



SNAM: 2016 CONSOLIDATED AND DRAFT FINANCIAL STATEMENTS OF THE PARENT COMPANY

San Donato Milanese, 7 March 2017 - The Snam Board of Directors, chaired by Carlo Malacarne, met yesterday to approve the 2016 consolidated and draft financial statements of the parent company, which show a net profit of €861 million (including the contribution of discontinued operations following the separation of Italgas from Snam) and €761 million, respectively. The Board also resolved to propose a dividend of €0.21 per share to the Shareholder Meeting.

Financial highlights

- **Continuing operations:**
 - **Total revenue:** €2,560 million (-2.6% compared with 2015); +1.8% excluding the effect of the WACC revision
 - **Adjusted EBITDA:** €1,987 million (-3.4% compared with 2015); +2.1% excluding the effect of the WACC revision
 - **Adjusted pro forma net profit:** €845 million
 - **Technical investments:** €906 million (+3.1%)
- **Net financial debt:** €11,056 million

Operating highlights

- **Gas injected into the transportation network:** 70.63 billion cubic metres (+5.0%)
- **Available storage capacity:** 12.0 billion cubic metres (+0.5 billion cubic metres compared with 31 December 2015)

Main events

- **Italgas Reti S.p.A. separated from Snam S.p.A. effective as of 7 November 2016**
- **Outstanding Snam bonds successfully repurchased for a total nominal value of €2.75 billion, financed in part by two bond issues for a total of €1.75 billion**
- **Share buyback programme approved by the Shareholder Meeting on 1 August 2016 launched on 7 November 2016**
- **In a consortium with Allianz, 49% of Gas Connect Austria (GCA) acquired for a total outlay for Snam of €135 million**
- **Signed agreements to favour the use of natural gas as automotive fuel (CNG)**

Marco Alverà, Snam CEO, made the following comments on the results:

"The 2016 results confirm the effectiveness of our growth strategy: the strengthening of Italian infrastructure and the development of new services for the market allow us to further consolidate our leadership within the European gas system and significantly contribute to market integration. Also this year, we have achieved positive economic and financial results, thanks to our continuous focus on operational and financial efficiency. We continue to guarantee attractive and profitable growth to our shareholders and we will propose a 2016 dividend of €0.21 per share at the forthcoming Shareholder Meeting."



The 2016 Annual Report has been made available to the Board of Statutory Auditors and the Independent Auditors and will be made available to the public at Snam's registered office and on the Company's website at www.snam.it together with the reports of the Board of Statutory Auditors and the Independent Auditors, within the timeframes established by Legislative Decree 58/98 (the Consolidated Finance Act - TUF).

The Directors' Report in the 2016 Annual Report presents the annual results of operations as well as the most significant sustainability factors, to offer an integrated overview of the business model in accordance with the guiding principles of the framework proposed by the International Integrated Reporting Council (IIRC).

Introduction

The consolidated results illustrated below refer primarily to continuing operations (transportation, regasification and storage, as well as corporate activities), as the separation from Snam of the natural gas distribution business, effective as of 7 November 2016, entailed the separate presentation as discontinued operations of the profit and loss and cash flows of the natural gas distribution sector for the 1 January - 6 November 2016 period, in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". The comparative years have been reclassified accordingly.

In this regard, please note that the separate presentation of discontinued operations in accordance with the criteria laid out in IFRS 5 refers only to transactions with third parties, while inter-company transactions remain eliminated. There is thus a distortion in the separation of values between continuing and discontinued operations, which in the income statement entails an unjustified penalisation of one or the other which is more relevant the greater the inter-company economic transactions in the discontinued sectors.

To allow for an improved assessment of the performance of continuing operations and better data comparability, Snam's management has calculated alternative performance measures (non-GAAP measures) which, aside from excluding special items, also restore inter-company transactions regarding discontinued operations to the results of continuing operations, at the level of each individual income statement item, so as to present the results of continuing operations as if the discontinued operations had been deconsolidated.



Financial highlights

(€ million)	2015	2016	Change	% change
Continuing operations				
Total revenue (a)	2,627	2,560	(67)	(2.6)
- of which from regulated activities	2,502	2,444	(58)	(2.3)
Operating costs (a)	570	573	3	0.5
Adjusted EBITDA (b)	2,057	1,987	(70)	(3.4)
Adjusted EBIT (b)	1,481	1,336	(145)	(9.8)
Adjusted net profit - continuing operations (b) (c)	863	826	(37)	(4.3)
Adjusted net profit - discontinued operations (b) (c)	346	190	(156)	(45.1)
Adjusted net profit (b) (c)	1,209	1,016	(193)	(16.0)
Net profit - continuing operations (c) (d)	796	591	(205)	(25.8)
Net profit - discontinued operations (c) (d)	442	270	(172)	(38.9)
Net profit (c) (d)	1,238	861	(377)	(30.5)
Net profit per share - continuing operations (e)	(€) 0.227	0.169	(0.058)	(25.7)
Adjusted net profit per share - continuing operations (e)	(€) 0.247	0.236	(0.010)	(4.2)
Net profit per share (e)	(€) 0.354	0.246	(0.108)	(30.4)
Adjusted net profit per share (e)	(€) 0.345	0.291	(0.055)	(15.9)
Technical investments	1,272	1,199	(73)	(5.7)
- continuing operations	879	906	27	3.1
- discontinued operations (f)	393	293	(100)	(25.4)
Number of shares outstanding at the end of the period	(million) 3,499.50	3,470.70	(28.8)	(0.8)
Average number of shares outstanding during the period	(million) 3,499.50	3,496.80	(2.7)	(0.1)

(a) The item includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.

(b) Non - GAAP measures determined by excluding special items and, in order to remove the distorting effects generated by the application of IFRS 5, attributing to continuing operations the elimination of costs originating from transactions relating to discontinued operations. For the definition of adjusted EBIT and net profit, as well as the reconciliation with the respective reported results, please refer to the section "Reconciliation of EBIT and the reported net profit with adjusted EBIT and adjusted net profit" of this press release.

(c) Net profit is attributable to Snam shareholders.

(d) From the legally required income statement format.

(e) Calculated considering the average number of shares outstanding during the year.

(f) The values refer to the 1 January - 6 November 2016 period.

The year 2016 closed with a **net profit for the Group**, including the contribution of discontinued operations, of €861 million, a decline of €377 million, or 30.5%, compared with 2015. Considering the elements of discontinuity that characterised 2016, the main adjusted results are analysed below.

