Consolidated Half-Year Report as at 30 June 2016

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.

Snam, the Snam Group, the Group (or group) means Snam S.p.A. and the companies within its scope of consolidation.

Corporate bodies

BOARD OF DIRECTORS (*)

Chairman

Carlo Malacarne (1)

CEO

Marco Alverà (1)

Directors

Sabrina Bruno (2) (3)

Monica De Virgiliis (1) (2)

Francesco Gori (2) (3)

Yunpeng He (1)

Lucia Morselli (1) (2)

Elisabetta Oliveri (2) (3)

Alessandro Tonetti (1)

BOARD OF STATUTORY AUDITORS (*)

Chairman

Leo Amato(4)

Statutory auditors

Massimo Gatto (5)

Maria Luisa Mosconi (4)

Alternate auditors

Sonia Ferrero (5)

Maria Gimigliano (4)

CONTROL AND RISKS AND RELATED-PARTY TRANSACTIONS COMMITTEE

Elisabetta Oliveri - Chairman

Sabrina Bruno

Lucia Morselli

APPOINTMENTS COMMITTEE

Francesco Gori - Chairman

Monica De Virgiliis

Alessandro Tonetti

COMPENSATION COMMITTEE

Monica De Virgiliis - Chairman

Elisabetta Oliveri

Alessandro Tonetti

SUSTAINABILITY COMMITTEE (**)

Sabrina Bruno - Chairman

Yunpeng He

Lucia Morselli

INDEPENDENT AUDITORS (***)

Ernst & Young S.p.A.

(*) Appointed by the Shareholders' Meeting on 27 April 2016 and in office until the date of the Shareholders' Meeting called in 2019 to approve the financial statements at 31 December 2018.

(**) Established by the Board of Directors on 11 May 2016.

(***) Role conferred by the Shareholders' Meeting on 27 April 2010 for the 2010-2018 period. With effect from 30 June 2016, the company changed its corporate name from Reconta Ernst & Young S.p.A. to Ernst & Young S.p.A.

(1) Candidate directors on the list submitted 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 institutional investors.

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

(5) Candidate statutory auditors on the list presented jointly by institutional investors.

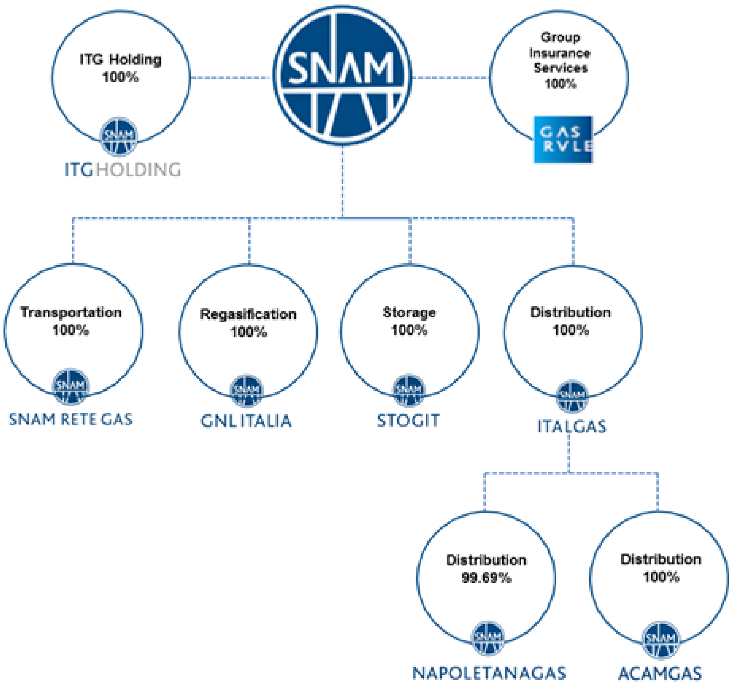
INTERIM DIRECTORS' REPORT

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Interim directors’ report

Scope of consolidation as at 30 June 2016

The Snam Group's scope of consolidation as at 30 June 2016 can be represented as follows:



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.	0.02
	Snam S.p.A.	0.03
	Other shareholders	69.85

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

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

The changes in the scope of consolidation of the Snam group at 30 June 2016 compared with 31 December 2015 and 30 June 2015 are attributable to:

- AES Torino S.p.A. leaving the scope of consolidation following the merger by incorporation into Italgas S.p.A. with the effective date of 1 January 2016;
- the entry of ITG Holding S.p.A.[1],established on 1 June 2016 with a share capital of €50,000 fully subscribed and paid-up by the sole shareholder Snam S.p.A. The company was established under the scope of the industrial and corporate reorganisation aimed at the separation of Italgas from Snam. For more information please see the next section "Summary data and information – Main events - Separation of Italgas from Snam".

[1] ITG Holding S.p.A. is fully consolidated within the business segment "Corporate and other activities". In accordance with IFRS 8 - "Operating segments", the "Corporate and other activities" segment does not represent an operating segment.

Summary data and information

Highlights

Total revenue in the first half of 2016 amounted to €1,724 million, down by €113 million (-6.2%) compared with the first half of 2015. Net of revenue items offset in costs[2], total revenue in the first half of 2016 was €1,668 million, down by €95 million (5.4%) compared with the same period of the previous year. The reduction was due to lower regulated revenues (-€78 million; -4.5%) mainly as a result of the reduction in the net invested capital remuneration rate (WACC)[3] for 2016 which affected the natural gas transport and distribution sectors. This effect was partly offset by the increased regulated revenues for the storage sector, which benefited from an improvement in the WACC in 2016 compared with 2015, the first year of the fourth period of regulation.
The reduction in non-regulated revenues (-€17 million) also contributed to the decrease in revenues, essentially attributable to less income from the sale of natural gas no longer part of operations.

EBIT[4] for the first half of 2016 totalled €867 million, down by €145 million (14.3%) compared with the first half of 2015. The reduction was due to lower revenues (-€95 million; -5.4%), higher operating costs (-€25 million excluding items offset in revenues), attributable to the distribution sector, and to the increase in amortisation and depreciation for the period (-€25 million; equal to 5.9%) due, essentially, to the entry into service of new infrastructures.
With regard to operating segments[5], the reduction reflects the performance of the transport sector (-12.9%; -€76 million) and distribution sector (-28.2%; -€70 million, of which €31 million is attributable to greater provision for risks and charges), partly offset by the positive performance recorded by the storage sector (+5.9%; +€10 million).

Net profit for the first half of 2016 totalled €526 million, down by €86 million (14.1%) compared with the first half of 2015. The lower EBIT (-€145 million; -14.3%) was partly offset by lower net financial expenses (+€10 million, equal to 5.4%), thanks to the reduction in the average cost of borrowing, and the reduction in income tax (€54 million; equal to 19.1%) mainly due to the lower pre-tax profit.

Net financial debt at 30 June 2016 was €14,177 million, compared with €13,799 million at 31 December 2015. The net cash flow from operating activities (€1,200 million) allowed us to fully cover the financial requirements associated with net investments for the period (€692 million) and to generate a free cash flow of €508 million. The net financial debt at 30 June 2016, after the payment to shareholders of the 2015 dividend of €875 million, increased by €398 million compared with 31 December 2015.

Technical investments for the first half of 2016 stood at €526 million (€487 million in the first half of 2015) and refer, in the main, to the natural gas transport sector (€319 million; €278 million in the first half of 2015), the distribution sector (€152 million; €142 million in the first half of 2015) and the natural gas storage sector (€51 million; €62 million in the first half of 2015).

[2] The main revenue items offset in costs relate to interconnection and to sales of natural gas carried out for the purposes of balancing the gas system.
[3] With Resolution 583/2015/R/com of 2 December 2015 “Rate of return on invested capital for infrastructure services in the electricity and gas sectors: criteria for determination and updating”, the Electricity, Gas and Water Authority (AEEGSI) approved the criteria for calculating and updating the rate of return on net invested capital (WACC) for 2016-2021 and established the rates of return for 2016. The resolution also included an updating mechanism for the rate midway through the period depending on the economic situation.
[4] 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.
[5] More information on the changes in the EBIT of each operating segment is provided in the next section "Business segment operating performance”.

Main events

Separation of Italgas from Snam

On 28 June 2016 the Snam Board of Directors approved the separation of Italgas from Snam, to be carried out in a combined, concurrent transaction, which includes, among other things, the partial and proportional spin-off of Snam and the resulting listing, on the Mercato Telematico Azionario (MTA) of Milan, of a new spin-off beneficiary company acting as a holding company for the equity investment in Italgas (ITG Holding S.p.A.[6]). Through the industrial and corporate reorganisation transaction, the entire equity investment currently held by Snam in Italgas, equal to 100% of the share capital of Italgas, will be transferred to the beneficiary company to separate the gas distribution business in Italy. The transaction was based on the fact that the natural gas distribution business has unique characteristics compared with other Snam Group businesses in terms of operational organisation, competitive environment, regulations and growth opportunities.
Specifically, the transaction calls for the following: (i) Snam's contribution in kind to ITG Holding of an 8.23% stake in the share capital of Italgas leaving Snam, post-spin-off, with a 13.50% stake in the beneficiary company ITG Holding; (ii) Snam's sale to ITG Holding of a 38.87% stake in the share capital of Italgas, the payment of which will be the purpose of a Vendor Loan for ITG Holding, which would produce an appropriate level of financial debt bearing in mind the business and risk profiles and cash flow generation; (iii) the partial and proportional spin-off of Snam with the assignment to ITG Holding of the remaining portion of the equity investment held by Snam in Italgas (52.90%), and with the resulting assignment to Snam shareholders of the remaining 86.50% of ITG Holding's capital.
The validity of the entire transaction is subject to legal conditions (including, in particular, approval at Snam's shareholders' meeting), Borsa Italiana's issuance of an order authorising ITG Holding shares for trading on the MTA, the issuance of CONSOB's equivalence opinion and the approval of Snam's bondholders.
The Board of Directors called ordinary and extraordinary Shareholders' Meetings for 1 August 2016. The closing of the entire transaction, which is subject to the above conditions being met, is scheduled to occur by 31 December 2016.
For additional information on the transaction, the following documents are available on Snam's website (www.snam.it, in the section "Ethics and Governance - Shareholders' Meetings"): the Spin-Off Plan, the Explanatory Report of directors of the spun-off company (Snam S.p.A.) and the beneficiary company (ITG Holding S.p.A.) and the Information Document prepared pursuant to Article 70, paragraph 6 of the Issuer Regulations.

Transaction funding the beneficiary company of the separation of Italgas from Snam

As part of the process to separate Italgas from Snam, binding loan commitments were signed with eleven leading domestic and international financial institutions. These binding commitments, totalling €3.9 billion, will make it possible to cover the financial requirements of the spin-off beneficiary company for the repayment of amounts owed to Snam, and will provide the company with the financial resources necessary to strengthen its market leadership in the distribution of gas in Italy.
The credit facilities, which differ by their nature and maturity, include a bridge-to-bond totalling €2.3 billion with a term of up to two years, revolving lines of credit totalling €1.1 billion maturing in three to five years, and bilateral bank lines of credit totalling €500 million maturing in three to five years.

A share buyback programme was proposed for up to 3.5% of Snam's share capital for a total amount of up to €500 million over 18 months

Snam's Board of Directors has called a shareholders' meeting for Snam on 1 August 2016 to also request authorisation to purchase ordinary Snam shares pursuant to Articles 2357 and 2357-ter of the Italian Civil Code and Article 132 of Legislative Decree 58/1998 (TUF - Consolidated Finance Act). Authorisation is requested for an amount of up to €500 million, and up to the maximum limit of 3.5% of subscribed and paid-up share capital, bearing in mind the treasury shares already held by the Company, for a duration of 18 months from the effective date of the Company's partial and proportional spin-off, if such spin-off is approved by the extraordinary shareholders' meeting called for 1 August 2016.

The purpose of the programme is to provide Snam with a tool ensuring strategic and financial flexibility with the aim of increasing value for shareholders, including through the improvement of the Company's financial structure.

[6] The shareholders' meetings called to approve the Spin-off Plan may approve a change in the name and registered offices of the beneficiary company.

Revoke of the "judicial control" against Italgas

On 9 July 2015 the Court of Palermo has revoked the measure of the judicial administration against Italgas, as a result of the investigations and the active cooperation carried out by Snam Group.
Italgas has been asked to provide the competent authorities with the information flows requested under art. 34 of Legislative Decree no. 159/2011 (judicial control) on the relevant operations.
Italgas has filed an appeal to the Court of Appeal of Palermo.
On 25 July 2016 the Court of Appeal has revoked the "judicial control" against Italgas, by so declaring ceased the execution of any prescriptions.

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

Key figures

Main income statement data (a)

To improve the economic and financial review, in addition to conventional IAS/IFRS indicators and financial statements, the interim directors' report also contains reclassified financial statements and several alternative performance indicators such as EBITDA, EBIT and net financial debt. The 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.

Financial year		**First half**			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
3,649	Total revenue	1,837	**1,724**	(113)	(6.2)
3,573	*- of which from regulated activities*	*1,796*	***1,700***	*(96)*	*(5.3)*
850	Operating costs	403	**410**	7	1.7
2,799	Gross Operating Profit (EBITDA)	1,434	**1,314**	(120)	(8.4)
1,950	EBIT	1,012	**867**	(145)	(14.3)
1,238	Net profit (b)	612	**526**	(86)	(14.1)

(a) The changes indicated in the table, as well as those later in this Report, should be understood to be changes in the first half of 2016 compared with the first half of 2015. Percentage changes, unless otherwise specified, are calculated in relation to the data indicated in the related tables.

(b) Net profit is attributable to Snam.

Key balance sheet and cash flow figures

Financial year		**First half**			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
1,272	Technical investments	487	**526**	39	8.0
21,365	Net invested capital at period end	20,889	**21,427**	538	2.6
7,586	Shareholders' equity including minority interests at period end	6,953	**7,250**	297	4.3
7,585	Shareholders' equity attributable to the Group at period end	6,952	**7,249**	297	4.3
13,779	Net financial debt at period end	13,936	**14,177**	241	1.7
771	Free cash flow	587	**508**	(79)	(13.5)

Key share figures

Financial year 2015			First half 2015	First half 2016	Change	% Change
3,500.6	Number of shares of share capital	(millions)	3,500.6	**3,500.6**		
3,499.5	Number of shares outstanding at the end of the period	(millions)	3,499.5	**3,499.5**		
3,499.5	Average number of shares outstanding during the period	(millions)	3,499.5	**3,499.5**		
4.85	Official share price at period end	(€)	4.30	**5.29**	0.99	22.9

Key profit indicators (a)

Financial year 2015	(€)	First half 2015	First half 2016	Change	% Change
0.557	EBIT per share	0.289	**0.248**	(0.041)	(14.2)
0.354	Net profit per share	0.175	**0.150**	(0.025)	(14.3)

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

Key operating figures

Financial year 2015		First half 2015	First half 2016	Change	% Change
	Natural gas transportation (a)				
67.25	Natural gas injected into the national gas transportation network (billions of cubic metres) (b)	32.77	**34.07**	1.30	4.0
32,534	Gas transportation network (kilometres in use)	32,354	**32,444**	90	0.3
876.5	Installed power in the compression stations (MW)	853	**877**	24	2.8
	Liquefied natural gas (LNG) regasification (a)				
0.03	LNG regasification (billions of cubic metres)	0.020	**0.092**	0.072	
	Natural gas storage (a)				
10	Concessions	10	**10**		
9	*- of which operational (c)*	*8*	***9***	1	12.5
11.5	Available storage capacity (billions of cubic metres) (d)	11.4	**11.8**	0.4	3.5
19.58	Natural gas moved through the storage system (billions of cubic metres)	11.96	**11.42**	(0.54)	(4.5)
	Natural gas distribution				
6.526	Active meters (millions)	6.518	**6.525**	0.007	0.1
1,472	Gas distribution concessions (number)	1,472	**1,472**		
56,717	Distribution network (kilometres) (e)	56,636	**56,759**	123	0.2
6,303	**Employees in service at end of period (number) (f)**	**6,219**	**6,395**	**176**	**2.8**
	of which business segments:				
1,918	- Transportation	1,912	**1,962**	50	2.6
73	- Regasification	75	**73**	(2)	(2.7)
299	- Storage	287	**310**	23	8.0
3,298	- Distribution	3,221	**3,323**	102	3.2
715	- Corporate and other activities	724	**727**	3	0.4

(a) With regard to the first half of 2016, gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 MJ/SCM (10.572 kWh/SMC) and 39.1 MJ/SCM (10.805 kWh/SMC) respectively for the businesses of natural gas transportation, regasification and storage.

(b) The figures for the first half of 2016 are up to date at 4 July 2016. The update of the 2015 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) Working gas capacity for modulation services. The figure for the first half of 2016 includes the Bordolano concession, which has been operational since the end of 2015, limited to a portion of assets forming part of the overall plant, such as to guarantee the performance of storage activities.

(d) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 June 2016 is that declared to the Electricity, Gas and Water Authority (hereinafter "the Authority") at the start of the 2016-2017 thermal year, in compliance with Resolution ARG/gas 119/10.

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

(f) Fully consolidated companies.

Natural gas transportation

In the first half of 2016, 34.07 billion cubic metres of natural gas were injected into the national transportation network, an increase of 1.30 billion cubic metres, or 4.0%, compared with the first half of 2015 (32.77 billion cubic metres). The increase is essentially due to the lower withdrawals from storage, which recorded lower net withdrawals of 0.73 billion cubic metres, against demand for gas in Italy which, in the first half of 2016, stood at 35.96 billion cubic metres, a slight increase (+0.42 billion cubic metres; +1.2%) compared with the same period in 2015. Higher consumption in the thermoelectric sector (+0.92 billion cubic metres; +10.1%), thanks to the fall in production of hydroelectric energy and lower consumption of other fuel sources, and the industrial sector (+0.25 billion cubic metres; +3.0%) was offset by lower consumption in the residential and tertiary sectors (-0.74 billion cubic metres; -4.3%) due to weather conditions.
Seasonally adjusted demand for gas was estimated at 37.14 billion cubic metres, an increase of 0.85 billion cubic metres (2.3%), compared with the corresponding figure for the first half of 2015 (36.29 billion cubic metres).

Natural gas storage

During the first half of 2016, 11.42 billion cubic metres of natural gas was moved through the storage system, a reduction of 0.54 billion cubic metres (4.5%) on the corresponding period of 2015 (11.96 billion cubic metres). The reduction was mainly attributable to lower withdrawals from storage (-0.66 billion cubic metres; -9.2%) due to the weather.
The total storage capacity at 30 June 2016, including strategic storage, was 16.3 billion cubic metres (+0.4 billion cubic metres compared with 30 June 2015), of which 11.8 billion cubic metres related to available storage capacity for the entire thermal year 2016-2017, and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2015-2016, as established by the Ministry of Economic Development in a notice dated 21 January 2016).

Liquefied Natural Gas (LNG) regasification

In the first half of 2016 0.092 billion cubic metres of LNG were regasified (0.020 billion cubic metres in the first half of 2015; +0.072 billion cubic metres), of which 0.049 billion cubic metres was under the scope of the natural gas integrated regasification and storage service[7].

Natural gas distribution

At 30 June 2016, Snam, through Italgas, managed the gas distribution service in 1,472 municipalities (the same as at 31 December 2015 and at 30 June 2015), of which 1,401 were operational. At 30 June 2016, the number of active meters located at end-user gas redelivery points (households, businesses etc.) stood at 6,525 million (6,518 million at 30 June 2015).
At 30 June 2016, the gas distribution network covered 56,759 km, an increase of 42 km compared with 31 December 2015 (56,717 km).

[7] The integrated storage and regasification service, introduced by Article 14, paragraph 1 of Legislative Decree 1 of 24 January 2012 and later amended by the Ministerial Decree of 25 February 2016, makes provision that the leading storage company makes delivered quantities of gas equivalent to LNG to the user for the uniform storage service, minus consumption and leaks, by the end of the month after unloading. The physical management of gas flows for redelivery of gas in storage takes place by coordinating the regasification and storage companies involved. For more information about this service, please refer to the section "Business segment operating performance - Regasification of Liquefied Natural Gas (LNG) - Regulation”.

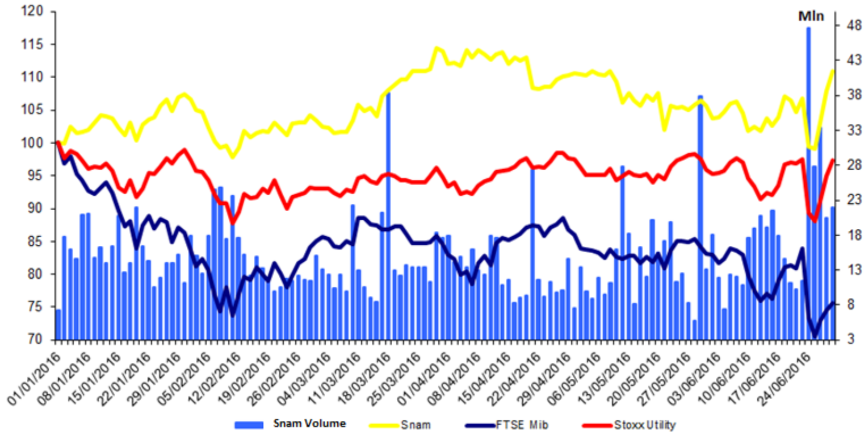
Snam share performance

The Snam share price ended the first half of 2016 at an official price of €5.29, up 9.0% from the official price of €4.85 recorded at the end of 2015.

After having suffered slightly from the general fall in share prices in the first weeks of the year, the shares reached new record highs (€5.53) on 30 March, thanks to the recovery in the stock markets and the general reduction in sovereign yields. The fall recorded after the referendum on the United Kingdom leaving the EU was more than recovered after the presentation of the Strategic Plan on 29 June. Following the weakening of global economic growth prospects and the price of oil, which has reached the lowest level for more than 10 years, European share markets, on the other hand, blamed the consistent falls in the first weeks of the year, partly offset thanks to the new monetary policy decisions taken by the central banks and the recovery in oil prices. The result of the Brexit referendum brought share prices close to the minimum levels of February, with a partial recovery later on. Thanks to its defensive and anti-cyclical profile, at a time of falling share prices, the utilities sector has out-performed the European general index (-2.7% vs. -9.8%).

