

Annual Report  
2016



1941 | 2016

# Annual Report 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 around 3,000 employees, Snam is active in natural gas transportation, storage and regasification. It manages a national transportation network encompassing more than 32,000 kilometres, nine storage sites and one regasification facility.

# Corporate bodies

## BOARD OF DIRECTORS (\*)

### Chairman

Carlo Malacarne <sup>(1)</sup>

### Chief Executive Officer

Marco Alverà <sup>(1)</sup>

### Directors

Sabrina Bruno <sup>(2) (3)</sup>

Monica De Virgiliis <sup>(1) (2)</sup>

Francesco Gori <sup>(2) (3)</sup>

Yunpeng He <sup>(1)</sup>

Lucia Morselli <sup>(1) (2)</sup>

Elisabetta Oliveri <sup>(2) (3)</sup>

Alessandro Tonetti <sup>(1)</sup>

## BOARD OF STATUTORY AUDITORS (\*)

### Chairman

Leo Amato <sup>(4)</sup>

### Statutory auditors

Massimo Gatto <sup>(5)</sup>

Maria Luisa Mosconi <sup>(4)</sup>

### Alternate auditors

Sonia Ferrero <sup>(5)</sup>

Maria Gimigliano <sup>(4)</sup>

## CONTROL, RISK AND RELATED-PARTY

### TRANSACTIONS COMMITTEE

Elisabetta Oliveri - Chairman

Sabrina Bruno

Lucia Morselli

### APPOINTMENTS COMMITTEE

Francesco Gori - Chairman

Monica De Virgiliis

Alessandro Tonetti

### REMUNERATION COMMITTEE

Monica De Virgiliis - Chairman

Elisabetta Oliveri

Alessandro Tonetti

### SUSTAINABILITY COMMITTEE (\*\*)

Sabrina Bruno - Chairman

Yunpeng He

Lucia Morselli

### INDEPENDENT AUDITORS (\*\*\*)

EY S.p.A.

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

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

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

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

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

(3) Directors that were candidates on a list submitted jointly by Institutional Investors.

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

(5) Directors that were candidates on a list submitted jointly by Institutional Investors.

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## Disclaimer

The Annual Report 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: trends in natural gas demand, supply and price, actual operating performance, general macroeconomic 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.



# Directors' Report

## INFORMATION ABOUT THIS REPORT

The content of the integrated Report is presented in accordance with the indications of the Framework recommended by the IIRC (International Integrated Reporting Council). The objective of the document is to represent, in addition to annual operating results, Snam's model for the creation of value and the sustainability of the business over the medium and long term, thereby indicating and demonstrating the interconnections between strategy, governance, business and financial performance, and the social, environmental and economic environment in which the enterprise operates.

The aspects covered by the Report represent the principal factors that have a potential impact on business and financial performance and material sustainability issues.

The following schedules facilitate reconciliation of the various keys to reading and interpretation recommended by the IIRC Framework and the content of the Report.

## REFERENCES IN THE INTEGRATED REPORT TO THE IIRC FRAMEWORK DISCLOSURE POINTS

Report headings	IIRC Framework disclosure points
<ul style="list-style-type: none"> <li>- Snam today</li> <li>- Creation of value and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Presentation of the enterprise and the external environment:</b> What does the enterprise do and what are the circumstances in which it operates?</li> </ul>
<ul style="list-style-type: none"> <li>- Creation of value and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Business Model:</b> what activities are performed by the organisation and how do they relate to the capitals used by the organisation to create value?</li> </ul>
<ul style="list-style-type: none"> <li>- Snam today</li> <li>- Creation of value and sustainability</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Governance:</b> how does the organisation's governance structure support its ability to create value in the short, medium and long term?</li> </ul>
<ul style="list-style-type: none"> <li>- Creation of value and sustainability</li> <li>- Summary data and information</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Resource allocation and strategy:</b> where does the organisation want to go and how does it intend to get there?</li> </ul>
<ul style="list-style-type: none"> <li>- Summary data and information</li> <li>- Business segment operating performance</li> <li>- Other operating information and results</li> <li>- Financial review</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Performance:</b> to what extent has the organisation achieved its strategic objectives for the period and what are the outcomes in terms of effects on the capitals?</li> </ul>
<ul style="list-style-type: none"> <li>- Elements of risk management and uncertainty</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Risks and Opportunities:</b> what are the specific risks and opportunities that affect the organisation's ability to create value over the short, medium and long term?</li> </ul>
<ul style="list-style-type: none"> <li>- Creation of value and sustainability</li> <li>- Outlook</li> </ul>	<ul style="list-style-type: none"> <li>- <b>Prospects:</b> what challenges and uncertainties is the organisation likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?</li> </ul>




## REFERENCES IN THE INTEGRATED REPORT TO VALUE CREATION

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

## Legend

- Summary data and information
- Snam and the financial markets
- Business segment operating performance
- Elements of uncertainty and risk management
- ⊖ Other operating information and results
- ⊖ Evolution of the sustainable business development model
- The future of natural gas in the energy system
- Snam's strategy

## REFERENCES IN THE INTEGRATED REPORT TO CAPITAL MANAGEMENT

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

### Legend

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

# Letter to Shareholders and Stakeholders



**Carlo Malacarne**  
Chairman



**Marco Alverà**  
CEO

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Looking at the future, which is projected to be equally rich in challenges, over the next 5 years we will invest approximately **€5.0 billion** of which **€4.7 billion** for projects in Italy. Strengthening and enhancing Italy's position within the European gas system shall enable us to further improve, enhance and develop our network, including for the benefit of consumers.

To our Shareholders and Stakeholders,

In 2016 we achieved significant objectives on various fronts, most important of all the business objective of separating Snam from the natural gas distribution business in Italy, which was achieved through a complex transaction divided into various joint, coherent and concurrent steps that resulted in the transfer of Snam S.p.A.'s entire equity investment in Italgas Reti S.p.A. (formerly Italgas S.p.A.) to Italgas S.p.A. (formerly ITG Holding S.p.A.). The transaction, which was one of the most significant transactions in 2016, entered into effect on 7 November 2016, the date of the initial listing of Italgas S.p.A. on the Electronic Stock Market organised and managed by Borsa Italiana S.p.A., which represented the company's return to the stock exchange 13 years after its delisting in 2003. As a result of this transaction, two different groups were created, each focused on its own business, with objectives that are clearly identified and perceptible by the market, and a financial and operating structure that is ideal for best exploiting and realising their respective opportunities for strategic growth and expansion. First of all, for Snam, seizing new opportunities for growth in Europe in its core business, and secondly, for Italgas, strengthening its leadership in the Italian market with a view to upcoming tender processes for the awarding of contracts for natural gas distribution in Italy.

As a result of the transaction, and specifically the transaction for a partial and proportional spin-off of Snam S.p.A. with the assignment to Italgas S.p.A. of 52.90% of the equity investment that Snam S.p.A. held in Italgas Reti S.p.A., each Snam S.p.A. shareholder came to hold, instead of Snam stock, two different stocks, which represent the various business areas in which Snam and Italgas, both leaders, operate: specifically, Snam in natural gas transportation and dispatching, regasification and storage, and Italgas in the natural gas distribution business. The presence of Snam S.p.A. in the shareholder structure of Italgas S.p.A., with a 13.5% stake in the share capital, at the same time represents both a symbol of continuity for Italgas and strategic capital available to Snam.

Due also to the additional financial flexibility resulting from the transaction, in October 2016 and with complete success we concluded a buyback on the market of bonds with a total nominal value of €2.75 billion, with an average coupon of approximately 3.3% and a remaining maturity of approximately 3 years. The total outlay was approximately €3.1 billion, financed in part by two bond issues with a total value of €1.75 billion, with an average coupon of 0.6% and an average maturity of approximately 8 years, and the remaining portion was financed by drawing down on available credit lines. This transaction shall enable Snam to continue along the path of optimisation of its debt structure in terms of reducing the cost of capital, extending average debt maturity and reducing refinancing risk. In addition, with the objective of optimising the debt structure and in support of the overall returns for shareholders, beginning on 7 November we initiated a new share buyback plan, which as of the end of 2016 led to the buyback of 28,777,930 Snam shares on the market, representing 0.82% of the share capital, with a total outlay of approximately €103 million.

With a view to strengthening its strategic positioning in Austria, on 15 December 2016 Snam, in a consortium with Allianz, completed the acquisition from OMV, Austria's leading oil and gas company, of 49% of Gas Connect Austria GmbH (GCA). This transaction represents for Snam an opportunity for a unique investment in a gas transportation network of primary importance, and an infrastructure essential to supplying gas to the Austrian market, where Snam holds an 84.47% controlling stake jointly with GCA in the TAG (Trans Austria Gasleitung) gas pipeline, the principal backbone of the country's gas infrastructure. The acquisition was completed using a jointly controlled special purpose vehicle, in which Allianz and Snam respectively hold 60% and 40% stakes, with a total outlay by Snam of €135 million, in exchange for an indirect 19.6% stake in GCA's share capital.

We ended 2016 with solid financial results that were in line with our expectations. Net cash flow from operating activities<sup>1</sup> was €1,627 million, notwithstanding the revision of the net rate of return on invested capital for regulatory purposes (WACC) and the expenditures sustained for financial expenses connected to the liability management transaction. Net financial debt at the end of 2016, due also to revenue in the amount of €3,207 million from the transaction to separate Italgas from Snam, was reduced by €2,723 million, and was posted in the amount of €11,056 million.

Adjusted EBIT<sup>2</sup> totalled €1,336 million, a 9.8% reduction from the same figure in 2015. The reduction mainly reflects the impact on revenue from the revision of the WACC and a greater amount of amortisation, depreciation and impairment losses. Adjusted net profit of €826 million from continuing operations was a 4.3% decrease from the previous financial year. The Group adjusted net profit was €1,016 million, which includes the contribution from discontinued operations. The pro-forma adjusted net income of the continuing operations, obtained by applying Snam's share, amounting to 13.5%, to the estimated net income of Italgas Group for the whole of 2016, adjusted by excluding the effects resulting from the adjustment to market value of the existing financial debts towards

1 Cash flow pertained to the Snam Group and consequently includes financial flows from both continuing operations (natural gas transportation, regasification and storage, as well as Corporate activities) and discontinued operations (natural gas distribution).

2 Financial results, with the exception of Group adjusted net profit, pertain to continuing operations; consequently, they do not include the contribution from the natural gas distribution sector, an operational activity that was terminated as of 7 November 2016, the results from which are stated separately as discontinued operations in accordance with the provisions of the IFRS 5 accounting standard "Non-Current Assets Held for Sale and Discontinued Operations".

Snam Group and eliminating the effects of non-recurring items from the valuation of foreign subsidiaries, amounts to €845 million.

In 2016 we also achieved positive results in terms of occupational safety due to our operating model based on the adoption of a standard of excellence, strict control of industrial processes and the sustainability of our value creation model. In 2016 the accident frequency rate for employees and contractors was 0.75, a 15.7% reduction from 2015 for the same consolidation area, while the accident severity rate for employees and contractors was 0.05, a 16.7% reduction from 2015 for the same consolidation area.

As confirmation of our continuous effort to enhance sustainability as an integral part of the business growth model, in October 2016 Snam was admitted to the exclusive CDP (Carbon Disclosure Project) "A list", the index that represents an important benchmark to guide investors to enterprises with greater awareness of climate change issues, in which Snam has had a presence since 2012. Furthermore, in September 2016 Snam's stock was confirmed for the eighth straight year, by RobecoSAM on the Dow Jones Sustainability World Index, the most important stock market index in the world for the assessment of social responsibility.

Also in regard to the issue of sustainability, in the field of sustainable mobility and initiatives to promote sustainable mobility, with the objective of promoting companies' use of alternative and environmentally compatible fuels, Snam signed agreements aimed at promoting natural gas as an automotive fuel. Snam, as a European leader in the construction and management of infrastructure in the natural gas market, shall make available its established experience in the sector to promote the expansion of facilities for supplying methane for automotive purposes. Lastly, in connection with the transaction to separate Snam from the natural gas distribution business, we have acquired a new organisational structure. With this new structure, which became operational as of 1 November 2016, and which was designed as an instrument to support the strategic plan, business activities were reorganised into three business units: growth and development, Italian assets and foreign activities.

Looking at the future, which is projected to be equally rich in challenges, over the next 5 years we will invest approximately €5.0 billion of which €4.7 billion for projects in Italy.

Strengthening and enhancing Italy's position within the European gas system shall enable us to further improve, enhance and develop our network, including for the benefit of consumers, thereby putting Snam in a position to seize any possible opportunities for investment with attractive returns.

The quality of the assets, the strength and soundness of the financial position, and the stability of cash flows shall enable us to support investments so as to continue our path of growth and expansion and reward our shareholders with a dividend that is projected to increase over the period of the plan. The additional financial flexibility created by the transaction to separate Italgas from Snam may be applied to further investments, in keeping with a rigorous financial discipline that has always set us apart.

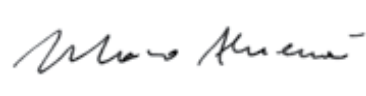
On the basis of the results achieved and the Company's prospects, we intend to recommend to the Shareholders' Meeting the distribution of a dividend of €0.21 per share.

6 March 2017  
for the Board of Directors

The Chairman



The CEO



# Snam in 2016

## HIGHLIGHTS<sup>3</sup>

Completed, effective as of 7 November 2016, is the **separation of Snam from the natural gas distribution business**

We supported our growth strategy with **€906 million of technical investments in Italy and €168 million for TAP development**

Acquired, in a consortium with Allianz, **49% of Gas Connect Austria (GCA)** in exchange for an expenditure by Snam of €135 million

Successfully completed a significant **Liability Management** transaction that shall make it possible to continue along the path of optimisation of the debt structure:  
bought back on the market bonds with a total nominal value of approximately **€2.75 billion**  
**2.75** billion euros

Adjusted EBIT:  
**1,336** million euros  
(-9.8%)

Net cash flow from operating activities:  
**1,627** million euros<sup>5</sup>

Adjusted net profit:  
**826** million euros  
(-4.3%)

Net Profit:  
**861** million euros  
(-30.5%)

Pro-forma adjusted net income<sup>4</sup>:  
**845** million euros

Bought back **28,777,930 Snam shares**, representing 0.82% of the share capital, for a total cost of approximately

We proposed to award our shareholders a **dividend of €0.21 per share**

Snam shares ended 2016 with an official price of **€3.923**

**103** million euros

**0.21** euros per share

**3.923** euros



Achieved Snam's inclusion in the **CDP (Carbon Disclosure Project) "A List"**, the highest score under their assessment model



Confirmed for the eighth straight year Snam share's inclusion in the **Dow Jones Sustainability Index**



Reduced by **15.7%** and **16.7%** the accident frequency rate and the accident severity rate for **employees and contractors**

<sup>3</sup> Not included, unless otherwise specified, is the contribution of the natural gas distribution sector, an operating activity that was terminated effective as of 7 November 2016.

<sup>4</sup> Obtained by applying Snam's share (13.5%) to the estimated net income of Italgas Group for the whole of 2016, adjusted by excluding the effects resulting from the adjustment to market value of the existing financial debts towards Snam Group and eliminating the effects of non-recurring items from the valuation of foreign subsidiaries..

<sup>5</sup> Includes cash flows chargeable to discontinuing operations

Completed, effective as of **7 November 2016**, is the separation of Snam from the natural gas distribution business

## MAIN EVENTS

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

On 7 November 2016, with the initial listing of Italgas S.p.A. (formerly ITG Holding S.p.A.) on the Electronic Stock Market organised and managed by Borsa Italiana S.p.A., the transaction for the separation of Italgas Reti S.p.A. (formerly Italgas S.p.A.) from Snam S.p.A. entered into effect.

The transaction had mainly a business purpose, aimed at separating Snam Group gas distribution operations in Italy, which have their own specificity in relation to other Snam Group operations in terms of operational organisation, competitive environment, regulation and investment requirements from gas transportation and dispatching, regasification and storage activities in Italy and abroad.

On 2 November 2016, the following were executed concurrently and in their entirety pursuant to the transaction, which led to the transfer to Italgas S.p.A. of Snam S.p.A.'s 100% equity investment in Italgas Reti S.p.A.:

- the legal instrument for the partial and proportional spin-off through the allocation to Italgas S.p.A. of 52.90% of the equity investment that Snam S.p.A. held in Italgas Reti S.p.A., along with the allocation to Snam S.p.A. shareholders of 86.50% of the Italgas S.p.A. share capital. As a result of the Italgas S.p.A. Spin-off, one Italgas S.p.A. share was issued and allocated to Snam S.p.A. shareholders for every five Snam S.p.A. shares that they held;
- the legal instrument for Snam S.p.A.'s in-kind contribution to Italgas S.p.A. of an 8.23% equity investment in the share capital of Italgas Reti S.p.A. in exchange for the allocation to Snam S.p.A. of 108,957,843 newly issued Italgas S.p.A. shares, to enable Snam S.p.A. to hold, after the spin-off, a 13.5% equity investment in Italgas S.p.A.;
- the agreement for Snam S.p.A.'s sale to Italgas S.p.A. of 98,054,833 Italgas Reti S.p.A. shares representing 38.87% of the share capital, for a consideration of €1,503 million, in exchange for assuming debt in the same amount owed by Italgas S.p.A. in order to generate a suitable level of financial debt.

The spin-off instrument was recorded with the Companies Register on 3 November 2016 pursuant to the Borsa Italiana's issuance of the order to list Italgas S.p.A. shares on the Electronic Stock Market, which was issued on 2 November 2016, and Consob's issuance of the equivalence assessment, pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation, regarding the Spin-off Prospectus, which was issued on 3 November 2016.

As is provided by the aforementioned spin-off instrument, the spin-off entered into effect as of the initial trading date, namely 7 November 2016.

With the listing of Italgas S.p.A., 7 November 2016 was the effective date of the shareholder agreement signed on 20 October 2016 between Snam S.p.A., CDP Reti S.p.A. and CDP Gas S.r.l., which covered all the shares each held in Italgas S.p.A. The shareholder agreement constitutes a stock block and voting syndicate, with an entitlement by Snam S.p.A. to withdraw early in the event that, if Snam S.p.A. should dissent from the vote of syndicated shares in regard to any matters

reserved for Extraordinary Shareholders' Meetings, Snam S.p.A. should sell its equity investment in Italgas S.p.A. within the following 12 months (Accelerated Exit). The shareholder agreement also provides that CDP Reti S.p.A., CDP Gas S.r.l. and Snam S.p.A. are to submit a joint list for the appointment of the Italgas S.p.A. Board of Directors, in order to ensure that Snam S.p.A. nominates one candidate. Transfers of Snam S.p.A.'s equity investment in Italgas S.p.A. (including in the event of an Accelerated Exit) are subject not only to advance approval by CDP Reti S.p.A., but also to the subrogation of a third party. In addition, Snam S.p.A. may not increase its equity investment. The agreement has a three-year term that is renewable barring notice of termination; in the event that Snam S.p.A. does not renew, CDP Reti S.p.A. shall have an option to purchase at fair market value Snam S.p.A.'s equity investment in Italgas S.p.A.

### **Business developments**

**Gas Connect Austria GmbH** On 15 December 2016 Snam, in a consortium with Allianz, completed the purchase from OMV, Austria's leading oil and gas company, of 49% of Gas Connect Austria GmbH (GCA).

The purchase was completed through a jointly controlled special purpose vehicle in which Allianz and Snam hold 60% and 40% stakes, respectively, which was backed by a pool of international credit institutions under non-recourse loans in the maximum amount of €310 million. Based on the terms of the transaction, the total consideration paid by the consortium to OMV was €601 million (including €147 million for proportional repayment of the current Shareholder Loan, with the signing, at the closing of the transaction, of a new Shareholder Loan with GCA). The total outlay for Snam was €135 million, in exchange for an indirect stake of 19.6% in GCA.

GCA operates a transportation network of 564 km and a distribution network of 322 km in Austria and is in charge of marketing and supplying transportation capacity at border points and the transportation capacity required by domestic natural gas demand. The transaction is, for Snam, an opportunity to reinforce its strategic position in Austria.

### **Initiatives for the development of sustainable mobility**

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

On 6 December 2016, Snam also signed with the API Group a letter of intent to increase the number of methane supply stations in Italy.



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

#### Optimisation of the Group's financial structure

On 27 September 2016 the Snam Board of Directors decided upon the annual renewal of the EMTN programme initiated in 2012, thereby reducing the maximum total value for bond issues from €12 to €10 billion, also in consideration of the changes in indebtedness resulting from the separation of Italgas Reti S.p.A. from Snam S.p.A. Based on outstanding bonds as of 31 December 2016, the renewal of the programme allows the issuance, by no later than 30 September 2017, of bond issuances for a maximum amount of €2.5 billion<sup>6</sup>, to be placed with institutional investors operating mainly in Europe. The total nominal value of issued bonds in circulation in each instance may not exceed the maximum limit of €10 billion.

The EMTN programme represents an effective instrument to raise funding on the market in a flexible manner and at competitive costs, in a way consistent with Group requirements in terms of changes in the financial structure.

#### Bond buyback

In October 2016, Snam successfully completed a buyback on the market of bonds with a total nominal value of €2.75 billion, with an average coupon of approximately 3.3% and a remaining maturity of approximately 3 years. The total outlay was approximately €3.1 billion, financed in part by two bond issues with a total value of €1.75 billion, with an average coupon of 0.6% and an average maturity of approximately 8 years, and the remaining portion was financed by drawing down on available credit lines.

The overall size of the transaction was also determined in consideration of the cash in, equal to approximately €3.2 billion, resulting from the Italgas separation transaction.

The two issuances were at a fixed rate, respectively in a nominal amount of €1.25 billion, an annual coupon of 0.875% and a 10-year maturity, and in a nominal amount of €0.5 billion, an annual coupon of 0% and a four-year maturity. The impact of this transaction on the 2016 income statement, which was basically equal to the cost resulting from the higher amount repaid to bondholders to buy back bonds on the market in relation to the amortised cost basis of said bonds, amounts to €329 million (€233 million net of the relative tax effect).

By means of this transaction, Snam continued the process to optimise its debt structure, which was undertaken with the objective of continuous improvement in the cost of capital, extending the average term of debt and reducing the refinancing risk.

<sup>6</sup> Considering also the additional bond issues executed in January and February 2017, with a total nominal value of €800 million, the programme enables the issuance of bonds for a maximum amount of approximately €1.7 billion.

**Share buyback programme**

7 November 2016, the effective date of the Snam spin-off, was the start date for the share buyback programme decided by the Shareholders' Meeting on 1 August 2016. Between the commencement of the share buyback programme and 31 December 2016, Snam purchased 28,777,930 own shares, representing 0.82% of the share capital, for a total of approximately €103 million with an average price of €3.583 per share.

As of 7 March 2017, the mandate awarded by Snam to a primary level intermediary for the implementation of the share buyback programme was amended by extending, inter alia, the maximum term for making the purchases by 3 months. The intermediary shall carry out the share purchase transactions based on independent decisions, always in accordance with the authorisation to purchase treasury shares resolved by the Shareholders' Meeting of 1 August 2016 and the applicable regulations.

Any purchases shall be made on the MTA in accordance with Article 144-bis, paragraph 1, section b) of Consob Regulation 11971/1999 and with other applicable provisions, in order to ensure compliance with the fair treatment of shareholders pursuant to Article 132 of the TUF, as well as according to the operating procedures established in the organisation and management regulations of Borsa Italiana S.p.A.

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



# Snam today

## COMPANY PROFILE

Snam operates in a strategic sector for Italy. With approximately 3,000 employees, it conducts regulated gas segment activities and is a leading European operator in terms of regulatory asset base (RAB) in its sector.

As an integrated operator, Snam provides natural gas transportation, dispatching and storage services as well as LNG regasification services, and plays a leading role in the natural gas infrastructure system.

Snam operates in Italy through three operating companies that are fully owned by Corporate Snam S.p.A.: Snam Rete Gas, GNL Italia and Stogit, respectively.

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of companies.

With the separation of Italgas and the initiation of the new organisation that led to the creation of three Business Units for the management and control, respectively, of growth and **development** activities, the **management of Italian subsidiaries** and the **coordination of foreign equity investments**, Snam began to become a "One Company" with the role of an integrated gas player. Snam's business is focused on regulated activities and is capital intensive. Regulation makes provision for tariff systems that cover the costs incurred by the operator and for a fair return on invested capital. Snam is therefore able to maintain a **limited risk profile** and to **provide its shareholders with attractive and sustainable returns**, while ensuring that it provides its services to all operators in a non-discriminatory manner and with the **highest standards of quality and safety**.

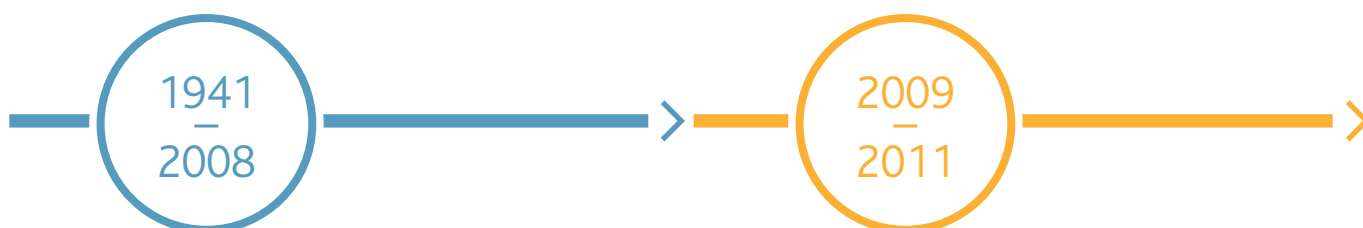
Snam has been listed on the Italian stock exchange since 2001. Its share price features not only on the Italian FTSE MIB index but also on leading international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and the major sustainability indices.

## SNAM: AN INTEGRATED GAS SYSTEM PLAYER

### DOMESTIC PRODUCTION AND GAS IMPORT



## OUR HISTORY



### METHANISATION IN ITALY AND EXPANSION OF THE GAS INFRASTRUCTURE, UP TO LISTING ON BORSA ITALIANA

Snam (Società Nazionale Metanodotti) has provided integrated natural gas supply, transportation and sale services in Italy since 1941. It gradually put together an intricate system of methane pipelines, covering the whole of Italy, and built important pipelines that today allow the country to import from different areas: from Russia, the Netherlands, Algeria, the North Sea, and Libya. In 1971, Snam designed and built Italy's first LNG regasification plant at Panigaglia, in the Gulf of La Spezia. Snam Rete Gas was incorporated on 15 November 2000 to house all of Snam's Italian transportation, dispatching and LNG regasification activities. The corporate unbundling of these activities was decided pursuant to the Letta Decree (164/2000), which transposed the European Directive on the liberalisation of the gas market. On 6 December 2001, after the Electricity and Gas Authority issued a resolution establishing the criteria for defining transportation tariffs, Snam Rete Gas was listed on the stock exchange.

### THE INTEGRATION OF ALL REGULATED GAS ACTIVITIES

In 2009 the Company acquired 100% of Stogit, Italy's largest natural gas storage field operator, and 100% of Italgas, the country's biggest gas distributor. This added the other two regulated gas activities in Italy to Snam's offering: storage and distribution. The June 2009 transaction turned Snam into a key integrated regulated gas activities operator, and the largest by regulatory asset base (RAB) in mainland Europe.



2012  
–  
2015

### SNAM SEPARATES FROM ENI AND EXPANDS ITS SCOPE OF ACTIVITY TO COVER EUROPE

On 1 January 2012, the Company changed its name from Snam Rete Gas to Snam and transferred the gas transportation business to a new company, which inherited the respected Snam Rete Gas name. The ownership unbundling from Eni was completed on 15 October 2012 through the sale of approximately 30% of Snam's capital to CDP Reti S.r.l., and Snam began its path toward growth in Europe. Having acquired 31.5% of Interconnector UK in 2012 as part of a joint venture with Fluxys, Snam (45%; 40.5% at 31 December 2015 following the entry of Credit Agricole Assurances (CAA) in the corporate structure of TIGF Holding), alongside the Singapore sovereign wealth fund GIC (35%) and EDF (20%), successfully completed the acquisition of TIGF from Total in July 2013. TIGF is active in gas transportation and storage in south-west France, with a gas transportation network over 5,000 km and two storage fields. On 19 December 2014, the Company acquired from CDP Gas S.r.l. 84.47% (equivalent to 89.22% of the economic rights) of Trans Austria Gasleitung GmbH (TAG), the company that owns the Austrian section of the gas pipeline linking Russia and Italy. The objective of those transactions was to increase and enhance Snam's industrial capacity in the integrated management of natural gas transportation and storage infrastructure. Snam's international development continued with the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the pipeline that will run from the Turkey-Greece border to Italy along the Southern corridor, enabling gas produced in Azerbaijan to reach European markets. Our investment in the project will consolidate the primary position of Snam and Italian infrastructure in improving competition between energy sources and securing gas supplies for Europe.