Revenue

Revenue from regulated activities (€2,444 million) was down by €58 million compared with 2015 (-2.3%). Net of components offset in costs, revenue from regulated activities amounted to €2,299 million, down €85 million, or 3.6%, and relates to transportation (€1,855 million), storage (€426 million) and regasification (€18 million).



This reduction essentially reflects the revision of WACC¹ for the year 2016 in the transportation sector (-€134 million), the rate of return of which decreased from 6.3% in 2015 to 5.4% in 2016. This effect was absorbed in part by higher regulated revenue in the storage sector (+€48 million), which benefited from an improvement in the WACC for 2016 with respect to that established for 2015 (+€20 million), the first year of the fourth regulatory period, as well as the entry into operation in late 2015 of the first facilities at the Bordolano site².

Total revenue earned in 2016 amounted to €2,560 million, down by €67 million, or 2.6%, compared with 2015. Net of components offset in costs, total revenue amounted to €2,415 million, down by €94 million, or 3.7%, compared with the previous year. The reduction can be attributed to the decrease in regulated revenue (-€85 million; -3.6%) as well as the reduction in revenue from non-regulated activities (-€9 million compared with 2015, or 7.2%), primarily due to lower sales of natural gas no longer necessary for operating activities (-€24 million), the effects of which were offset in part by higher chargebacks of services provided by Snam S.p.A. to Italgas Group companies in 2016 (+8 million, with reference to 1 January - 31 December 2016) and foreign affiliates (+€6 million).

Excluding the effect of the WACC revision, total revenue amounted to €2,674 million, up by €47 million, or 1.8%, compared with 2015.

Adjusted EBITDA

The adjusted EBITDA is equal to €1,987 million, down €70 million, equal to 3.4% compared with 2015, mainly following the lower regulated revenues (-€85 million, net of items offset in costs).

Excluding the effect of the revision of the WACC, EBITDA stood at €2,101 million, an increase of €44 million, equal to 2.1%, compared with 2015.

Adjusted EBIT

Adjusted EBIT³ amounted to €1,336 million, down by €145 million, or 9.8%, compared with 2015. The reduction was due in addition to the effects deriving from the change in EBITDA (-€70 million) to higher amortisation, depreciation and impairment (-€75 million; equal to 13.0%), following the entry into service of new infrastructure as well as higher impairment of property, plant and equipment.

Adjusted net profit from continuing operations

Adjusted net profit from continuing operations totalled €826 million, a decrease of €37 million (-4.3%) compared with 2015. This reduction was due to the change in the adjusted EBIT, down by €145 million, or 9.8%, partially offset by the significant improvement in financial management (+€69 million), primarily thanks to the reduction in the average cost of debt and the fall in income taxes (+€29 million), mainly due to the lower pre-tax profit.

Adjusted pro forma net profit from continuing operations

Adjusted pro forma net profit from continuing operations, obtained by applying the share attributable to Snam, equal to 13.5%, to the net profit estimate of the Italgas Group for the entire year 2016, adjusted to exclude the effects deriving from the adjustment to market value of financial payables outstanding with

¹ 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 the determination and updating of the rate of return on net invested capital (WACC) for the 2016-2021 period and established the rates of return for the year 2016. The resolution also established a mechanism for updating the rate at mid-period according to the prevailing situation.

² Excluding the effect of the WACC revision for 2016, regulated revenue, net of components that are offset in costs, amounted to €2,413 million, up by 1.2% compared with 2015.

³ EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs. These components mainly relate to interconnection and to sales of natural gas carried out for the purposes of balancing the gas system.



respect to the Snam Group, and eliminating the effects of non-recurring components from the valuation of foreign investees, amounts to a total of €845 million.

Adjusted net profit

The Group's adjusted net profit amounted to €1,016 million, down by €193 million, or 16.0%, compared with 2015. The reduction is attributable to continuing operations (-€37 million; -4.3%) based on the phenomena analysed in the previous paragraph, and discontinued operations (-€156 million; -45.1%). With regard to discontinued operations, the adjusted net profit (€190 million in the period 1 January 2016 - 6 November 2016; €346 million in 2015) was impacted by the different incidence of income components as well as lower regulated revenue, essentially due to the tariff update mechanisms and, in particular, the review of the rate of return on invested capital, which declined 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.

Technical investments

Technical investments for the year totalled €1,199 million (€1,272 million in 2015).

With respect to continuing operations, technical investments for the year totalling €906 million (€879 million in 2015) referred mainly to the natural gas transportation (€776 million) and storage (€117 million) business segments.

Net financial debt

Net financial debt was €11,056 million at 31 December 2016, compared with €13,779 million at 31 December 2015. The net cash flow from operations (€1,627 million), along with the cash flow from divestments, attributable basically to the consideration received for the disposal of the 38.87% stake in Italgas Reti S.p.A. (€1,502 million, net of cash and cash equivalents transferred) allowed us to fully cover the financial requirements associated with technical investments, equity investments and investments in financial assets held for operations (totalling €1,426 million) and also generate a free cash flow of €1,707 million. After the outlays connected with the equity cash flow (€978 million) and the effects of financial receivables from the Italgas Group, which resulted in a reduction in the financial position totalling €2,009 million, net financial debt decreased by €2,723 million to €11,056 million.

2016 dividend

Thanks to its healthy results and solid business fundamentals, the Company will propose a dividend of €0.21 per share to the Shareholder Meeting, to be paid from 24 May 2017, confirming Snam's commitment to an attractive and sustainable remuneration of its shareholders.



Operating highlights

In compliance with IFRS 8 Operating Segments, operating segments 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 distribution sector is no longer included as an operating segment in Snam's 2016 consolidated financial statements following its separation from Snam. Therefore, the operating figures reported below relate to continuing operations (transportation, regasification and storage, in addition to Corporate figures).

	2015	2016	Change	% change
Natural gas transportation (a)				
Natural gas injected into the national gas transportation network (billions of cubic metres) (b)	67.25	70.63	3.38	5.0
Transportation network (kilometres in use)	32,534	32,508	(26)	(0.1)
Installed power in the compression stations (MW)	876.5	922.2	45.70	5.2
Liquefied natural gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	0.03	0.21	0.18	
Natural gas storage (a)				
Available storage capacity (billions of cubic metres) (c)	11.5	12.0	0.50	4.3
Natural gas moved through the storage system (billions of cubic metres)	19.58	20.00	0.42	2.1
Employees in service at period end (number) (d) (e)	3,005	2,883	(122)	(4.1)
<i>of which business segments:</i>				
- Transportation	1,918	1,726	(192)	(10.0)
- Regasification	73	71	(2)	(2.7)
- Storage	299	301	2	0.7
- Corporate and other activities	715	785	70	9.8

(a) For 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/SCM) and 39.1 MJ/SCM (10.805 Kwh/SCM) respectively for the businesses of natural gas transportation, regasification and storage.