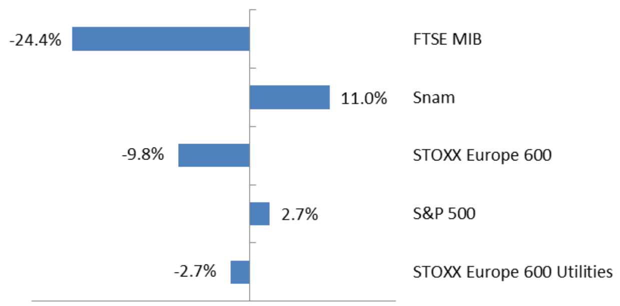
SNAM - Comparison of prices of Snam, FTSE MIB and STOXX Europe 600 Utilities

(1 January 2016 - 30 June 2016)



SNAM - Comparison of Snam's performance with the main stock market indices (Last Price)

(1 January 2016 - 30 June 2016)



Source: Snam calculations using Bloomberg data.

Business segment operating performance

Natural gas transportation

Key performance indicators

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
2,145	Total revenue (*)	1,080	**986**	(94)	(8.7)
2,094	Regulated revenues (*)	1,047	**969**	(78)	(7.4)
182	*- of which revenues with contra entry in costs*	*100*	***88***	*(12)*	*(12.0)*
485	Operating costs (*)	240	**214**	(26)	(10.8)
1,165	EBIT	591	**515**	(76)	(12.9)
693	Technical investments	278	**319**	41	14.7
328	*- of which with a greater return (**)*	*129*	***157***	*28*	*21.7*
365	*- of which with a basic return*	*149*	***162***	*13*	*8.7*
67.25	Natural gas injected in the national gas transportation network (billions of cubic metres) (***)	32.77	**34.07**	1.30	*4.0*
32,534	Gas transportation network (kilometres in use)	32,354	**32,444**	90	0.3
9,630	*- of which national network*	*9,560*	***9,559***	*(1)*	
22,904	*- of which regional network*	*22,794*	***22,885***	*91*	*0.4*
877	Installed power in the compression stations (MW)	853	**877**	24	2.8
1,918	Employees in service at year end (number)	1,912	**1,962**	50	2.6

(*) Before consolidation adjustments.

(**) They include the WACC flat-rate increase to offset the regulatory lag (+1% compared with the basic WACC equal, respectively to 6.3% for 2015 and 5.4% for 2016).

(***) The figures for the first half of 2016 are up to date at 4 July 2016. The figures for the first half of 2015 are definitively up to date and consistent with those published by the Ministry of Economic Development.

Results

Total revenue amounted to €986 million, down by €94 million, or 8.7%, compared with the first half of 2015 (€1,080 million). Total revenue, net of components offset in costs[8], amounted to €898 million, down by €82 million, or 8.4%, compared with the corresponding period of the previous year.

Revenue from regulated activities amounted to €969 million, largely related to fees for the natural gas transportation service (€953 million) and €16 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 €881 million, down by €66 million, equal to 7.0% compared with the first half of 2015. The reduction is essentially due to the rate adjustment mechanisms (-€109 million) and, specifically, to the updating of the invested capital return rate which went from 6.3% in 2015 to 5.4% in 2016, partly offset by the contribution from investments made in 2014 (+€39 million).

Non-regulated revenues (€17 million) fell by €16 million compared with the first half of 2015. The reduction is mainly due to lower income from sales of natural gas no longer a part of operations (-€20 million).

EBIT amounted to €515, down by €76 million, or 12.9%, compared with the first half of 2015. The reduction was due to lower revenues (-€82 million, net of items offset in costs) and greater amortisation and depreciation (-€8 million, 3.2%) following the entry into service of new infrastructures, partly offset by the reduction in operating costs (+€14 million, -10%) mainly due to lower withdrawals for natural gas sales.

[8] The main revenue items offset in costs relate to sales of natural gas carried out for the purposes of balancing the gas system, modulation and interconnection.

Technical investments

Financial year 2015	€/million		First half 2015	First half 2016	Change	% Change
	Type of investment	Greater return (%) (*)				
249	Development of new import capacity	2.0%	98	**108**	**10**	10.2
	Development of the national network	1.0%		**1**	**1**	
79	Development of the regional network	1.0%	31	**48**	**17**	54.8
365	Replacement and other		149	**162**	**13**	8.7
693			**278**	**319**	**41**	**14.7**

(*) Compared with an actual pre-tax WACC equal, respectively to 6.3% for 2015 and 5.4% for 2016, to which the 1% for offsetting the regulatory lag must be added.

Technical investments amounted to €391 million in the first half of 2016, up by €41 million (+14.7%) compared with the corresponding period of the previous year (€278 million). The investments were classified in accordance with Resolution 514/2013/R/gas of the Electricity, Gas and Water Authority (hereinafter "AEEGSI" or 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%** (€108 million) is projected, concern the following:

- as part of the initiative to support the market in the north-west of the country and to make it possible to reverse the physical transportation flows at the interconnection points with northern Europe (€85 million) in the Pianura Padana area: (i) the continuation of the reconnection construction works and the Zimella-Cervignano natural gas pipeline complementary works; (ii) the continuation of the main construction works for upgrading the Poggio Renatico Station; (iii) the continuation of the major construction works for the new Minerbio hub; (iv) the continuation of the operations for the supply of turbochargers for the new Sergnano and Minerbio stations;
- as part of the projects to upgrade the transportation network from the entry points in southern Italy (€20 million): (i) the continuation of the major construction works for the Biccari-Campochiaro natural gas pipeline, in Campania-Apulia-Molise; (ii) the continuation of the construction works for reconnecting the Massafra-Biccari natural gas pipeline.

The main investments for **the development of new transportation capacity on the Regional Network** with a **greater return of 1.0%** (€49 million) relate to 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 (€16 million);
- the continuation of the natural gas pipeline and connection works as part of the natural gas conversion project in Calabria (€6 million);
- the continuation of the major construction works for the Montebello Jonico and Melito di Porto Salvo diversion (€4 million);
- the continuation of the major construction works for the Lainate-Olgiate Olona and the Mornico al Serio-Travagliato natural gas pipeline, Mornico-Chiari section as part of the upgrading of the network in Lombardy (€4 million).

Investments involving **replacement and other investments** with a **basic rate of return** (€162 million) concern works aimed at maintaining the security and quality levels at plants (€128 million), the acquisition of other key operating assets (€8 million), including real estate investments (€2 million), projects relating to the development of new information systems and the implementation of existing ones (€12 million) and works relating to compensation for third parties (€8 million) and upgrading redelivery points (€6 million).

Operating review

Injections and withdrawals of gas in the transportation network

Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 Kwh/SMC). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

In the first half of 2016 a total of 34.07 billion cubic metres of gas was injected into the network, an increase of 1.30 billion cubic metres (+4.0%) compared with the first half of 2015.
Injections into the network from domestic production fields or their collection and treatment centres totalled 2.70 billion cubic metres, down by 0.53 billion cubic metres (-16.4%) compared with the first half of 2015.
A total of 31.37 billion cubic metres of gas was injected into the network, an increase of 1.83 billion cubic metres (+6.2%) compared with the first half of 2015. The increase was mainly due to the greater volumes injected at the Mazara del Vallo entry points (+5.07 billion cubic metres), partly offset by the lower volumes injected at the Gries Pass entry point (-1.96 billion cubic metres, -42.7%) and Gela entry point (-1.41 billion cubic metres, -37.0%).

Gas injected into the network (*)

Financial year		First half			
2015	(billion m^3)	2015	2016	Change	% Change
6.43	**Domestic output**	**3.23**	**2.70**	**(0.53)**	**(16.4)**
60.82	**Entry points (**)**	**29.54**	**31.37**	**1.83**	**6.2**
29.92	Tarvisio	14.46	**14.41**	(0.05)	(0.3)
7.24	Mazara del Vallo	3.63	**8.70**	5.07	
5.80	Cavarzere (LNG)	3.00	**3.03**	0.03	1.0
10.63	Gries Pass	4.59	**2.63**	(1.96)	(42.7)
7.11	Gela	3.81	**2.40**	(1.41)	(37.0)
0.04	Livorno (LNG)	0.03	**0.11**	0.08	
0.05	Panigaglia (LNG)	0.02	**0.09**	0.07	
0.03	Gorizia				
67.25		**32.77**	**34.07**	**1.30**	**4.0**

(*) The figures for the first half of 2016 are up to date at 4 July 2016. The update of 2015 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.

Other information

Council of State - Ruling 2888/2015

Through ruling 2888/2015, filed on 12 June 2015, the Council of State (hereinafter CoS) rejected the appeal introduced by the AEEGSI for the reform of the LOMBARDY - MILAN regional court ruling, which cancelled the provisions in resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 on natural gas transportation and dispatching tariffs for the period 2010-2013.
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 a new 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.
Simultaneously, the Authority initiated, with Resolution 430/2015/R/gas, a procedure for compliance with the CoS ruling 2888/2015, to be completed by 31 December 2015. Under the scope of these proceedings, through the subsequent resolution 607/2015/R/gas, a consultation was launched for the formulation of the final provision. This consultation was followed by another launched through document 321/2016/R/gas of 16 June 2016, which set 17 July 2016 as the deadline for observations.

Liquefied Natural Gas (LNG) regasification

Key performance indicators

Financial year		First half			
2015	(millions of €)	2015	2016	Change	% Change
25	Total revenue (*)	13	**10**	(3)	(23.1)
19	Regulated revenues	12	**10**	(2)	(16.7)
1	*- of which revenues with contra entry in costs*	*1*		(1)	(100.0)
19	Operating costs (*)	8	**6**	(2)	(25.0)
1	EBIT	3	**1**	(2)	(66.7)
7	Technical investments (**)	1	**2**	1	100.0
0.030	Volumes of LNG regasified (billions of cubic metres)	0.020	**0.092**	0.072	
1	LNG carrier loads (number)		**2**	2	
73	Employees in service at year end (number)	75	**73**	(2)	(2.7)

(*) Before consolidation adjustments.

(**) They include the WACC flat-rate increase to offset the regulatory lag (+1% compared with the basic WACC equal, respectively to 7.3% for 2015 and 6.6% for 2016).

Results

Total revenue amounted to €10 million, down by €3 million (23.1%) compared with the first half of 2015. Total revenue, net of components offset in costs[9], fell by €2 million, or 16.7%, compared with the corresponding period of the previous year. The reduction is basically connected with less capacity bookings for the thermal year 2015-2016 compared with the previous thermal year.

Revenues from regulated activities equal to €10 million, net of components that are offset in costs, fell by €1 million compared with the first half of 2015 and refer almost entirely to the portion pertaining to the guarantee factor for 2016.

Non-regulated revenues fell by €1 million compared with the first half of 2015, basically following lower income from sales of natural gas for boil-off purposes.

EBIT amounted to €1 million, down by €2 million, or 66.7%, compared with the first half of 2015. The reduction was due to lower revenues (-€2 million, net of items offset in costs) and higher amortisation and depreciation in the period (-€1 million). These factors were partly offset by lower operating costs (+€1 million, net of items that are offset in revenue),

Technical investments

Technical investments in the first half-year totalled €2 million (€1 million in the first half of 2015) and involved maintenance projects aimed at guaranteeing plant system safety.

Operating review

During the first half of 2016, the Panigaglia (SP) LNG terminal regasified 0.092 billion cubic metres of natural gas, an increase of 0.072 billion cubic metres compared with the first half of 2015 (0.020 billion cubic metres) of which 0.049 billion cubic metres were regasified as part of the integrated regasification and storage service. In the first half of 2016 two spot loads were unloaded from methane tankers, one as part of the above-mentioned integrated service.

[9] Core business revenue includes the recharging to customers of expenses relating to natural gas transportation services 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.

Regulation

Ministerial Decree of 25 February 2016 (Official Gazette of 1 April 2016) - Integrated storage and regasification service access and delivery procedures.

Through the Decree of 25 February 2016 "Determination and allocation of modulation storage capacity for the contractual period 2016-2017" published in the Official Gazette 76 of 1 April 2016, the Ministry for Economic Development also changed the integrated storage and regasification service access and delivery methods, previously introduced pursuant to Article 14 of Law Decree 1/2012. In particular, this service, for which a storage capacity of 1 billion cubic metres is reserved, requires the regasification companies and the largest storage company to coordinate in order to allow redelivery of the regasified LNG to the user directly to storage, by the end of the month following the unloading of the tanker ships. Based on the provisions of the Decree, access to the service is obtained through a competitive auction whose price has been defined by the Authority on the basis of the criteria set forth in 77/2016/R/gas, taking account of the value of the product and the trend of the market.

Electricity, Gas and Water System Authority (AEEGSI) resolutions

Resolution 191/2016/R/gas - "Integration of the application methods for the factor for covering revenue for the LNG regasification service following the introduction of the integrated regasification and storage service"
Through this resolution, published on 21 April 2016, the Authority introduced an amendment to the application methods for the factor for covering revenue for the LNG regasification service in order to include the changes introduced through resolution 77/2016/R/gas with regard to offering an integrated regasification and storage service pursuant to Article 1 of the Decree of 25 February 2016 "Determination and allocation of modulation storage capacity for the contractual period 2016-2017" of the Ministry of Economic Development. This amendment also introduces revenues from the integrated regasification and storage service into the formula for the factor for covering revenue.

Decision 13/2016 of 27 May 2016 - DIUC - "Authorisation for the entitlement of rights relating to the cover factor of revenues pertaining to GNL Italia S.p.A. for the year 2015"
Through this decision, published on 30 May 2016, the Authority notified the Cassa per i Servizi Energetici e Ambientali of the authorisation for the entitlement of rights relating to the cover factor of revenues with regard to GNL Italia S.p.A. for the year 2015, following the conformity check on the calculation methods consistent with the criteria of resolution 438/2013/R/gas "Regulation of tariffs for the liquefied natural gas regasification service for the regulation period 2014-2017 (RTRG)".

Resolution 392/2016/R/gas – "Determination of the tariffs for the LNG regasification service for 2017"
With this resolution, published on 14 July 2016, the Authority approved tariffs for the regasification service provided by GNL Italia for 2017.
The tariffs were set on the basis of the base revenue of €27.9 million. Effective revenue must take account of capacity actually allocated. The net capital invested as at 31 December 2015 (RAB) was around €0.1 billion.
The Authority also paid GNL Italia a sum of approximately €0.34 million to cover the increase in the IMU rate for the years 2013 and 2014.

Natural gas storage

Key performance indicators

Financial year 2015	(millions of €)	First half 2015	First half 2016	Change	% Change
541	Total revenue (a)	276	**293**	17	6.2
526	Regulated revenues (a)	*276*	***292***	16	5.8
80	*- of which revenues with contra entry in costs*	*40*	***40***		
163	Operating costs (a)	71	**72**	1	1.4
318	EBIT	169	**179**	10	5.9
240	Technical investments	62	**51**	(11)	(17.7)
10	Concessions (number)	10	**10**		
8	*- of which operational (b)*	*8*	***9***	*1*	*12.5*
15.70	Natural gas moved through the storage system (billions of cubic metres) (c)	11.96	**11.42**	(0.54)	(4.5)
8.13	*- of which injected*	*4.76*	***4.88***	*0.12*	*2.5*
7.57	*- of which withdrawn*	*7.20*	***6.54***	*(0.66)*	*(9.2)*
16.0	Total storage capacity (billions of cubic metres)	15.9	**16.3**	0.4	2.5
11.5	*- of which available (d)*	*11.4*	***11.8***	*0.4*	*3.5*
4.5	*- of which strategic*	*4.5*	***4.5***		
291	Employees in service at year end (number)	287	**310**	23	8.0

(a) Before consolidation adjustments.

(b) With working gas capacity for modulation services. The figure for the first half of 2016 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.

(c) Gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) of 39.1 MJ/SCM (10.805 KWh/SMC).

(d) Working gas capacity for modulation, mining and balancing services. The figure shown represents the maximum available capacity and may not be in line with the maximum levels achieved.

Results

Total revenue amounted to €293 million, up by €17 million (6.2%) compared with the first half of 2015. Net of components offset in costs[10], total revenue was €253 million, up by €17 million (7.2%) on the corresponding period of the previous year.

Regulated revenue (€292 million) comprised €257 million in fees for the natural gas storage service and €35 million in fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. Revenue from regulated activities, net of components that are offset in costs, amounted to €252 million, up by €16 million, equal to 6.8% compared with the first half of 2015. The increase is due to the tariff adjustment mechanisms and, specifically, to the updating of the net invested capital return rate, which increased from 6% in 2015 to 6.5% in 2016, as well as the entry into service, at the end of 2015, of the prime facilities of the Bordolano site. The increase in the rate of return is largely due to the adoption of reference parameters for the determination of WACC for 2016, calculated according to the criteria set by the Authority in Resolution 583/2015/R/com, which are better than the benchmark used to determine WACC for 2015, the first year of the fourth regulatory period for the storage service.

EBIT amounted to €179 million, up by €10 million (5.9%) compared with the first half of 2015. The higher revenues (+€17 million, net of components which are offset in costs), together with the control of management costs (+€1 million, net of components which are offset in revenues), were partly offset by increased amortisation and depreciation (-€6 million, equal to 16.7%), mainly due to the entry into service of new infrastructures.

[10] 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. For the purposes of the consolidated financial statements, this revenue pertaining to Stogit S.p.A. is eliminated, together with transportation costs, in order to represent the substance of the operation.

Technical investments

Financial year 2015	€/million	First half 2015	First half 2016	Change	% Change
	Type of investment				
117	Development of new fields and upgrading of capacity	47	**31**	(16)	(34.0)
53	Maintenance and other	15	**20**	5	33.3
170		**62**	**51**	**(11)**	**(17.7)**

Technical investments in the first half of 2016 totalled €51 million, a reduction of €11 million (-17.7%) compared with the first half of 2015 (€62 million).

The main investments in the **development of new fields and upgrading of capacity** (€31 million) mainly involved the operations carried out at the Bordolano (€20 million), Minerbio (€5 million) and Sabbioncello (€2 million) fields.

Investments in **maintenance and other** (€20 million) mainly relate to the operations of purchasing and launching the sound level metering equipment installations at the various Stogit stations (€5 million), the rationalisation of the Cortemaggiore plants (€4 million) and other operations carried out in the Fiume Treste fields (€2 million).

Operating review

Gas moved through the storage system

During the first half of 2016, 11.42 billion cubic metres of natural gas was moved through the storage system, a reduction of 0.54 billion cubic metres (4.5%) on the corresponding period of 2015 (11.96 billion cubic metres). The reduction was mainly attributable to lower withdrawals from storage (-0.66 billion cubic metres; -9.2%) due to the weather.
The total storage capacity at 30 June 2016, including strategic storage, was 16.3 billion cubic metres (+0.4 billion cubic metres compared 30 June 2015), of which 11.8 billion cubic metres related to available storage capacity for the entire thermal year 2016-2017 and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2015-2016, as established by the Ministry of Economic Development in a notice dated 21 January 2016).

Regulation

Ministerial Decree of 25 February 2016 (Official Gazette 76 of 1 April 2016) - "Determination and allocation of modulation storage capacity for the contractual period 2016-2017"

With this decree, the Ministry of Economic Development defined the modulation storage space for thermal year 2016-2017 to be used primarily for entities supplying domestic customers, at 7,450.5 million cubic metres, plus the mining storage share not requested and allocated by the storage companies. The Decree confirmed that this storage space, together with that reserved for uniform storage of annual and multi-year duration, would be allocated by competitive auctions, with the reserve price defined by the Authority on the basis of the criteria set forth in Resolution 77/2016/R/gas.

The Decree also modified the procedures for access to and delivery of the integrated storage and regasification service, previously introduced pursuant to Article 14 of Decree-Law 1/2012. In particular, this service, for which a storage capacity of 1 billion cubic metres is reserved, requires the regasification companies and the largest storage company to coordinate in order to allow redelivery of the regasified LNG to the user directly to storage, by the end of the month following the unloading of the tanker ships. Based on the provisions of the Decree, access to the service is obtained through a competitive auction whose price has been defined by the Authority on the basis of the criteria set forth in 77/2016/R/gas, taking account of the value of the product and market developments.

Electricity, Gas and Water System Authority (AEEGSI) resolutions

Resolution 323/2016/R/gas - "Provisions on settlement relating to storage services for the 2016- 2017 thermal year"
Through this resolution, published on 17 June 2016, the Authority regulated the methods for the thermal year 2016-2017 through which any differences are neutralised, in terms of revenue flows, between what is paid to the storage companies based on regulated tariffs and what is received following tenders for capacity allocation.
With regard to the parameter γ pursuant to Article 11 of Annex A of resolution 531/2014/R/gas "Regulation criteria for natural gas storage service tariffs for the 2015-2018 period" - (RTSG), with regard to the level of cover for the revenue share attributable to the additional return on net invested capital for incentivised investments that came into operation in the previous regulation periods, a preliminary investigation was launched aimed at defining the criteria for establishing its value for future years, with the purpose of encouraging storage companies to follow more efficient behaviour both in the management of allocation procedures and in the provision of the storage service.
Pending the outcome of the investigation, which will be concluded in time for the approval of the revenues for 2017, a value of 1 for the parameter γ for 2016 has been confirmed.

Resolution 418/2016/R/gas - "Approved the definitive allowed revenues for 2016 for storage service"
With this resolution, published on 22 July 2016, the Authority approved the allowed revenues for storage service relating to 2016 for Stogit. Storage allowed revenues for 2016 has been set at 503.5 million euro. RAB for natural gas storage business has been set equal to 4.0 billion euro.

