoring measures implemented for each type of risk.

Type	Description	Mitigation and monitoring measures implemented	Reference in the directors' report or other corporate documents
Regulatory risk	Definition and updating of a regulatory framework in Italy and countries of interest that presents penalising parameters	<ul style="list-style-type: none"> ■ Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system 	○ ●
	Significant change in regulations and/or case law	<ul style="list-style-type: none"> ■ Ongoing regulatory oversight through the monitoring of changes in laws and rulings, analysis of changes, and the dissemination of information and further details to business and commercial departments 	
Legal and non-compliance risk	Non-alignment of corporate governance and/or the internal control and risk system with regulations and/or best practices	<ul style="list-style-type: none"> ■ Periodic revision of employer model ■ Updating of Model 231 and the Code of Ethics ■ Analysis of updates to the latest version (July 2015) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices 	● ⊖
	The Company's responsibility for offences committed by management or third parties	<ul style="list-style-type: none"> ■ Anti-corruption monitoring ■ Monitoring of updates to corporate antitrust and anti-corruption policies 	⊖
Operating risks	Delay to the progress of programmes involving the construction of large transportation and storage infrastructure	<ul style="list-style-type: none"> ■ Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity ■ Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset ■ Use of innovative construction technologies with low environmental impacts (e.g. trenchless technologies, use of turbo gas with low atmospheric emissions) ■ Strict, structured system for selecting contractors and monitoring their performance 	○ ⊖ ⊖
	Breakage of or damage to pipes/plants, including as a result of exogenous events. Interruption of the service due to malfunctioning of plants or operating systems	<ul style="list-style-type: none"> ■ Application of management systems and procedures that take into account the specific nature of Snam's activities ■ Recovery plan system and business continuity management in line with international best practices ■ Communication initiatives aimed at providing information about the presence of infrastructure and behaviours to avoid/implement by third parties so as not to damage it ■ Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected ■ Ongoing, systematic maintenance and monitoring measures 	○ ⊖

Type	Description	Mitigation and monitoring measures implemented	Reference in the directors' report or other corporate documents
Operating risks (supply chain)	Maintaining an adequate reputational profile for suppliers and subcontractors	<ul style="list-style-type: none"> ■ Introduction of additional measures to prevent corruption and criminal infiltration: <ul style="list-style-type: none"> – Ethics and Integrity Pact signed by suppliers/subcontractors – Reputational checks on suppliers and subcontractors 	⊖ ⊕
	Number of tenders awarded to ITG differs from the plan	<ul style="list-style-type: none"> ■ Definition of an ATEM prioritisation model and preparation of IT and organisational tools to produce competitive offers in the time frames provided for 	
Market and competition risk	Failure to share with concession-awarding bodies regarding the value of the end-of-concession reimbursement	<ul style="list-style-type: none"> ■ Adoption of tools for valuing assets in line with the guidelines issued by the Ministry of Economic Development 	
	Retaining gas storage concessions	<ul style="list-style-type: none"> ■ Development of storage carried out in line with the most up-to-date technical and economic criteria and best practices in science and technology so as not to damage the deposit, not to cause harm to third parties or the environment and to guarantee the optimisation of capacity in compliance with the security of the national gas system 	
Financial/liquidity risks	Medium- and long-term debt rating downgrade	<ul style="list-style-type: none"> ■ Constant monitoring of rating indicators and availability of long-term credit lines 	●
	Changes in the interest rate	<ul style="list-style-type: none"> ■ Monitoring cash-flow-at-risk using an asset and liability management (ALM) model 	○ ●
	Bad debts	<ul style="list-style-type: none"> ■ Scoring system for evaluation and segmentation of customers (creditworthiness), and systematic management of requests upon specific maturities ■ Evaluation of the authenticity and validity of guarantees ■ Reporting of any issues with the regulatory system that may lead to opportunistic/fraudulent behaviour by operators 	

Legend

- Summary data and information
- Snam and the financial markets
- ◐ Business segment operating performance
- ⊖ Other operating information and results
- ⊕ Report on corporate governance and ownership structure
- Ⓜ Report on social responsibility

CONTROL ACTIVITIES

The results of the risk assessment and monitoring activities and the related mitigation measures are presented regularly to the Control and Risk Committee, the Board of Statutory Auditors and the Supervisory body of Snam and its subsidiaries. They were also used by the Internal Audit department to draw up the audit schedules. In 2015, audit activities were performed by a dedicated team of 17 auditors.

ACTIVITIES PERFORMED BY INTERNAL AUDIT

	2013	2014	2015
Total number of audits performed	63	93	64
Reports received	16	20	17
- of which related to the internal control system	7	2	2
- of which related to accounting, auditing, fraud, etc.	-	-	-
- of which related to administrative responsibility pursuant to Legislative Decree 231/2001	-	-	-
- of which related to other subjects (Code of Ethics, harassment, theft, security, etc.)	9	18	15
Reports shelved due to lack of proof or because untrue (no)	10	13	8
Reports resulting in disciplinary or managerial interventions, and/or submitted to judicial authorities	1	1	3
Reports under examination (no)		6	6

In order to strengthen control over all issues related to criminal law, administrative responsibility of the company, anti-corruption and the internal control system in general, the Internal Control System and Anti-Corruption unit was created within the Legal and Corporate Affairs and Compliance department. Cooperation and partnership with Transparency International was also supported and developed.

Corporate Reporting Internal Control System

The internal control and risk management system and the corporate reporting process of the Snam Group are elements of the same “System” (the Corporate Reporting Internal Control System), which aims to ensure the reliability²¹, accuracy²², dependability²³ and timeliness of corporate disclosure with regard to financial reporting and the ability of the relevant business processes to produce this information in keeping with generally accepted accounting standards.

The reporting in question consists of all data and information contained in the periodic accounting documents required by Law – the Annual Report, the Half-year Report, the Interim Directors’ Report (including consolidated versions) – as well as any other document or communication for external use, such as Press Releases and Prospectuses prepared for specific transactions, which are subject to the certifications required by Article 154-bis of the TUF. The reporting includes both financial and non-financial data and information; the purpose of the latter is to describe the significant aspects of the business, comment on the financial results for the year and/or describe the outlook.

Snam has adopted a body of rules that defines the standards, methods, roles and responsibilities for design, implementation and maintenance over time of the Group’s Corporate Reporting Internal Control System, which is applied to Snam and its subsidiaries, taking account of their significance in terms of their contribution to the consolidated financial statements of the Snam Group and the riskiness of the activities carried out.

The internal control and risk management model adopted by Snam and its subsidiaries with regard to corporate reporting was defined in accordance with the provisions of the above-mentioned Article 154-bis of the TUF, and is based in methodological terms on the “*COSO Framework*” (“*Internal Control - Integrated Framework*”, issued by the *Committee of Sponsoring Organizations of the Treadway Commission*), the international reference model for the establishment, updating, analysis and assessment of the internal control system. Its update was published in May 2013.

The planning, institution and maintenance of the Corporate Reporting Internal Control System are achieved through the activities of scoping, identifying and assessing the risks and controls (at the business level and process level through the activities of risk assessment and monitoring) and the related information flows (reporting).

21 Reliability of information: information that is correct, complies with generally accepted accounting standards and fulfils the requirements of the applicable laws and regulations.

22 Accurate information: information without errors.

23 Dependability of information: information that is clear and comprehensive, enabling investors to make informed investment decisions.

The structure of the control system features entity-level controls (Company entity-level controls) which operate transversely across the entity in question (group/individual company) and process-level controls. The latter are subdivided into:

- specific controls aimed at preventing, identifying and correcting errors or irregularities occurring during the execution of operative activities (process-level controls);
- pervasive controls to define a general context that promotes the correct execution and control of operating activities. The pervasive controls include those related to the segregation of incompatible tasks (Segregation of duties) and general control of information systems (IT general controls).

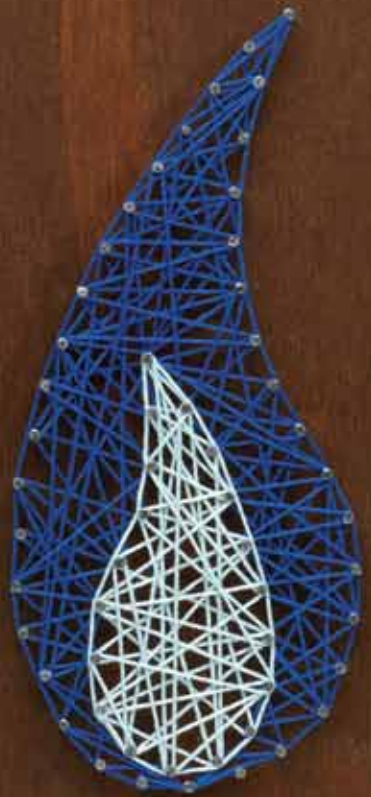
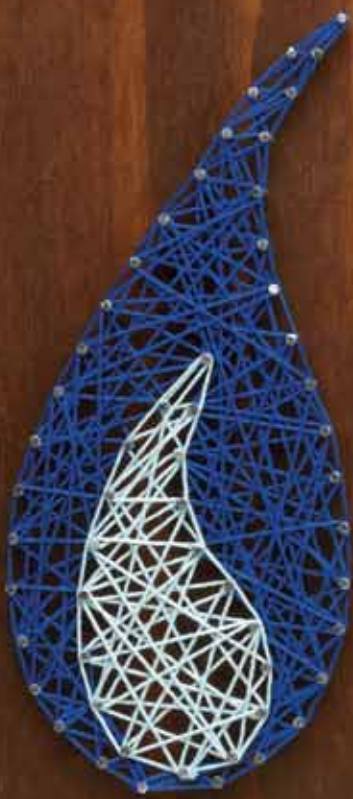
There are 65 Company entity-level controls provided for by the Corporate Reporting Internal Control System, 661 process-level controls performed by the Snam Group companies, 95 IT general controls and 121 Segregation of duties risks arising in the processes of individual companies.

The controls, both at the entity level and process level, are subject to regular evaluation (monitoring) to verify the adequacy of the design and actual operability over time. For that purpose, there is provision for ongoing monitoring activities, assigned to the management responsible for the relevant procedures/activities, as well as independent monitoring (separate evaluations), assigned to the Internal Audit, which operates according to a plan agreed with the Chief Financial Officer and aimed at defining the scope and objectives of its intervention through agreed audit procedures.

Snam's Board of Directors also appointed independent auditors Reconta Ernst & Young to examine the adequacy of the internal control system in relation to the preparation of financial information for the production of the separate and consolidated financial statements of Snam S.p.A., by conducting independent checks on the effectiveness of the design and functionality of the control system.

The results of the monitoring activities, the checks made on the controls and any other information or situations relevant to the Corporate Reporting Internal Control System are subject to periodic reporting on the state of the control system, which involves all levels of the organisational structure of Snam and its major subsidiaries, including operational business managers, heads of department, administrative managers and chief executive officers.

The assessments of all controls instituted within by Snam and its subsidiaries are brought to the attention of the Chief Financial Officer, who, on the basis of this information, draws up half-yearly and annual reports on the adequacy and effective application of the Corporate Reporting Internal Control System. These are shared with the Chief Executive Officer and communicated to the Board of Directors, after informing the Control and Risk Committee and the Board of Statutory Auditors, when the separate and consolidated financial statements, and the consolidated half-year report, are approved, to allow the Board of Directors to perform its supervisory functions and to conduct the assessments that fall to its responsibility with regard to the Corporate Reporting Internal Control System.



Outlook

The main management guidelines provide for organic growth in Italy and the consolidation of the Company's presence in Europe, with the objective of improving supply security, flexibility and the quality of service of the entire gas system.

GAS DEMAND

According to the most recent estimates, demand for natural gas in Italy in 2016 will remain more or less unchanged from 2015 levels adjusted for weather effect.

TECHNICAL INVESTMENTS IN ITALY

Snam confirms its commitment to the development of natural gas infrastructure in Italy through a programme of technical investments, which for 2016 is essentially in line with the 2015 level for the same scope of activity.

OPERATING EFFICIENCY

In 2016 Snam confirms its attention to operating efficiency through initiatives aimed at controlling operating costs.

FINANCIAL MANAGEMENT

In 2016 Snam also confirms its objective to improve the Group's financial structure in terms of duration and exposure to interest rates.

DEVELOPMENT OF PORTFOLIO

With regard to the constant process of analysis and evaluation of strategic options aimed at maximising value for our shareholders, and considering the development of various businesses in which the Group operates on the national and international level, Snam's Board of Directors identified the opportunity to launch a feasibility study on a possible industrial and corporate restructuring operation for the separation of Italgas from Snam, which could be achieved through a partial and proportional splitting of Snam involving all or part of its equity investment in Italgas.

TRANSPORTATION AND REGASIFICATION

The planned investments target:

- Development of infrastructure for import and interconnection with other countries;
- Increased flexibility and security of the transportation system in Italy;
- Ongoing improvements to the quality of the transportation service.

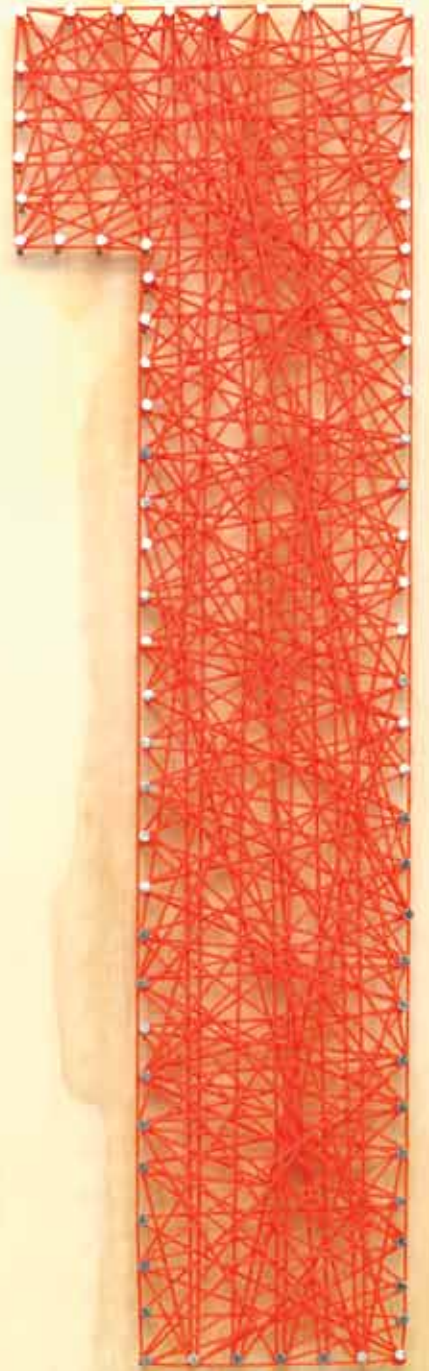
A slight increase is expected for the length of the transportation network (32,534 km in 2015) and power installed in compression stations (around 877 MW in 2015).

STORAGE

The projects planned aim to complete the new storage site in Bordolano, with benefits for the system in terms of increased storage capacity (16 billion standard cubic metres in 2015) and peak flow capacity (282.5 million standard cubic metres a day in 2015), maintaining the level of efficiency of operating infrastructure and increasing the overall flexibility and security of the system.

DISTRIBUTION

The planned interventions will allow the Company to continue to sustain business development, including through selective management of the concessions portfolio in order to maximise profitability. We confirm our commitment to the continuous improvement of security, reliability and service quality levels.



Financial review

INCOME STATEMENT

(€ million)	2013	2014	2015	Change	% change
Regulated revenues	3,491	3,506	3,573	67	1.9
Non-regulated revenue	38	60	76	16	26.7
Total revenue (*)	3,529	3,566	3,649	83	2.3
Operating costs (*)	(726)	(790)	(850)	(60)	7.6
EBITDA	2,803	2,776	2,799	23	0.8
Amortisation, depreciation and impairment losses	(769)	(803)	(849)	(46)	5.7
EBIT	2,034	1,973	1,950	(23)	(1.2)
Adjusted EBIT	2,060	1,973	1,990	17	0.9
Net financial expenses	(472)	(397)	(380)	17	(4.3)
Net income from equity investments	45	131	135	4	3.1
Profit before taxes	1,607	1,707	1,705	(2)	(0.1)
Income taxes	(690)	(509)	(467)	42	(8.3)
Net profit (**)	917	1,198	1,238	40	3.3
Adjusted net profit (**)	934	1,078	1,209	131	12.2

(*) Only for the reclassified income statement, revenue from the construction and upgrading of distribution infrastructure entered in accordance with IFRIC 12 and recognised in an amount equal to the costs incurred (€321 million and 316 million respectively in 2015 and in 2014) is shown as a direct reduction of the respective cost items.

(**) Net profit is attributable to Snam.

Net profit

Net profit in 2015 was €1,238 million, an increase of €40 million, or 3.3%, compared with 2014. The increase is due to the improvement of financial management and equity investments (+€21 million), with the reduction of the average cost of debt and contribution of assets falling under the business development strategy, and to the reduction of income tax (+€42 million), essentially due to the adjustment in deferred tax as a result of the reduction in IRES from 27.5% to 24% as of 1 January 2017. These effects were partly absorbed by the lower EBIT (-€23 million), reflecting the costs of abolishing the Gas Fund (-€40 million), registered in accordance with Law 125 of 6 August 2015.

Reconciliation of EBIT and the reported net profit with adjusted EBIT and adjusted net profit

Snam's management assesses Group performance on the basis of adjusted EBIT and adjusted net profit, which exclude special items from EBIT and net profit respectively.

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

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion. Adjusted EBIT and adjusted net profit are not provided for by either IFRS or other standard setters. Management considers that these performance metrics allow for analysis of the business trends, making it easier to compare results.

Income entries classified as special items for 2015 refer to: (i) the actuarial assumption of costs for the employer resulting

24 In particular, Articles 9-decies and 9-undecies of the Law set forth that the employer must cover: (i) an extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020; and (ii) a contribution in favour of those registered or in voluntary prosecution of the contribution, that at 30 November 2015 were not entitled to supplementary pension benefits from the eliminated Gas Fund, of 1% for each year of registration to the supplementary fund, multiplied by the social security tax base relating to the same supplementary fund for 2014, to be allocated to the employer or the supplementary pension scheme. At present, the criteria, procedures and time periods for payment of the extraordinary contribution have not yet been announced. Employee selection of where the amounts would be allocated (supplementary pension scheme or to the employer) was concluded, pursuant to the law, on 14 February 2016. Around 74% of the persons entitled opted to allocate the amounts in question to the supplementary pension scheme.

from the abolishment of the Gas Fund as of 1 December 2015 pursuant to Law 125 of 6 August 2015 (€40 million, €28 million net of the tax effect)²⁴. The total estimated cost is related to work previously carried out, and therefore is posted in full in the income statement at the time of valuation; (ii) the income resulting from the adjustment in deferred tax as a result of the reduction in IRES from 27.5% to 24% (€57 million) as of 1 January 2017 pursuant to Law 208/2015 (2016 Financial Stability Law) implementing the "Provisions for preparation of the annual and multi-annual financial statements of the State", published in the Official Gazette of 30 December 2015 and in force as of 1 January 2016.

For 2014, income components classified as special items related exclusively to the effects of adjusting differed taxes (€120 million) for natural gas transportation and distribution companies after the application of additional IRES ("Robin Hood Tax") was declared unconstitutional with effect from 12 February 2015.

The table below shows the reconciliation of reported net profit with adjusted net profit.

(€ million)	2013	2014	2015	Change	% change
EBIT	2,034	1,973	1,950	(23)	(1.2)
Excluding special items	26		40	40	
Adjusted EBIT	2,060	1,973	1,990	17	0.9
Net financial expenses	(472)	(397)	(380)	17	(4.3)
Net income from equity investments	45	131	135	4	3.1
Income taxes	(690)	(509)	(467)	42	(8.3)
- of which special items	9	120	69	(51)	(42.5)
Net profit	917	1,198	1,238	40	3.3
Excluding special items					
- costs resulting from Gas Fund closure (*)			28	28	
- adjustment to deferred taxes (2016 Financial Stability Law)			(57)	(57)	
- adjustment to deferred taxes (Robin Hood Tax)		(120)		120	(100.0)
- charges for voluntary redundancy incentives (*)	17				
Adjusted net profit	934	1,078	1,209	131	12.2

(*) Net of the related tax effect.

Adjusted net profit in 2015, which excludes special items, amounted to €1,209 million, an increase of €131 million, or 12.2%, compared with 2014. The increase is due to: (i) the reduction of net financial expenses (+€17 million), mainly due to lower borrowing costs partly as a result of the measures implemented by Snam to improve the Group's financial structure; (ii) higher income from equity-accounted

investments (+€47 million); (iii) lower income tax (+€93 million), related essentially to the elimination of additional IRES as of 1 January 2015; and (iv) the increase in adjusted EBIT (+€17 million). These effects were partially offset by the lower income from equity investments (-€51 million) related to the 2014 remeasurement of the stake (49%) previously held in AES Torino.

ANALYSIS OF INCOME STATEMENT ITEMS

TOTAL REVENUE

(€ million)	2013	2014	2015	Change	Change %
Business segments					
Transportation	2,075	2,087	2,145	58	2.8
Regasification	31	28	25	(3)	(10.7)
Storage	489	541	535	(6)	(1.1)
Distribution	1,038	1,053	1,098	45	4.3
Corporate and other activities	183	202	209	7	3.5
Consolidation eliminations	(287)	(345)	(363)	(18)	5.2
Total revenue	3,529	3,566	3,649	83	2.3

REGULATED AND NON-REGULATED REVENUE

(€ million)	2013	2014	2015	Change	Change %
Regulated revenues	3,491	3,506	3,573	67	1.9
Business segments					
Transportation	2,061	2,058	2,085	27	1.3
Regasification	22	19	18	(1)	(5.3)
Storage	400	403	399	(4)	(1.0)
Distribution	1,008	1,026	1,071	45	4.4
Non-regulated revenue	38	60	76	16	26.7
Total revenue	3,529	3,566	3,649	83	2.3

Regulated revenue (€3,573 million, net of consolidation adjustments) relates to transportation (€2,085 million), distribution (€1,071 million, of which €47 million pertains to the change in the scope of consolidation), storage (€399 million) and regasification (€18 million). Regulated revenue, net of components that are offset in costs, amounted to €3,447 million, up by €58 million, or 1.7%, compared with 2014.

Revenue from non-regulated activities (€76 million, net of consolidation adjustments) mainly comprises: (i) income from the sale of natural gas (€27 million); (ii) income from leasing and maintenance of optic-fibre telecommunication cables (€12 million); and (iii) lease revenue (€5 million).

OPERATING COSTS

(€ million)	2013	2014	2015	Change	% change
Business segments					
Transportation	375	402	485	83	20.6
Regasification	21	23	19	(4)	(17.4)
Storage	110	163	145	(18)	(11.0)
Distribution	319	331	356	25	7.6
Corporate and other activities	188	216	208	(8)	(3.7)
Consolidation eliminations	(287)	(345)	(363)	(18)	5.2
	726	790	850	60	7.6

OPERATING COSTS - REGULATED AND NON-REGULATED ACTIVITIES

(€ million)	2013	2014	2015	Change	% change
Costs of regulated activities	682	750	792	42	5.6
Controllable fixed costs	460	471	482	11	2.3
Variable costs	100	54	71	17	31.5
Other costs	122	225	239	14	6.2
<i>- of which special items</i>			40	40	
Costs of non-regulated activities	44	40	58	18	45.0
	726	790	850	60	7.6

Operating costs of regulated activities

Controllable fixed costs (€482 million), which comprise the sum of personnel expenses and recurring external costs, rose by €11 million, or 2.3%, compared with 2014 (€471 million). The increase was mainly due to the change in the scope of consolidation (+€12 million).

Variable costs (€71 million) mainly reflect withdrawals from storage for gas sales carried out for balancing purposes.

Other costs (€239 million) relate essentially to: (i) interconnection costs (€59 million); (ii) licence fees for natural gas distribution concessions (€55 million); (iii) the estimate of expenses related to the abolishment of the Gas Fund (€40 million); (iv) capital losses (€35 million); and (v) net contributions to the provision for impairment losses on receivables (€31 million), related essentially to the write-down recorded for the partial recognition by the Authority of uncollected receivables arising from balancing activities between 1 December 2011 - 23 October 2012. Net of expenses arising from the abolishment of the Gas Fund, other costs amount to €199 million, a decrease of €26 million. The reduction is attributable mainly to lower provisions for risks.

Operating costs of non-regulated activities

Operating costs of non-regulated activities amounted to €58 million, €18 million or 45.0% more than in 2014. The increase is due to higher withdrawals for sales of natural gas.

Net of components that are offset by revenue and expenses related to the abolishment of the Gas Fund, the total operating costs for 2015 amount to €684 million, essentially in line (-1.6%) with 2014.

The number of employees at 31 December 2015 (6,303 people) is broken down below by professional status.

(no)	2013	2014	2015	Change	% change
Professional status					
Executives	116	124	129	5	4.0
Managers	579	602	629	27	4.5
Office workers	3,271	3,280	3,435	155	4.7
Manual workers	2,079	2,066	2,110	44	2.1
	6,045	6,072	6,303	231	3.8

AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES

(€ million)	2013	2014	2015	Change	Change %
Depreciation and amortisation	759	797	846	49	6.1
Business segments					
Transportation	473	483	492	9	1.9
Regasification	5	5	5		
Storage	64	60	71	11	18.3
Distribution	214	245	273	28	11.4
Corporate and other activities	3	4	5	1	25.0
Impairment losses (Reversals)	10	6	3	(3)	(50.0)
	769	803	849	46	5.7

Amortisation, depreciation and impairment losses (€849 million) increased by €46 million, or 5.7%, compared with 2014. The increase is due mainly to higher amortisation and depreciation (+€49 million) recorded in all business segments, essentially as a result of the entry of new infrastructure and the change in the scope of consolidation

(+€21 million). These factors were partially offset by the higher amortisation and depreciation posted in 2014 in view of the change in useful life (from 20 to 15 years) of some metering equipment of the natural gas distribution segment (-€11 million), subject to revision for tariff purposes by the Authority.

EBIT

(€ million)	2013	2014	2015	Change	Change %
Business segments					
Transportation	1,217	1,196	1,165	(31)	(2.6)
Regasification	5		1	1	
Storage	315	318	319	1	0.3
Distribution	505	477	469	(8)	(1.7)
Corporate and other activities	(8)	(18)	(4)	14	(77.8)
	2,034	1,973	1,950	(23)	(1.2)

Adjusted EBIT

Below is a breakdown of adjusted EBIT by business segment:

(€ million)	2013	2014	2015	Change	Change %
EBIT	2,034	1,973	1,950	(23)	(1.2)
Excluding special items					
- charges for voluntary redundancy incentives	26				
- expenses for Gas Fund closure			40	40	
Adjusted EBIT	2,060	1,973	1,990	17	0.9
Business segments					
Transportation	1,228	1,196	1,165	(31)	(2.6)
Regasification	5		1	1	
Storage	318	318	319	1	0.3
Distribution	516	477	509	32	6.7
Corporate and other activities	(7)	(18)	(4)	14	(77.8)
	2,060	1,973	1,990	17	0.9

Adjusted EBIT obtained in 2015, which excludes special items related to costs as a result of the abolishment of the Gas Fund (€40 million), amounts to €1,990 million, €17 million or 0.9% more than in 2014. With reference to operating segments, the improvement of performance of the distribution segment (+€32 million; +6.7%), which benefited from the contribution of companies entering the scope of consolidation and the reduction of operating costs (€28

million with the same scope), was absorbed by the reduction recorded in the transportation segment (-€31 million; -2.6%). For this segment, the higher revenue (+€46 million) was more than offset by the increase in operating costs (-€71 million), resulting essentially from the change in natural gas inventories due to higher withdrawals and transfers (a total of -€42 million).

NET FINANCIAL EXPENSES

(€ million)	2013	2014	2015	Change	Change %
Expense (income) on financial debt	490	435	392	(43)	(9.9)
- Interest and other expense on short- and long-term financial debt	490	435	395	(40)	(9.2)
- Interest on financial receivables not held for operating activities			(3)	(3)	
Other net financial expense (income)	16	(1)	18	19	
- Accretion discount	13	17	14	(3)	(17.6)
- Other net financial expense (income)	3	(18)	4	22	
Financial expense capitalised	(34)	(37)	(30)	7	(18.9)
	472	397	380	(17)	(4.3)

Net financial expenses (€380 million) dropped by €17 million, or 4.3%, compared with 2014. The reduction is due to lower net expense on financial debt (-€43 million) following the reduction of the average cost of debt partly as a result of the measures implemented by Snam to improve the Group's financial structure. The increase in other net financial expenses (+€19 million) is due mainly to the effects related to deferred interest receivables resulting from commercial balancing activities, subject to the write-down recorded for the partial recognition by the Authority of uncollected receivables for the period from 11 December 2011 - 23 October 2012²⁵.