(b) The data for 2016 were updated at 12 January 2017. The update of 2015 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) Working gas capacity for modulation, mining and balancing services, allocated in full as at 31 December 2016.

(d) Fully consolidated companies.

(e) The figure for 2015 includes personnel transferred to the Italgas Group in 2016 (207 people) following the separation.

Natural gas transportation

The gas injected into the transportation network stood at 70.63 billion cubic metres, an increase of 3.38 billion cubic metres (+5.0%) compared with 2015, essentially following the increase in demand for natural gas in Italy (+3.36 billion cubic metres compared with 2015: +5.0%).

The increase in demand was related to higher consumption in the thermoelectric sector (+2.69 billion cubic metres; +13.1%), resulting primarily from decreased imports of energy generated by French nuclear plants and the lower supply of hydroelectric energy, as well as higher industrial sector consumption (+0.72 billion cubic metres; +4.5%). These effects were only in part absorbed by the slight reduction in consumption of the residential and tertiary sector (-0.10 billion cubic metres; -0.4%) due essentially to weather trends.

Demand for gas in terms normalised for temperature is estimated at 71.88 billion cubic metres, up 3.24 billion cubic metres or +4.7% compared with the corresponding figure in 2015 (68.64 billion cubic metres).



Liquefied natural gas (LNG) regasification

During 2016, 0.21 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.03 billion cubic metres in 2015, all regasified as part of the peak shaving service; +0.18 billion cubic metres), of which 0.043 billion cubic metres within the integrated natural gas regasification and storage service⁴.

In 2016, 5 tanker ships were unloaded, of which 1 as part of the integrated regasification and storage service (1 unloaded in 2015, as part of the peak shaving service).

Natural gas storage

In 2016, 20.0 billion cubic metres of natural gas was moved through the storage system, an increase of 0.42 billion cubic metres, or +2.1%, compared with 2015 (19.58 billion cubic metres). The increase was mainly attributable to higher withdrawals from storage (+0.30 billion cubic metres; +3.1%) due to the substantial use of stocks by the operators during the final months of 2016, due mainly to weather conditions and to higher injections to replenish stocks (+0.12 billion cubic metres; +1.2%).

Overall storage capacity, including strategic storage, was 16.5 billion cubic metres at 31 December 2016, an increase of 0.5 billion cubic metres over 2015, of which 12.0 was available capacity that was fully transferred for the 2016-2017 thermal year, and the remaining 4.5 billion cubic metres was for strategic storage.

Main events

Separation of Italgas Reti S.p.A. from Snam

On 7 November 2016, the date on which Italgas S.p.A. (formerly ITG Holding S.p.A.) shares began trading on the Mercato Telematico Azionario, the electronic stock exchange organised and managed by Borsa Italiana S.p.A., the separation of Italgas Reti S.p.A. (formerly Italgas S.p.A.) from Snam S.p.A. took effect.

This is primarily a business transaction aimed at separating the Snam Group's Italian gas distribution activities, characterised by their own specific characteristics with respect to the other Snam Group activities in terms of operational organisation, competitive environment, regulation and investment requirements, from its gas transportation and dispatching, regasification and storage activities in Italy and abroad.

As part of the transaction, representing a unitary and essentially simultaneous operation, which led to the transfer of 100% of Snam S.p.A.'s equity investment in Italgas Reti S.p.A. to Italgas S.p.A., on 2 November 2016 the following were entered into:

- the partial and proportional demerger deed with the assignment to Italgas S.p.A. of the 52.90% stake held by Snam S.p.A. in Italgas Reti S.p.A., with the resulting assignment to Snam S.p.A. shareholders of 86.50% of the share capital of Italgas S.p.A. Due to the Demerger, Italgas S.p.A. issued and assigned to the Snam S.p.A. shareholders one Italgas S.p.A. share for every five Snam S.p.A. shares held;
- the deed of transfer in kind by Snam S.p.A. to Italgas S.p.A. of an equity investment of 8.23% in the share capital of Italgas Reti S.p.A. in exchange for the allocation to Snam of 108,957,843 newly issued

⁴ The integrated storage and regasification service, introduced by Art. 14, paragraph 1 of Decree-Law No. 1 of 24 January 2012 and subsequently governed by Ministerial Decree of 25 February 2016, requires the largest storage company to make available to users quantities of gas equivalent to the LNG delivered, less consumption and losses, for the uniform storage service by the end of the month subsequent to unloading. The physical management of gas flows for the redelivery of gas in storage takes place by means of coordination between the regasification and storage companies concerned.



shares of Italgas S.p.A., in order to enable Snam S.p.A. to hold, post-demerger, an equity investment of 13.5% in Italgas S.p.A.;

- the deed of sale by Snam S.p.A. to Italgas S.p.A. of 98,054,833 shares of Italgas Reti S.p.A., equal to 38.87% of the share capital, for a price of €1,503 million, in exchange for the takeover of a debt of an equal amount by Italgas S.p.A., in order to generate an adequate level of financial debt.

The deed of demerger was recorded in the company register on 3 November 2016 following Borsa Italiana's issue of the order for admission to listing of the ordinary shares of Italgas S.p.A. on the Mercato Telematico Azionario, on 2 November 2016, and CONSOB's issue of the judgement of equivalence, pursuant to Art. 57, paragraph 1(d) of the Issuer Regulations, concerning the Information Document relating to the Demerger, on 3 November 2016.

As set forth in the deed of demerger, the demerger itself became effective as of the first day of trading, i.e., 7 November 2016.

On 7 November 2016, with the listing of Italgas S.p.A., the shareholders' agreement signed on 20 October 2016 by Snam S.p.A., CDP Reti S.p.A. and CDP Gas S.r.l. concerning all shares held by each in Italgas S.p.A. came into effect. The shareholders' agreement constitutes a voting and lock-up agreement, with the right for Snam S.p.A. to withdraw early if, on the condition that Snam S.p.A. does not agree on the vote with respect to the shares subject to the agreement concerning certain reserved extraordinary matters, it does not transfer its equity investment in Italgas S.p.A. within the subsequent 12 months (Accelerated Exit). Furthermore, the shareholders' agreement provides that CDP Reti S.p.A., CDP Gas S.r.l. and Snam S.p.A. will present a joint list for the appointment of the Italgas S.p.A. Board of Directors in order to ensure that Snam S.p.A. designates one candidate. Transfers of Snam S.p.A.'s equity investment in Italgas S.p.A. (including in the case of an Accelerated Exit) are subject to the preferential purchase right of CDP Reti S.p.A. and not only the right of approval, as well as the obligation of replacement in the agreement by the third party. Snam S.p.A. also cannot increase its equity investment. The agreement has a term of three years and is renewable unless cancelled; if Snam S.p.A. does not renew, CDP Reti S.p.A. will have an option to purchase Snam S.p.A.'s equity investment in Italgas S.p.A. at its fair market value.