Natural gas distribution

Key performance indicators

Financial year		First half			
2015	(millions of €)	2015	2016	Change	% Change
1,098	Total revenue (*) (**)	543	**516**	(27)	(5.0)
1,071	Regulated revenues (**)	532	**505**	(27)	(5.1)
8	*- of which revenues with contra entry in costs*	*4*	***4***		
356	Operating costs (*) (**)	163	**196**	33	20.2
469	EBIT	248	**178**	(70)	(28.2)
393	Technical investments	142	**152**	10	7.0
7,599	Gas distribution (millions of cubic metres)	4,431	**4,268**	(163)	(3.7)
1,472	Distribution concessions (number)	1,472	**1,472**		
56,717	Distribution network (kilometres) (***)	56,636	**56,759**	123	0.2
6.526	Active meters (millions)	6.518	**6.525**	0.007	0.1
3,298	Employees in service at year end (number)	3,221	**3,323**	102	3.2

(*) Purely for the purposes of the reclassified income statement, revenue relating to building and upgrading distribution infrastructure, recorded pursuant to IFRIC 12 and recognised 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 €516 million, down by €27 million (5.0%) compared with the corresponding period of the previous year. Total revenue, net of components that are offset in costs[11], amounted to €512 million, down by €27 million, equal to 5.0% compared with the first half of 2015.

Regulated revenues amounted to €505 million, and related mainly to fees for the natural gas distribution service (€485 million) and to technical services connected to the distribution service (€11 million). Revenue from regulated activities net of components that are offset in costs, amounted to €501 million, down by €27 million, equal to 5.1% compared with the first half of 2015. The reduction is essentially due to the rate adjustment mechanisms and, specifically, to the revision of the invested capital return rate which went from 6.9% in 2015 to 6.1% in 2016 for distribution, and from 7.2% in 2015 to 6.6% in 2016 for metering.

EBIT amounted to €178 million, down by €70 million (28.2%) compared with the corresponding period of the previous year. The reduction is due to lower revenues (-€27 million) and the increase in operating costs (-€33 million, net of components that are offset in revenues), attributable to the greater net provision for risks and charges (-€31 million), as well as greater amortisation and depreciation in the period (-€10 million).

Main events

Separation of Italgas from Snam

On 28 June 2016 the Snam Board of Directors approved the separation of Italgas from Snam to be implemented through a unitary and simultaneous transaction which, includes, among other things, the partial and proportional spin-off of Snam and consequent listing on the Milan Mercato Telematico Azionario (MTA) of a new beneficiary company of the spin-off, with the role of a holding company for the Italgas shareholding (ITG Holding S.p.A.). Through the industrial and corporate reorganisation operation, the entire shareholding currently held by Snam in Italgas, equal to 100% of the share capital of Italgas, will be transferred to the beneficiary company for the purpose of separating the gas distribution operations in Italy. The transaction departs from the idea that operations relating to natural gas distribution have specific characteristics compared with other Snam Group operations in terms of operational organisation, competitive context, regulation and investment requirements. Italgas, as an independent company from a managerial, operational

[11] These components refer to the revenue, resulting from the repayment by the Electricity Equalisation Fund (Cassa per I Servizi Energetici e Ambientali, or CCSE – 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).

and financial point of view, can concentrate its efforts and expertise on the improved strategy to adopt in taking part in tenders with the goal of significant growth in its reference framework. This will enable it to benefit from the additional economies of scale and greater operational efficiency. Also taking into account an expected public rating of BBB+ - stable outlook from Fitch and a provisional issuer rating of Baa1 - stable outlook from Moody's, issued on 29 June 2016, it is expected that the company will have a solid credit rating in line with Snam's current one and direct access to the capital markets, with a more efficient financial structure and competitive costs, taking advantage of the opportunities offered by the current financial market conditions.
Specifically, the transaction involves: (i) the contribution in kind by Snam to ITG Holding of a shareholding equal to 8.23% of the share capital of Italgas in order to allow Snam to own, post-merger, a shareholding of 13.50% in the beneficiary company ITG Holding; (ii) the sale by Snam to ITG Holding of a shareholding equal to 38.87% of the share capital of Italgas, the payment of which will form a vendor loan pertaining to ITG Holding to generate an adequate level of financial debt that takes into account the profile of activity, risk and generation of cash flows; (iii) the partial and proportional spin-off of Snam with the allocation to ITG Holding of the residual shareholding owned by Snam in Italgas, equal to 52.90%, with the consequent allocation to Snam shareholders of the remaining 86.50% of the share capital of ITG Holding.
The effectiveness of the entire transaction is subject, in addition to legal conditions, including, specifically, approval by the Snam Shareholders' Meeting, to the issuing by the Italian Stock Exchange of authorisation for admission to trading of the ITG Holding shares on the MTA, the issuing by CONSOB of an opinion of equivalence and the approval of the Snam bondholders.
The Board of Directors called the Shareholders' Meeting, in ordinary and extraordinary session, for 1 August 2016. The conclusion of the entire transaction, subject to the realisation of the above-mentioned conditions, is scheduled for by 31 December 2016.
More information about the transaction is available on the Snam website (www.snam.it, in the section "Shareholders' Meetings Ethics and Governance") in the following documents: the Merger Project, the Directors' Report on the spun-off company (Snam S.p.A.) and the beneficiary company (ITG Holding S.p.A.) and the Information Document prepared pursuant to Article 70, paragraph 6 of the Issuers' Regulation.

Revoke of the "judicial control" against Italgas

On 9 July 2015 the Court of Palermo has revoked the measure of the judicial administration against Italgas, as a result of the investigations and the active cooperation carried out by Snam Group.
Italgas has been asked to provide the competent authorities with the information flows requested under art. 34 of Legislative Decree no. 159/2011 (judicial control) on the relevant operations.
Italgas has filed an appeal to the Court of Appeal of Palermo.
On 25 July 2016 the Court of Appeal has revoked the "judicial control" against Italgas, by so declaring ceased the execution of any prescriptions.

Technical investments

Financial year		First half			
2015	(millions of €)	2015	2016	Change	% Change
199	**Distribution**	**83**	**87**	**4**	**4.8**
169	Network maintenance and development	69	**73**	4	5.8
30	Replacement of cast-iron pipes	14	**14**		
134	**Metering**	**42**	**51**	**9**	**21.4**
60	**Other investments**	**17**	**14**	**(3)**	**(17.6)**
393		**142**	**152**	**10**	**7.0**

Technical investments in the first half of 2016 amounted to €152 million, up €10 million, or 7.0%, compared with the first half of 2015 (€142 million).

Investments in distribution (€87 million) mainly related to development projects (extensions and new networks) and the renovation of old sections of pipeline, including the replacement of cast-iron pipes.

Investments in metering (€51 million) related primarily to expenditure on remote reading.

Other investments (€14 million) mainly concerned investments in IT, property and vehicles.

Operating review

As at 30 June 2016, Snam, through Italgas, managed the gas distribution service in 1,472 municipalities (the same as at 31 December 2015 and at 30 June 2015), of which 1,401 were operational. As at 30 June 2016, the number of active meters located at end-user gas redelivery points (households, businesses, etc.) stood at 6.525 million (6.518 million at 30 June 2015).
As at 30 June 2016, the gas distribution network covered 56,759 km, an increase of 42 km compared with 31 December 2015 (56,717 km).

Regulation

Electricity, Gas and Water System Authority (AEEGSI) resolutions

Resolution 173/2016/R/gas - "Determination of provisional reference tariffs for gas distribution and metering services for 2016, and approval of bi-monthly equalisation amounts, relating to the natural gas distribution service, for 2016"
With this resolution, published on 8 April 2016, the Authority determined the provisional reference tariffs for the gas distribution and metering services for 2016, based on the preliminary balance sheet data for 2015, pursuant to Article 3, paragraph 2, letter a) of resolution 573/2013/R/gas Regulation of Tariffs for Gas Distribution and Metering Services - RTDG.

Financial review

Income Statement

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
3,573	Regulated revenues	1,796	**1,700**	(96)	(5.3)
76	Non-regulated revenue	41	**24**	(17)	(41.5)
3,649	**Total revenue (*)**	**1,837**	**1,724**	**(113)**	**(6.2)**
(850)	Operating costs (*)	(403)	**(410)**	(7)	1.7
2,799	**EBITDA**	**1,434**	**1,314**	**(120)**	**(8.4)**
(849)	Depreciation, amortisation and impairment losses	(422)	**(447)**	(25)	5.9
1,950	**EBIT**	**1,012**	**867**	**(145)**	**(14.3)**
(380)	Net financial expenses	(186)	**(176)**	10	(5.4)
135	Net income from equity investments	69	**64**	(5)	(7.2)
1,705	**Profit before taxes**	**895**	**755**	**(140)**	**(15.6)**
(467)	Income tax	(283)	**(229)**	54	(19.1)
1,238	**Net profit (**)**	**612**	**526**	**(86)**	**(14.1)**

(*) Purely for the purposes of the reclassified income statement, revenue relating to building and upgrading distribution infrastructures recorded pursuant to IFRIC 12, which is recorded in equal measure alongside the relevant costs incurred (€122 and €137 million respectively in the first half of 2015 and of 2016), is stated as a direct reduction in the respective cost items.

(**) Net profit is attributable to Snam.

Net profit

Net profit for the first half of 2016 totalled €526 million, down by €86 million (14.1%) compared with the first half of 2015. The reduction was mainly due to the fall in EBIT (-€145 million; -14.3%) and lower income from equity investments valued using the equity method (-€5 million; -7.2%). These factors were partly offset by the lower financial expenses (+€10 million; 5.4%), mainly following lower expenses related to net financial debt (+€20 million, 10.4%), which benefited thanks to the reduction in the average cost of debt and the fall in income taxes (+€54 million; 19.1%), mainly due to the lower pre-tax profit.

Analysis of income statement items

Total revenue

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
	Business segments				
2,145	Transportation	1,080	**986**	(94)	(8.7)
25	Regasification	13	**10**	(3)	(23.1)
535	Storage	276	**293**	17	6.2
1,098	Distribution	543	**516**	(27)	(5.0)
209	Corporate and other activities	102	**94**	(8)	(7.8)
(363)	*Consolidation eliminations*	*(177)*	***(175)***	*2*	*(1.1)*
3,649	**Total revenue**	**1,837**	**1,724**	**(113)**	**(6.2)**

Revenue - Regulated and non-regulated activities

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
3,573	**Regulated revenues**	**1,796**	**1,700**	**(96)**	**(5.3)**
	Business segments				
1,977	Transportation	978	**918**	(60)	(6.1)
18	Regasification	11	**10**	(1)	(9.1)
389	Storage	205	**215**	10	4.9
1,063	Distribution	528	**501**	(27)	(5.1)
126	Revenue items offset in costs (*)	74	**56**	(18)	(24.3)
76	**Non-regulated revenue**	**41**	**24**	**(17)**	**(41.5)**
3,649		**1,837**	**1,724**	**(113)**	**(6.2)**

(*) The main revenue items offset in costs relate to interconnection and sales of natural gas carried out for balancing purposes.

Regulated revenue (€1,700 million, net of consolidation elimination) fell by €96 million compared with the first half of 2016 (-5.3%). Revenue from regulated activities, net of components offset in costs, stood at €1,644 million and relate to transportation (€918 million), distribution (€501 million), storage (€215 million) and regasification (€10 million). The reduction of €78 million (4.5%) compared with the first half of 2015, is due mainly to the lower net invested capital return rate (WACC) for 2016, which affected the natural gas transport sector (from 6.3% in 2015 to 5.4% in 2016) and distribution sector (from 6.9% in 2015 to 6.1% in 2016; from 7.2% in 2015 to 6.6% in 2016 for metering). With regard to the storage sector, the increase in regulated revenue (+€10 million, +4.8%) was basically due to the adoption of reference parameters for determining the WACC for 2016, calculated in accordance with the criteria established by the Authority through resolution 583/2015/R/com, improvements compared with the reference ones for determining the WACC for 2015, the first year of the fourth regulation period for the storage service, which led to the WACC for 2016 being calculated as 6.5% compared with 6% for 2015.

Non regulated revenue (€24 million, net of consolidation eliminations) mainly involves income from the leasing and maintenance of fibre optic telecommunication cables (€6 million), from rental (€3 million) and insurance payments (€2 million). The reduction compared with the first half of 2015, equal to €17 million, is mainly due to lower sales of natural gas no longer part of operations.

Operating costs

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
	Business segments				
485	Transportation	240	**214**	(26)	(10.8)
19	Regasification	8	**6**	(2)	(25.0)
145	Storage	71	**72**	1	1.4
356	Distribution	163	**196**	33	20.2
208	Corporate and other activities	98	**97**	(1)	(1.0)
(363)	*Consolidation eliminations*	*(177)*	***(175)***	*2*	*(1.1)*
850		**403**	**410**	**7**	**1.7**

Operating costs - Regulated and non-regulated activities

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
792	**Costs of regulated activities**	**367**	**372**	**5**	1.4
482	Controllable fixed costs	248	**235**	(13)	(5,2)
20	Variable costs	11	**14**	3	27.3
164	Other costs	34	**67**	33	97.1
126	Cost items offset in revenue (*)	74	**56**	(18)	(24.3)
58	**Costs of non-regulated activities**	**36**	**38**	**2**	5.6
850		**403**	**410**	**7**	**1.7**

(*) The main items offset in costs relate to interconnection and to withdrawals of natural gas in relation to sales carried out for the purposes of balancing the gas system.

Operating costs of regulated activities
Controllable fixed costs (€235 million, net of components which are offset in revenues), which comprise the sum of personnel expenses and recurring external costs, fell by €13 million, or 5.2%, compared with the first half of 2015 (€248 million). The reduction was essentially due to lower external costs (-€9 million).

Variable costs totalled €14 million, net of components that are offset in revenues, up by €3 million compared with first half of 2015.

Other costs (€67 million, net of components which are offset in revenues), essentially involve: (i) concession fees for natural gas distribution concessions (€26 million); (ii) capital losses (€15 million); (iii) net provisions for risks and charges (€11 million). The increase, net of components which are offset in revenues, equal to €33 million is essentially due to the dynamics of the provision for risks and charges, following the net provisions made in the first half of 2016 for net usage recorded in the first half of 2015.

Operating costs of non-regulated activities
Non-regulated operating costs totalled €38 million, broadly in line with the corresponding period in 2015 (+€2 million, +5.6%).

Operating costs, net of components that are offset in revenues, amounted to €354 million, up by €25 million, equal to 7.6% compared with the first half of 2015.

The number of employees as at 30 June 2016 (6,395 people) is analysed below by professional status:

Financial year		First half			
2015	(number)	2015	2016	Change	% Change
	Professional status				
131	Executives	127	**130**	3	2.4
614	Managers	607	**653**	46	7.6
3,356	Administrative staff	3,351	**3,487**	136	4.1
2,112	Manual workers	2,134	**2,125**	(9)	(0.4)
6,213		**6,219**	**6,395**	**176**	**2.8**

Depreciation, amortisation and impairment losses

Financial year		First half			
2015	(millions of €)	2015	2016	Change	% Change
846	**Depreciation and amortisation**	**422**	**447**	**25**	**5.9**
	Business segments				
492	Transportation	249	**257**	8	3.2
5	Regasification	2	**3**	1	50.0
71	Storage	36	**42**	6	16.7
273	Distribution	132	**142**	10	7.6
5	Corporate and other activities	3	**3**		
3	**Impairment losses (Reversals)**				
849		**422**	**447**	**25**	**5.9**

Amortisation and depreciation (€447 million) increased by €25 million, 5.9%, compared with the first half of 2015, mainly following the increased amortisation and depreciation (+€25 million), recorded in all business segments. The increase is basically due to the new infrastructures coming into service.

EBIT

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
	Business segments				
1,165	Transportation	591	**515**	(76)	(12.9)
1	Regasification	3	**1**	(2)	(66.7)
319	Storage	169	**179**	10	5.9
469	Distribution	248	**178**	(70)	(28.2)
(4)	Corporate and other activities	1	**(6)**	(7)	
1,950		**1,012**	**867**	**(145)**	**(14.3)**

EBIT[12] for the first half of 2016 totalled €867 million, down by €145 million (14.3%) compared with the first half of 2015. The reduction is due to lower revenues (-€95 million, net of components offset in costs, -5.4%) and to the rise in operating costs (-€25 million, net of components offset in revenues, equal to 7.6%). The increase in operating costs is mainly due to the dynamics of the provision for risks and charges, following net provisions for risks and charges for usage made in the first half of 2015 (-€33 million), the effects of which were only partly offset by less income for the sale of natural gas no longer part of operations (+€17 million). The reduction in EBIT was also affected by the increase in amortisation and depreciation (-€25 million, 5.9%) recorded in all business segments.

Net financial expenses

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
392	**Financial expense (income) related to net financial debt**	**193**	**173**	**(20)**	**(10.4)**
395	- Interest and other expense on short- and long-term financial debt	196	**173**	(23)	(11.7)
(3)	- Interest on financial receivables not held for operations	(3)		3	(100.0)
18	**Other net financial expense (income)**	**7**	**10**	**3**	**42.9**
14	- Accretion discount	6	**7**	1	16.7
4	- Other net financial expense (income)	1	**3**	2	
	Losses (Gains) on hedging derivatives – ineffective portion		**2**	**2**	
(30)	**Financial expense capitalised**	**(14)**	**(9)**	**5**	**(35.7)**
380		**186**	**176**	**(10)**	**(5.4)**

Net financial expense amounted to €176 million, down by €10 million (5.4%) compared with the first half of 2015. The reduction was mainly attributable to the lower financial expenses related to net financial expense (-€20 million), due mainly to the decrease in the average cost of borrowing, thanks partly to the measures implemented by the Group to improve its financial structure. These effects were partly offset by lower capitalisation of financial expense (+€5 million) and by the effects related to the recording in the income statement of the ineffective portion resulting from the valuing at fair value of hedging derivative instruments (+€2 million).

Net income from equity investments

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
126	Effect of valuation using the equity method	70	**64**	(6)	(8.6)
9	Other net income (expense)	(1)		1	(100.0)
135		**69**	**64**	**(5)**	**(7.2)**

Net income from equity investments (€64 million) concerns the share of net profit for the period of companies valued using the equity method (€64 million; -€6 million), with particular reference to Trans Austria Gasleitung GmbH - TAG (€37 million; -€2 million), TIGF Holding S.A.S. (€16 million; +€1 million), Toscana Energia S.p.A. (€9 million; -€2 million), Gasbridge 1 B.V. and Gasbridge 2 B.V (€4 million in total; -€1 million) as well as the share of the negative result for the period of Trans Adriatic Pipeline AG - TAP (-€2

[12] 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

million), a company involved in the development of the project that will enable gas to be transported from Azerbaijan to Europe.

Income tax

Financial year		First half			
2015	(millions of €)	**2015**	**2016**	**Change**	**% Change**
595	**Current taxes**	**310**	**265**	**(45)**	**(14.5)**
	(Prepaid) deferred taxes				
(52)	Deferred taxes	(26)	**(28)**	(2)	7.7
(19)	Prepaid taxes	(1)	**(8)**	(7)	
(71)		**(27)**	**(36)**	**(9)**	**33.3**
(57)	**Adjustment of deferred taxes**				
27.4	**Tax rate (%)**	**31.6**	**30.3**	**(1.3)**	
467		**283**	**229**	**(54)**	**(19.1)**

Income tax for the first half of 2016 (€229 million) decreased by €54 million, or 19.1%, compared with the corresponding period of the previous year. The reduction is mainly due to the lower pre-tax profit and increase in ACE benefit - (Economic Growth Aid) for companies that strengthen their capital structure - introduced by Decree Law 201 of 6 December 2011 converted by Law 214 of 22 December 2011 and later amendments and supplements.

The tax rate was 30.3% (31.6% in the first half of 2015).

Reclassified statement of financial position

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year Report based on how the business operates, usually split into the three basic functions 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 balance sheet to calculate the key profitability ratios (ROI and ROE).

Reclassified statement of financial position (*)

(millions of €)	31.12.2015	30.06.2016	Change
Non-current assets	**22,121**	**22,464**	**343**
Property, plant and equipment	15,478	**15,677**	199
Compulsory inventories	363	**363**	
Intangible assets	5,275	**5,265**	(10)
Equity investments	1,372	**1,337**	(35)
Financial receivables held for operations	78	**147**	69
Net payables for investments	(445)	**(325)**	120
Net working capital	**(607)**	**(890)**	**(283)**
Provisions for employee benefits	**(166)**	**(165)**	**1**
Assets held for sale and directly related liabilities	**17**	**18**	**1**
NET INVESTED CAPITAL	**21,365**	**21,427**	**62**
Shareholders' equity (including minority interests)			
- attributable to Snam	7,585	**7,249**	(336)
- attributable to minority interests	1	**1**	
	7,586	**7,250**	**(336)**
Net financial debt	**13,779**	**14,177**	**398**
COVERAGE	**21,365**	**21,427**	**62**

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

Fixed capital (€22,464 million) increased by €343 million compared with 31 December 2015, due mainly to the increase in property, plant and equipment (+€199 million), the reduction in net financial debt relating to investing activities (+€120 million) and the increase in financial receivables relating to operations (+€69 million).

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

(millions of €)	Property, plant and equipment	Intangible assets	Total
Balance at 31 December 2015	**15,478**	**5,275**	**20,753**
Technical investments	358	168	**526**
Depreciation, amortisation and write-downs	(292)	(155)	**(447)**
Transfers, eliminations and divestments	(6)	(9)	**(15)**
Other changes	139	(14)	**125**
Balance at 30 June 2016	**15,677**	**5,265**	**20,942**

Other changes (+€125 million) relate to: (i) the effects of adjusting the present value of disbursements for the dismantling and restoration of sites (+€153 million), mainly due to a reduction in the expected discounting rates; (ii) grants for the period (-€21 million); and (iii) the change in inventories of pipes and related accessory materials used to construct the plants (-€7 million).

Compulsory inventories

Compulsory inventories (€363 million, unchanged from 31 December 2015) 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 Development[13].

Equity investments

The equity investments item (€1,337 million) includes the valuation of equity investments using the equity method and refers to the companies Trans Austria Gasleitung GmbH - TAG (€458 million), TIGF Holding S.A.S. (€445 million), Toscana Energia S.p.A. (€163 million), Trans Adriatic Pipeline AG - TAP (€154 million)[14] and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€105 million cumulatively).

Financial receivables held for operations

Financial receivables held for operations (€147 million) relate to Snam's share of the Shareholders' Loan granted to the subsidiary Trans Adriatic Pipeline AG (TAP). Financial receivables, compared with 31 December 2015[15], increased by €69 million.