Financial expense of €30 million was capitalised in 2015 (€37 million in 2014).

²⁵ For more information, please see Note 24 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from certain users of the transportation and balancing system".

NET INCOME FROM EQUITY INVESTMENTS

(€ million)	2013	2014	2015	Var.ass.	Var.%
Effect of valuation using the equity method	45	79	126	47	59.5
Other net income (expense)		52	9	(43)	(82.7)
	45	131	135	4	3.1

Net income from equity investments (€135 million) refers essentially to amounts pertaining to net results of companies valued using the equity method during the period (€126 million; +€47 million), referring in particular to Trans Austria Gasleitung GmbH - TAG²⁶ (€73 million), TIGF Holding S.A.S. (€23 million; -€1 million), Toscana Energia S.p.A. (€20 million; -€3 million), Gasbridge 1 B.V. and Gasbridge 2 B.V. (a total of €10 million; +€1 million). The higher income was absorbed by the effects of the 2014 remeasurement of the stake previously held in AES (49%) at the respective fair value as of the date of acquisition of control (€51 million).

²⁶ The acquisition of the stake in TAG held by CDP Gas was completed on 19 December 2014.

INCOME TAXES

(€ million)	2013	2014	2015	Change	Change %
Current taxes	793	731	595	(136)	(18.6)
Deferred (prepaid) taxes					
Deferred taxes	(87)	(68)	(52)	16	(23.5)
Prepaid taxes	(16)	(34)	(19)	15	(44.1)
	(103)	(102)	(71)	31	(30.4)
Adjustment of deferred taxes		(120)	(57)	63	(52.5)
Tax rate (%)	42.9	29.8	27.4	(2.4)	
	690	509	467	(42)	(8.3)

Income tax (€467 million) decreased by €42 million, or 8.3%, compared with the previous year. The reduction is mainly due to: (i) The elimination of additional IRES ("Robin Hood Tax") as of 1 January 2015, as a result of the declaration of illegality by the Constitutional Court by means of ruling 10/2015 of 9 February 2015 (-€87 million); (ii) the adjustment to deferred tax as a result of the reduction of IRES from 27.5% to 24% as of 1 January 2017 (-€57 million), as stipulated by the 2016 Financial Stability Law; (iii) deductibility of the labour cost for IRAP purposes as of the 2015 tax period, as stipulated by the 2015

Financial Stability Law (-€16 million); and (iv) increase of the ACE (help for economic growth) benefit for companies strengthening their ownership structure, introduced by Decree-Law 201 of 6 December 2011, converted by Law 214 of 22 December 2011, as amended (-€7 million). These factors were partly offset by the effects of the deferred tax adjustment implemented in 2014 as a result of the above-mentioned declaration of illegality of the Robin Hood Tax (+€120 million).

The tax rate was 27.4% (29.8% in 2014). The change is due mainly to the aforementioned tax effects²⁷.

²⁷ The reconciliation of the theoretical tax rate with the effective tax rate is described in Note 30 - "Income taxes" of the Notes to the consolidated financial statements.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

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

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

Management uses the reclassified statement of financial position to calculate the key profitability ratios (ROI and ROE).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION (*)

(€ million)	31.12.2014	31.12.2015	Change
Fixed capital	21,813	22,121	308
Property, plant and equipment	15,399	15,478	79
Compulsory inventories	363	363	
Intangible assets	5,076	5,275	199
Equity investments	1,402	1,372	(30)
Financial receivables held for operating activities		78	78
Net payables for investments	(427)	(445)	(18)
Net working capital	(864)	(607)	257
Provisions for employee benefits	(141)	(166)	(25)
Assets held for sale and directly related liabilities	16	17	1
NET INVESTED CAPITAL	20,824	21,365	541
Shareholders' equity (including minority interests)			
- attributable to Snam	7,171	7,585	414
- attributable to minority interests	1	1	
	7,172	7,586	414
Net financial debt	13,652	13,779	127
COVERAGE	20,824	21,365	541

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

Fixed capital (€22,121 million) increased by €308 million compared with 31 December 2014, due mainly to the increase in property, plant and equipment and intangible assets (+€278 million) and the increase in financial receivables relating to operations (+€78 million).

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

(€ million)	Property, plant and equipment	Intangible assets	Total
Balance at 31 December 2014	15,399	5,076	20,475
Technical investments	846	426	1,272
Amortisation, depreciation and impairment losses	(548)	(301)	(849)
Change in scope of consolidation		105	105
Transfers, eliminations and divestments	(26)	(12)	(38)
Other changes	(193)	(19)	(212)
Balance at 31 December 2015	15,478	5,275	20,753

Other changes (-€212 million) relate essentially to: (i) the effects of adjusting the present value of disbursements for the dismantling and restoration of sites (-€116 million), mainly due to a change in the expected discounting rates²⁸; (ii) grants for the period (-€57 million); and (iii) the change in inventories of pipes and related accessory materials used to construct the plants (-€30 million); The change of the scope of consolidation (+€105 million) refers to the acquisition of control of Acam Gas S.p.A. as of 1 April 2015. From that date, Italgas holds 100% of the company capital.

TECHNICAL INVESTMENTS

(€ million)	2014	2015
Business segments		
Transportation	700	693
Regasification	7	7
Storage	240	170
Distribution	359	393
Corporate and other activities	7	9
Technical investments	1,313	1,272

Technical investments in 2015, totalling €1,272 million²⁹ (€1,313 million in 2014), referred mainly to the transportation (€693 million), distribution (€393 million) and storage (€170 million) segments.

²⁸ Further information is provided in Note 19 "Provision for risks and charges" of the Notes to the consolidated financial statements.

²⁹ An analysis of the technical investments made by each business segment is provided in the "Business segment operating performance" section of this Report.

Compulsory inventories

Compulsory inventories, of €363 million (the same as at 31 December 2014), consist of the minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001. The quantities of gas in stock, corresponding to approximately 4.5 billion standard cubic metres of natural gas, are determined annually by the Ministry of Economic Development³⁰.

Equity investments

Equity investments (€1,372 million) includes the equity method valuation and refers to Trans Austria Gasleitung GmbH - TAG (€496 million), TIGF Holding S.A.S. (€446 million), Toscana Energia S.p.A. (€167 million), Gasbridge 1 B.V. and Gasbridge 2 B.V. (€131 million in total) and Trans Adriatic Pipeline AG - TAP (€130 million).

Financial receivables held for operating activities

Financial receivables held for operating activities (€78 million) refer to Snam's sub-entry of Statoil Holding Netherlands B.V. in the shareholders' loan granted in favour of the associate Trans Adriatic Pipeline AG (TAP), with regard to contractual agreements related to the acquisition of the stake held by Statoil³¹.

NET WORKING CAPITAL

(€ million)	31.12.2014	31.12.2015	Change
Trade receivables	1,728	1,677	(51)
Inventories	155	152	(3)
Tax receivables	90	96	6
Derivative net assets (liabilities)	(4)	7	11
Other assets	217	167	(50)
Trade payables	(816)	(694)	122
Provisions for risks and charges	(1,014)	(776)	238
Liabilities for deferred taxes	(513)	(388)	125
Accruals and deferrals from regulated activities	(36)	(56)	(20)
Tax liabilities	(22)	(51)	(29)
Other liabilities	(649)	(741)	(92)
	(864)	(607)	257

Net working capital (-€607 million) increased by €257 million compared with 31 December 2014, owing mainly to: (i) the reduction of the provision for risks and charges (+€238 million) attributable to the provision for site dismantling and restoration of transportation and storage segment sites (a total of +€135 million), mainly due to the change in expected discount rates, and reclassification to the provision for impairment losses on receivables of estimated charges arising from commercial balancing at 31

³⁰ On 26 January 2015, the Ministry set the strategic storage volume at 4.62 billion cubic metres for the contractual storage year 2015-2016 (1 April 2015 - 31 March 2016), which is unchanged from the previous year (1 April 2014 - 31 March 2015). The Stogit share was unchanged at 4.5 billion cubic metres. On 21 January 2016, the Ministry confirmed the total strategic storage volume as 4.62 billion cubic metres for the contractual year 2016-2017 (1 April 2016 - 31 March 2017).

³¹ The contractual agreements stipulate that the shareholders are responsible for financing the project, up to the amount of the stake held, until the pipeline is operational, as well as in the case of an increase in its capacity.

For more information on the acquisition, please see the information in the Directors' Report, "Annual profile - Main events", of this Report.

December 2014 (+€85 million): (ii) the reduction of deferred tax liabilities (+€125 million), including the adjustment of the deferred tax as a result of the reduction in IRES from 27.5% to 24% (+€57 million) as of 1 January 2017; and (iii) the reduction of trade payables (+€122 million), mainly relating to the transportation segment (+€98 million, of which +€42 million resulted from the balancing service debt). These factors were partly offset by: (i) the increase of other liabilities (-€92 million), referred mainly to the transportation segment for the higher payables to the Energy and Environmental Services Fund (CSEA)³² (-€86 million), related mainly to the additional tariff components; and (ii) the reduction of trade receivables (-€51 million), attributable mainly to the transportation segment (-€75 million), partly absorbed by the increase recorded in the distribution segment (+€54 million). The reduction in the transportation segment is due mainly to lower receivables from the balancing service (-€174 million, including the effects of the write-down on the share of receivables related to the period from 1 December 2011 - 23 October 2012 not recognised by the Authority³³), partially offset by the higher receivables for tariff components additional to the transportation tariff; and (iii) the reduction of other activities (-€50 million) as a result of the impact of fuel gas allocated to transportation users with respect to the quantities actually used.

Assets held for sale and directly related liabilities

Assets held for sale and directly related liabilities relate to a property complex owned by Italgas (€17 million, net of environmental provisions for charges relating to restoration work on the property), for which negotiations for a sale are ongoing.

STATEMENT OF COMPREHENSIVE INCOME

(€ million)	2014	2015
Net profit	1,198	1,238
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)	(3)	
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	6	11
Tax effect	1	
	4	11
Components that cannot be reclassified to the income statement:		
Actuarial profit (loss) from remeasurement of defined-benefit plans for employees	(15)	6
Tax effect	4	(2)
	(11)	4
Total other components of comprehensive income, net of tax effect	(7)	15
Total comprehensive income	1,191	1,253
attributable to:		
- Snam	1,191	1,253
- Minority interests		
	1,191	1,253

32 Article 1, paragraph 670 of Law 208 of 28 December 2015 (2016 Financial Stability Law) provides for the transformation of the Electricity Equalisation Fund (CCSE) into a state-controlled company called the Energy and Environmental Services Fund (CSEA) as of 1 January 2016. The transformation of the CCSE into a state-controlled company and the change of name has not altered in any way, or caused any discontinuity in the functional relations of, the CSEA (formerly the CCSE) with regulated entities and suppliers.

33 For more information please see Note 24 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from certain users of the transportation and balancing system" of the Notes to the consolidated financial statements.

SHAREHOLDERS' EQUITY

(€ million)	2014	2015
Shareholders' equity at 31 December 2014		7,172
<i>Increases owing to:</i>		
- Comprehensive income for 2015	1,253	
- Other changes (*)	36	
		1,289
<i>Decreases owing to:</i>		
- Distribution of 2014 dividend	(875)	
		(875)
Shareholders' equity including minority interests at 31 December 2015		7,586
<i>attributable to:</i>		
- Snam		7,585
- Minority interests		1
		7,586

(*) Other changes essentially refer to the effects arising from a new shareholder joining the shareholder structure of TIGF.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2014 is provided in Note 22 "Shareholders' equity" in the Notes to the consolidated financial statements.

RECONCILIATION BETWEEN THE SEPARATE AND CONSOLIDATED NET INCOME AND SHAREHOLDERS' EQUITY OF SNAM S.p.A.

(€ million)	Net income		Shareholders' equity	
	2014	2015	31.12.2014	31.12.2015
Separate financial statements of Snam S.p.A.	470	825	6,885	6,835
Net income of companies included in the scope of consolidation	1,196	1,171		
Difference between the book value of equity investments in consolidated companies and the shareholders' equity in the financial statements, including the net result for the period			301	739
Consolidation adjustments for:				
- Dividends	(512)	(751)		
- Income from valuation of equity investments using the equity method other income from equity investments	44	(7)	(6)	20
- Other consolidation adjustments, net of tax effect			(9)	(9)
	(468)	(758)	(15)	11
Minority interests			1	1
Consolidated financial statements	1,198	1,238	7,172	7,586

NET FINANCIAL DEBT

(€ million)	31.12.2014	31.12.2015	Change
Financial and bond debt	13,942	13,796	(146)
Short-term financial debt (*)	2,057	2,729	672
Long-term financial debt	11,885	11,067	(818)
Financial receivables and cash and cash equivalents	(290)	(17)	273
Financial receivables not held for operating activities	(216)		216
Cash and cash equivalents	(74)	(17)	57
	13,652	13,779	127

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

Net financial debt was €13,779 million at 31 December 2015, an increase of €127 million (€13,652 million at 31 December 2014).

Net cash flow from operating activities (€2,054 million), which benefited from the contribution cashed by the investee companies valued using the equity method (ordinary dividends of €141 million³⁴) allowed us to fully cover the financial requirements associated with technical and equity investments equal to €1,283 million net of disinvestment flows and to generate a free cash flow of €771 million. Net financial debt, after the payment to shareholders of the 2014 dividend of €875 million, increased by €127 million.

Financial and bond debts at 31 December 2015 equal to €13,796 million (€13,942 million at 31 December 2014) comprise the following:

(€ million)	Total at 31.12.2014	Total at 31.12.2015	Change
Bonds	10,631	9,811	(820)
Bank loans	3,296	3,950	654
Other financing	15	35	20
	13,942	13,796	(146)

³⁴ In total, the contribution cashed by investee companies, valued using the equity method relating to ordinary and extraordinary dividends and financial income amounted to around €214 million.

Financial and bond debts are denominated in euros³⁵ and refer mainly to bond loans (€9,811 million, 71.1%) and bank loans (€3,950 million, or 28.6%, including €1,627 million provided by the EIB). Financial and bond debts decreased by €146 million compared with 31 December 2014. The reduction is attributable mainly to: (i) the reduction of bonds (-€820 million) following the repayment of a bond maturing in November 2015 with a nominal value of €750 million and the net repurchase of bonds with a nominal value of €250 million carried out as a part of the liability management operation completed in November 2015³⁶, the impact of which was partially offset by a new issue finalised in January 2015 with a nominal value of €250 million; and (ii) to the increase in bank loans (+€654 million) attributable to new loans taken out with the EIB (+€376 million net of repayments) and higher net utilisation of uncommitted bank credit lines (+€278 million).

Long-term financial debt (€11,067 million) represents around 80% of gross financial debt (around 85% at 31 December 2014). Fixed-rate financial debts total around 64% of gross financial debt.

The reduction in financial receivables not held for operating activities (-€216 million) is due to the closure and simultaneous repayment of the shareholders' loan provided by Snam to the jointly owned company TAG, under the scope of an operation to refinance the entire debt of TAG through the banking system.

³⁵ Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

³⁶ For more information please see the section "Summary data and information – Main events".

Information on financial covenants can be found in Note 16 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the consolidated financial statements.

Cash and cash equivalents (€17 million) mainly refer to the cash at Gasrule Ltd for the Group's insurance activities (€15 million). The reduction of €57 million compared with 31 December 2014 mainly reflects the use of the deposit account in 2015 (€47 million) created to close the acquisition by Italgas S.p.A. of 51% of Acam Gas S.p.A.

At 31 December 2015, Snam had unused committed long-term credit lines worth €3.95 billion.

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)	2013	2014	2015
Net profit	917	1,198	1,238
Adjusted for:			
- amortisation, depreciation and other non-monetary components	725	670	744
- Net capital losses (capital gains) on asset sales and eliminations	3	20	32
- Interest and income taxes	1,094	840	804
Change in working capital due to operating activities	46	(88)	40
Dividends, interest and income taxes collected (paid)	(1,087)	(1,111)	(804)
Net cash flow from operating activities	1,698	1,529	2,054
Technical investments	(1,187)	(1,283)	(1,186)
Equity investments	(599)	(5)	3
Financial receivables held for operating activities			(78)
Change in scope of consolidation and business units	(14)	(10)	(46)
Divestments	29	10	6
Other changes relating to investment activities	(19)	56	18
Free cash flow	(92)	297	771
Change in financial receivables not held for operating activities		(216)	216
Change in short- and long-term financial debt	920	490	(169)
Equity cash flow	(841)	(505)	(875)
Effect of the change in scope of consolidation		6	
Net cash flow for the period	(13)	72	(57)

CHANGE IN NET FINANCIAL DEBT

(€ million)	2013	2014	2015
Free cash flow	(92)	297	771
Financial payables and receivables from acquired companies		(112)	
Equity cash flow (**)	(841)	(505)	(875)
Other changes (***)	5	(6)	(23)
Change in net financial debt	(928)	(326)	(127)

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

(**) The dividend paid in 2014 refers to the balance of the 2013 dividend (€507 million). Snam did not pay out any interim dividends in 2014 or 2015.

(***) Includes the effects of the fair value adjustment and exchange rate of financial debts at the end of the year.

RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENTS WITH THE COMPULSORY FORMATS

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)

Reclassified statement of financial position items (Where not expressly stated, the component is taken directly from the legally required format)	31.12.2014			31.12.2015	
	Reference to Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Fixed capital					
Property, plant and equipment			15,399		15,478
Compulsory inventories			363		363
Intangible assets			5,076		5,275
Equity-accounted investments			1,402		1,372
Financial receivables held for operating activities	(note 8)				78
Net payables for investments, consisting of:			(427)		(445)
- Payables for investment activities	(note 17)	(440)		(468)	
- Receivables from investment/divestment activities	(note 8)	13		23	
Total fixed capital			21,813		22,121
Net working capital					
Trade receivables	(note 8)		1,728		1,677
Inventories			155		152
Tax receivables, consisting of:			90		96
- Current income tax assets and other current tax assets		58		62	
- IRES receivables for the national tax consolidation scheme	(note 8)	32		34	
Trade payables	(note 17)		(816)		(694)
Tax liabilities, consisting of:			(22)		(51)
- Current income tax liabilities and other current tax liabilities		(21)		(51)	
- IRES payables for the national tax consolidation scheme	(note 17)	(1)			
Liabilities for deferred taxes			(513)		(388)
Provisions for risks and charges			(1,014)		(776)

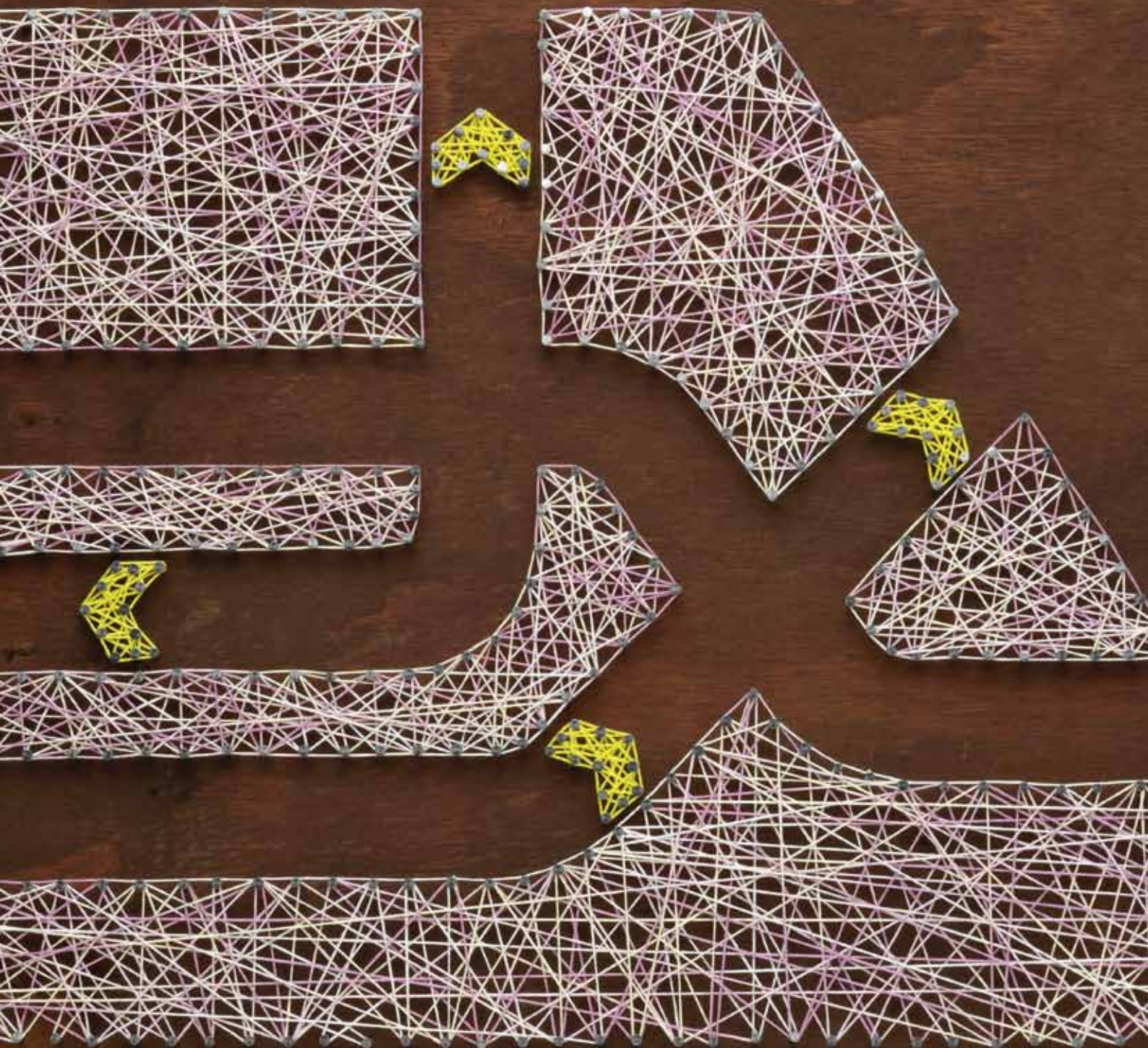
(€ million)

Reclassified statement of financial position items (Where not expressly stated, the component is taken directly from the legally required format)	31.12.2014			31.12.2015	
	Reference to Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Derivatives	(notes 11 and 18)		(4)		7
Other assets, consisting of:			217		167
- Other receivables	(note 8)	92		90	
- Other current and non-current assets	(note 11)	125		77	
Assets and liabilities from regulated activities, consisting of:			(36)		(56)
- Regulated assets	(note 11)	144		150	
- Regulated liabilities	(note 18)	(180)		(206)	
Other liabilities, consisting of:			(649)		(741)
- Other payables	(note 17)	(512)		(584)	
- Other current and non-current liabilities	(note 18)	(137)		(157)	
Total net working capital			(864)		(607)
Provisions for employee benefits			(141)		(166)
Assets held for sale and directly related liabilities, consisting of:			16		17
- Assets held for sale		23		24	
- Liabilities directly associated with assets held for sale		(7)		(7)	
NET INVESTED CAPITAL			20,824		21,365
Shareholders' equity including minority interests			7,172		7,586
Net financial debt					
Financial liabilities, consisting of:			13,942		13,796
- Long-term financial liabilities		11,885		11,067	
- Current portion of long-term financial liabilities		999		1,378	
- Short-term financial liabilities		1,058		1,351	
Financial receivables and cash and cash equivalents, consisting of:			(290)		(17)
- Financial receivables not held for operating activities	(note 8)	(216)			
- Cash and cash equivalents		(74)		(17)	
Total net financial debt			13,652		13,779
COVERAGE			20,824		21,365

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	2014		2015	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net profit		1,198		1,238
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		670		744
- Amortisation and depreciation	797		846	
- Impairment losses	6		3	
- Equity method valuation effect	(79)		(126)	
- Change in provisions for employee benefits	(2)		30	
- Other changes	(52)		(9)	
Net capital losses (capital gains) on asset sales and eliminations		20		32
Interest, income taxes and other changes:		840		804
- Interest income	(19)		(8)	
- Interest expense	350		345	
- Income taxes	509		467	
Change in working capital due to operating activities:		(88)		40
- Inventories	(18)		55	
- Trade receivables	65		(9)	
- Trade payables	(154)		(128)	
- Change in provisions for risks and charges	23		(14)	
- Other assets and liabilities	(4)		136	
Dividends, interest and income taxes collected (paid):		(1,111)		(804)
- Dividends collected	99		141	
- Interest collected	1		5	
- Interest paid	(346)		(345)	
- Income taxes (paid) received	(865)		(605)	

(€ million)	2014		2015	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net cash flow from operating activities		1,529		2,054
Technical investments:		(1,283)		(1,186)
- Property, plant and equipment	(917)		(793)	
- Intangible assets	(366)		(393)	
Investments in companies joining the scope of consolidation and business units:		(10)		(46)
Equity investments		(5)		(144)
Financial receivables held for operating activities				(78)
Divestments:		10		153
- Property, plant and equipment	3		6	
- Equity investments	7		147	
Other changes relating to investment activities:		56		18
- Change in net payables relating to investment activities	54		18	
- Other changes relating to divestment activities	2			
Free cash flow		297		771
Change in financial receivables not held for operating activities		(216)		216
Change in financial payables:		490		(169)
- Taking on long-term financial debt	2,971		1,167	
- Repaying long-term financial debt	(1,474)		(1,620)	
- Increase (decrease) in short-term financial debt	(1,007)		284	
Equity cash flow		(505)		(875)
Change in scope of consolidation		6		
Net cash flow for the period		72		(57)



Snam S.p.A. financial review

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. It heads up the Snam Group and holds 100% of the share capital of operating companies Snam Rete Gas S.p.A., GNL Italia S.p.A., Stogit S.p.A. and Italgas S.p.A., which are responsible for managing and developing the natural gas transportation, regasification, storage and distribution segments, respectively. Since July 2014, Snam S.p.A. has held 100% of the share capital of Gasrule Insurance Limited, an insurance company based in Dublin. Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players. Snam S.p.A. is also responsible for the strategic planning, management, coordination and control of its subsidiaries.

Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam S.p.A. within the meaning of international accounting standard IFRS 10 – "Consolidated Financial Statements". No management and coordination activity has been formalised or exercised.

As of 31 December 2015, CDP S.p.A. holds, through CDP Reti S.p.A.³⁷ and CDP Gas S.r.l.³⁸, 28.98% and 1.12% respectively of Snam S.p.A.'s share capital.

RECLASSIFIED INCOME STATEMENT

To facilitate the reading of the income statement, in view of the fact that Snam S.p.A. is an industrial holding company, the following reclassified income statement has been prepared, which "inverts the order of the income statement items pursuant to Legislative Decree 127/1991, presenting first those which relate to the financial operations, as this is the most significant component of income for those companies" (see Consob Communication 94001437 of 23 February 1994).

RECLASSIFIED INCOME STATEMENT

(€ million)	2013	2014	2015	Change	% change
Financial income and expense					
Income from equity investments	757	536	875	339	63.2
Interest income and other financial income	446	385	355	(30)	(7.8)
Interest expense and other financial expense	(490)	(435)	(395)	40	(9.2)
Total financial income and expense	713	486	835	349	71.8
Income from services rendered	170	185	186	1	0.5
Other income	13	12	12		
Other operating income	183	197	198	1	0.5
Other operating expenses					
For personnel	(65)	(68)	(68)		
For non-financial services and other costs	(126)	(147)	(134)	13	(8.8)
Total other operating expenses	(191)	(215)	(202)	13	(6.0)
Profit before taxes	705	468	831	363	77.6
Income taxes		2	(6)	(8)	
Net profit	705	470	825	355	75.5

³⁷ CDP S.p.A. holds 59.10%.

³⁸ Company wholly owned by CDP S.p.A.

Net profit in 2015 was €825 million, an increase of €355 million, or 75.5%, compared with 2014. The increase is due to higher income from equity investments (+€339 million), resulting mainly from the dividends distributed by subsidiaries (+€251 million) and foreign investee companies (+€94 million), partly absorbed by the increase in income tax (-€8 million) mainly as a result of higher profit before taxes.

Analysis of income statement items

FINANCIAL INCOME AND EXPENSE

(€ million)	2013	2014	2015	Change	% change
Income from equity investments	757	536	875	339	63.2
Interest income and other financial income	446	385	355	(30)	(7.8)
Interest expense and other financial expense	(490)	(435)	(395)	40	(9.2)
	713	486	835	349	71.8

Income from equity investments (€875 million) consist of: (i) dividends (€853 million) distributed by the subsidiaries Snam Rete Gas S.p.A. (€425 million), Italgas S.p.A. (€213 million) and Stogit S.p.A. (€112 million), as well as companies under joint control Trans Austria Gasleitung GmbH (€77 million), TIGF Holding S.A.S. (€15 million), Gasbridge 1 B.V. and Gasbridge 2 B.V. (€11 million)³⁹; and (ii) income from the subscription of a bond convertible into shares issued by TIGF Investissements S.A.S. (€22 million). The increase of €339 million compared with 2014 is due to the higher dividends distributed by investee companies.