Business developments

Gas Connect Austria GmbH

On 15 December 2016, Snam, in a consortium with Allianz, completed the acquisition of 49% of Gas Connect Austria GmbH (CGA) from OMV, the main Austrian oil & gas company.

The acquisition was completed through a joint venture vehicle company owned by Allianz (60%) and Snam (40%) and ensured by a pool of international credit institutions by means of non-recourse loans of up to €310 million. Based on the terms of the transaction, the total price paid by the consortium to OMV was €601 million (including €147 million for the pro-rata repayment of the current shareholder loan, with a new shareholder loan taken out at the transaction closing with GCA). The overall outlay for Snam was €135 million, for an indirect equity investment of 19.6% in GCA.

GCA is the company that manages a transportation network of 564 Km and a distribution network of 322 km in Austria and handles the marketing and supply of transportation capacity to border points and the transportation capacity required by domestic natural gas demand.

For Snam, the transaction represents an opportunity to strengthen its strategic positioning in Austria.



Initiatives for the development of sustainable mobility

Within the broader context of the development of sustainable mobility, Snam, FCA and IVECO signed a Memorandum of Understanding on 5 October 2016 to favour the use of natural gas (CNG - Compressed Natural Gas) as automotive fuel.

On 6 December 2016, Snam also signed a memorandum of understanding with the Api Group to increase the number of methane supply stations in Italy.

Optimisation of the Group's financial structure

Bond buyback

In October 2016, Snam successfully concluded the buyback of bonds on the market for a total nominal value of €2.75 billion, with an average coupon of around 3.3% and a residual maturity of roughly 3 years. The total outlay came to around €3.1 billion, financed in part through two bond issues, for a total of €1.75 billion, with an average coupon of 0.6% and an average maturity of around 8 years, and for the remainder through the use of available credit lines.

The overall size of the transaction was also defined considering the cash-in, equal to roughly €3.2 billion, deriving from the separation of Italgas.

The two issues are fixed rate, with a nominal value of €1.25 billion, an annual coupon of 0.875% and a maturity of 10 years, and a nominal value of €0.5 billion, an annual coupon of 0% and a maturity of four years, respectively. The effects of that transaction on the 2016 income statement, essentially equal to the costs deriving from the higher value repaid to bondholders for the repurchase of bonds in the market with respect to the value of the same bonds at amortised cost, amount to €329 million (€233 million net of the related tax effect).

Through this transaction, Snam continues the process of optimising its debt structure, undertaken with the objective of continuous improvement in the cost of capital, an extension of the average maturity of debt and a reduction in refinancing risk.

Share buyback programme

On 7 November 2016, the effective date of the Snam demerger, the share buyback programme approved by the shareholder meeting on 1 August 2016 began.

From the start of the share buyback programme to 31 December 2016, Snam acquired 28,777,930 treasury shares (amounting to 0.82% of the share capital), for a total cost of €103 million, with an average price of €3.583 per share.

Today Snam's appointment of a first level intermediary for the implementation of the treasury shares purchase programme was amended by extending the final deadline for purchasing the shares by another 3 months. The intermediary will carry out the share purchase transactions based on independent decisions, always in conformity with the authorisation to buy treasury shares approved by the Shareholder Meeting of 1 August 2016 and the applicable regulations.

Any purchases will be made on the MTA in compliance with Article 144-*bis*, paragraph 1, letter b) of Consob Regulation 11971/1999 and the other applicable provisions, in order to ensure compliance with the principles of equal treatment of shareholders pursuant to Article 132 of the T.U.F., as well as in accordance with the operating procedures established in the market organisation and management regulations of Borsa Italiana S.p.A.



Snam will disclose the details of any purchase transactions made to the market pursuant to the provisions in force.

Outlook

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

GAS DEMAND

According to the most recent estimates, demand for natural gas in Italy between 2017 and 2021 will remain more or less unchanged from 2016 levels.

INVESTMENTS

Snam is going ahead with a significant investment plan of around €5 billion for the 2017 - 2021 period, of which €4.7 billion for plans in Italy. The priorities of the investment plan for the various business segments are as follows:

TRANSPORTATION

The planned investments target:

- Increased flexibility and security of the transportation system in Italy;
- Ongoing improvements to the quality of the transportation service;
- Increased interconnection between infrastructures and greater flexibility of gas flows in Europe.

Over the period in question, the planned investments should allow the Company to extend the total length of the transportation network (32,508 km in 2016) by around 1% and to increase the installed power in the compression stations by around 5% (approximately 922 MW in 2016).

STORAGE

The projects included in the plan, which are intended to improve the overall flexibility and security of the system, will deliver an increase in available storage capacity (12.0 billion standard cubic metres in 2016) of about 7% over the period in question and an increase of around 8% in peak capacity (238 million standard cubic metres per day in 2016).

OPERATING EFFICIENCY

Snam will continue to focus on operating efficiency in 2017, through initiatives that will enable it to keep the level of costs more or less stable in real terms, on a constant-size basis.

NEW BUSINESS

Initiatives for the development of new innovative CNG and Small Scale LNG business are being studied, particularly to support the use of gas in the transport sector.

In addition, Snam will carry out all actions to leverage the use of its know-how in the construction and management of gas infrastructure for the service of investees as well as third parties.

This press release, which is prepared voluntarily in line with best market practice, illustrates the audited consolidated results for 2016.



The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of (EC) Regulation 1606/2002 of the European Parliament and Council of 19 July 2002. The recognition and measurement criteria adopted are the same as those used for the preparation of the 2015 Annual Report, which should be referred to for a description of those criteria, except for the international accounting standards that came into force on 1 January 2016, as described in the 2016 Annual Report.

The application of the recently issued standards and the adoption of the amendments made to the existing accounting standards had no effects on the 2016 Annual Report.

The changes in the scope of consolidation of the Snam Group at 31 December 2016 with respect to 31 December 2015, regarded the exit of Italgas Reti S.p.A. (formerly Italgas S.p.A.) and its subsidiaries, as of 7 November 2016, following the separation from Snam of the natural gas distribution business. After the transaction, which led to the transfer to Italgas S.p.A. (formerly ITG Holding S.p.A.) of 100% of Snam S.p.A.'s equity investment in Italgas Reti S.p.A., Snam S.p.A. holds an equity investment of association in Italgas S.p.A. amounting to 13.5% of the share capital.