SNAM  
TODAY

### IN 2016 SNAM COMPLETED THE SEPARATION OF ITS DISTRIBUTION BUSINESS, ACQUIRED A NEW ORGANISATION AND CONTINUED ITS PATH TOWARD DEVELOPMENT

As of 7 November 2016, a corporate transaction was successfully completed that resulted in the separation of Snam from the national gas distribution business in Italy, with the principal purpose for the Snam Group being to strengthen and enhance its leadership in Europe in its core business: natural gas transportation, storage and regasification. Also in connection with the aforementioned transaction, in October Snam defined a new organisational structure, designed to be an instrument that enables focused management and control of the strategic guidelines of the plan and more efficient and effective operational management, including through the simplification of decision-making processes. Pursuant to the strategy of strengthening and enhancing leadership on the European gas market, on 16 December 2016 Snam, in a joint venture with Allianz, completed the acquisition from OMV of 49% of Gas Connect Austria GmbH (GCA), with an indirect equity investment of 19.6% in the company share capital for Snam.

## SNAM'S PRESENCE IN ITALY AND IN EUROPE

### Snam's role in the Italian gas system

#### Business segments

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

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#### TRANSPORTATION AND DISPATCHING

Snam Rete Gas is the **leading Italian natural gas transportation and dispatching operator**, and owns almost all of the transportation infrastructure in Italy, with 32,508 km of high- and medium-pressure gas pipelines (**approximately 94% of the entire transportation system**).

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

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

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

#### 2016 HIGHLIGHT

**8**

##### NATIONAL NETWORK ENTRY POINTS

for gas from abroad, located at connection points with the import pipelines (five entry points) and the LNG regasification terminals (three entry points)

**70.63**

##### BILLION CUBIC METRES

Natural gas injected into the National Transportation Network

**32,508**

##### KILOMETRES OF GAS PIPELINE NETWORK

in operation at 31 December 2016

**922.2**

##### MW

Installed power at the stations



**REGASIFICATION**

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

The process for the extraction of natural gas from the deposits, its liquefaction for transportation by ship and the subsequent regasification for use by the users, forms the 'LNG chain'. The process begins in the country of the exporter, where the natural gas is brought to a liquid state by cooling it to -160 °C and subsequently loaded onto tankers for shipping to the LNG regasification terminal. At the regasification terminal, the LNG is unloaded, then heated and returned to a gaseous state before being injected into the natural gas transportation network. The regasification service includes unloading the LNG from the vessel and operating storage, i.e. the storage time required for vaporising the LNG, regasifying it and injecting it into the National Network.

**STORAGE**

Stogit is the **major storage operator in Italy and one of the largest in Europe**, with 12.0 billion cubic metres of available capacity (**approximately 94% of the available space throughout Italy**) and 4.5 billion cubic metres of strategic storage space.

The natural gas storage business in Italy is carried out under a concession regime and it serves to offset the various demands of gas consumption and supply.

Procurement is broadly consistent throughout the year, while gas demand is characterised by high seasonal variability, with demand significantly higher in the winter than in the summer. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system. The storage business makes use of integrated infrastructure comprising deposits, wells, gas treatment plants, compression stations and the operational dispatching system. Stogit has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one).

**2016 HIGHLIGHT**

**17,500** **CUBIC METRES OF LNG**  
Daily maximum regasification capacity of the Panigaglia facility

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**3.5** **BILLION CUBIC METRES**  
Maximum annual quantity of natural gas that can be introduced into the transportation network



**2016 HIGHLIGHT**

**16.5** **BILLION CUBIC METRES**  
Total storage capacity (including strategic storage) as of 31 December 2016

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**20.0** **BILLION CUBIC METRES**  
Gas moved into the storage system

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**9** **NUMBER OF OPERATING FRANCHISES**







SNAM'S PRESENCE IN ITALY

SNAM RETE GAS



— National Gas Pipeline network

● Compression stations

▲ Entry points

▲▼ Entry points/Reverse Flow

LNG ITALY

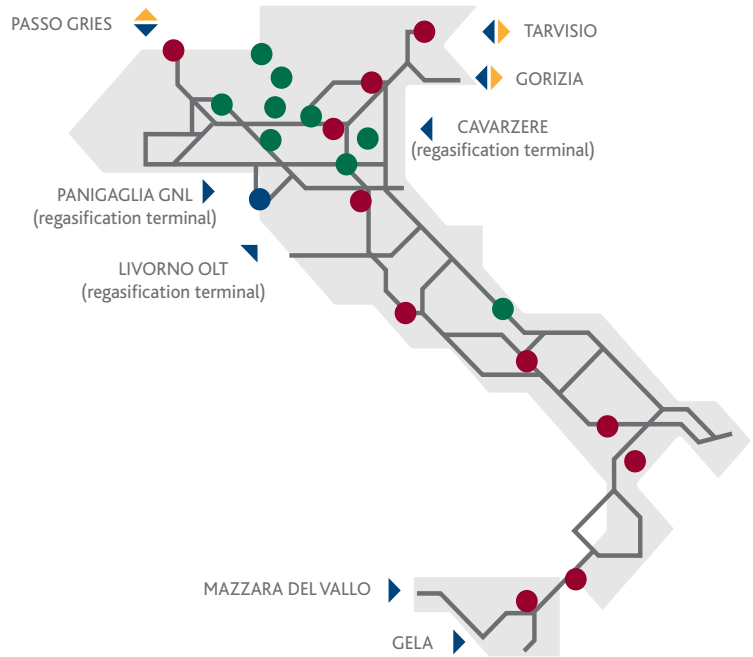


● Regasification Terminal

STOGIT

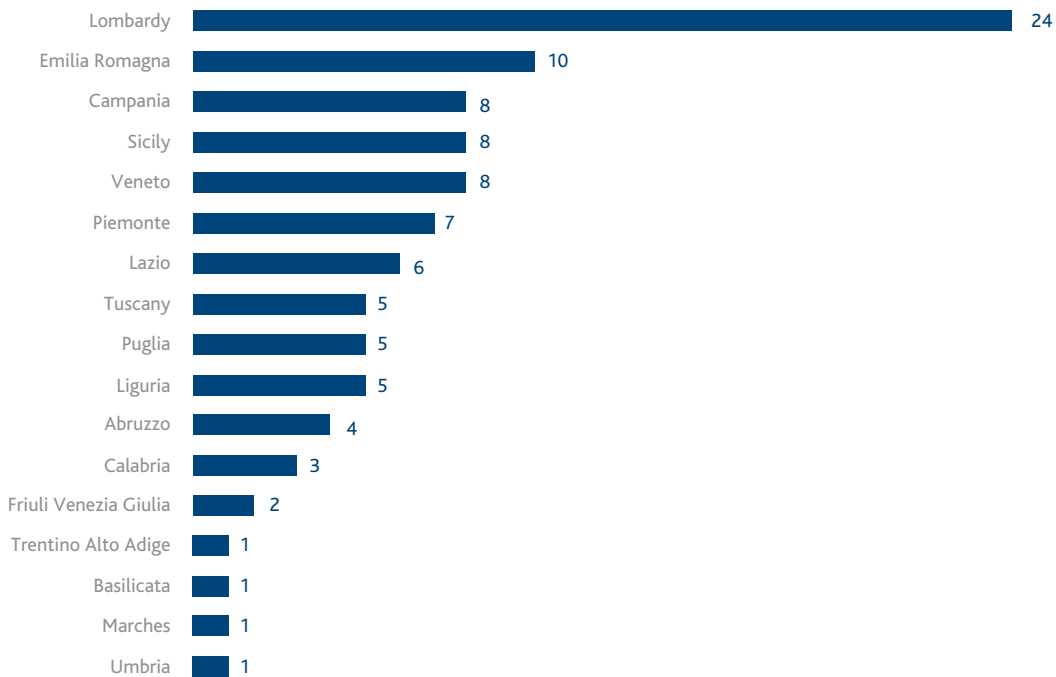


● Storage Fields

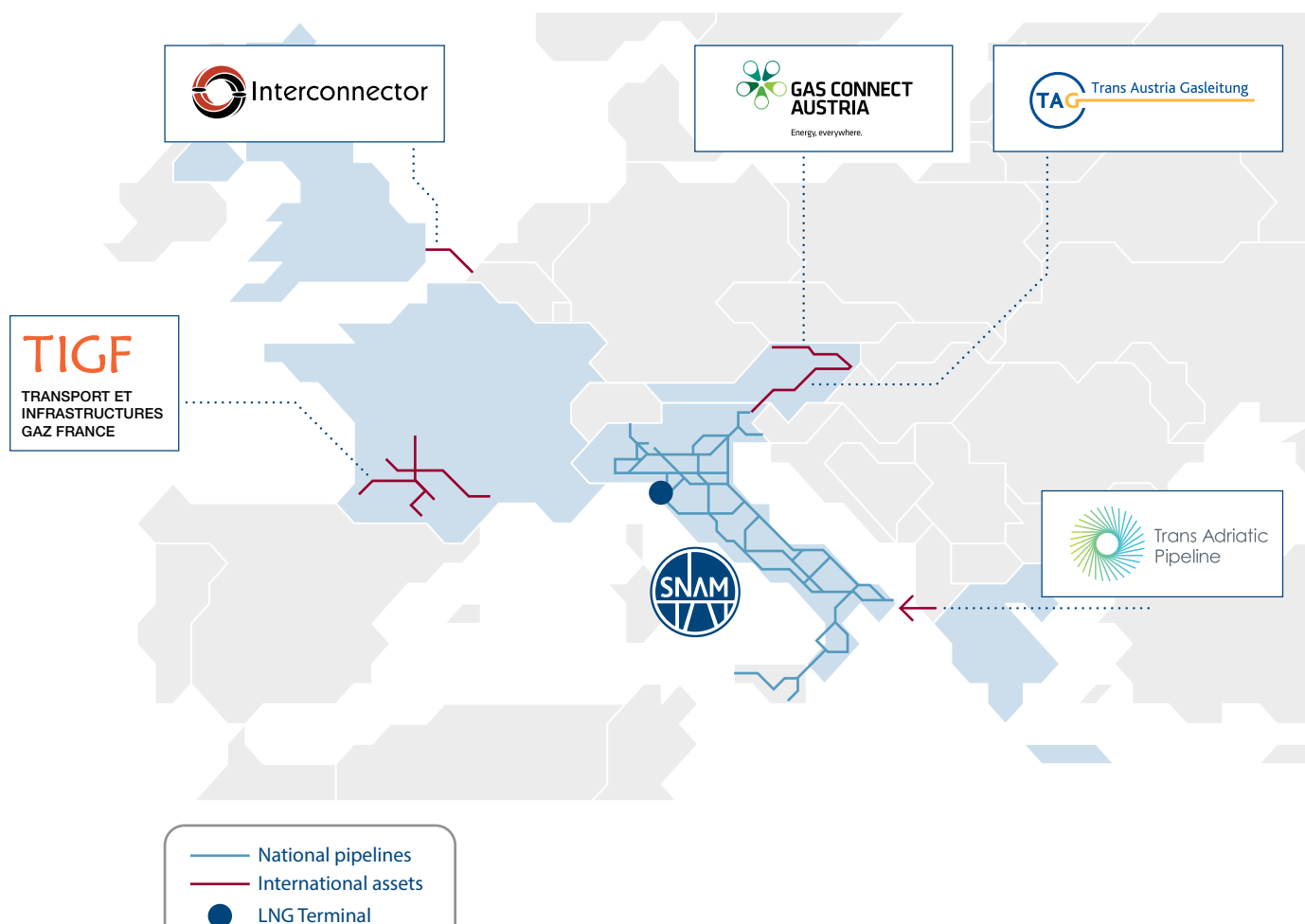


SNAM GROUP – OFFICES BY REGION (GRI: G4-6)

SNAM GROUP - REGIONAL OFFICES WITH PERSONNEL (No.)



## SNAM'S PRESENCE IN ITALY AND IN EUROPE



## TIGF

After acquiring a stake in TIGF in 2013 and with a current equity investment of **40.5%**, Snam is the industrial partner in the shareholding structure, alongside GIC at **31.5%**, EDF at 18% and Crédit Agricole Assurances at **10%**.

TIGF, which transports and stores natural gas in south-west France, represents a strategic piece of infrastructure for the integration of the European gas markets, connecting the French and Spanish markets with those of central and northern Europe as part of increasing integration of energy infrastructure at the European level.

### ASSETS AND PERSONNEL

<b>5,147 km</b>	of network with 6 compression stations (101 MW), or 15% of the total volume of transported gas in France
<b>5.7 billion m<sup>3</sup></b>	of storage capacity (2.8 bcm of working gas), or around 25% of national capacity
<b>582</b>	Employees in service

## INTERCONNECTOR UK

Acquisition, in 2012, in a JV with Fluxys: **31.5%** of Interconnector UK, **51%** of Interconnector Zeebrugge and **10%** of Huberator. The latter was liquidated in 2016 following the transfer of all assets to Fluxys.

### ASSETS AND PERSONNEL

- 235 km undersea pipeline between Bacton (UK) and Zeebrugge (Belgium)
- 1 terminal and 1 compression station at Bacton
- 1 terminal and 1 compression station at Zeebrugge

**70** Employees in service

## GCA

Acquisition in 2016 of **49%** through a JV between Snam and Allianz Capital Partners (investing **40%** and **60%**, respectively). GCA is an Austrian TSO that has and operates a transport and distribution network of approximately **900 km**, aimed at exporting gas to Europe and at supplying the domestic market.

### ASSETS AND PERSONNEL

**564 km** of transport network  
**322 km** of distribution network  
**5** compression stations  
**274** Employees in service

## TAG

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

### ASSETS AND PERSONNEL

**3** parallel lines of pipelines of around 380 km each  
**5** compression stations  
**154** Employees in service

## TAP

20% acquired in December 2015

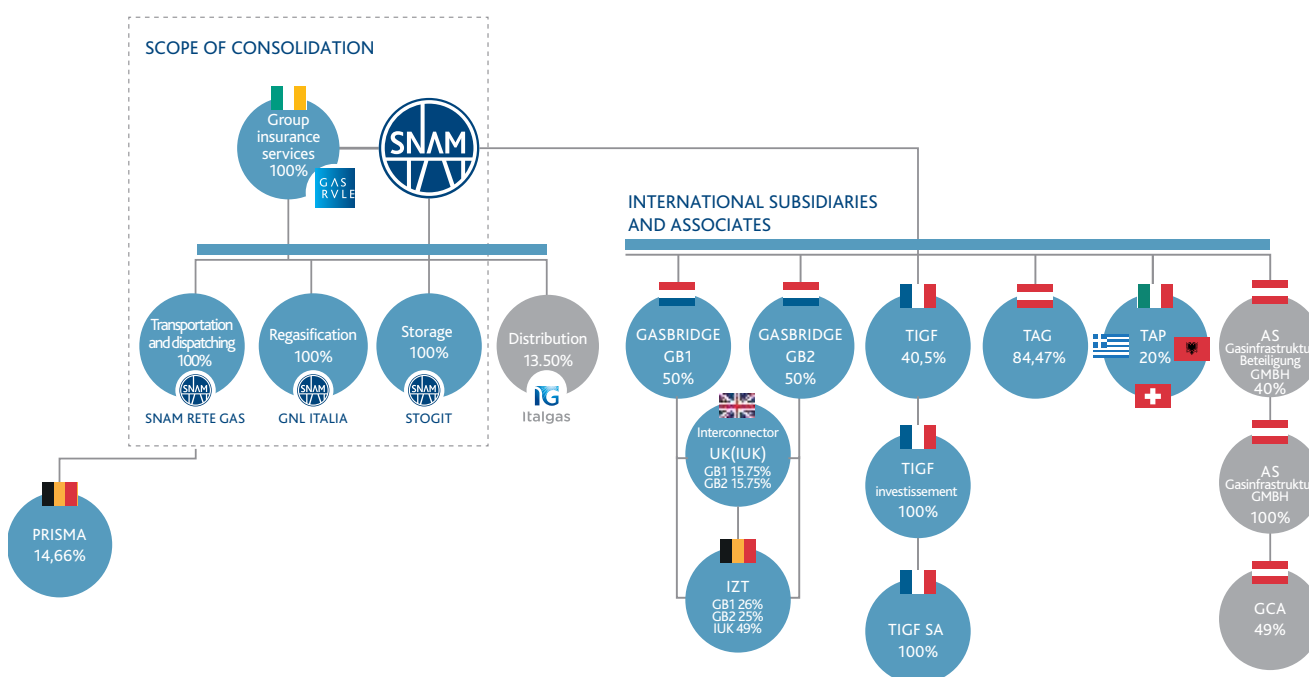
### ASSETS AND PERSONNEL

- The asset is in development and will entail the creation of a connection between Greece and Italy through Albania, with 773 km onshore and 105 km offshore with an initial capacity of 10 bcm/year (scalable to 20 bcm/year)

**203** Employees in service

## GROUP STRUCTURE AT 31 DECEMBER 2016

The structure of the Snam Group at 31 December 2016<sup>7</sup> is shown below:



The main changes in the Snam group structure as at 31 December 2016, as compared with the Snam group structure in effect as at 31 December 2015, were:

- in relation to the consolidation scope:

the exit of Italgas Reti S.p.A. (previously Italgas S.p.A.) and the companies controlled by the latter, effective as of 7 November 2016, as a result of the transaction to separate Snam from the natural gas distribution business. As a result of 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 a significant equity investment in Italgas S.p.A. representing 13.5% of the share capital. This investment was subject to a shareholders' agreement, signed on 20 October 2016 between Snam S.p.A., CDP Reti S.p.A. and CDP Gas S.r.l., covering all investments held by each in Italgas S.p.A.
- in relation to international equity investments

the acquisition, in a consortium with Allianz, of 49% of Gas Connect Austria GmbH (GCA), employing a special purpose vehicle to secure joint control of AS Gasinfrastruktur Beteiligung GmbH, with equity stakes of 60% and 40% held by Allianz and Snam, respectively.

<sup>7</sup> More information can be found in the Appendix "Snam S.p.A. subsidiaries, associates and equity investments at 31 December 2016" to the Notes to the consolidated financial statements

## GOVERNANCE AND COMPANY GOVERNING BODIES

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

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

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

*(More detailed information on governance can be found in the document "2016 Report on corporate governance and ownership structure", which was published online at [www.snam.it](http://www.snam.it) at the same time as the Annual Report).*

*(More detailed information on remuneration can be found in the document "2017 Remuneration Report", which was published online at [www.snam.it](http://www.snam.it) at the same as the Annual Report).*

### SNAM SHAREHOLDER STRUCTURE

CONSOLIDATED COMPANY	SHAREHOLDERS	% OWNERSHIP
Snam S.p.A.	CDP Reti S.p.A. (a)	28.98
	CDP GAS S.r.l. (b)	1.12
	Romano Minozzi	4.37
	Bank of Italy	0.53
	Snam S.p.A.	0.85
	Other shareholders	64.15
		100.00

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

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

Cassa Depositi e Prestiti (CDP), a financial institution controlled by the Ministry of Economy and Finance, whose mission is to promote the growth and development of the Italian economic and industrial system, is a major shareholder in Snam S.p.A.

At the end of 2016, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 28.98% of share capital, CDP GAS S.r.l. held 1.12%, Bank of Italy held 0.53%, Snam

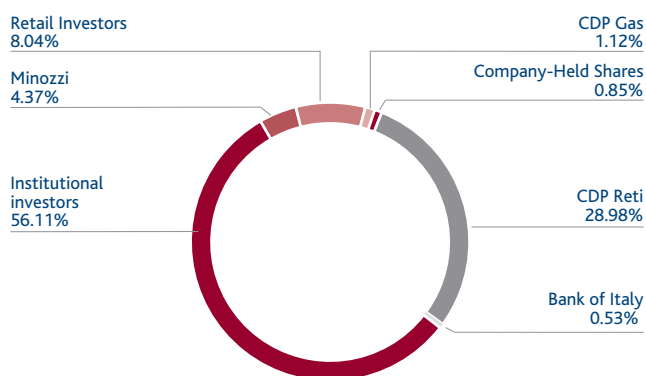
S.p.A. held 0.85% in the form of treasury shares, and the remaining 68.52% was in the hands of other shareholders.

The share capital as at 31 December 2016 consisted of 3,500,638,294 shares with no indication of nominal value (unchanged from 31 December 2015), with a total value of €2,735,670,475.56 (€3,696,851,994.00 as at 31 December 2015). The €961,181,518.44 reduction is due to the effects of the partial and proportional spin-off of Snam S.p.A. in favour of Italgas S.p.A., through the allocation of 52.90% of the equity investment held by Snam S.p.A. in Italgas Reti S.p.A.

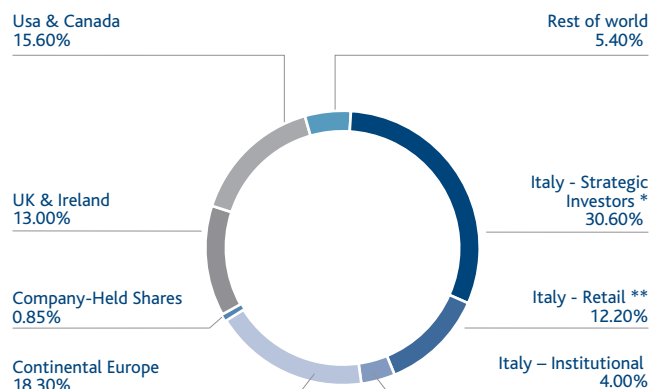
As at 31 December 2016, Snam held 29,905,180 treasury shares (1,127,250 as at 31 December 2015), equal to 0.85% of its share capital, with a book value of about €108 million (€5 million as at 31 December 2015). The purchase, in the 2016 financial year, of 28,777,930 Snam shares (representing 0.82% of the share capital) at a total cost of €103 million, was carried out pursuant to the share buyback programme initiated by Snam on 7 November 2016, as a result of the decision by the Shareholders' Meeting of 1 August 2016<sup>8</sup>.

8 For further information on the characteristics of the programme please refer to the Chapter "Snam in 2016 - Main events" in this Report.

#### SNAM SHAREHOLDER STRUCTURE



#### SNAM SHAREHOLDERS BY GEOGRAPHIC AREA



(\*) Italian Strategic Investors include Bank of Italy, CDP Reti, and CDP Gas.

(\*\*) Italian Retail Investors include the shares held by Romano Minozzi (4.37%).

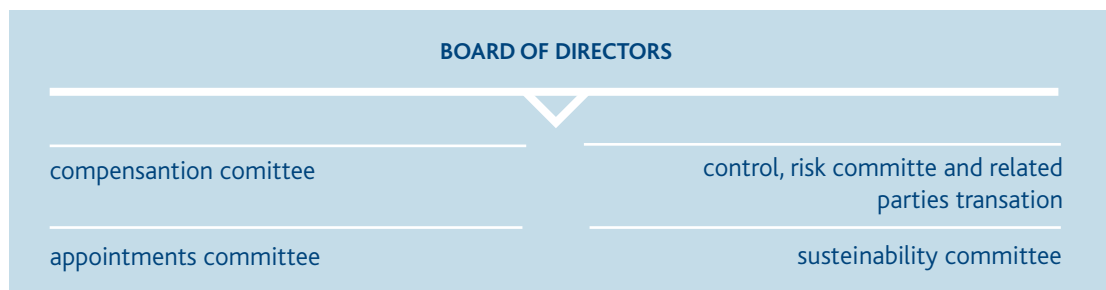
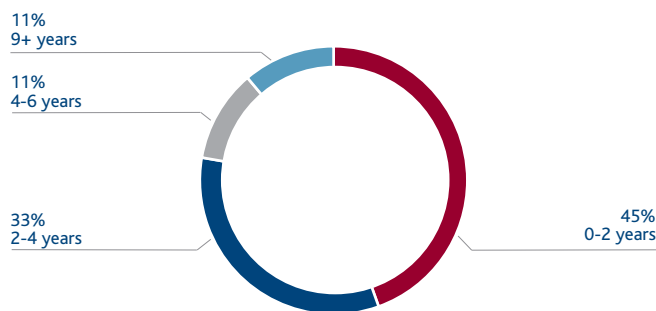
#### Membership and positions on the new Board of Directors, new duties and tasks assigned to the Sustainability Committee

The Shareholders' Meeting of 27 April 2016 appointed a new Board of Directors, made up of nine directors who shall remain in office for three financial years, with their terms of office expiring on the date of the Shareholders' Meeting that shall be called in 2019 to approve the financial statements of 31 December 2018. The majority of the directors are independent in accordance with the TUF and the Code of Corporate Governance (five out of nine). Currently women are represented on the Board of Directors by four out of nine members, a number that is consequently greater than the minimum established by applicable laws and regulations on gender balance (one third of members).

## CHANGE COMPARED WITH PREVIOUS OFFICE

	Last office	Current office	FTSE MIB average
Number of directors	9	9	12.3
Directors elected by the minority	3 (33.3%)	3 (33.3%)	2
% the least-represented gender on the BoD	33%	44.4%	29.4%
% of independent directors	56%	56%	57%
Average age of directors	56	53	57
Status of Chairman	Non-executive	Non-executive	Non-executive 89.9%
Existence of lead independent director	no	no	27.8

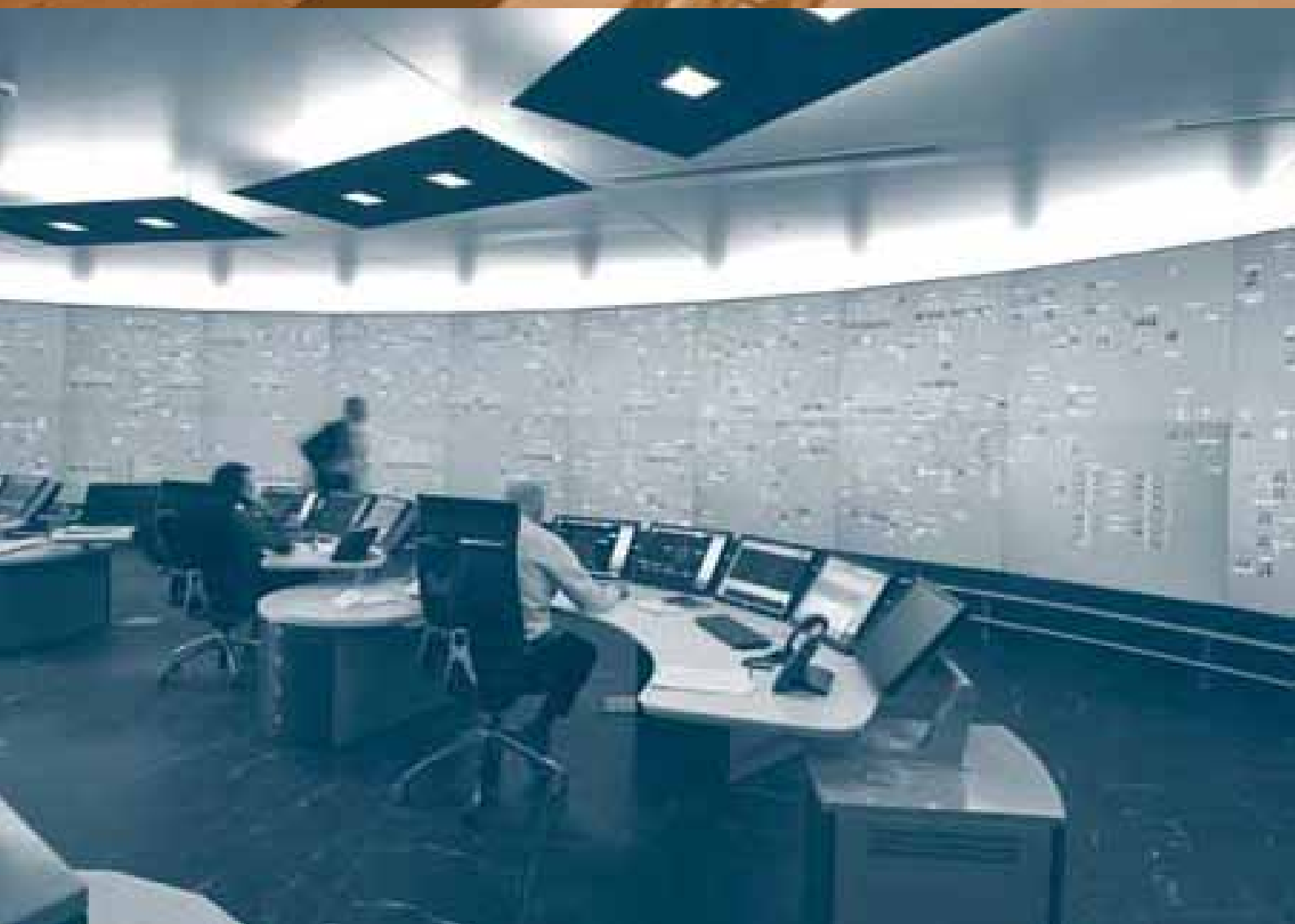
### DIRECTORS' TIME IN OFFICE IN THE BOD



The Board is assisted by four committees. The Sustainability Committee was established in 2016, consisting of three non-executive directors, two of whom are independent.