Interest income and other financial income (€355 million) essentially refers to interest income from the intragroup loans granted by Snam to subsidiaries.

Interest expense and other financial expense (€395 million) refers to the costs relating to short- and long-term financial debt, and concerns expenses on bonds⁴⁰ (€364 million) and on loans from banks and other financial institutions (€31 million). The decrease in interest expense and other financial expense (€40 million) was due mainly to a reduction in the average cost of borrowing, partly as a result of the measures implemented by Snam to improve the Group's financial structure⁴¹.

OTHER OPERATING INCOME

(€ million)	2013	2014	2015	Change	% change
Income from services rendered	170	185	186	1	0.5
Other income	13	12	12		
Total other operating income	183	197	198	1	0.5

³⁹ More information is provided in the appendix to the Notes to the separate financial statements, "Notes on companies controlled through a direct equity investment of Snam S.p.A.".

⁴⁰ Details of the bond issues that took place during the year and their conditions are provided in Note 14, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.

⁴¹ For more information, see the "Annual profile – Main events" section of this Report.

Revenue from services rendered (€186 million) refers to the chargebacks to subsidiaries of the costs incurred to perform services managed centrally by Snam S.p.A. These services are governed by contracts concluded between the Parent Company and its subsidiaries in the following areas: ICT, personnel and organisation, planning, administration, finance and control, general services, property and security services, legal and corporate affairs and compliance, health, safety and environment, regulation, external relations and communication, internal audit and Enterprise Risk Management (ERM). The pricing model for service contracts is based on the chargeback of costs incurred to provide the services on a full-cost basis.

Other income (€12 million) essentially refers to revenue from leasing and maintaining fibre-optic telecommunications cables for third parties.

OTHER OPERATING EXPENSES

(€ million)	2013	2014	2015	Change	% change
For personnel	65	68	68		
For non-financial services and other costs	126	147	134	(13)	(8.8)
Total other operating expenses	191	215	202	(13)	(6.0)

Personnel cost amounted to €68 million, in line with the previous year.

The number of employees at 31 December 2015 (713 people) is broken down below by professional status:

(no)	31.12.2013	31.12.2014	31.12.2015	Change	% change
Professional status					
Executives	51	54	55	1	1.9
Managers	193	202	200	(2)	(1.0)
Office workers	453	444	453	9	2.0
Manual workers	6	5	5		
	703	705	713	8	1.1

Costs for non-financial services and other costs (€134 million) consist mainly of expenses for the provision of services that are charged back to subsidiaries.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION⁴²

(€ million)	31.12.2014	31.12.2015	Change
Fixed capital	18,925	18,650	(275)
Property, plant and equipment	4	3	(1)
Intangible assets	14	18	4
Equity investments	8,696	8,693	(3)
Financial receivables held for operating activities	10,241	9,965	(276)
Net receivables (payables) for investments	(30)	(29)	1
Net working capital	69	83	14
Provisions for employee benefits	(19)	(19)	
NET INVESTED CAPITAL	18,975	18,714	(261)
Shareholders' equity	6,885	6,835	(50)
Net financial debt	12,090	11,879	(211)
COVERAGE	18,975	18,714	(261)

Fixed capital (€18,650 million) is reduced by €275 million compared with 31 December 2014, mainly as a result of the reduction of financial receivables held for operating activities (-€276 million) against lower receivables from subsidiaries.

Equity investments

Equity investments of €8,693 million break down as follows:

(€ million)	% ownership	Opening balance	Acquisitions and subscriptions	Repayments and transfers	Other changes	Final balance at 31.12.2015
Equity investments in subsidiaries						
Snam Rete Gas S.p.A.	100%	2,849				2,849
GNL Italia S.p.A.	100%	43				43
Italgas S.p.A.	100%	2,966				2,966
Stogit S.p.A.	100%	1,618				1,618
Gasrule	100%	20				20
Investments in joint ventures						
TIGF Holding SAS	40.50%	597		(145)		452
Gasbridge 1 B.V. and Gasbridge 2 B.V.	50%	117		(2)		115
Trans Austria Gasleitung GmbH	84.47%	486	14			500
Investments in associates						
Trans Adriatic Pipeline AG	20%		130			130
		8,696	144	(147)		8,693

⁴² Please see the "Financial review" section of the consolidated financial statements for a closer examination of the reclassified financial statements.

Acquisitions and subscriptions (€144 million) refer to: the acquisition of a 20% stake in the share capital of Trans Adriatic Pipeline AG (TAP), previously held by Statoil Holding Netherlands B.V., for a contractual amount of €130 million⁴³; (ii) the cash adjustment of the amount related to the acquisition, completed in December 2014, by CDP Gas of the equity investment in Trans Austria Gasleitung GmbH - TAG (€14 million) in order to consider the change of contractual parameters that took place between the reference date and the date that the acquisition was completed. Repayments and transfers (€147 million) mainly relate to the distribution of the extraordinary dividend by TIGF Holding SAS (€61 million), as capital repayment, and the effects of the operation of the entry of TIGF Holding SAS as a new shareholder (€84 million).

NET WORKING CAPITAL

(€ million)	31.12.2014	31.12.2015	Change
Tax receivables	72	108	36
Trade receivables	100	87	(13)
Net prepaid tax assets	9	8	(1)
Derivatives	(4)	7	11
Other assets	37	32	(5)
Trade payables	(64)	(58)	6
Tax liabilities	(9)	(51)	(42)
Provisions for risks and charges	(4)	(5)	(1)
Other liabilities	(68)	(45)	23
	69	83	14

Net working capital (€83 million) increased by €14 million compared with 31 December 2014, owing mainly to: (i) the increase in tax receivables (+€36 million), due mainly to higher receivables from subsidiaries for group VAT related to the December payment (+€13 million) and tax credits for withholding taxes paid on foreign dividends (+€12 million); and (ii) the reduction of other liabilities (+€23 million) for lower advances for group VAT (+€20 million). These effects were partly offset by the increase in tax liabilities (-€42 million) due essentially to higher amounts owed to the Revenue Agency related to the VAT payment in December (-€31 million).

⁴³ Moreover, as a result of the equity investment, Snam took over from Statoil in the shareholders' loan in favour of TAP for €78 million, paid at the closing date, as well as all for the rights and commitments for carrying out the project.

STATEMENT OF COMPREHENSIVE INCOME

(€ million)	2014	2015
Net profit	470	825
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)	(3)	
Tax effect	1	
	(2)	
Components that cannot be reclassified to the income statement:		
Actuarial (losses)/gains from remeasurement on defined-benefit obligations	(1)	
	(1)	
Total other components of comprehensive income, net of tax effect	(3)	
Total comprehensive income for the period	467	825

SHAREHOLDERS' EQUITY

(€ million)	2015
Shareholders' equity at 31 December 2014	6,885
Increases owing to:	
- Comprehensive income for 2015	825
Decreases owing to:	
- Distribution of 2014 dividend	(875)
Shareholders' equity at 31 December 2015	6,835

NET FINANCIAL DEBT

(€ million)	31.12.2014	31.12.2015	Change
Financial and bond debt	13,940	13,792	(148)
Short-term financial debt (*)	2,056	2,732	676
Long-term financial debt	11,884	11,060	(824)
Financial receivables and cash and cash equivalents	(1,850)	(1,913)	(63)
Financial receivables not held for operating activities	(1,848)	(1,912)	(64)
Cash and cash equivalents	(2)	(1)	1
	12,090	11,879	(211)

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

Net financial debt stood at €11,879 million at 31 December 2015, down €211 million compared with 31 December 2014 (€12,090 million). The reduction mainly relates to lower financial and bond debt (-€148 million), primarily as a result of the repayment of the outstanding bond loan with a nominal value of €750 million and the net buyback of bond loans for a nominal value of €250 million as part of the liability management operation. Their effects were partly absorbed by a new issue equal to €250 million. These factors were partly offset by loans taken out with the EIB (+€376 million) and the net utilisation of uncommitted bank credit lines (+€278 million).

Financial and bond liabilities totalling €13,792 million (€13,940 million at 31 December 2014) consisted mainly of bonds (€9.8 billion, or 71.1%), payables to banks (€2.3 billion, or 16.8%) and loan agreements concerning EIB funding (€1.6 billion, or 11.8%). The debts are fully denominated in euros, except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative. Long-term financial debt (€11,060 million) represents around 80% of financial debt (around 85% at 31 December 2014).

The breakdown of debt by type of interest rate at 31 December 2015 is as follows:

(milioni di €)	31.12.2014	%	31.12.2015	%	Var. ass.
Fixed rate	9,679	69	8,855	64	(824)
Floating rate	4,261	31	4,937	36	676
	13,940	100	13,792	100	(148)

Fixed-rate financial liabilities (€8,855 million) reduced by €824 million following the repayment of a bond with a nominal value of €750 million, including the net repurchase of bonds related to the liability management operation.

Variable-rate financial liabilities (€4,937 million) increased by €676 million compared with 31 December 2014, essentially as a result of loans taken out with the EIB (+€376 million) and net utilisation of bank credit lines (+€278 million).

The increase of financial receivables and cash and cash equivalents (€63 million) is due to higher financial receivables not held for operating activities (€64 million) resulting from increased use of current accounts of subsidiaries (+€280 million), in particular in connection with the liability management operation, partly offset by the closure and simultaneous repayment to Snam of the shareholders' loan to the jointly controlled company TAG, as part of an operation to refinance the entire debt of TAG through the banking system (-€216 million).

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)	2014	2015
Net profit	470	825
Adjusted for:		
- amortisation, depreciation and other non-monetary components	6	5
- Dividends, interest and income taxes	(538)	(852)
Change in working capital due to operating activities	15	11
Dividends, interest and income taxes collected (paid)	588	835
Net cash flow from operating activities	541	824
Technical investments	(7)	(9)
Equity investments	(23)	3
Financial receivables held for operating activities	(408)	276
Divestments	7	
Other changes relating to investment activities		(1)
Free cash flow	110	1,093
Change in financial receivables not held for operating activities	(213)	(64)
Change in current and non-current financial debt	608	(155)
Equity cash flow	(505)	(875)
Net cash flow for the period	0	(1)

CHANGE IN NET FINANCIAL DEBT

(€ million)	2014	2015
Free cash flow	110	1,093
Exchange rate differences on financial debt		(7)
Adjustment to fair value of financial debt	(6)	
Equity cash flow (*)	(505)	(875)
Change in net financial debt	(401)	211

(*) The dividend paid in 2014 refers to the balance of the 2013 dividend (€507 million). Snam did not pay out any interim dividends in 2014 or 2015.



Other information

TREASURY SHARES

In compliance with the provisions of Article 2428 of the Italian Civil Code, the treasury shares held by the Company at 31 December 2015 are analysed in the table below:

Period	Number of shares	Average cost (€)	Total cost (€ millions)	Share capital (%) (*)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
	195,537,950	4.061	794	
Less treasury shares allocated/sold/cancelled:				
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(1,514,000)			
- cancelled in 2012 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
Treasury shares held by the Company at 31 December 2015	1,127,250			

(*) Refers to the share capital in existence at the date of the last repurchase of the year.

At 31 December 2015, Snam held 1,127,250 treasury shares, with no nominal value (the same number as at 31 December 2014), equal to 0.03% of its share capital, with a book value of €5 million⁴⁴.

The last managers' incentive plan based on the allocation of stock options, the 2006-2008 Plan, reached maturity on 29 July 2014. Consequently, at 31 December 2015, there were no shares committed to incentive plans. No share repurchase plans are in place.

In addition, it is confirmed that the subsidiaries of Snam S.p.A. do not hold, and have not been authorised by their shareholders to acquire, shares in Snam S.p.A.

⁴⁴ The market value at 31 December 2015, calculated by multiplying the number of treasury shares at that date by the period-end official price of €4.850 per share, was approximately €5 million.

Compensation paid to directors and statutory auditors, general managers and managers with strategic responsibilities, and investments held by each of these

Information on the compensation paid to directors and statutory auditors, general managers and managers with strategic responsibilities, and the equity investments held by each of these, can be found in the Remuneration Report, which is prepared in accordance with Article 123-ter of Legislative Decree 58/1998 (TUF). The Remuneration Report is available in the "Governance" section of the Snam website (www.snam.it), to which the reader is referred.

Relationships with related parties

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance. Operations with these parties involve the exchange of goods and the provision of regulated services in the gas sector.

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

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

Directors and auditors declare potential interests they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

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

As at 31 December 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 33 "Relationships with related parties" of the Notes to the consolidated financial statements. Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 26 "Operating costs" of the Notes to the consolidated financial statements.

Performance of subsidiaries

For performance information concerning the segments in which the Company operates wholly or in part through subsidiaries, please refer to the sections “Business segment operating performance” and “Financial review” within this Report.

Branch offices

As required by Article 2428, paragraph 4 of the Italian Civil Code, it is noted that Snam does not have branch offices.

Research and Development

Research and development activities performed by Snam are described in the section “Other operating information and results - Innovation for business development” of this Report.



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 and depreciation

Process by which the cost of fixed assets is spread over a certain period to the advantage of the Company, usually the 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).

Controllable fixed costs

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

Comprehensive income

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

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 "underlying" – 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.

Dividend payout

Ratio between the dividend and net profit for the period, and equal to the percentage of profits paid out to shareholders in the form of dividends.

EBIT

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

Net financial expenses

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 and 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 the parties 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

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 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. We are currently in the fourth regulatory period, which runs from 1 January 2014 to 31 December 2017.

Regulatory time lag

The delay of tariff remuneration with respect to the investments made and started during the year.

Thermal year

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

Transportation capacity

Transportation capacity is the maximum quantity of gas which 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 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 for assignment to others.

Virtual exchange point (VEP)

A virtual point located between the entry and exit points of the national gas transportation network where users and other authorised parties may, on a daily basis, exchange and sell gas injected into the network.

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

Natural gas essentially 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 a 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 gaseous state.

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 methane pipelines and plants that 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 methane 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

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

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 on the basis of the rules defined by the Electricity, Gas and Water Authority (the Authority) for determining base revenues for the regulated businesses.

NATURAL GAS STORAGE

COMMERCIAL TERMS

Thermal year

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

Withdrawal phase

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

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 the natural gas storage service. We are currently in the fourth regulatory period, which began on 1 January 2015 and will end on 31 December 2018.

Regulatory time lag

The delay of tariff remuneration with respect to the investments made and started during the year.

TECHNICAL TERMS

Regulatory Asset Base (RAB)

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

Modulation storage

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

Mining storage

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

Strategic storage

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

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.

Distribution Code

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

End user

The consumer who buys gas for their own use.

Gas distribution service

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

Redelivery point

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

Regulatory period

Period of time (usually four years) for which criteria are defined for setting tariffs for the gas distribution service. We are currently in the fourth regulatory period, which runs from 1 January 2014 to 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 tariff area is 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. Starting from the third regulatory period, the thermal year coincides with the calendar year.

TECHNICAL TERMS**Equalisation**

Difference between revenue 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

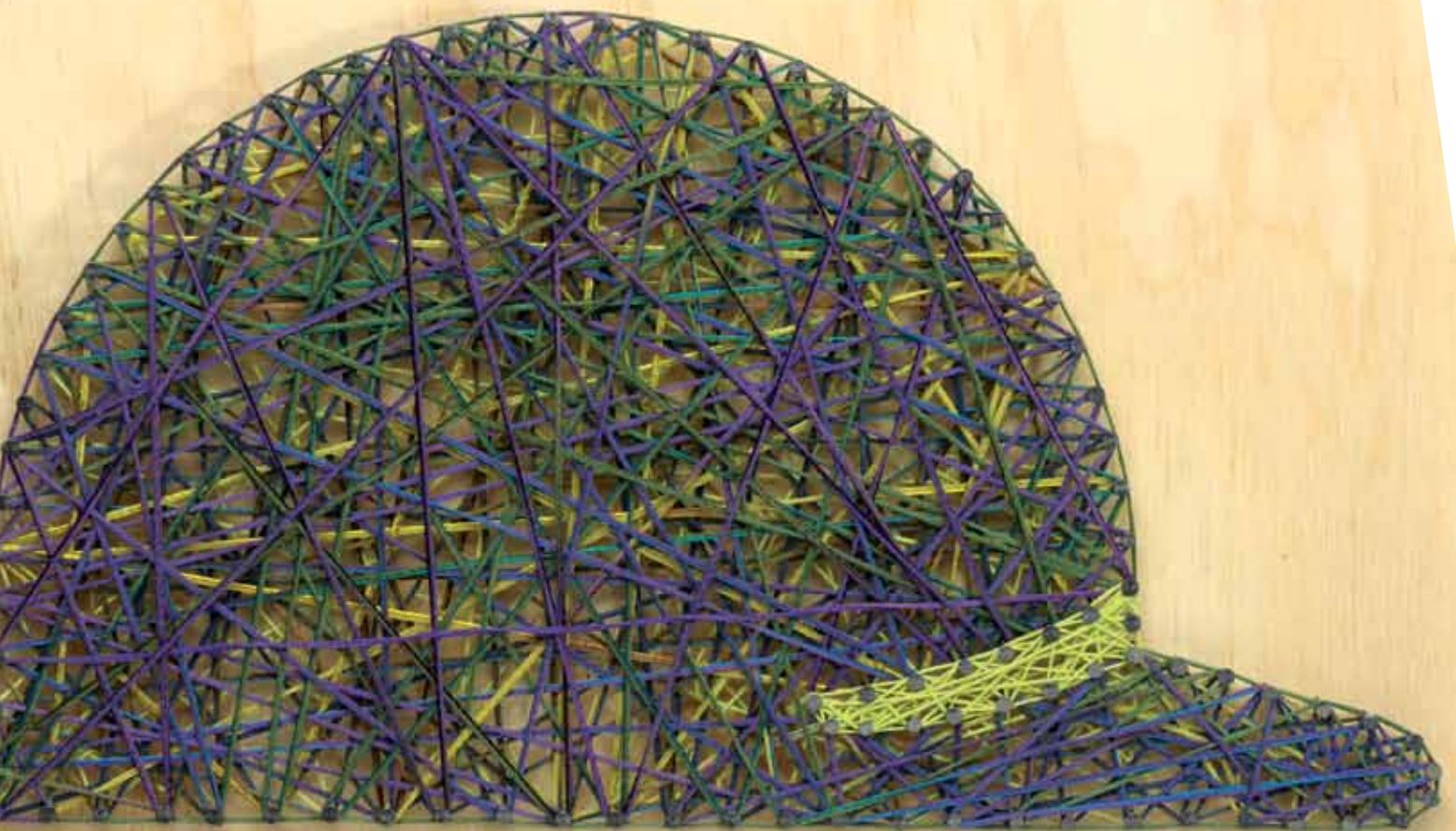
Amount of gas redelivered to users of the distribution network at the redelivery points.

Regulatory Asset Base (RAB)

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Electricity, Gas and Water Authority (the Authority) for determining 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.



Consolidated financial statements

STATEMENT OF FINANCIAL POSITION

	Notes	31.12.2014		31.12.2015	
		Total	of which with related parties	Total	of which with related parties
(€ million)					
ASSETS					
Current assets					
Cash and cash equivalents	(7)	74		17	
Trade receivables and other receivables	(8)	2,081	787	1,824	627
Inventories	(9)	155		152	
Current income tax assets	(10)	48		54	
Other current tax assets	(10)	10		8	
Other current assets	(11)	108		98	
		2,476		2,153	
Non-current assets					
Property, plant and equipment	(12)	15,399		15,478	
Compulsory inventories	(9)	363		363	
Intangible assets	(13)	5,076		5,275	
Investments valued using the equity method	(14)	1,402		1,372	
Other receivables	(8)			78	78
Other non-current assets	(11)	167		137	2
		22,407		22,703	
Non-current assets held for sale	(15)	23		24	
TOTAL ASSETS		24,906		24,880	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(16)	1,058	13	1,351	19
Short-term portion of long-term financial liabilities	(16)	999		1,378	
Trade payables and other payables	(17)	1,769	202	1,746	220
Current income tax liabilities	(10)	1		1	
Other current tax liabilities	(10)	20		50	
Other current liabilities	(18)	51		71	1
		3,898		4,597	
Non-current liabilities					
Long-term financial liabilities	(16)	11,885		11,067	
Provisions for risks and charges	(19)	1,014		776	
Provisions for employee benefits	(20)	141		166	
Deferred tax liabilities	(21)	513		388	
Other non-current liabilities	(18)	276		293	
		13,829		12,690	
Liabilities directly associated with assets held for sale	(15)	7		7	
TOTAL LIABILITIES		17,734		17,294	
SHAREHOLDERS' EQUITY					
Snam shareholders' equity					
Share capital		3,697		3,697	
Reserves		2,281		2,655	
Net profit		1,198		1,238	
Treasury shares		(5)		(5)	
Total Snam shareholders' equity		7,171		7,585	
MINORITY INTERESTS		1		1	
TOTAL SHAREHOLDERS' EQUITY		7,172		7,586	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		24,906		24,880	

INCOME STATEMENT

(€ million)	Notes	2014		2015	
		Total	of which with related parties	Total	of which with related parties
REVENUE	(25)				
Core business revenue		3,784	2,150	3,856	2,489
Other revenue and income		98	28	114	46
		3,882		3,970	
OPERATING COSTS	(26)			(26)	
Purchases, services and other costs		(763)	(69)	(782)	(56)
Personnel cost		(343)		(389)	
		(1,106)		(1,171)	
AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	(27)	(803)		(849)	
EBIT		1,973		1,950	
FINANCIAL INCOME (EXPENSES)	(28)				
Financial expense		(416)	(3)	(392)	
Financial income		19		12	3
		(397)		(380)	
INCOME (EXPENSE) ON EQUITY INVESTMENTS	(29)				
Equity method valuation effect		79		126	
Other income from equity investments		52		9	
		131		135	
PRE-TAX PROFIT		1,707		1,705	
Income taxes	(30)	(509)		(467)	
Net profit		1,198		1,238	
Attributable to:					
- Snam		1,198		1,238	
-Minority interests					
Net profit per share (€ per share)	(31)				
- basic		0.35		0.35	
- diluted		0.35		0.35	

STATEMENT OF COMPREHENSIVE INCOME

(€ million)	Notes	2014	2015
Net profit		1,198	1,238
Other components of comprehensive income			
Components that can be reclassified to the income statement:			
Change in fair value of cash flow hedging derivatives (effective portion)		(3)	
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"		6	11
Tax effect		1	
		4	11
Components that cannot be reclassified to the income statement:			
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees		(15)	6
Tax effect		4	(2)
		(11)	4
Total other components of comprehensive income, net of tax effect		(7)	15
Total comprehensive income for the period	(22)	1,191	1,253
Attributable to:			
- Snam		1,191	1,253
- Minority interests			
		1,191	1,253

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(€ million)	Equity pertaining to shareholders of the parent company													
	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Other reserves	Retained earnings	Net profit for the year	Treasury shares	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2013 (a)	3,571	(1,701)	1,322	714	(1)	(9)	5	1,520	917	(7)	(338)	5,993	1	5,994
Profit for 2014									1,198			1,198		1,198
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"							6					6		6
- Change in fair value of cash flow hedge derivatives					(2)							(2)		(2)
Components that cannot be reclassified to the income statement:														
- Actuarial losses on remeasurement of defined-benefit plans for employees						(11)						(11)		(11)
Total comprehensive income for 2014 (b)					(2)	(11)	6		1,198			1,191		1,191
Transactions with shareholders:														
- Allocation of 2013 dividend (€0.15 per share as the balance of the 2013 interim dividend of €0.10 per share)									(845)	338		(507)		(507)
- Allocation of 2013 residual net profit								72	(72)					
- Capital increase	126		376									502		502
- Shares disposed of for stock option plans			2				(2)			2		2		2
Total transactions with shareholders (c)	126		378				(2)	72	(917)	2	338	(3)		(3)
Other changes in shareholders' equity (d)							(10)					(10)		(10)
Balance at 31 December 2014 (e=a+b+c+d)	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)	Notes	Share capital	Consolidation reserve	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Other reserves	Retained earnings	Net profit for the year	Treasury shares	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2014 (a)	22	3,697	(1,701)	1,700	714	(3)	(20)	(1)	1,592	1,198	(5)		7,171	1	7,172
Profit for 2015										1,238			1,238		1,238
Other components of comprehensive income:															
Components that can be reclassified to the income statement:															
- Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"															
								11					11		11
- Change in fair value of cash flow hedge derivatives															
Components that cannot be reclassified to the income statement:															
- Actuarial gains on remeasurement of defined-benefit plans for employees															
							4						4		4
Total comprehensive income for 2015 (b)							4	11		1,238			1,253		1,253
Transactions with shareholders:															
- Reclassification to legal reserve															
				(25)	25										
- Allocation of dividend for 2014 (€0.25 per share)															
				(72)					(333)	(470)			(875)		(875)
- Allocation of 2014 residual net profit															
									728	(728)					
- Capital increase															
- Shares disposed of for stock option plans															
Total transactions with shareholders (c)				(97)	25				395	(1,198)			(875)		(875)
Other changes in shareholders' equity (d)															
								36					36		36
Balance at 31 December 2015 (e=a+b+c+d)	22	3,697	(1,701)	1,603	739	(3)	(16)	46	1,987	1,238	(5)		7,585	1	7,586

CASH FLOW STATEMENT

(€ million)	Notes	2014	2015
Net profit		1,198	1,238
Adjustments for reconciling net profit with cash flows from operating activities:			
Depreciation and amortisation	(27)	797	846
Impairment losses	(27)	6	3
Effect of valuation using the equity method	(14)	(79)	(126)
Net capital losses (capital gains) on asset sales, cancellations and eliminations		20	32
Interest income		(19)	(8)
Interest expense		350	345
Income taxes	(30)	509	467
Other changes		(52)	(9)
Changes in working capital:			
- Inventories		(18)	55
- Trade receivables		65	(9)
- Trade payables		(154)	(128)
- Provisions for risks and charges		23	(14)
- Other assets and liabilities		(4)	136
Working capital cash flows		(88)	40
Change in provisions for employee benefits		(2)	30
Dividends collected		99	141
Interest collected		2	5
Interest paid		(347)	(345)
Income taxes paid net of reimbursed tax credits		(865)	(605)
Net cash flow from operating activities		1,529	2,054
- of which with related parties	(33)	2,023	2,450
Investments:			
- Property, plant and equipment	(12)	(917)	(793)
- Intangible assets	(13)	(366)	(393)
- Change in scope of consolidation and business units		(10)	(46)
- Equity investments		(5)	(144)
- Financial receivables held for operations			(78)
- Change in payables and receivables relating to investments		54	18
Cash flow from investments		(1,244)	(1,436)
Divestments:			
- Property, plant and equipment		3	6
- Equity investments		7	147
- Change in receivables relating to divestments		2	
Cash flow from divestments		12	153
Net cash flow from investment activities		(1,232)	(1,283)
- of which with related parties	(33)	(73)	(157)

CASH FLOW STATEMENT

(€ million)	Notes	2014	2015
Assumption of long-term financial debt		2,971	1,167
Repayment of long-term financial debt		(1,474)	(1,620)
Increase (decrease) in short-term financial debt		(1,007)	284
Financial receivables not held for operations		(216)	216
		274	47
Sale of treasury shares		2	
Dividends paid to Snam shareholders		(507)	(875)
Net cash flow from financing activities		(231)	(828)
- of which with related parties	(33)	(314)	222
Effect of the change in scope of consolidation		6	
Net cash flow for the period		72	(57)
Cash and cash equivalents at the beginning of the period	(7)	2	74
Cash and cash equivalents at the end of the period	(7)	74	17

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Company information

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as "Snam", the "Snam Group" or the "Group"), is an integrated group at the forefront of the regulated gas 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 (RAB¹) in the sector.

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

Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam S.p.A. within the meaning of international accounting standard IFRS 10 - "Consolidated Financial Statements". No management and coordination activity has been formalised or exercised.

As of 31 December 2015, CDP S.p.A. holds, through CDP Reti S.p.A.² and CDP GAS S.r.l.³, 28.98% and 1.12% respectively of Snam S.p.A.'s share capital.

1. Basis of presentation

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to the procedure under Article 6 of Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002 and to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) as well as the interpretative documents still in force issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the IFRS Interpretation Committee (IFRIC), and by the Standing Interpretations Committee (SIC) before that. For simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".

The consolidated financial statements are prepared in consideration of future continuing business using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair

- 1 The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Italian Electricity, Gas and Water Authority (AEEGSI) for determining base revenues for the regulated businesses.
- 2 CDP S.p.A. holds 59.10%.
- 3 Company wholly owned by CDP S.p.A.

value, as described in the measurement criteria.