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

[14] It includes the increase of approximately €26 million (equal to CHF 28.6 million) relating to the future share capital increase of TAP, which Snam is obliged to invest in in proportion to the shareholding owned, by virtue of the agreements signed during the acquisition of the equity investment. Snam organised the payment for 13 July 2016.

[15] Based on contractual agreements signed, shareholders are responsible for funding the project on the basis of the shareholding owned, both through the Shareholders' Loan and through the subscription of share capital increases, until the pipeline comes into service, as well as if its capacity is expanded.

Net working capital

(millions of €)	31.12.2015	30.06.2016	Change
Trade receivables	1,677	**1,247**	(430)
Inventories	152	**175**	23
Tax receivables	96	**72**	(24)
Derivative instruments	7	**35**	28
Other assets	167	**260**	93
Provisions for risks and charges	(776)	**(946)**	(170)
Trade payables	(694)	**(608)**	86
Liabilities for deferred taxes	(388)	**(352)**	36
Accruals and deferrals from regulated activities	(56)	**(88)**	(32)
Tax liabilities	(51)	**(72)**	(21)
Other liabilities	(741)	**(613)**	128
	(607)	**(890)**	**(283)**

Net working capital (€890 million) fell by €283 million compared with 31 December 2015 owing mainly to: (i) the reduction in trade receivables (-€430 million) mainly due to the natural gas transportation sector (-€261 million), following less receivables from the dynamics of additional components compared with the transportation tariff (-€107 million) and the balancing service (-€87 million) and the natural gas distribution sector (-€188 million) as a result of seasonally-adjusted volumes distributed; (ii) the increase in the provision for risks and charges (-€170 million) due essentially to the provision for site dismantling and restoration (-€101 million) and the transportation sector (-€52 million) as a result of the reduction in expected discount rates.

These factors were partly offset by: (i) the reduction in other liabilities (+€128 million) attributable mainly to the lower payables to the Cassa per i Servizi Energetici e Ambientali - CSEA with regard to additional tariff components in the transportation sector (+€98 million); (ii) the increase in other assets (+€93 million) which essentially refer to the distribution sector for greater receivables from the CSEA related to Energy Efficiency Certificates (+€60 million); (iii) the reduction in trade payables (+€86 million) mainly as a result of the balancing service.

Assets held for sale and directly associated liabilities

Assets held for sale and directly related liabilities relate to a property complex located in Roma Ostiense owned by Italgas (€18 million, net of environmental provisions for charges relating to restoration work on the property), for which negotiations for a sale[16] are ongoing.

[16] Note that, at the same time as the operation separating Italgas from Snam and subject to the effectiveness of the latter, Snams' rights and obligations , with regard to the Roma Ostiense property complex resulting from precise contractual agreements during the sale, by Eni to Snam, of the entire share capital of Italgas which took place in 2009 will be transferred to the Beneficiary Company ITG Holding. For more information, please refer to note 18 "Guarantees, commitments and risks - Other commitments and risks - Commitments resulting from the contract for the sale by Eni of Italgas and Stogit" in the Notes to the Condensed consolidated interim financial statements.

Statement of comprehensive income

	First half	
(millions of €)	**2015**	**2016**
Net profit	**612**	**526**
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)		**1**
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (*)	11	**(13)**
Tax effect		
	11	**(12)**
Components that cannot be reclassified to the income statement:		
Actuarial (losses)/gains from remeasurement on defined-benefit obligations - IAS 19	2	
Tax effect	(1)	
	1	
Total other components of comprehensive income, net of tax effect	**12**	**(12)**
Total comprehensive income	**624**	**514**
attributable to:		
- Snam	624	**514**
- Minority interests		
	624	**514**

(*) Includes the effects of the shareholders' equity conversion of the stakeholding in Interconnector UK, owned by the joint-control companies Gasbridge 1 B.V. and Gasbridge 2 B.V., at the Euro/GBP spot exchange rate at 30 June 2016.

Shareholders' equity

(millions of €)		
Shareholders' equity at 31 December 2015		**7,586**
Increases owing to:		
- Comprehensive income for the first half of 2016	514	
- Other changes (*)	25	
		539
Decreases owing to:		
- Distribution of 2015 dividend	(875)	
		(875)
Shareholders' equity including minority interests at 30 June 2016		**7,250**
attributable to:		
- Snam		**7,249**
- Minority interests		**1**
		7,250

(*) Other changes (+€25 million) relate essentially to the correction of the price adjustment in favour of Eni, recognised in 2010 in relation to contractual agreements with Eni at the time of the acquisition of the stake in Stogit (+€21 million). The adjustment follows the definitive approval by the Electricity, Gas and Water Authority (AEEGSI) of the storage tariffs for 2015, the reference tariff year for the purposes of adjusting the contractual price.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2015 is provided in Note 17 "Shareholders' equity" in the Notes to the condensed consolidated interim financial statements.

Net financial debt

(millions of €)	31.12.2015	30.06.2016	Change
Financial and bond debt	**13,796**	**14,198**	**402**
Short-term financial debt (*)	2,729	**3,864**	1,135
Long-term financial debt	11,067	**10,334**	(733)
Financial receivables and cash and cash equivalents	**(17)**	**(21)**	**(4)**
Cash and cash equivalents	(17)	**(21)**	(4)
	13,779	**14,177**	**398**

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

The net cash flow from operating activities (€1,200 million) allowed us to fully cover the financial requirements associated with net investments for the period (€692 million) and to generate a free cash flow of €508 million. The net financial debt, after the payment to shareholders of the 2015 dividend of €875 million, increased by €367 million compared with 31 December 2015. Including non-cash items, net financial debt increased by €398 million to a level of €14,177 million.

Financial and bond debts at 30 June 2016, amounting to €14,198 million (€13,796 million at 31 December 2015), comprised the following:

(millions of €)	31.12.2015	30.06.2016	Change
Bonds (*)	9,811	**9,639**	(172)
Bank loans	3,950	**4,535**	585
Other loans	35	**24**	(11)
	13,796	**14,198**	**402**

(*) The debenture loans were issued under the scope of the Euro Medium Term Notes (EMTN) Programme, with a due date of 30 June 2016 and in the process of renewal.

Financial and bond debts are denominated in euros[17] and refer mainly to bond loans (€9,639 million, 67.9%) and bank loans (€4,535 million, or 31.9%, including €1,617 million provided by the European Investment Bank - EIB).

The increase in financial and bond debts compared with 31 December 2015, equal to €402 million, is mainly attributable to the increase in bank loans (+€585 million) by virtue of the greater net usage of uncommitted banking lines of credit (+€350 million) and committed lines (+€245 million), belonging, specifically, to the syndicated loan. These effects were partly offset by the reduction in debenture loans (-€172 million) basically following the repayment of a bond, due in January 2016, of a nominal value of €150 million.

Long-term financial debt (€10,334 million) represents around 73% of gross financial debt (around 80% at 31 December 2015). Fixed-rate financial debts amounted to around 62% of gross financial debt (around 64% at 31 December 2015).

Cash and cash equivalents (€21 million) mainly refer to the bank deposits of Gasrule Insurance DAC for the Group's insurance activities (€19 million).

At 30 June 2016, Snam had unused committed long-term credit lines worth €3.7 billion.

Covenants

As at 30 June 2016, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these agreements call for, among other things, compliance with covenants typical of international practices such as: (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. At 30 June 2016, the bank loans subject to these restrictive clauses amounted to approximately €2.9 billion. The bonds issued by Snam as at 30 June 2016 as part of the Euro Medium Term

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

Notes programme call for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.
Failure to meet these covenants, and the occurrence of other events, for example cross-default events, some of which are subject to specific materiality thresholds, 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 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.
Specifically with regard to the covenants related to the separation of Italgas from Snam (the Transaction), note the following: (i) with regard to the bank loans at 30 June 2016, Snam obtained the required consent from financial institutions to finalise the Transaction, which was subject, among other things, to the completion of the Transaction; (ii) with regard to the bonds issued as a part of the Euro Medium Term Notes Programme, as dictated by the agreement, Snam will request the approval of bondholders to allow it to sell a substantial portion of its industrial business as a result of the Transaction; (iii) with specific regard to the loans funded by the European Investment Bank, EIB has issued its consent for the completion of the Transaction subject to certain termination conditions such as, in particular, EIB's receipt of the spin-off document in a form and substance satisfactory to EIB, and Snam's updated business plan, and any other transaction-related documentation available to creditors indicating that Snam's credit risk and overall industrial operations are not negatively affected by the transaction. With regard to the two loans issued by EIB to Snam to fund Italgas projects, EIB has stated it is willing to agree to the assumption with release for Snam subject to certain conditions being met (including the approval of EIB's decision-making bodies in this regard).
Taking account of what is described in this paragraph, it should be noted that as at 30 June 2016, there were not events not in compliance with the aforementioned obligations and contractual covenants.

Information on financial covenants can be found in Note 12 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the condensed consolidated interim financial statements.

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 (*)

	First half	
(millions of €)	2015	2016
Net profit	**612**	**526**
Adjusted for:		
- Amortisation, depreciation and other non-monetary components	351	**382**
- Net capital losses on asset sales and eliminations	10	**15**
- Interest and income taxes	452	**385**
Change in working capital due to operating activities	30	**167**
Dividends, interest and income taxes collected (paid)	(309)	**(275)**
Net cash flow from operating activities	**1,146**	**1,200**
Technical investments	(454)	**(499)**
Equity investments	(14)	**(26)**
Financial receivables held for operations		**(69)**
Change in scope of consolidation and business units	(45)	
Divestments	87	**2**
Other changes relating to investment activities	(133)	**(100)**
Free cash flow	**587**	**508**
Change in financial receivables not held for operations	(5)	
Change in short- and long-term financial debt	243	**371**
Equity cash flows	(875)	**(875)**
Net cash flow for the period	**(50)**	**4**

Change in net financial debt

	First half	
(millions of €)	2015	2016
Free cash flow	**587**	**508**
Adjustment to fair value of financial debt	(4)	**(11)**
Exchange rate differences on financial debt	8	**(20)**
Equity cash flows	(875)	**(875)**
Change in net financial debt	**(284)**	**(398)**

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

Reconciliation of the reclassified financial statement with the compulsory formats

Reclassified statement of financial position

(millions of €)

Reclassified statement of financial position items		31.12.2015		30.06.2016	
(Where not expressly stated, the component is taken directly from the legally required format)	Reference in 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**
Non-current assets					
Property, plant and equipment			15,478		**15,677**
Compulsory inventories			363		**363**
Intangible assets			5,275		**5,265**
Equity-accounted investments			1,372		**1,337**
Financial receivables held for operations	(note 5)		78		**147**
Net payables for investments, consisting of:			(445)		**(325)**
- Payables for investment activities	(note 13)	*(468)*		***(341)***	
- Receivables from investment/divestment activities	(note 5)	*23*		***16***	
Total fixed capital			**22,121**		**22,464**
Net working capital					
Trade receivables	(note 5)		1,677		**1,247**
Inventories			152		**175**
Tax receivables, consisting of:			96		**72**
- Current income tax assets and other current tax assets		*62*		***38***	
- IRES receivables for the national tax consolidation scheme	(note 5)	*34*		***34***	
Trade payables	(note 13)		(694)		**(608)**
Tax liabilities, consisting of:			(51)		**(72)**
- Current income tax liabilities and other current tax liabilities		*(51)*		***(72)***	
Liabilities for deferred taxes			(388)		**(352)**
Provisions for risks and charges			(776)		**(946)**
Derivative instruments	(notes 8 and 14)		7		**35**
Other assets, consisting of:			167		**260**
- Other receivables	(note 5)	*90*		***180***	
- Other current and non-current assets	(note 8)	*77*		***80***	
Assets and liabilities from regulated activities, consisting of:			(56)		**(88)**
- Regulated assets	(note 8)	*150*		***114***	
- Liabilities from regulated activities	(note 14)	*(206)*		***(202)***	
Other liabilities, consisting of:			(741)		**(613)**
- Other payables	(note 13)	*(584)*		***(428)***	
- Other current and non-current liabilities	(note 14)	*(157)*		***(185)***	
Total net working capital			**(607)**		**(890)**
Provisions for employee benefits			(166)		**(165)**
Assets held for sale and directly related liabilities, consisting of:			**17**		**18**
- Assets held for sale		*24*		***24***	
- Liabilities directly associated with assets held for sale		*(7)*		***(6)***	
NET INVESTED CAPITAL			**21,365**		**21,427**
Shareholders' equity including minority interests			7,586		**7,250**
Net financial debt					
Financial liabilities, consisting of:			13,796		**14,198**
- Long-term financial liabilities		*11,067*		***10,334***	
- Current portion of long-term financial liabilities		*1,378*		***2,168***	
- Short-term financial liabilities		*1,351*		***1,696***	
Financial receivables and cash and cash equivalents, consisting of:			(17)		**(21)**
- Cash and cash equivalents		*(17)*		***(21)***	
Total net financial debt			**13,779**		**14,177**
COVERAGE			**21,365**		**21,427**

Reclassified statement of cash flows

(millions of €)	First half of 2015		First half of 2016	
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		**612**		**526**
Adjusted for:				
Amortisation, depreciation and other non-monetary components:		351		**382**
- Amortisation and depreciation	422		**447**	
- Equity method valuation effect	(70)		**(64)**	
- Change in provisions for employee benefits	(2)		**(1)**	
- Other changes	1			
Net capital losses on asset sales and eliminations		10		**15**
- Interest and income taxes		452		**385**
- Interest income	(7)		**(3)**	
- Interest expense	176		**159**	
- Income taxes	283		**229**	
Change in working capital due to operating activities:		30		**167**
- Inventories	37		**8**	
- Trade receivables	350		**432**	
- Trade payables	(205)		**(86)**	
- Change in provisions for risks and charges	(20)		**18**	
- Other assets and liabilities	(132)		**(205)**	
Dividends, interest and income taxes collected (paid):		(309)		**(275)**
- Dividends collected	99		**102**	
- Interest collected	4		**1**	
- Interest paid	(172)		**(159)**	
- Income taxes (paid) received	(240)		**(219)**	
Net cash flow from operating activities		**1,146**		**1,200**
Technical investments:		(454)		**(499)**
- Property, plant and equipment	(313)		**(343)**	
- Intangible assets	(141)		**(156)**	
Investments in companies joining the scope of consolidation and business units:		(45)		
Equity investments		(14)		**(26)**
Financial receivables held for operations				**(69)**
Divestments:		87		**2**
- Property, plant and equipment	1			
- Equity investments	86		**2**	
Other changes relating to investment activities:		(133)		**(100)**
- Change in net payables relating to investment activities	(133)		**(100)**	
Free cash flow		**587**		**508**
Change in financial receivables not held for operations		(5)		
Change in financial payables:		243		**371**
- Taking on long-term financial debt	591		**370**	
- Repaying long-term financial debt	(502)		**(338)**	
- Increase (decrease) in short-term financial debt	154		**339**	
Equity cash flow		(875)		**(875)**
- Dividends paid to Snam shareholders	(875)		**(875)**	
Net cash flow for the period		**(50)**		**4**

Other information

Related-party transactions

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. Members of the Board of Directors, Statutory Auditors and Snam Group and CDP managers with strategic responsibilities, and their families, are also regarded as related parties. 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. The main operations with these parties involve the exchange of goods and the provision of regulated services in the gas sector. 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.

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

As at 30 June 2016, Snam manages and coordinates its subsidiaries, pursuant to Article 2497 *et seq.* of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in Note 27 “Relationships with related parties” of the Notes to the condensed consolidated interim financial statements.

Elements of risk management and uncertainty

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.

For more details with regard to Snam's Enterprise Risk Management (ERM) model, as well as the mitigation and control actions implemented by Snam for each of the main risks identified, please see the “Elements of risk management and uncertainty” chapter of the 2015 Annual Report.

With regard to the risks resulting from the operation of separating Italgas from Snam, please refer to the next paragraph "Main risks factors relating to the operation of separating Italgas from Snam” and to the Information Document prepared pursuant to Article 70, paragraph 6 of the Issuers' Regulation available on the Snam website (www.snam.it, in the section "Ethics and Governance - Shareholders' Meetings”).

Main risk factors and uncertainties for the Snam Group

The main types of risk identified by Snam, based on the conditions existing at the date of this Report, are:

- regulatory risk and legal and non-compliance risk;
- cyclical risk;
- operating risks;
- specific risks associated in particular with market risk and competition in various sectors in which the Group operates;
- risks of a financial nature, resulting from exposure to interest rate and exchange rate fluctuations, from bad debts, from liquidity risk, as well as default risk and medium- and long-term debt rating downgrade.

Regulatory risk, for Snam, is closely linked to the regulation of its activities in the gas sector. 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. Regulatory directives and provisions issued by the European Union and the Italian government and the decisions of the AEEGSI and, more generally, changes in the regulatory context can have negative effects on the assets and the balance sheet, income statement and financial position of the Snam Group.

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).

Cyclical risk for Snam is closely associated with the impacts that changes in the macro economic situation could have on the capacity of the Group to access the capital and debt markets, or to refinance existing debt to satisfy its liquidity requirements. From the second half of 2007, the turmoil created in the global financial system was caused by increasingly difficult conditions in financial markets. These conditions created a reduction in liquidity and greater volatility in the global financial markets and continue to have an impact on financial markets and the global economy. Some governments, international and supranational organisations and monetary authorities recently adopted measures aimed at increasing liquidity in the financial markets, in order to give a boost to the growth of global GDP and mitigate the risk of sovereign debt of several European countries. However, it is difficult to predict what the effect of these measures will be on the economy and on the financial system, as well as how long they will last. In addition to the above, the British referendum on 23

June 2016 in which the majority of United Kingdom citizens voted to leave the European Union ("Brexit") could cause an increase in volatility in financial markets, a worsening of financial conditions, in particular for the so-called "peripheral" countries, including Italy, and a possible slowdown in the economic cycle. In addition, on the other side, the result of the referendum could exert significant pressure on other member states to leave the European Union and the Monetary Union, with further negative consequences on the above-mentioned phenomena, moreover it is not possible in European Union countries, including Italy, to rule out further increases in political and institutional instability with a consequent rise in sovereign debt interest rates. All of this could cause an increase in the Snam Group's cost of debt with consequent negative effects on its assets and on the balance sheet, income statement and cash flows.

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 time frames than those originally planned, affecting Snam's financial position and results.

With regard to the **market and competition risks** associated with the individual sectors in which Snam operates, note, specifically, the risks linked to the *expiry and renewal of distribution concessions* and the risks associated with the *repayment to the outgoing operator* with reference to gas distribution activities, and, as far as the storage sector is concerned, the risks associated with *maintaining ownership of storage concessions.*

The gas distribution operations in which the Snam Group is involved and which the ITG Holding Group will be involved in after the Effective Date of the Merger, are exercised by virtue of the concessions issued by individual municipalities. At 31 December 2015, the above-mentioned concessions, owned by Italgas and its subsidiaries (Napoletanagas S.p.A. ("Napoletanagas"), AES Torino S.p.A. and ACAM Gas S.p.A. ("ACAM Gas")), come to a total of 1,472 of which 1,183 have expired. The average life of existing concessions is 7 years. Note, for completeness, that the subject relating to the expiry of concessions does not only involve Italgas and its subsidiaries, but all operators in the gas distribution sector in Italy. In this regard, from the moment the gas distribution service is qualified as a public service, Italgas and its subsidiaries - also following the expiry of the concession- should continue with the management of the service (and be remunerated), limited to the ordinary administration, until the start date of the new concession (Article 14 of Legislative Decree 164 of 2000). The new gas distribution service concessions should be awarded through tenders launched exclusively for ATEM (Minimum Territorial Areas). The tender award criteria for the natural gas distribution service, significant for the purpose of evaluating the tender bid, are governed by Inter-ministerial Decree 226 of 12 November 2011. The award criteria involve the allocation of 28 points to the financial quotation (divided between tariff discounts and service to customers and fees to be paid to municipal administrations), 27 points to the management proposal (which rewards the quality and safety of the service offered) and 45 points to the technical bid (which rewards the capacity of the offeror to carry out an accurate analysis of the structure of the networks and implement, possibly even improving, the investment plan prepared by the contracting entity, with regard to extension, maintenance and technological innovation measures). At the date of this Report it is not yet possible to make a definite assessment with regard to each of the elements of the new concession award system nor is there an established interpretation of the new regulatory framework by the awarding administrations or the judicial administration. Under the scope of the tender procedures launched, Italgas may not be awarded the concessions planned, or could be awarded these concessions at less favourable conditions than the current ones with possible negative impacts on operations and on the balance sheet, income statement and financial position. However, it should be pointed out that, if it is not awarded the concessions for municipalities it managed previously, Italgas would have the right to receive the Payment Amount intended for the outgoing operator calculated in accordance with Ministerial Decree 226 of 12 November 2011 ("D.M. 226/2011"). Taking into account the complexity of the regulations governing the expiry of the concessions that Italgas and its subsidiaries own, this could translate into legal and/or arbitration proceedings between concessionaires, including Italgas, and third-parties with possible negative effects on the assets and the balance sheet, income statement and financial position of the ITG Holding Group.

With regard to gas distribution concessions, Article 14, paragraph 8 of Legislative Decree 164 of 2000 establishes that the new operator, among other things, is obliged to pay a sum to the outgoing distributor equal to the repayment value for the plants whose ownership is transferred from the outgoing distributor to the new operator. Specifically, Ministerial Decree 226/2011 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. Pursuant to Article 15, paragraph 5 of Legislative Decree 164 of 200, the Repayment Amount paid to outgoing operators is calculated based on what has been established in the agreements or contracts, provided that these were entered into before the date on which the regulation pursuant to Ministerial Decree No. 226 came into effect (i.e. before 11 February 2012), and, for the portion that cannot be inferred from the will of the parties, as well as the aspects not governed by the aforementioned agreements or contracts, based on the guidelines on the operating criteria and methods for measuring the repayment amount, which were subsequently made available by the Ministry of Economic Development in a document dated 7 April 2014 and approved by a Ministerial Decree of 22 May 2014 ("Guidelines"). The Repayment Value calculated based on the methodology set out in Article 5, paragraphs 5 and 11 of Ministerial Decree 226/2011, is equal to the cost that would be incurred for its reconstruction from new, minus the value of the physical degradation, including non-current assets under construction from the accounting records and deducting public and private contributions relating to local assets. In the event that the Repayment Value exceeds more than 10% of the value of the local net fixed assets, calculated with regard to the criteria used by the AEEGSI to calculate distribution tariffs (net of government grants for capital expenditure and private contributions relating to local assets), the granting local authority shall send the documentation with the detailed calculation of the Repayment Value to the AEEGSI.