The Sustainability Committee has advisory functions and makes recommendations to the Board of Directors regarding sustainability matters, which are understood to mean the processes, initiatives and activities aimed at controlling the Company's commitment to sustainable growth along the value chain.





# Value creation and sustainability

## THE FUTURE OF NATURAL GAS IN THE ENERGY SYSTEM

Global energy demand is projected to increase over the next fifteen years, especially due to the impetus of emerging (non-OECD) countries. These shall offset the contraction of demand in OECD countries, whose consumption should also decline due to the effect of energy efficiency policies. To date requirements are still mainly covered by coal and oil.

By contrast, at the European level a significant presence of gas and nuclear energy in the energy mix has been recorded, with respective shares of 22% and 14%, with a lower weight for coal (17%) in comparison with the worldwide share, and with a marked regional differentiation within the European market.

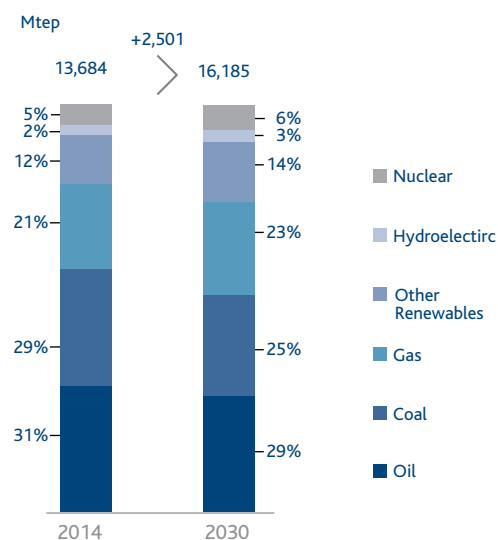
In Italy gas plays a more significant role in comparison with other European countries, and covers one third of energy requirements. At the beginning of the decade our country experienced strong growth in renewable sources due to significant financial support for growth in the sector, which represents 18% of the energy mix.

Looking prospectively, the weight of fossil sources worldwide is projected to gradually decline (81% in 2014, compared with a projected 76% for 2030), while gas shall play an increasingly more significant role, with an increase representing approximately the equivalent of 790 megatonnes of oil in 2030. A significant increase in renewables is also forecast.

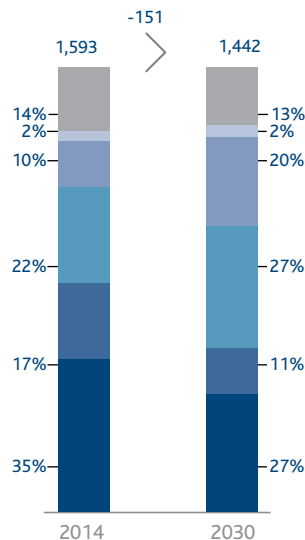
This trend is even more marked at the European level, where it is possible to observe a decisive contraction in the demand for oil and coal and a substantial increase in demand for gas (approximately 50 Mtep) and renewables, in consideration of changes in the industrial footprint and, above all, energy efficiency policies and a reduction in carbon dioxide emissions.

## CHANGES IN THE ENERGY MIX: THE END OF THE ERA OF OIL AND THE INCREASING USE OF GAS

### ENERGY MIX IN THE WORLD



### ENERGY MIX IN EUROPE



Source: World Energy Outlook 2016

### **The modernity and sustainability of the gas system**

Natural gas is the "greenest" source of fossil energy and the only fuel that, in combination with non-programmable sources such as wind and solar power, can ensure an efficient and effective path towards decarbonisation on national and European levels. Gas in its various forms guarantees lower carbon dioxide emissions, by 25% to 40% compared with other fossil fuels, as well as lower emissions of nitrogen oxides and fine particulates, with a crucial and determining impact on measures to fight air pollution in cities, and would contribute to a reduction in the role of oil and oil derivatives.

Gas is also accessible, given the presence of considerable reserves in areas close to Europe and the growth of the worldwide liquefied natural gas market, which has increased availability at reduced prices.

The gas system can rely upon existing transportation, distribution and storage infrastructure and is capable of ensuring flexibility, programmability, and cost effectiveness for the energy system. This is also due to a gas electrical generation capacity which in Italy is already widely available and extremely efficient.

## **SNAM'S STRATEGY**

Snam's business strategy is instrumental to making available the energy that the market requires, safely and at a fair cost, and enhancing and reinforcing the centrality of the gas system on the European and Italian energy scene.

To achieve these objectives Snam, a leader in the management of gas infrastructure, shall invest approximately €5.0 billion over the next five years of which 4.7 to expand the national network and integrate it with continental markets, for the maintenance of infrastructure, as well as for new integrated services for system operators, sold on the basis of market regulations.

In conjunction with institutional stakeholders and interested operators, it shall also contribute to the evolution of the "gas product" through the expansion of liquefied natural gas (LNG) and compressed natural gas (CNG) infrastructure for the maritime and highway transport sectors, and the conversion of biogas into biomethane to be introduced into the transportation network.

### **Italy, a European gas hub**

The purpose of Snam's investments in the Italian network is to complete reverse flow projects that make possible a bidirectional flow of gas at national borders. Our investments in Europe aim to ensure a greater interconnection between infrastructures and more diversified procurement sources, in accordance with European guidelines.

Italy, an example of the integration of transportation, regasification and storage activities is strategically part of the European corridors network and new supply routes, particularly in the Caspian Sea area. Investments in "reverse flow" shall bring gas from North Africa to Europe through Italy, thereby exploiting and utilising Snam's infrastructure and the national network.

## The Impacts of Snam's activities and investments in the gas system



### SECURITY OF SUPPLIES

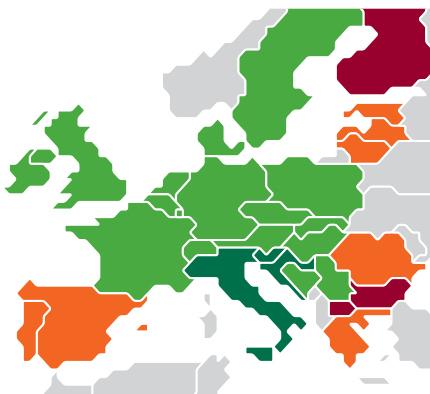
#### Diversification of sources

Thanks to the interconnection of Snam's network, Italy is presently the country in Europe that can rely on the greatest number of supply sources. Besides domestic production, the Italian system can receive gas through four methane import pipelines (Algeria, Libya, Russia and Norway) and 3 regasification terminals.

It is also planned in the future to add the importation of gas from the Caspian Sea by constructing the TAP methane pipeline.

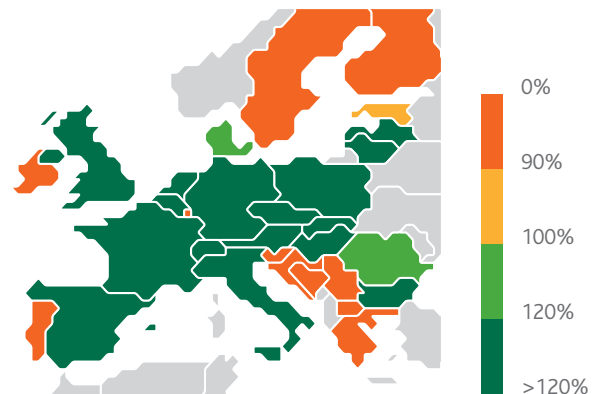
The development of bidirectional capacity in the north of our country along the North-South corridor (reverse flow) may also make Italian supply sources accessible to other European countries.

#### SUPPLY DIVERSIFICATION



Number of sources with significant price impact (2017 situation)

#### SECURITY OF SUPPLY



Indicator N-1 (2020 situation)

(Source: ENTSG TYNDP 2017)

The indicator N-1 is an indicator of system flexibility: any time that the largest source of supply is absent, it indicates how the country is able to replace it utilising other available sources. In the instance of Italy, if any of the supply sources should be absent, the remaining sources of supply are capable of satisfying more than 120% of the area's total gas demand, calculated during a day of particularly high gas demand.

9 AGSI+ (Aggregated Gas Storage Inventory - <https://agsi.gie.eu>) data regarding the replenishment level as at 31 October 2016.

#### Storage capacity utilisation

In 2016 Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign was 99% as opposed to a European average of 91%<sup>9</sup>.



## MARKET FACILITATION

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### **New balancing services**

With the new “Network Balancing Code” regime, which has been in effect since October 2016, the balancing service is conducted in accordance with common and harmonised European rules, which are aimed at promoting trading and market liquidity. In a new system, users are the primary parties responsible for system equilibrium and they can balance their own trading positions (injections and withdrawals from the system) through an hourly reprogramming of their own requirements and/or by executing gas transactions on both the organised and over-the-counter markets.

To facilitate user activities, Snam has also provided new functionalities that make it possible to purchase within-day capacity products at interconnections with foreign countries, as well as short-term (daily and within-day) storage products. The functionalities and features of the Virtual Trading Point have been expanded to allow the continuous recording of transactions, and there has been an expanded publication of information during the gas day regarding the status of the system, forecasts of withdrawals from the market and the balancing of each individual user, with the objective of encouraging and promoting balancing activities.

Under the new regime, Snam performs ‘residual’ balancing for the system, which is to say it intervenes by making gas trades on the market in order to rebalance the system in connection with the imbalances that users have not been able to correct.

### **Integrated regasification and storage services**

In 2016 Snam introduced a new service that made it possible to obtain under a single contract the injection into storage of quantities of LNG regasified and injected into the system from terminals by no later than the end of the month following the unloading from methane tankers. Dedicated to this service is the remaining regasification capacity available at LNG terminals, combined with a total storage capacity at Stogit of 1 billion cubic metres for the 2016-2017 thermal year.



## COST OF ENERGY

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### **Impact of infrastructure services on gas costs**

On the basis of data published quarterly by the Authority, the impact of gas system infrastructure services ("Cost of transportation and meter management") in 2016 was approximately 19% of the total cost for a typical household customer (family with individual heating system and annual consumption of 1,400 standard cubic metres), which translates to a cost of €0.13 per standard cubic metre (approximately €187 per annum).



## CREATION OF A EUROPEAN MARKET

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### **PRISMA IT platform**

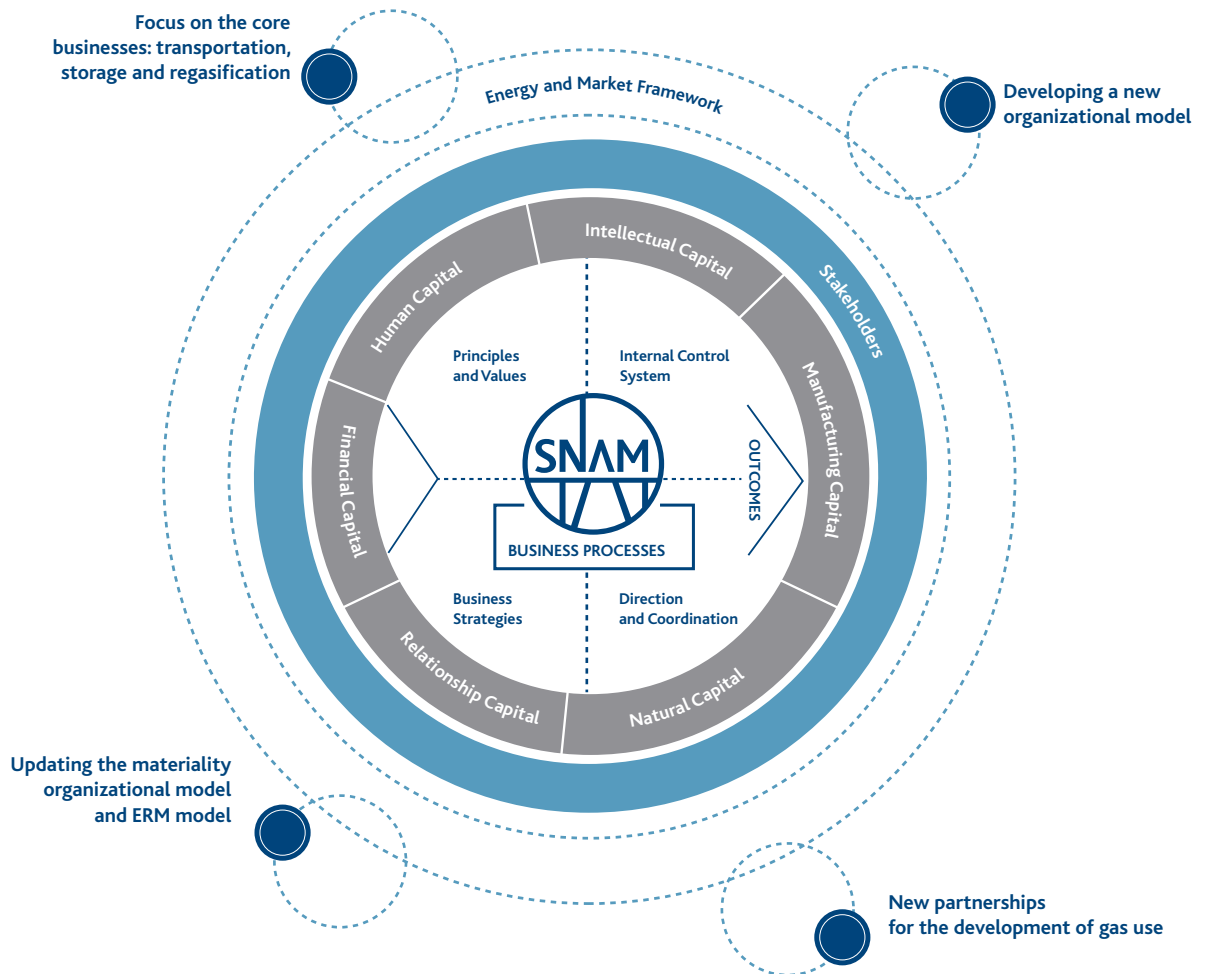
Snam is one of the founding partners of PRISMA, the international project that currently involves participation from 39 European operators with gas transportation and storage activities in 16 countries. PRISMA has set the objective of promoting the harmonisation of rules for accessing and providing services in implementation of European Codes and facilitating the creation of a single natural gas market in Europe, by offering services through a single shared digital platform. The platform has more than 550 registered shippers, plus 2,500 active users, more than 2.5 million successfully completed auctions and more than 1,500 network connection points.

Snam actively participates in Company activities with the objective of promoting growth, development and utilisation by an increasingly greater number of operators, to the benefit of the European gas system.

## EVOLUTION OF THE SUSTAINABLE BUSINESS DEVELOPMENT MODEL

Snam operates with a business development model that pursues profitable and stable company growth, the creation of value for all stakeholders and attractive and sustainable returns for our shareholders. For value creation purposes, the model indicates the importance of interpreting changes in the energy environment, and more generally the relevant framework, and the importance of knowing how to implement in the field coherent and consistent business development strategies and plans, through an examination in conjunction with the institutions, gas system operators and all other stakeholders involved in corporate operations. The latter have a fundamental and essential role in providing various forms of capital, not only financial capital, but also and especially human and relationship capital, which the enterprise needs in order to be able to operate.

Besides the revision of strategic guidelines, which are specified in the 2017-2021 plan, Snam has updated other important components of its model, in a manner consistent with the exit of the distribution business from the corporate scope of consolidation: Snam is now focused on the gas transportation, storage and regasification segments, it has specifically acquired a new organisational model for conducting business operations and is working on updating risk mapping and assessment in a manner consistent with the provisions of the ERM model.



### The separation of Italgas

This represents a strategic transaction which, first of all, shall enable Snam to focus its investments on taking advantage of new growth opportunities and, secondly, shall enable the enhancement of Italgas resources and know-how, with the objective of strengthening its leadership in the Italian market and significantly increasing its market share, in view of the initiation of tender processes to award contracts for distribution services.

Snam maintains its own presence in the ownership structure of Italgas, with a stake of 13.5% and a presence on the Board of Directors. This represents, first of all, a symbol of continuity for Italgas and, secondly, a strategic capital.

In regard to debt, the separation of Italgas resulted in a reduction in Snam's net financial debt of approximately €3.6 billion and a cash-in for the Company of approximately €3.2 billion, net of approximately €0.4 billion in EIB loans for Italgas projects that were undertaken by the latter. Following that transaction, Snam recalibrated and redesigned the structure of its liabilities. In that context, the Company successfully completed a Liability Management transaction, the largest to date in Europe, by buying back bonds on the market with a total nominal value of €2.75 billion.

### Toward a "One Company" organisational model

With the exit of distribution from the corporate scope of consolidation, business operations have been reorganised in order to improve control mechanisms for strategic plan policies and enable more efficient and effective operational management, including through a simplification of decision-making processes. Snam's new organisational model provides for three business units reporting directly to the Chief Executive Officer and also institutes at a central level a single mechanism for corporate services, including strategic supply chain management.

Italian Assets BU	Foreign Assets BU	Commercial, Regulation and Development BU
This shall have the objective of coordinating strategies and processes that cut across natural gas transportation, storage and regasification business activities, facilitating integrated exploitation and development of technical know-how.	This shall provide oversight of the management of assets and subsidiaries abroad, with the objective of promoting the increasing interconnection of European infrastructures and further contributing to the creation of a single energy market.	This shall manage the evaluation of new businesses and services, opportunities connected to emerging natural gas uses and business development operations.

### Partnerships for the development of uses for gas

#### Methane automotive uses

Snam shall contribute to an increase in the use of methane for automotive fuel by providing its consolidated experience in the sector to promote the expansion of supply facilities and a more balanced distribution thereof across Italy.

Snam's commitment is part of the framework of collaboration with FCA and IVECO, which intend to further expand their respective product lines of natural gas vehicles, as well as with the API group, which intends to construct new facilities within its point-of-sale network.

The project shall make it possible to double the road and highway distribution network, currently consisting of 1,100 service stations, to reach up to more than 2,000 in 10 years; to improve the quality



of the service provided to users; and to ensure a more balanced distribution of stations in the various regions of the country, in accordance with procedures and development priorities that are synergistic with the expansion of the fleet of light and heavy vehicles currently in operation. The initiative shall also provide additional impetus to the natural gas business segment in the transport sector, which represents technological and environmental excellence that is recognised worldwide and can further leverage Europe's more extensive and accessible network of methane pipelines, which are more than 32,000 kilometres in length.

### Biomethane transportation

Snam, the Italian Biogas Consortium and Confagricoltura prepared and publicly presented a common manifesto in support of the Italian biomethane business, as renewable energy (heat, electricity, biofuels and bioplastics) that can be generated from agricultural and agribusiness biomasses. The document, addressed to the Government and the European Commission, was published on the occasion of Biogas Italy and demonstrates the strategic role of biomethane in the energy transition towards an economy based on sustainability and circularity in the use of resources.

The manifesto specifically indicates the need to pace the implementation of incentives, by establishing an annual biomethane target to be introduced into the network by 2030; the updating of national laws and regulations on advanced biofuels; and the introduction of a system that enhances and develops the role of the biomethane business segment in the overall CO<sub>2</sub> emission reduction strategy.

### Materiality (GRI: G4-24,27)

Materiality is a key factor in enhancing and strengthening Snam's sustainability strategy. It defines the areas of engagement with stakeholders, which underline the dynamics of value creation, both in terms of risk mitigation and opportunities to be seized.

Material issues guide the determination of sustainability objectives that shall be pursued through specific projects and initiatives with various time horizons and, through the Business Model, are stated and represented within the Report. The separation of Italgas has not caused significant changes in the assessment of material issues.

#### Material issues

##### ■ Financial/governance

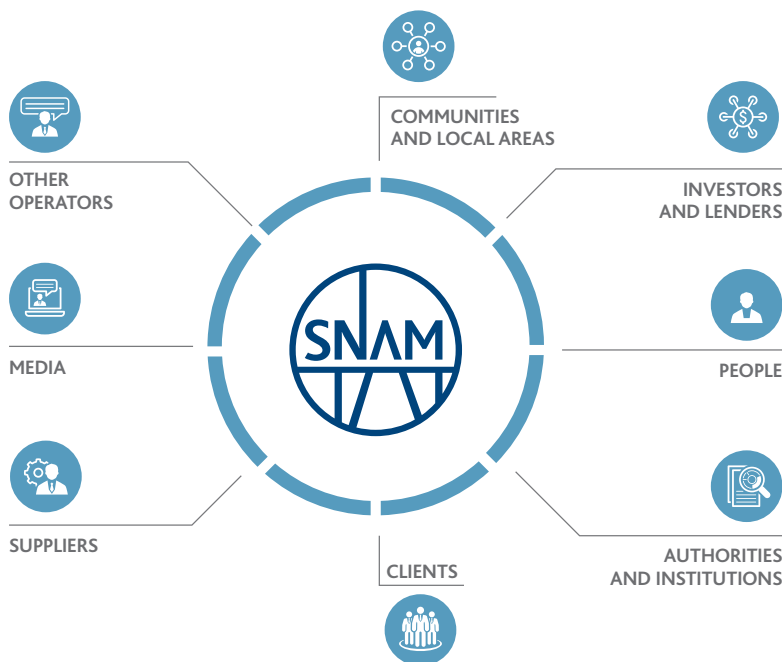
- Creation of sustainable value
- Corporate governance management
- Risk and Crisis Management
- Management transparency
- Anti-Corruption
- Relations with regulatory authorities
- Technology innovation

##### ■ Social

- Health and safety
- Developing and promoting human capital
- Employment and safeguarding jobs
- Quality and development of services
- Supply chain management

##### ■ Environmental

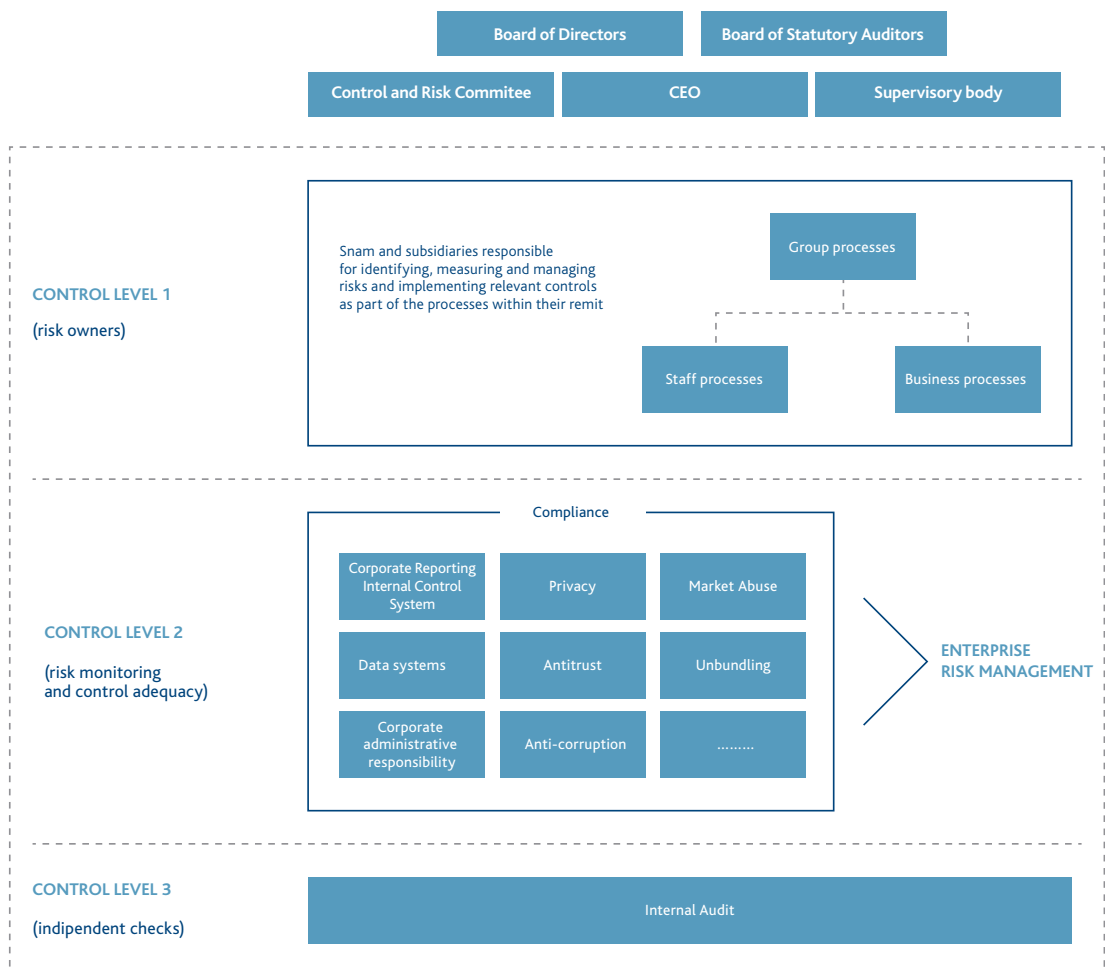
- Protecting the local area and biodiversity
- Climate change
- Protection of the air



## RISK OVERSIGHT AND THE CONTROL SYSTEM

Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation. With the spin-off of Italgas, Snam's risk profile changed as a result of the reduction of those risks connected with the specific nature of the distribution business, which is no longer consolidated within the corporate scope, and particularly in regard to uncertainties connected to sector tender processes and end-of-concession redemption values. The system we use across the Group to identify, assess, manage and control risk has three levels, each with different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system.

(More information on how we manage and mitigate major risks can be found on page 149 of this Report).



We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the **prevention of fraud and corruption and health, safety, environment and quality**. These same controls form an integral part of the managerial processes. Management must therefore foster an environment that encourages controls, and must specifically manage "line controls", consisting of all the control activities that individual operating units or companies perform over their own processes. Independent controls are performed by the Internal Audit department, which is responsible for checking that the system is functioning and adequate.

### Enterprise Risk Management process (ERM)

The Snam group, in line with the indications of the Code of Corporate Governance and international best practices, has instituted, under the direct supervision of the General Counsel, the Enterprise Risk Management (ERM) unit, which operates within the wider Internal Control and Risk Management System, in order to manage the integrated management process of corporate risks 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.