The consolidated financial statements for the year ended 31 December 2015, approved by the Board of Directors of Snam S.p.A. at its meeting of 16 March 2016, were audited by Reconta Ernst & Young S.p.A. As the main auditor, Reconta Ernst & Young S.p.A. is fully responsible for auditing the consolidated financial statements of the Snam Group; in the limited cases in which other auditors also take part, it assumes responsibility for the work performed by the latter. The consolidated financial statements are presented in euro. Given their size, amounts in the financial statements and respective notes are expressed in millions of euros, unless otherwise specified.

Accounting standards and interpretations applied as of the current year

In the financial year ended 31 December 2015, the Company applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force on 1 January 2015, which are described below.

Regulation 1361/2014 issued by the European Commission on 18 December 2014 approved the provisions in the document "Annual Improvements to International Financial Reporting Standards 2011-2013 Cycle". The provisions contained in the document chiefly made amendments to: (i) IFRS 3, by clarifying that IFRS 3 does not apply to the recognition of the formation of a joint venture or joint operation (as defined by IFRS 11) in the financial statements of the joint arrangement; (ii) IFRS 13, by clarifying that the provision in IFRS 13 based on which the fair-value measurement of a group of financial assets and liabilities can be measured on a net basis applies to all contracts within the scope of IAS 39 or IFRS 9, even though they do not meet the definition of financial assets and liabilities; and (iii) IAS 40, by clarifying that reference should be made to IFRS 3 to determine whether or not the acquisition of investment property constitutes a business combination.

The above amendments relate to events that currently do not apply to the Snam Group; consequently, they have had no effect on the Group's situation with regard to its balance sheet, income statement and financial position.

2. Consolidation principles

The consolidated financial statements comprise the financial statements of Snam S.p.A. and of the companies over which the Company has the right to exercise direct

or indirect control, as defined by IFRS 10 – "Consolidated Financial Statements". Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Subsidiaries, associates and equity investments of Snam S.p.A. at 31 December 2015", which is an integral part of these notes. The same appendix lists the changes that took place in the scope of consolidation between 31 December 2014 and 31 December 2015.

All financial statements of consolidated companies close at 31 December and are presented in euro.

Companies included in the scope of consolidation

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control. The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income.

Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the

change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

Equity investments in associates and joint ventures

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control⁴. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly

or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity-accounted investments".

Business combinations

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.

Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any

⁴ Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement. When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired⁵. The assets are measured at the book values from the financial statements of the companies being acquired predating the transaction or, where available, at the values from the consolidated financial statements of the common ultimate parent. Where the transfer values are higher than such historical values, the surplus is eliminated by reducing the shareholders' equity of the acquiring company.

Intragroup transactions that are eliminated in the consolidation process

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively

represent impairment of the asset transferred.

3. Measurement criteria

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws.

The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses are posted to the income statement in the period when they are incurred.

Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the "initial line pack") is depreciated over the useful life

⁵ Accounting treatment proposed by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements".

of the plant to which it refers. On the contrary, the commercial component, which may be sold on the market or employed for alternative uses (the “operating line pack”), is not depreciated, since it is not, by its nature, subject to depreciation; and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas.

Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset’s useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	Annual depreciation rate (%)
Buildings	
- Buildings	2-2.5 or greater, depending on residual life
Plant and equipment - Transportation	
- Pipelines	2 or greater, depending on residual life
- Stations	5 or greater, depending on residual life
- Gas reduction/regulation plants	5 or greater, depending on residual life
Plant and equipment - Storage	
- Pipes	2
- Treatment stations	4 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Storage wells	1.66 or greater, depending on residual life
Plant and equipment - Regasification	
- LNG plants	4 or greater, depending on residual life
Other plant and equipment	2.5-12.5
Metering equipment	5 or greater, depending on residual life
Industrial and commercial equipment	10-35
Other assets	10-33

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section). Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

Assets under finance leases

Assets under finance leases, or under agreements which may not take the specific form of a finance lease, but call for the essential transfer of the benefits and risks of ownership, are recorded at the lower of fair value less fees payable by the lessee and the present value of minimum lease payments, including any sum payable to exercise a call option, under property, plant and equipment as a contra-entry to the financial debt to the lessor. The assets are depreciated using the criteria and rates adopted for owned property, plant and equipment. When there is no reasonable certainty that the right of redemption can be exercised, depreciation takes place during the shorter of the term of the lease and the useful life of the asset. Leases under which the lessee maintains nearly all of the risks and benefits associated with ownership of the assets are classified as operating leases. In this case, the lessee incurs only costs for the period in the amount of the lease expenses set out in the contract, and does not record fixed assets.

Intangible assets

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit access to it by others. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.

Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits. Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.

Service concession agreements

Intangible assets include service concession agreements between the public and private sectors for the development, financing, management and maintenance of infrastructures under concession in which: (i) the grantor controls or regulates the services provided by the operator through the infrastructure and the related price to be applied; and (ii) the grantor controls any significant remaining interest in the infrastructure at the end of the concession by owning or holding benefits, or in some other way. The provisions relating to the

service concession agreements are applicable for Snam in its role as a public service natural gas distributor, i.e. applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the AEEGSI, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service.

Storage concessions

The value of storage concessions, which consists of the natural gas reserves present in deposits ("cushion gas"), is recorded under "Concessions, licences, trademarks and similar rights" and is not subject to amortisation, since: (i) the volume of said gas is not modified by storage activities; and (ii) the economic value of the gas that can be recovered at the end of the concession, pursuant to the provisions of the Ministerial Decree of 3 November 2005, "Criteria for determining an adequate consideration for the return of assets intended for a concession-holder for natural gas storage" of the Ministry of Productive Activities, is not lower than the value recorded in the financial statements.

Amortisation of intangible assets

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	Annual depreciation rate (%)
Service concession agreements	
Infrastructure:	
- Gas distribution network	2 or greater, depending on residual life
- Gas derivation plants	2.5 or greater, depending on residual life
- Distribution metering equipment	5-7.5 or greater, depending on residual life
Concession expenses (*)	8.3
Other intangible fixed assets	
- Industrial patent rights and intellectual property rights	20-33
- Other intangible assets	20, or according to the duration of the contract

(*) These refer to the expenses incurred in awarding natural gas distribution concessions, which are amortised based on the term of the service contract (12 years).

Goodwill and other intangible assets with an indefinite useful life are not subject to amortisation.

Grants

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions. Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

Impairment of non-financial fixed assets

Impairment of property, plant and equipment and intangible assets with a finite useful life

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

The value of property, plant and equipment classed under regulated assets is determined by taking into consideration: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; and (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended. As with the quantification of tariffs, the quantification of the recoverable value of property, plant and equipment classed under regulated assets is done on the basis of the regulatory provisions in force.

With reference in particular to distribution, the definition of the scope of the CGUs takes into account all assets and liabilities that are bound together by indivisibility restrictions within each individual concession.

If the reasons for impairment losses no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

Investments valued using the equity method

Equity investments in joint ventures and associates are valued using the equity method.

When there are no significant effects on the balance sheet, cash flow statement and income statement, associates not included in the scope of consolidation are valued using the equity method.

In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the share of the other components of comprehensive income of the investee. Dividends paid out by the investee are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).

In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income. When the transferral of equity

investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the booked amount transferred; (ii) the effect of the revaluation of any residual equity investment maintained, to align it with the relative fair value; and (iii) any amounts posted to other components of comprehensive income relating to the investee company that will be taken to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria. If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Impairment of non-financial fixed assets". When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments". The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

Inventories

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the company expects to receive from their sale in the normal course of business. The cost of natural gas inventories is determined using the weighted average cost method. The sale and purchase of strategic gas do not involve the effective transfer of risks and benefits associated with ownership, and thus do not result in a change in inventories.

Financial instruments

The financial instruments held by Snam are included in the following balance sheet items:

Cash and cash equivalents

Cash and cash equivalents include cash amounts,

on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

Trade and other receivables and other assets

Trade and other receivables and other assets are valued when the comprehensive fair value of the costs of the transaction (e.g. commission, consultancy fees, etc.) are first recognised. The initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording (the amortised cost method).

Where there is actual evidence of impairment, the impairment loss is calculated by comparing the book value with the current value of anticipated cash flows discounted at the effective interest rate defined at the time of the initial recognition, or at the time of its updating to reflect the contractually defined repricing. There is objective evidence of impairment when, inter alia, there are significant breaches of contract, major financial difficulties or the risk of counterparty insolvency.

Receivables are shown net of provisions for impairment losses; this provision, which is previously created, may be used if there is an assessed reduction in the asset's value or due to a surplus. If the reasons for a previous impairment loss cease to be valid, the value of the asset is restored up to the value of applying the amortised cost if the write-down had not been made.

The economic effects of measuring at amortised cost are recorded in the "Financial income (expense)" item.

Financial assets that are disposed of are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument are realised, expire or are transferred to third parties.

Financial liabilities

Financial liabilities, including financial debt, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Trade and other receivables and other assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

Derivative financial instruments

Derivatives are assets and liabilities recognised at fair value using the criteria set out under "Fair-value measurement" below.

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.

When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of the effective derivatives are initially recognised in the shareholders' equity reserve for other components of comprehensive income and subsequently reported in the income statement in the same way as the economic effects produced by the hedged transaction.

The ineffective portion of the hedge is recorded under "(Expense) income from derivatives" in the income statement. Changes in the fair value of derivatives which do not satisfy the requirements to be classed as hedging instruments are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "(Expense) income from derivatives".

Fair-value measurements

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its maximum and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.

The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The determination of the fair value of a liability takes into account the risk that the Company may not be able to honour its obligations ("non-performance risk"). When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- Level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date;
- Level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;

- Level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

Non-current assets held for sale and discontinued operations

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.

Non-current assets held for sale and non-current assets in disposal groups are not amortised or depreciated, and are measured at the lower of book value and the related fair value, less any sales costs (see "Fair-value measurements" above). The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value and the fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations,

as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether an investment is maintained following the sale.

Provisions for risks and charges

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.

Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at the value representing the best estimate of the amount that the Company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits arising from the contract, and the cost of terminating the contract.

When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)". When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.

Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously

reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

Provisions for employee benefits

Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as "defined-benefit" or "defined-contribution" plans.

■ **Defined-benefit plans**

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in "Finance expense (income)".

■ **Defined-contribution plans**

In defined-contribution plans, the Company's obligation is calculated, limited to the payment of

state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

Other long-term plans

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

Treasury shares

Treasury shares are recognised at cost and entered as a reduction of shareholders' equity. The economic effects arising from any subsequent sales are recognised in shareholders' equity.

Distribution of dividends

The distribution of dividends to the Company's shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company's shareholders or, in the case of interim dividends, by the Board of Directors.

Foreign currency transactions

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- monetary assets and liabilities in currencies other than the functional currency are converted into Euro by applying the exchange rate in effect on the reporting date, allocating the effect to the income statement.
- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

Revenue

Revenue from sales and the provision of services is recognised upon the effective transfer of the risks and

benefits typically relating to ownership or on the fulfilment of the service when it is likely that the financial benefits deriving from the transaction will be realised by the vendor or the provider of the service. Revenue is recognised at the fair value of the payment received or to be received.

As regards the activities carried out by the Snam Group, revenue is recognised when the service is provided. The largest share of core revenue relates to regulated revenue, which is governed by the regulatory framework established by the AEEGSI. Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. In the transportation segment⁶, the difference between the revenue recognised by the regulator (the "revenue cap") and the revenue actually accrued is recognised with a contra-entry in the balance sheet under "Other assets", if positive, or "Other liabilities", if negative. This difference will be reversed in the income statement in future years by way of tariff changes. In the regasification, storage and distribution segments, however, any difference between the revenue recognised by the regulator and the accrued revenue is recognised in the balance sheet item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA)⁷. Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) and depending on their connection to a network for the provision of supply, are recognised at fair value as a contra-entry to revenue in the income statement. When the agreement stipulates the provision of

multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset. Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes. Revenue is reported net of 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 Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in Note 25 - "Revenue" of the Notes to the consolidated financial statements. Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

Dividends received

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

Costs

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs relating to emission allowances, calculated on the basis of market prices, are only recognised for the portion of carbon dioxide emissions in excess of the allocated allowances. Earnings relating to emissions allowances are recognised at the point of realising the earnings by transfer.

The monetary receivables assigned in place of the free assignment of emissions allowances are recognised as a contra-entry under the income statement item "Other revenue and income".

Fees relating to operating leases are charged to the income statement for the duration of the contract.

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

⁶ With regard to the capacity portion of revenue, penalties for exceeding committed capacity and balancing fees.

⁷ Article 1, paragraph 670 of Law 208 of 28 December 2015 (2016 Financial Stability Law) provides for the transformation of the Electricity Equalisation Fund (CCSE) into a state-controlled company called the Energy and Environmental Services Fund (CSEA) as of 1 January 2016. The transformation of the CCSE into a state-controlled company and the change of name has not altered in any way, or caused any discontinuity in the functional relations of, the CSEA (formerly the CCSE) with regulated entities and suppliers.

Income taxes

Current income taxes are calculated by estimating the taxable income. 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 and rates or those essentially approved at the reporting date.

Regarding corporation tax (IRES), Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated⁸ companies have officially signed up. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities"/"Current income tax assets". Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when taxable income is expected to be available in the

period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability.

Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

Information by operating segment

Disclosure on business segments has been prepared pursuant to IFRS 8 – "Operating Segments": 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 to allocate resources to the different segments and to analyse the respective performances.

An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the same entity); (ii) for which the operating results are regularly reviewed by the entity's most senior decision-makers for the purpose of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.

Specifically, the declared operating segments are as follows: (i) natural gas transportation (the "transportation segment"); (ii) liquefied natural gas regasification (the "regasification segment"); (iii) natural gas storage (the "storage segment"); and (iv) natural gas distribution (the "distribution segment"). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia, Stogit and Italgas, respectively.

⁸ With the exception of AES Torino (merged with Italgas as of 1 January 2016) and Acam Gas.

4. Financial statements⁹

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1").

In particular:

- the balance sheet items are broken down into assets and liabilities, and then further into current or non-current items;
- the income statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the statement of comprehensive income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the statement of changes in shareholders' equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders' equity;
- the cash flow statement is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group's situation with regard to its balance sheet, income statement and financial position.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement. With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 33 - "Related-party transactions", are shown separately in the financial statements.

In compliance with IAS 1, unless otherwise stated, comparative data refer to the previous year.

5. Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

⁹ The financial statements are the same as those adopted for the 2014 Annual Report.

Impairment of assets

Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.

The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the usage value, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are updated using a rate that takes account of the risk inherent to the asset concerned.

More information on the impairment test carried out by the Company's management on property, plant and equipment and on intangible assets can be found in the "Impairment of non-financial fixed assets" section.

Provision for site dismantling and restoration

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for compliance with dismantling and restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.

The criticality of estimates of dismantlement and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied. The calculation of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the Company's management.

Business combinations

The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the allocation of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

Environmental liabilities

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.

The Group does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, however it cannot be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the potential for contaminations emerging; (ii) the refurbishment in progress and to be followed and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

Provisions for employee benefits

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.

The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

Provisions for risks and charges

In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimation of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

6. Recently issued accounting standards

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, but not yet in force

The main accounting standards and interpretations approved by the European Commission in 2015 but not yet in force are listed and described below.

By means of Commission Regulation (EU) 2015/2173 of 24 November 2015, the regulatory provisions of the document "Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)", issued by the IASB on 6 May 2014, were approved. The document governs the accounting treatment to be applied to acquisitions of initial or additional interests in joint operations (that do not alter the categorisation of the interest as such), falling within the definition of business pursuant to IFRS 3.

Commission Regulation (EU) 2015/2231 of 2 December 2015 approved the regulatory provisions contained in the document "Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)", issued by the IASB on 12 May 2014 with the aim of clarifying that an amortisation method based on revenue generated by the asset (the revenue-based method) is not regarded as appropriate as it exclusively reflects the revenue flows generated by this asset, rather than the way in which the economic benefits incorporated in the asset are consumed. In the case of intangible assets, this presumption may be overcome if: (i) the right to use the asset is related to the achievement of a predetermined revenue threshold to be produced; or (ii) it can be shown that the achievement of revenue and use of the economic benefits generated by the assets are closely correlated.

Commission Regulation (EU) 2015/2343 of 15 December 2015 approved the regulatory provisions contained in the "Annual Improvements to International Financial Reporting Standards 2012-2014 Cycle", issued by the IASB on 25 September 2014. The document: (i) in relation to IFRS 5, clarifies that any change in the classification of an asset (or disposal group) from held for sale to held for distribution to shareholders (or vice-versa) should be considered as a continuation of the original disposal plan rather than as a new plan; (ii) in relation to IFRS 7 – "Financial Instruments: Disclosures", provides additional guidance on determining whether there is continued involvement in transferred financial assets, in the case where there is a related servicing contract, in order to establish the level of disclosure required. In relation to the same standard, it also clarifies the applicability of disclosure required on the offsetting of

financial assets and liabilities in interim financial statements; (iii) in relation to IAS 19, clarifies that the rate used to discount bonds must be determined using the market yields on leading corporate bonds denominated in the same currency used to pay benefits rather than at country level; and (iv) in relation to IAS 34, clarifies the meaning of disclosure "elsewhere in the interim financial report", specifying that this information must be available in the same timeframes.

By means of Commission Regulation (EU) 2015/2406 of 18 December 2015, the regulatory provisions of the document "Disclosure Initiative (Amendments to IFRS 1)", issued by the IASB on 18 December 2014, were approved. The document includes a number of clarifications relating to issues of materiality, any disaggregation of items, the structure of the explanatory notes, information on the accounting policies used and the presentation of other components of comprehensive income arising from the valuation of equity investments using the equity method. On the same date, the European Commission issued Regulation (EU) 2015/2441, approving the regulatory provisions contained in the document "Equity Method in Separate Financial Statements", issued by the IASB on 12 August 2014, which permits the recognition in the separate financial statements of investments in subsidiaries, joint ventures and associates using the equity method, as well as at cost or pursuant to IAS 39 (the two methods already permitted). The selected accounting option must be applied consistently for each category of equity investment. The same amendment consequently also modified the definition of separate financial statements.

The provisions contained in the aforementioned documents will take effect from financial years starting on or after 1 January 2016.

On 9 January 2015, Commission Regulations (EU) 2015/28 and 2015/29 of 17 December 2014, were published in the Official Journal of the European Union. The Regulations approved, respectively: (i) the regulatory provisions contained in the document "Annual Improvements to International Financial Reporting Standards 2010-2012 Cycle"; and (ii) the amendments to IAS 19 in the provisions in the document "Defined-Benefit Plans: Employee Contributions (Amendments to IAS 19)".

The provisions contained in the document "Annual Improvements to International Financial Reporting Standards 2010-2012 Cycle" introduced amendments to: (i) IFRS 2, by clarifying the definition of "vesting condition" and adding definitions of service and result conditions; (ii) IFRS 3, by clarifying that obligations to

pay contingent considerations, other than those defined as equity instruments, are measured at fair value through profit or loss at each reporting date; (iii) IFRS 8, by requiring disclosure of the judgements made by management in aggregating the operating segments, including a description of the segments that have been aggregated and the economic indicators that have been assessed in determining that the aggregated segments share similar economic characteristics; (iv) IAS 16 and IAS 38, by clarifying the way in which the gross carrying amount is calculated when revaluation takes place; and (v) IAS 24, by establishing the information to be provided when a third party provides key management personnel services to the reporting entity. The amendments to IAS 19 allow contributions paid by employees or third parties that are independent of the number of years of service to be recognised as a reduction in the current service cost for the period, instead of attributing these contributions across the entire time period in which the service is rendered.

The provisions of the latter two regulations apply to years starting on or after 1 February 2015 (the 2016 financial year in the case of the Snam Group).

Accounting standards and interpretations issued by the IASB/IFRIC and not yet approved by the European Commission

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed.

On 30 January 2014, the IASB issued the document "IFRS 14 Regulatory Deferral Accounts", the interim standard for the Rate-regulated Activities project. The document's scope includes First-time Adopters which, according to the provisions of IFRS 14, are allowed to continue recognising amounts related to rate-regulated activities in accordance with the previous standards. The European Commission decided not to begin the approval process for this standard until the definitive version of the standard has been issued. On 28 May 2014, the IASB issued the document "IFRS 15 – Revenue from Contracts with Customers", which provides a single model for recognising revenue based on the transfer of control of a good or service to a customer, not necessarily coinciding with the concept of the transferral of risks and benefits currently in force. It provides a more structured approach to the measurement and recognition of revenue, with a detailed implementation guide that includes, for example, recognition of variable fees.

After the changes introduced by the amendment issued

on 11 September 2015, the provisions of IFRS 15 will take effect from financial years starting on or after 1 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 24 July 2014, the IASB issued the document "IFRS 9 - Financial Instruments", together with the relevant Basis for Conclusions and Implementation Guidance, to replace all previously issued versions of the standard. The new provisions: (i) amend the classification categories for financial instruments and provide for this classification to be based on the characteristics of the instrument and the business model of the company in question; (ii) remove the obligation to separate embedded derivatives; (iii) identify a new impairment model that uses forward-looking information to bring forward the recognition of credit losses compared with the incurred-loss model, which delays recognition until a loss event takes place; and (iv) introduce substantial reforms to the qualification of hedge transactions in order to ensure that hedges are aligned with the companies' risk management strategies and founded on a more principle-based approach.

The provisions of the aforementioned texts, which replace those contained in IAS 39 - "Financial Instruments: Recognition and Measurement", will take effect from financial years starting on or after 1 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 11 September 2014, the IASB issued the document "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28". In particular, the aim of the amendments is to provide a more detailed definition of the accounting treatment and the recognition of related effects in the income statement of the loss of control of an investee company due to its transferral to an associate or joint venture. The accounting treatment used in the investor's financial statements depends on whether the object of the transaction is or is not a business as defined by IFRS 3. On 17 December 2015, the IASB indefinitely deferred the adoption date for the regulatory provisions in this document.

On 18 December 2014, the IASB issued the document "Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28", which clarifies the issues relating to the application of the consolidation exception for investment entities. The provisions in the document would take effect in years starting on or after 1 January 2016; to date, the document has not been approved by the European Commission.

On 13 January 2016, the IASB issued the document "IFRS 16 – Leases". In considering that all leases consist of attributing to an entity the right to use an asset for a specified period of time in exchange for a consideration, and the fact that, if the payment of this consideration takes place throughout the contractual period, the entity is implicitly obtaining a loan, IFRS 16 eliminates the distinction between finance leases and operating leases, and introduces, for lessees, a single accounting model for recognising leases. When applying the model, the entity recognises (i) assets and liabilities for all leases longer than 12 months, unless the good in question is of insignificant value, and (ii) separately in the income statement, the amortisation of the asset recognised and the interest on the payable entered. The measures contained in IFRS 16 will take effect from financial years starting on or after 1 January 2019, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 19 January 2016, the IASB issued the document "Recognition of Deferred Tax Assets for Unrealised Losses – Amendments to IAS 12", which clarifies that unrealised losses on debt securities recognised at fair value and at cost for tax purposes give rise to deductible temporary differences; it also clarifies that the estimate of future taxable income (i) includes income arising from the realisation of assets for amounts higher than the relative book value; and (ii) excludes the reversal of deductible temporary tax differences. These measures will take effect from financial years starting on or after 1 January 2017, notwithstanding any subsequent deferrals established upon approval by the European Commission.

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

7. Cash and cash equivalents

Cash and cash equivalents, which amount to €17 million (€74 million at 31 December 2014), relate to current account deposits with credit institutions and mainly refer to Gasrule Insurance Ltd, the Group's captive insurance company (€15 million). The change compared with 31 December 2014, amounting to €57 million, mainly reflects the use of the deposit account (€47 million) created in 2014 to close the acquisition by Italgas S.p.A. of 51% of Acam Gas S.p.A.¹⁰ on 1 April 2015.

Cash and cash equivalents are not subject to any usage restrictions.

A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the cash flow statement.

¹⁰ For more information on this acquisition, please see the section "Business segment operating performance – Natural gas distribution" in the Directors' Report.

8. Trade receivables and other current and non-current receivables

Trade receivables and other current and non-current receivables, amounting to €1,902 million (€2,081 million at 31 December 2014) break down as follows:

(€ million)	31.12.2014			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,728		1,728	1,677		1,677
Financial receivables	216		216		78	78
- held for operations					78	78
- not held for operations	216		216			
Receivables from investment/divestment activities	13		13	23		23
Other receivables	124		124	124		124
	2,081		2,081	1,824	78	1,902

Trade receivables of €1,677 million (€1,728 million at 31 December 2014) mainly refer to the natural gas transportation (€993 million), distribution (€453 million) and storage (€210 million) segments. Trade receivables relating to the storage segment (€210 million) include the effects of the addition of revenue connected to the allocation of natural gas storage capacity by auction¹¹.

Receivables are reported net of the provision for impairment losses of €157 million (€34 million at 31 December 2014). Changes in the provision for impairment losses on receivables during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2014	Provisions	Utilisations	Other changes	Provision for impairment losses at 31.12.2015
Trade receivables	33	45	(5)	83	156
Other receivables	1				1
	34	45	(5)	83	157

The provisions (€45 million) mainly relate to the transportation segment and regard the impairment loss (€41 million including accrued interest) on receivables arising from the balancing service pursuant to Resolution 608/2015/R/gas, with which the Authority provided for partial payment to the Balancing Supervisor (Snam Rete Gas) of uncollected receivables for the period from 1 December 2011 to 23 October 2012¹². With regard to these receivables, the provision for impairment losses totalled approximately €126 million, including the related interest, at 31 December 2015.

Utilisations (€5 million) relate to the excess portion of the provision relating to the distribution sector.

11 This revenue follows the application of Resolution 171/2015/R/gas of the Authority ("Provisions for the regulation of income statement items related to the storage service for the 2015-2016 thermal year"), published on 17 April 2015, with which the Authority defined, for the 2015-2016 thermal year, ways of neutralising any differences between the amount paid to storage companies based on tariffs defined under Resolution 49/2015/R/gas and the amount received from the auctions for the allocation of capacity referred to in the same resolution.

12 By means of Resolution 608/2015/R/gas of 11 December 2015, the Authority closed the proceedings (which started by Resolution 145/2013/R/gas of 5 April 2013) to determine the share of costs owing to the Balancing Supervisor arising from outstanding receivables included in income statement items in the period from 1 December 2011 to 23 October 2012. The nominal value of total receivables not recognised by the Authority in relation to the cases under investigation totals approximately €130 million, including VAT. For more information, please see Note 24 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system".

Other changes (€83 million) mainly concern the reclassification from the "Provisions for risks and charges" item of estimated charges arising from commercial balancing at 31 December 2014 (€85 million), which followed the closure by the Authority of the proceedings to determine the share of costs arising from outstanding receivables owing to Snam Rete Gas.

Financial receivables held for operating activities (€78 million) relate to the shareholders' loan to the associate Trans Adriatic Pipeline A.G. (TAP), which Snam took on under contractual agreements relating to the acquisition of the equity investment¹³. The classification of receivables as "non-current" was based on the contractual agreements in place between shareholders.

The reduction of €216 million in financial receivables not held for operations is due to the closure and simultaneous repayment to Snam of the shareholders' loan to the jointly owned associate TAG, as part of an operation to refinance the entire debt of TAG through the banking system.

Receivables from investment/divestment activities (€23 million; €13 million at 31 December 2014) concern receivables for public and private grants for investment activities (€17 million) and receivables from the sale of property, plant and equipment and intangible assets (€6 million).

Other receivables (€124 million, the same as at 31 December 2014) break down as follows:

(€ million)	31.12.2014	31.12.2015
IRES receivables for the national tax consolidation scheme	32	34
Other receivables:	92	90
- Energy and Environmental Services Fund (CSEA)	49	48
- Advances to suppliers	6	9
- Other	37	33
	124	124

IRES receivables for the national tax consolidation scheme (€34 million, compared with €32 million at 31 December 2014) concern receivables with the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2004 to 2007 (pursuant to Article 6 of Decree-Law 185 of 28 November 2008, converted into Law 2 of 28 January 2009) and tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

Receivables from the CSEA (€48 million, compared with €49 million at 31 December 2014) relate mainly to additional tariff components in the distribution segment.

The item "Other" (€33 million, compared with €37 million at 31 December 2014) refers mainly to receivables from government authorities in the natural gas distribution segment.

The market value of trade and other receivables is analysed in Note 24 - "Guarantees, commitments and risks - Other information about financial instruments". All receivables are in euros.

¹³ The contractual agreements stipulate that shareholders are responsible for financing the project, according to the level of their respective shareholdings, until the pipeline enters into service, and if its capacity is expanded. At the closing date, Snam took over financial commitments from the transferring company under the shareholders' agreement amounting to €78 million. For more information about the acquisition, please see the section "Annual profile – Main events" in the Directors' Report.