Given their size, amounts are expressed in millions of euros.

Pursuant to Article 154-bis, paragraph 2 of the TUF, the Chief Financial Officer, Franco Pruzzi, declares that the accounting information included in this press release corresponds to the documents, accounting ledgers and other records.

Disclaimer

This press release contains forward-looking statements, specifically in the "Outlook" section, relating to changes in demand for natural gas, investment plans, future management performance and the execution of projects. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. The actual results may therefore differ from those forecast as a result of several factors: foreseeable trends in natural gas demand, supply and price, actual operating performance, general macro-economic conditions, geopolitical factors such as international conflicts, the effect of new energy and environmental legislation, the successful development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.

A conference call will take place at 15:00 today, 7 March 2017, to present the consolidated results for 2016 to investors and financial analysts. An audio webcast of the presentation will be available on the Company's website (www.snam.it). In conjunction with the start of the conference call, the presentation support material will also be made available in the "Investor Relations/Presentations" section of the website.



Summary of 2016 results

ADJUSTED INCOME STATEMENT

The table below includes the adjustments made at individual income statement item level, which were introduced in order to obtain summary result measures (Adjusted EBIT and Adjusted net profit) which allow for an improved assessment of the performance of continuing operations and better data comparability.

(€ million)	2015	2016	Change	% change
Regulated revenue	2,502	2,444	(58)	(2.3)
Non-regulated revenue (a)	125	116	(9)	(7.2)
Total revenue	2,627	2,560	(67)	(2.6)
Operating costs (a)	(570)	(573)	(3)	0.5
Adjusted EBITDA	2,057	1,987	(70)	(3.4)
Amortisation, depreciation and impairment	(576)	(651)	(75)	13.0
Adjusted EBIT	1,481	1,336	(145)	(9.8)
Net financial expenses (a) (b)	(332)	(263)	69	(20.8)
Net income from equity investments	106	116	10	9.4
Pre-tax profit	1,255	1,189	(66)	(5.3)
Income tax paid (b)	(392)	(363)	29	(7.4)
Adjusted net profit - continuing operations (a) (b) (c)	863	826	(37)	(4.3)
Adjusted net profit - discontinued operations (a) (b) (c)	346	190	(156)	(45.1)
Adjusted net profit (b) (c)	1,209	1,016	(193)	(16.0)

(a) Includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.

(b) Net of special items.

(c) Fully attributable to Snam shareholders.

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

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

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

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



The income components from continuing operations for 2016 classified as special items⁵ regarded: (i) financial expenses deriving from the repurchase of bonds on the market as part of the liability management operation (€329 million; €233 million net of the related tax effect) carried out by Snam in October 2016. The overall size of the operation, which resulted in the repurchase of bonds for a total nominal value of €2.75 billion, was also defined in consideration of the cash in deriving from the separation of Italgas (roughly €3.2 billion, net of roughly €0.4 billion in EIB loans relating to Italgas projects taken over by the latter); (ii) financial income relating to the adjustment to market value of receivables outstanding from the Italgas Group (€119 million; €78 million net of the related tax effect), subject to repayment to Snam following the separation.

In addition, as already illustrated above, the adjusted result measures exclude special items and also restore to continuing operations the eliminations originating from translations associated with discontinued operations.

The table below shows the adjusted EBIT and net profit as well as the reconciliation with the respective reported results.

⁵ With reference to discontinued operations, there are no income components for the year 2016 classified as special items.



(€ million)	2015	2016	Change	% change
Reported EBIT (*)	1,427	1,293	(134)	(9.4)
<i>Restoration of eliminations originating from inter-company transactions relating to discontinued operations</i>	54	43	(11)	(20.4)
Adjusted EBIT	1,481	1,336	(145)	(9.8)
Net financial expenses (*)	(380)	(510)	(130)	34.2
of which:				
- costs incurred for inter-company transactions relating to discontinued operations:	48	37	(11)	(22.9)
- special items		(210)	(210)	
Net income from equity investments (*)	135	116	(19)	(14.1)
Income taxes (*)	(357)	(308)	49	(13.7)
- of which special items	35	55	20	
Reported net profit - continuing operations (*) (**) (A)	796	591	(205)	(25.8)
<i>Restoration of eliminations originating from inter-company transactions relating to discontinued operations</i>	102	80	(22)	(21.6)
<i>Exclusion of special items net of tax effect</i>				
- Liability management financial expenses		233	233	
- Financial income for adjustment to market value of financial receivables from Italgas Group		(78)	(78)	
- Adjustment of deferred taxes (2016 Stability Law)	(35)		35	(100.0)
- Adjustment of deferred taxes (Robin Hood Tax)				
	(35)	155	190	
Adjusted net profit - continuing operations (**) (C)	863	826	(37)	(4.3)
Reported net profit - discontinued operations (*) (**) (B)	442	270	(172)	(38.9)
<i>Restoration of eliminations originating from inter-company transactions relating to discontinued operations:</i>	(102)	(80)	22	(21.6)
<i>Exclusion of special items net of tax effect</i>				
- expenses for Gas Fund closure net of tax effect	28		(28)	(100.0)
- adjustment of deferred taxes (2016 Stability Law)	(22)		22	(100.0)
- adjustment of deferred taxes (Robin Hood Tax)				
	6		(6)	(100.0)
Adjusted net profit - discontinued operations (**) (D)	346	190	(156)	(45.1)
Reported net profit (*) (**) (A+B)	1,238	861	(377)	(30.5)
Adjusted net profit (**) (C+D)	1,209	1,016	(193)	(16.0)

(*) From the legally required income statement format.

(**) Fully attributable to Snam shareholders.



Adjusted EBIT⁶ amounted to €1,336 million, down by €145 million, or 9.8%, compared with 2015. This reduction is mainly attributable to the transportation sector (-€144 million; -12.4%), impacted by the reduction in WACC from 6.3% in 2015 to 5.4% in 2016 (-€134 million). This effect was offset in part by the positive performance of the storage sector (+€27 million; +8.5%), which benefited from an improvement in the WACC for 2016 with respect to that established for 2015, the first year of the fourth regulatory period, as well as the entry into operation in late 2015 of the first facilities at the Bordolano site (+€41 million overall). The reduction in adjusted EBIT was also impacted by higher amortisation, depreciation and impairment (-€75 million; equal to 13.0%) referring primarily to the transportation sector (-€50 million) and the storage sector (-€16 million).