#### 1.

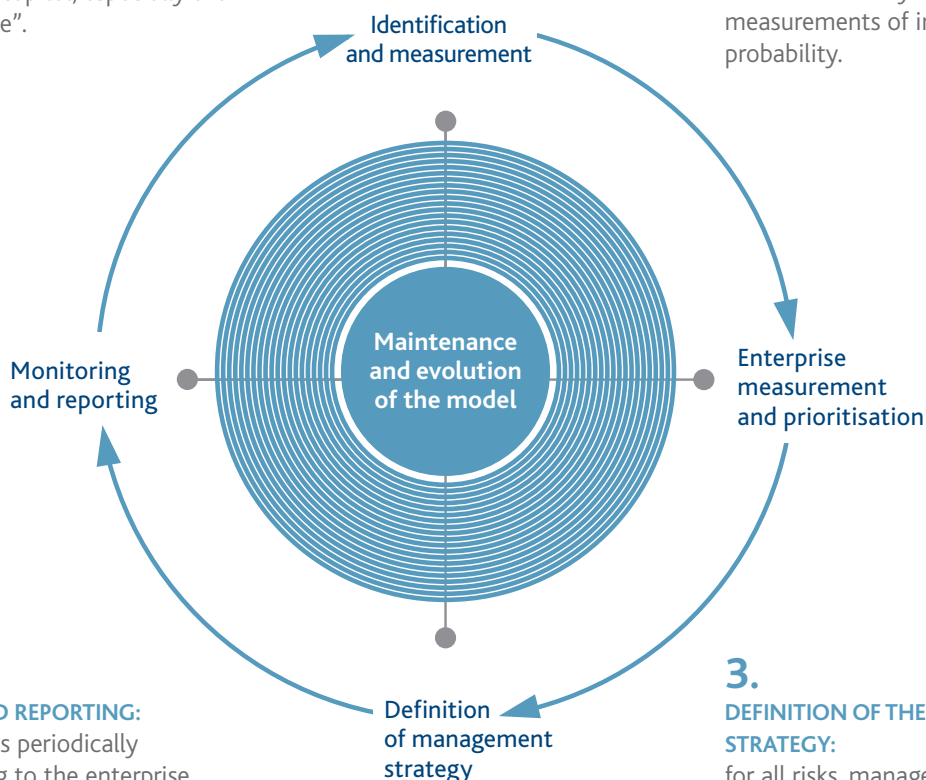
##### IDENTIFICATION AND MEASUREMENT:

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

#### 2.

##### ENTERPRISE AND PRIORITISATION ASSESSMENT:

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



#### 4.

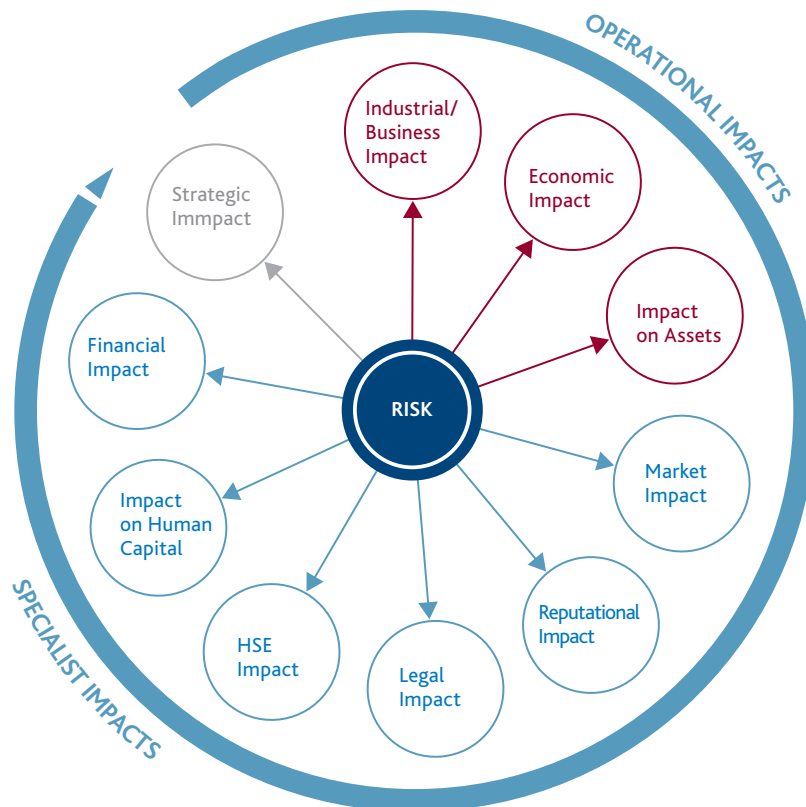
##### MONITORING AND REPORTING:

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

#### 3.

##### DEFINITION OF THE MANAGEMENT STRATEGY:

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



### Cross-organisational nature

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

Any risk event may have 10 different types of impact, some determined by the risk owners (operational impacts) and others by specialist departments (e.g. legal and financial impacts). This means risk measurement from different perspectives and team risk prioritisation.

The most common operational impact is industrial impact, consistent with the fact that risk identification begins with process analysis. The most prevalent specialist impacts include reputational and legal impacts, confirming the existence of an increasingly globalised external context subject to ever more complex regulations.

Using the model described above, the risk assessment cycles were performed on the entire Snam Group in 2016. As at the end of 2016, 310 enterprise risks had been mapped and broken down between all corporate processes.

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

- analysis of several of the mapped risks in order to identify recommendations for improvement in the operational management mechanisms of the same, with the purpose of enhancing strategies and actions for the management, systematic collection and consolidation of the Key Risk Indicators associated with mapped risks;
- final development and distribution of the ERM Risk Dashboard and the pertinent dematerialisation of the reporting process.

In December 2016, "Project Simplify" was launched which aims, inter alia, to define and implement an integrated risk assurance model that integrates different control models within the Group, using a synergistic approach aimed at the maximum rationalisation and overall efficiency, in addition to designing and implementing Snam's new regulatory system with a view to simplification and greater usability. The internal control and risk management system in relation to the Snam Group financial reporting process are components of the same "System" (Corporate Reporting Internal Control System), more specifically covered in the chapter "Elements of risk management and uncertainty", to which reference is made.



# Summary data and information

## APPLICABLE RATE FRAMEWORK AND PRINCIPAL DEVELOPMENTS

By means of Resolutions 514/2013/R/gas, 438/2013/R/gas and 531/2014/R/gas, the Authority defined the tariff criteria for the fourth regulatory period, in force from 1 January 2014, for transportation and regasification activities, and from 1 January 2015 for storage activities.

### FOURTH REGULATORY PERIOD

Transport	4 years	January 2014	December 2017
Regasification	4 years	January 2014	December 2017
Storage	4 years	January 2015	December 2018

The following graphic shows the main tariff components for each of the regulated activities carried out by Snam, based on the regulatory framework in force as at 31 December 2016. Further information regarding major new rate developments that occurred in 2016, with respect to each business sector, is provided in the chapter “Business segment operating performance – Tariff regulations” of this Report.

	TRANSPORT	REGASIFICATION	STORAGE
<b>End of Regulatory Period (TARIFFS)</b>	31 December 2017	31 December 2017	31 December 2018
<b>Computation of Net Invested Capital Recognized for Regulatory Purposes (RAB)</b>	Revalued historical cost	Revalued historical cost	Revalued historical cost Deduction of replacement costs
<b>Return on net invested capital recognized for regulatory purposes (pre-tax WACC)</b>	6.3% Year 2015 5.4% Years 2016-2017 (*)	7.3% Year 2015 6.6% Years 2016-2017 (*)	6.0% Year 2015 6.5% Years 2016-2018 (*)
<b>Incentives on new investments</b>	+1% for 7 years (regional system expansion investments) +1% for 10 years (national system expansion investments) +2% per 10 years (expansion investments at points of entry)	+2% per 16 years (new terminals or expansion of the capacity of existing terminals >30%)	20% withholding for 8 years on earnings higher than recognized earnings generated by tender procedures
	WACC +1% on new investments made after 31 December 2013 as regulatory time-lag compensation	WACC +1% on new investments made after 31 December 2013 as regulatory time-lag compensation	Return on Investments t-1 as regulatory time-lag compensation (since 2014)
<b>Efficiency Factor (X FACTOR)</b>	2.4% - on operating costs	0%	1.4% - on operating costs (**)

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

(\*\*) Approved by Resolution 27/2016/R/gas, published on 29 January 2016, in which the Authority gave final approval to the applicable revenue from storage activities for the year 2015.

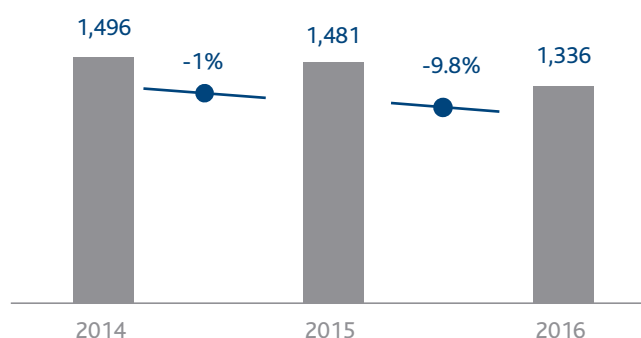


## RESULTS

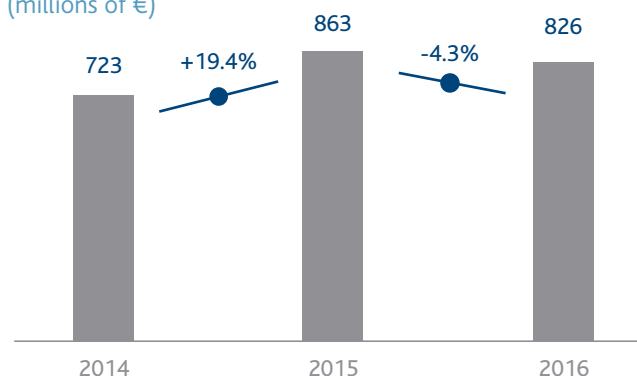
For purposes of the 2016 consolidated financial statements, the separation from Snam of the natural gas distribution business, as a “separate major line of business of operations”, resulted in a separate representation, as discontinued operations, of financial results and cash flows in the natural gas distribution sector for the period 1 January - 6 November 2016, in accordance with IFRS 5 “Non-Current Assets Held for Sale and Discontinued Operations”. The financial years used for comparison were reclassified in a consistent manner. Consequently, this Report mainly shows and explains the results from continuing operations.

The 2016 financial year ended with a **Group net profit**, which includes the contribution from discontinued operations, of €861 million, a reduction of €377 million, representing a 30.5% reduction from the 2015 financial year. In consideration of the discontinuity factors that characterised the 2016 financial year, Snam’s management decided that the representation of results on an adjusted basis enables a better assessment of the performance of continuing operations and a greater comparability of data and information.

ADJUSTED OPERATING PROFIT  
(millions of €)



ADJUSTED OPERATING PROFIT - CONTINUING OPERATIONS  
(millions of €)



10 The EBIT and net profit on an adjusted basis are not result measures required by the IFRS. Those performance measures (Non-GAAP measures) were determined by excluding special items and, in order to remove the distorting effects generated by the application of IFRS 5, restoring in the results from continuing operations intercompany transactions vis-à-vis discontinued operations, in order to achieve a representation of the results from continuing operations as if discontinued operations had been removed from the consolidation area. In order to determine the EBIT and adjusted net profit and for reconciliation with the respective reported results, see the Chapter “Financial review - Reconciliation of EBIT and net profit with adjusted EBIT and adjusted net profit” on page 95 of this Report.

11 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. Those components mainly pertained to natural gas interconnections and transfers carried out for purposes of balancing the gas system

### Adjusted results for continuing operations<sup>10</sup>

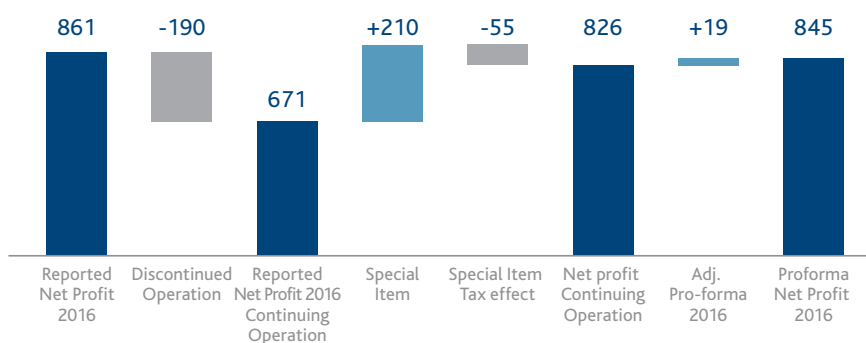
Due to the soundness of operational management and rigorous financial discipline, in 2016 Snam achieved results that were in line with expectations, given the revision of the rate of return on invested capital for regulatory purposes (WACC) to be applied to 2016. **Adjusted EBIT**<sup>11</sup> totalled €1,336 million, a reduction of €145 million, representing a 9.8% reduction from the 2015 financial year. The reduction mainly reflects the impacts on revenue from the revision of the WACC (-€114 million in total, -€134 million of which was the reduction posted in the transportation sector that was partly absorbed by the increase posted in the storage sector) and higher amortisation, depreciation and impairment losses (-€75 million, representing 13.0%) due mainly to the entry into service of new infrastructure and greater impairment losses of tangible assets.

In the instance of business sectors, the reduction in adjusted EBIT reflects transportation sector results (-12.4%; -€144 million), which were partly offset by the positive performance posted by the storage sector (+8.5%; +€27 million).

**Adjusted net profit from continuing operations** was €826 million, a reduction of €37 million (-4.3%) compared with the 2015 financial year. The reduction in the adjusted EBIT (-€145 million; -9.8%) was only partly offset by the significant improvement in financial management (+€69 million, representing 20.8%), which was mainly attributable to the reduction in average debt costs, as well as lower income taxes (+€29 million; representing 7.4%) due mainly to a lower pre-tax profit.

The **pro-forma adjusted net income of the continuing operations**, obtained by applying Snam's share, amounting to 13.5%, to the estimated net income of Italgas Group for the whole of 2016, adjusted by excluding the effects resulting from the adjustment to market value of the existing financial debts towards Snam Group and eliminating the effects of non-recurring items from the valuation of foreign subsidiaries, amounts to €845 million.

ADJUSTED AND PRO-FORMA RESULTS (millions of €)



**Net financial debt** was €11,056 million as at 31 December 2016, compared with €13,779 million as at 31 December 2015. Cash flow from operating activities (€1,627 million), together with cash flow from divestments, mainly attributable to the consideration received for the transfer of the 38.87% equity investment in Italgas Reti S.p.A. (€1,502 million, net after transferred cash and cash equivalents), made it possible to fully finance requirements connected to technical investments, equity investments and financial assets instrumental to operating activities (€1,426 million in total) and to generate a **free cash flow** of €1,707 million. After outlays connected to equity cash flow (€978 million) and the effects of financial receivables with the Italgas Group, which resulted in a total reduction of €2,009 million in the financial position, net financial debt was reduced by €2,723, and was posted in the amount of €11,056.

**Free cash flow**  
€ +1,707 million

**Reduction of net financial debt**  
-€2,723 million

#### Dividends

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

**2016 dividend**  
€0.21 per share



### Key financial figures

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

(€ million)	2014	2015	2016
<b>Continuing operations (a)</b>			
Total revenue (b)	2,578	2,627	<b>2,560</b>
- of which from regulated activities	2,480	2,502	<b>2,444</b>
Operating costs (b)	524	570	<b>573</b>
Adjusted EBIT (c)	1,496	1,481	<b>1,336</b>
Adjusted net profit - continuing operations (c) (d)	723	863	<b>826</b>
Adjusted net profit - discontinued operations (c) (d)	355	346	<b>190</b>
Adjusted net profit (c) (d)	1,078	1,209	<b>1,016</b>
Net profit - continuing operations (d) (e)	692	796	<b>591</b>
Net profit - discontinued operations (d) (e)	506	442	<b>270</b>
Net profit (d) (e)	1,198	1,238	<b>861</b>

(a) The results of the natural gas distribution segment, the business separated from Snam, were reported separately as discontinued operations on a single line in the income statement in accordance with the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Consistently, the comparison periods were restated excluding the contribution of the discontinued operations segment.

(b) The item includes the reinstatement of eliminations from intercompany transactions for discontinued operations.

(c) Non-GAAP measures determined excluding special items and, for the purpose of removing the distortive effects generated by the application of IFRS 5, allocating the elimination of the costs originating from discontinued operations to continuing operations. For the definition of EBIT and adjusted net profit, as well as the reconciliation with the respective reported results, see the chapter "Financial review - Reconciliation of EBIT and net reported profit with adjusted EBIT and adjusted net profit".

(d) Entirely attributable to Snam shareholders.

(e) From the income statement in the legally required format. See the section "Financial Statements" in the Notes to the consolidated financial statements.

## KEY PROFIT AND FINANCIAL INDICATORS

		2014	2015	2016
Net profit per share - continuing operations (a)	(€)	0.204	0.227	<b>0.169</b>
Adjusted net profit per share - continuing operations (a)	(€)	0.214	0.247	<b>0.236</b>
Net profit per share (a)	(€)	0.354	0.354	<b>0.246</b>
Adjusted net profit per share (a)	(€)	0.318	0.345	<b>0.291</b>
Group shareholders' equity per share (a)	(€)	2.12	2.17	<b>1.86</b>
Pay-out (Dividends for the period/Group net profit) (b) (c)	%	73.0	70.7	<b>83.86</b>
Adjusted pay-out (Dividends for the period/Group adjusted net profit) (b) (c)	%	81.2	72.4	<b>71.06</b>
Dividend yield (Dividend for the period/year-end official share price) (b) (c)	%	6.1	5.2	<b>5.4</b>
Price/Book value (Average official price per share/Group shareholders' equity per share) (d)	(€)	2.00	2.08	<b>2.21</b>

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

(b) The 2016 amount (relating to the dividends) is estimated based on the outstanding number of shares as at 2 March 2017.

(c) The values for years 2014 and 2015 relate to Snam Group's data, with reference to the scope of consolidation in the event of a separation transaction by Italgas.

(d) The official average prices per share for 2014 and 2015 refer to the historical official average prices and do not take into account the price adjustment made following the demerger operation.

## KEY BALANCE SHEET AND CASH FLOW FIGURES

(€ million)	2014	2015	2016
Technical investments	1,313	1,272	<b>1,199</b>
- continuing operations	954	879	<b>906</b>
- discontinued operations (*)	359	393	<b>293</b>
Net invested capital at 31 December	20,824	21,365	<b>17,553</b>
Shareholders' equity including minority interests at 31 December	7,172	7,586	<b>6,497</b>
Group shareholders' equity at 31 December	7,171	7,585	<b>6,497</b>
Net financial debt at 31 December	13,652	13,779	<b>11,056</b>
Free cash flow	297	771	<b>1,707</b>

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

## KEY SHARE FIGURES

		2014	2015	2016
Number of shares of share capital	(million)	3,500.60	3,500.60	<b>3,500.6</b>
Number of shares outstanding at 31 December	(million)	3,499.50	3,499.50	<b>3,470.7</b>
Average number of shares outstanding during the year	(million)	3,384.70	3,499.50	<b>3,496.8</b>
Year-end official share price (a)	(€)	3,396	4,002	<b>3,923</b>
Average official share price during the period (a)	(€)	3,488	3,721	<b>4,101</b>
Market capitalisation (b)	(million)	14,383	16,973	<b>13,612</b>
Dividend per share	(€ per share)	0.25	0.25	<b>0.21</b>
Dividends per period (c)	(million)	875	875	<b>722</b>
Dividends paid in the period (d)	(million)	507	875	<b>875</b>

(a) According to the definitions in Borsa Italiana S.p.A.'s "Corporate action manual" following the extraordinary transactions, in order to restore the continuity and comparability of stock prices, an appropriate coefficient to adjust the historical series must be applied. Therefore, the official prices of Snam stock for the financial years presented were adjusted using the "K adjustment factor", established by Borsa Italiana at a value of 0.82538045.

(b) The product of the number of shares outstanding (exact number) multiplied by the year-end official share price. The values for the years 2014 and 2015 were calculated on the basis of the historical official prices recorded at the end of the year (€4.11 and €4.85, respectively at the end of 2014 and 2015) and do not take into account the price adjustments made following the demerger operation.

(c) The amount for 2016 was estimated on the basis of the number of shares outstanding at 2 March 2017.

(d) The dividend paid in 2014 refers to the balance of the 2013 dividend. Snam did not pay out any interim dividends in 2015 or 2016. The dividend paid in 2016 refers to the pre-spin-off Snam Group.

### Breakdown of added value

At Snam, sustainability and the creation of value are strongly connected concepts. Sustainability creates value for the Company and stakeholders, and establishes a connection between the business and corporate social responsibility. The Company produces wealth by contributing to the economic growth of the society and environment in which it operates, and it measures this wealth in terms of added value produced and distributed to its key stakeholders.

Snam calculates the added value taking inspiration from the standard prepared by the Gruppo di Studio per il Bilancio Sociale (GBS) and the GRI - G4 guidelines.

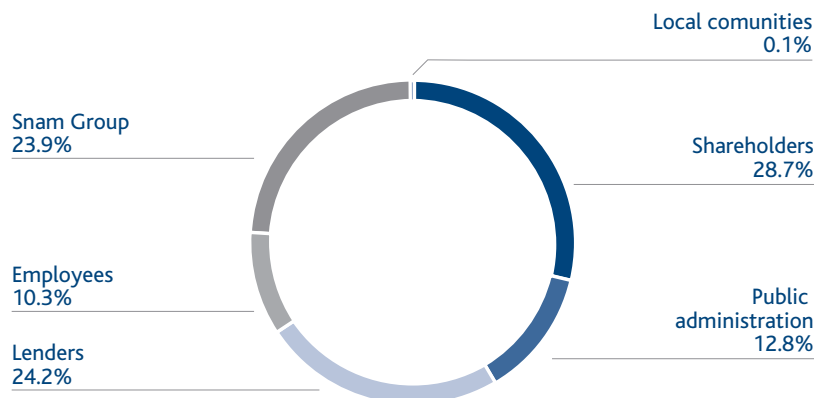
The table below is useful for understanding the Group's economic impact and makes it possible to read the consolidated financial statements from the standpoint of stakeholders.

For this purpose, note that the calculation of the added value in 2016 was made restoring the eliminations that originated from transactions involving discontinued operations to continuing operations for each single income statement item. The values for the comparison years have been recalculated accordingly.

In 2016, the gross global added value produced by Snam was equal to €2,518 million, an increase of €89 million compared with 2015 (€2,429 million), in spite of the reduction in the net invested capital remuneration rate - WACC provided by the Authority for 2016 which affected the operational profitability of natural gas transportation activities.

A total of 23.9% of the gross global added value produced by Snam was **reinvested within the Group** (in line compared with 2015: -0.7%), and intended essentially for the amortisation and depreciation of the intangible and tangible fixed assets used in the production process. With regard to the main reference stakeholders, in 2016 the percentage of added value distributed to **employees** was stable (10.3%; +0.5% compared with 2015), through direct remuneration composed of wages, salaries and severance pay and indirect remuneration composed of social security contributions and staff-related service costs (canteen services, reimbursement of travel expenses), while there was a reduction in the value destined for the **Public Administration** through the payment of direct and indirect taxes (12.8%; -2.4% compared with 2015), due to the reduction in the pre-tax result in 2016, as well as a reduction in the value distributed to **shareholders** through the dividends distributed (28.7%; -7.3% compared with 2015) in consideration of the Italgas separation transaction and by way of the lower number of outstanding shares following the buyback of treasury shares by Snam under the share buyback programme launched in November 2016. With reference to the value distributed to funders, equal to 24.2%, there was an increase of 9.9% compared with 2015 as a result of the bond buyback operation implemented by Snam in 2016. Lastly, an amount of approximately €2 million was designated for **local communities** (0.1% of the value generated) through donations and sponsorship initiatives (€0.8 million) and environmental compensation pursuant to the law (€1.2 million).

DISTRIBUTION OF ADDED VALUE (%) (GRI: G4-EC1)



## Operating performance

### Technical investments

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

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

### Infrastructure development and integration

The main investments for the development of new infrastructure mainly involved work for **the reversal of physical transportation flows at interconnection points with northern Europe** (€181 million), **the upgrade of the transportation network from entry points in southern Italy** (€40 million) and the upgrade of the network and connection of new regional and national redelivery points (€119

million). A total of €73 million was invested in 2016 for the **development of new storage fields and upgrading capacity**.

As a result of the work completed and disposals, **the pipeline network in operation** remained essentially unchanged in terms of network km (-0.1% compared with 31 December 2015), while **installed capacity in compression stations increased by 45.7 MW (+5.2%)**. Available **storage capacity** rose by 0.5 billion cubic metres, made available by the new Bordolano deposit, to a level of 12.0 billion cubic metres.

### Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled €336 million for transportation and €33 million for storage.

In 2016, pipelines were regularly inspected by foot, vehicle and helicopter to detect hazardous situations that could have had an impact on the integrity of the infrastructure, and an inspection was carried out on the pipeline conditions by inserting smart devices in them to detect any defects.

## CONTROL AND INSPECTION OF TRANSPORTATION ACTIVITIES

	2014	2015	2016
Network inspected using smart pigs (km)	1,950	1,315	<b>1,660</b>
Network inspected by helicopter (km)	15,700	16,330	<b>16,218</b>

In the area of storage, special attention was paid to the safety of systems and people. In addition to the plant maintenance and improvements, which are constantly being made and are aimed at introducing the best technologies available, specific software has been implemented for the optimum use of deposits and wells, which thanks to the extensive experience and data acquired, enable the system to achieve maximum performance while in compliance with the strict safety rules the company has imposed on itself.

### Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2016 was 367.0 million cubic metres/day on average, which was in line with 2015 (-1.24%), while transferred capacity totalled 266.4 million cubic metres/day on average. Network saturation<sup>12</sup> was 72.6%, a decrease compared with 2015 (79.1%).

The number of active transportation users fell from 139 in 2015 to 136 (-2.2%). During the year, 45 connection agreements were entered into for the creation of new delivery/redelivery points.

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.

There were 91 active storage customers (118 in 2015; -22.9%).

<sup>12</sup> Ratio of capacity transferred to available capacity

**+3.38 billion  
cubic metres of  
gas injected into  
the network**

**Business volume**

The amount of gas introduced into the transportation system stood at 70.63 billion cubic metres, representing an increase of 3.38 billion cubic metres (+5.0%) compared with 2015. The increase is mainly due to the rise in demand for natural gas in Italy (+3.36 billion cubic metres compared with 2015; +5.0%), due essentially to the greater consumption in the thermoelectric sector (+13.1%) partly absorbed by the slight reduction in consumption in the residential and tertiary sector (-0.4%) due essentially to weather conditions.

**+0.42 billion  
cubic metres  
of gas moved  
through the  
storage system**

Volumes of gas moved through the storage system in 2016 amounted to 20.0 billion cubic metres, an increase of 0.42 billion cubic metres, or 2.1%, compared with 2015. 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 last months of 2016, due mainly to weather conditions and to higher injections to replenish stocks (+0.12 billion cubic metres; +1.2%).

**+0.18 billion  
cubic metres of  
LNG regasified**

In 2016, 0.21 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.03 billion cubic metres in 2015 entirely regasified under the scope of the peak shaving service; +0.18 billion cubic metres), of which 0.043 billion cubic metres was under the scope of the natural gas integrated regasification and storage service<sup>13</sup>.

**Key operating figures**

*In conformity with IFRS 8 "Operating segments", the operating segments were 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. With reference to the natural gas distribution segment, on 7 November 2016 the separation of the natural gas distribution activities from Snam took place, which involved the transfer of Snam S.p.A.'s entire equity investment (100%) in Italgas Reti S.p.A. to Italgas S.p.A. (formerly ITG Holding S.p.A.). For the purpose of Snam's 2016 consolidated financial statements, the distribution segment is no longer represented as an operating segment. Therefore, the operating figures listed below relate to continuing operations (transportation, regasification and storage, as well as data referring to corporate services).*

13 The integrated storage and regasification service, introduced by Article 14, paragraph 1 of Decree-Law 1 of 24 January 2012 and later governed by the Ministerial Decree of 25 February 2016, makes provision that the leading storage company makes delivered quantities of gas equivalent to LNG available 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 "Operating performance by business segment - Regasification of Liquefied Natural Gas (LNG)" of this Report.