The seniority of trade and other receivables is shown below:

(€ million)	31.12.2014			31.12.2015		
	Trade receivables	Other receivables (*)	Total	Trade receivables	Other receivables (*)	Total
Non-overdue and non-impaired receivables	1,482	345	1,827	1,461	190	1,651
Overdue and non-impaired receivables:	246	8	254	216	35	251
- 0-3 months overdue	49		49	37	9	46
- 3-6 months overdue	3	1	4	3		3
- 6-12 months overdue	3	5	8	4	14	18
- more than 12 months overdue	191	2	193	172	12	184
	1,728	353	2,081	1,677	225	1,902

(*) Including financial receivables, receivables from investment/divestment activities and other receivables.

Overdue and non-impaired receivables (€251 million; €254 million at 31 December 2014) relate to the following sectors: (i) storage (€105 million), mainly comprising VAT¹⁴ billed to users for the use of strategic gas withdrawn but not replenished in line with the provisions of the Storage Code; (ii) natural gas distribution (€82 million), mainly relating to transactions with gas marketing companies for the distribution service, covered by guarantee policies, and other receivables from the government; and (iii) transportation (€64 million), mainly relating to moving fees and additional tariffs, for which no impairment loss is registered as they revert to the Authority once they are collected. Receivables from related parties are described in Note 33 "Related-party transactions". Specific information on credit risk can be found in Note 24 "Guarantees, commitments and risks – Financial risk management – Credit risk".

9. Inventories

Inventories, which amount to €515 million (€518 million at 31 December 2014) are analysed in the table below:

(€ million)	31.12.2014			31.12.2015		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
Inventories (current assets)	191	(36)	155	191	(39)	152
- Raw materials, consumables and supplies	131	(6)	125	141	(7)	134
- Finished products and merchandise	60	(30)	30	50	(32)	18
Compulsory inventories (non-current assets)	363		363	363		363
	554	(36)	518	554	(39)	515

14 As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

Inventories (current assets)

Inventories of raw materials, consumables and supplies (€134 million, compared with €125 million at 31 December 2014) primarily include: (i) natural gas used for transportation activities (€55 million); and (ii) stock materials relating to the pipeline network (€43 million), the distribution network (€18 million) and storage plants (€12 million).

Inventories of finished products and merchandise (€18 million, compared with €30 million at 31 December 2014) refer to the natural gas present in the storage system (617 million standard cubic metres, compared with 739 million standard cubic metres at 31 December 2014) and do not include compulsory inventories, recognised under "Non-current assets" in the balance sheet.

Inventories are reported net of the provision for impairment losses of €39 million (€36 million at 31 December 2014).

Changes in the provision for impairment losses during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2014	Provisions	Utilisations	Other	Provision for impairment losses at 31.12.2015
Raw materials, consumables and supplies	6	2	(1)		7
Finished products and merchandise	30			2	32
	36	2	(1)	2	39

Provisions (€2 million) related to spare parts involving to the transportation segment.

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

Compulsory inventories (non-current assets)

Compulsory inventories (€363 million, unchanged from 31 December 2014) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001.

The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development¹⁵.

¹⁵ On 26 January 2015, the Ministry set the strategic storage volume at 4.62 billion cubic metres for the contractual storage year 2015-2016 (1 April 2015 - 31 March 2016), which is unchanged from the previous year 2014-2015 (1 April 2014 - 31 March 2015). The Stogit share was unchanged at 4.5 billion cubic metres. On 21 January 2016, the Ministry confirmed the total strategic storage volumes for the contractual year 2016-2017 (1 April 2016 - 31 March 2017) as 4.62 billion cubic metres.

10. 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	31.12.2015
Current income tax assets	48	54
- IRES	35	32
- IRAP	13	8
- Tax credits on withholding tax on foreign dividends		12
- Other assets		2
Other current tax assets	10	8
- VAT	2	2
- Other taxes	8	6
	58	62
Current income tax liabilities	(1)	(1)
- IRES	(1)	
- IRAP		(1)
Other current tax liabilities	(20)	(50)
- VAT	(6)	(35)
- IRPEF withholdings for employees	(13)	(13)
- Other taxes	(1)	(2)
	(21)	(51)

Current income tax assets, amounting to €54 million (€48 million at 31 December 2014) relate mainly to: (i) IRES credits to cover the excess amount paid under the national tax consolidation scheme (€16 million); (ii) credits for more tax advances paid in relation to the additional IRES (€12 million euro); (iii) tax credits on withholding taxes paid on foreign dividends (€12 million euro); and (iv) IRAP credits (€8 million).

Other current tax assets, amounting to €8 million (€10 million at 31 December 2014) refer to reimbursements from the tax authorities for registration tax (€2 million), VAT receivables (€2 million) and receivables for consumption tax (€2 million).

Other current tax liabilities, amounting to €50 million (€20 million at 31 December 2014) mainly refer to payables to the tax authorities for Group VAT for December 2015 (€33 million) and IRPEF withholdings for employees (€13 million).

Taxes pertaining to the year under review are shown in Note 30 - "Income taxes".

11. Other current and non-current assets

Other current assets, which amount to €98 million (€108 million at 31 December 2014) and other non-current assets of €137 million (€167 million at 31 December 2014) break down as follows:

(€ million)	31.12.2014			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	47	97	144	78	72	150
Market value of derivative financial instruments	1	5	6	3	5	8
Other assets	60	65	125	17	60	77
- Prepayments	13	25	38	11	21	32
- Security deposits		15	15		14	14
- Other	47	25	72	6	25	31
	108	167	275	98	137	235

Other regulated assets (€150 million; €144 million at 31 December 2014) relate to the natural gas transportation service and refer mainly to the shortfall in amounts invoiced compared with the restriction imposed by the regulator (€146 million)¹⁶, of which the current portion accounts for €76 million (€46 million at 31 December 2014) and the non-current portion accounts for €70 million (€96 million at 31 December 2014).

The market value of derivatives outstanding at 31 December 2015 is as follows:

(€ million)	31.12.2014			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Other assets	1	5	6	3	5	8
Fair value hedging derivatives						
- Fair value interest rate hedging derivatives	1	5	6	1	5	6
- Accrued income on derivatives				2		2
Other liabilities	(1)	(9)	(10)		(1)	(1)
Cash flow hedging derivatives						
- Fair value exchange rate hedging derivatives		(9)	(9)		(1)	(1)
- Accrued expenses on derivatives	(1)		(1)			

¹⁶ See Note 3 "Measurement criteria – Revenue".

The assets arising from the market-value measurement of fair value hedging derivatives (€8 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 eight-year bond has a maturity of 21 April 2023 and a fixed annual coupon of 1.5%. The IRS has converted the fixed-rate liability into an equivalent floating-rate liability benchmarked to the 12-month Euribor + 0.5645%.

The main characteristics of the derivative in question are summarised in the table below:

(€ million)									
Type of derivative	Contract start date	Maturity date	Residual term (years)	Interest rate purchased	Interest rate sold	Nominal value at 31.12.2014	Nominal value at 31.12.2015	Market value at 31.12.2014	Market value at 31.12.2015
Interest rate swap	22.10.2014	21.04.2023	7.3	12-month + 0.5645%	1.5%	500	500	6	8

The liabilities arising from the market-value measurement of cash flow hedging derivatives (€1 million) refer to a cross-currency swap (CCS) entered into in 2013. The CCS is used to hedge against fluctuations in the exchange rate of a ¥10 billion long-term bond issue. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in Euro with a fixed annual rate of 2.717%.

The main characteristics of the derivative in question are summarised in the table below:

(€ million)									
Type of derivative	Contract start date	Maturity date	Residual term (years)	JPY/EUR exchange rate purchased	JPY/EUR exchange rate sold	Nominal value (*) at 31.12.2014	Nominal value (*) at 31.12.2015	Market value at 31.12.2014	Market value at 31.12.2015
Cross-currency swap	25.10.2013	25.10.2019	3.8	133.98	138.2	75	75	(10)	(1)

(*) Equal to a value of ¥10 billion at an exchange rate of ¥133.98/€.

In relation to this contract, Snam agrees with its counterparties on the exchange of two capital flows (at the time of entering into the contract and upon the maturity of the underlying financial instrument) and periodic interest flows (on the same dates stipulated for the hedged item) denominated in different currencies at a predetermined exchange rate.

The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 24 - "Guarantees, commitments and risks - Management of financial risks".

The item "Other assets" (€77 million; €125 million at 31 December 2014) essentially comprises:

- prepayments (€32 million), relating mainly to upfront fees and the substitute tax on revolving credit lines¹⁷ (€30 million) and to insurance premiums (€2 million). The current and non-current portions amount to €11 million and €21 million respectively (€13 million and €25 million at 31 December 2014);
- security deposits (€14 million), relating mainly to the natural gas transportation segment;
- assets in the transportation segment (€23 million), mainly recognised for lower quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, adjusted in future years by increasing the quantity to be allocated by the users. The current and non-current portions amount to €2 million and €21 million respectively.

12. Property, plant and equipment

Property, plant and equipment, which amounts to €15,478 million (€15,399 million at 31 December 2014) breaks down as follows:

	31.12.2014						
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
Cost at 31.12.2013	160	655	18,234	226	109	1,889	21,273
Investments	1	2	2	14		894	913
Change in scope of consolidation	2	38		12	3		55
Disposals			(34)	(11)	(7)	1	(51)
Other changes	2	26	1,051	(5)	17	(955)	136
Cost at 31.12.2014	165	721	19,253	236	122	1,829	22,326
Provisions for amortisation and depreciation at 31.12.2013		(217)	(5,937)	(172)	(75)		(6,401)
Depreciation and amortisation		(14)	(489)	(16)	(11)		(530)
Change in scope of consolidation		(18)		(5)	(3)		(26)
Disposals			26	9	7		42
Other changes		8		4	3		15
Provisions for amortisation and depreciation at 31.12.2014		(241)	(6,400)	(180)	(79)		(6,900)
Provision for impairment losses at 31.12.2013		(5)	(16)				(21)
(Impairment losses)/reversals			(6)				(6)
Provision for impairment losses at 31.12.2014		(5)	(22)				(27)
Net balance at 31.12.2013	160	433	12,281	54	34	1,889	14,851
Net balance at 31.12.2014	165	475	12,831	56	43	1,829	15,399

¹⁷ Upfront fees and the substitute tax are to be regarded as "transaction costs" pursuant to IAS 39 – "Financial Instruments: Recognition and Measurement"; the related charges are spread over the expected life of the financial instrument.

	31.12.2015						
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
Cost at 31.12.2014	165	721	19,253	236	122	1,829	22,326
Investments	3	2	5	13		823	846
Disposals		(3)	(77)	(10)	(9)	(20)	(119)
Other changes	3	47	1,005	21	65	(1,334)	(193)
Cost at 31.12.2015	171	767	20,186	260	178	1,298	22,860
Provisions for amortisation and depreciation at 31.12.2014		(241)	(6,400)	(180)	(79)		(6,900)
Depreciation and amortisation		(15)	(495)	(17)	(18)		(545)
Disposals		2	72	9	10		93
Other changes			38		(39)		(1)
Provisions for amortisation and depreciation at 31.12.2015		(254)	(6,785)	(188)	(126)		(7,353)
Provision for impairment losses 31.12.2014		(5)	(22)				(27)
(Impairment losses)/reversals			(3)				(3)
Other changes			1				1
Provision for impairment losses at 31.12.2015		(5)	(24)				(29)
Net balance at 31.12.2014	165	475	12,831	56	43	1,829	15,399
Net balance at 31.12.2015	171	508	13,377	72	52	1,298	15,478

Property, plant and equipment (€15,478 million, compared with €15,399 million at 31 December 2014) relates mainly to transportation (€12,442 million), storage (€2,713 million), distribution (€231 million) and regasification (€89 million) infrastructure.

Investments¹⁸ (€846 million) refer mainly to the transportation (€656 million), storage (€163 million) and distribution (€20 million) segments.

During the year, Snam capitalised €28 million of financial expenses (€36 million in 2014).

Depreciation (€545 million) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.

During the year, there were no changes in the estimated useful life of assets or in the depreciation rates applied and explained by category in Note 3 "Measurement criteria – Property, plant and equipment".

Capital contributions from government authorities and other entities (€71 million and €298 million; €76 million and €282 million respectively at 31 December 2014) are recorded as a deduction in the net value of property, plant and equipment.

Divestments (€26 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to the transportation segment.

Impairment losses and reversals (€3 million) refer essentially to the impairment of auxiliary piping in the transportation segment.

18 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

The value of plant and equipment includes site dismantling and restoration costs (€182 million), relating mainly to natural gas storage (€110 million) and transportation (€71 million) sites. Other changes (€193 million net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to: (i) the revision of estimated (discounted) costs for site restoration and dismantling (-€116 million) in the natural gas storage and transportation segments, which are offset by the recognition of a specific provision¹⁹, mainly due to the change in expected discount rates; (ii) the change in stocks of pipes and related accessory materials used in the production of plants in the natural gas transportation segment (-€30 million); and (iii) grants for the period (-€23 million). Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 24 "Guarantees, commitments and risks".

Property, plant and equipment by business segment

Pursuant to the provisions of IFRS 8 - "Operating segments", a breakdown of property, plant and equipment by business segment appears below:

(€ million)	31.12.2014	31.12.2015
Historical cost	22,326	22,860
Transportation	18,133	18,608
Storage	3,512	3,550
Distribution	532	547
Regasification	142	148
Corporate and other activities	7	7
Provision for amortisation, depreciation and impairment losses	(6,927)	(7,382)
Transportation	(5,748)	(6,167)
Storage	(816)	(836)
Distribution	(306)	(317)
Regasification	(54)	(58)
Corporate and other activities	(3)	(4)
Net balance	15,399	15,478
Transportation	12,385	12,441
Storage	2,696	2,714
Distribution	226	230
Regasification	88	90
Corporate and other activities	4	3

¹⁹ Further information can be found in Note 19 "Provisions for risks and charges".

13. Intangible assets

Intangible assets, which amount to €5,275 million (€5,076 million at 31 December 2014) break down as follows:

(€ million)	31.12.2014						Total
	Finite useful life				Indefinite useful life		
	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Non-current assets under construction and payments on account	Other intangible assets	Goodwill	
Cost at 31.12.2013	6,242	737	737	37	53	9	7,815
Investments	316	9		72	3		400
Change in scope of consolidation	277	11			6		294
Disposals	(37)						(37)
Other changes	60	51	4	(65)	(8)		42
Cost at 31.12.2014	6,858	808	741	44	54	9	8,514
Provisions for amortisation and depreciation at 31.12.2013	(2,383)	(596)	(77)		(48)		(3,104)
Depreciation and amortisation	(209)	(53)	(3)		(2)		(267)
Change in scope of consolidation	(17)	(11)			(5)		(33)
Disposals	23						23
Other changes	(73)	11			6		(56)
Provisions for amortisation and depreciation at 31.12.2014	(2,659)	(649)	(80)		(49)		(3,437)
Provision for impairment losses at 31.12.2013			(1)				(1)
Provision for impairment losses at 31.12.2014			(1)				(1)
Net balance at 31.12.2013	3,859	141	659	37	5	9	4,710
Net balance at 31.12.2014	4,199	159	660	44	5	9	5,076

	31.12.2015							Total
	Finite useful life					Indefinite useful life		
	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Non-current assets under construction and payments on account	Other intangible assets	Goodwill		
(€ million)								
Cost at 31.12.2014	6,858	808	741	44	54	9	8,514	
Investments	321	5		84	16		426	
Change in scope of consolidation	138						138	
Disposals	(37)	(2)					(39)	
Other changes	(16)	79	3	(78)	(1)		(13)	
Cost at 31.12.2015	7,264	890	744	50	69	9	9,026	
Provisions for amortisation and depreciation at 31.12.2014	(2,659)	(649)	(80)		(49)		(3,437)	
Depreciation and amortisation	(230)	(62)	(3)		(6)		(301)	
Change in scope of consolidation	(33)						(33)	
Disposals	25	2					27	
Other changes	(6)						(6)	
Provisions for amortisation and depreciation at 31.12.2015	(2,903)	(709)	(83)		(55)		(3,750)	
Provision for impairment losses at 31.12.2014			(1)				(1)	
Provision for impairment losses at 31.12.2015			(1)				(1)	
Net balance at 31.12.2014	4,199	159	660	44	5	9	5,076	
Net balance at 31.12.2015	4,361	181	660	50	14	9	5,275	

Service concession agreements (€4,361 million; €4,199 million at 31 December 2014) refer to agreements between the public and private sectors on the development, financing, management and maintenance of infrastructure under concession by a contracting party. The provisions relating to the service concession agreements are applicable for Snam in its role as a public service natural gas distributor, i.e. applicable to the agreements under which the operator is committed to providing the public natural gas distribution service at the tariff established by the AEEGSI, holding the right to use the infrastructure, which is controlled by the grantor, for the purposes of providing the public service. Within the regulatory framework that assigns the gas distribution service through tenders by geographical area²⁰ (and not by individual municipality), in the last quarter of 2015, 13 calls for tenders were published to assign the natural gas distribution service in 14 minimum geographical areas (ATEM),

20 The ATEMs were created by special Ministerial Decree published in the Official Gazette in 2011 (No 177-ATEM).

7 of which where Italgas operates. At 31 December 2015, Italgas, as a result of information disclosure requests required by law, had prepared and submitted documentation relating to approximately 550 municipalities.

Industrial patent rights and intellectual property rights of €181 million (€159 million at 31 December 2014) mainly concern information systems and applications in support of operating activities.

Concessions, licences, trademarks and similar rights (€660 million, the same as at 31 December 2014) refer essentially to concessions for the natural gas storage business (€657 million). The value of the storage concessions is represented by the reserves of natural gas in the fields ("cushion gas"²¹).

Intangible assets with an indefinite useful life (€9 million, unchanged since 31 December 2014) consist only of the goodwill recognised in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas. The goodwill was allocated to the CGUs represented by the ATEM where the purchased assets were dispersed.

Investments (€426 million) refer mainly to the distribution (€373 million) and transportation (€37 million) segments²².

Capital contributions from government authorities and other entities (€362 million and €386 million respectively, compared with €364 million and €376 million respectively at 31 December 2014) are recorded as a deduction in the net value of property, plant and equipment and refer essentially to the natural gas distribution segment.

Changes in the scope of consolidation (€105 million, net of the related provisions for depreciation, amortisation and impairment losses) relate to the acquisition of control by Italgas S.p.A. of Acam Gas S.p.A.²³ Amortisation (€301 million) refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company.

Due to the nature of the activities carried out by the Group, i.e. regulated activities in the gas supply chain, the recoverable value of property, plant and equipment and intangible assets was defined in keeping with the estimated value of net invested capital recognised for such assets for tariff purposes (regulatory asset base, or RAB) by the AEEGSI, net of flat-fee components²⁴, employee severance pay (TFR) and grants received.

For the purposes of identifying cash-generating units (CGUs) and allocating any goodwill, in accordance with the segmentation defined by the AEEGSI for the definition of the return on assets, the CGUs are represented by the business units (BUs) that carry out regulated activities in the natural gas transportation, regasification, storage and distribution sectors. For the distribution sector, in view of the specific applicable regulations, the CGUs are identified with supra-municipality minimum geographical areas (ATEM).

As defined above, the recoverable value of property, plant and equipment, including compulsory inventories, and intangible assets is around €24.9 billion²⁵.

Divestments (€12 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly concern sales of gas plants for the termination of the related concession arrangements and replacements of networks and meters.

Other changes (-€19 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly concern (i) grants for the period (-€34 million); (ii) the effects arising from 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 an effective date of 1 January 2015 (+€15 million).

21 Cushion gas is not depreciated.

22 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

23 Information about the accounting effects of the operation are reported in Note 23 "Business combinations".

24 The RAB is used to determine the service tariffs and, therefore, the cash flows generated by the assets. The RAB value is defined using the revalued historical cost method with regard to fixed capital and on a flat-rate basis with regard to working capital.

25 Estimated value as at 31 December 2015.

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note 24 - "Guarantees, commitments and risks".

Intangible assets by business segment

As required by IFRS 8 - "Operating segments", a breakdown of intangible assets by business segment is provided below:

(€ million)	31.12.2014	31.12.2015
Historical cost	8,514	9,026
Transportation	493	530
Storage	812	819
Distribution	7,155	7,615
Regasification	3	3
Corporate and other activities	51	59
Provision for amortisation, depreciation and impairment losses	(3,438)	(3,751)
Transportation	(395)	(426)
Storage	(133)	(140)
Distribution	(2,871)	(3,142)
Regasification	(2)	(3)
Corporate and other activities	(37)	(40)
Net balance	5,076	5,275
Transportation	98	104
Storage	679	679
Distribution	4,284	4,473
Regasification	1	
Corporate and other activities	14	19

14. Investments valued using the equity method

Investments valued using the equity method, amounting to €1,372 million (€1,402 million at 31 December 2014) break down as follows:

(€ million)	Equity investments in			Total
	joint ventures	associates	non-consolidated subsidiaries	
Initial value at 01.01.2014	970	50	4	1,024
Acquisitions and subscriptions	486		2	488
Capital gains (losses) from measurement using the equity method	76	3		79
Exchange rate conversion differences	8			8
Decrease owing to dividends	(85)	(2)		(87)
Sales and repayments	(7)			(7)
Other changes	(105)	(1)	3	(103)
Final value at 31.12.2014	1,343	50	9	1,402
Initial value at 01.01.2015	1,343	50	9	1,402
Acquisitions and subscriptions	14	130		144
Capital gains (losses) from measurement using the equity method	126			126
Exchange rate conversion differences	7			7
Sales and repayments	(147)			(147)
Decrease owing to dividends	(141)			(141)
Other changes	40	(50)	(9)	(19)
Final value at 31.12.2015	1,242	130		1,372

Acquisitions and subscriptions (€144 million) relate to: (i) the acquisition by Snam S.p.A. of 20% of the share capital of Trans Adriatic Pipeline A.G.(TAP) for a contractual amount of €130 million²⁶; (ii) the adjustment for cash of the consideration for the acquisition, completed in December 2014, by CDP Gas of an equity investment in Trans Austria Gasleitung GmbH - TAG (€14 million) to take account of changes in the contractual parameters between the reference date and the acquisition completion date.

Capital gains arising from valuation using the equity method (€126 million) refer to TAG (€73 million), TIGF (€23 million), Toscana Energia S.p.A. (€20 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€10 million in total).

Sales and repayments (€147 million) mainly relate to the distribution of an extraordinary dividend, by way of repayment of capital by TIGF Holding S.A.S. (€61 million), and the effects of the entry of a new shareholder into the capital of TIGF Holding S.A.S. (€84 million).

The decrease owing to dividends (€141 million) relates to dividends distributed by TAG (€77 million), TIGF (€37 million), Toscana Energia S.p.A. (€16 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€11 million in total).

Other changes (-€19 million) relate essentially to: (i) the exclusion from valuation using the equity method and inclusion in the scope of consolidation of Acam Gas (-€50 million) from the date of acquisition of control (1 April 2015); and (ii) the effects, recognised in shareholders' equity, of the entry of a new shareholder into the capital of TIGF Holding S.A.S. (+€28 million).

Equity investments are not collateralised.

²⁶ In addition, as a result of the acquisition Snam took over the shareholders' loan to TAP from the transferring company for an amount, paid at the closing date, of €78 million, and also took over all the rights and commitments associated with the project.

With regard to the recoverable value of equity investments, for companies operating exclusively in regulated businesses, recoverable value is calculated using the adjusted RAB value of the net financial position. For investments in companies operating exclusively or partly in significant non-regulated activities, the recoverable value of equity investments is based on generally accepted company valuation methods such as the discounted cash flow (DCF) method, discounted dividend model (DDM), simple equity method, income-based method, and combined equity and income-based method, or on the fair-value measurement of the equity investment according to recent market transactions. Specifically, the DCF method provides for the discounting of future cash flows generated by the CGUs, using a rate determined according to the weighted average cost of capital (WACC) of the individual CGU. Under the DDM model, estimated future dividends payable to shareholders are discounted, based on a rate determined according to the cost of equity, which takes account of the riskiness of the activity in question and the risk premium. Cash flows are estimated based on an explicit period of five years (or less), in accordance with plans approved by the relative boards and taking account of a terminal value (TV) determined using, for each particular case, market multiples or the equity RAB at the relevant date. For all equity investments, the recoverable value thus estimated is greater than the book value. Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2015", which is an integral part of these Notes.

Other information on equity investments

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.

Investments in joint ventures

The IFRS-compliant economic and financial data for each significant joint venture²⁷ are reported below:

	31.12.2014			
(€ million)	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	Toscana Energia S.p.A.	Gasbridge 1 and 2 B.V.
Current assets	86	85	46	26
- of which cash and cash equivalents	15	55		
Non-current assets	2,805	1,037	693	228
Total assets	2,891	1,122	739	254
Current liabilities	(65)	(285)	(126)	
- of which current financial liabilities	(9)	(242)	(96)	
Non-current liabilities	(1,570)	(292)	(238)	
- of which non-current financial liabilities	(1,265)	(132)	(123)	
Total liabilities	(1,635)	(577)	(364)	
Shareholders' equity	1,256	545	375	254
Equity interest held by the Group (%)	45%	89.22%	48.08%	50%
Share attributable to the Group	565	486	180	127
Other adjustments			(17)	
Book value of the equity investment	565	486	163	127
Revenue	418		138	
Operating costs	(156)		(36)	
Amortisation, depreciation and impairment	(129)		(25)	
EBIT	133		77	
Financial income				
Financial expense	(34)		(5)	
Income (expense) from equity investments			1	18
Income taxes	(45)		(27)	
Net profit	54		46	18
Other components of comprehensive income	(5)			16
Total comprehensive income	49		46	34

²⁷ Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the parent company pursuant to the equity-accounting method.

	31.12.2015			
	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	Toscana Energia S.p.A.	GasBridge 1 e 2 B.V.
(€ million)				
Current assets	130	119	79	38
- of which cash and cash equivalents	47	82	4	
Non-current assets	2,824	1,018	794	224
Total assets	2,954	1,137	873	262
Current liabilities	(101)	(47)	(248)	
- of which current financial liabilities	(16)		(153)	
Non-current liabilities	(1,751)	(535)	(243)	
- of which non-current financial liabilities	(1,446)	(439)	(206)	
Total liabilities	(1,852)	(582)	(491)	
Shareholders' equity	1,102	555	382	262
Equity interest held by the Group (%)	40.50%	89.22%	48.08%	50%
Share attributable to the Group	446	496	184	131
Other adjustments			(17)	
Book value of the equity investment	446	496	167	131
Revenue	441	283	128	
Operating costs	(159)	(117)	(39)	
Amortisation, depreciation and impairment	(131)	(52)	(28)	
EBIT	151	114	61	
Financial income				
Financial expense	(47)	(6)	(5)	
Income (expense) from equity investments			1	20
Income taxes	(46)	(27)	(17)	
Net profit	58	81	40	20
Other components of comprehensive income	10			14
Total comprehensive income	68	81	40	34

INFORMATION ON INVESTMENTS IN JOINT VENTURES

TIGF Holding S.A.S.

TIGF Holding S.A.S. is a company operating under French law, which, through TIGF Investissements S.A.S. (a wholly owned subsidiary of TIGF Holding), controls 100% of TIGFS.A.

TIGF S.A. (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation in France is a regulated activity.

At 31 December 2015, TIGF Holding S.A.S. had the following shareholders: Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue, a company owned by Crédit Agricole).

TIGF Holding S.A.S.'s consolidated financial statements include TIGF Investissements S.A.S. and TIGF S.A. The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GIC.

Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment, and it owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2015, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA). The contractual agreements drawn up between Snam, TAG and (GCA) also 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.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GCA.

Toscana Energia S.p.A.

Toscana Energia S.p.A. operates in the natural gas distribution segment in Tuscany.

Natural gas distribution is a regulated activity.

The share capital of Toscana Energia S.p.A. is held by Italgas S.p.A. (48.08%), the Municipality of Florence (20.61%), Publiservizi S.p.A. (10.38%)²⁸, other local public entities²⁹ (20.26%) and banking institutions (0.67%).

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the private (Italgas) and public (municipalities) shareholders.

Toscana Energia S.p.A.'s consolidated financial statements include Toscana Energia S.p.A. and Toscana Energia Green S.p.A.

Gasbridge 1 B.V. and Gasbridge 2 B.V.

Gasbridge 1 B.V. and Gasbridge 2 B.V. are two companies operating under Dutch law that are equal-stake joint ventures of Snam S.p.A. and Fluxys Europe B.V.

The two companies hold equal shares in the following equity investments:

- 31.5% of Interconnector UK Ltd, a subsidiary of Fluxys;
- 51% of Interconnector Zeebrugge Terminal SCRL;
- 10% of Huberator SA, a subsidiary of Fluxys.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the two shareholders Snam S.p.A. and Fluxys Europe B.V.

The book value of the equity investments in all equity-accounted joint ventures not deemed to be significant is €2 million. The 2015 profit of all equity-accounted joint ventures individually not deemed to be significant is less than €1 million in total.

²⁸ A fully public, pure holding company. The company's shareholders are 35 Tuscan municipalities in the provinces of Florence, Pisa, Pistoria and Siena.