Below is a breakdown of adjusted EBIT by business segment:

(€ million)	2015	2016	Change	% change
Business segments				
Transportation	1,165	1,021	(144)	(12.4)
Regasification	1	(5)	(6)	
Storage	319	346	27	8.5
Corporate and other activities	(4)	(26)	(22)	
	1,481	1,336	(145)	(9.8)

With reference to the main business segments, the change in adjusted EBIT was attributable to the following segments:

- Transportation (-€144 million; -12.4%): the reduction can be attributed to lower revenue (-€148 million, net of components offset in costs) and higher amortisation, depreciation and impairment (-€50 million; equal to 10.1%), due to the entry into service of new infrastructure as well as higher impairment of property, plant and equipment. These factors were in part absorbed by the reduction in operating costs (-€54 million, net of components offset in revenue), attributable primarily to the change in natural gas inventories due to the decrease in withdrawals for internal consumption and sales (-€34 million overall), as well as lower net allocations to provisions for risks and charges, due essentially to the write-down recorded in 2015 (€32 million) for the partial recognition by the Authority of uncollected receivables arising from balancing activities between 1 December 2011 and 23 October 2012;
- Storage (+€27 million; +8.5%): higher revenue (+€48 million) was offset in part by higher amortisation and depreciation (-€16 million), due primarily to the entry into service of new infrastructure, and greater operating costs (-€5 million, net of components offset in costs), due mainly to site maintenance costs.

Adjusted net profit from continuing operations totalled €826 million, a decrease of €37 million (-4.3%) compared with 2015. The reduction is due to the lower adjusted EBIT (-€145 million; equal to 9.8%), impacted by lower revenue (-€94 million, net of components offset in costs) which was affected mainly by the revised WACC for the year 2016 and higher amortisation, depreciation and impairment (-€75 million; equal to 13.0%). These effects were partially offset by the significant improvement in financial management (+€69 million; 20.8%), primarily thanks to the reduction in the average cost of debt and the

⁶ EBIT, consolidated and by business segment, was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs.



fall in income taxes (+€29 million; 7.4%), mainly due to the lower pre-tax profit, in addition to higher income from equity investments measured using the equity method (+€10 million).

The **Group's adjusted net profit** amounted to €1,016 million, down by €193 million, or 16.0%, compared with 2015. The reduction is attributable to continuing operations (-€37 million; -4.3%) based on the phenomena analysed in the previous paragraph, and discontinued operations (-€156 million; -45.1%). With regard to discontinued operations, the adjusted net profit (€190 million in the period 1 January 2016 - 6 November 2016; €346 million in 2015) was impacted by the different incidence of income components as well as lower regulated revenue, essentially due to the tariff update mechanisms and, in particular, the review of the rate of return on invested capital, which declined 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.

The following summary tables show the reclassified consolidated income statement items.



Total revenue

(€ million)	2015	2016	Change	% change
Business segments				
Transportation	2,145	2,035	(110)	(5.1)
Regasification	25	19	(6)	(24.0)
Storage	535	584	49	9.2
Corporate and other activities	209	226	17	8.1
<i>Consolidation eliminations (*)</i>	<i>(287)</i>	<i>(304)</i>	<i>(17)</i>	<i>5.9</i>
	2,627	2,560	(67)	(2.6)

(*) Includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.

Regulated and non-regulated revenue

(€ million)	2015	2016	Change	% change
Regulated revenue	2,502	2,444	(58)	(2.3)
Business segments				
Transportation	1,977	1,855	(122)	(6.2)
Regasification	18	18		
Storage	389	426	37	9.5
Revenue items offset in costs (*)	118	145	27	22.9
Non-regulated revenue (**)	125	116	(9)	(7.2)
	2,627	2,560	(67)	(2.6)

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

(**) Includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.

Operating costs

(€ million)	2015	2016	Change	% change
Business segments				
Transportation	485	469	(16)	(3.3)
Regasification	19	12	(7)	(36.8)
Storage	145	151	6	4.1
Corporate and other activities	208	245	37	17.8
<i>Consolidation eliminations (*)</i>	<i>(287)</i>	<i>(304)</i>	<i>(17)</i>	<i>5.9</i>
	570	573	3	0.5

(*) Includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.



Operating costs - Regulated and non-regulated activities

(€ million)	2015	2016	Change	% change
Operating costs of regulated activities	463	456	(7)	(1.5)
Controllable fixed costs	268	271	3	1.1
Variable costs	13	9	(4)	(30.8)
Other costs	64	31	(33)	(51.6)
Cost items offset in revenue (*)	118	145	27	22.9
Operating costs of non-regulated activities (**)	107	117	10	9.3
Total operating costs	570	573	3	0.5

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

(**) Includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.

Amortisation, depreciation and impairment

(€ million)	2015	2016	Change	% change
Total amortisation and depreciation	573	616	43	7.5
Business segments				
Transportation	492	517	25	5.1
Regasification	5	5		
Storage	71	87	16	22.5
Corporate and other activities	5	7	2	40.0
Impairment losses	3	35	32	
	576	651	75	13.0

Adjusted EBIT

(€ million)	2015	2016	Change	% change
Business segments				
Transportation	1,165	1,021	(144)	(12.4)
Regasification	1	(5)	(6)	
Storage	319	346	27	8.5
Corporate and other activities	(4)	(26)	(22)	
	1,481	1,336	(145)	(9.8)



Net financial expenses

(€ million)	2015	2016	Change	% change
Financial expense (income) related to net financial debt	344	281	(63)	(18.3)
- Interest and other expense on short- and long-term financial debt (*) (**)	347	281	(66)	(19.0)
- Interest on financial receivables not held for operations	(3)		3	(100.0)
Other adjusted net financial expense	17	4	(13)	(76.5)
- Accretion discount	12	10	(2)	(16.7)
- Other net financial expense (income) (**)	5	(6)	(11)	
Losses (Gains) on hedging derivatives – ineffective portion		1	1	
Financial expense capitalised	(29)	(23)	6	(20.7)
	332	263	(69)	(20.8)

(*) Includes the restoration of eliminations originating from inter-company transactions relating to discontinued operations.

(**) Net of special items.

Net income from equity investments

(€ million)	2015	2016	Change	% change
Equity method valuation effect	106	116	10	9.4
	106	116	10	9.4

Income tax paid

(€ million)	2015	2016	Change	% change
Current taxes (*)	426	403	(23)	(5.4)
(Prepaid) deferred taxes (*)				
Deferred taxes	(17)	(22)	(5)	29.4
Prepaid taxes	(17)	(18)	(1)	5.9
	(34)	(40)	(6)	17.6
	392	363	(29)	(7.4)

(*) Net of special items.