Through resolution 367/2014/R/gas, the AEEGSI approved the regulation of gas distribution and metering service tariffs for the 2014-2019 regulatory period. Among other things, the Resolution made the following provisions:

- the initial value, paid for tariff purposes, of local fixed assets subject to transfer for consideration to the incoming operator, is calculated on the basis of:
  a) the Repayment Value - pursuant to Article 5 of Ministerial Decree 226/2011 - paid to the outgoing operator if the outgoing operator is different from the incoming operator, calculated as the reconstruction value from new excluding degradation and grants received;
  b) the value of the local fixed assets calculated with reference to the criteria used by the AEEGSI for calculating the distribution tariffs, in other cases;
- at the end of the first award period (12 years), the value of local fixed assets will be calculated, in both cases (a and b) as the sum of two components:
  a) residual value of existing stock at the start of the award period, valued based on the Repayment Value pursuant to Article 5 of Ministerial Decree 226/2011, taking into account the amortisation, depreciation and divestments recognised for tariff purposes in the award period;
  b) residual value of new investments made in the award period and existing at the end of the period, valued on the basis of the rules used for the tariff regulation.

As a result of this framework, there will be cases in which the Repayment Value could be lower or higher than the RAB (Regulatory Asset Base).

The estimated RAB of the Italgas Group at 31 December 2015 is equal to approximately €5.7 billion, broken down as local RAB equal to approximately €5.4 billion and centralised RAB equal to approximately €0.3 billion.

The Repayment Value at 31 December 2015 of the total portfolio of the Italgas Group concessions, excluding free donations, was estimated by Italgas at approximately €5.6 billion based on the methodology in Article 5 of Ministerial Decree 226/2011 and later amendments and supplements and by the Guidelines, with the exception of concessions which, based on the above-mentioned regulations, involve specific contractual agreements relating to the calculation of the Repayment Value (Roma Capitale, City of Venice, Naples and other small municipalities). It is not possible to rule out that the Repayment Value of the concessions, for which a third-party is awarded the contract in the tender process, will be lower than the value of the RAB. Such a case could have negative effects on the assets and the balance sheet, income statement and financial position of the ITG Holding Group.

In 2012, Italgas was awarded the contract for the natural gas distribution service for the Municipality of Rome (the Roma Capitale concession which includes approximately 1.3 million redelivery points out of an Italgas Group total of approximately 6.5 million). At the conclusion of the tender process, to which the framework did not yet apply, a 12-year service agreement, which will expire on 20 November 2024, was signed. The Municipality of Rome has placed the network, systems and property structures instrumental to the service at the disposal of the Italgas for the entire duration of the service agreement. The Repayment Value at 31 December 2015 of the Roma Capital concession was estimated by Italgas to be around €1 billion. This amount is equal to the sum of:

1. what was paid to the Municipality of Rome at the start of the concession (November 2012) by way of a one-off payment for the management of the service (€874.7 million), excluding amortisation and depreciation at 31 December 2015, calculated based on the length of the contract and the provisions, as the residual value at the end of the concession (€299.6 million);
2. the value of the cumulative investments from the start of the concession, in accordance with the contract and, specifically, with reference to only their partial recognition in the Repayment Value, excluding amortisation and depreciation.

Italgas estimated that the RAB at 31 December 2015 relating to the Roma Capitale concession was approximately €1.35 billion. It is not possible to rule out, however, that when the service contract runs out, the difference between the Repayment Value and the RB relating to the Roma Capitale concession, could be higher than estimated with reference to 31 December 2015.

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 years[18]. 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.

Market risks mainly concern the *risk associated with changes in the price of natural gas*. 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, since all the gas for instrumental activities is supplied by shippers in kind. However, 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.

Interest rate risk is associated with fluctuations in interest rates affecting 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. On 30 June 2016, the Snam Group used external financial resources in the form of

[18] 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.

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 30 June 2016 was approximately 38% of the total exposure of the Group (36% at 31 December 2015). At 30 June 2016 Snam has an Interest Rate Swap (IRS) agreement on a fixed rate bond loan for an amount of €500 million with a due date of 2023. IRS agreements are used to convert fixed rate loans into variable rate loans.

Snam's exposure to **exchange rate risk r**elates 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 financial derivatives. It is not possible to rule out that future significant exchange rate variations will produce negative effects on the assets and the financial position of the Snam Group irrespective of the hedging policies implemented by Snam for the exchange rate risks using the financial instruments available on the market.
At 30 June 2016, Snam's foreign currency items consisted essentially of: a bond worth ¥10 billion, maturing in 2019, which was worth around €75 million at the issue date and was fully converted into euros through a cross-currency swap. Snam does not have any cross-currency swaps in place for speculative purposes.
At 30 June 2016, Snam also has a hedging derivative agreement for the forward purchase of foreign currency (Swiss Francs - CHF), with a due date of 13 July 2016, to hedge against the exchange rate risk associated with the capital increase for the subsidiary TAP, paid on 13 July 2016.

Credit risk is the Company's exposure to potential losses arising from counter-parties 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 counter-party 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 revenue 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. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in providing said services and contain contractual conditions which reduce the risk of non-compliance by the clients. In certain cases, the Codes require guarantees to be provided to partly cover obligations where the client does not possess a credit rating issued by one of the leading international agencies. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, balancing gives Snam Rete Gas an obligation to acquire, according to criteria of financial merit, the resources necessary to guarantee the safe and efficient movement of gas from entry points to withdrawal points, in order to maintain a constant balance in the network, procure the necessary storage resources 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, partly because of the current economic and financial situation, which makes the collection of receivables more difficult and more important. Snam's maximum exposure to credit risk at 30 June 2016 is the book value of the financial assets on its balance sheet.

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 previous section on Interest rate risk, 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 30 June 2016, Snam had unused committed long-term credit lines worth approximately €3.7 billion.
At 30 June 2016, the Euro Medium Term Notes (EMTN) programme, for a maximum total value of €12 billion of which approximately €9.5 billion has been used, expired and is being renewed.

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 30 June 2016, 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 as at 30 June 2016 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 meet these covenants, and the occurrence of other events, some of which are subject to specific thresholds, 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).

With reference to **rating risk**, on 30 June 2016 Snam's long term rating was equal to: (i) BBB+, according to Fitch Ratings (“Fitch”); (ii) Baa1, according to Moody’s Investors Services Ltd. (“Moody’s”); and (iii) BBB, according to Standard & Poor’s Rating Services (“S&P”). With reference to Snam's long-term debt, following the announcement to the market of the operation of separating Italgas from Snam, on 29 June 2016 Fitch Ratings confirmed the rating of BBB+ with a stable outlook, Moody's confirmed the rating of Baa1, with a stable outlook and S&P confirmed the rating of BBB with a stable outlook.
Snam’s long-term rating by Moody’s and S&P is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by these rating agencies, the downgrade by one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam’s current rating. The agencies Fitch, Moody’s and S&P which assigned a rating to Snam are all registered with the ESMA.
Any reductions in the ratings assigned to the Snam Group could result in limiting the possibility of access to the capital markets and increase the cost of collecting and/or refinancing the existing debt with consequent negative effects on the assets and the balance sheet, income statement and financial position of the Snam Group.

Main risk factors relating to the operation of separating Italgas from Snam

The main risks to Snam relating to the operation of separating Italgas (hereinafter the "Operation"), which includes the partial and proportional spin-off of Snam, are illustrated below. For this purpose, note that the effectiveness of the Operation is subject, in addition to legal conditions, including, specifically, the vote in favour by the Snam Shareholders' Meeting, to several conditions precedent: (i) the issuing of provisions by the Italian Stock Exchange for the admission to trading on the MTA of the shares of ITG Holding S.p.A., the spin-off beneficiary company ; (ii) the issuing of an opinion of equivalence by Consob pursuant to Article 57, paragraph 1, letter d) of the regulations adopted by Consob by Resolution 11971 of 14 May 1999 (Issuers’ Regulation), as amended, with regard to the Information Document, prepared in accordance with Article 70 of the Issuers’ Regulation, integrated pursuant to Article 57 of the Regulation; and (iii) the approval of the Snam bondholders.

Risks associated with sources of funding used by Snam and the possible need for refinancing

Snam 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).
Several of Snam's existing loans contain limitation clauses with regard to the possibility of carrying out corporate transactions (as the Operation) or arrangement with assets of the company or its significant subsidiaries, usual in contract practices of this type, the violation of which could result in the obligation to repay these loans early.

At 30 June 2016, in addition to what has been specified in the section below on agreements with the EIB, Snam has also taken out loans from other lending institutions, with the necessary consent for the completion of the separation of Italgas from Snam, conditional, amongst other, to the completion of the Operation.
The bond loans issued by Snam under the scope of the Euro Medium Term Notes programme, include, inter alia, compliance with a covenant governed by typical international market practice, which requires the approval of the bondholders for Snam to sell a substantial part of its industrial assets following a corporate reorganisation like the spin-off. Failure to obtain this approval could result in Snam defaulting with regard to the bond regulations. Snam will ask for this approval at the Bondholders' Meeting that the Snam Board of Directors called on 28 June Snam for a date which has yet to be decided and in any case in time for carrying out the Operation. Note, as mentioned above, that the approval of the Operation by the Snam bondholders is one of the conditions to which the effectiveness of the actual Operation is subject.

The separation of Italgas from Snam will not require Snam to arrange any refinancing operations, nor will it involve an increase in debt as a direct result. Snam could implement optimisation measures for its financial structure under the scope of ordinary debt management.

Risks associated with the loan agreements with the European Investment Bank

The European Investment Bank has given its consent for the completion of the separation of Italgas from Snam, by the partial and proportional spin-off, subject to several conditions precedent, such as, specifically, the receipt by the EIB of the deed of spin-off in a format and substance satisfactory to the EIB and Snam's updated business plan and any other documentation about the Operation available to creditors which demonstrate that Snam's credit risk and overall industrial assets are not prejudiced by the Operation.
With regard to the two loans provided by the EIB to Snam and destined to fund Italgas projects, the EIB stated it was willing to consent to the refinancing for Snam subject to several conditions being verified (including the approval of the EIB decision-making boards in this regard).
Where, as a result of the above-mentioned conditions, the EIB were not to give its consent for the completion of the Operation or not to consent to the refinancing, Snam may need to obtain new resource to repay the EIB.

Risks associated with the repayment of the existing debt following the Operation by the beneficiary company and the companies it owns (ITG Holding Group)

As a result of the Transaction, the ITG Holding Group will be obliged to:

(i) repay the existing inter-company loans with Snam; and
(ii) to pay Snam the price from the sale of a shareholding equal to 38.87% of the share capital of Italgas by repaying the vendor loan.

If the ITG Holding Group did not have the necessary financial resources for repaying this debt, Snam would have an unsatisfied financial receivable, with the consequent inability to be able to reduce its debt by the same amount and this could have a negative impact on Snam's rating.

Risks associated with the realisation of the Operation

There are no certainties that the Operation will be realised or it could encounter administrative, technical, industrial, operational, regulatory, political or financial difficulties resulting in it being unable to produce the expected benefits or the costs being higher than those forecast.

For more information about the risks pertaining to Snam if the operation is completed, or if it is not completed, please refer to the Information Document prepared in accordance with Article 70, paragraph 6 of the Issuers' Regulation, available on the Snam website (www.snam.it, in the "Ethics and Governance - Shareholders' Meetings" section).

Outlook

SEPARATION OF ITALGAS FROM SNAM

On 28 June 2016 the Snam Board of Directors approved the separation of Italgas from Snam to be implemented through a unitary and simultaneous transaction which includes, among other things, the partial and proportional spin-off of Snam and consequent listing on the Milan Mercato Telematico Azionario (MTA) of a new beneficiary company of the spin-off with the role of a holding company for the Italgas shareholding (ITG Holding S.p.A.).
Through the industrial and corporate reorganisation operation, the entire shareholding currently held by Snam in Italgas, equal to 100% of the share capital of Italgas, will be transferred to the beneficiary company for the purpose of separating the gas distribution operations in Italy.
The effectiveness of the entire transaction is subject, in addition to legal conditions, including, specifically, approval by the Snam Shareholders' Meeting, to the issuing by the Italian Stock Exchange of authorisation for admission to trading of the ITG Holding shares on the MTA, the issuing by CONSOB of an opinion of equivalence and the approval of the Snam bondholders. The conclusion of the entire transaction, subject to the realisation of the above-mentioned conditions, is scheduled for by 31 December 2016.
The separation of Italgas from Snam will enable the role of both companies in their respective businesses to be developed significantly. Specifically, Snam will be able to focus on the synergistic and integrated management of the transportation, storage and regasification businesses in Italy and abroad, consolidating its leadership position in Europe and making a contribution to the further integration of European gas markets.

The management outlook with regard to the main drivers in the natural gas transportation, regasification and storage sectors is illustrated below.

INVESTMENTS

In the period 2016-2020 post-spin-off Snam has a significant investment plan scheduled. It is equal to €4.3 billion, of which €0.9 billion in 2016 for sustaining the development of Italian infrastructures and their connection with European ones, reinforcing the safety, flexibility and liquidity of the entire gas system. The goal will be reached through the upgrading of the transportation network and the creation of additional storage capacity in Italy, also enabling the completion of the reverse flow capacity to other European countries and receiving new flows from the Caspian region through the TAP pipeline.
Specifically, investments in the LNG transportation business, equal to €3.8 billion in the time frame of the plan, will be directed, not only at guaranteeing the safety and reliability of the network, but at satisfying the supply capacity and diversification requirements, to the advantage of shippers and end users.
For storage activities, the investment programme of €0.5 billion for the period 2016-2020 is aimed at guaranteeing greater capacity, both modulation and peak, improving the overall liquidity and flexibility of the system and promoting further gas trading opportunities. These increases are mainly related to the gradual entry into service of the Bordolano site (Cremona).
Snam could also leverage its international investments to promote growing connections of European infrastructures and the development of greater diversification and flexibility of gas flows, at the same time maximising the profitability of its assets.
The company will monitor potential new investment opportunities in infrastructure assets, in Europe too, with a risk profile aligned to the one in its current business portfolio with its usual selective and financially-disciplined approach.

GAS DEMAND

Based on most recent estimates of changes in natural gas demand, the European market is generally unchanged compared with 2015 levels over the five-year period from 2016-2020 despite a gradual reduction in production within Europe accompanied by growing dependence on imports.

EFFICIENCY

Snam will continue to focus on operating efficiency in the five-year period 2016-2020, through initiatives that will enable it to keep the level of controllable fixed costs for the post-spin-off scope more or less stable in real terms, on a constant-size basis.

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

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

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.

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".

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.

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.

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".

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

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.

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.

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

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.

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

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

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.

Derivative instruments
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.

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).

Net profit
EBIT minus the result from financial operations and income taxes.

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.

Natural gas transportation and regasification

COMMERCIAL TERMS

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.

Network Code
Document governing the rights and obligations of the parties involved in providing the transportation service.

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

Regulatory period
Period of time (usually four years) for which criteria are defined for setting tariffs for natural gas transportation and dispatching and liquefied natural gas regasification. We are currently in the fourth regulatory period, which runs from 1 January 2014 to 31 December 2017.

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.

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.

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.

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

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

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.

TECHNICAL TERMS

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.

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.

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 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.

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.

LNG regasification
Industrial process whereby natural gas is converted from a liquid to a gaseous state.

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 third 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

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.

End user
The consumer who buys gas for their own use.

Distribution Code
The document governing the rights and obligations of the parties involved in providing the gas distribution service.

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

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.

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.

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.

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

TECHNICAL TERMS

Gas distributed
Amount of gas redelivered to users of the distribution network at the redelivery points.

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 Electricity Equalisation Fund is established at the end of the thermal year and settled over the course of the year on the basis of advance payments.

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.

RIV (Residual Industrial Value)
The residual industrial value of the part of the plant owned by the outgoing operator is equal to the cost that should be incurred for its reconstruction as new reduced by the value of the physical degradation and also including non-current assets under construction from the accounting records (Article 5, paragraph 5 Ministerial Decree 226/2011).

TRL (Total Revenue Limit)
Total revenue allowed for distribution companies by the regulatory body to cover costs for providing distribution and metering services.

Condensed interim consolidated financial statements 2016

Statement of financial position

(€ million)	Notes	31.12.2015 Total	31.12.2015 of which with related parties	30.06.2016 Total	30.06.2016 of which with related parties
ASSETS					
Current assets					
Cash and cash equivalents	(4)	17		**21**	
Trade and other receivables	(5)	1,824	*627*	**1,477**	***434***
Inventories	(6)	152		**175**	
Current income tax assets	(7)	54		**30**	
Other current tax assets	(7)	8		**8**	
Other current assets	(8)	98		**70**	
		2,153		**1,781**	
Non-current assets					
Property, plant and equipment	(9)	15,478		**15,677**	
Compulsory inventories		363		**363**	
Intangible assets	(10)	5,275		**5,265**	
Investments valued using the equity method	(11)	1,372		**1,337**	
Other receivables	(5)	78	*78*	**147**	***147***
Other non-current assets	(8)	137	*2*	**159**	***2***
		22,703		**22,948**	
Non-current assets held for sale		**24**		**24**	
TOTAL ASSETS		**24,880**		**24,753**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(12)	1,351	*19*	**1,696**	***8***
Short-term portion of long-term financial liabilities	(12)	1,378		**2,168**	
Trade and other payables	(13)	1,746	*220*	**1,377**	***150***
Current income tax liabilities	(7)	1		**23**	
Other current tax liabilities	(7)	50		**49**	
Other current liabilities	(14)	71	*1*	**52**	***1***
		4,597		**5,365**	
Non-current liabilities					
Long-term financial liabilities	(12)	11,067		**10,334**	
Provisions for risks and charges	(15)	776		**946**	
Provisions for employee benefits		166		**165**	
Deferred tax liabilities	(16)	388		**352**	
Other non-current liabilities	(14)	293		**335**	
		12,690		**12,132**	
Liabilities directly associated with assets held for sale		**7**		**6**	
TOTAL LIABILITIES		**17,294**		**17,503**	
SHAREHOLDERS' EQUITY					
Snam shareholders' equity	(17)				
Share capital		3,697		**3,697**	
Reserves		2,655		**3,031**	
Net profit		1,238		**526**	
Negative reserve for treasury shares in portfolio		(5)		**(5)**	
Total Snam shareholders' equity		**7,585**		**7,249**	
Minority interests		**1**		**1**	
TOTAL SHAREHOLDERS' EQUITY		**7,586**		**7,250**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**24,880**		**24,753**	

Income statement

(€ million)	Notes	First half 2015 Total	First half 2015 *of which with related parties*	First half 2016 Total	First half 2016 *of which with related parties*
REVENUE					
Core business revenue	(19)	1,886	*1,351*	**1,827**	*1,238*
Other revenue and income		73	*29*	**34**	*14*
		1,959		**1,861**	
OPERATING COSTS					
Purchases, services and other costs	(20)	(351)	*(23)*	**(362)**	*(24)*
Personnel cost		(174)		**(185)**	
		(525)		**(547)**	
AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	(21)	**(422)**		**(447)**	
EBIT		**1,012**		**867**	
FINANCIAL INCOME (EXPENSES)	(22)				
Financial expenses		(193)		**(178)**	
Financial income		7	*3*	**4**	*1*
Derivatives				**(2)**	
		(186)		**(176)**	
INCOME (EXPENSE) ON EQUITY INVESTMENTS	(23)				
Equity method valuation effect		70		**64**	
Other (expenses) / Income from investments		(1)			
		69		**64**	
PRE-TAX PROFIT		**895**		**755**	
Income taxes	(24)	(283)		**(229)**	
NET PROFIT		**612**		**526**	
Attributable to					
- Snam		612		**526**	
- Minority interests					
Profit per share (€ per share)	(25)				
- basic		0.17		**0.15**	

Statement of comprehensive income

(€ million)	Notes	First half 2015	First half 2016
Net profit		**612**	**526**
Other components of comprehensive income	(17)		
Components that can be reclassified to the income statement:			
Change in fair value of cash flow hedging derivatives (effective portion)			**1**
Portion of equity investments valued using the equity method pertaining to “other components of comprehensive income”		11	**(13)**
Tax effect			
		11	**(12)**
Components that cannot be reclassified to the income statement:			
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees		2	
Tax effect		(1)	
		1	
Total other components of comprehensive income, net of tax effect		**12**	**(12)**
Total comprehensive income for the period		**624**	**514**
Attributable to:			
- Snam		624	**514**
- Minority interests			
		624	**514**

Statement of changes in shareholders' equity

	Equity pertaining to shareholders of the parent company												
(€ million)	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	Negative reserve for treasury shares in portfolio	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2014	**3,697**	**(1,701)**	**1,700**	**714**	**(3)**	**(20)**	**(1)**	**1,592**	**1,198**	**(5)**	**7,171**	**1**	**7,172**
Net profit for the first half of 2015									**612**		**612**		**612**
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**
Components that cannot be reclassified to the income statement:													
- Actuarial gains (losses) on remeasurement of defined-benefit plans for employees						1					**1**		**1**
Total comprehensive income for the first half of 2015						**1**	**11**		**612**		**624**		**624**
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)				
Total transactions with shareholders			**(97)**	**25**				**395**	**(1,198)**		**(875)**		**(875)**
Other changes in equity							**32**				**32**		**32**
Balance at 30 June 2015	**3,697**	**(1,701)**	**1,603**	**739**	**(3)**	**(19)**	**42**	**1,987**	**612**	**(5)**	**6,952**	**1**	**6,953**
Profit for second half of 2015									**626**		**626**		**626**
Other components of comprehensive income:													
Components that cannot be reclassified to the income statement:													
- Actuarial gains (losses) on remeasurement of defined-benefit plans for employees						3					3		**3**
Total comprehensive net income for the second half of 2015						**3**			**626**		**629**		**629**
Total other changes in shareholders' equity							**4**				**4**		**4**
Balance at 31 of December 2015	**3,697**	**(1,701)**	**1,603**	**739**	**(3)**	**(16)**	**46**	**1,987**	**1,238**	**(5)**	**7,585**	**1**	**7,586**