	2014	2015	2016	Change	% change
<b>Natural gas transportation (a)</b>					
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	62.25	67.25	<b>70.63</b>	3.38	5.0
Transportation network (kilometres in use)	32,339	32,534	<b>32,508</b>	(26)	(0.1)
Installed power in the compression stations (MW)	893.9	876.5	<b>922.2</b>	45.7	5.2
<b>Liquefied natural gas (LNG) regasification (a)</b>					
LNG regasification (billions of cubic metres)	0.01	0.03	<b>0.21</b>	0.18	
<b>Natural gas storage (a)</b>					
Available storage capacity (billions of cubic metres) (c)	11.4	11.5	<b>12.0</b>	0.5	4.3
Natural gas moved through the storage system (billions of cubic metres)	15.70	19.58	<b>20.00</b>	0.42	2.1
<b>Employees in service at period end (number) (d) (e)</b>	<b>2,948</b>	<b>3,005</b>	<b>2,883</b>	<b>(122)</b>	<b>(4.1)</b>
<i>by business segment:</i>					
- Transportation	1,874	1,918	<b>1,726</b>	(192)	(10.0)
- Regasification	77	73	<b>71</b>	(2)	(2.7)
- Storage	291	299	<b>301</b>	2	0,7
- Corporate and other activities	706	715	<b>785</b>	70	9,8

(a) With regard to 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 natural gas transportation, regasification and storage activities.

(b) The data for 2016 was 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 figures for 2015 include the staff transferred in 2016 to Italgas Group (207 people) following the separation transaction.



### Number of employees

The number of employees in service at 31 December 2016 was 2,883 (3,005 at 31 December 2015), a decrease of 122 (-4.1%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation at 31 December 2016 was 2,804 (2,808 in 2015).

On the one side 2016 featured significant organisational changes also related to the demerger of the distribution business segment and, on the other side, the development of the employment mix, which recorded the following dynamics over the course of the year:

- 177 employees joining, of which 141 were recruited from the market, and 36 others joining, including 32 from non-consolidated companies and 4 returning from leave;
- 299 employees left the company, including 37 as a result of the termination of employment, 16 were terminated unilaterally, 241 transfers to non-consolidated companies and 5 other departures.

With respect to the Group's national distribution, 2,169 people are employed in the northern regions of Italy, 204 in the central regions and 506 in the south. Furthermore, 4 individuals are permanently employed abroad.

In 2016, note that from the perspective of industrial relations, continued relations with the unions, nationally and locally, included around 105 meetings to analyse the business development projects and share the effects on people resulting from the organisational changes made by the group and examine them in more detail.

- As far as storage is concerned, according to the provisions of the EU Regulation, Resolutions 193/2016/R/gas and 312/2016/R/gas were applied, launching the new balancing regime as a result of which storage companies also had to continuously manage 24-hour renomination cycles. Snam Rete Gas also launched the new balancing scheme as a result of which its commercial dispatching service will operate hourly renomination cycles continuously 24 hours a day known as "Aste Within Day".
- As far as the transportation business segment is concerned, meetings of the SmartGas project technical committee, made up in equal measure of company and union representatives, continued with the aim of analysing the technical aspects of the project and solving any problems.
- In 2016, GNL and the trade unions, nationally and locally, held various meetings aimed at sharing and comparing subjects intrinsic to the regasification business

In January 2017, the renewal of the National Labour Agreement applied to the group for the three-year period 2016 - 2018, was signed.

#### **Supply chain management (GRI: G4-12)**

In 2016, through the new organisational model, the supply chain function came under the Chief Corporate Services Officer, who has the task of applying strategic sourcing methods, achieving savings targets in line with business activities and maintaining an adequate group of suppliers.

Strategic sourcing plays a key role in identifying future purchasing policies and has a direct impact on cutting costs. Starting with the gathering of procurement requirements over a five-year period, anticipated spending is analysed and qualified in order to guide the purchase process and identify the categories of "strategic" goods on which to focus attention.

In 2016 Snam directly provided work for around 660 companies, 388 of which belong to the small-medium business sector (SME), concluding over 1,000 procurement contracts (in line with 2015), worth a total of approximately €1.36 billion (+7.1% compared with 2015). Among the goods purchased the most important material is steel (piping, connectors, etc.) which, in 2016, amounted to a supply of approximately 15,200 tonnes.

95.6% of the procured concerns national businesses, and was distributed throughout the Italian regions in line with the Company's roots in the country.

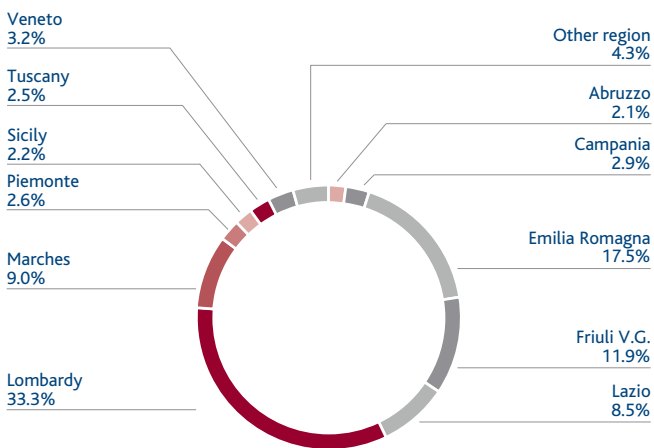
At 31 December, the vendor list included 2,245 qualified suppliers, and around 400 suppliers were in the process of being renewed or obtaining new qualifications. The supply chain was checked and monitored with 15 audits during the qualification phase of critical suppliers, and 634 feedback reports collected on services rendered by 185 suppliers. Additionally, 1,502 suppliers and sub-contractors were checked with regard to the regularity of contributions, through 3,089 inspections which led to 87 irregularities intercepted (2.8%). There were 40 provisions issued for non-compliance, including warnings, suspensions and withdrawal of qualification.



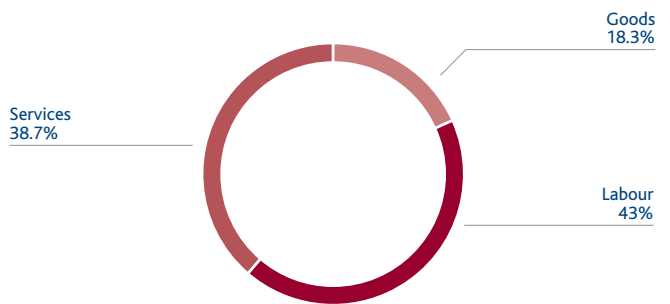
In the procurement of work, which is the most important category because it is related to core activities, the suppliers considered critical (critical levels A and B) were all in possession of quality and environment management systems certified with ISO 9001 and ISO 14001 standards. In 2016, the target of having all (100%) of these suppliers in possession of OHSAS 18001 certification (occupational health and safety) improved compared with 2015 when the figure already stood at 90%.

**PROCUREMENT BY REGION AND MERCHANDISE CATEGORY**

GEOGRAPHICAL BREAKDOWN PROCUREMENT IN ITALY (%)

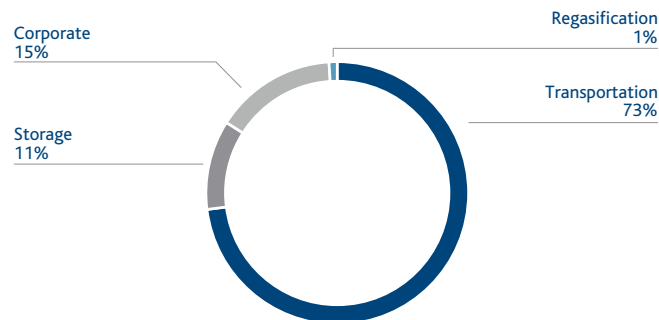


PROCUREMENT BY PRODUCT CATEGORY (%)



(\* ) Figures on geographical breakdown are based on the administrative headquarters of the suppliers.

**PROCUREMENT BY BUSINESS SEGMENT (%)**



### Accidents (GRI: G4-LA6)

Snam has managed, over time, to reduce accidents, both as far as employees are concerned and contractor's personnel, as evidenced by the accident frequency and severity index. The entire company, starting from the top, is focused on workplace safety, to the point of it being a corporate objective for executives and managers, on which part of the variable remuneration is based. There were 9 accidents in 2016, none of them fatal.

### ACCIDENTS AT WORK (No.)

	2014	2015	2016
Total employee accidents (*)	9	3	4
Total contract worker accidents	15	8	5

### ACCIDENT INDICES

	2014	2015	2016
<b>Employees and contract workers</b>			
Frequency index (*)	2.01	0.89	0.75
Severity index	0.1	0.06	0.05
<b>Employees</b>			
Frequency index (*)	1.84	0.62	0.81
Severity index	0.11	0.03	0.04
<b>Contract workers</b>			
Frequency index	2.13	1.07	0.71
Severity index	0.1	0.07	0.05

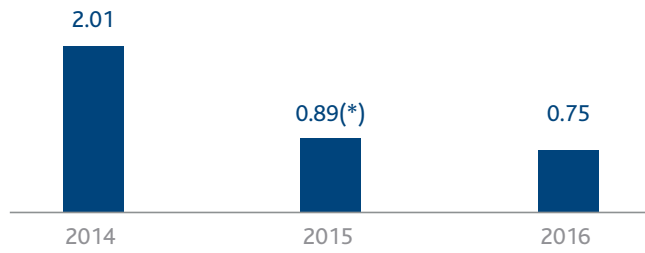
(\*) The figure for 2015 was restated to take into account an accident that occurred during the year later declassified in 2016.

**Frequency index:** number of accidents at work resulting in absence of at least one day, per million hours worked.

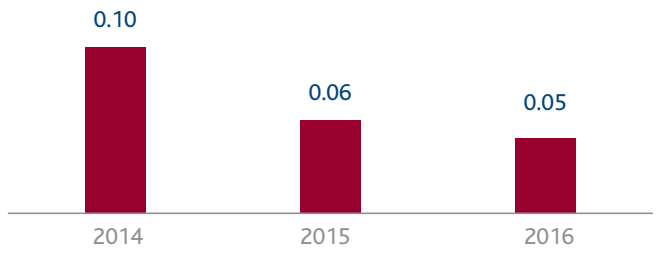
**Severity index:** number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. Data do not reflect fatal accidents.

**EMPLOYEE AND CONTRACT WORKER ACCIDENT GRAPHS**

EMPLOYEE AND CONTRACTOR ACCIDENTS  
AT WORK - FREQUENCY INDEX



EMPLOYEE AND CONTRACTOR ACCIDENTS  
AT WORK - SEVERITY INDEX



(\*) The figure for 2015 was restated to take into account an accident that occurred during the year later declassified in 2016.



**Energy consumption**

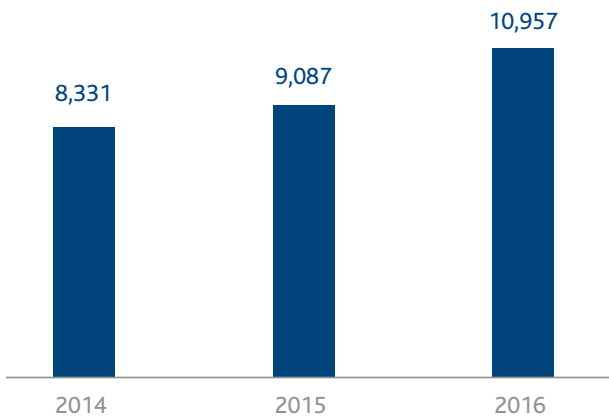
In 2016, Snam energy consumption totalled around 10,957 Tera joules (TJ), an increase of +20.6% over 2015.

The increase is partly attributable to the greater quantity of gas transported (+5% compared with 2015), but above all to the different transportation conditions that have seen an increase in quantities of gas from North Africa (+65% compared with 2015) and a simultaneous reduction in quantities from Northern Europe (-37%) and Russia (-5.6%).

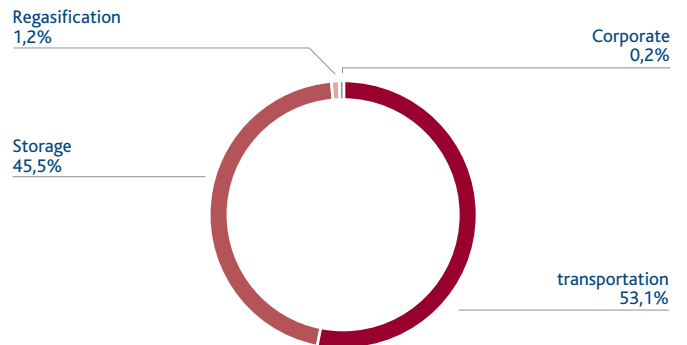
The most heavily used energy source was natural gas, which covered 96.2% of total energy needs. Other sources used are electricity (2.9%) and other fuels (diesel fuel, gasoline, LPG and heat), which together are equivalent to 0.9%.

**ENERGY CONSUMPTION DATA (GRI: G4-EN3)**

ENERGY CONSUMPTION (TJ)



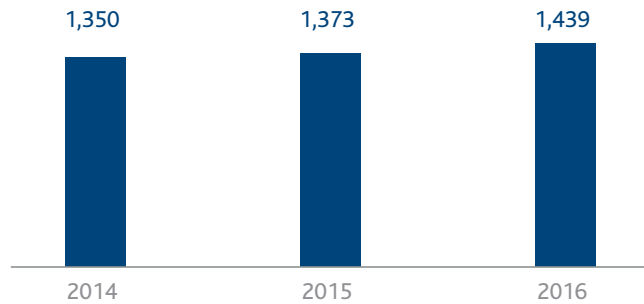
ENERGY CONSUMPTION BY ACTIVITY (%)



## Greenhouse gas emissions (GRI: G4-EN15)

### DIRECT EMISSIONS OF CO<sub>2eq</sub> – SCOPE 1 (10<sup>3</sup> T) (\*)

#### TOTAL DIRECT GHG EMISSIONS - SCOPE 1 (KT CO<sub>2eq</sub>)



(\*) CO<sub>2eq</sub> emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".

In 2016 direct CO<sub>2eq</sub> emissions were equal to approximately 1.44 million tonnes. Direct CO<sub>2</sub> emissions from combustion were equal to approximately 0.6 million tonnes, while CO<sub>2eq</sub> emissions from methane stood at approximately 0.84 million tonnes. In 2016 natural gas emissions fell by -3% compared with 2015, going from 49.7 Mm<sup>3</sup> to 48.2 Mm<sup>3</sup>. This decrease is partly due to the lower emissions recorded in 2016 and partly to the emission reduction initiatives conducted under gas transportation activities, in which measures that involve the recovery of gas through recompression on line and in compression stations were implemented (4.5 million cubic metres of natural gas recovered, equal to 77,780 tonnes of CO<sub>2eq</sub>, +25% compared with the figure of 3.3 million cubic metres in 2015).

At the start of the third regulatory period (2013-2020), the greenhouse gas emission authorisation system, previously governed by Legislative Decree 216/2006, was updated and modified by Legislative Decree 30 of 13 March 2013, effective from 5 April 2013. According to the new provisions, the main aim of the decree was to update laws on greenhouse gas emission authorisations and to continually reduce free emission allowances. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant (as in the second regulatory period), and will also depend on the actual functionality of the plants.

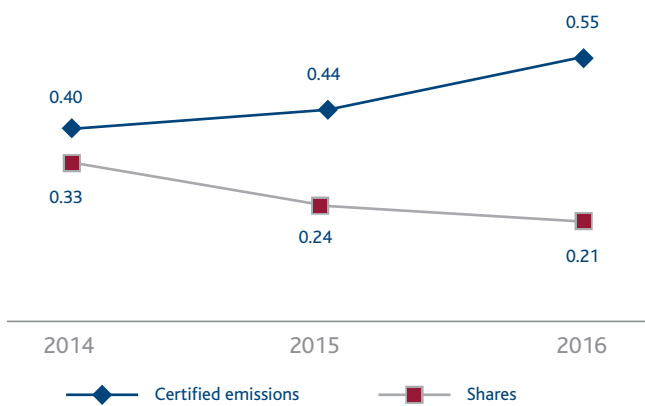
In 2016, the Snam Group's total CO<sub>2</sub> emissions, certified by an accredited body according to the provisions of the competent national authority, amounted to approximately 0.550 million tonnes, out of total annual allowances of approximately 0.207 million issued by the Ministry for the Environment, Land and Sea (negative balance of 0.343 million allowances). This deficit is offset by the allowances already present in the registers for Snam Group plants, accumulated thanks to the surplus from previous years.

## PLANTS SUBJECT TO ETS DIRECTIVE

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

## CO<sub>2</sub> EMISSIONS FROM ETS PLANTS (GRI: G4-EC2)

CO<sub>2</sub> EMISSIONS ETS PLANTS (10<sup>6</sup> T)



## SNAM AND THE FINANCIAL MARKETS

European stock market trends were mainly downwards in 2016. In the first half-year a sharp fall was recorded, penalised by the deterioration of economic prospects and oil prices at their lowest for 10 years, as well as fears generated by the result of the Brexit referendum.

In the second part of the year share indices partly recovered both on account of the recovery in oil prices, supported by the possibility of an agreement between the major global producers for a freeze on production levels, and the confirmation of accommodating monetary policies by central banks. In the last part of the year the political uncertainties generated by the American elections increased market volatility.

The STOXX Europe 600 index ended 2016 down 1.2% compared with the end of 2015, while the national FTSE MIB index recorded one of the worst performances at European level (-10.2%), burdened particularly by the under-performance of bank stock as a result of the difficulties encountered in solving the outstanding receivables problem. The STOXX Europe 600 utilities index ended 2016 down 8.9%, adversely affected by the prospect of interest rate increases; internally, the performance of regulated companies was above average (-4.6%).

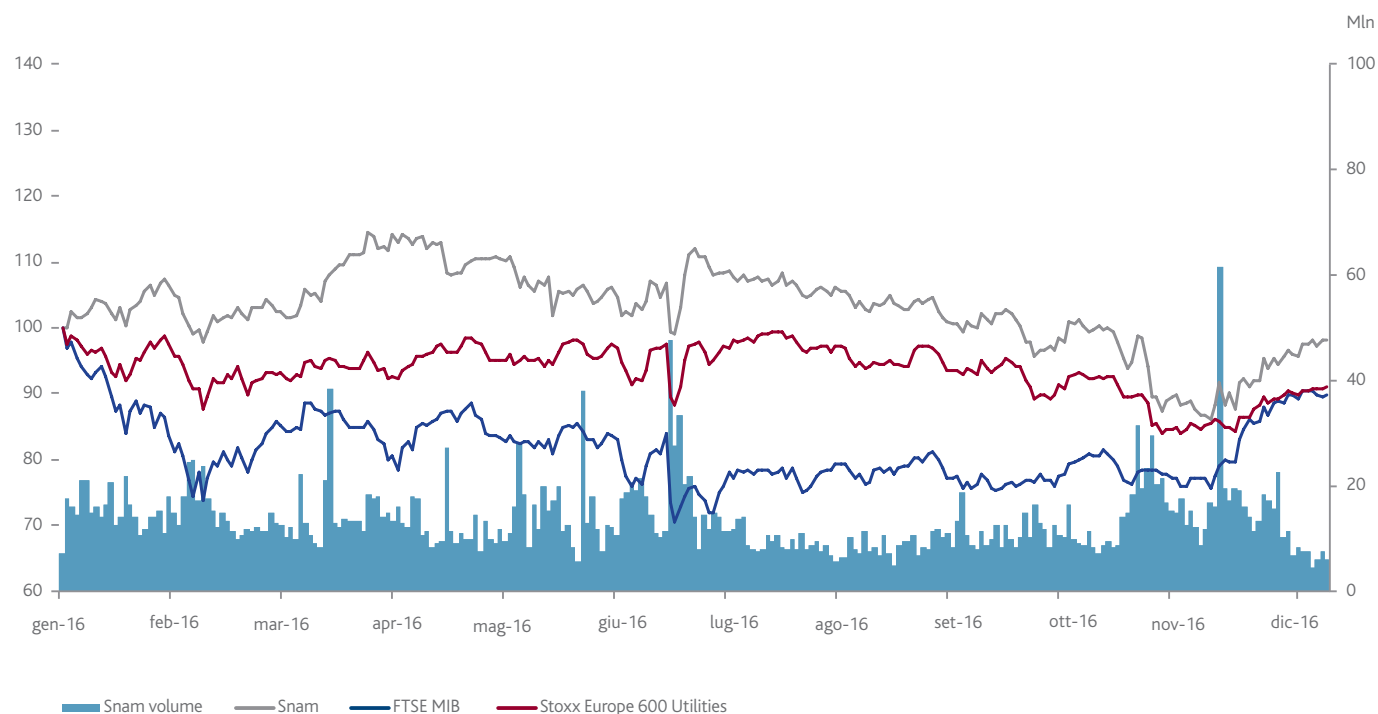
### Snam share performance

Snam shares closed 2016 at an official price of €3.923, down 1.97% from the price of €4.002 recorded at the end of the previous year<sup>14</sup>.

The stock increased in the first half-year, reaching its historical maximum on 30 March (€4.56, adjusted price), supported by a clear and stable regulatory framework, the product of the regulatory revision which concluded in December 2015, solid company fundamentals, confirmed by the 2015 annual results and by the presentation on 29 June 2016 of the Italgas demerger transaction and the 2016-2020 Strategic Plan, both well received by the financial community.

The trend was reversed in the second half of the year, caused by the downgrading of the Italian economic growth estimates and a recovery in interest rates from September. Over the course of the year the stock, however, over-performed both in its reference sector and on the Italian market, as evidence of the way investors welcome the sound business model of the Company and a strategy that envisages sustainable returns in the long term.

14 The price was adjusted following the operation separating Italgas from Snam according to the definition in the "Corporate action manual" of Borsa Italiana S.p.A., which provides that, in the case of extraordinary transactions, in order to restore the continuity and comparability of stock prices, an appropriate coefficient to adjust the historical series must be applied. Therefore, all the official prices of Snam stock for the financial years before the effective date of the separation operation (7 November 2016) were adjusted using the "K adjustment factor", established by Borsa Italiana at a value of 0.82538045.

**SNAM - COMPARISON OF PRICES OF SNAM, FTSE MIB AND STOXX EUROPE 600 UTILITIES (1 JANUARY 2016 - 31 DECEMBER 2016)**

**Relations with the financial community and investor relations policy**

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

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

This communications policy takes the form of many economic and financial publications concerning business performance and sustainability developments, in addition to ongoing meetings and events, which throughout 2016 included the following:

- 17 roadshows to meet shareholders and institutional investors in the major financial centres of Europe and North America;
- 3 industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet the Company's senior management;
- 77 one-to-one meetings between management and investors, in addition to numerous group meetings (20);
- conference calls upon the publication of the Company's results (annual, semi-annual and quarterly) and the presentation of the Business Plan.



**Inclusion of Snam stock in sustainability indices**

In 2016, for the eighth consecutive year, Snam stock was again included by **RobecoSAM** (one of the most important sustainability rating agencies at global level) in the **Dow Jones Sustainability World Index**, the main international equity index formed on the basis of the performance of companies in the area of economic, social and environmental sustainability. In January 2017, for the third consecutive year, RobecoSAM placed Snam in the **Silver Class** of the Sustainability Yearbook 2017, a distinguished group of companies, which in the industrial sector concerned includes companies with a high score in terms of sustainability.



Reconfirmation also took the form of inclusion in the prestigious **FTSE4Good** index, which the Company has been in since 2002. Snam was also included for the fourth consecutive year among the highest scorers of **CDP**. The Company was also included in the A List, the highest score of the CDP evaluation model, which in 2016 was only awarded to 193 companies globally.



Lastly, Snam stock is included in the two **MSCI World ESG** and **MSCI ACWI ESG** indices.

Snam stock is also included in the following sustainability indices:





### Debt management and credit rating

At 31 December 2016, the Group's net financial position was €11,056 million, resulting from a financial debt of €11,090 million and liquid assets of €34 million. Snam's goal is to achieve a debt structure consistent with business requirements in terms of loan term and interest rate exposure.

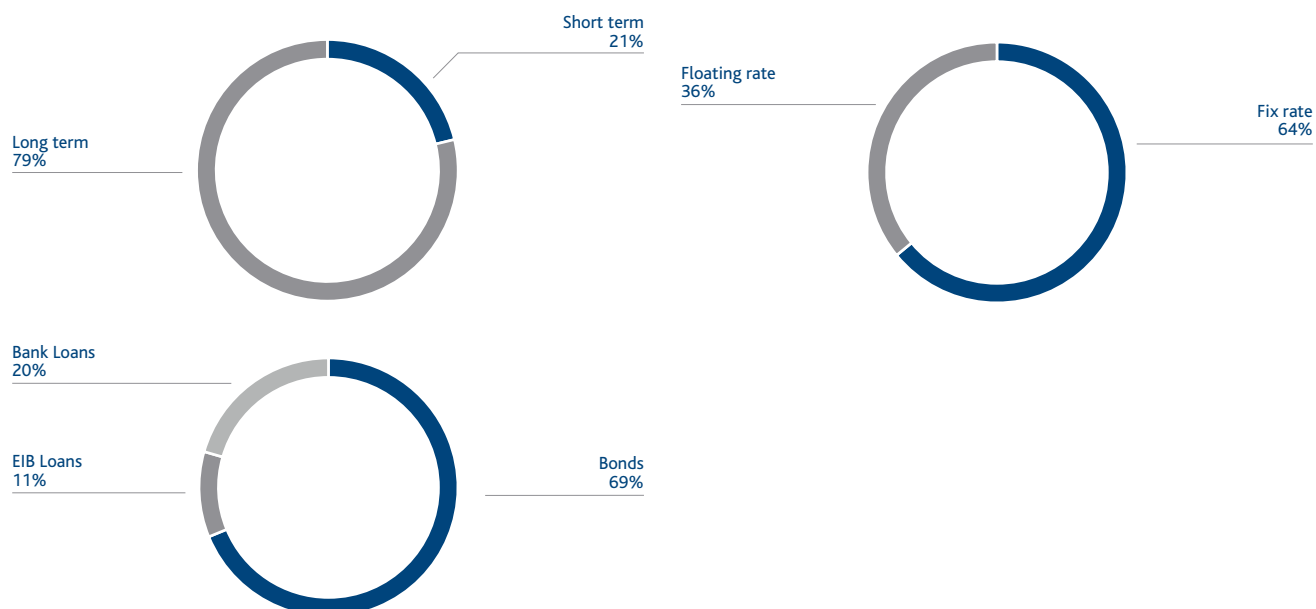
On the debt side, the separation of Italgas, effective from 7 November 2016, led to a reduction in Snam's debt of approximately €3.6 billion and a cash-in for the Company of approximately €3.2 billion, net of approximately €0.4 billion in EIB funding relating to Italgas projects transferred to the latter.

Following this transaction, Snam recalibrated and redesigned its liabilities structure.

In this context, the Company successfully concluded a liability management transaction, the largest to date in Europe, through the buyback on the bond market for a total value of approximately €2.75 billion, with an average coupon of approximately 3.3% and a remaining term of around 3 years, and the simultaneous issue of two new bond loans for a total of €1.75 billion, with an average coupon of 0.625% and an average maturity of around 8.3 years.