Reclassified Balance Sheet

The reclassified balance sheet combines the assets and liabilities of the compulsory format included in the Annual Report and the Half-Year Report based on how the business operates, usually split into the three basic functions 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.

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

RECLASSIFIED BALANCE SHEET

(€ million)	31.12.2015	31.12.2016	Change
Fixed capital	22,121	18,080	(4,041)
Property, plant and equipment	15,478	15,563	85
Compulsory inventories	363	363	
Intangible assets	5,275	810	(4,465)
Equity investments	1,372	1,499	127
Financial receivables held for operations	78	213	135
Net payables for investments	(445)	(368)	77
Net working capital	(607)	(483)	124
Provisions for employee benefits	(166)	(44)	122
Assets held for sale and directly related liabilities	17		(17)
NET INVESTED CAPITAL	21,365	17,553	(3,812)
Shareholders' equity (including minority interests)			
- attributable to Snam shareholders	7,585	6,497	(1,088)
- attributable to minority interests	1		(1)
	7,586	6,497	(1,089)
Net financial debt	13,779	11,056	(2,723)
COVERAGE	21,365	17,553	(3,812)

Fixed capital (€18,080 million) decreased by €4,041 million compared with 31 December 2015 essentially following the decrease in intangible assets (-€4,465 million) deriving from the deconsolidation of the Italgas Group (-€4,487 million), the effects of which were partly offset by higher financial receivables held for operations (+€135 million) and the increase in equity investments (+€127 million).

**Technical investments**

(€ million)	2015	2016
Technical investments	1,272	1,199
- continuing operations	879	906
- discontinued operations (*)	393	293
Technical investments - continuing operations by business segment		
Transportation	693	776
Regasification	7	7
Storage	170	117
Corporate and other activities	9	6
Technical investments	879	906

(*) The values refer to the 1 January - 6 November 2016 period.

Technical investments in 2016 from continuing operations totalled €906 million (€879 million in 2015) and related mainly to the following business segments:

- Transportation (€776 million): relating to works for the development of new transportation capacity instrumental to import and export capacity (€226 million), investments in the development of new transportation capacity on the National and Regional Network (€119 million), maintenance investments and other investments (€431 million);
- Storage (€117 million): relating to investments in the development of new fields and the strengthening of capacity (€73 million) and maintenance investments and other investments (€44 million).

Equity investments

The equity investments item (€1,499 million) includes the valuation of equity investments using the equity method and refers to the companies Trans Austria Gasleitung GmbH - TAG (€512 million), TIGF Holding S.A.S. (€461 million), Trans Adriatic Pipeline AG - TAP (€161 million), Italgas S.p.A. (€143 million), AS Gasinfrastruktur Beteiligung GmbH (€135 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€87 million cumulatively).

Financial receivables held for operations

Financial receivables held for operating activities (€213 million), up by €135 million compared to 31 December 2015, refer to the Shareholders' Loan granted to the associate company Trans Adriatic Pipeline AG (TAP).

**Net working capital**

(€ million)	31.12.2015	31.12.2016	Change
Trade receivables	1,677	1,271	(406)
Inventories	152	118	(34)
Tax receivables	96	42	(54)
Derivative net assets (liabilities)	7	24	17
Other assets	167	70	(97)
Provisions for risks and charges	(776)	(707)	69
Trade payables	(694)	(433)	261
Deferred tax liabilities	(388)	(187)	201
Accruals and deferrals from regulated activities	(56)	(73)	(17)
Tax liabilities	(51)	(12)	39
Other liabilities	(741)	(596)	145
	(607)	(483)	124

Net working capital (-€483 million) increased by €124 million compared with 31 December 2015. Aside from the effects deriving from the deconsolidation of Italgas (+€56 million overall, expressing the Italgas Group transactions with third parties at 31 December 2015), the increase was primarily due to: (i) the reduction in trade payables (+€146 million) attributable to the transportation sector (+€163 million) essentially due to the entry into force as of 1 October 2016 of the new provisions on balancing, which, in particular, modified the dynamics of the financial settlement of gas sales through the platform provided by the Energy Market Operator; (ii) the increase in trade receivables of Snam S.p.A. (+€35 million) deriving from the provision of services to Italgas Group companies (+€30 million) in order to ensure the continuity of the activities previously carried out by Snam.

These factors were partly offset by higher provisions for risks and charges (-€123 million) relating mainly to the provision for the dismantling and restoration of sites in the transportation and storage segment (-€115 million overall) due to a reduction in expected discounting rates.



Statement of comprehensive income

(€ million)	2015	2016
Net profit	1,238	861
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives		1
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (*)	11	(15)
Tax effect	11	...
		(14)
<i>Components that cannot be reclassified to the income statement:</i>		
Actuarial (loss)/gains on remeasurement of defined-benefit plans for employees	6	(7)
Portion of equity-accounted investments pertaining to "other components of comprehensive income" relating to remeasurements of defined-benefit plans for employees		1
Tax effect	(2)	2
	4	(4)
Total other components of comprehensive income, net of tax effect	15	(18)
Total comprehensive income	1,253	843
Attributable to Snam:		
- continuing operations	809	577
- discontinued operations	444	266
Minority interests:		
- continuing operations		
- discontinued operations		
	1,253	843

(*) Includes the effects of the conversion of the shareholders' equity of the equity investment in Interconnector UK, held by the joint ventures Gasbridge 1 B.V. and Gasbridge 2 B.V., at the spot euro/pound exchange rate of 31 December 2016.



Shareholders' equity

(€ million)

Shareholders' equity including minority interests at 31 December 15	7,586
<i>Increases owing to:</i>	
- Comprehensive income for 2016	843
- Other changes	29
	872
<i>Decreases owing to:</i>	
- Distribution of 2015 dividend	(875)
- Effects of the separation of Italgas Reti S.p.A. from Snam S.p.A. (*)	(983)
- Purchase of treasury shares	(103)
	(1,961)
Shareholders' equity including minority interests at 31 December 2016	6,497
attributable to:	
- Snam	6,497
- Minority interests	
	6,497

(*) The change includes €1 million in minority interests.

As at 31 December 2016, Snam held 29,905,180 treasury shares (1,127,250 as at 31 December 2015), equal to 0.85% of its share capital, with a book value of about €108 million⁷ (€5 million at 31 December 2015). The acquisition of 28,777,930 Snam shares (equal to 0.82% of the share capital), for a cost of €103 million, was carried out as part of the share buyback programme launched by Snam on 7 November 2016, based on the resolution of the Shareholders' Meeting of 1 August 2016.