(€ 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	Negative reserve for treasury shares in portfolio	Total	Minority interests	Total shareholders'equity
Balance at 31 of December 2015 (a)	(Note 17)	**3,697**	**(1,701)**	**1,603**	**739**	**(3)**	**(16)**	**46**	**1,987**	**1,238**	**(5)**	**7,585**	**1**	**7,586**
Net profit for the first half of 2016										**526**		**526**		**526**
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"								**(13)**				**(13)**		**(13)**
- Change in fair value of cash flow hedging derivatives (effective portion)						**1**						**1**		**1**
Total comprehensive income for the first half of 2016 (b)						**1**		**(13)**		**526**		**514**		**514**
Transactions with shareholders:														
- Allocation of dividend for 2015 (€0.25 per share)				**(50)**						**(825)**		**(875)**		**(875)**
- Allocation of 2015 residual net profit									**413**	**(413)**				
Total transactions with shareholders (c)				**(50)**					**413**	**(1,238)**		**(875)**		**(875)**
Other changes inequity:														
- Effect of the price adjustment for the Stogit acquisition			**21**									**21**		**21**
- Reclassifications				**3**				**(5)**	**2**					
- Other changes								**4**				**4**		**4**
Total other changes in shareholders' equity (d)			**21**	**3**				**(1)**	**2**			**25**		**25**
Balance at 30 of June 2016 (e=a+b+c+d)	(Note17)	**3,697**	**(1,680)**	**1,556**	**739**	**(2)**	**(16)**	**32**	**2,402**	**526**	**(5)**	**7,249**	**1**	**7,250**

Cash flow statement

(€ million)	Notes	First half 2015	First half 2016
Net profit		612	**526**
Adjustments for reconciling net profit with cash flows from operating activities:			
Amortisation	(21)	422	**447**
Effect of valuation using the equity method		(70)	**(64)**
Net capital losses (capital gains) on asset sales, cancellations and eliminations		10	**15**
Interest income		(7)	**(3)**
Interest expense		176	**159**
Income taxes	(24)	283	**229**
Other changes		1	
Changes in working capital:			
- Inventories		37	**8**
- Trade receivables		350	**432**
- Trade payables		(205)	**(86)**
- Provisions for risks and charges		(20)	**18**
- Other assets and liabilities		(132)	**(205)**
Working capital cash flows		*30*	***167***
Change in provisions for employee benefits		(2)	**(1)**
Dividends collected		99	**102**
Interest collected		4	**1**
Interest paid		(172)	**(159)**
Income taxes paid net of reimbursed tax credits		(240)	**(219)**
Net cash flow from operating activities		**1,146**	**1,200**
- of which with related parties	(27)	*1,521*	***1,321***
Investments:			
- Property, plant and equipment	(9)	(313)	**(343)**
- Intangible assets	(10)	(141)	**(156)**
- Companies included in the consolidation scope and business units		(45)	
- Financial receivables held for operations			**(69)**
- Equity investments		(14)	**(26)**
- Change in payables and receivables relating to investments		(133)	**(100)**
Cash flow from investments		*(646)*	***(694)***
Divestments:			
- Property, plant and equipment		1	
- Equity investments		86	**2**
Cash flow from divestments		*87*	***2***
Net cash flow from investment activities		**(559)**	**(692)**
- of which with related parties	(27)	*(52)*	***(79)***
Assumption of long-term financial debt		591	**370**
Repayment of long-term financial debt		(502)	**(338)**
Increase (decrease) in short-term financial debt		154	**339**
Financial receivables not held for operations		(5)	
		238	**371**
Dividends paid to Snam shareholders		(875)	**(875)**
Net cash flow from financing activities		**(637)**	**(504)**
- of which with related parties	(27)	*(9)*	***(11)***
Net cash flow for the period		**(50)**	**4**
Cash and cash equivalents at beginning of period	(4)	**74**	**17**
Cash and cash equivalents at end of period	(4)	**24**	**21**

Notes to the condensed interim consolidated financial statements

Company information

The Snam Group, comprised of Snam S.p.A. 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 (RAB[1]) in the sector.

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

At the production date of these condensed interim consolidated financial statements, 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. No management and coordination activity has been formalised or exercised.

1) Basis of presentation and valuation

The condensed interim consolidated financial statements at 30 of June, 2016, were prepared in consideration of future continuing business and in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), and approved by the European Union (hereafter referred to as IFRS), as well as the laws and regulations in force in Italy.

The condensed interim consolidated financial statements at 30 of June, 2016 have been prepared in accordance with the provisions of IAS 34 "Interim Financial Reporting". Pursuant to IAS 34, the condensed interim consolidated financial statements do not include all the information required in annual consolidated financial statements and, as such, they should be read in conjunction with the Snam Group's consolidated financial statements for the year ended 31 of December 2015.

The formats of the financial statements are the same as those used in the annual report. In the condensed interim consolidated financial statements, the same consolidation principles and measurement criteria have been used as those used to prepare the annual report, which should be referred to, except for the IFRS which have entered into force since 1 of January, 2016, described in the 2015 Annual Report, Note 6 “Recently issued accounting standards”. The amendments made there was no impact in the condensed interim consolidated financial statements. The exclusion from the scope of consolidation of some subsidiaries, which are not significant either individually or collectively, had no material effect[4] for the purposes of correctly representing the financial position, results of operations and cash flows of the Snam Group. Such investments are valued at cost.

The notes to the financial statements are in condensed form. Current income taxes are calculated based on taxable income at the reporting date. Tax receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax authorities under the prevailing tax regulations or those essentially approved at the reporting date and the rates estimated on an annual basis.

Consolidated companies, non-consolidated subsidiaries, companies under joint control, associates as well as other significant equity investments, reporting for which is covered by Article 126 of Consob Resolution

[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.

[4] Pursuant to IAS 1 - “Presentation of the Financial Statements”, information is significant if its omission or incorrect presentation may influence the economic decisions of users based on the figures in the financial statements.

11971 of 14 of May 1999, as amended, are indicated separately in the appendix “Subsidiaries, associates and equity investments of Snam S.p.A. at 30 of June, 2016”, which is an integral part of these notes.

The condensed interim consolidated financial statements at 30 of June, 2016, approved by the Board of Directors of Snam S.p.A. at its meeting of 26 of July, 2016, were subject to a limited audit by Ernst & Young S.p.A. A limited audit is substantially less in scope than an audit performed in accordance with generally accepted auditing standards.

The condensed interim financial statements adopt the Euro as the presentation currency. Given their size, amounts in the financial statements and respective notes are expressed in millions of Euro.

2) Use of estimates

For a description of the use of accounting estimates, please see the 2015 Annual Report.

3) Recently issued accounting standards

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, but not yet in force

During the course of the first half of 2016, no accounting standards and interpretations have been approved by the European Commission.

Accounting standards and interpretations issued by the IASB/IFRIC and not yet approved by the European Commission

Listed and described below are the amendments, principles and interpretations newly issued during the course of the first half of 2016 which, as at the preparation date of these financial statements, have not yet been approved by the European Commission but which cover subjects that are relevant to the Group’s financial statements.

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 of 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, regardless of the fact that the holder of the instrument expects to recover the value of the same through holding it until maturity or alternatively through the sale of the same instrument. The amendments also clarify that the estimate of future taxable income, the valuation of which is required to enrol assets for deferred taxes: (i) includes income arising from the realisation of assets for amounts higher than the relative book value in the presence of evidence that supports this probability; (ii) excludes the reversal of deductible temporary tax differences; and (iii) must take into consideration any limitations imposed by tax legislation regarding the types of taxable income against which to apply the tax deductions. 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.

On 29 of January, 2016, the IASB issued the document “Disclosure initiative - Amendments to IAS 7”, which requires that users of financial statements be supplied with information that allows them to evaluate changes in liabilities and assets arising from financing activities (in fact, in financial liabilities and, for example on derivative assets of long-term debt coverage), whether as a consequence of monetary movements or not (for example, the effect of changes in foreign exchange rates, changes in fair values or changes arising from obtaining or losing control of subsidiaries or other businesses). 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.

On 12 of April, 2016, the IASB issued the document "Clarifications to IFRS 15 - Revenue from Contracts with Customers". The amendments to the standard introduce clarifications and new examples in order to facilitate the application of the standard, specifically with reference to: (i) the identification of a performance obligation in a contract; (ii) the determination of whether a company is a principal or an agent; (iii) when to recognize a gain arising from the grant to a customer of the use of or access to intellectual property. The amendments also introduce additional practical expedients that can reduce the cost of transition to the new standard, and in particular with reference to: (i) contracts completed before the beginning of the earliest comparative period presented, even when applying the "full" retrospective approach; (ii) the aggregate representation of the contractual amendments that occurred previously at the beginning of the earliest comparative period presented (full retrospective approach) or of the first application period (modified retrospective approach). These measures will take effect from financial years starting on or after 01 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 20 of June, 2016, the IASB issued the document "Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2", with the aim of clarifying the classification and accounting treatment of certain types of transactions with share-based payments and in particular with reference to: (i) the accounting of vesting conditions on cash-settled transactions; (ii) the classification of transactions with a net settlement feature for withholding tax obligations; (iii) the accounting of a modification to the terms and conditions that changes the classification of the transaction from cash-settled to equity-settled. These measures will take effect from financial years starting on or after 01 January 2018, 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.

With reference to the accounting standards and to the interpretations issued before 1 of January, 2016 for which, at the date of the preparation of these financial statements, the approval process of the European Commission had not been finalized, please refer to the 2015 Annual Report at Note 6 "Recently issued accounting standards - Accounting standards and interpretations issued by the IASB/IFRIC and not yet approved by the European Commission".

4) Cash and cash equivalents

Cash and cash equivalents, up to €21 million (€17 million at 31 of December, 2015), are mainly related to and available for the company Gasrule Insurance DAC for the exercise of the insurance activities of the group.

The book value of cash and cash equivalents approximates to their fair value. They are not subject to any usage restrictions.

A comprehensive analysis of the financial status and major cash commitments during the period can be found in the cash flow statement.

5) Trade receivables and other current and non-current receivables

Trade receivables and other current and non-current receivables, up to €1,624 million (€1,902 million at 31 of December, 2015) break down as follows:

	31.12.2015			30.06.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,677		**1,677**	**1,247**		**1,247**
Financial receivables		78	**78**		**147**	**147**
- held for operations		78	**78**		**147**	**147**
Receivables from investment/divestment activities	23		**23**	**16**		**16**
Other receivables	124		**124**	**214**		**214**
	1,824	**78**	**1,902**	**1,477**	**147**	**1,624**

These are reported net of the provision for impairment losses of €155 million (€157 million at 31 of December, 2015).

Changes in the provision for impairment losses on receivables have not undergone significant variations during the semester.

Trade receivables (€1,247 million; €1,677 million at 31 of December, 2015) relate mainly to the natural gas transportation (€731 million, of which €245 million relate to gas balancing activities), distribution (€266 million) and natural gas storage (€227 million, of which past due and not impaired €106 million mainly regarding VAT invoiced to the users for the use of strategic gas withdrawn and not reinstated by the same, under the terms established by the storage Code[5]) business segments.

Financial receivables held for operating activities (€147 million; €78 million at 31 of December, 2015) relate to the Shareholders' Loan to the associate Trans Adriatic Pipeline AG (TAP)[6]. From 31 of December, 2015, the receivables have shown an increase of €69 million in view of the cash call requests on the same associate company according to the stipulated contractual agreements in the acquisition of the stake.

Receivables from investment/divestment activities (€16 million; €23 million at 31 of December, 2015) concern receivables for public and private grants for investment activities (€10 million) and receivables from asset disposals (€6 million).

Other receivables (€214 million; €124 million at 31 of December, 2015) break down as follows:

(€ million)	31.12.2015	30.06.2016
IRES receivables for the national tax consolidation scheme	34	**34**
Other receivables:	90	**180**
- Energy and Environmental Services Fund (CSEA)	48	**117**
- Advances to suppliers	9	**12**
- Other	33	**51**
	124	**214**

The item "Other" refers mainly to receivables from government authorities in the natural gas distribution segment (€19 million) and receivables from Toscana Energia S.p.A. , in respect of the dividends for the year 2015 not yet collected as of June 30, 2016 (€13 million).

The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the remuneration conditions.

All receivables are in Euro.

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

[5] As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

[6] According to the stipulated contractual agreements, shareholders are responsible for financing the project for gas exports in western Europe, whether through the Shareholders' Loan or through subscriptions for capital increases, according to the level of their respective shareholdings, until the pipeline enters into service, and if its capacity is expanded.

6) Inventories

Inventories, with an amount equal to €175 million (€152 million at 31 of December, 2015) are analysed in the table below:

	31.12.2015			30.06.2016		
(€ million)	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
Inventories						
- Raw materials, consumables and supplies	141	(7)	**134**	**165**	**(7)**	**158**
- Finished products and merchandise	50	(32)	**18**	**50**	**(33)**	**17**
	191	**(39)**	**152**	**215**	**(40)**	**175**

The inventories are reported in full on the provision for impairment losses of €40 million (€39 million at 31 of December, 2015). The provision essentially relates to the write down that took place in 2014 (€30 million), of 0.4 billion cubic meters of natural gas used in the gas storage business wrongly taken by some of the service users during 2010 and 2011[7].

7) 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)	31.12.2015	30.06.2016
Current income tax assets	**54**	**30**
- IRES	32	16
- IRAP	8	1
- Tax credits on withholding tax on foreign dividends	12	12
- Other assets	2	1
Other current tax assets	**8**	**8**
- VAT	2	2
- Other taxes	6	6
	62	**38**
Current income tax liabilities	**(1)**	**(23)**
- IRES		(18)
- IRAP	(1)	(5)
Other current tax liabilities	**(50)**	**(49)**
- VAT	(35)	(36)
- IRPEF withholdings for employees	(13)	(10)
- Other taxes	(2)	(3)
	(51)	**(72)**

Taxes pertaining to the period under review are shown in Note 24 - “Income taxes”, to which reference is made.

[7] With regard to the evolution of on-going judicial procedures, at the date of the present financial statements, there are no significant updates with respect to the situation outlined in the Annual Report 2015 Note 24 “Guarantees, commitments and risks - Disputes and other measures -Recovering receivables from users of the storage system".

8) Other current and non-current assets

Other *current assets*, with an amount of €70 million (€98 million at 31 of December, 2015) and other *non-current assets* of €159 million (€137 million at 31 of December, 2015) break down as follows:

	31.12.2015			30.06.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	78	72	**150**	**43**	**71**	**114**
Market value of derivative financial instruments	3	5	**8**	**5**	**30**	**35**
Other assets:	17	60	**77**	**22**	**58**	**80**
- Prepayments	11	21	**32**	**16**	**19**	**35**
- Security deposits		14	**14**		**13**	**13**
- Other	6	25	**31**	**6**	**26**	**32**
	98	**137**	**235**	**70**	**159**	**229**

Other regulated assets (€114 million; €150 million at 31 December, 2015) relate to the natural gas transportation service and refer mainly to the shortfall in amounts invoiced compared with the restriction imposed by the regulator (€112 million of which €42 million relates to the current portion and €70 million relates to the non-current portion).

The market value of derivatives outstanding at 30 June, 2016 is as follows:

	31.12.2015			30.06.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other assets	**3**	**5**	**8**	**5**	**30**	**35**
Fair value hedging derivatives:						
- Fair value interest rate hedging derivatives	1	5	**6**	**4**	**20**	**24**
- Accrued income on derivatives	2		**2**	**1**		**1**
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives					**10**	**10**
Other liabilities		**(1)**	**(1)**	**...**		**...**
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives		(1)	**(1)**			
Other hedging derivatives:						
- Fair value exchange rate hedging derivatives				**...**		**...**

The assets arising from the market-value measurement of fair value hedging derivatives (€25 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 31.12.2015	Nominal value at 30.06.2016	Market value at 31.12.2015	Market value at 30.06.2016
Interest rate swap	22.10.2014	21.04.2023	6.8	Euribor 12-month + 0.5645%	1,5%	500	**500**	8	**25**

The assets arising from the market-value measurement of cash flow hedging derivatives (€10 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 (JPY). 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(*) 31.12.2015	Nominal Value at(*) 30.06.2016	Market value at 31.12.2015	Market value at 30.06.2016
Cross-currency swap	25.10.2013	25.10.2019	3.3	133.98	138.2	75	**75**	(1)	**10**

(*) Equal to a value of ¥10 billion at an exchange rate of ¥133.98/€.

The liabilities arising from the market-value measurement of other derivatives, of an amount less than €1million, refer to a forward currency contract entered into on 24 of June 2016. The derivative in question is used to hedge against fluctuations in the exchange rate of the debt of Snam towards the associate company TAP in the amount of 28.6 million Swiss Francs (CHF) as a future capital increase. Snam made the payment on 13 of July 2016. With the valuation criteria adopted for the two financial instruments, the foreign liability is converted into an equivalent liability in Euro, and the variation in value of the cover element and of the covering instrument are reported in a symmetrical and contrary manner in the income statement.

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)	CHF/EUR Exchange rate purchased	Nominal Value at 30.06.2016	Market value at 30.06.2016
Foreign exchange forward	24.06.2016	13.07.2016	0.04	1.0778	**26**	**...**

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 semester.

The item "Other assets" (€80 million; €77 million at 31 of December, 2015) essentially comprises:

- prepayments (€35 million, of which €16 million for current portion and €19 million for non-current portion), relating mainly to upfront fees and the substitute tax on revolving credit lines[8] (€25 million);
- security deposits (€13 million), mainly relating to the natural gas transportation segment;

[8] 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.

- assets in the transportation segment (€22 million), mainly recognised for lower quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09, compared to 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 €1 million and €21 million respectively.

9) Property, plant and equipment

Property, plant and equipment, with amounts up to €15,677 million (€15,478 million at 31 of December, 2015) breaks down as follows:

(€ million)	**Property, plant and equipment**
Cost at 31.12.2015	**22,860**
Investments	358
Disposals	(8)
Other changes	145
Cost at 30.06.2016	**23,355**
Provisions for amortisation and depreciation at 31.12.2015	**(7,353)**
Amortisation	(292)
Disposals	2
Other changes	(6)
Provisions for amortisation and depreciation at 30.06.2016	**(7,649)**
Provision for impairment losses at 31.12.2015	**(29)**
Provision for impairment losses at 30.06.2016	**(29)**
Net balance at 31.12.2015	**15,478**
Net balance at 30.06.2016	**15,677**

Investments[9] (€358 million) refer mainly to the transportation (€319 million), distribution (€152 million) and storage (€51 million) segments.

Disposals (€6 million) mainly relate to assets of the transport sector.

Other changes (€139 million) relate to: (i) the change in estimated costs (updated) of restoration and dismantling of sites (+€153 million) related to the transport and storage of natural gas sectors, subject to registration as a counterpart to a specific fund; (ii) grants for the period (-€9 million); (iii) the change in inventories of pipes and related accessory materials used in the construction of facilities, related to the natural gas transportation sector (-€7 million).

In the course of the semester no impairment indicators were revealed, nor significant changes with regard to the assessment of the recoverability of the carrying amount for property, plant and equipment. The considerations are thus hereby confirmed as set out in the Annual Report, to which reference is made.

Contractual commitments referring to the purchase of property, plant and equipment, and to provide services related to the realization thereof, are reported in Note 18 “Guarantees, commitments and risks”.

[9] Investments by business segment are shown in the “Business segment operating performance” section of the Interim Directors’ Report.

10) Intangible assets

Intangible assets up to an amount of €5,265 million (€5,275 million at 31 December 2015) break down as follows:

(€ million)	Finite useful life	Indefinite useful life	Total
Cost at 31.12.2015	**9,017**	**9**	**9,026**
Investments	168		168
Disposals	(20)		(20)
Cost at 30.06.2016	**9,165**	**9**	**9,174**
Provisions for amortisation and depreciation at 31.12.2015	**(3,750)**		**(3,750)**
Amortisation	(155)		(155)
Disposals	11		11
Other changes	(14)		(14)
Provisions for amortisation and depreciation at 30.06.2016	**(3,908)**		**(3,908)**
Provision for impairment losses at 31.12.2015	**(1)**		**(1)**
Provision for impairment losses at 30.06.2016	**(1)**		**(1)**
Net balance at 31.12.2015	**5,266**	**9**	**5,275**
Net balance at 30.06.2016	**5,256**	**9**	**5,265**

Intangible assets with a finite useful life (€5,256 million) mainly concern: (i) assets recognised in relation to concession agreements pursuant to IFRIC 12, relating to the natural gas distribution business segment (€4,465 million); and (ii) concessions for natural gas storage (€657 million).

Intangible assets with an indefinite useful life consist only of the goodwill recognised in 2008 following the acquisition by Italgas of 100% of the shares of Siciliana Gas (€9 million, unchanged from 31 December 2015).

Investments[10] (€168 million) mainly relates to the construction and upgrading of natural gas distribution infrastructures (€137 million).

Disposals (€9 million) mainly concern to stretches of the network and measuring systems of the distribution sector.

Other changes (-€14 million) essentially consist of grants during the period (-€12 million).

During the semester, there were not detected any impairment indicators, nor significant changes in relation to the assessment regarding the recoverability of the budgeted value for Goodwill and other intangible assets. The considerations are thus hereby confirmed as set out in the Annual Report, to which reference is made.

11) Investments valued using the equity method

Investments valued using the equity method, with an amount up to €1,337 million (€1,372 million at 31 December 2015) break down as follows:

(€ million)	30.06.2016
Value at 31.12.2015	**1,372**
Capital gains (losses) from measurement using the equity method	64
Decrease owing to dividends	(115)
Exchange rate conversion differences	(12)
Sales and repayments	(2)
Other changes	30
Value at 30.06.2016	**1,337**

[10] Investments by business segment are shown in the "Business segment operating performance" section of the Interim Directors' Report.

Capital gains (losses) on measurement using the equity method (€64 million) related to TAG (€37 million), TIGF (€16 million), Toscana Energia S.p.A. (€9 million) and GasBridge 1 B.V. and GasBridge 2 B.V. (a total of €4 million) as well as the portion of the loss attributable to the period of the Trans Adriatic Pipeline AG - TAP (-€2 million euros), a company that deals with the development of the project which will allow the transportation of gas from Azerbaijan to European markets.