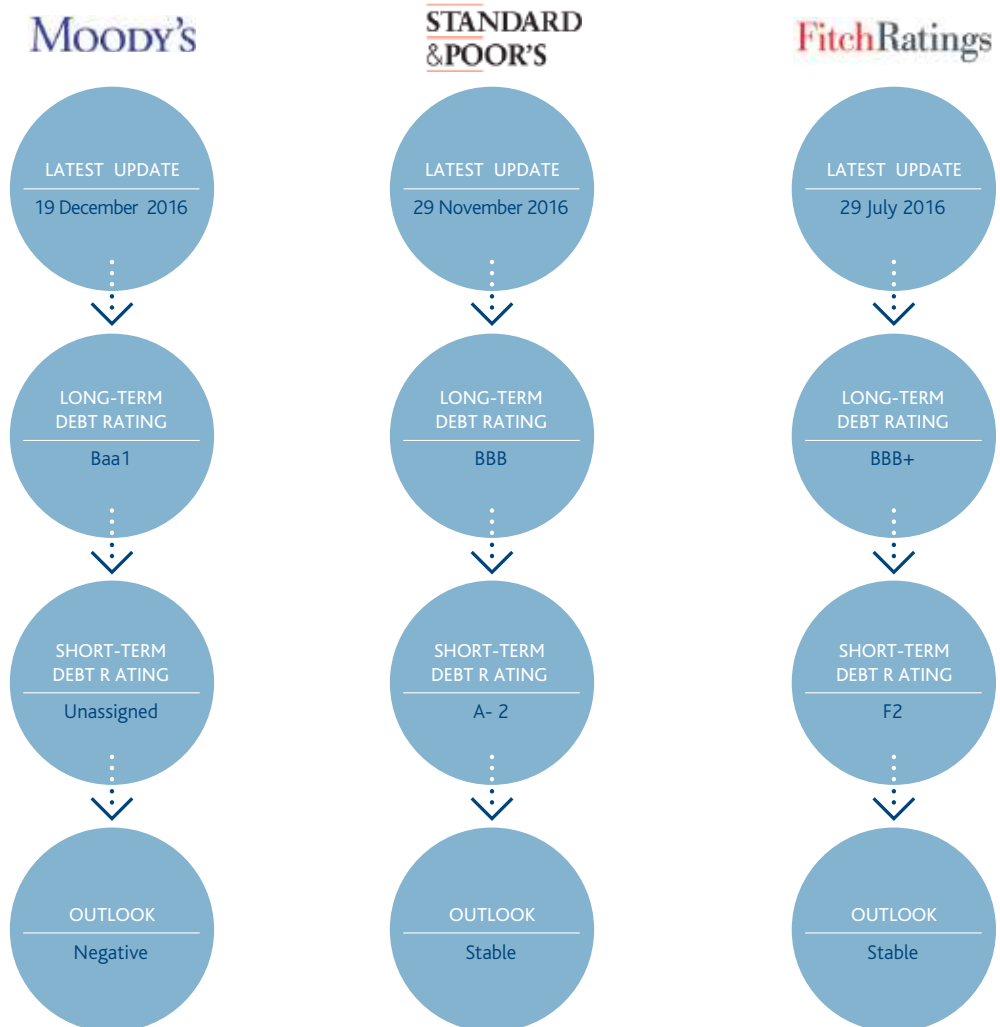
Additionally, in 2016 Snam extended by one year the terms of the syndicated loan of €3.2 billion at the same cost conditions. The two syndicated bank lines, amounting to €2.0 billion and €1.2 billion, shall expire in 2019 and 2021, respectively. In addition Snam reduced the amount of bilateral bank loans compared with 31 December 2015 by around €1 billion; and renegotiated the terms of existing agreements extending the term by two years and improving the cost conditions applied.

These transactions on both the banking and bond market made it possible to optimise medium- and long-term debt maturities by extending their average term and creating conditions for a reduction in average borrowing costs.

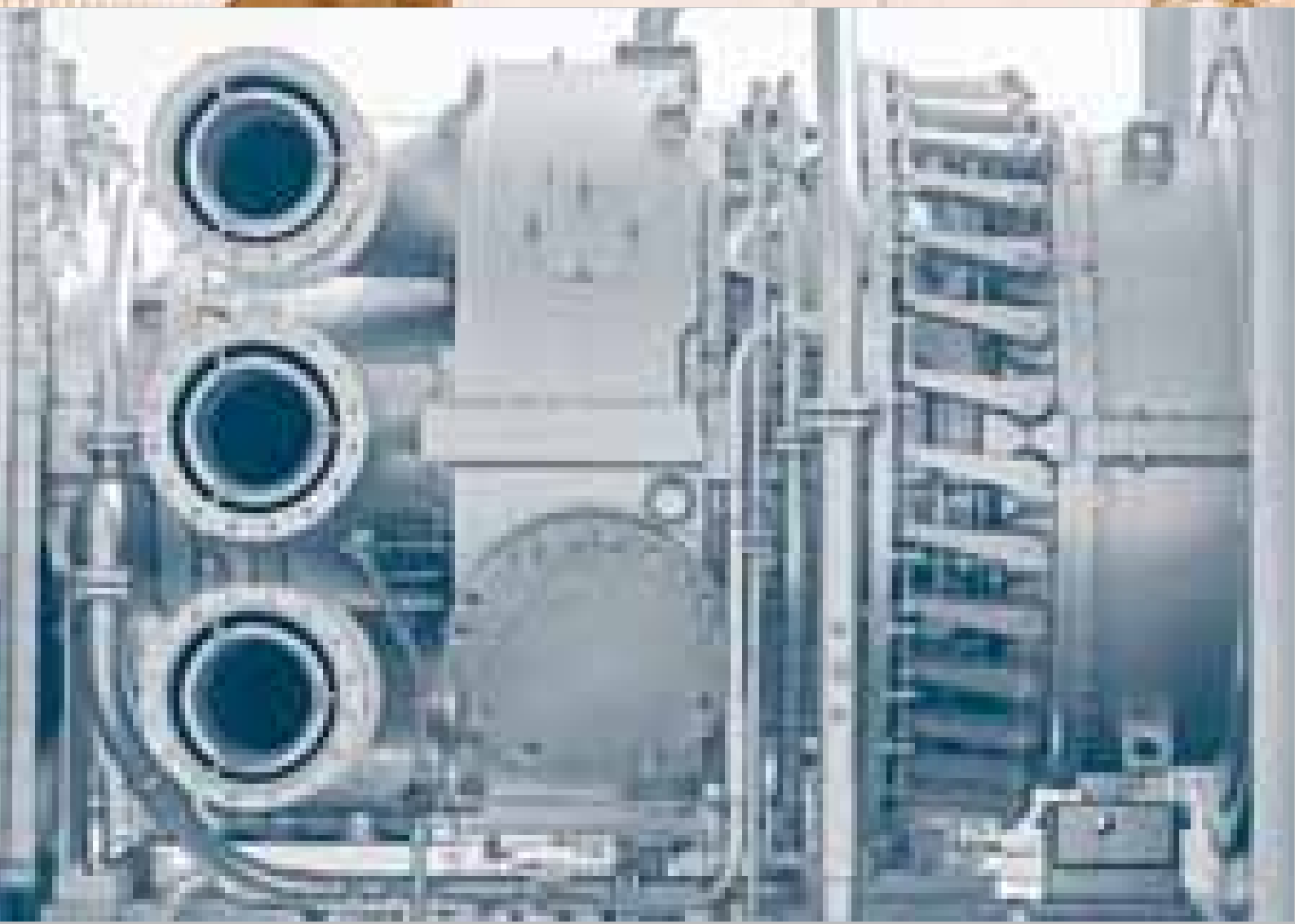


At 31 December 2016, Snam had unused long-term committed credit lines totalling around €3.2 billion. In addition, Snam as at 31 December 2016 entered into a Euro Medium Term Notes (EMTN) Programme which allows for the issuance, by 30 September 2017, of bonds for a maximum amount of €2.5 billion<sup>15</sup>.

The separation of Italgas did not change the Company's credit rating, which remains at investment grade, with a rating of BBB from Standard & Poor's, Baa1 from Moody's and BBB+ from Fitch. Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt.



15 Considering, also, the additional bond issues made in January and February 2017, for a total nominal value of €800 million, the Programme allows for the issuance of bonds for a maximum amount of approximately €1.7 billion.



# Business segment operating performance

## NATURAL GAS TRANSPORTATION

### KEY PERFORMANCE INDICATORS

(€ million)	2014	2015	2016	Var.ass.	Var.%
Total revenue (*)	2,087	2,145	2,035	(110)	(5.1)
Regulated revenue (*)	2,065	2,094	1,999	(95)	(4.5)
- revenue items offset in costs	170	182	220	38	20.9
Operating costs (*)	402	485	469	(16)	(3.3)
EBIT	1,196	1,165	1,021	(144)	(12.4)
Technical investments	700	693	776	83	12.0
- of which with a greater return	370	328	345	17	5.2
- of which with a basic return (**)	330	365	431	66	18.1
Net invested capital at 31 December	11,877	12,011	12,263	252	2.1
Natural gas injected in the National Gas Transportation Network (billions of cubic metres) (***)	62.25	67.25	70.63	3.38	5.0
Transportation network (kilometres in use)	32,339	32,534	32,508	(26)	(0.1)
- of which national network	9,559	9,630	9,590	(40)	(0.4)
- of which regional network	22,780	22,904	22,918	14	0.1
Installed power in the compression stations (MW)	893.9	876.5	922.2	45.7	5.2
Employees in service at 31 December (number) (****)	1,874	1,918	1,726	(192)	(10.0)

(\*) Before consolidation adjustments.

(\*\*) Compared with an actual pre-tax basic WACC equal, respectively, to 6.3% for 2014 and 2015 and 5.4% for 2016, to which the 1% for offsetting the regulatory lag must be added.

(\*\*\*) The data for 2016 was 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. With reference to 2016, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) conventionally of 38.1 MJ/SCM (10.572 kWh/SCM).

(\*\*\*\*) Following the adjustment of Snam's organisational structure, effective from 1 November 2016, part of the functions previously carried out by Snam Rete Gas were transferred to Snam.

### Results

**Total revenue** amounted to €2,035 million, down by €110 million, or 5.1%, compared with 2015 (€2,145 million). Net of components offset in costs<sup>16</sup>, total revenue amounted to €1,815 million, down by €148 million, or 7.5%, compared with the previous year.

**Regulated revenue** amounted to €1,999 million, relating to fees for the natural gas transportation service (€1,927 million) and to income from natural gas sales made in order to balance the gas system (€72 million)<sup>17</sup>. Regulated revenue, net of components that are offset in costs, amounted to €1,779 million, down by €133 million, or 7.5%, compared with 2015. The reduction is due to the revision, from 1 January 2016, of the Weighted Average Cost of Capital (WACC), which went from 6.3% in 2015

<sup>16</sup> 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.

<sup>17</sup> The income refers to the sale of gas by the Company as a balancing service user.

to 5.4% in 2016 (-€134 million), and the effects of the updating of the invested capital recognised for RAB purposes (-€80 million). These factors were partly offset by the increased revenue from the contribution of investments made in 2014 (+€77 million).

**Non-regulated revenue** (€36 million) decreased by €15 million, or 29.4%, compared with 2015. The reduction is mainly due to lower income from sales of natural gas no longer necessary for operating activities (-€20 million).

**EBIT** amounted to €1,021 million, down by €144 million, or 12.4%, compared with the previous year. 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 the 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 the provision for impairment losses on receivables, due essentially to the impairment losses 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 <sup>18</sup>.



## TECHNICAL INVESTMENTS

Fourth regulatory period (January 2014 - December 2017)		2014	2015	2016
Type of investment	Higher compensation in fourth regulatory period (%) (*)	€/million	€/million	€/million
New import and/or export capacity	2.0%	303	249	<b>226</b>
New National Network transportation capacity	1.0%			<b>1</b>
New Regional Network transportation capacity	1.0%	67	79	<b>118</b>
Replacement and other		330	365	<b>431</b>
		<b>700</b>	<b>693</b>	<b>776</b>

(\*) Compared with the base WACC of 6.3% for 2014 and 2015 and 5.4% for 2016, in addition to 1% to offset the regulatory lag.

**Technical investments** in 2016 amounted to €776 million, an increase of €83 million, or 12.0%, compared with 2015 (€693 million).

Investments were classified in accordance with Resolution 514/2013/R/gas of the Electricity, Gas and Water 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% (€226 million) is projected, concern the following:

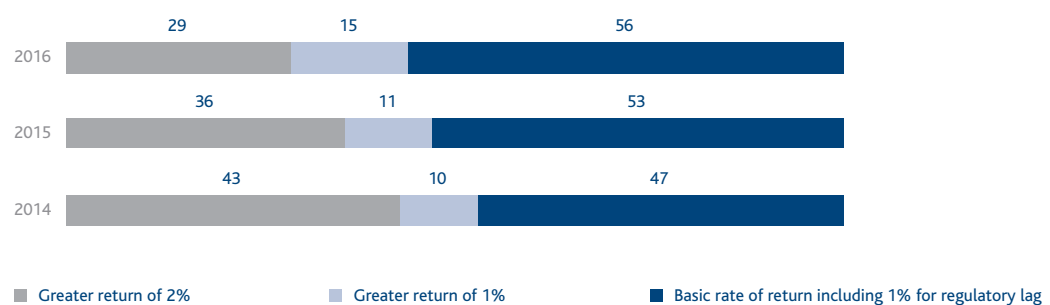
<sup>18</sup> For additional information, see Note 23 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system" in the Notes to consolidated financial statements.

- 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 (€181 million) in the Po Valley area: (i) completion of construction works on the connection points and additional work on the Zimella-Cervignano pipeline; (ii) completion of the main construction works to upgrade the Poggio Renatico plant; (iii) the continuation of activities relating to the supply of turbo compressors relating to the new Sergnano and Minerbio plants; and (iv) completion of the main construction works on the new Minerbio hub;
- as part of the projects to upgrade the transportation network from the entry points in southern Italy (€40 million): (i) completion of the main construction works on the Biccari-Campochiaro pipeline in Campania, Puglia and Molise; and (ii) continuation of construction works on the Massafra-Biccari pipeline connection points.

The main investments for the **development of new National Network** (€1 million) and **Regional Network** (€118 million) **transportation capacity**, with an anticipated **greater return of 1.0%**, relate to a number of works to upgrade the network and to connect to new regional and national redelivery points, particularly: (i) the completion of construction works relating to the upgrade of the Gavi-Pietralavezzara pipeline in Piedmont and Liguria (€34 million); (ii) the continuation of the main construction works relating to the “Derivazione per Montebello Jonico e Melito di Porto Salvo” pipeline (€21 million); (iii) completion of the main construction works on the Lainate-Olgiate Olona pipeline and the continuation of such works on the Mornico al Serio-Travagliato pipeline, Mornico-Chiari section relating to the network upgrade in Lombardy (€12 million); and (iv) continuation of construction works on the pipelines and connections relating to the methane conversion initiative in the Calabria Region (€11 million).

Investments in **replacement and other investments** with a **basic rate of return** (€431 million) concern works aimed at maintaining security and quality levels at plants (€336 million), projects relating to the development of new information systems and the implementation of existing ones (€40 million) and metering (€19 million), works relating to compensation for third parties (€19 million) and the acquisition of other key operating assets (€17 million), including investments for the acquisition of vehicles (€9 million) and real estate investments (€5 million).

#### INVESTMENT PROPORTIONS BY TYPE OF RETURN (%)



## Progress of work to obtain permit

### EIA DECREES OBTAINED DURING THE YEAR

Name	Length (km)	Regions affected	Authority	Date of decree
Gas Pipeline - Puglia-Basilicata Transportation Network Upgrade	266.59	Puglia-Basilicata	Puglia Region	03/03/2016

### ORDERS RECEIVED DURING THE YEAR TO CHECK EIA REQUIREMENTS

Name	Length (km)	Regions affected	Authority	Date of order
Gas Pipeline - S. Andrea Apostolo dello Ionio - Caulonia	51.70	Calabria	Calabria Region	25/02/2016
Gas Pipeline - Branch for Stilo and Bivongi	5.20	Calabria	Calabria Region	25/02/2016
Gas Pipeline - doubling and connection of Agip wells to Ravenna-Chieti pipeline: installation of traps and filters	0.6	Marche	Marche Region	22/04/2016

### APPLICATIONS SUBMITTED TO THE MINISTRY OF THE ENVIRONMENT TO CHECK EIA REQUIREMENTS

Name	Length (km)	Regions affected	Submission date
Castrovillari-Melizzano Gas Pipeline: GAME A variant	3.10	Campania	07/07/2016

### APPLICATIONS SUBMITTED TO REGIONS OR PROVINCES TO CHECK EIA REQUIREMENTS

Denominazione	Lunghezza (km)	Regioni interessate	Data presentazione
Corte-Genoa Gas Pipeline: Variants in Rottofreno municipality	5.28	Emilia-Romagna	31/05/2016
Gas Pipeline - Edison Garaguso and Masseria Monaco Connection	4.41	Basilicata	10/06/2016
Gas Pipeline - Pietravairano-Pignataro Maggiore Connection	25.10	Campania	24/08/2016
Benevento-Cisterna Gas Pipeline: Variants	3.38	Campania	30/08/2016
"Derivazione per Salerno" Gas Pipeline: Variant	2.08	Campania	31/08/2016
Mornico al Serio-Travagliato-Tratto Chiari-Travagliato Gas Pipeline	13.71	Lombardy	10/11/2016

## Operating review

### Gas distribution on the National 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/SCM). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

#### GAS DEMAND IN ITALY

(billions of m <sup>3</sup> )	2014	2015 (*)	2016	Change	% change (**)
Residential and tertiary	25.66	28.97	28.87	(0.10)	(0.4)
Thermoelectric	17.88	20.62	23.31	2.69	13.1
Industrial (***)	16.32	15.97	16.69	0.72	4.5
Other (****)	2.05	1.96	2.01	0.05	2.6
	<b>61.91</b>	<b>67.52</b>	<b>70.88</b>	<b>3.36</b>	<b>5.0</b>

(\*) The update of 2015 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

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

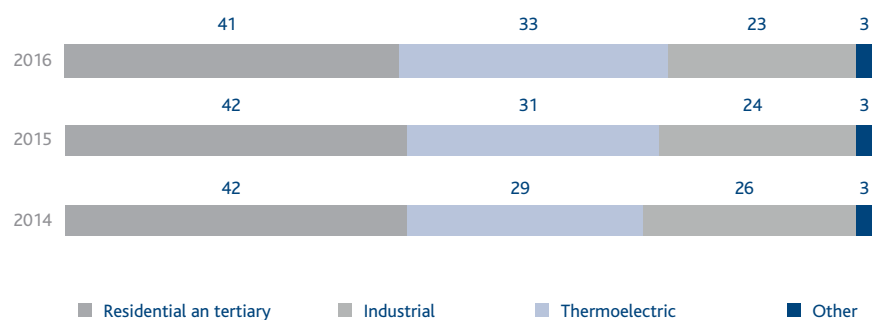
(\*\*\*) Includes the consumption of the industrial, agricultural and fishing, chemical synthesis and automotive sectors.

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

The **gas demand in Italy** in 2016 was **70.88 billion cubic metres**, up 3.36 billion cubic metres (**+5.0%**) compared with 2015. This increase 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 partly 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.

**Adjusted for the weather effect, gas demand** was estimated at 71.88 billion cubic metres, up by 3.24 billion cubic metres (+4.7%) compared with 2015 (68.64 billion cubic metres).

#### GAS DEMAND BY SECTOR (% OF TOTAL GAS DEMAND)





## AVAILABILITY OF NATURAL GAS

(billions of m <sup>3</sup> )	2014	2015 (*)	2016	Change	% change
Gas injected into the network by entry point	55.36	60.82	<b>65.06</b>	4.24	7.0
Domestic output	6.89	6.43	<b>5.57</b>	(0.86)	(13.4)
<b>Total gas injected into the network</b>	<b>62.25</b>	<b>67.25</b>	<b>70.63</b>	<b>3.38</b>	<b>5.0</b>
Net balance of withdrawals from/injections into storage (**)	(0.86)	(0.31)	<b>(0.20)</b>	0.11	(35.5)
<b>Total availability of natural gas</b>	<b>61.39</b>	<b>66.94</b>	<b>70.43</b>	<b>3.49</b>	<b>5.2</b>

(\*) The update of 2015 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

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

The **availability of natural gas in Italy** (70.43 billion cubic metres) is equal to the sum of gas injected into the National Transportation Network and the net balance of withdrawals from and injections into the storage system, and was up by 3.49 billion cubic metres (+5.2%) compared with 2015. The increase was due to higher volumes of gas injected into the network by entry point (+4.24 billion cubic metres; +7.0%) and higher net withdrawals from the storage system (+0.11 billion cubic metres), the effects of which were partially offset by lower domestic production (-0.86 billion cubic metres; -13.4%).

## GAS INJECTED INTO THE NETWORK

(billions of m <sup>3</sup> )	2014	2015 (*)	2016	Change	% change
<b>Domestic output</b>	<b>6.89</b>	<b>6.43</b>	<b>5.57</b>	<b>(0.86)</b>	<b>(13.4)</b>
<b>Entry points (**)</b>	<b>55.36</b>	<b>60.82</b>	<b>65.06</b>	<b>4.24</b>	<b>7.0</b>
Tarvisio	26.16	29.92	<b>28.26</b>	(1.66)	(5.5)
Mazara del Vallo	6.77	7.24	<b>18.87</b>	11.63	160.6
Gries Pass	11.43	10.63	<b>6.70</b>	(3.93)	(37.0)
Gela	6.51	7.11	<b>4.81</b>	(2.30)	(32.3)
Cavarzere (LNG)	4.47	5.80	<b>5.72</b>	(0.08)	(1.4)
Panigaglia (LNG)	0.02	0.05	<b>0.22</b>	0.17	
Livorno (LNG)		0.04	<b>0.48</b>	0.44	
Gorizia		0.03		(0.03)	
	<b>62.25</b>	<b>67.25</b>	<b>70.63</b>	<b>3.38</b>	<b>5.0</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.

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

### Injections and withdrawals of gas in the transportation network

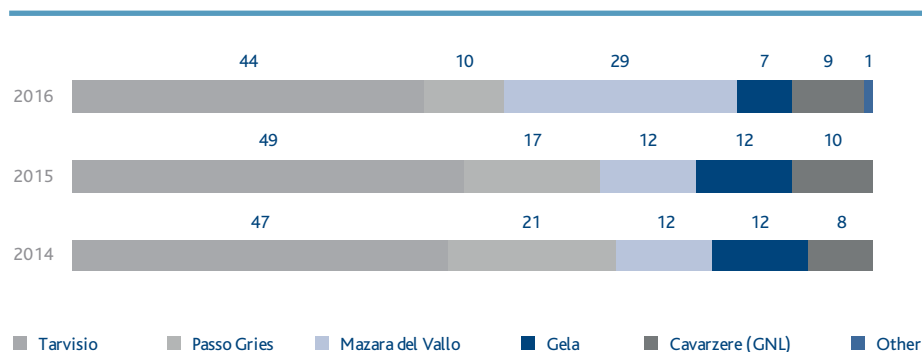
In 2016 a total of 70.63 billion cubic metres of gas was injected into the network, an increase of 3.38 billion cubic metres (+5.0%) compared with 2015.

Injections into the network from domestic production fields or their collection and treatment centres totalled 5.57 billion cubic metres, down by 0.86 billion cubic metres (-13.4%) compared with 2015.

Volumes injected at entry points connected with other countries and with regasification plants, overall equal to 65.06 billion cubic metres, rose by 4.24 billion cubic metres (+7.0%) compared with 2015.

This change was due mainly to higher volumes injected at the Mazara del Vallo entry point (+11.63 billion cubic metres) and the LNG regasification plants (+0.53 billion cubic metres; +9%), the effects of which were partly offset by lower volumes injected at the entry points of Gries Pass (-3.93 billion cubic metres; -37%), Gela (-2.30 billion cubic metres; -32.3%), Tarvisio (-1.66 billion cubic metres; -5.5%) and Gorizia (-0.03 billion cubic metres).

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



#### WITHDRAWALS OF NATURAL GAS

(billions of m <sup>3</sup> )	2014	2015	2016	Change	% change
Redelivery to the domestic market	60.97	66.46	69.92	3.46	5.2
Exports and transit (*)	0.28	0.27	0.27		
Consumption and emissions attributable to Snam Rete Gas	0.18	0.18	0.23	0.05	27.8
Gas not accounted for and other changes (**)	(0.04)	0.03	0.01	(0.02)	(66.7)
<b>Total withdrawals of natural gas</b>	<b>61.39</b>	<b>66.94</b>	<b>70.43</b>	<b>3.49</b>	<b>5.2</b>

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

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

The natural gas withdrawn from the National Transportation Network in 2016 (70.43 billion cubic metres) is mainly: (i) redelivery to users at network exit points (69.92 billion cubic metres; -5.2%); (ii) exports and transit (0.27 billion cubic metres); and (iii) consumption by the compression stations and gas emissions from the network and from Snam Rete Gas plants (0.23 billion cubic metres; +27.8%).

#### RECONCILIATION OF THE GAS WITHDRAWN FROM THE NETWORK AND ITALIAN DEMAND

(billions of m <sup>3</sup> )	2014	2015 (*)	2016	Change	% change (**)
<b>Quantities withdrawn</b>	<b>61.39</b>	<b>66.94</b>	<b>70.43</b>	<b>3.49</b>	<b>5.2</b>
Exports (-) (***)	(0.28)	(0.27)	(0.27)		
Gas injected into the regional networks of other operators	0.05	0.05	0.04	(0.01)	(20.0)
Other consumption (****)	0.75	0.80	0.68	(0.12)	(15.0)
<b>Total Italian demand</b>	<b>61.91</b>	<b>67.52</b>	<b>70.88</b>	<b>3.36</b>	<b>5.0</b>

(\*) The update of 2015 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

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

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

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

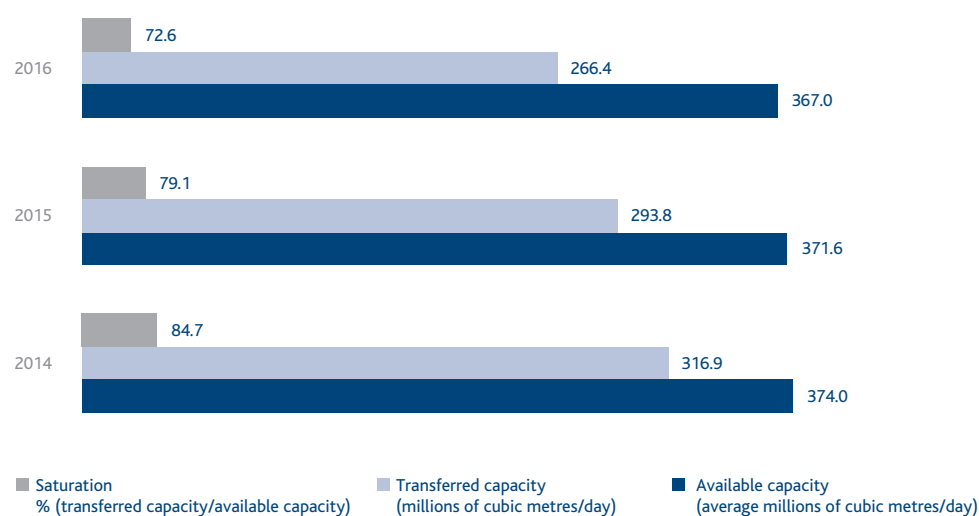
## TRANSPORTATION CAPACITY

(millions of m <sup>3</sup> average/day)	Calendar year 2014			Calendar year 2015			Calendar year 2016		
	Transportation capacity	Transferred capacity	Saturation (%)	Transportation capacity	Transferred capacity	Saturation (%)	Transportation capacity	Transferred capacity	Saturation (%)
Tarvisio	112.8	99.1	87.9	111.8	97.9	87.6	111.6	93.4	83.7
Mazara del Vallo (*)	102.5	86.6	84.5	101.1	85.9	85.0	91.5	84.9	92.8
Gries Pass	64.4	53.7	83.4	64.4	36.6	56.8	64.4	22.1	34.3
Gela (*)	35.1	30.9	88.0	35.3	29.3	83.0	30.8	26.0	84.4
Cavarzere (LNG)	26.4	24.4	92.4	26.4	24.4	92.4	26.4	24.4	92.4
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	15.0	15.0	100.0
Panigaglia (LNG)	13.0	7.1	54.6	13.0	4.6	35.4	13.0	0.6	4.6
Gorizia	4.8	0.1	2.1	4.6	0.1	2.2	4.6		
Competing capacity (*)							9.7		
	<b>374.0</b>	<b>316.9</b>	<b>84.7</b>	<b>371.6</b>	<b>293.8</b>	<b>79.1</b>	<b>367.0</b>	<b>266.4</b>	<b>72.6</b>

(\*) The capacities at the Mazara del Vallo and Gela entry points do not include competing capacity. This capacity, pursuant to Regulation (EU) No 984/2013 in force as of 1 November 2015, represents the transportation capacity available at one point, the allocation of which fully or partly reduces the capacity available for allocation at another point in the transportation system.

The transportation capacity of the network again covered all user demand in 2016. Average transportation capacity provided in 2016 was 367.0 million cubic metres on average per day, 9.7 of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities that concern the entry points interconnected with other countries and the LNG terminals, a transportation capacity totalling 27.7 million cubic metres/day is available at the domestic production entry points.