Net financial debt

(€ million)	31.12.2015	31.12.2016	Change
Financial and bond debt	13,796	11,090	(2,706)
Short-term financial debt (*)	2,729	2,353	(376)
Long-term financial debt	11,067	8,737	(2,330)
Financial receivables and cash and cash equivalents	(17)	(34)	(17)
Cash and cash equivalents	(17)	(34)	(17)
	13,779	11,056	(2,723)

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

⁷ The market value at 31 December 2016, calculated by multiplying the number of treasury shares at that date by the period-end official price of €3.922 per share, was approximately €117 million.



Net financial debt was €11,056 million at 31 December 2016, down by €2,723 million (€13,779 million at 31 December 2015).

The net cash flow from operations (€1,627 million), along with the cash flow from divestments (€1,506 million), attributable basically to the consideration received for the disposal of the 38.87% stake in Italgas Reti S.p.A. (€1,502 million, net of cash and cash equivalents transferred), allowed us to fully cover the financial requirements associated with technical investments, equity investments and investments in financial assets not used in operations (totalling €1,426 million) and generate a free cash flow of €1,707 million. Thanks to the effects on the financial position deriving from financial receivables from the Italgas Group, which resulted in a reduction in debt of €2,009 million, after the payment of the 2015 dividend to shareholders (€875 million) and the outlays connected with the purchase of treasury shares (€103 million), the net financial debt decreased by €2,723 million to €11,056 million.

Financial and bond debts at 31 December 2016 equal to €11,090 million (€13,796 million at 31 December 2015) comprise the following:

(€ million)	31.12.2015	31.12.2016	Change
Bonds	9,811	7,610	(2,201)
Bank loans	3,950	3,448	(502)
Other financing	35	32	(3)
	13,796	11,090	(2,706)

Financial and bond debts are denominated in euros⁸ and refer mainly to bond loans (€7,610 million, or 68.6%) and bank loans (€3,448 million, or 31.1%, including €1,182 million provided by the European Investment Bank - EIB).

Financial and bond debts decreased by €2,706 million compared with 31 December 2015. The reduction is attributable mainly to: (i) the decrease in bonds (-€2,201 million) following the redemption of three bonds which reached their natural maturities in January, July and October 2016, respectively, with a total nominal value of €1,150 million, and the repurchase of bonds as part of the liability management operation concluded in October 2016 for a nominal value, net of new issues, of €1.0 billion⁹; (ii) the reduction in bank loans (-€502 million) mainly attributable to Italgas's takeover of the two loans previously disbursed by the EIB to Snam S.p.A. effective as of 7 November 2016 (-€424 million in nominal value) as well as net repayments on term loans (-€200 million in nominal value).

Long-term financial debt (€8,737 million) represents around 79% of gross financial debt (around 80% at 31 December 2015). Fixed-rate financial debts total around 64% of gross financial debt.

Cash and cash equivalents (€34 million) mainly refer to the cash at Gasrule Insurance DAC for the Group's insurance activities (€21 million) and the cash at Snam S.p.A. (€12 million).

At 31 December 2016, Snam had unused committed long-term credit lines worth €3.2 billion.

⁸ Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

⁹ For more information, please see the "Main events" section.



Covenants

At 31 December 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. These medium-/long-term loans are subject, inter alia, to the usual covenants imposed in international market practice, e.g. negative pledge, pari passu and change of control clauses.

In particular, the syndicated loans and bilateral loans are subject, inter alia, to a negative pledge covenant pursuant to which Snam and the Group subsidiaries are subject to limitations in terms of pledging real property rights or other restrictions on all or part of the respective assets, shares or merchandise, and/or documents representing merchandise; this covenant is subject to set expiry dates and to exceptions on restrictions for which the creation and/or existence is explicitly permitted.

At 31 December 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 lower than BBB (Standard & Poor's/Fitch Ratings Limited) or lower than Baa2 (Moody's) for at least two of the three ratings agencies.

At 31 December 2016, the banking financial liabilities subject to these restrictive clauses amounted to approximately €2.0 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 €7.6 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.

As at 31 December 2016, there were no identified events resulting in failure to comply with the aforementioned commitments and covenants.

Reclassified statement of cash flows and change in net financial debt

The reclassified statement of cash flows below summarises the legally required financial reporting format. It shows the connection between opening and closing cash and cash equivalents and the change in net financial debt during the period. The two statements are reconciled through the free cash flow, i.e. the cash surplus or deficit left over after servicing capital expenditure. The free cash flow closes either: (i) with the change in cash for the period, after adding/deducting all cash flows related to financial liabilities/assets (taking out/repaying financial receivables/payables) and equity (payment of



dividends/capital injections); or (ii) with the change in net financial debt for the period, after adding/deducting the debt flows related to equity (payment of dividends/capital injections).

RECLASSIFIED STATEMENT OF CASH FLOWS

(€ million)	2015	2016
Net profit - continuing operations	796	591
Net profit - discontinued operations	442	270
Net profit	1,238	861
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	744	757
- Net capital losses (capital gains) on asset sales and eliminations	32	36
- Interest and income taxes	804	884
Change in working capital due to operating activities	40	(176)
Dividends, interest and income taxes collected (paid)	(804)	(735)
Net cash flow from operating activities	2,054	1,627
Technical investments	(1,186)	(1,145)
Technical divestments	6	2
Companies (included in) leaving the scope of consolidation (a)	(46)	1,502
Equity investments	3	(168)
Change in financial receivables held for operations	(78)	(133)
Other changes relating to investment activities	18	22
Free cash flow	771	1,707
Change in financial receivables not held for operating activities	216	
Financial receivables of companies leaving the scope of consolidation (b)		1,585
Change in short- and long-term financial debt	(169)	(2,297)
Equity cash flow	(875)	(978)
Net cash flow for the period	(57)	17

CHANGE IN NET FINANCIAL DEBT

(€ million)	2015	2016
Free cash flow	771	1,707
Financial payables and receivables of companies included in the scope of consolidation		
Financial receivables of companies leaving the scope of consolidation (b)		2,009
Equity cash flow	(875)	(978)
Other changes (c)	(23)	(15)
Change in net financial debt	(127)	2,723

(a) The amount relating to 2016 includes the collection of the consideration deriving from the disposal of Snam S.p.A.'s 38.87% stake in Italgas Reti S.p.A. (€1,502 million, net of cash and cash equivalents transferred).

(b) The amount refers to the collection of inter-company financial receivables from the Italgas Group net of financial payables to the EIB (€424 million), disbursed by the EIB to Snam to finance Italgas S.p.A. projects, which were subsequently taken over by the Italgas Group. The reduction in net financial debt therefore amounted to €2,009 million.

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

Fine Comunicato n.0542-26

Numero di Pagine: 29