The decrease in dividends (€115 million) mainly concerns TAG (€75 million), TIGF (€11 million), Toscana Energia S.p.A. (€13 million) and GasBridge 1 B.V. and GasBridge 2 B.V. (€16 million in total).

The exchange differences (€12 million) mainly refers to the effects of the valuation of the shareholding in Interconnector (UK) Ltd held by Snam S.p.A. by means of joint ventures Gasbridge 1 B.V. Gasbridge and 2 B.V. The amount reflects the effects of the conversion of the company's assets to the spot rate EUR/GBP of 30 June 2016.

Sales and repayments (€2 million) related to the reduction of the carrying cost of the investments in GasBridge 1 B.V. and GasBridge 2 B.V., pursuant to the distribution of the share premium reserve, generated during the formation of companies.

Other changes (€30 million) mainly related to the future increase in TAP's capital, within which Snam is required to participate in proportion to its shareholding held by virtue of the agreements signed on the acquisition of the investment. A capital increase of €26 million (28.6 CHF) has been subscribed and paid by Snam on 13 July 2016.

Except when noted below, during the semester no impairment indicators were detected, or significant changes in relation to the assessment of the recoverability of the carrying value of investments accounted for using the equity method. The considerations set out in the Annual Report, to which reference is made here, are hereby confirmed. With specific regard to exposure to impairment risks on investee companies arising from the declaration of UK citizens that they wish to leave the European Union (Brexit), which for Snam relevant to the assessment of Interconnector (UK) Ltd, a company owned by Snam S.p.A. by means of a joint holding company Gasbridge 1 B.V. Gasbridge and 2 B.V., it is stated that: (i) presently it is not possible to reach an estimate of the Brexit effects on the recoverable amount of the investment, also considering the fact that the conditions with which UK citizens would leave the European Union subject to specific negotiations, the definition of which is expected within two years. Therefore, for the purposes of the existence of "impairment indicators" provided for under the provisions of IAS 36, it is not possible to determine whether there is an indication that the asset may have suffered an impairment loss; (ii) due to the valuation on the basis of the equity method of subsidiaries Gasbridge 1 B.V. and Gasbridge 2 B.V held by Snam, net assets of Snam at 30 June 2016, reflect the loss resulting from the adjustment of net assets in Sterling of Interconnector (UK) Ltd at the Euro exchange rate at the end of that time period. This result, recorded in "Other components of comprehensive income" comprises a total amount of €12 million.

Consolidated companies, non-consolidated subsidiaries, 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 30 of June, 2016”, which is an integral part of these Notes.

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

Short-term financial liabilities, with an amount up to €1,696 million (€1,351 million at 31 December 2015), and *long-term financial liabilities*, including short-term portions of long-term liabilities with an amount up to €12,502 million (€12,445 million at 31 December 2015), break down as follows:

	31.12.2015					30.06.2016				
		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		1,356	4,935	3,520	8,455		**2,146**	**4,448**	**3,045**	**7,493**
Bank loans	1,323	22	1,178	1,427	2,605	**1,673**	**22**	**1,413**	**1,427**	**2,840**
Other lenders	28		7		7	**23**		**1**		**1**
	1,351	**1,378**	**6,120**	**4,947**	**11,067**	***1,696***	***2,168***	***5,862***	***4,472***	**10,334**

Short-term financial liabilities

Short-term financial liabilities, with an amount up to €1,696 million (€1,351 million at 31 December 2015), mainly relating to uncommitted variable-rate lines of credit (€1,673 million). The increase compared to 31 December 2015 (€345 million) is mainly due to net releases of uncommitted bank credit lines (€350 million).

There are no short-term financial liabilities denominated in currencies other than the Euro[11].

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

Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, including short-term portions of long-term liabilities, with an amount up to €12,502 million (€12,445 million at 31 December 2015), of which €2,168 million are related to the short-term portions and €10,334 million are related to long-term portions.

The increase compared to 31 December 2015 (€57 million) is mainly due to net releases of committed bank credit lines (€245 million) forming a part, in particular, of the syndicated loan, partially offset by the reduction in bond loans (-€172 million) largely as a result of the redemption of a bond maturing in January 2016 with a nominal value of €150 million.

The breakdown of bond loans (€9,639 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

[11] With reference to the agreements undertaken because of the operation of separation of Italgas from Snam see the explanation given in the following paragraph "Financial covenants and negative pledge commitments".

(€ million)

Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 30.06.2016	Rate (%)	Maturity (year)
Euro Medium Term Notes							
SNAM S.p.A. (b)	2012	€	1,200	10	1,210	3.875	2018
SNAM S.p.A. (c)	2012	€	1,250	17	1,267	3.5	2020
SNAM S.p.A. (b)	2012	€	850	17	867	5	2019
SNAM S.p.A. (b)	2012	€	700	30	730	4.375	2016
SNAM S.p.A.	2012	€	1,000	35	1,035	5.25	2022
SNAM S.p.A. (b) (d)	2013	€	1,000		1,000	2.375	2017
SNAM S.p.A.	2013	€	500	5	505	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	¥	88		88	1.115	2019
SNAM S.p.A.	2014	€	600	3	603	3.25	2024
SNAM S.p.A.	2014	€	500	(1)	499	1.5	2019
SNAM S.p.A. (f)	2014	€	500	21	521	Eur 12m + 0.5645	2023
SNAM S.p.A.	2015	€	250	3	253	1.5	2023
SNAM S.p.A. (b)	2015	€	750	(60)	690	1.375	2023
			9,558	**81**	**9,639**		

(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.

Payables for bank loans (€2,862 million) relate to term loans, of which €1,617 million concern European Investment Bank (EIB) funding.

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 0.38% (0.40% for the first half of 2015).

There were no breaches of loan agreements as at the reporting date.

Snam has unused committed and uncommitted credit lines of €3.7 billion and €0.5 billion, respectively.

Financial covenants and negative pledge commitments

At 30 June 2016, Snam had medium- and long-term loans from a pool of national and international banks. Some bilateral loan agreements were also entered into with these banks. The main medium-/long-term 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 30 June 2016, 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) by at least two of the three ratings agencies.

At 30 June 2016, the financial liabilities subject to these restrictive clauses amounted to approximately €2.9 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 €9.6 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.

Specifically with regard to the covenants related to the separation of Italgas from Snam (the Transaction), note the following: (i) with regard to the bank loans at 30 June 2016, Snam obtained the required consent from financial institutions to finalise the Transaction, which was subject, among other things, to the completion of the Transaction; (ii) with regard to the bonds issued as a part of the Euro Medium Term Notes Programme, as dictated by the agreement, Snam will request the approval of bondholders to allow it to sell a substantial portion of its industrial business as a result of the Transaction; (iii) with specific regard to the loans funded by the European Investment Bank, EIB has issued its consent for the completion of the Transaction subject to certain termination conditions such as, in particular, EIB's receipt of the spin-off document in a form and substance satisfactory to EIB, and Snam's updated business plan, and any other transaction-related documentation available to creditors indicating that Snam's credit risk and overall industrial operations are not negatively affected by the transaction. With regard to the two loans issued by EIB to Snam to fund Italgas projects, EIB has stated it is willing to agree to the assumption with release for Snam subject to certain conditions being met (including the approval of EIB's decision-making bodies in this regard).

Taking account of what is described in this paragraph, it should be noted that as at 30 June 2016, there were not events not in compliance with the aforementioned 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:

	31.12.2015			30.06.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	17		**17**	**21**		**21**
B. Securities available for sale and held to maturity						
C. Cash (A+B)	**17**		**17**	**21**		**21**
D. Financial receivables not held for operating activities						
E. Short-term financial liabilities to banks	1,323		**1,323**	**1,673**		**1,673**
F. Long-term financial liabilities to banks	22	2,605	**2,627**	**22**	**2,840**	**2,862**
G. Bonds	1,356	8,455	**9,811**	**2,146**	**7,493**	**9,639**
H. Short-term financial liabilities to related parties	19		**19**	**8**		**8**
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	9		**9**	**15**		**15**
M. Other long-term financial liabilities		7	**7**		**1**	**1**
N. Gross financial debt (E+F+G+H+I+L+M)	**2,729**	**11,067**	**13,796**	**3,864**	**10,334**	**14,198**
O. Net financial debt (N-C-D)	**2,712**	**11,067**	**13,779**	**3,843**	**10,334**	**14,177**

13) Trade and other payables

Trade payables and other payables, with an amount up to €1,377 million (€1,746 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015	30.06.2016
Trade payables	694	**608**
Payables for investment activities	468	**341**
Other payables	584	**428**
	1,746	**1,377**

Trade receivables (€608 million; €694 million at 31 December 2015) mainly relating to the natural gas transportation (€390 million, including €291 million relating to gas balancing activities), natural gas distribution (€121 million), and storage (€48 million) business segments.

Payables for investment activities (€341 million, including €4 million expiring after the incurring period; €468 million at 31 December 2015) mainly referring to the natural gas transportation (€196 million), distribution (€68 million) and storage (€48 million) business segments.

Other payables (€428 million; €584 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015	30.06.2016
Other payables	584	**428**
- Payables to the Electricity Equalisation Fund (CSEA)	418	**283**
- Payables to employees	54	**41**
- Payables to the government	42	**26**
- Payables to pension and social security institutions	32	**30**
- Payments on account and advances	3	**3**
- Other	35	**45**
	584	**428**

Payables to the CSEA (€283 million) mainly relating to accessory tariff components related to the natural gas transportation (€258 million) and distribution (€21 million) business segments.

Payables to the government (€26 million) primarily involving payables to municipalities for concession fees for the distribution business.

The item “Other” refers mainly to payables for fees on municipal concessions in the natural gas distribution segment (€23 million).

Note 27 “Related-party transactions” contains information about payables due to related parties.

The book value of trade and other payables is close to the relative fair value measurement, given the short period of time between when the payable arises and its due date.

14) Other current and non-current liabilities

Other current liabilities, with an amount up to €52 million (€71 million at 31 December 2015), and *other non-current liabilities*, with an amount up to €335 million (€293 million at 31 December 2015), break down as follows:

	31.12.2015			30.06.2016		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities	57	149	**206**	**38**	**164**	**202**
Market value of derivative financial instruments		1	**1**			
Other liabilities	14	143	**157**	**14**	**171**	**185**
- Prepaid revenue and income	5	18	**23**	**5**	**17**	**22**
- Prepaid contributions for connecting to the transportation network		4	**4**		**5**	**5**
- Other	9	121	**130**	**9**	**149**	**158**
	71	**293**	**364**	**52**	**335**	**387**

Liabilities from regulated activities (€202 million; €206 million at 31 December 2015), related to:

- the transportation segment (€163 million) due to the natural gas transportation revenue invoiced in excess of the restriction established by the regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 166/05 of the Authority. The current and non-current portions with amounts of €38 million and €125 million respectively.
- 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, unchanged from 31 December 2015.

The market value of derivative financial instruments as of 30 June 2016, is analysed in Note 8 "Other current and non-current assets" to which reference is made.

The item “Other liabilities” (€185 million; €157 million at 31 December 2015) essentially comprises:

- liabilities for prepaid revenue and income (€22 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 €11 million, respectively).
- other liabilities mainly relating to: (i) guarantee deposits paid as collateral by users of the balancing service, pursuant to Resolution ARG/gas 45/11 (€60 million), and (ii) the higher quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared to the quantities actually used in those years, equalised by reducing the quantities allocated by users. The current and non-current portions with amounts of €9 million and €82 million respectively.

15) Provisions for risks and charges

The *Provisions for risks and charges*, with an amount up to €946 million (€776 million at 31 December 2015) are analysed in the table below:

	30.06.2016						
				Uses			
(€ million)	Opening balance	Provisions	Increases due to passing of time	against charges	for excess	Changes in estimates	Final balance
Provision for site dismantling and restoration	515		5	(3)		153	**670**
Provision for environmental risks and charges	131	6		(2)		6	**141**
Provision for litigation	34	8		(1)	(2)		**39**
Provision for claims outstanding							
Provision for taxes							
Provisions for losses of affiliated entities							
Other provisions for risks and charges	96	5		(4)	(1)		**96**
	776	**19**	**5**	**(10)**	**(3)**	**159**	**946**

The increase of provisions for risks and charges (€170 million) is mainly due largely to the provision for site dismantling and restoration in the storage segment (€101 million) and transportation segment (€52 million) resulting from the reduction in projected discount rates.

16) Deferred tax liabilities

Deferred tax liabilities, with an amount of €352 million (€388 million at 31 December 2015) are stated in full on the offsettable prepaid tax assets of €572 million (€515 million at 31 December 2015).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2015	Provisions	Utilisations	Other changes	30.06.2016
Deferred tax liabilities	903		(28)	49	**924**
Prepaid tax assets	(515)	(26)	18	(49)	**(572)**
	388	**(26)**	**(10)**		**352**

17) Equity

Shareholders' equity, with an amount up to €7,250 million (€7,586 million at 31 December 2015) breaks down as follows:

(€ million)	31.12.2015	30.06.2016
Snam shareholders' equity	**7,585**	**7,249**
Share capital	3,697	**3,697**
Legal reserve	739	**739**
Share premium reserve	1,603	**1,556**
Consolidation reserve	(1,701)	**(1,680)**
Cash flow hedge reserve	(3)	**(2)**
Other reserves	46	**32**
Retained earnings	1,987	**2,402**
Reserve for remeasurement of defined-benefit plans	(16)	**(16)**
Net profit	1,238	**526**
Less:		
- Negative reserve for treasury shares held by the Company	(5)	**(5)**
Shareholders' equity attributable to third parties	1	**1**
Napoletana Gas	1	**1**
	7,586	**7,250**

Below is a breakdown of the principal components of Snam's equity at 30 June 2016.

Share capital

The share capital at 30 June 2016 consisted of 3,500,638,294 shares without nominal value (unchanged from 31 December 2015), with a total value of €3,696,851,994 (unchanged from 31 December 2015).

Legal reserve

The legal reserve at 30 June 2016 stood at €739 million, unchanged from 31 December 2015.

Share premium reserve

The share premium reserve at 30 June 2016 totalled €1,556 million (€1,603 million at 31 December 2015). The decrease of €47 million mainly reflects the use of part of the reserve to pay out the 2015 dividend to shareholders.

Consolidation reserve

The negative consolidation reserve of €1,680 million (€1,701 million at 31 December 2015) includes the value derived from the difference between the acquisition cost of the Italgas and Stogit equity investments (€4,607 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the relative equity attributable to the Group on the transaction completion date (€2,004 million and €923 million, respectively, for Italgas and Stogit). The €21 million reduction is related to the correction of the price adjustment in favour of Eni, recognised in 2010 in relation to contractual agreements with Eni at the time of the acquisition of the shareholding in Stogit. The adjustment follows the definitive approval by the Electricity, Gas and Water Authority (the Authority) of the storage tariffs for 2015, the reference tariff year for the purposes of adjusting the contractual price.

Cash flow hedge reserve

The cash flow hedge reserve of -€2 million (compared to -€3 million at 31 December 2015) includes the fair-value measurement of cash flow hedging derivatives relating to a cross currency swap described in Note 8 “Other current and non-current assets”. The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
Reserve at 31.12.2015	**(4)**	**1**	**(3)**
Changes in the first half of 2016	1		**1**
Reserve at 30.06.2016	**(3)**	**1**	**(2)**

Other reserves

The other reserves of €32 million (€46 million at 31 December 2015) mainly refer to the effects resulting from the valuation of investments using the equity method.

Retained earnings

Retained earnings with a total amount of €2,402 million (€1,987 million at 31 December 2015). The increase of €415 million is mainly due to the allocation of 2015 profit (€413 million).

Reserve for remeasurement of defined-benefit plans for employees

The reserve for remeasurement of employee benefit plans at 30 June 2016 (-€16 million; unchanged at 31 December 2015) included the actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

Dividends

On 27 April 2016, the Ordinary Shareholders' Meeting of Snam S.p.A. deliberated to distribute an ordinary dividend for 2015 of €0.25 per share; the dividend (€875 million) was paid out as of 23 May 2016, with a fiscal certificate of 23 May 2016 and a record date of 24 May 2016.

18) Guarantees, commitments and risks

Guarantees, commitments and risks, with an amount up to €3,776 million (€4,334 million at 31 December 2015), break down as follows:

(€ million)	31.12.2015	30.06.2016
Guarantees given in the interest of:	**124**	**123**
- subsidiaries	124	**123**
Financial commitments and risks:	**4,210**	**3,653**
Commitments	**1,907**	**2,380**
Commitments for the purchase of goods and services	1,898	**2,374**
Other	9	**6**
Risks	**2,303**	**1,273**
- third-party assets on deposit	2,210	**1,182**
- compensation and litigation	93	**91**
	4,334	**3,776**

(*) At 30 June 2016, hold-harmless letters issued to Eni in favour of Snam amounted to €2 million.

Guarantees

Other personal guarantees issued in the interest of subsidiaries (€123 million) refer mainly to hold-harmless letters issued in favour of third parties for participation in tenders and concessions relating to the natural gas distribution service (€68 million) and performance bonds (€54 million).

Commitments

At 30 June 2016, 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 €2,374 million (€1,898 million at 31 December 2015).

Other commitments referring to minimum future payments related to non-cancellable operating lease transactions (€6 million, including €5 million expiring in the following year and €1 million from one to 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, whether according to the level of their respective shareholdings, whether through the Shareholders' Loan or through the subscription of capital increases, until the pipeline enters into service, and if its capacity is expanded.

Risks

Risks related to third-party assets on deposit, with an amount up to €1,182 million (€2,210 million at 31 December 2015) related to approximately 6.5 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 €0.18 per standard cubic metre (€0.26 at 31 December 2015).

Risks related to compensation and litigation, in the amount of €91 million (€93 million at 31 December 2015), related to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability of pertinent economic risk.

FINANCIAL RISK MANAGEMENT

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

Market value of financial instruments

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

a) level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;

b) level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;

c) level 3: inputs not based on observable market data.

Regarding the above described facts, 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 30 June 2015 classified at level 2 and entered under Note 8 "Other current and non-current assets" (€35 million).

Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements. The following is a summary of the most important proceedings for which significant changes to the situation reported in the 2015 Annual Report have occurred, including new proceedings and closed proceedings.

Criminal cases

Snam Rete Gas S.p.A. - Criminal case Badia Tebalda (AR)

The public prosecutor at the Court of Arezzo opened a criminal case against Snam Rete Gas for an alleged violation of the environmental landscape bound, in relation to the network reopening works on the pipeline of the Municipality of Badia Tedalda (AR), carried out without the necessary authorisations. The Company assures that it will collaborate with the Authorities.

Authorities for Electricity, Gas and Water (AEEGSI)

Snam Rete Gas S.p.A. – Resolution 9/2014/S/gas – Launch of sanctionary 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 of 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 there are any delays on the provisions related to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, regarding the settlement or determination of the relative physical and financial items of the balancing of the gas system. On 11 July 2016, the Authority issued its Statement of Objection (C.R.I.). The Company requested the setting of deadlines for preparing the defence brief and for the next hearing.

Stoccaggi gas Italia S.p.A. - Gas Tera Group and Gas Tera PMI Group/AEEGSI/Stogit S.p.A.

By application notified on 15 June 2016 the Gas Tera and Gas Tera PMI Groups have appealed against Resolution no. 180/2016/R/gas, published on 15 April 2016, concerning "Determinations following the ruling of the Lombardy TAR no. 1124/2015", with which the Authority requested Stogit, following the filing of the aforementioned hearing (against which are pending three separate appeals to the State Council, in which

Stogit is duly constituted), to communicate to the subject investors pursuant to Legislative Decree. no. 130/2010 the recognised amounts (difference between Cfix and Cfixmkt) by the Authority to the subjects to which such investors have assigned storage capacity for A.T. 2013/2014, as established by Resolution 144/2014/R/gas. The amounts were paid by the then Electricity Equalisation Fund (CCSE) to Stogit in December 2014 and repaid these promptly to the persons entitled under the before mentioned Resolution. According to the applicants, Stogit would have paid to an apparent creditor, given the pendent judgement against the above mentioned Resolution no. 144/2014/R/gas, which ended with the ruling no. 1124/2015 which established that it was the transferor and not the transferee of the capacity which has title to collect these amounts. The applicants requested as an interlocutory measure a declaration of invalidity or, as an alternative, the annulment of the contested Resolution, requesting to know if it is their responsibility to recover the undue credit against third parties to which the amount owed to the applicants was wrongly paid. At the hearing chamber on 8 July 2016, the applicant Groups withdrew their interlocutory application; the hearing on the merits will be heard at the end of January, 2017.

Tax cases

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 of 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, the tax assessments concerning IRES, IRAP and VAT were issued, and the Company responded by submitting a tax settlement proposal.

The proceeding was closed with a negative result, and on 28 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 related to the undue payment of taxes on foreign regularisations and other unrelated taxes. At the same time, payments were made for around €777 thousand in total, using for this the previously allocated risk provision. On 23 of June, 2016, the Turin Provincial Commission accepted the appeals brought in the month of May, 2015.

GNL Italia S.p.A. - Local taxes

On 20 May 2016, the Municipality of Portovenere sent an assessment notice to GNL Italy S.p.A. in relation to TARI 2015, for a total of approximately 63 thousand euros. This assessment has been challenged in the Tax Commission and a provision has been made for risks and tax litigation charges. It should also be noted that a similar notice issued by the same Municipality of Portovenere for TARSU 2014 was cancelled by the Provincial Tax Commission of La Spezia in a hearing in 5 of May, 2016.

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 30 June 2016, 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. To that end it is noted that, along with the separation operation from Italgas and Snam, and subject to the effectiveness of the same, the rights and obligations of Snam related to the Rome Ostiense real estate complex, deriving from the specific purchase agreements in the context of the acquisition of the entire share capital of Italgas from Eni that took place in 2009, will be transferred to Società Beneficiaria ITG Holding.
For more information, see the Information Document relating to the demerger of Snam in favour of ITG

Holding, prepared pursuant to Article 70 of the Consob Regulations, available on the company's website (www.snam.it, in "Ethics and Governance Meetings of Shareholders").