## TRANSPORTATION CAPACITY AND SATURATION



## Provision and development of transportation services (GRI: G4-8)

	2014	2015	2016
Active customers (shippers)	134	139	136
New connection agreements for delivery/redelivery points	45	65	45

Thanks to the development of services, in the last ten years the Italian gas market has seen a constant increase in transportation operators, from 30 in 2003 to nearly 200 (shippers and traders) today conducting numerous gas exchanges and capacity transactions. In 2016, 45 connection agreements were entered into for the creation of new delivery/redelivery points (of which 2 for injections of biomethane) or to upgrade existing points, and an average of over 370 million cubic metres of transportation capacity was made available daily at network entry points.

Access to the service was provided to all operators which so requested.

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

### The development of IT systems and web portals

Systems/Portals	Role	Main innovations during the year
<b>Logistics Gas Application</b>	Manages the commercial processes of daily scheduling, allocation and provisional and final financial statements.	<ul style="list-style-type: none"> <li>- The process of replacing the previous Caminus/AltraWEB application with the new Logistica Gas application has been completed, through successive releases.</li> <li>- The intra-day rescheduling process has been initiated, which will allow users to balance their balancing positions and to fully exploit the potential transfer of intra-day capacity.</li> <li>- New functions for the management of allocations, financial statements and the exchange of data with the Edigas protocol have been put into production.</li> </ul>
<b>ServiRe Portal</b>	Provides users with computerised management of the process of organising the alternative supply service during transportation service interruptions on the SRG gas pipeline network, as well as activities for the disconnection and opening of redelivery points on the transportation network and 24-hour management of the needs of transportation service users, distribution companies and owners of plants connected to the pipeline network.	<ul style="list-style-type: none"> <li>- Strengthened to allow for the use of a single, clear channel of communication and monitoring in real time of the progress of requests for clarification, guaranteeing users the simplification of correlated activities.</li> </ul>
<b>Myg@sview Portal</b>	The first version of a veritable dashboard that can be customised by users with a set of available functions has been released into production. This portal is expected to evolve gradually over time.	<ul style="list-style-type: none"> <li>- Users have been provided with customisable widgets and notifications to support the management of commercial activities. This first step is part of a progressive project to update the Business and Services Area.</li> </ul>

Commercial area processes were included within the analysis perimeter to obtain the ISO 9001 certification for Snam Rete Gas, which was received in 2016.

Network codes list a number of indicators for monitoring the quality of service offered by the companies. When compared against these indicators, the Snam companies maintained a high level of performance in 2016 as well. One part of these indicators, which refer to specific levels of commercial quality, gives rise to the automatic indemnification of customers in the event of failure to comply with the service quality standard.

	2014	2015	2016
Contracted transportation capacity/Available transportation capacity (foreign entry/interconnection points) (%)	85	86	72
Compliance with deadlines for issuing connection offers (%)	100	100	100
Compliance with deadlines for performing services subject to specific commercial quality standards (%)	100	100	100
Interruptions carried out with sufficient advance notice (%)	95	92	98



#### Organisational changes related to operational activities

During the course of 2016, the number of personnel in service fell by a total of 192, from 1,918 at 31 December 2015 to 1,726 at 31 December 2016.

In the first half of 2016, the operating mechanisms necessary for the optimisation of various processes in the area of Operations and Commercial Development were strengthened, particularly with reference to:

- the release of the new IT solution for managing the commercial processes of gas scheduling and balancing, in line with the new requirements imposed by the constant changes in the regulatory and business scenario;
- the continuation of SmartGas project activities.

Following the update of Snam's organisational structures in force since 1 November 2016, the Snam Rete Gas organisational structure was redefined accordingly, with the attribution of all gas transportation processes and certain staff and operational support services. Please note the following updates:

- transfer to Snam's new Asset Italia Business Unit of certain staff functions (planning and control, project control, human resources, HSEQ process coordination) and the technical/technological centre, in line with the need to strengthen Snam's role of guiding and coordinating its operating companies;
- reorganisation/combination of certain pre-existing units dedicated to operating activities (e.g. dispatching, metering, stations), with a view to maximising synergies among the various operating processes;
- transfer of commercial and transportation infrastructure scheduling activities to the new Snam Commercial, Regulation and Development Business Unit, which provides the service to Snam Rete Gas. In any event, Snam Rete Gas still has a unit responsible, in terms of corporate liability, for entering into transportation contracts and developing the Ten-Year Infrastructure Plan.

#### Accidents (GRI: G4-LA6)

In 2016, the number of accidents dropped significantly for both employees and contract workers.

## ACCIDENTS AT WORK (No.)

	2014	2015	2016
Total employee accidents	7	3	1
Total contract worker accidents	11	7	4

## ACCIDENT INDICES

	2014	2015	2016
<b>Employees</b>			
Frequency index (*)	2.23	0.97	0.32
Severity index (**)	0.17	0.05	0
<b>Contract workers</b>			
Frequency index (*)	1.84	1.13	0.65
Severity index (**)	0.08	0.05	0.05

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

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



### Energy consumption and emission (GRI: G4-EN3, EN15, EN21)

In order to limit natural gas emissions from the transportation network, measures continued to recover gas through on-line recompression interventions and in compression stations (4.5 million cubic metres of natural gas was recovered, equal to 77,780 tonnes of CO<sub>2eq</sub>, +25% compared with 3.3 million cubic metres in 2015).

In 2016, the installation of the new Poggio Renatico TC4 DLE unit was completed and the Messina TC3 unit was transformed from the traditional type to DLE.

In 2016, nitrous oxide emissions totalled 228 tonnes (+1.3% compared with 2015). The increase was due to the greater use of gas turbines, which entailed a significant increase in the use of fuel gas. The increasingly wide use of DLE turbines, which were employed for 94% of operating time, contributed to significantly limiting the increase in emissions.

	2014	2015	2016
Energy consumption (TJ)	4,153	4,278	5,824
CO <sub>2eq</sub> emissions - Scope 1 (tonnes) (*)	810,408	883,826	921,954
Emissions of natural gas (10 <sup>6</sup> m <sup>3</sup> )	37.2	37.0	34.6
Natural gas recovered (10 <sup>6</sup> m <sup>3</sup> )	3.0	3.6	4.5
NOx emissions (tonnes)	237	225	228

(\*) CO<sub>2eq</sub> emissions were calculated based on a methane Global Warming Potential (GWP) of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC".

	2014	2015	2016
Energy consumption/compressed energy (%)	0.23	0.23	<b>0.25</b>
CO <sub>2</sub> emissions/compressed gas (kg/106m <sup>3</sup> )	5,941	5,805	<b>6,023</b>
Natural gas emissions/km of network (m <sup>3</sup> /km)	1,151	1,138	<b>1,066</b>
NOx emissions/compressed gas (kg/106m <sup>3</sup> )	6.3	5.7	<b>4.4</b>



## Regulations concerning the business segment

### Relations with the regulatory authority (GRI: G4-26)

	2014	2015	2016
Responses to reference documents	5	7	<b>10</b>
Responses to consultations/observations through associations (*)	9	11	<b>14</b>
Tariff proposals	3	3	<b>5</b>
Data collections	100	87	<b>112</b>
Preliminary investigations (**)	5	3	<b>1</b>
Proposal to amend/update contractual documents and codes (***)	28	16	<b>12</b>
Proposal to amend/update contractual documents and codes (approved)	13	9	<b>12</b>

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

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

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

### Tariff regulations for 2016

By means of Resolution 587/2015/R/gas, published on 4 December 2015, the Authority approved the revenue recognised for the transportation, dispatching and metering service for 2016.

Revenue recognised for the natural gas transportation, dispatching and metering service for 2016 amounted to €1,850 million.

The RAB as at 31 December 2014 for transportation, dispatching and metering activities amounted to €15.0 billion.

### Tariff regulations for 2017

By means of Resolution 669/2016/R/gas, published on 17 November 2016, the Authority approved the revenue recognised for the natural gas transportation and dispatching service for 2017. Revenue recognised for the natural gas transportation, dispatching and metering service for 2017 amounted to €1,880 million. The RAB as at 31 December 2015 for transportation, dispatching and metering activities amounted to €15 billion. By means of the subsequent Resolution 776/2016/R/gas, published on 28 December 2016, the Authority definitively approved the transportation, dispatching and metering tariffs for 2017, as calculated based on the recognised revenue approved by Resolution 669/2016/R/gas.

## Other provisions

### **"Snam Rete Gas - Regulation criteria for natural gas transportation and dispatching tariffs for the 2014-2017 period"**

Under ruling no. 3735/2015 the State Council confirmed the provisions of the Regional Administrative Court of Milan, under ruling 329/2014 regarding the partial annulment of the resolutions of the AEEGSI [Italian Regulatory Authority for Electricity, Gas and Water] no. 514/2013/R/gas, and of the subsequent Resolutions 603/2013/R/gas and 641/2013/R/com, due to the lack of any provision in the relevant rules for a decreasing-scale mechanism for the benefit of end users with high levels of gas consumption.

By means of Resolution 429/2015/R/gas, the Authority launched a procedure, which should have been completed by 31 December 2015, to comply with the aforementioned ruling. This procedure is still pending, and thus the Group is still waiting for the final ruling. In the meantime, the original appellants submitted an application for compliance with the aforementioned ruling before the competent judicial authority. The appeal was discussed on 16 February 2017; therefore, we are currently waiting for the decision of the Milan Regional Administrative Court.

### **"Snam Rete Gas - Regulation criteria for natural gas transportation and dispatching tariffs for the 2010-2013 period"**

By means of Ruling 2888/2015, the CoS rejected the appeal filed by the Authority for review of the judgment of the Regional Administrative Court in Milan No 995/2013, which had annulled the provisions contained in Resolutions ARC/gas/184/09, 192/09, 198/09 and 218/10 regarding natural gas transportation and dispatching tariffs for the 2010-2013 period relating, specifically, to the commodity/capacity distribution, the reform of the entry/exit model and gas intended for consumption by central compressor stations (self-consumption).

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. At the same time, the Authority - as a result of the proceedings brought by Resolution 430/2015/R/gas - complied with the aforementioned rulings under Resolution 550/2016/R/gas, with which the Authority, having reformed the discipline of self-consumption, justifiably confirmed the pricing criteria for the rest, partly in light of the consultations carried out.

Given the confirmatory nature of the aforementioned resolution, the original applicant filed an appeal for compliance with the aforementioned rulings and the declaration of nullity of 550/2016/R/gas. By ruling of 1 March 2017, the Regional Administrative Court of Milan partially heard the appeal with specific reference to the issue of the commodity/capacity distribution, believing that with Resolution 550/2016/R/Gas, there has been an inaccurate and partial compliance with ruling 995/2013 and that, therefore, the Authority must carry out an additional assessment as to the effects of the decisions made.



## LIQUEFIED NATURAL GAS (LNG) REGASIFICATION

## KEY PERFORMANCE INDICATORS

€ million	2014	2015	2016	Change	% change
Total revenue (*)	28	25	19	(6)	(24.0)
Regulated revenue (*)	25	19	18	(1)	(5.3)
- of which revenue items offset in costs	6	1		(1)	(100.0)
Operating costs (*)	23	19	12	(7)	(36.8)
EBIT		1	(5)	(6)	
Net invested capital at 31 December	84	89	93	4	4.5
Technical investments (**)	7	7	7		
Volumes of LNG regasified (billions of cubic metres) (***)	0.01	0.03	0.21	0.18	
Tanker loads (number)	1	1	5	4	
Employees in service at 31 December (number)	77	73	71	(2)	(2.7)

(\*) Before consolidation adjustments.

(\*\*) Investments remunerated at the pre-tax real base WACC, amounting to 7.3% for 2014 and 2015 and 6.6% for 2016, in addition to the flat-rate increase of 1% to offset the regulatory lag.

(\*\*\*) For the year 2016, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 Kwh/SCM).

## Results

**Total revenue** amounted to €19 million, down by €6 million (24.0%) compared with 2015. Net of components offset in costs<sup>19</sup>, total revenue was down by €5 million, or 20.8%, due essentially to lower revenue from non-regulated activities deriving from the sale of gas on the balancing market.

**Regulated revenue**, amounting to €18 million (substantially unchanged with respect to 2015), refers to fees for the regasification service and relates almost entirely to the applicable portion of the guarantee factor for the year 2016, established in Article 18 of Annex A to Resolution 438/2013/R/gas.

The **EBIT** ended with an operating loss of €5 million, against EBIT of €1 million in 2015. The operating loss was connected with the impairment losses on property, plant and equipment not available for use (-€7 million), considering the uncertainty regarding the future usability of those elements of property, plant and equipment.



## Technical investments

Technical investments in 2016 totalled €7 million (the same as in 2015) and involved maintenance projects aimed at guaranteeing plant system safety.

These include: (i) activities concerning the pump pressure regulation system (€2 million); (ii) tank engineering activities (€2 million); and (iii) activities to adjust the safety levels of gas and oxygen analysers (€1 million).

<sup>19</sup> Revenues offset in costs refer to the costs that GNL charges back to its customers for use of the transportation service provided by Snam Rete Gas.

### Operating review

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 service.

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

### Provision and development of regasification service (GRI: G4-8)

	2014	2015	2016
Active customers (shippers)	3	3	4
Compliance with the maximum period of interruption/reduction in capacity at the terminal due to maintenance works (%)	100	100	100



### Organisational changes related to operational activities

At the end of 2016, the number of personnel in service totalled 71, a decrease of 2 compared with 31 December 2015 (73). The decline of 2 resources compared with December 2015 was due to the hiring of 1 person and 2 departures net of transfers among the subsidiaries, which explain the additional reduction of 1 resource.

### Accidents (GRI: G4-LA6)

#### ACCIDENTS AT WORK (No.)

	2014	2015	2016
Total employee accidents	0	0	1
Total contract worker accidents	1	0	0

#### ACCIDENT INDICES

	2014	2015	2016
<b>Employees</b>			
Frequency index (*)	0	0	8.65
Severity index (**)	0	0	0.66
<b>Contract workers</b>			
Frequency index (*)	32.72	0	0
Severity index (**)	0.43	0	0

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

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



## Energy consumption and emissions (GRI: G4-EN3,EN15,EN21)

	2014	2015	2016
Energy consumption (TJ)	31	52	127.8
CO <sub>2eq</sub> emissions - Scope 1 (tonnes) (*)	32,169	38,659	54,298
Emissions of natural gas (106 m <sup>3</sup> )	1.9	2	2.9
NO <sub>x</sub> emissions (tonnes)	0.3	1.1	5.5

(\*) Emissions of CO<sub>2eq</sub> were calculated with a methane GWP of 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".



## Regulations concerning the business segment

### Relations with the regulatory authority (GRI: G4-26)

	2014	2015	2016
Responses to reference documents	3	4	1
Responses to consultations/observations through associations (*)	3	6	1
Tariff proposals	2	2	1
Data collections	28	25	25
Proposals to amend/update contractual documents and codes (**)	1	3	3
<b>Proposal to amend/update contractual documents and codes (approved)</b>	1	2	0

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

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

### Tariff regulations for 2016

By mean of Resolution 625/2015/R/gas, published on 18 December 2015, the Authority approved tariffs for the LNG regasification service for 2016. The tariffs were set on the basis of the base revenue of €27.1 million. The actual revenue was calculated based on the capacities actually allocated. The net invested capital as at 31 December 2014 (RAB) was around €0.1 billion.

### Tariff regulations for 2017

By means of Resolution 392/2016/R/gas, published on 14 July 2016, the Authority approved tariffs for the LNG regasification service 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 recognised the amount of roughly €0.34 million to GNL Italia to cover the increase in the IMU tax rate for the years 2013-2014.

## Other provisions

### **Integrated storage and regasification service**

The Ministry of Economic Development Decree of 25 February 2016: "Determination and allocation of modulation storage capacity for the contractual period 2016-2017", published in Official Gazette No 76 of 1 April 2016, 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 Resolution 77/2016/R/gas, taking account of the value of the product and the trend of the market.

With regard to the contractual period from 1 April 2017 to 31 March 2018, the Ministry of Economic Development established, by the Decree of 7 December 2016 (Official Gazette, General Series, No 295 of 19 December 2016), that a storage space equal to 1.5 billion cubic metres should be set aside for an integrated regasification and storage service, in order to allow industrial companies to procure LNG directly from other countries. The service involves the injection of regasified gas into storage, less consumption and losses, by the end of the month subsequent to when the LNG is unloaded. The decree also establishes that the Authority will define the competitive auction procedure for the allocation of capacities relating to the integrated service, a reserve price that takes into account the product value as well as market developments and the criteria for splitting the proceeds between the regasification companies and Stogit.

### **Resolution 191/2016/R/gas - "Integration of procedures for the application of the factor for covering revenue for the LNG regasification service, following the introduction of the integrated regasification and storage service"**

By means of this resolution, published on 21 April 2016, the Authority introduced an amendment to the methods for applying the factor for covering revenue for the LNG regasification service, in order to incorporate the amendments introduced through Resolution 77/2016/R/gas with respect to the integrated supply of a regasification and storage service pursuant to Article 1 of the Ministry of Economic Development Decree of 25 February 2016 "Determination and allocation of modulation storage capacity for the contractual period 2016-2017". This amendment also included revenue arising from the provision of the integrated regasification and storage service in the formula of the factor for covering revenue.

### **Determination 13/2016 of 27 May 2016 - Infrastructure, Unbundling and Certification Department (IUCD) - "Authorisation of the provision of amounts due relating to the factor for covering revenue attributable to the company GNL Italia S.p.A. for the year 2015"**

By means of this determination, published on 30 May 2016, the Authority notified Cassa per i Servizi Energetici e Ambientali of its authorisation of the provision of amounts due relating to the factor for covering revenue for the company GNL Italia S.p.A. for the year 2015, as a result of the verification of compliance of calculation methods consistent with the criteria of Resolution 438/2013/R/gas "Regulation of tariffs for the liquefied natural gas regasification service for the regulatory period 2014-2017 (RTGR)".

## NATURAL GAS STORAGE

### KEY PERFORMANCE INDICATORS

(€ million)	2014	2015	2016	Change	Var.%
Total revenue (a)	541	535	<b>584</b>	49	9.2
Regulated revenue (a)	526	534	<b>583</b>	49	9.2
- of which revenue items offset in costs	68	80	<b>81</b>	1	1.3
Operating costs (a)	163	145	<b>151</b>	6	4.1
EBIT	318	319	<b>346</b>	27	8.5
Technical investments (b)	240	170	<b>117</b>	(53)	(31.2)
Net invested capital at 31 December	3,286	3,365	<b>3,421</b>	56	1.7
Concessions (number)	10	10	<b>10</b>		
- of which operational (c)	8	9	<b>9</b>		
Natural gas moved through the storage system (billions of cubic metres) (d)	15.70	19.58	<b>20.00</b>	0.42	2.1
- of which injected	8.13	9.84	<b>9.96</b>	0.12	1.2
- of which withdrawn	7.57	9.74	<b>10.04</b>	0.30	3.1
Total storage capacity (billions of cubic metres)	15.9	16.0	<b>16.5</b>	0.5	3.1
- of which available (e)	11.4	11.5	<b>12.0</b>	0.5	4.3
- of which strategic	4.5	4.5	<b>4.5</b>		
Employees in service at 31 December (number)	291	299	<b>301</b>	2	0.7

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.7% for 2014, 6.0% for 2015 and 6.5% for 2016.

(c) Working gas capacity for modulation services.

(d) For the year 2016, 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/SCM).

(e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full for the 2016-2017 thermal year.

### Results

**Total revenue** amounted to €584 million, an increase of €49 million, or 9.2%, compared with 2015. Total revenue net of items offset in costs<sup>20</sup> was €503 million, representing an increase of €48 million or 10.5% compared with 2015.

**Regulated revenue** (€583 million) comprised fees for the natural gas storage service (€512 million) and the fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€71 million). Storage revenue net of items offset in costs was €502 million, representing an increase of €48 million or 9.6% compared with 2015. The increase was due to tariff updating mechanisms and, in particular, the updating of the rate of return on net invested capital, which rose from 6% in 2015 to 6.5% in 2016 (+€20 million), as well as the effects of the entry into operation in late 2015 of the first facilities at the Bordolano site (+€21 million). The rate of return was updated mainly due to the adoption of the reference parameters to determine the WACC for

<sup>20</sup> 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 is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.

2016, calculated in accordance with the criteria established by the Authority by means of Resolution 583/2015/R/com, which were better than the parameters applied for the WACC in 2015, the first year of the fourth regulatory period for the storage service.

**EBIT** for 2016 amounted to €346 million, an increase of €27 million, or 8.5%, compared with 2015. 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.



### Technical investments

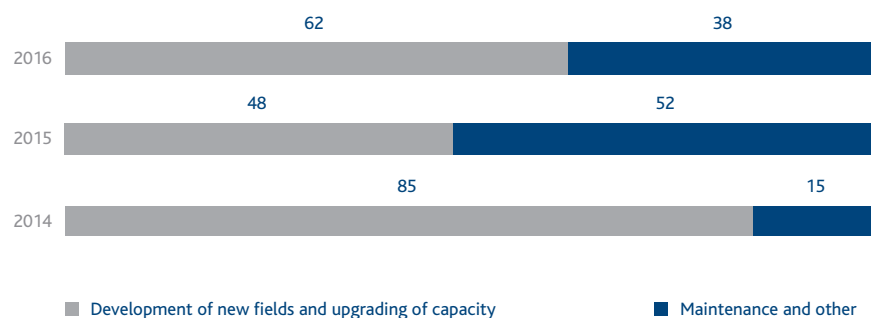
**Technical investments** in 2016 totalled €117 million, a decrease of €53 million (-31.2%) compared with the previous year (€170 million), and refer to the **development of new fields and upgrading of capacity** (€73 million) and **maintenance and other investments** (€44 million).

The main investments in the **development of new fields and upgrading of capacity** (€73 million) primarily concerned activities carried out in the fields of:

- Bordolano: the execution phase of the project was completed, and the second part of the plant subsequently became operational;
- Minerbio: acquisition of materials, preparatory activities for the installation of the TC7 unit, various station upgrades;
- Sabbioncello: start of construction of the connection to well 51.

**Maintenance and other investments** (€44 million) relate primarily to the acquisition of phonometric devices at the Stogit plants, ICT activities, the supply of materials and the continuation of Cortemaggiore plant streamlining activities and activities carried out in the Fiume Treste fields.

### INVESTMENT PROPORTIONS BY TYPE (% OF TOTAL INVESTMENTS)



Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity. Total storage capacity as at 31 December 2016, including strategic storage, was 16.5 billion cubic metres (+0.5 billion cubic metres compared with 2015, made available by the new Bordolano deposit), of which 12.0 billion cubic metres related to available capacity fully allocated for the thermal year 2016-2017 (11.5 billion cubic metres in thermal year 2015-2016) 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 by means of the notice dated 21 January 2016).

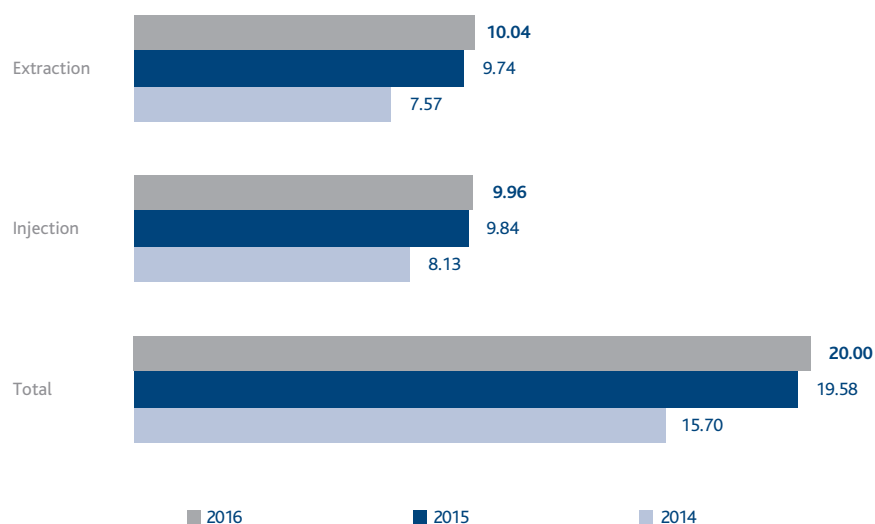
## Operating review

### Gas moved through the storage system

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%).

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

#### PROVISION AND DEVELOPMENT OF STORAGE SERVICES



### Provision and development of storage services (GRI: G4-8)

	2014	2015	2016
Active customers (shippers)	107	118	91

In the 2016-2017 thermal year, the total space allocated was the same as that offered. Although allocation auctions were scheduled for the April-September period, all capacity offered had already been allocated at the auctions in May. Following the progressive entry into operation of the Bordolano deposit, two auctions were carried out, one in June with effect from July and the other in July with effect from August, during which 200 million standard cubic metres of capacity in addition to that offered at the start of the thermal year were offered and allocated.

Network codes list a number of indicators for monitoring the quality of service offered by the companies. Snam companies continued to maintain excellent performance with respect to these indicators in 2016. One part of these indicators, which refer to specific levels of commercial quality, gives rise to the automatic indemnification of customers in the event of failure to comply with the service quality standard.

	2014	2015	2016
Contractual storage capacity/Available storage capacity (%)	100	100	100
Compliance with deadlines for performing services subject to specific commercial quality standards (%)	100	100	100
Connection flow lines subject to supervision (%)	76	76	100
Total capacity not made available following interruptions/reductions to the service (%)	0	0	0

The new balancing regime in implementation of Regulation (EU) No 312/2014, in force as of 1 October 2016, establishes the obligation of continuous activity for a 24-hour period only for the transporter. Considering that in Italy storage is the main tool enabling flexibility, Stogit immediately expressed its willingness to allow its customers continuous renomination cycles over a 24-hour period. The Authority placed importance on the role of storage in the 24-hour renomination cycles and also defined a system of daily "day-ahead" auctions for the marketing of storage capacities by Stogit and users (Resolution 193/2016/R/gas).

The Company therefore adjusted its information systems, which are still in the evolution phase to incorporate the latest regulatory instructions, and structured a commercial dispatching service over a 24-hour shift in order to guarantee operations and give users the required support.

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

#### Development of IT systems and web portals

Systems/Portals	Role	Main innovations during the year
<b>Capacity Portal</b>	Manages the storage capacity contracting process.	<ul style="list-style-type: none"> <li>- Further refined with regard to auction allocation processes for Peak and Uniform Modulation Storage services.</li> <li>- Provides the results of the individual allocation processes (such as auctions) online in .pdf format, which is valid as a contract addendum.</li> <li>- Processes concerning the assignment of capacity, contracts, and billing previously implemented were established, optimised and consolidated.</li> </ul> Adjusted to conduct monthly, daily and day-ahead auctions.
<b>Sampei Portal</b>	Manages storage agreements in terms of inventory management and gas movements.	<ul style="list-style-type: none"> <li>- Functionalities for the management of several daily renomination cycles were developed, in compliance with the provisions of Regulation (EU) No 312/2014.</li> </ul> Due to the obligations laid out by Regulation (EU) No 1227/2011 (REMIT), Stogit users are required to send the European Agency for the Cooperation of Energy Regulators (ACER) their updated inventory every day. To better serve its users, the Sampei portal was modified so these data could be sent to ACER on behalf of each individual user. <ul style="list-style-type: none"> <li>- Adjusted and in the phase of further evolutions for the management of processes inherent in the new balancing regime and the management of day-ahead auctions.</li> </ul>





## Organisational changes related to operational activities

During 2016, the number of personnel in service rose by 2, from 299 at 31 December 2015 to 301 at 31 December 2016.

In the Operations area, in the first half of 2016 the first phase of the SmartGas project was completed, an initiative aimed at revising maintenance standards and regulations, in order to ensure the necessary evolution of professional roles operating at the hubs and the development and implementation of more highly developed IT solutions to manage operating processes. Phase two of the project started in June.

With regard to sales, the launch of the new balancing system on 1 October 2016 entailed certain adjustments in the organisational structure (shift) responsible for the management of activities.