²⁹ Data taken from the financial statements of Toscana Energia S.p.A. for the year ended 31 December 2014.

Significant restrictions

Pursuant to the provisions of IFRS 12, the major significant restrictions on investee companies' ability to transfer funds to Snam in the form of dividends, loan repayments or advances appear below.

TIGF Investissement S.A.S.

The payment of interest on the residual nominal amount of the €670 million convertible bond (of which Snam has subscribed €272 million) may be deferred at the discretion of the issuer TIGF Investissement. The bond debt is subordinate to the outstanding bank loans.

Investments in associates

The IFRS-compliant economic and financial data for each significant associate³⁰ are reported below:

(€ million)	31.12.2015
	Trans Adriatic Pipeline AG (TAP) (*)
Current assets	165
Non-current assets	983
Total assets	1,148
Current liabilities	(100)
Non-current liabilities	(397)
Total liabilities	(497)
Shareholders' equity	651
Equity interest held by the Group (%)	20%
Share attributable to the Group	130
Book value of the equity investment	130

(*) The equity investment was acquired on 17 December 2015. The figures in the table refer to the IFRS reporting package for the financial statements for the year ended 31 December 2015.

³⁰ The financial statement figures for associates, reported in full, have been updated to include adjustments made by the parent company pursuant to the equity-accounting method.

Since Italgas acquired control of it on 1 April 2015, Acam Gas was fully consolidated as at 31 December 2015. The balance sheet values for the period under comparison are shown below:

(€ million)	31.12.2014
	ACAM Gas S.p.A.
Current assets	10
Non-current assets	116
Total assets	126
Current liabilities	(7)
Non-current liabilities	(11)
Total liabilities	(18)
Shareholders' equity	108
Equity interest held by the Group (%)	49%
Share attributable to the Group	53
Other adjustments	(3)
Book value of the equity investment	50
Revenue	21
EBIT	8
Net profit	4
Other components of comprehensive income	
Total comprehensive income	4

INFORMATION ON INVESTMENTS IN ASSOCIATES

Trans Adriatic Pipeline A.G.(TAP)

Trans Adriatic Pipeline A.G.(TAP) is a Swiss company formed to design, develop and build a new gas pipeline, currently under construction, which will extend from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania.

At 31 December 2015, TAP A.G.had the following shareholders: Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading A.G.).

The contractual agreements drawn up between Snam and the other shareholders of TAP also stipulate that if TAP is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

15. Assets held for sale and directly related liabilities

Assets held for sale, amounting to €24 million (€23 million at 31 December 2014) concern a property owned by Italgas, for which sales negotiations are under way following the commitments arising from the Italgas purchase agreement with Eni.

Liabilities directly related to assets held for sale, which amount to €7 million (unchanged from 31 December 2014) include environmental provisions for expenses involved in the property's restoration.

16. Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities

Short-term financial liabilities, amounting to €1,351 million (€1,058 million at 31 December 2014), and long-term financial liabilities, including short-term portions of long-term liabilities totalling €12,445 million (€12,884 million at 31 December 2014), break down as follows:

	31.12.2014					31.12.2015				
	Long-term financial liabilities					Long-term financial liabilities				
(€ million)	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
Bonds		975	5,821	3,835	9,656		1,356	4,935	3,520	8,455
Bank loans	1,045	23	1,168	1,060	2,228	1,323	22	1,178	1,427	2,605
Other lenders	13	1	1		1	28		7		7
	1,058	999	6,990	4,895	11,885	1,351	1,378	6,120	4,947	11,067

Short-term financial liabilities

Short-term financial liabilities, amounting to €1,351 million (€1,058 million at 31 December 2014), relate mainly to uncommitted variable-rate credit lines (€1,323 million).

The increase compared with 31 December 2014 (€293 million) is mainly due to net utilisations of uncommitted lines of bank credit (€278 million).

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

The weighted average interest rate on short-term financial liabilities was 0.05% (0.71% for 2014).

Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, including short-term portions of long-term liabilities, amounted to €12,445 million (€12,884 million at 31 December 2014).

The breakdown of bond loans (€9,811 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	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 31.12.2015	Rate (%)	Maturity (year)
Euro Medium Term Notes							
SNAM S.p.A. (b)	2012	€	1,200	33	1,233	3.875	2018
SNAM S.p.A. (c)	2012	€	1,250	39	1,289	3.5	2020
SNAM S.p.A. (b)	2012	€	850	39	889	5	2019
SNAM S.p.A. (b)	2012	€	700	14	714	4.375	2016
SNAM S.p.A.	2012	€	1,000	8	1,008	5.25	2022
SNAM S.p.A. (b) (d)	2013	€	1,000	11	1,011	2.375	2017
SNAM S.p.A.	2013	€	500	13	513	3.375	2021
SNAM S.p.A.	2013	€	300		300	Eur 3m + 0.85	2016
SNAM S.p.A.	2013	€	70	1	71	2.625	2018
SNAM S.p.A. (e)	2013	Yen	76		76	1.115	2019
SNAM S.p.A.	2014	€	600	12	612	3.25	2024
SNAM S.p.A.	2014	€	500	2	502	1.5	2019
SNAM S.p.A. (f)	2014	€	500	6	506	Eur 12m + 0.5645	2023
SNAM S.p.A.	2014	€	150		150	Eur 3m + 0.65	2016
SNAM S.p.A.	2015	€	250	5	255	1.5	2023
SNAM S.p.A. (b)	2015	€	750	(68)	682	1.375	2023
			9,696	115	9,811		

(a) Includes issue premium/discount, accrued interest and adjustment to the fair value of the bond loan, converted to variable rate through an IRS hedging derivative.

(b) Bond loans subject to the liability management operation.

(c) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.

(d) Bond tapped for an incremental amount of €250 million, with the same interest rate and maturity as the original placement.

(e) 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.

(f) Fixed-rate bond, converted into variable-rate through an IRS hedging derivative.

The new bond loans (€937 million) relate to: (i) the reopening on 28 January 2015, for an incremental nominal value of €250 million, of a fixed-rate bond loan already in issue, maturing in April 2023 (€255 million); (ii) the liability management operation, which entailed the repurchase of fixed-rate bonds with residual maturity of less than two years for a nominal value of approximately €1.0 billion and the simultaneous issue of a new fixed-rate bond with a nominal value of €750 million (€682 million). The difference between the market value of the repurchased bonds and the value of the new issue was settled by Snam in cash³¹.

Payables for bank loans (€2,627 million) relate to term loans, of which €1,627 million concern European Investment Bank (EIB) funding. In 2015, three variable-rate loans were contracted with the EIB to fund investment projects, for a total nominal amount of €697 million, taken out by Snam Rete Gas (€573 million) and Italgas (€124 million) respectively.

There are no other long-term bank loans denominated in currencies other than the euro.

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.40% (1.07% for 2014).

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

The market value of short- and long-term financial liabilities is reported in Note 24, "Guarantees, commitments and risks".

31 For more information about the acquisition, please see the section "Annual profile – Main events" in the Directors' Report.

Snam has unused committed and uncommitted credit lines of €3.95 billion and €0.82 billion, respectively.

Financial covenants and negative pledge commitments

At 31 December 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. These medium-/long-term loans are subject, inter alia, to the usual covenants imposed in international market practice, e.g. negative pledge, pari passu and change of control clauses.

In particular, the syndicated loans and bilateral loans are subject, inter alia, to a negative pledge covenant pursuant to which Snam and the Group subsidiaries are subject to limitations in terms of pledging 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 set expiry dates and to exceptions on restrictions for which the creation and/or existence is explicitly permitted.

At 31 December 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 credit rating is downgraded to BBB- (Standard & Poor's/Fitch Ratings Limited) or Baa3 (Moody's) for at least two of the three ratings agencies.

At 31 December 2015, the banking financial liabilities subject to these restrictive clauses amounted to approximately €2.6 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.

Bonds, with a nominal value of €9.7 billion, refer to securities issued under the Euro Medium Term Notes programme. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

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.

At 31 December 2015 there were not events not in compliance with said obligations and contractual covenants.

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			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	74		74	17		17
B. Securities available for sale and held to maturity						
C. Cash (A+B)	74		74	17		17
D. Financial receivables not held for operating activities	216		216			
E. Short-term financial liabilities to banks	1,045		1,045	1,323		1,323
F. Long-term financial liabilities to banks	23	2,228	2,251	22	2,605	2,627
G. Bonds	975	9,656	10,631	1,356	8,455	9,811
H. Short-term financial liabilities to related parties	13		13	19		19
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities				9		9
M. Other long-term financial liabilities	1	1	2		7	7
N. Gross financial debt (E+F+G+H+I+L+M)	2,057	11,885	13,942	2,729	11,067	13,796
O. Net financial debt (N-C-D)	1,767	11,885	13,652	2,712	11,067	13,779

17. Trade payables and other payables

Trade payables and other payables, which amount to €1,746 million (€1,769 million at 31 December 2014) comprise the following:

(€ million)	31.12.2014	31.12.2015
Trade payables	816	694
Payables for investment activities	440	468
Other payables	513	584
	1,769	1,746

Trade payables of €694 million (€816 million at 31 December 2014) relate mainly to the natural gas transportation (€476 million, including €414 million relating to gas balancing activities), distribution (€115 million), storage (€52 million) and regasification (€2 million) business segments.

Payables for investment activities (€468 million, including €4 million expiring after the period; €440 million at 31 December 2014) refer mainly to the natural gas transportation (€247 million), distribution (€109 million) and storage (€80 million) business segments.

Other payables of €584 million (€513 million at 31 December 2014) break down as follows:

(€ million)	31.12.2014	31.12.2015
IRES payables for the national tax consolidation scheme	1	
Other payables	512	584
- Payables to the Energy and Environmental Services Fund (CSEA)	340	418
- Payables to employees	66	54
- Payables to the government	38	42
- Payables to pension and social security institutions	36	32
- Payments on account and advances	4	3
- Other	28	35
	513	584

Payables to the CSEA (€418 million) concern accessory tariff components that mainly relate to: (i) the transportation segment, pursuant to the following resolutions: ARG/gas 87/11 (payment to cover costs arising from the application of the revenue guarantee factor for the storage service and the charges borne by the GSE: €152 million); ARG/gas 177/10 (measures and interventions for energy saving and development of renewable energy sources in the natural gas sector: €84 million); ARG/gas 92/08 (payment to cover costs arising from the application of the revenue guarantee factor for the LNG regasification service: €38 million); 277/07 (interruptibility fee: €30 million); ARG/gas 155/11, as amended (recovery of charges related to outstanding receivables from the balancing of the gas system: €24 million); ARG/com 93/10 (discounts for disadvantaged gas customers: €15 million); 363/2012/R/gas (recovery of charges applied for the default service on the transportation network: €10 million); (ii) the distribution segment (energy saving, quality of gas services, equalisation imbalances, disadvantaged customers, interruption for non-payment), mainly pursuant to Resolution ARG/gas 159/08 (€57 million).

Payables to the government (€42 million) primarily involve payables to municipalities for concession fees for the distribution business.

Note 33 "Related-party transactions" contains information about payables due to related parties. The book value of trade payables and other payables, considering the limited time interval between the occurrence of the payable and its maturity, is an approximation of the fair value. The market value of trade and other payables is provided in Note 24 - "Guarantees, commitments and risks - Other information on financial instruments".

18. Other current and non-current liabilities

Other current liabilities, amounting to €71 million (€51 million at 31 December 2014), and other non-current liabilities, amounting to €293 million (€276 million at 31 December 2014), break down as follows:

(€ million)	31.12.2014			31.12.2015		
	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities	43	137	180	57	149	206
Market value of derivative financial instruments	1	9	10	1	1	1
Other liabilities	7	130	137	14	143	157
- Prepaid revenue and income	7	24	31	5	18	23
- Prepaid contributions for connecting to the transportation network		3	3		4	4
- Other		103	103	9	121	130
	51	276	327	71	293	364

Liabilities from regulated activities, amounting to €206 million (€180 million at 31 December 2014), relate to:

- the transportation segment (€167 million) due to the 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 €57 million and €110 million respectively (€16 million and €119 million at 31 December 2014);
- the storage segment (€39 million) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution 50/06 of the Authority. The amount corresponds entirely to the non-current portion (€26 million and €19 million respectively for the current and the non-current portions at 31 December 2014).

The market value of the derivatives outstanding at 31 December 2015 (€1 million; €10 million at 31 December 2014) is broken down in Note 11 "Other current and non-current assets".

Other liabilities of €157 million (€137 million at 31 December 2014) include:

- prepaid revenue and income (€23 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 €12 million, respectively);
- other liabilities relating mainly to: (i) guarantee deposits paid as collateral by users of the balancing service, pursuant to Resolution ARG/gas 45/11 (€62 million euro); and (ii) the higher quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, equalised by reducing the quantities allocated by users. The current and non-current portions amount to €9 million and €53 million respectively.

19. Provisions for risks and charges

Provisions for risks and charges, which amount to €776 million (€1,014 million at 31 December 2014) are analysed in the table below:

31.12.2014							
(€ million)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				against charges	for excess		
Provision for site dismantling and restoration	485		13	(5)		157	650
Provision for environmental risks and charges	145			(5)		(4)	136
Provision for litigation	63	7		(2)	(16)		52
Other provisions	144	76		(38)	(6)		176
	837	83	13	(50)	(22)	153	1,014

31.12.2015							
(€ million)	Opening balance	Provisions	Increases due to passing of time	Utilisations		Other changes	Final balance
				against charges	for excess		
Provision for site dismantling and restoration	650		11	(8)		(138)	515
Provision for environmental risks and charges	136	1	1	(3)		(4)	131
Provision for litigation	52	5		(5)	(19)	1	34
Other provisions	176	20		(5)	(8)	(87)	96
	1,014	26	12	(21)	(27)	(228)	776

Other changes (€228 million) relate essentially to: (i) the revision of estimated (discounted) costs for site restoration and dismantling (€116 million) in the storage (€79 million) and transportation (€37 million) segments, mainly due to the change in expected discount rates; and (ii) reclassification to the provision for impairment losses on receivables of estimated charges arising from commercial balancing at 31 December 2014 (€85 million), which followed the closure by the Authority of the proceedings to determine the share of costs arising from outstanding receivables owing to the Balancing Supervisor (Snam Rete Gas).³²

From the second half of 2015, provisions for risks and charges, which cover the provision for site dismantling and restoration and the provision for environmental charges, were discounted using a rate corresponding to the yields on Eurozone corporate bonds with an AA rating, rather than the rate corresponding to the yields on Eurozone corporate bonds with an AAA rating, as used previously. This

³² For more information, please see Note 24 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from certain users of the transportation and balancing system".

curve, also taking into account the broadest possible basket, represents the best way of presenting the Group's circumstances. The rate thus determined was between 0.02% and 2.51%.

The provision of €515 million for site dismantling and restoration (€650 million at 31 December 2014) was recognised primarily due to expenses which are expected to be incurred for the removal of facilities and the restoration of sites in the natural gas storage (€430 million) and transportation (€78 million) business segments.

The provision for environmental risks and charges (€131 million, compared with €136 million at 31 December 2014) mainly included costs for environmental soil reclamation, pursuant to Law 471/1999, as amended, primarily for the disposal of solid waste, in relation to the distribution business.

The provision for litigation (€34 million, compared with €52 million at 31 December 2014) included costs which the Company has estimated it will incur for existing lawsuits.

Other provisions for risks and charges (€96 million, compared with €176 million at 31 December 2014) related mainly to: (i) the charges made as a contra-entry to the change in inventories item, resulting from the difference between the estimated quantities of UFG, which the Company expects to finalise in the four-year period 2015-2018, and the forecast quantities that will be transferred in kind by users, pursuant to Resolution 514/2013/R/gas (€40 million); and (ii) the estimated costs of plant upgrades in the distribution segment (€20 million), in response to the results of the checks performed in 2014 as part of the asset protection measure imposed by the judicial authorities, communicated to Italgas in July of the same year.

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity³³ of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ million)	Change in discount rate	
	Reduction of 10%	Increase of 10%
Effect on the net obligation at 31.12.2015		
Provision for site dismantling and restoration	29	(28)
Provision for environmental risks and charges	1	(1)

³³ For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

20. Provisions for employee benefits

Provisions for employee benefits, amounting to €166 million (€141 million at 31 December 2014), can be broken down as follows:

(€ million)	31.12.2014	31.12.2015
Employee severance pay (TFR)	108	100
Supplemental healthcare provision for company executives of Eni (FISDE)	11	10
Gas Fund		35
Other employee benefit provisions	22	21
	141	166

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€100 million; €108 million at 31 December 2014).

The supplementary healthcare provision for Company executives of Eni (FISDE) of €10 million (€11 million at 31 December 2014) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current³⁴ and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group executives³⁵ and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

The Gas Fund (€35 million) relates to the estimate, made on an actuarial basis, of the charges sustained by the employer due to the elimination, as of 1 December 2015, of the Gas Fund pursuant to Law 125 of 6 August 2015. In particular, Articles 9-decies and 9-undecies of the Law set out that the employer must cover: (i) an extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of the elimination of the Gas Fund for the years 2015 to 2020³⁶; and (ii) a contribution in favour of those registered or in voluntary prosecution of the contribution, that at 30 November 2015 were not entitled to supplementary pension benefits from the eliminated Gas Fund, of 1% for each year of registration to the supplementary fund, multiplied by the social security tax base relating to the same supplementary fund for 2014, to be allocated to the employer or the supplementary pension scheme.

³⁴ For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

³⁵ The fund provides the same benefits for Snam Group executives.

³⁶ Article 9-quinquiesdecies also stipulates that "... If monitoring shows that the extraordinary contribution pursuant to Article 9-decies is insufficient to cover the relative expenses, a decree issued by the Ministry of Labour and Social Policy, in concert with the Ministry of Economic Development and the Ministry of Economy and Finance, provides for the redetermination of the extraordinary contribution, the criteria for redistribution of the contribution between employers and the time periods and procedures for payment of the extraordinary INPS contribution".

At present, the criteria, procedures and time periods for payment of the extraordinary contribution have not yet been announced. Employee selection of where the amounts would be allocated (supplementary pension scheme or to the employer) were concluded, pursuant to the law, on 14 February 2016.

Other employee benefit provisions of €21 million (€22 million at 31 December 2014) concern long-term benefits connected with deferred cash incentive plans, long-term cash incentive plans (€14 million in total) and seniority bonuses (€7 million).

Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Snam's commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term incentive plans, which replaced the preceding stock option allocations, involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters.

Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.

Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.

The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows³⁷:

	31.12.2014				31.12.2015				
(€ million)	Provision for employee severance pay (TFR)	FISDE	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Gas Fund (*)	Other provisions	Total
Current value of the obligation at the start of the year	94	8	22	124	108	11		22	141
Current cost			6	6				6	6
Cost of past service							35		35
Cost in interest	3		1	4	2				2
Revaluations/(Impairment losses):	12	3		15	(5)	(1)			(6)
- Actuarial (gains) and losses resulting from changes in the financial assumptions	12	3		15	(4)	(1)			(5)
- Effect of past experience					(1)				(1)
Benefits paid	(5)		(7)	(12)	(6)			(7)	(13)
Change in scope of consolidation	4			4	1				1
Current value of the obligation at the end of the year	108	11	22	141	100	10	35	21	166

(*) Relates to the valuation of the liability arising from: (i) the contribution in favour of those still in service or in voluntarily continuing the contribution, of 1% for each year of registration to the Gas Fund, multiplied by the social security tax base relating to the same Gas Fund for 2014; and (ii) the extraordinary contribution to cover expenses related to supplementary pension benefits in place at the time of elimination of the Gas Fund for the years 2015 to 2020.

37 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(€ million)	2014			2015		
	Provision for employee severance pay (TFR)	FISDE	Total	Provision for employee severance pay (TFR)	FISDE	Total
(Impairment losses)/Revaluations:						
- Actuarial (gains) and losses resulting from changes in the financial assumptions	17	3	20	(4)	(1)	(5)
- Effect of past experience	(5)		(5)	(1)		(1)
	12	3	15	(5)	(1)	(6)

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2014				2015			
	Provision for employee severance pay (TFR)	FISDE	Other provisions	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions	
Discount rate (%)	1.50	1.50	0.5-1.5	1.9	1.9	1.75	0.6-1.9	
Inflation rate (%) (*)	1.8	1.8	1.8	1.8	1.8	N.A.	1.8	

(*) With regard to the other provisions, the rate relates only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible change³⁸ in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ million)	Discount rate	
	Reduction of 0.5%	Increase of 0.5%
Effect on the net obligation at 31.12.2015		
Employee severance pay (TFR)	5	(4)
FISDE	1	(1)
Gas Fund (*)	1	(1)
Other employee benefit provisions	N.A.	N.A.
	7	(6)

(*) The amount includes an estimate of the INPS solidarity surcharge of 10% applied to the amounts to be allocated to supplementary pension schemes.

³⁸ With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ million)	31.12.2014				31.12.2015				
	Provision for employee severance pay (TFR)	FISDE	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Gas Fund (*)	Other provisions	Total
Within the next year	3		8	11	3		3	9	15
Within five years	20	1	14	35	19	1	12	11	43
Between five and ten years	42	1		43	39	2	15	1	57
Beyond ten years	43	9		52	39	7	8		54
	108	11	22	141	100	10	38	21	169

(*) The amount includes an estimate of the INPS solidarity surcharge of 10% applied to the amounts to be allocated to supplementary pension schemes.

The weighted average maturity of obligations for employee benefit plans is shown below:

	2015			
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions
Weighted average maturity (years)	9	17	6	3

21. Deferred tax liabilities

Deferred tax liabilities of €388 million (€513 million at 31 December 2014) are stated net of offsettable prepaid tax assets of €515 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	31.12.2015
Deferred tax liabilities	1,109	2	(54)	(154)	903
Prepaid tax assets	(596)	(52)	33	100	(515)
	513	(50)	(21)	(54)	388

Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

(€ million)	31.12.2015								
	Opening balance	Provisions	Utilisations	Significant impacts on shareholders' equity	Changes in consolidation scope	Other changes	Final balance	of which:	
								IRES	IRAP
Deferred tax liabilities	1,109	2	(54)		2	(156)	903	861	42
Depreciation and amortisation exclusively for tax purposes	775		(26)		1	(87)	663	652	11
Revaluation of property, plant and equipment	165		(8)			(16)	141	120	21
Capital gains subject to deferred taxation	36	1	(18)			(1)	18	18	
Site dismantling and restoration	108					(51)	57	49	8
Capitalisation of financial expenses	12		(1)			(1)	10	9	1
Impairment losses on receivables in excess of tax deductibility	4						4	4	
Other temporary differences	9	1	(1)		1		10	9	1
Prepaid tax assets	(596)	(52)	33	2	(2)	100	(515)	(466)	(49)
Site dismantling and restoration	(204)	(4)	3			61	(144)	(123)	(21)
Provision for risks and charges and other non-deductible provisions	(136)	(16)	18			15	(119)	(108)	(11)
Non-repayable and contractual grants	(117)		3		(2)	12	(104)	(90)	(14)
Non-deductible amortisation and depreciation	(104)	(27)	6			8	(117)	(116)	(1)
Employee benefits	(20)	(2)	1	2		3	(16)	(14)	(2)
Other temporary differences	(15)	(3)	2			1	(15)	(15)	
Net deferred tax liabilities	513	(50)	(21)	2		(56)	388	395	(7)

Other changes, amounting to €56 million, mainly relate to the use, recognised under profit in the income statement, of the provision for deferred taxes due to the reduction, from 1 January 2017, of the IRES rate from 27.5% to 24% (€57 million), after the fiscal measures introduced by the 2016 Financial Stability Law (Article 1, paragraph 61).

Prepaid tax assets and deferred tax liabilities are considered to be long term.

Note 30 "Income taxes" provides information about taxes for the year.

22. Shareholders' equity

Shareholders' equity, which amounts to €7,586 million (€7,172 million at 31 December 2014) breaks down as follows:

(€ million)	31.12.2014	31.12.2015
Snam shareholders' equity	7,171	7,585
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)	46
Retained earnings	1,592	1,987
Reserve for remeasurement of defined-benefit plans for employees	(20)	(16)
Net profit	1,198	1,238
Less:		
- Treasury shares	(5)	(5)
Shareholders' equity attributable to third parties	1	1
Napoletanagas	1	1
	7,172	7,586

Below is a breakdown of the shareholders' equity of Snam at 31 December 2015.

Share capital

The share capital at 31 December 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 31 December 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 required to reach the limit stipulated in Article 2430 of the Italian Civil Code, as resolved by the Shareholders' Meeting of 29 April 2015.

Share premium reserve

The share premium reserve at 31 December 2015 totalled €1,603 million (€1,700 million at 31 December 2014). The decrease of €97 million reflects the reclassification to the "Legal reserve" (€25 million) resolved upon by the Shareholders' Meeting of 29 April 2015, and the use of part of the reserve to pay out the 2014 dividend to shareholders (€72 million).

Consolidation reserve

The negative consolidation reserve of €1,701 million (unchanged from 31 December 2014) includes 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).

Reserve for fair value of cash flow hedging derivatives

The cash flow hedge reserve (-€3 million, unchanged from 31 December 2014) includes the fair-value measurement of cash flow hedging derivatives relating to a cross-currency swap described in Note 11 "Other current and non-current assets".

Other reserves

Other reserves (€46 million) increased by €47 million compared with 31 December 2014. The increase is due to the effects, recognised in shareholders' equity, of the valuation of equity investments in joint ventures.

Retained earnings

Retained earnings totalled €1,987 million (€1,592 million at 31 December 2014). The increase of €395 million was due to the allocation of 2014 profit.

Reserve for remeasurement of defined-benefit plans for employees

At 31 December 2015, the reserve for remeasurement of employee benefit plans (-€16 million; -€20 million at 31 December 2014) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19

The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.2014	(31)	11	(20)
Changes in 2015	6	(2)	4
Reserve at 31.12.2015	(25)	9	(16)

Treasury shares

At 31 December 2015, Snam held 1,127,250 treasury shares (the same number as at 31 December 2014), equal to 0.03% of its share capital, recorded as a €5 million reduction in shareholders' equity. Their market value at 31 December 2015 was around €5 million³⁹. 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 an ordinary dividend for 2014 of €0.25 per share; the dividend (€875 million) was paid out as of 20 May 2015, with an ex-coupon date of 18 May 2015 and a record date of 19 May 2015.

In its meeting of 16 March 2016, the Board of Directors proposed to the Shareholders' Meeting convened for 27 April 2016 the distribution of an ordinary dividend of €0.25 per share. The dividend will be paid out as of 25 May 2016, with an ex-coupon date of 23 May 2016 and a record date of 24 May 2016.

³⁹ Calculated by multiplying the number of treasury shares by the official share price at 31 December 2015 (€4.85 per share).

Minority interests

Net profit and shareholders' equity attributable to minority interests relate to the following consolidated entities:

(€ million)	Shareholders' equity attributable to third parties 31.12.2014	Shareholders' equity attributable to third parties 31.12.2015	Net profit attributable to minority interests 2014	Net profit attributable to minority interests 2015
Napoletanagas	1	1	-	-

23. Business combinations

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

As of 1 April 2015, Acam Gas, classified until 31 March 2015 as a joint venture and valued using the equity method, has been 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". To this end, at the date of acquisition of control, the following steps were taken: (i) adjustment of the value of the equity investment previously held (equivalent to 49%) to the related fair value, attributing the difference with respect to the previous book value⁴⁰ to the income statement (€1 million); and (ii) recognition of the individual assets and liabilities acquired at the related fair value, recognising the difference between the fair value of the net assets acquired and the cost of the business combination in the income statement (€8 million).

The accounting effects of the business combination, pursuant to IFRS 3, were redetermined in respect of the previous allocation in response to the update to the 2014 RAB estimate. These updates resulted in the restatement of the opening balances at the date of acquisition of control, as follows:

(€ million)	Values after assignment of fair value
Fair value of net assets acquired	105
Value of assets acquired	118
Value of liabilities acquired	13

40 This value is represented by the valuation of Acam Gas at 31 March 2015 using the equity method.

The key values for the assets and liabilities of Acam Gas are as follows:

(€ million)	Values after assignment of fair value
Intangible assets	105
Current assets	12
Prepaid tax assets	1
Assets acquired	118
Current liabilities	11
Deferred tax liabilities	
Provisions for employee benefits	1
Provisions for risks and charges	1
Liabilities acquired	13
Shareholders' equity acquired	105

24. Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €4,334 million (€4,630 million at 31 December 2014) comprise:

(€ million)	31.12.2014	31.12.2015
Guarantees given in the interest of:	134	124
- subsidiaries	134	124
Financial commitments and risks:	4,496	4,210
Commitments	1,569	1,907
Commitments for the purchase of goods and services	1,512	1,898
Other	57	9
Risks	2,927	2,303
- third-party assets on deposit	2,613	2,210
- compensation and litigation	314	93
	4,630	4,334

(*) At 31 December 2015, hold-harmless letters issued to Eni in favour of Snam amounted to €3 million. Garanzie

Guarantees

Guarantees issued in the interest of subsidiaries (€124 million) refer mainly to hold-harmless letters issued in favour of third parties for guarantees mainly issued for participation in tenders and concessions relating to the natural gas distribution service (€68 million) and performance bonds (€53 million).