Acquisition of Stogit

On 30 June 2016, the outstanding commitments resulting from the above agreements, related to hedging mechanisms set up to keep the possible risks and/or benefits placed on Eni: (i) from the possible increase in value of the gas owned by Stogit at the time of the share transfer other than that recognised by the Electricity, Gas and Water Authority (the Authority) in case of even a partial transfer of the same, if specific quantities were to become no longer necessary for the regulated concessions and therefore available to be transferred; (ii) from the possible transfer of storage capacity which may become available for transfer on a freely negotiated basis and is no longer regulated, or from the transfer of concessions, including those held by Stogit at the time of the transfer of shares that could possibly be devoted mainly to storage activities, and which are no longer subject to regulation.

With reference to the adjustment of the purchase price of Stogit in order to take into account the different value, compared to the date of the share transfer, recognised by the Authority of Stogit's natural gas quantities included among the assets that make up the RAB (Regulatory Asset Base), it should be noted that following the definitive approval by the Authority of the storage tariffs for the year 2015, a balancing was done in favour of Eni, by way of price adjustment, in an amount of €6 million.

19) Revenue

The breakdown of *revenue* for the first semester of 2016, with an amount of €1,861 million (€1,959 million in the first semester of 2015), is shown in the following table:

	First half	
(€ million)	2015	2016
Core business revenue	1,886	**1,827**
Other revenue and income	73	**34**
	1,959	**1,861**

The reasons for the most significant changes are described in the "Financial review and other information" section of the Interim Directors' Report.

Core business revenue of €1,827 million mainly consists of revenue from transportation (€952 million), distribution (€639 million)[12], natural gas storage (€220 million) and LNG regasification (€9 million) segments.

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

Core business revenue is reported net of the following items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. The amounts received from Snam are paid in full to the Energy and Environmental Services Fund (CSEA).

	First half	
(€ million)	2015	2016
Additional fees for the transportation service	310	**474**
Additional fees for the distribution service	175	**201**
	485	**675**

Other revenue and income

Other revenue and income, with an amount up to €34 million (€73 million in the first semester of 2015), can be analysed as follows:

	First half	
(€ million)	2015	2016
Income from gas sales for the balancing service (*)	35	**16**
Income from property investments	2	**3**
Insurance compensation		**2**
Income from sales of energy efficiency certificates	1	**1**
Plant safety inspection fee	1	**1**
Other income	34	**11**
	73	**34**

(*) Revenues from balancing activities, operational since 1 December 2011, pursuant to Resolution ARG/gas 45/11 of the Authority, related to supplies of natural gas made for purposes of gas system balancing. The revenue matches the operating costs linked to withdrawals from the gas storage system.

Other income (€11 million) mainly due to revenue from Authority repayments, connected to the achievement of quality and technical standards and to miscellaneous management compensations related to the distribution service (€6 million) and income from leases (€3 million).

Snam's business is not affected by seasonal factors which would have a significant impact on its annual or interim economic-financial results.

[12] Consisting of the construction and upgrading distribution infrastructure revenues recognized pursuant to IFRIC 12 (€137 million).

20) Operating costs

The breakdown of operating costs, with an amount of €547 million (€525 million on the first semester of 2015), is shown in the following table:

	First half	
(€ million)	**2015**	**2016**
Purchases, services and other costs	351	**362**
Personnel expense	174	**185**
	525	**547**

The reasons for the most significant changes are described in the “Financial review and other information” section of the Directors’ Interim Report.

The operating costs related to the construction and upgrading of natural gas distribution infrastructure linked to the concession agreements under IFRIC 12 with an amount of €137 million (€122 million in the first semester of 2015).

Purchases, services and other costs

Purchases, services and other costs, with an amount of €362 million (€351 million in the first semester of 2015), can be analysed as follows:

	First half	
(€ million)	**2015**	**2016**
Purchase costs for raw materials, consumables, supplies and goods	84	**80**
Costs for services	222	**238**
Costs for the use of third-party assets	49	**42**
Changes in raw materials, consumables, supplies and goods	46	**15**
Net provisions (utilisation of) for risks and charges	(17)	**16**
Net (utilisation of)/allocations to the provision for impairment losses on receivables	2	**(2)**
Other operating expenses	30	**33**
	416	**422**
Less:		
Increase on internal work	**(65)**	**(60)**
- of which purchase costs for raw materials, consumables, supplies and goods	(30)	**(34)**
- of which costs for services	(35)	**(26)**
	351	**362**

Personnel expense

Personnel expense, with an amount of €185 million (€174 million in the first semester of 2015), can be analysed as follows:

	First half	
(€ million)	**2015**	**2016**
Wages and salaries	144	**150**
Social security contributions (pensions and healthcare assistance)	45	**45**
Employee benefits	3	**3**
Other expenses	10	**14**
	202	**212**
Less:		
Increase on internal work	**(28)**	**(27)**
	174	**185**

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	30.06.2015	31.12.2015	30.06.2016
Executives	130	131	**134**
Managers	607	614	**645**
Office workers	3,325	3,356	**3,475**
Manual workers	2,095	2,112	**2,219**
	6,157	**6,213**	**6,473**

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 30 June 2016 was 6,395 (6,303 at 31 December 2015), with an increase with respect to 30 June 2015 of 176.

21) Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses, which amounted to €447 million (€422 million in the first half of 2015), can be broken down as follows:

	First half	
(€ million)	2015	2016
Amortisation	**422**	**447**
Property, plant and equipment	277	**292**
- Intangible assets	145	**155**
	422	**447**

More details on amortisation, depreciation and impairment losses related to tangible and intangible assets, can be found in Note 9 “Property, plant and machinery”, and Note 10 “Intangible assets”.

An analysis of amortisation, depreciation and impairment by business segment can be found in Note 26 “Information by business segment”.

22) Financial expense (income)

Financial expense (income), with an amount of €176 million (€186 million in the first semester of 2015), can be analysed as follows:

	First half	
(€ million)	2015	2016
Financial expense (income)	**179**	**164**
Financial expense	182	**164**
Financial income	(3)	
Other financial expense (income)	**7**	**10**
Other financial expense	11	**14**
Other financial income	(4)	**(4)**
Losses (Gains) on hedging derivatives – ineffective portion		
Losses on derivative contracts		**2**
	186	**176**

	First half	
(€ million)	2015	2016
Financial expense (income)	**179**	**164**
Expense on financial debt:	**196**	**173**
- Interest and other expenses on bond loans	179	**160**
- Fees on loans and bank credit lines	9	**7**
- Interest expense on credit lines and loans due to banks and other lenders	8	**6**
Financial expense capitalised	**(14)**	**(9)**
Income from financial receivables	**(3)**	
- Interest on financial receivables not held for operations	(3)	
Other financial expense (income):	**7**	**10**
- Accretion discount (*)	6	**7**
- Other expenses	5	**7**
- Financial receivables held for operations		**(1)**
- Other income	(4)	**(3)**
Losses (Gains) on hedging derivatives – ineffective portion		**2**
	186	**176**

(*) 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 15 - ”Provisions for risks and charges”.

Expense on financial debt (€173 million) is related to: (i) interests and other expenses on bond loans (€160 million), referring essentially to interests on 15 bond loans; (ii) the portion attributable to the period of upfront fees on revolving credit lines (€4 million) and credit line non-usage fees (€3 million); and (iii) interests payable to banks on revolving credit lines, uncommitted credit lines and maturing loans with a total amount of 6 million Euro.

Financial expenses capitalised over the assets (€9 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other financial expenses (income) (€10 million) mainly related to the financial expenses linked to the passage of time relating to the provision for dismantling and restoration in the storage and transportation sector (€5 million) and the employee's benefit fund (€2 million).

The expenses from derivatives (€2 million) related to the effects connected to the recognition in the income statement of the degree of ineffectiveness arising from the valuation at fair value of derivative hedging instruments.

The reasons for the most significant changes are described in the “Financial review and other information” section of the Directors’ Interim Report.

23) Income and expense from equity investments

Income and expenses from equity investments, with an amount of €64 million (€69 million in the first semester of 2015), can be analysed as follows:

	First half	
(€ million)	2015	2016
Equity method valuation effect	**70**	**64**
- Capital gains from valuation using the equity method	70	64
Other net income (expense)	**(1)**	
	69	**64**

The analysis of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 10 “Equity-accounted investments”.

24) Income taxes

Income taxes for the period, with an amount of €229 million (€283 million in the first semester of 2015), can be analysed as follows:

	First half						
(€ million)	2015				2016		
	IRES	IRAP	Other taxes	Total	IRES	IRAP	Total
Current taxes	**255**	**43**	**12**	**310**	**226**	**39**	**265**
Current taxes for the period	255	43	12	**310**	**226**	**39**	**265**
Deferred and prepaid taxes	**(27)**			**(27)**	**(28)**	**(8)**	**(36)**
Deferred taxes	(25)	(1)		**(26)**	**(20)**	**(8)**	**(28)**
Prepaid taxes	(2)	1		**(1)**	**(8)**		**(8)**
	228	**43**	**12**	**283**	**198**	**31**	**229**

The impact of taxes on pre-tax profit for the period (tax rate) is 30.3% (31.6% in the first half of 2015) in view of the theoretical tax rate of 31.0% (31.0% in the first half of 2015), which is obtained by applying the statutory tax rate of 27.5% (IRES) to pre-tax profit and 3.5% (IRAP) to the net value of production.

25) Earnings per share

Basic earnings per share, equal to €0.15 per share (€0.17 in the first semester of 2015), are calculated by dividing the net profit attributable to Snam (€526 million; €612 million in the first semester of 2015) by the weighted average number of Snam outstanding shares during the year, excluding treasury shares (3,499,511,044 shares; unchanged compared with 30 June 2015).

26) Information by business segment

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

The business segments for which information is provided are natural gas transportation (“Transportation”), LNG regasification (“Regasification”), natural gas storage (“Storage”) and natural gas distribution (“Distribution”). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia, Stogit and Italgas, respectively.

(€ million)	Corporate and other activities	Transportation and dispatching	Distribution	Storage	Regasification	Consolidation adjustments and eliminations	Total
First half 2015							
Net core business revenue (a)	101	1,021	650	275	12		2,059
less: inter-segment revenue	(95)	(11)		(66)	(1)		(173)
Revenue from third parties	6	1,010	650	209	11		1,886
Other revenue and income		58	14	1			73
Net accrual to (utilisation of) provisions for risks and charges	3	(1)	(19)				(17)
Amortisation and depreciation	3	249	132	36	2		422
EBIT	1	591	248	169	3		1,012
Equity method valuation effect	59		11				70
Total assets	1,431	13,680	5,308	4,055	104		24,578
- Investments valued using the equity method	1,094		176				1,270
Total liabilities	14,412	9,908	2,553	2,854	38	(12,140)	17,625
Investments in property, plant and equipment and intangible assets	4	278	142	62	1		487
First half 2016							
Net core business revenue (a)	**94**	**963**	**639**	**292**	**9**		**1,997**
less: inter-segment revenue	**(87)**	**(11)**		**(72)**			**(170)**
Revenue from third parties	**7**	**952**	**639**	**220**	**9**		**1,827**
Other revenue and income		**19**	**14**	**1**			**34**
Net provisions (utilisation of) for risks and charges	**2**	**2**	**12**				**16**
Amortisation, depreciation and impairment losses	**3**	**257**	**142**	**42**	**3**		**447**
EBIT	**(6)**	**515**	**178**	**179**	**1**		**867**
Equity method valuation effect	**55**		**9**				**64**
Total assets	**1,458**	**13,663**	**5,389**	**4,128**	**115**		**24,753**
- Investments valued using the equity method	**1,172**		**165**				**1,337**
Total liabilities	**14,390**	**9,608**	**2,563**	**2,832**	**47**	**(11,937)**	**17,503**
Investments in property, plant and equipment and intangible assets	**2**	**319**	**152**	**51**	**2**		**526**

(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.

27) Relationships with related parties

Considering the existence of a fact control situation on behalf 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 not only by Snam's associates and joint ventures, but by the mother company CDP S.p.A. and its subsidiaries and associates, and also by the direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance (MEF). Furthermore, the members of the Board of Directors are also considered as correlated parties, so as the Statutory Auditors and managers with strategic responsibilities and their families, of the Snam Group and CDP.

As explained in the following details, the related-party transactions mainly 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 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.

The directors and statutory auditors declare to have potential interests related to the Company and the Group every six months, and/or when the changes in the before mentioned interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer’s interests), who in turn will informs the other directors and the Board of Statutory Auditors, of the individual transactions that the Company intends to carry out and over which they have an interest.

Snam is not managed or coordinated by any other entity. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

As part of the separation operation of Italgas from Snam, approved on 28 June 2016, by the Board of Directors of Snam[13] and to be implemented through three operations (transfer; sale and splitting), it is reported that: (i) the splitting with a proportional assignment of shares to the shareholders does not constitute a '"Related party transaction" under of the disclosure requirements of CONSOB Regulation no. 17221 of 12 March 2010 and Consob Communication No. DEM/10078683 of 24 September 2010; (ii) the operations of transfer and sale, while qualifying as related party transactions, fall within the exemption to Article 14, paragraph 2, of the RPT Regulation and Article X, Section 8, of the RPT Procedure of Snam, which provides that procedures applicable in Related Party Transactions do not apply in the case of transactions with subsidiaries (ITG Holding). In the light of the involvement of CDP as a Related Party of Snam, Snam has not availed itself of the above mentioned exemption and referred the whole Operation to the procedure for "Material Transactions" under Article 8 of the RPT Regulation and art. VI of the RPT Procedure[14].

The amounts involved in commercial, miscellaneous and financial transactions with related parties for the first semester of 2015 and 2016 are reported below. The nature of the most significant transactions is also stated.

---

[13] More information about the transaction is available on the Snam website (www.snam.it, in the section “Shareholders' Meetings Ethics and Governance”) in the following documents: the Merger Project, the Directors' Report on the spun-off company (Snam S.p.A.) and the beneficiary company (ITG Holding S.p.A.) and the Information Document prepared pursuant to Article 70, paragraph 6 of the Issuers' Regulation.

[14] The procedure for related-party transactions, pursuant to Article 4 of Consob Regulation 17221 of 12 March 2010, as subsequently amended, and approved by the Board on 30 November 2010, is available in the “Governance” section of the Company website, www.snam.it.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

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

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

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

(c) Includes the balance related to the balancing activities.

	30 June 2016			First half 2016					
			Guarantees and	Costs (a)			Revenue (b)		
(€ million)	Receivables	Payables	commitments	Goods	Services	Other	Goods	Services	Other
Companies under joint control and associates									
- TAG GmbH				**7**				**1**	**6**
- TAP AG		**26**							
- TIGF Investissement S.A.S.	**1**								
- Toscana Energia S.p.A.	**15**							**1**	
	16	**26**		**7**				**2**	**6**
Companies under joint control of the mother company Cassa Depositi e Prestiti									
- Saipem		**30**							
		30							
Companies owned or controlled by the State									
- Gestore dei Mercati Energetici S.p.A. (GME)									**2**
- Gruppo Anas	**1**	**5**							
- Gruppo Enel (c)	**85**	**22**						**239**	**1**
- Gruppo Eni (c)	**331**	**66**	**2**	**5**	**25**	**2**		**996**	**5**
- Gruppo Ferrovie dello Stato	**1**	**1**						**1**	
	418	**94**	**2**	**5**	**25**	**2**		**1,236**	**8**
Total	**434**	**150**	**2**	**12**	**25**	**2**		**1,238**	**14**

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

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

(c) Includes the balance related to the balancing activities.

Companies under joint control and associates

Transactions with TAP related to contractual agreements under which the shareholders are responsible for financing the project for gas exports in western Europe, according to the level of their respective shareholdings, both through the Shareholders' Loan, as well as through the subscription of capital increases, until the pipeline enters into service, and if its capacity is expanded.

Companies under joint control of the mother company Cassa Depositi e Prestiti

Among the passive commercial transactions with the companies jointly controlled by Cassa Depositi e Prestiti, it is noted that the planning and supervision of works to build natural gas transportation infrastructure carried out by Saipem, governed by contracts concluded 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 supplying of electricity used for the development of activities and purchase of natural gas used in the realization of storage infrastructures, regulated by contracts entered into under normal market conditions; (ii) the provision of consulting and technical-operational assistance services related to the storage deposits. These transactions are governed by service agreements on the basis of the costs incurred.

On 30 June 2016, there were assets with Eni 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:

	30 June 2015		**First half 2015**
(€ million)	**Receivables**	**Payables**	**Income**
Companies under joint control			
- GasBridge1 B.V. GasBridge 2 B.V.		9	
- Trans Austria Gasleitung GmbH (TAG)	221		3
	221	**9**	**3**

	30 June 2016		**First half 2016**
(€ million)	**Receivables**	**Payables**	**Income**
Companies under joint control and associates			
- GasBridge1 B.V. GasBridge 2 B.V.		**8**	
- TAP AG	**147**		1
	147	**8**	**1**

Companies under joint control and associates

Transactions with TAP AG refer to Snam's share of the Shareholders' Loan in favour of associate company Trans Adriatic Pipeline AG (TAP).

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

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

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

	31.12.2015			30.06.2016		
(€ million)	Total	Related parties	Share %	Total	Related parties	Share %
Statement of financial position						
Trade receivables and other current receivables	1,824	627	34.4	**1,477**	**434**	**29.4**
Other non-current receivables	78	78	100.0	**147**	**147**	**100.0**
Other non-current assets	137	2	1.5	**159**	**2**	**1.3**
Short-term financial liabilities	1,351	19	1.4	**1,696**	**8**	**0.5**
Trade and other payables	1,746	220	12.6	**1,377**	**150**	**10.9**
Other current liabilities	71	1	1.4	**52**	**1**	**1.9**

	First half					
	2015			2016		
(€ million)	Total	Related parties	Share %	Total	Related parties	Share %
Income statement						
Core business revenue	1,886	1,351	71.6	**1,827**	**1,238**	**67.8**
Other revenue and income	73	29	39.7	**34**	**14**	**41.2**
Purchases, services and other costs	351	23	6.6	**362**	**24**	**6.6**
Financial income	7	3	42.9	**4**	**1**	**25.0**

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

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

	First half	
(€ million)	**2015**	**2016**
Revenue and income	1,380	**1,252**
Cost and expense	(23)	**(24)**
Change in trade and other receivables	146	**193**
Change in trade and other payables	15	**(80)**
Interest received (paid)	3	**1**
Net cash flow from operating activities	**1,521**	**1,321**
Investments:		
- Tangible and intangible assets	(23)	**(15)**
- Equity investments	(14)	**(26)**
- Financial receivables		**(69)**
- Change in payables and receivables relating to investments	(15)	**31**
Cash flow from investments	**(52)**	**(79)**
Net cash flow from investment activities	**(52)**	**(79)**
Increase (decrease) in short-term financial debt	(4)	**(11)**
Financial receivables	(5)	
Net cash flow from financing activities	**(9)**	**(11)**
Net cash flow for the period with related parties	**1,460**	**1,231**

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

	First half					
	2015			2016		
(€ million)	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	1,146	1,521	N/A	**1,200**	**1,321**	**N/A**
Cash flow from investment activities	(559)	(52)	9.3	**(692)**	**(79)**	**11.4**
Cash flow from financing activities	(637)	(9)	1.4	**(504)**	**(11)**	**2.2**

28) Relevant facts after the closing of the semester

Revoke of the "judicial control" against Italgas

On 9 July 2015 the Court of Palermo has revoked the measure of the judicial administration against Italgas, as a result of the investigations and the active cooperation carried out by Snam Group.
Italgas has been asked to provide the competent authorities with the information flows requested under art. 34 of Legislative Decree no. 159/2011 (judicial control) on the relevant operations.
Italgas has filed an appeal to the Court of Appeal of Palermo.
On 25 July 2016 the Court of Appeal has revoked the "judicial control" against Italgas, by so declaring ceased the execution of any prescriptions.

Certification of the consolidated financial statements of the semester pursuant to Article 154-*bis*, paragraph 5 of Legislative Decree 58/1998 (Consolidated Finance Act)

1. The undersigned, Marco Alverà and Antonio Paccioretti, as Chief Executive Officer and Executive Responsible for preparing corporate accounting documents of Snam S.p.A. respectively, hereby certify, under Article 154-*bis*, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February1998:

   - the adequacy, considering the Company's characteristics, and
   - the effective implementation

   of the administrative and accounting procedures for the preparation of the condensed interim financial statements at 30 June 2016, during the first half of 2016.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 30 June 2016 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 condensed interim financial statements at 30 June 2016:

   a) were prepared according to the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) match the books and accounting records;

   c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.

   3.2 The Interim Directors' Report includes a fair review of the references to important events which occurred during the first six months of the year, and their impact on the condensed interim financial statements, along with a description of the main risks and uncertainties for the remaining six months of the year. The Interim Directors' Report also includes a fair review of the information on significant transactions with related parties.

26 July 2016

/Signature/ Marco Alverà

Marco Alverà
Chief Executive Officer

/Signature/Antonio Paccioretti

Antonio Paccioretti
Chief Financial Officer

EY S.p.A.
Via Meucci, 5
10121 Torino

Tel: +39 011 5161611
Fax: +39 011 5612554
ey.com

Building a better working world

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

To the Shareholders of
Snam S.p.A.

Introduction

We have reviewed the interim condensed consolidated financial statements, comprising the statement of financial position, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows and the related explanatory notes of Snam S.p.A. and its subsidiaries (the "Snam Group") as of June 30, 2016. The Directors of Snam S.p.A. are responsible for the preparation of the interim condensed consolidated financial statements in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with review standards recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution no. 10867 of July 31, 1997. A review of interim condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (ISA Italia) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the interim condensed consolidated financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial statements of Snam Group as of June 30, 2016 are not prepared, in all material respects, in conformity with the International Financial Reporting Standard applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Turin, July 29, 2016

EY S.p.A.
Signed by: Stefania Boschetti, Partner

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

EY S.p.A.
Sede Legale: Via Po, 32 - 00198 Roma
Capitale Sociale € 2.750.000,00 i.v.
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 00891231003
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
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

A member firm of Ernst & Young Global Limited