Commitments

At 31 December 2015, commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction totalled €1,898 million (€1,512 million at 31 December 2014).

Other commitments refer to minimum future payments relating to non-cancellable operating lease transactions (€9 million, including €4 million expiring in the following year and €5 million between one and five years).

Also note that, in relation to TAP, the contractual agreements stipulate that shareholders are responsible for financing the project for gas exports in western Europe, according to the level of their respective shareholdings, until the pipeline enters into service, and if its capacity is expanded.

Risks

Risks related to third-party assets on deposit, equal to €2,210 million (€2,613 million at 31 December 2014) relate to approximately 8.4 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 €0.26 per standard cubic metre (€0.32 at 31 December 2014). Risks concerning compensation and litigation (€93 million) 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

Introduction

Snam has established the Enterprise Risk Management (ERM) unit, which reports directly to the CEO and oversees the integrated process of managing corporate risk for all Group companies. The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to mitigate these risks and to draw up a reporting system.

The ERM unit operates as part of the wider internal control and risk management system of Snam. The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

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

There follows a description of Snam's policies and principles for the management and control of the risks arising from the financial instruments listed above. As part of the disclosure required by IFRS 7 – "Financial Instruments: Disclosure", the nature and scale of the risks arising from these instruments are also described.

Information on other risks affecting the Company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

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 its financial objectives. The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits.

At 31 December 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 the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.

The exposure to interest rate risk at 31 December 2015 was approximately 36% of the total exposure of the Group (31% at 31 December 2014).

At 31 December 2015 Snam had an existing interest rate swap (IRS) contract relating to a fixed-rate bond in the amount of €500 million maturing in 2023. The IRS contract was used to convert the fixed-rate loan to a variable-rate loan.

The effects on shareholders' equity and net profit at 31 December 2015 of a hypothetical change of +/- 10% in interest rates applied over the course of the year is less than €1 million.

Currency 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 31 December 2015, Snam's foreign-currency items essentially refer to a ¥10 billion bond maturing in 2019 and with an issue-date value of approximately €75 million. The bond has been fully converted into Euros by a cross-currency swap, with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedge derivative. Snam does not take out currency derivatives for speculative purposes.

The effects on shareholders' equity and net profit at 31 December 2015 of a hypothetical change of +/-10% in €/¥ exchange rates actually applied over the course of the year is less than €1 million. The exchange rate change has no effect on the profit for the period since the effects of such a change are offset by the effects of the hedging derivative.

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 economic results and the financial balance 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.

Snam provides business services to a small number of operators in the gas sector, the largest of which by business volume is Eni S.p.A. The rules for client access to the services offered are established by the Authority and set out in the Network Codes, i.e. in documents which explain, for each service type, the rules regulating the rights and obligations of the parties involved in providing said services and contractual clauses which minimise 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 for covering imbalances for individual users and adjust the relevant income statement items.

Snam may, however, incur liabilities and/or losses from the failure of its clients to comply with payment obligations, also given the current economic and financial situation, which makes the collection of receivables more complex and critical.

Snam's maximum exposure to credit risk at 31 December 2015 is the book value of the financial assets on its balance sheet.

As shown in Note 8 "Trade and other receivables", overdue and non-impaired receivables as at 31 December 2015 came to €251 million (€254 million at 31 December 2014) and mainly refer to the storage segment (€105 million), principally comprising VAT billed to users for the use of strategic gas unduly withdrawn in 2010 and 2011; the distribution segment (€82 million), relating mainly to relations with gas marketing companies for the distribution service, covered by guarantee policies, and other receivables from the government and the transportation segment (€64 million) mainly relating to moving fees and additional tariffs, for which no impairment loss is registered as they revert to the Authority once they are collected.

There were no material credit risks at 31 December 2015. It should be noted, however, that around 60% of trade receivables (46% at 31 December 2014) were with extremely reliable clients, including Eni S.p.A., which represents 28% of total trade receivables (25% at 31 December 2014).

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 "Interest rate risk" section, the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the EIB and bonds).

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 31 December 2015, Snam had unused committed long-term credit lines worth approximately €3.95 billion. Snam also has a Euro Medium Term Notes (EMTN) programme for a maximum total value of €12 billion, which was used for approximately €9.7 billion at 31 December 2015. At the end of 2015, the programme permits the issue, by 30 June 2016, of additional bonds worth up to around €2.3 billion, to be placed with institutional investors operating mainly in Europe, in accordance with the terms and conditions of the Programme.

Rating risk

Moody's confirmed a Baa1 (stable outlook) rating for Snam's long-term debt on 9 September 2015. On 8 October 2015 the rating agency Standard & Poor's confirmed a BBB rating with a stable outlook. On 23 July 2015, the Fitch rating agency assigned Snam a rating of BBB+, with a stable outlook, and confirmed the assessment on 24 September 2015.

Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by these rating agencies, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

Debt covenant and default risk

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk. As at 31 December 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.

The bonds issued by Snam at 31 December 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 lender has the option to request additional guarantees if Snam's rating is downgraded to BBB- (Standard & Poor's/ Fitch Ratings Limited) or Baa3 (Moody's).

Future payments for financial liabilities, trade and other payables

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments:

(€ million)	Balance at 31.12.2014	Balance at 31.12.2015	Maturing within 12 months	Maturing beyond 12 months	Maturity				
					2017	2018	2019	2020	Beyond
Financial liabilities									
Bank loans	3,293	3,948	1,343	2,605	1,020	25	63	70	1,427
Bonds (*)	10,445	9,695	1,150	8,545	1,000	1,270	1,425	1,250	3,600
Other lenders	15	35	28	7	6	1			
Interest on loans (*)	2,006	1,632	327	1,305	292	271	204	162	376
	15,759	15,310	2,848	12,462	2,318	1,567	1,692	1,482	5,403

(*) Future payments include the cash flow generated by hedging derivatives (CCS and IRS).

For information on the payment terms for trade and other payables, please see Note 17 of the consolidated financial statement.

Other information on financial instruments

In relation to the categories mentioned in IAS 39 – "Financial instruments: recognition and measurement", Snam has no financial assets held to maturity, available for sale or held for trading. As a result, the financial assets and liabilities all fall within the classification of financial instruments measured at amortised cost.

The book value of financial instruments and their relative effects on results and on equity can be analysed as follows:

(€ million)	Book value		Income/Expense recognised in the income statement		Income/Expense recognised in shareholders' equity (a)	
	Balance at 31.12.2014	Balance at 31.12.2015	Balance at 31.12.2014	Balance at 31.12.2015	Balance at 31.12.2014	Balance at 31.12.2015
Financial instruments measured at amortised cost						
- Trade and other receivables (b)	1.848	1.804	9	(40)		
- Financial receivables (c)	216	78		3		
- Trade and other payables (b)	1.768	1.746				
- Financial payables (c)	(13.942)	(13.796)	(398)	(365)		
Financial instruments measured at fair value						
Net assets (liabilities) for hedging derivatives (c)	(4)	7			(3)	...

(a) Net of tax effect.

(b) The effects on the income statement are recorded under "Purchases, services and other costs" and "Financial income/(expense)".

(c) The effects on the income statement are recorded under "Financial income/(expense)".

The table below provides a comparison between the book value of financial assets and liabilities and their respective fair value.

(€ million)	Balance at 31.12.2014		Balance at 31.12.2015	
	Book value	Market value	Book value	Market value
Financial instruments measured at amortised cost				
- Trade and other receivables	1,848	1,848	1,804	1,804
- Financial receivables	216	216	78	78
- Trade and other payables	1,768	1,768	1,746	1,746
- Financial payables	13,942	15,068	13,796	14,734
Financial instruments measured at fair value				
Net assets (liabilities) for hedging derivatives	(4)	(4)	7	7

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

The market value of financial payables includes bonds, whose value is estimated on the basis of the market listings at 31 December 2015, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.

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 the 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 31 December 2015 classified at level 2 and entered under Note 11 "Other current and non-current assets" (€6 million) and Note 18 "Other current and non-current liabilities" (€1 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 significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

Criminal cases

Snam Rete Gas S.p.A. – Judiciary investigations into gas metering

In 2006, the public prosecutor at the Court of Milan opened a criminal case on the issue of gas metering and the legitimacy and reliability of “Venturi meters”. This case involved several companies in the gas sector, including Snam Rete Gas. The Company was investigated in accordance with Articles 24 and 25-ter of Legislative Decree 231/2001. In November 2009, notice of the conclusion of preliminary investigations was received. Some managers and department heads (including some no longer employed by the company) were under investigation with regard to various matters.

The period under investigation is a time span that, in total, covers the years from 2003 to 2007, relating primarily to annual natural gas consumption reports and to assessment and/or payment of excise duties on natural gas, as well as to possible obstruction of supervisory duties. With the help of independent external experts, the administrative, tax and European legislation aspects have been examined more closely. Snam Rete Gas is reassured by the opinions of the experts and maintains that the allegations made are unfounded. The company therefore considers itself unlikely to suffer a subsequent negative economic impact.

On 24 January 2012, the preliminary hearing judge ruled that there was insufficient evidence to proceed to a trial of any of those under investigation and simultaneously ordered the release from seizure of the meters. The assistant public prosecutor has filed for an appeal before the Court of Cassation at the Court of Milan. The Court of Cassation partially annulled the contested ruling, rejecting the rest of the public prosecutor’s appeal, in particular for the effect of the indictments referred to in Articles 472, paragraphs 1 and 2 of the Criminal Code and Article 2638, paragraph 1 of the Italian Civil Code, and the charge pursuant to Legislative Decree 231/2001.

Following the remand implemented by the Court of Cassation, the new preliminary hearing opened on 12 December 2013, at the outcome of which the preliminary hearing judge ordered committal to trial only for 2006 and 2007. The trial opened on 18 April 2014. At the hearing of 27 March 2015, the Court of Milan absolved the charges against the defendants due to lack of evidence and because it did not constitute an offence. The public prosecutor has appealed.

Snam Rete Gas S.p.A. – Tresana incident

On 18 January 2012, an explosion took place on the La Spezia-Cortemaggiore (Tresana) pipeline during maintenance work being conducted on the line (performed by a subcontractor). Snam Rete Gas took immediate action to provide all the necessary assistance and to ascertain responsibility and the causes of the incident.

On 28 January 2012 the gas flow was re-established on the line. After the conclusion of the preliminary investigation, several charges were brought against several managers and directors and as a result of the committal to trial declared by the preliminary hearing judge on 23 June 2015, the proceedings began.

Snam Rete Gas S.p.A. – Pineto incident

The public prosecutor at the Court of Teramo opened an investigation against certain directors, executives and managers (including some no longer employed by the company), in relation to the incident that took place on 6 March 2015 near the town of Pineto (Teramo) involving a gas leak on a section of piping. The causes of the gas leak and fire are currently being investigated. The infrastructure was quickly made safe, stopping the gas leak and facilitating the fire fighting operations.

Snam Rete Gas is actively cooperating with the relevant authorities.

Snam Rete Gas S.p.A. – Genoa incident

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.

On the request of the public prosecutor, the preliminary investigations judge ordered the dismissal of charges on 24 November 2015.

Snam Rete Gas – Ravenna incident

The public prosecutor at the Court of Ravenna opened a criminal investigation against certain executives and managers of Snam Rete Gas in relation to the event that took place on 10 December 2014 at the “Nodo di Ravenna” plant of Snam Rete Gas, in which a fire broke out involving one of the gas preheating plants.

After the fire department became involved, according to the provisions of company policy, Snam Rete Gas intervened to prevent environmental risks and to ascertain the causes of the fire.

The public prosecutor made a request to the preliminary investigations judge to dismiss the case.

Snam Rete Gas – Sestino (AR) incident

The public prosecutor at the Court of Arezzo brought a criminal case against several Snam Rete Gas directors and executives (including some no longer employed by the company), in relation to an event that took place on 19 November 2015 in the municipality of Sestino (AR).

On that date there was a break in the pipeline that caused an uncontrolled gas leak. The reasons for the gas leak and fire are currently being ascertained.

Snam Rete Gas is actively cooperating with the relevant authorities.

Italgas S.p.A. – Barletta incident

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.

Italgas S.p.A. – Rome/Via Parlatore incident

The public prosecutor at the Court of Rome opened an investigation against several Italgas managers in relation to the incident that took place on 7 September 2015 regarding an ordinary intervention in the gas distribution network in the municipality of Rome.

The incident, which took place due to causes that are still being investigated, caused a fire that involved three people. Two of them, workers for an Italgas contractor, suffered mild injuries. The third person – an Italgas colleague – died after a few weeks despite medical treatment.

Italgas is actively cooperating with the relevant authorities.

Italgas S.p.A. – Cerro Maggiore/Via Risorgimento incident

The public prosecutor at the Court of Busto Arsizio opened criminal proceedings against Italgas executives, technicians and manual workers in relation to an incident that took place on 11 November 2015 during an emergency intervention. The incident was caused by a gas leak due to remote controlled horizontal drilling work for the placement of fibre-optic cables performed by a third party. The explosion occurred while interception activities were being completed on the section involved in

the damage, causing the collapse of a house and the death of the woman who lives there, a serious injury to an Italgas worker and to two other people who suffered mild injuries. The area was closed off. On 15 November 2015 the Busto Arsizio public prosecutor served a one-time notice of technical investigation, and the public prosecutor appointed its own technical consultants. Italgas also appointed its own technical consultants.

The Company is actively cooperating with the relevant authorities.

Electricity, Gas and Water Authority (the Authority)

Snam Rete Gas S.p.A. – Investigation into violations on the subject of 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 with regard to 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 with regard to 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 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"). This 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 Rete Gas 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. 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. By means of Resolution 608/2015/R/gas of 11 December 2015, the Authority closed the procedure in question, deciding not to pay the share of the outstanding receivables in relation to the specific case which was the object of the investigation, for the total sum of approximately €130 million including VAT, but preserving the right of Snam Rete Gas to withhold the receivables relating to the economic items for the balancing already recovered as a result of the legal action undertaken against the shippers charged with non-fulfilment of the sums not received. Finally, the Authority paid Snam Rete Gas the remaining part of the outstanding receivables for the period 1 December 2011 - 23 October 2012. The company, believing that the payment of the share of expenses arising from the outstanding receivables and the subject of these proceedings is not required, challenged Resolution 208/2015/R/gas before the relevant judicial authority.

The Company made an allocation to the provision for impairment losses on receivables.

Snam Rete Gas S.p.A. – Resolution 9/2014/S/gas – Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas

By means of Resolution 9/2014/S/gas, published on 27 January 2014, the Authority provided for the launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement or determination of the relative physical and financial items of the balancing of the gas system. Snam Rete Gas will cooperate fully and provide all the elements required to demonstrate the legitimacy of its operations.

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 in the failure to replace, renew or decommission a minimum of 30% of said networks by 31 December 2008.

On completion of the investigation, the Authority's Resolution VIS 41/11, published on 24 March 2011: (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 the 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 quality violations

By means of Resolution 33/2012/S/gas of 9 February 2012, the Authority ordered the "Launch of four punitive proceedings for the imposition of pecuniary administrative sanctions, in relation to gas distribution service quality" to determine whether there had been any violation of Article 2, paragraph 1 and Article 12, paragraph 7, letter b) of Resolution ARG/gas 120/08 by four natural gas distribution companies, including Italgas S.p.A.

In particular, the Authority claims that, with regard to its Venice plant, the company failed to comply with the obligation to recondition or replace, by 31 December 2010, at least 50% of the cast-iron pipes with hemp- and lead-sealed joints in operation as at 31 December 2003, set out in the aforementioned Article 12, paragraph 7, letter b).

A communication from the Authority on the results of the investigation is pending.

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 on 7 May 2015. To date, the preliminary investigation has not been concluded.

Tax cases

Stoccaggi gas Italia S.p.A. – Registration

On 30 November 2012, the Milan branch of Italy's Revenue Agency served the Company with notice of a tax assessment for the value adjustment of the transfer by Saipem Energy Services S.p.A. to Stogit of its plant operating maintenance business unit. The assessed transfer value was greater than the declared value owing to a higher goodwill calculation, resulting in an additional figure of approximately €88,000 in registration tax, plus fines and interest.

Pursuant to Article 12 of Legislative Decree 218/1997, the Company responded to this order by submitting a tax settlement proposal with a view to establishing whether the grounds exist to definitively resolve the matter. This proposal was not accepted.

The Company has submitted a joint appeal with Saipem S.p.A. to the Milan provincial tax commission, opposing the Milan branch of the Revenue Agency.

On 18 September 2014, the appeal was processed by the Milan provincial tax commission, which issued a ruling upholding the appeal on 2 October 2014.

On 19 March 2015, the Revenue Agency (Provincial Office II – Milan) brought an appeal before the regional tax commission and the Company, in consortium with Saipem S.p.A., appeared before the court. The allocation made by the Company to the provision for risks and charges in 2012 remains unchanged.

Stoccaggi gas Italia S.p.A. – Payment notice for registration tax

On 4 March 2015, the Revenue Agency issued Stogit S.p.A. with a payment notice requesting payment of the total sum of approximately €2.7 million in tax, relating mainly to registration tax for legal deeds. The Company brought an appeal before the provincial tax commission of Milan, requesting that the tax be redetermined. By means of the internal review provision No 55/2015, the Revenue Agency,

in accepting the request, corrected the contested notice from €2.7 million to €0.4 million, in addition to service fees, which the company paid on 4 May 2015.

Italgas S.p.A. – Direct and indirect taxes

The 2009 general tax audit performed by officials of the Revenue Agency (Piedmont branch, Audit and Collection Sector, Large Taxpayer Office), which ended on 7 December 2012 with the release of the official audit report, resulted in around €1 million of additional IRES, IRAP and VAT, plus penalties and interest.

In December 2014, tax assessments concerning IRES, IRAP and VAT were issued, and the Company responded by submitting a tax settlement proposal.

The proceedings closed with a negative result, and on 4 May 2015 the Company, in consortium with Eni S.p.A. for the notice concerning IRES, brought an appeal before the provincial tax commission of Turin, thus contesting only the findings relating to the undue payment of taxes on foreign regularisations and other unrelated taxes. The related hearing was set for 17 March 2016. At the same time, payments were made for around €777,000 in total, using for this the previously allocated provision for risks.

Judicial administration of 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 for the purposes of drawing 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 the 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.

Having acknowledged the revocation, on 9 July 2015 the Italgas Shareholders' Meeting reappointed all members of the Company's 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.

As a result of the revocation of the judicial administration order by the Court of Palermo and the confirmation of the Board of Directors by the Shareholders' Meeting, Italgas is putting in place measures to implement the organisational and procedural plan as well as the monitoring and control of Company activities. 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 will also provide the competent authorities with the results of the periodic reports by the Supervisory Body.

Recovering receivables from certain users of the transportation and balancing system

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

a) Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority. This Resolution, with reference to the income statement items pertaining to the balancing system, stipulated that the Balancing Supervisor would receive from the Electricity Equalisation Fund (as of 1 January 2016, the Energy and Environmental Services Fund, CSEA) the value of receivables unpaid by the end of the month following the month in which notification was given⁴¹.

Through its subsequent Resolution 351/2012/R/gas⁴², the Authority ordered, with effect from 1 October 2012, the application of the variable unit fee CV^{BL} to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to €6 million over a minimum of 36 months.

Through Resolution 282/2012/R/gas, as subsequently amended by Resolution 444/2012/R/gas, the Authority opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012⁴³. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013, when the Authority: (i) adopted Resolution 145/2013/R/gas, through which it opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service⁴⁴.

⁴¹ To be presented to the CSEA four months after the due date of unpaid invoices

⁴² The aforementioned resolution was annulled by Ruling No 1587/2014 of the Regional Administrative Court of Milan, in relation to the obligation for users to pay the CVBL fee in the amount of €0.001/SCM with effect from 1 October 2012. Moreover, with the subsequent Resolution 372/2014/R/gas, the coefficient was adjusted in the same amount of €0.001/SCM.

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company challenged Resolution 608/2015/R/gas, before the competent judicial Authority.

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to income statement items arising from commercial balancing operations entrusted to Snam Rete Gas in its capacity as Balancing Supervisor, and also relating to the transportation service. Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service.⁴⁵ Having received these orders, Snam Rete Gas initiated the necessary executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the users, partly because of the bankruptcy procedures under way at all of these users. In particular, at present:

- three users were declared bankrupt and Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest;
- three users applied for composition procedures. For one of the three users, the judicial authority issued a provision of composition with creditors⁴⁶. A second user applied for composition procedures in the scope of which the plan presented was submitted to the vote of the creditors⁴⁷. Finally, we are awaiting the presentation of the bankruptcy plan for the third user⁴⁸.

b) Unpaid receivables after 23 October 2012

Two additional transportation contracts were terminated in 2013. In relation to one user, the Court of Milan issued a provisional executive injunction ordering the user to pay Snam Rete Gas a total of around €14 million, plus interest and expenses, in relation to the balancing service. The executive procedures initiated resulted in the recovery of around €500 thousand. The user appealed against the injunction, submitting a counterclaim requesting compensation for alleged damage suffered. Two provisional executive injunctions were issued in relation to a second user. The first concerned the balancing service, for a sum of around €700 thousand, while the other related to the

⁴³ The period covered by the preliminary investigation was initially limited to the period 1 December 2011 – 31 May 2012, but it was subsequently extended until 23 October 2012 by Resolution 444/2012/R/gas.

⁴⁴ As at 31 December 2014, four of the aforementioned proceedings had been concluded through the approval of Resolutions 151/2014/S/gas, 188/2014/S/gas, 241/2014/S/gas and 471/2014/S/gas, with which the Authority imposed significant financial penalties on the four users in question.

⁴⁵ The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. In relation to the two users, the oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

⁴⁶ In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

⁴⁷ With this user, Snam Rete Gas formalised a repayment plan for the full repayment of the receivables owed. In addition, following the presentation of a request for an arrangement with creditors, the party interrupted payment. Furthermore, it should be noted that a preliminary procedure presented by the same user was filed due to the lack of approval on the part of the creditors, with the resulting presentation of a new demand for settlement.

transportation service, for approximately €4.5 million. As a result, proceedings were launched to implement the injunctions, in response to which the user appealed but did not bring a counterclaim. For this reason, the user was recently declared bankrupt⁴⁹.

In 2014, another transportation contract was terminated in relation to a user that had failed to pay outstanding balancing service invoices in the amount of around €75 thousand and transportation service invoices worth approximately €180 thousand. As a result, Snam Rete Gas initiated debt recovery measures, having recently obtained two provisional executive injunctions. For this reason, the user was recently declared bankruptcy⁵⁰.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

Finally, it should be noted that, in terms of the preliminary investigation, on 12 February 2016 the public prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five users. This criminal proceeding resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud. At present, the Company is still the offended party of the crime.

Recovering receivables from users of the storage system

Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to November and December 2010.

On 15 June 2011, Stogit appealed to the Court of Milan for an injunction against one user, with provisional enforceability. The Court of Milan applied provisional enforceability to the injunction, issuing an order on 28 August 2012 to reject the user's appeal against this measure.

Using the order that applied provisional enforceability to the injunction, Stogit initiated executive proceedings. In view of the withdrawals and non-replenishment of strategic gas in January, February and March 2011, Stogit filed a request with the Court of Milan on 30 September 2011 for a second injunction, which was also opposed by the debtor. By way of an order issued on 11 February 2013, the Court of Milan also applied provisional enforceability to this second injunction.

Following a request for summary proceedings for the replenishment of all gas withdrawn, which

⁴⁸ With this user, Snam Rete Gas formalised a repayment plan for the full repayment of the receivables owed. In addition, following the presentation of a request for an arrangement with creditors, the party interrupted payment..

⁴⁹ Procedures for the claim to be included in the list of creditors are under way.

⁵⁰ Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

resulted in the conviction of the debtor, an order of 30 May 2012 rejected the user's appeal against this conviction. The three suits were subsequently combined.

In September 2012, the Court of Asti admitted three users to proceedings for an arrangement with creditors, including the user involved in the aforementioned combined proceedings.

At the request in March 2013 of the three Stogit debtors and other companies in the same group, on 29 March 2013, the Court of Asti revoked the aforementioned arrangement with creditors and ordered a new one for all the appellant companies.

Under the terms and conditions established by the court-appointed receiver, Stogit formally transmitted and documented the amounts of its receivables with these users, including the respective accrued contractual interest owed.

Owing to the declaration of bankruptcy brought about by the ruling of 18 November 2013 of the Court of Asti, Stogit therefore initiated proceedings to prove the receivable was owed to it. On 18 March 2014, an executive order was issued including Stogit on the list of creditors and acknowledging its declared receivable in full.

The second of the three users that owed money to Stogit was declared bankrupt by the Court of Asti with a ruling of 22 November 2013. Following an examination of the list of creditors, the receivable was admitted in full.

However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was approved by way of an order issued by the Court of Asti on 2 July 2014. In reference to the approval decree, against which an appeal was brought by one of the creditors, the Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one user pursuant to Article 186-ter.

At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million SCM.

Having obtained a provisional executive payment injunction pursuant to Article 186-ter, in September 2014, having identified the two main credit institutions of reference for the debtor, Stogit brought asset seizure proceedings.

With a ruling issued on 4 March 2015, the Court of Rome declared the user bankrupt and also set a hearing for 16 July 2015 for the meeting of creditors to examine the list of creditors, giving the parties until 16 June 2015 for the claim to be included in the insolvency proceedings. Stogit therefore initiated proceedings to prove the receivable was owed to it, in compliance with the timeline indicated. The receivable was declared unsecured by the presiding judge.

Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to October and November 2011

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable pursuant to Article 186-ter.

Pending the proceedings, the Court of Rome declared the user bankrupt on 30 October 2014. As a result, the Civil Court of Milan declared a suspension of the legal action originally brought. On 6 February 2015, the Company filed a request for proof of bankruptcy. The receivable was declared unsecured by the presiding judge.

At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.

Environmental regulations

With respect to environmental risk, while Snam believes that it operates in substantial compliance with the laws and regulations and considering the adjustments to environmental regulations and actions already taken, it cannot be ruled out that Snam may incur costs or liabilities, which could be significant.

It is difficult to foresee the repercussions of any environmental damage, partially due to new laws or regulations that may be introduced for environmental protection, the impact of any new technologies for environmental clean-ups, possible litigation and the difficulty in determining the possible consequences, also with respect to other parties' liability and any possible insurance compensation.

Emissions trading

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC. This system is one of the instruments used to achieve the objectives established by the European Union's "20-20-20": 20% increase in energy efficiency, 20% reduction of CO₂ emissions and 20% renewables by 2020.

In 2015 the Snam Group plants covered by the ETS moved from 19 to 20, through the issue of the greenhouse gas emissions permit for the Bordolano concession of Stogit. In 2015 the free allocation for the Snam Group was equal to around 238,000 shares, with a 28% decrease compared with 2014.

The reduction was due in part to the progressively decreasing allocation of the free shares on the part of the competent national authority, established for the third regulatory period by Article 10-bis of Directive 2009/29/EC, and in part by lower consumption recorded over the course of 2014.

In 2015, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. In view of 0.44 million tonnes of carbon dioxide emitted into the atmosphere, around 0.24 million tonnes were allocated, resulting in a 0.20 million-tonne deficit. This deficit is offset by the allowances already present in the registers for Snam Group plants, accumulated thanks to the surplus from previous years.

Other commitments and risks

The other unevaluated commitments and risks are:

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

The price determined for the acquisition of Italgas and Stogit is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

Acquisition of Italgas

As at 31 December 2014, the remaining commitments from the aforementioned agreements concerned adjusting the Italgas purchase price to take into account part of the costs/benefits arising from the sale of property owned by Italgas that is no longer part of its operations.

Acquisition of Stogit

The purchase contract established that the Stogit acquisition price may be adjusted to take into account the different amount that might be recognised by the Authority for the tariff period 1 April 2014 – 31 March 2018, the period subsequently postponed by the Authority to the four-year period 1 January 2015 – 31 December 2018, relating to the volumes of natural gas owned by Stogit on the share transfer date and which are part of RAB assets.

With regard to these commitments, it should be noted that the storage tariffs for the year 2015, the first year in the tariff period 1 January 2015 - 31 December 2018, were approved by the Authority by means of Resolution 27/2016/R/gas, published on 29 January 2016. As contractually established, the related activities connected to the verification of the amount deriving from the price adjustment were initiated.

25. Revenue

The breakdown of *revenue* for the period, which totalled €3,970 million (€3,882 million in 2014), is shown in the following table:

(€ million)	2014	2015
Core business revenue	3,784	3,856
Other revenue and income	98	114
	3,882	3,970

The reasons for the most significant changes are described in the “Financial review” section of the Directors’ Report.

The Group generates all of its revenue in Italy. An analysis of revenue by business segment can be found in Note 32 - “Information by business segment”.

Core business revenue

Core business revenue, which totalled €3,856 million (€3,784 million in 2014), is analysed in the following table:

(€ million)	2014	2015
Core business revenue		
- Natural gas transportation	2,016	2,040
- Liquefied natural gas (LNG) regasification	19	18
- Natural gas storage	415	397
- Natural gas distribution (*)	1,323	1,387
- Corporate and other activities	11	14
	3,784	3,856

(*) Including revenue relating to the construction and upgrading of natural gas distribution infrastructure in the amount of €321 million (€316 million in 2014).

Natural gas transportation

Core business revenue (€2,040 million) consisted mainly of fees for the transportation service (€2,035 million), pertaining primarily to Eni S.p.A. (€1,274 million) and Enel Trade S.p.A. (€333 million).

Transportation revenue includes the chargeback to users of the costs of connecting the Company’s network to that of other operators (€59 million)⁵¹. Snam provided its transportation service to 139 companies in 2015.

Liquefied Natural Gas (LNG) regasification

Core business revenue (€18 million) relates to fees for LNG regasification carried out at the Panigaglia (SP) LNG terminal, and mainly concerns Enel Trade S.p.A. (€7 million) and Eni S.p.A. (€1 million). Snam provided its regasification service to four companies in 2015.

⁵¹ Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

Natural gas storage

Core business revenue (€397 million) relates mainly to fees for modulation (€314 million) and strategic (€83 million) storage, and mainly concerns Eni S.p.A. (€60 million) and Enel Trade S.p.A. (€11 million). Snam provided its natural gas storage service to 118 companies in 2015.

Natural gas distribution

Core business revenue (€1,387 million) relates essentially to: (i) fees for natural gas transmission services (€1,027 million); (ii) ancillary and optional services (mostly "Activation", "Deactivation", "Suspension and reactivation of the gas supply" and "Moving and removal of meters") and revenue for Authority incentives connected with the achievement of quality standards (€32 million in total). Core business revenue relates mainly to Eni S.p.A. (€703 million) and Enel Energia S.p.A. (€90 million). During the course of 2015, Snam used its networks to distribute the gas of 260 commercial companies. Core business revenue from the construction and upgrading of natural gas distribution infrastructure linked to concession agreements under IFRIC 12 amounted to €321 million (€316 million in 2014). 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 Energy and Environmental Services Fund (CSEA).

(€ million)	2014	2015
Additional fees for the transportation service	466	791
Additional fees for the distribution service	230	294
	696	1,085

Additional fees for the transportation service (€791 million) consist primarily of the following fees: (i) CRVOS, introduced by the Authority by means of Resolution ARG/gas 29/11 to cover the expenses mentioned in Article 9 of Legislative Decree 130/10, incurred by the Energy Services Operator (GSE) for paying the amounts due to the storage company relating to the SG guarantee factor (€292 million); (ii) GST and RET, respectively to cover expenses for offsetting tariff breaks for disadvantaged gas sector customers and expenses for energy-saving measures, and interventions and the development of renewable sources in the gas sector (€240 million in total); (iii) CVFG, to cover expenses arising from the application of the guarantee factor for LNG regasification revenue pursuant to Article 18 of Resolution 92/08 (€96 million); (iv) CRVBL, to cover expenses associated with balancing the gas system (€67 million); (v) CRVI, to cover expenses for reducing gas consumption (€67 million); (vi) UG3T introduced by means of Resolution 134/14/R/gas to cover expenses arising from the default service provided to customers who are directly connected to the regional transportation network (€25 million). Additional fees for the distribution service (€294 million) consist primarily of the following fees: (i) RE, to cover expenses for calculating and implementing energy savings and the development of renewable energy sources in the gas sector; (ii) RS, to cover gas services quality; (iii) UG1, to cover any imbalances in the equalisation system and any adjustments; (iv) UG2, to offset retail sales marketing costs; (v) UG3int, to cover expenses related to interruptions to the service; (vi) UG3ui, to cover expenses related to any imbalances in specific equalisation mechanism balances for the Default Distribution Service Provider, as well as any arrears expenses incurred by Suppliers of Last Resort, exclusively for end customers whose supplies cannot be suspended; (vii) UG3ft, to cover expenses relating to the service for temporary providers on the transportation network; and (viii) GS, to cover the tariff compensation system for economically disadvantaged customers.

Other revenue and income

Other revenue and income, which amounted to €114 million (€98 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Income from gas sales for the balancing service (*)	45	49
Income from property investments	6	5
Plant safety inspection fee	3	3
Capital gains from disposals of property, plant and equipment and intangible assets	1	3
Revenue from the sale of energy efficiency certificates (**)	6	1
Insurance compensation	3	1
Other income	34	52
	98	114

(*) 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 proprietary natural gas made for the purposes of balancing the gas network. The revenue is matched to operating costs linked to withdrawals from the gas storage system.

(**) Net of costs incurred to purchase the certificates.

Other income (€52 million) refers mainly to income from the sale of natural gas (€27 million) other than for balancing purposes and to refunds from the Authority in relation to the achievement of quality and technical standards and various operating indemnities pertaining to the natural gas distribution service.

26. Operating costs

The breakdown of *operating costs* for the period, which totalled €1,171 million (€1,106 million in 2014), is shown in the following table:

(€ million)	2014	2015
Purchases, services and other costs	763	782
Personnel cost	343	389
	1,106	1,171

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

Operating costs relating to the construction and upgrading of natural gas distribution infrastructure linked to concession agreements under IFRIC 12 amounted to €321 million (€316 million in 2014) and can be broken down as follows:

(€ million)	2014	2015
Purchase costs for raw materials, consumables, supplies and goods	43	73
Costs for services	175	160
Costs for the use of third-party assets	10	10
Personnel cost	88	78
	316	321

Purchases, services and other costs

Purchases, services and other costs, which amounted to €782 million (€763 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Purchase costs for raw materials, consumables, supplies and goods	244	171
Costs for services	511	495
Costs for the use of third-party assets	89	99
Changes in raw materials, consumables, supplies and goods	(53)	85
Net accrual to (utilisation of) provisions for risks and charges	64	(11)
Net (utilisation of)/allocations to the provision for impairment losses on receivables	(1)	31
Other expenses	54	65
	908	935
Less:		
Increase on internal work	(145)	(153)
- of which purchase costs for raw materials, consumables, supplies and goods	(68)	(76)
- of which costs for services	(77)	(77)
	763	782

Costs for services, which amounted to €418 million (€434 million in 2014), related to:

(€ million)	2014	2015
Construction, planning and coordination of work	165	151
IT (Information Technology) services	76	72
Purchase of transportation capacity (interconnection)	57	59
Technical, legal, administrative and professional services	46	46
Ordinary maintenance	36	40
Personnel-related services	30	29
Telecommunications services	22	22
Utilities	21	19
Insurance	18	14
Other services	40	43
	511	495
Less:		
Increase on internal work	(77)	(77)
	434	418

Costs for the use of third-party assets, which amounted to €99 million (€89 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Fees, patents and licences	63	66
Leases and rentals	26	33
	89	99

Fees, patents and licences (€66 million) mainly concern fees paid to concessionary bodies for the operation of natural gas distribution concessions (€55 million).

Leases and rentals (€33 million) mainly relate to charges for operating leases of office buildings and occupancy of public land.

Changes in raw materials, consumables, supplies and goods (€85 million) were due essentially to withdrawals of natural gas from storage for the purpose of being sold, primarily in the transportation segment, and to a reduction in inventories caused for the most part by the development of the natural gas transportation networks (€30 million).

Net utilisation of the provision for risks and charges (€11 million) refers mainly to the related net utilisation of the provision for litigation. For more details about the change in provisions for risks and charges, please see Note 19 "Provisions for risks and charges".

Net accruals to the provision for impairment losses (€31 million) relate mainly to the transportation segment and concern the write-down of the nominal value of balancing service receivables following the partial payment by the Authority of receivables relating to the period from 1 December 2011 to 23 October 2012⁵².

More information on changes of the provision for impairment losses can be found in Note 8 "Trade and other receivables".

Other expenses, which amounted to €65 million (€54 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Direct and indirect taxes	25	21
Capital losses on eliminations of property, plant and equipment and intangible assets	21	35
Methane consumption tax	1	1
Other expenses	7	8
	54	65

⁵² More information can be found in Note 24 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system".

Personnel cost

Personnel cost, which amounted to €389 million (€343 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Wages and salaries	285	294
Social security contributions (pensions and healthcare assistance)	90	91
Employee benefits	6	41
Other expenses	25	28
	406	454
Less:		
Increase on internal work	(63)	(65)
	343	389

Employee benefits (€41 million) refer mainly to expenses associated with the closure of the Gas Fund pursuant to Law 125 of 6 August 2015 (€35 million)⁵³.

Other expenses (€28 million) related mainly to defined-contribution plans.

A description of employee benefits can be found in Note 20 "Provisions for employee benefits".

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	31.12.2014	31.12.2015
Executives	123	131
Managers	595	614
Office workers	3,311	3,356
Manual workers	2,087	2,112
	6,116	6,213

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

The number of personnel in service at 31 December 2015 was 6,303 (6,072 at 31 December 2014), an increase of 231.

Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers

⁵³ As at 1 December 2015, Law 125 of 6 August 2015 closed the Supplementary Fund of compulsory general insurance for disability, old age and survivors for employees of private gas companies (hereinafter the "Gas Fund") in which approximately 3,500 people from the Group were enrolled, particularly in the distribution segment. The Law established a series of additional contributions payable by the employer. These expenses, which are estimated on the basis of actuarial assumptions, are currently valued at €40 million (€28 million net of tax effect).

with strategic responsibilities ("key management personnel"), in office at 31 December 2015, amounted to €6 million (the same as in 2014) and breaks down as follows:

(€ million)	2014	2015
Wages and salaries	4	4
Other long-term benefits	2	2
	6	6

Remuneration due to directors and statutory auditors

Remuneration due to directors totalled €4 million and remuneration due to statutory auditors totalled €0.2 million (Article 2427, no 16 of the Italian Civil Code). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income tax.

27. Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses, which amounted to €849 million (€803 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Depreciation and amortisation	797	846
- Property, plant and equipment	530	545
- Intangible assets	267	301
Impairment losses	6	3
- Impairment losses on property, plant and equipment	6	3
	803	849

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 12 "Property, plant and equipment", and Note 13 "Intangible assets".

An analysis of amortisation, depreciation and impairment losses by business segment can be found in Note 32 "Information by business segment".

28. Financial expense (income)

Financial expense (income), which amounted to €380 million (€397 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Financial expense (income)	398	362
Financial expense	398	365
Financial income		(3)
Other financial expense (income)	(1)	18
Other financial expense	18	27
Other financial income	(19)	(9)
	397	380

(€ million)	2014	2015
Financial expense (income)	398	362
Expense on financial debt:	435	395
- Interest and other expenses on bond loans	350	364
- Fees on loans and bank credit lines	50	16
- Interest expense on credit lines and loans due to banks and other lenders	35	15
Financial expense capitalised	(37)	(30)
Income from financial receivables:		(3)
- Interest and other income from financial assets not held for operations		(3)
Other financial expense (income):	(1)	18
- Accretion discount (*)	17	14
- Other expense	1	13
- Other income	(19)	(9)
	397	380

(*) 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 19 "Provisions for risks and charges", and Note 20 "Provisions for employee benefits".

Expense on financial debt (€395 million) related to: (i) interest and other expense on bond loans (€364 million), referring essentially to interest on 16 bond loans (€355 million); (ii) the portion attributable to the period of upfront fees on revolving credit lines (€9 million) and credit line non-usage fees (€7 million); and (iii) interest payable to banks on revolving credit lines, uncommitted credit lines and maturing loans (€15 million in total).

Financial expense capitalised (€30 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial expense (€18 million) mainly relates to: (i) the accretion discount on the provision for transportation and storage site abandonment and restoration (+€11 million) and the provision for employee benefits (+€2 million); (ii) the impairment (+€9 million) of receivables for deferred interest arising from commercial balancing activities, following the partial payment by the Authority of receivables for the period from 11 December 2011 to 23 October 2012⁵⁴; and (iii) income relating to revised estimates of the provision for environmental charges (-€3 million).

54 More information can be found in Note 24 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system".

29. Income and expense from equity investments

Income and expense from equity investments, which amounted to €135 million (€131 million in 2014), can be broken down as follows:

(€ million)	2014	2015
Equity method valuation effect	79	126
Capital gains from valuation using the equity method	79	126
Other income (expense) from equity investments	52	9
Other income from equity investments	52	9
	131	135

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 14 "Equity-accounted investments".

Other income from equity investments, totalling €9 million, refers mainly to the effects of allocating the assets and liabilities of ACAM Gas upon initial consolidation as of the date when control was acquired (1 April 2015).

30. Income taxes

Income taxes for the year, which amounted to €467 million (€509 million in 2014), can be broken down as follows:

(€ million)	2014			2015		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	623	108	731	508	87	595
Current taxes for the year	623	106	729	509	88	597
Adjustments for current taxes relating to previous years		2	2	(1)	(1)	(2)
Deferred and prepaid taxes	(217)	(5)	(222)	(132)	4	(128)
Deferred taxes	(67)	(1)	(68)	(51)	(1)	(52)
Prepaid taxes	(30)	(4)	(34)	(24)	5	(19)
Adjustment to deferred taxes (IRES) pursuant to the 2016 Financial Stability Law				(57)		(57)
Adjustment to deferred taxes (Robin Hood Tax)	(120)		(120)			
	406	103	509	376	91	467

Income taxes amounted to €467 million, consisting of €595 million in current taxes, which were partially offset by net prepaid taxes totalling €128 million.

Deferred and prepaid taxes include the effects (totalling €57 million) of adjusting the IRES rate from 27.5% to 24% as at 1 January 2017.

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year can be broken down as follows:

(€ million)	2014		2015	
	Tax rate	Balance	Tax rate	Balance
IRES				
Pre-tax profit		1,707		1,705
IRES due, calculated based on the theoretical tax rate	27.5%	469	27.5%	469
Changes to the theoretical rate:				
- Adjustment to deferred taxes (IRES) pursuant to the 2016 Financial Stability Law			(3.3%)	(57)
- Income from equity investments	(2.1%)	(36)	(2.2%)	(37)
- Adjustment to deferred taxes (Robin Hood Tax)	(7.0%)	(120)		
- Impact of the application of the additional IRES (Robin Hood Tax) (Decree-Law 138/2011, converted into Law 148/2011) (*)	5.1%	87		
- Other permanent differences	0.4%	6	0.1%	1
IRES due for the year recorded on the income statement	23.9%	406	22.1%	376

(*) 6.5% in 2014, subsequently cancelled by the Constitutional Court by means of ruling 10/2015 with effect from 12 February 2015.

Other permanent differences (€1 million) refer mainly to taxes on dividends received, offset in part by the ACE (help for economic growth) benefit.

(€ million)	2014		2015	
	Tax rate	Balance	Tax rate	Balance
IRAP				
Difference between value and production costs		2,075		2,016
IRAP due, calculated based on the theoretical tax rate	3.9%	81	3.9%	79
Changes to the theoretical rate:				
Personnel costs	0.8%	16		
Other permanent differences	0.3%	6	0.6%	12
IRAP due for the year recorded in the income statement	5.0%	103	4.5%	91

Other permanent differences (€12 million) refer mainly to the different regional IRAP rates. An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 21 "Deferred tax liabilities".

Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ million)	2014			2015		
	Pre-tax value	Tax effect	Post-tax value	Pre-tax value	Tax effect	Post-tax value
- Remeasurement of defined-benefit plans for employees	(15)	4	(11)	6	(2)	4
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"	6		6	11		11
- Change in fair value of cash flow hedge derivatives	(3)	1	(2)			
Other components of comprehensive income	(12)	5	(7)	17	(2)	15
Deferred/prepaid taxes		5			(2)	

31. Earnings per share

Basic earnings per share, unchanged from 2014 at €0.35, are calculated by dividing the net profit attributable to Snam (€1,238 million; €1,198 million in 2014) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,499,511,044 shares; 3,384,657,230 shares in 2014).

Diluted earnings per share are calculated by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be issued following the allocation or disposal of treasury shares held under stock option plans. The most recent stock option plan, the 2006-2008 Plan, matured on 29 July 2014; as such, basic and diluted earnings per share are the same.

32. 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.

The information by business segment as at 31 December 2015 is listed below, compared with the figures as at 31 December 2014.

(€ million)	Corporate and other activities	Transportation and dispatching	Distribution	Storage	Regasification	Consolidation adjustments and eliminations	Total
2014							
Net core business revenue (a)	201	2,035	1,324	538	25		4,123
less: inter-segment revenue	(190)	(19)	(1)	(123)	(6)		(339)
Revenue from third parties	11	2,016	1,323	415	19		3,784
Other revenue and income	1	49	42	3	3		98
Net (accruals to)/utilisation of provisions for risks and charges	(4)	(36)	(25)	1			(64)
Amortisation, depreciation and impairment losses	(5)	(489)	(244)	(60)	(5)		(803)
EBIT	(18)	1,196	477	318			1,973
Income from equity investments	33		98				131
-of which equity method valuation effect	33		46				79
Total assets (b)	1,527	13,891	5,348	4,034	106		24,906
Total liabilities	14,151	10,035	2,773	2,818	41	(12,084)	17,734
Investments in property, plant and equipment and intangible assets	7	700	359	240	7		1,313
2015							
Net core business revenue (a)	210	2,064	1,387	533	19		4,213
less: inter-segment revenue	(196)	(24)		(136)	(1)		(357)
Revenue from third parties	14	2,040	1,387	397	18		3,856
Other revenue and income		78	29	2	5		114
Net utilisation of/(accruals to) provisions for risks and charges	(6)	3	14				11
Amortisation, depreciation and impairment losses	(5)	(495)	(273)	(71)	(5)		(849)
EBIT	(4)	1,165	469	319	1		1,950
Income from equity investments	106		29				135
- of which equity method valuation effect	106		20				126
Total assets	1,416	13,860	5,498	4,003	103		24,880
Total liabilities	13,992	9,775	2,787	2,728	40	(12,028)	17,294
Investments in property, plant and equipment and intangible assets	9	693	393	170	7		1,272

(a) Balances before elimination of inter-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.

33. Relationships with related parties

Given that CDP S.p.A. has de facto control over Snam S.p.A. under the terms of IFRS 10 – Consolidated Financial Statements, Snam's related parties, based on the Group's current ownership structure, are 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 direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance. Members of the Board of Directors, Statutory Auditors and Snam Group managers with strategic responsibilities, and their relatives, are also regarded as related parties. As explained in detail below, related-party transactions concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal 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 statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Snam is not subject to management and coordination. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 *et seq.* of the Italian Civil Code.

Pursuant to the related-party transaction disclosure obligations mentioned in Consob Regulation 17221 of 12 March 2010, note that on 18 September 2015, Eni S.p.A. was awarded natural gas transportation capacity on Snam Rete Gas S.p.A.'s pipeline network for the 2015-2016 thermal year (1 October 2015 - 30 September 2016). These commitments are assumed in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code approved by the Authority by means of Resolution 75/2003, as amended. As in the case of contractual agreements, the finalisation of these commitments entails the calculation of a fee for services rendered by applying the natural gas transportation and dispatching tariffs approved by resolution of the Authority. This fee is estimated at approximately €344 million. In accordance with Article 13 of the aforementioned Consob Regulation, these agreements are classed as ordinary transactions concluded under arm's-length or standard conditions since, pursuant to Article 3 of the Procedure:

- (i) they are part of ordinary operations and the related financial asset;
- (ii) the conditions applied are based on regulated tariffs and are the same as those usually applied to unrelated parties for transactions of a corresponding nature, size and risk.

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

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

	31.12.2014					2014			
	Receivables	Payables	Guarantees and commitments	Goods	Services	Costs (a)		Revenue (b)	
						Other	Services	Other	
(€ million)									
Unconsolidated subsidiaries, associates and joint ventures									
- Servizi Territori Aree Penisole S.p.A.		5							
- Toscana Energia S.p.A.		1						2	
- Trans Austria Gasleitung GmbH (TAG)		4	4		16				16
- Other (c)		2						2	
		12	4		16			4	16
Companies owned or controlled by the State									
- Gestore dei mercati energetici S.p.A.			2		2				
- Anas Group		1	5				1		1
- Enel Group (d)		86	57				1		355
- Eni Group (d)		472	130		7	24	75	3	1,789
- Ferrovie dello Stato Group			4				4		1
		559	198		7	26	75	9	2,146
Total		571	202		7	42	75	9	2,150

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

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

(c) Individually less than €1 million.

(d) Inclusive of amounts relating to natural gas balancing activities.

	31.12.2015					2015							
	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Goods	Services	Costs (a)		Revenue (b)			
								Other	Services	Other			
(€ million)													
Companies under joint control and associates													
- Trans Austria Gasleitung GmbH (TAG)			2		1					13		1	14
- TIGF Investissements			1										
- Toscana Energia S.p.A.			3										2
- Umbria Distribuzione Gas S.p.A.			1										1
			7		1					13		4	14
Companies owned or controlled by the State													
- Gestore dei mercati energetici S.p.A.					1					5			22
- Anas Group			3	1	5							1	5
- Enel Group (c)			110		47					1	1	1	442
- Eni Group (c)			506	1	164					3	26	64	2,038
- Ferrovie dello Stato Group			1		2								
			620	2	219					3	31	65	8
													2,485
Total			627	2	220					3	44	65	8
													2,489
													46

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

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

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

Companies under joint control and associates

Transactions with TAG, which are governed by the Service Balance Agreement, concern the sale and purchase of gas in order to ensure the daily balance between the quantities metered and the quantities expected at the Tarvisio entry point.

Other transactions with joint ventures and associates relate mainly to the provision of 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 transactions 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 supply 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 31 December 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.

Financial transactions

Financial transactions can be broken down as follows:

	31.12.2014		2014
(€ million)	Receivables	Payables	Expense
Companies under joint control:			
- Gasbridge 1 B.V. and Gasbridge 2 B.V.		13	
- Trans Austria Gasleitung GmbH (TAG)	216		
Companies owned or controlled by the State			
Parent company			
- Cassa Depositi e Prestiti			3
	216	13	3

	31.12.2015		2015
(€ million)	Receivables	Payables	Income
Companies under joint control and associates			
- Gasbridge 1 B.V. and Gasbridge 2 B.V.		19	
- Trans Austria Gasleitung GmbH (TAG)			3
- Trans Adriatic Pipeline AG (TAP)	78		
	78	19	3

Companies under joint control and associates

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

Transactions with TAG GmbH refer to income from the shareholders' loan awarded to Trans Austria Gasleitung GmbH (TAG) by Snam S.p.A. in the form of a short-term revolving credit line closed and simultaneously repaid to Snam as part of a refinancing of the entire TAG debt arranged through the banking system.

Transactions with TAP AG refer to the shareholders' loan in favour of associate Trans Adriatic Pipeline AG (TAP) following the contractual agreements relating to the acquisition of the stake held in TAP⁵⁵.

Transactions with directors, statutory auditors and key managers, with reference in particular to their remuneration, are described in Note 26 "Operating costs".

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 is summarised in the following table:

(€ million)	31.12.2014			31.12.2015		
	Total	Related parties	Share %	Total	Related parties	Share %
Balance sheet						
Trade receivables and other current receivables	2,081	787	37.8	1,824	627	34.4
Other non-current receivables				78	78	100.0
Other non-current assets	167			137	2	1.5
Short-term financial liabilities	1,058	13	1.2	1,351	19	1.4
Trade payables and other payables	1,769	202	11.4	1,746	220	12.6
Other current liabilities	51			71	1	1.4

The impact of related-party transactions on the income statement is summarised in the following table:

(€ million)	2014			2015		
	Total	Related parties	Share %	Total	Related parties	Share %
Income statement						
Core business revenue	3,784	2,150	56.8	3,856	2,489	64.5
Other revenue and income	98	28	28.6	114	46	40.4
Purchases, services and other costs	763	69	9.0	782	56	7.2
Financial expense	416	3	0.7	392		
Financial income	19			12	3	25.0

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions

⁵⁵ On the closing date of the transaction, Snam inherited from the selling company the financial commitments for a nominal amount of €78 million, mentioned in the shareholders' agreement. More information on the acquisition can be found in the Directors' Report under "Annual profile – Main events"

that would be applied between two independent parties.

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

(€ million)	2014	2015
Revenue and income	2,178	2,535
Cost and expense	(69)	(56)
Change in trade receivables and other current receivables	107	(54)
Change in other current assets		(2)
Change in trade and other payables	(190)	23
Change in other current liabilities		1
Interest received (paid)	(3)	3
Net cash flow from operating activities	2,023	2,450
Investments:		
- Property, plant and equipment and intangible assets	(57)	(61)
- Equity investments	(3)	(14)
- Financial receivables held for operations		(78)
- Change in payables and receivables relating to investments	(13)	(4)
Cash flow from investments	(73)	(157)
Net cash flow from investment activities	(73)	(157)
Repayment of long-term financial debt	(100)	
Increase (decrease) in short-term financial debt	2	6
Financial receivables not held for operations	(216)	216
Net cash flow from financing activities	(314)	222
Total cash flows with related parties	1,636	2,515

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

(€ million)	31.12.2014			31.12.2015		
	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	1,529	2,023	N.A.	2,054	2,450	N.A.
Cash flow from investment activities	(1,232)	(73)	5,93	(1,283)	(157)	12,2
Cash flow from financing activities	(231)	(314)	N.A.	(828)	222	N.A.

34. Significant non-recurring events and transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

35. Positions or transactions arising from atypical and/or unusual transactions

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

36. Significant events after the end of the financial year

Such events are described in the Directors' Report under "Summary data and information – Main events".

37. Publication of the financial statements

The financial statements were authorised for publication, to be carried out in accordance with the law, by the Board of Directors of Snam at its meeting of 16 March 2016. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the format of the document in the period between 16 March and the date of approval by the Shareholders' Meeting.

CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE 58/98 (CONSOLIDATED FINANCE ACT)

1. The undersigned Carlo Malacarne and Antonio Paccioretti, as Chief Executive Officer and Chief Financial Officer 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 consolidated financial statements during the course of 2015.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2015 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.

3. It is also certified that:
 - 3.1 The consolidated financial statements at 31 December 2015::
 - a) were prepared in accordance with the applicable international accounting standards recognised in the EU 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 Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed. As of 2015, the Directors' Report includes information on sustainability in accordance with guidelines on integrated reporting (IIRC – International Integrated Reporting Council).

4. With regard to the preventative measure of judicial administration notified to the subsidiary Italgas S.p.A. on 11 July 2014 by the Court of Palermo and revoked by means of an order of the same court dated 29 June 2015, sufficient disclosure is provided in Note 24 "Guarantees, commitments and risks" of the Notes to the consolidated financial statements. For the purpose of this certification, it should be stated that the administration of the business and economic assets and goods of Italgas S.p.A. was carried out by the court-appointed collegiate body until 8 July 2015 and by the Italgas Board of Directors appointed on 9 July 2015 by the Company's Shareholders' Meeting as at that date.

16 March 2016

Signature/Carlo Malacarne
Carlo Malacarne
Chief Executive Officer

Signature/Antonio Paccioretti
Antonio Paccioretti
Chief Financial Officer

INDEPENDENT AUDITORS' REPORT

**Snam S.p.A.**

Consolidated financial statements as at 31 December 2015

Independent auditor's report in accordance with articles 14
and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)



Reconta Ernst & Young S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
Fax: +39 011 5612554
ey.com

**Independent auditor's report
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010
(Translation from the original Italian text)**

To the Shareholders
of Snam S.p.A

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of the Snam Group, which comprise the balance sheet as at 31 December 2015, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The Directors of Snam S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11, paragraph 3 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Reconta Ernst & Young S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale € 1.402.500,00 i.c.
iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00991231003
iscritta all'Albo Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
iscritta all'Albo Speciale delle società di revisione
Corrado al progressivo n. 2 dell'elenco n. 10831 del 16/7/1997

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Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Snam Group as at 31 December 2015, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

Report on other legal and regulatory requirements

Opinion on the consistency of the Directors' Report and of specific information of the Report on Corporate Governance and Ownership Structure with the consolidated financial statements

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of Snam S.p.A. are responsible for the preparation of the Directors' Report and of the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Directors' Report and the specific information of the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of the Snam Group as at 31 December 2015.

Turin, 5 April 2016

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.



By
Snam

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Desktop publishing
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Printing
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Printed on ecological paper:
Fedrigoni Symbol Freelife

For information please contact
Snam S.p.A
Piazza Santa Barbara, 7
20097 San Donato Milanese (MI)
Website: www.snam.it

April 2016



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