## Accidents (GRI: G4-LA6)

The number of accidents increased in 2016 for employees, whereas they remained unchanged for contract workers.

### ACCIDENTS AT WORK (No.)

	2014	2015	2016
Total employee accidents	1	0	1
Total contract worker accidents	2	1	1

### ACCIDENT INDICES

	2014	2015	2016
<b>Employees</b>			
Frequency index (*)	2.02	0	2.00
Severity index (**)	0.01	0	0.11
<b>Contract workers</b>			
Frequency index (*)	1.98	0.89	1.27
Severity index (**)	0.17	0.18	0.07

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

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



## Energy consumption and emissions (GRI: G4-EN3,EN15,EN21)

Activities aimed at reducing energy consumption and controlling atmospheric emissions continued.

In 2016, nitrous oxide emissions totalled 201 tonnes (+14.8% compared with 2015). The increase was due to the greater use of gas turbines, which entailed an increase in the use of fuel gas (+5.1%). The increasingly wide use of DLE turbines, which were employed for 88% of operating time, contributed to significantly limiting the increase in emissions..

	2014	2015	2016
Energy consumption (TJ)	4,117	4,740	<b>4,985</b>
CO <sub>2eq</sub> emissions - Scope 1 (tonnes) (*)	410,728	450,162	<b>461,976</b>
Emissions of natural gas (106 m <sup>3</sup> )	11.7	10.7	<b>10.7</b>
NO <sub>x</sub> emissions (tonnes)	227	175	<b>201</b>

(\*) Emissions of CO<sub>2eq</sub> were calculated with a methane GWP of 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

	2014	2015	2016
Emissions of natural gas for storage/gas stored (%)	0.067	0.051	<b>0.047</b>
NO <sub>x</sub> emissions/stored gas (kg/106m <sup>3</sup> )	28.0	17.8	<b>20.1</b>
Average emissions of NO <sub>x</sub> per turbine/installed capacity ([mg/Nm <sup>3</sup> ]/MW)	6.2	5.6	<b>5.4</b>



## Regulations concerning the business segment

### Relations with the regulatory authority (GRI: G4-26)

	2014	2015	2016
Responses to reference documents	9	4	<b>2</b>
Responses to consultations/observations through associations (*)	8	6	<b>4</b>
Tariff proposals	1	6	<b>3</b>
Data collections	81	75	<b>89</b>
Investigations			<b>1</b>
Proposals to amend/update contractual documents and codes (**)	1	4	<b>4</b>
Proposal to amend/update contractual documents and codes (approved)	4	2	<b>1</b>

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

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

### Tariff regulations for 2016

By means of Resolution 46/2016/R/gas, published on 12 February 2016, the Authority provisionally approved the corporate base revenue for the storage service for 2016, as per the tariff proposal presented by Stogit on 22 January 2016. The provisionally approved revenue is aimed at providing a base figure for calculating the fees for the allocation of storage capacity. Subsequently, by means of Resolution 418/2016/R/gas, published on 22 July 2016, the Authority approved the definitive base revenue for the storage service for 2016 for the company Stogit. Revenue recognised for the natural gas storage service for 2016 amounted to €503.5 million. The RAB for storage activities was €4.0 billion.

## Tariff regulations for 2017

By means of Resolution 441/2016/R/gas, published on 28 July 2016, the Authority determined the provisional base revenue for the storage service relating to 2017 for Stogit. The provisionally approved revenue is aimed at providing a base figure for calculating the fees for the allocation of storage capacity. By 31 May 2017, storage companies will submit their final base revenue proposals to the Authority, calculated using the total annual increases in assets relating to 2016. These proposals will be approved by the Authority within 60 days.

## Other provisions

### **Ministerial Decree of 25 February 2016 (Official Gazette No 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 the 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 the uniform storage of annual and multi-year durations, 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 the trend of the market.

### **Resolution 323/2016/R/gas - "Provisions on settlement relating to storage services for the 2016-2017 thermal year"**

For the 2016-2017 thermal year, this resolution, published by the Authority on 17 June 2016, governs the way in which any differences are eliminated between the revenue recognised to storage companies on the basis of regulated tariffs and the revenue received following auctions for the allocation of capacity.

With reference to the  $\gamma$  parameter pursuant to Article 11 of Annex A to Resolution 531/2014/R/gas "Regulation criteria for natural gas storage service tariffs for the 2015-2018 period" - (RGST), relating to the coverage level of the portion of revenue relating to the additional return on net invested capital for the investments with incentive that entered into operation in the previous regulatory periods, an investigation was launched to define criteria for establishing its value for the coming years, with the goal of encouraging storage companies to pursue more efficient conduct in the management of allocation procedures as well as in the methods for providing the storage service.

Pending the outcome of the investigation, which will be completed in due time for the approval of corporate revenue for the year 2017, a  $\gamma$  parameter of 1 was confirmed for the year 2016.





# Financial review and other information

## INTRODUCTION

On November 7, 2016 the industrial and corporate reorganization operation began, with the goal of separating the natural gas distribution business in Italy from Snam. The operation, divided into several steps both unitary and contextual among them led to the transfer of the entire share base of Snam S.p.A., equal to 100% of the share capital, in Italgas Reti S.p.A. (previously Italgas S.p.A.) to Italgas S.p.A. (previously ITG Holding S.p.A.) and the relative deconsolidation of Italgas Reti S.p.A.

In accordance with the terms of IFRS 5 accounting principle "Non-current assets held for the sales and discontinued financial operations", the economic results in the natural gas distribution sector referring to the period January 1 – November 6, 2016<sup>21</sup> have been represented as "Discontinued Operations"<sup>22</sup> and, for this reason, expressed separately in a single line on the financial statement. The fiscal years of comparison were then reclassified. As a result, the present Report primarily illustrates the results of the continuing operations (transport and dispatch, re-gasification and storage, in addition to Corporate assets).

In this regard, however, it should be considered that the separate recording of the discontinued operations according to the criteria of IFRS 5 refers only to the relations with third parties leaving the elision of the infra-group relations. In this way, this causes a distortion in the separation of the values between continuing and discontinued operations which, at the economic level, causes a penalty to one or the other which becomes more significant as the infra-group economic relations of the discontinued sectors increase.

In particular, in reference to the Snam Group, the separate recording of the results in the natural gas distribution sector according to the criteria discussed in IFRS 5 penalizes the continuing operations as a result of the elision of the revenue and financial yield, recorded respectively in light of the re-charge of the costs deriving from the provision of services and the loans issued at the concentrated level of Snam S.p.A. to Italgas Reti S.p.A., with the costs generated by the aforementioned re-charges remaining part of continuing operations.

In order to remove these distortions, we have prepared alternative performance measures not established by the IFRS (Non- GAAP measures) which reset the results of the continuing operations, at the level of the individual entry on the financial statement, the intercompany transactions towards discontinued operations, in order to obtain a representation of the results of the continuing operations as if the discontinued operations had been deconsolidated.

In addition, the Non-GAAP measures, including the net adjusted profit of the Group, exclude several profit components classified in special items in order to provide a better analysis of the performances and to ensure greater comparability of the results.

As a result, the operating profits and the net profits of the Group have been reported in the reported

21 These results include the contribution to the financial statement of Italgas S.p.A. because the company controlled by Snam up to the effective date of the operation was constituted on June 1, 2016 exclusively in the realm of the operation in question as a beneficiary holding of the transfer of the entire share of Snam S.p.A. in Italgas Reti S.p.A.

22 In accordance with IFRS 5 accounting principle, section 32 "A discontinued operating asset is a component of an entity that was discontinued or classified as held for sale and: (a) represents a significant autonomous branch of an asset or a geographic asset area; (b) is part of a single co-ordinated plan to write-off of a separate autonomous branch of an asset or a geographic asset area; or (c) is a controlled sum acquired exclusively according to a resale." In reference to discontinued operations, subsequent section 33 requires the indication, among other aspects, of a single sum, to be expressed in the complex financial statement prospectus represented by the total of the profits or losses from discontinued assets net financial effects.

and adjusted configurations for the fiscal year 2016 and for the periods of comparison.

(millions of €)	2014	2015	2016	Change	% change
EBIT	1,454	1,427	<b>1,293</b>	(134)	(9.4)
Adjusted EBIT	1,496	1,481	<b>1,336</b>	(145)	(9.8)
Net profit (*)	1,198	1,238	<b>861</b>	(377)	(30.5)
Adjusted net profit (*)	1,078	1,209	<b>1,016</b>	(193)	(16.0)

(\*) Belonging fully to Snam shareholders

For additional information in regards to the determination of the adjusted results, see the section below "Recalculation of the Operating Profit and the Reported Net Profit to Adjusted Profit."

## FINANCIAL REVIEW

### ADJUSTED FINANCIAL STATEMENT

The following table includes the adjustments made at the level of the individual entries of the financial statement introduced for the purpose of obtaining synthetic measures of the results (Adjusted Operating Profit and Net Adjusted Profit) which allow a better evaluation of the performance of the continuing operations and a greater comparability of the data.

(millions of €)	2014	2015	2016	Change	% change
Regulated revenue	2,480	2,502	<b>2,444</b>	(58)	(2.3)
Non-regulated revenue (a)	98	125	<b>116</b>	(9)	(7.2)
<b>Total revenue</b>	<b>2,578</b>	<b>2,627</b>	<b>2,560</b>	<b>(67)</b>	<b>(2.6)</b>
Operating costs (a)	(524)	(570)	<b>(573)</b>	(3)	0.5
<b>Adjusted EBITDA</b>	<b>2,054</b>	<b>2,057</b>	<b>1,987</b>	<b>(70)</b>	<b>(3.4)</b>
Amortisation, depreciation and impairment	(558)	(576)	<b>(651)</b>	(75)	13.0
<b>Adjusted EBIT</b>	<b>1,496</b>	<b>1,481</b>	<b>1,336</b>	(145)	(9.8)
Net financial expenses (a) (b)	(343)	(332)	<b>(263)</b>	69	(20.8)
Net income from equity investments	33	106	<b>116</b>	10	9.4
<b>Pre-tax profit</b>	<b>1,186</b>	<b>1,255</b>	<b>1,189</b>	<b>(66)</b>	<b>(5.3)</b>
Income taxes (b)	(463)	(392)	<b>(363)</b>	29	(7.4)
<b>Adjusted Net Profit - continuing operations (a) (b) (c)</b>	<b>723</b>	<b>863</b>	<b>826</b>	(37)	(4.3)
<b>Adjusted Net Profit - discontinued operations (a) (b) (c)</b>	<b>355</b>	<b>346</b>	<b>190</b>	(156)	(45.1)
<b>Adjusted net profit (b) (c)</b>	<b>1,078</b>	<b>1,209</b>	<b>1,016</b>	<b>(193)</b>	<b>(16.0)</b>

(a) These include the resetting of the elisions originating from intercompany transactions towards discontinued operations.

(b) Net special items

(c) Entirely held by 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 profit components of the continuing operations for the fiscal year 2016, classified as special items<sup>23</sup> involved: (i) the finance charges deriving from the reacquisition of bonds on the market made in the realm of liability management operations (329 million euro; 233 million euro net the relative tax effect) put into effect by Snam in the month of October 2016. The total dimension of the operation of the reacquisition of the bonds for a par value equal in total to 2.75 billion euro was also defined in consideration of the cash coming from the separation of Italgas (approximately 3.2 billion euro, net approximately 0.4 billion euro from BEI loans relating to Italgas projects which were the object of recalculation); (ii) the financial revenue relating to the credits in existence towards the Italgas Group (119 million euro; 78 million euro net the relative tax effect), the object of reimbursement to Snam as a result of the separation operation.

In addition, as already illustrated in the introduction, the measures of the adjusted result, in addition to excluding the aforementioned special items, also move the elisions originating from transactions from continuing operations towards discontinued operations.

23 In reference to the discontinued operations there were no income statement components in the fiscal year 2016 classified in special items.



The following table represents the operating profit and the net adjusted profit and the reconciliation with the respective results reported

(millions of €)	2014	2015	2016	Change	% change
<b>Reported operating profit (*)</b>	<b>1,454</b>	<b>1,427</b>	<b>1,293</b>	<b>(134)</b>	<b>(9.4)</b>
<i>Movement of the elisions originating from intercompany transactions to discontinued operations</i>	42	54	<b>43</b>	(11)	(20.4)
<b>Adjusted operating profit (Adjusted EBIT)</b>	<b>1,496</b>	<b>1,481</b>	<b>1,336</b>	<b>(145)</b>	<b>(9.8)</b>
Net financial expenses (*)	(401)	(380)	<b>(510)</b>	(130)	34.2
of which:					
- costs incurred for intercompany transactions towards discontinued operations:	58	48	<b>37</b>	(11)	(22.9)
- special item			<b>(210)</b>	(210)	
Net revenue from equity investments (*)	131	135	<b>116</b>	(19)	(14.1)
Income taxes (*)	(394)	(357)	<b>(308)</b>	49	(13.7)
- of which special items	69	35	<b>55</b>	20	57.1
<b>Net reported profit - continuing operations (*) (**) (A)</b>	<b>692</b>	<b>796</b>	<b>591</b>	<b>(205)</b>	<b>(25.8)</b>
<i>Movement of the elisions originating from intercompany transactions towards discontinued operation</i>	100	102	<b>80</b>	(22)	(21.6)
<i>Exclusion of special items net the relative tax effect</i>					
- Liability management finance charges			<b>233</b>	233	
- Financial revenue from market value adjustment of financial credits of the Italgas Group			<b>(78)</b>	(78)	
- Adjustment of deferred taxes (2016 Stability Law)		(35)		35	(100.0)
- Adjustment to deferred taxes (Robin Hood Tax)	(69)				
	<b>(69)</b>	<b>(35)</b>	<b>155</b>	190	
<b>Net adjusted profit - continuing operations (**) (C)</b>	<b>723</b>	<b>863</b>	<b>826</b>	<b>(37)</b>	<b>(4.3)</b>
<b>Net reported profit - discontinued operations (*) (**) (B)</b>	<b>506</b>	<b>442</b>	<b>270</b>	<b>(172)</b>	<b>(38.9)</b>
<i>Movement of the elisions originating from intercompany transactions towards discontinued operations:</i>					
	(100)	(102)	<b>(80)</b>	22	(21.6)
<i>Exclusion of special items net the relative tax effect</i>					
- Fees for the closing of the Gas Fund net the tax effect		28		(28)	(100.0)
- Adjustment of deferred taxes (2016 Stability Law)		(22)		22	(100.0)
- Adjustment to deferred taxes (Robin Hood Tax)	(51)				
	<b>(51)</b>	<b>6</b>		<b>(6)</b>	<b>(100.0)</b>
<b>Net adjusted profit - discontinued operations (**) (D)</b>	<b>355</b>	<b>346</b>	<b>190</b>	<b>(156)</b>	<b>(45.1)</b>
<b>Net reported profit (*) (**) (A+B)</b>	<b>1,198</b>	<b>1,238</b>	<b>861</b>	<b>(377)</b>	<b>(30.5)</b>
<b>Net Adjusted Profit (**) (C+D)</b>	<b>1,078</b>	<b>1,209</b>	<b>1,016</b>	<b>(193)</b>	<b>(16.0)</b>

(\*) The Legal table of the Financial Statement. See the section "Financial Statement Tables" of the Notes to the Consolidated Financial Statement

(\*\*) Entirely held by Snam shareholders

The Net Adjusted Profit from Continuing Operations totals 826 million euro, a 37 million euro reduction (-4.3%) in respect to the fiscal year 2015. The reduction is due to the lower adjusted operating profit (-145 million euro, equal to 9.8%), which the lower revenues have cut into (94 million euro, net the components that have a counterpart in costs) which are greatly affected in the WACC review for the fiscal year 2016, and the higher depreciation and devaluation (-75 million euro; equal to 13.0%). These effects were absorbed in part by lower net finance charges (+69 million euro; equal to 20.8%), thanks to the reduction of the average cost of the debt, as well as the reduction of income taxes (+ 29 million euro; equal to 7.4%) due to lower profits before taxes.

The **pro-forma adjusted net income of the continuing operations**, obtained by applying Snam's share, amounting to 13.5%, to the estimated net income of Italgas Group for the whole of 2016, adjusted by excluding the effects resulting from the adjustment to market value of the existing financial debts towards Snam Group and eliminating the effects of non-recurring items from the valuation of foreign subsidiaries, amounts to €845 million.

The **net adjusted profit** of the Group totals 1,016 million euro, a 193 million euro reduction, equal to 16.0% in respect to the fiscal year 2015. The reduction may be attributed to continuing operations (-37 million euro; -4.3%) as a result of the phenomena analysed in the previous section, and discontinued operations (-156 million euro; -45.1%). In reference to discontinued operations, the net adjusted profit (190 million euro, in reference to the period from January 1, 2016 to November 6, 2016; 346 million euro in the fiscal year 2015), in addition to a different incidence of the profit components, which feels the influence of the lesser revenue regulated, essentially due to the mechanisms of tariff updates and, in particular, to the revision of the remuneration rate of the capital invested, which moves from 6.9% in 2015 to 6.1% in 2016 for distribution and from 7.2% in 2015 to 6.6% in 2016 for measurement.

#### Analysis of the entries on the adjusted financial statement

#### TOTAL REVENUE

(millions of €)	2014	2015	2016	Change	% change
<b>Business segments</b>					
Transportation	2,087	2,145	<b>2,035</b>	(110)	(5.1)
Regasification	28	25	<b>19</b>	(6)	(24.0)
Storage	541	535	<b>584</b>	49	9.2
Corporate and other activities	202	209	<b>226</b>	17	8.1
<i>Elisions from consolidation (*)</i>	(280)	(287)	<b>(304)</b>	(17)	5.9
	<b>2,578</b>	<b>2,627</b>	<b>2,560</b>	<b>(67)</b>	<b>(2.6)</b>

(\*) Include the movement of elisions originating from intercompany transaction to discontinued operations.

## Regulated and non-regulated revenue

(millions of €)	2014	2015	2016	Change	% change
<b>Regulated revenue</b>	<b>2,480</b>	<b>2,502</b>	<b>2,444</b>	<b>(58)</b>	<b>(2.3)</b>
<b>Business segments</b>					
Transportation	1,956	1,977	<b>1,855</b>	(122)	(6.2)
Regasification	19	18	<b>18</b>		
Storage	397	389	<b>426</b>	37	9.5
Revenue items offset in costs (*)	108	118	<b>145</b>	27	22.9
<b>Non-regulated revenue (**)</b>	<b>98</b>	<b>125</b>	<b>116</b>	<b>(9)</b>	<b>(7.2)</b>
	<b>2,578</b>	<b>2,627</b>	<b>2,560</b>	<b>(67)</b>	<b>(2.6)</b>

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

(\*\*) Include the movement of elisions originating from intercompany transaction to discontinued operations.

**Regulated Revenue** (2,444 million euro) declined by 58 million euro in respect to the fiscal year 2015 (-2.3%). The regulated revenue, net the components that have a counterpart in costs, total 2,299 million euro, a decrease of 85 million euro, equal to 3.6%, and relate to transport (1,855 million euro), storage (426 million euro) and re-gasification (18 million euro). The reduction essentially reflects the revision of the WACC<sup>24</sup>, for the year 2016, in the transport sector (-134 million euro), whose remuneration rate moves from 6.3% in 2015 to 5.4% in 2016. This effect was in part absorbed by the higher regulated revenue recorded in the storage sector (+48 million euro), which benefits from an improvement in the WACC for 2016, in respect to the figure established for 2015 (+20 million euro), the first year of the fourth regulation period, in addition to the effective entry, at the end of 2015, of the first facilities of the Bordolano site<sup>25</sup>.

**Non-regulated revenue** (116 million euro, net elisions from consolidation) decreased by 9 million euro in respect to the fiscal year 2015, equal to 7.2%, principally as a result of fewer transfers of natural gas which are no longer functional to operating activities (-24 million euro), compensated in part by greater re-charges of the services provided by Snam S.p.A. to the companies in the Italgas Group over the course of 2016 (+8 million euro, in reference to the period 1 January - 31 December 2016) and to foreign affiliates (+6 million euro).

## OPERATING COSTS

### Operating Costs by Sector of Activity

(millions of €)	2014	2015	2016	Change	% change
<b>Business segments</b>					
Transportation	402	485	<b>469</b>	(16)	(3.3)
Regasification	23	19	<b>12</b>	(7)	(36.8)
Storage	163	145	<b>151</b>	6	4.1
Corporate and other activities	216	208	<b>245</b>	37	17.8
<i>Consolidation eliminations (*)</i>	<i>(280)</i>	<i>(287)</i>	<i>(304)</i>	<i>(17)</i>	<i>5.9</i>
	<b>524</b>	<b>570</b>	<b>573</b>	<b>3</b>	<b>0.5</b>

(\*) These include the restoration of eliminations originating from inter-company transactions to discontinued operations.

24 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) fixed the rate of return on net invested capital (WACC) for 2016 - 2021 and fixed the rate of return for 2016. The resolution also provided an update mechanism of the rate at mid-term in the light of economic.

25 Excluding the effect of the revision of the WACC for 2016, the regulated revenues, net of the items offset in the costs, amount to €2,413 million, up 1.2% from 2015.

## Operating costs - Regulated and non-regulated activities

(millions of €)	2014	2015	2016	Change	% change
<b>Operating Costs for Regulated Activities</b>	<b>440</b>	<b>463</b>	<b>456</b>	<b>(7)</b>	<b>(1.5)</b>
Controllable fixed costs	281	268	<b>271</b>	3	1.1
Variable costs	1	13	<b>9</b>	(4)	(30.8)
Other costs	50	64	<b>31</b>	(33)	(51.6)
Cost items offset in revenue (*)	108	118	<b>145</b>	27	22.9
<b>Operating Costs for Non-Regulated Activities (**)</b>	<b>84</b>	<b>107</b>	<b>117</b>	<b>10</b>	<b>9.3</b>
<b>Total operating costs</b>	<b>524</b>	<b>570</b>	<b>573</b>	<b>3</b>	<b>0,5</b>

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

(\*\*) These include the restoration of eliminations originating from inter-company transactions to discontinued operations.

### Operating costs of regulated activities

The operating costs for regulated activities total 456 million euro, a 7 million euro reduction, equal to 1.5% in respect to 2015.

The fixed controllable costs (271 million euro) represented by the total of the cost of personnel and external costs of a recurrent nature, record a slight increase of 3 million euro, equal to 1.1% in respect to the fiscal year 2015 (268 million euro).

The variable costs (9 million euro), a 4 million euro reduction in respect to 2015, principally refer to removals from the warehouse for gas transfers made in the realm of the balancing service.

The other costs (31 million euro) essentially concern capital losses from the radiation of assets, principally relating to the natural gas transport sector (20 million euro), and costs for incentives given to employees<sup>26</sup> (6 million euro). The 33 million euro reduction was essentially due to lower outlays to the credit devaluation fund as a result of devaluations made in 2015 (32 million euro), on credits in the natural gas transport sector for partial recognition on the part of the Authorities, for credits not cashed in deriving from balancing activities relating to the period from 1 December 2011 - 23 October, 2012<sup>27</sup>.

The operating costs for regulated activities, net components that have a counterpart in revenue, total 311 million euro, a 34 million euro decrease, equal to 9.9% in respect to the fiscal year 2015.

### Operating costs of non-regulated activities

The operating costs for non-regulated activities total 117 million euro, a 10 million euro increase, equal to 9.3%, in respect to the fiscal year 2015, principally as a result of: (i) the higher costs incurred for re-charging the services provided by Snam S.p.A. - to the companies in the Italgas Group over the course of 2016 (+6 million euro, in reference to the period 1 January – 31 December 2016, and to foreign affiliates (+6 million euro); (ii) the charges directly attributable to Snam's separation operations of the distribution business, among which consulting costs, review costs, legal costs, rating agency costs (+13 million euro; 7 million euro net the share recharged to Italgas). These effects were compensated in part by the lower removals of natural gas which are no longer functional to the operating activities (-23 million euro).

26 These refer to estimates of fees deriving from early exit in respect to maximum pension requirements, by law, for no 74 resources established in the two-year span 2017-2018.

27 For additional information, see Note 23 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system" in the Notes to consolidated financial statements.

## SERVICE PERSONNEL – CONTINUING OPERATIONS

The number of employees at 31 December 2016 (2,883 people) is broken down below by professional status:

(No.)	2014	2015 (*)	2016	Change	% change
<b>Professional status</b>					
Executives	99	99	87	(12)	(12.1)
Managers	447	449	421	(28)	(6.2)
Office workers	1,689	1,736	1,651	(85)	(4.9)
Manual workers	713	721	724	3	0.4
	<b>2,948</b>	<b>3,005</b>	<b>2,883</b>	<b>(122)</b>	<b>(4.1)</b>

(\*) The figure for 2015 includes staff transferred in 2016 to Italgas Group (207 people) following the separation transaction.

## AMORTISATION, DEPRECIATION AND IMPAIRMENT

(millions of €)	2014	2015	2016	Change	% change
<b>Total amortisation and depreciation</b>	552	573	616	43	7.5
<b>Business segments</b>					
Transportation	483	492	517	25	5.1
Regasification	5	5	5		
Storage	60	71	87	16	22.5
Corporate and other activities	4	5	7	2	40.0
<b>Impairment losses</b>	6	3	35	32	
	<b>558</b>	<b>576</b>	<b>651</b>	<b>75</b>	<b>13.0</b>

**Depreciation and Devaluation** (651 million euro) increased by 75 million euro, equal to 13.0%, in respect to the fiscal year 2015. The increase was principally due to higher depreciation (+43 million euro; +7.5%) recorded in all sectors of activities, essentially as a result of the effective date of new infrastructure and higher devaluation (32 million euro) relating to the transport and re-gasification sectors.

## ADJUSTED EBIT

Below is a breakdown of adjusted EBIT by business segment:

(millions of €)	2014	2015	2016	Change	% change
<b>Business segments</b>					
Transportation	1,196	1,165	1,021	(144)	(12.4)
Regasification		1	(5)	(6)	
Storage	318	319	346	27	8.5
Corporate and other activities	(18)	(4)	(26)	(22)	
	<b>1,496</b>	<b>1,481</b>	<b>1,336</b>	<b>(145)</b>	<b>(9.8)</b>

The adjusted operating profit<sup>28</sup> totals 1336 million euro, a 145 million euro reduction, equal to 9.8% in respect to the fiscal year 2015. The reduction is principally attributable to the transport sector (-144 million euro; -12.4%) with the effect of the WACC reduction, which moves from 6.3% of 2015 to 5.4% in 2016 (-134 million euro). This effect was compensated in part by the positive performance recorded by the storage sector (+127 million euro; +8.5%) which benefits from an improvement of the WACC for 2016 in respect to the one established for 2015, the first year of the fourth regulation period and the effective date, at the end of 2015, of the first facility of the Bordolano site (+41 million euro in total). There was also an effect on the reduction of the adjusted operating profit from higher depreciation and devaluation (-75 million euro; equal to 13.0%) principally referring to the transport sector (-50 million euro) and the storage sector (-16 million euro).

## NET FINANCIAL EXPENSES

(millions of €)	2014	2015	2016	Change	% change
<b>Financial expense (income) related to net financial debt</b>	<b>377</b>	<b>344</b>	<b>281</b>	<b>(63)</b>	<b>(18.3)</b>
- Interest and other expense on short- and long-term financial debt (*) (**)	377	347	281	(66)	(19.0)
- Interest on financial receivables not held for operating activities		(3)		3	(100.0)
<b>Other net adjusted finance charges</b>	<b>2</b>	<b>17</b>	<b>4</b>	<b>(13)</b>	<b>(76.5)</b>
- Accretion discount	14	12	10	(2)	(16.7)
- Other net financial expense (income) (**)	(12)	5	(6)	(11)	
<b>Losses (Gains) on hedging derivatives – ineffective portion</b>			<b>1</b>	<b>1</b>	
<b>Financial expense capitalised</b>	<b>(36)</b>	<b>(29)</b>	<b>(23)</b>	<b>6</b>	<b>(20.7)</b>
	<b>343</b>	<b>332</b>	<b>263</b>	<b>(69)</b>	<b>(20.8)</b>

(\*) Include the movement of elisions originating from intercompany transaction to discontinued operations.

(\*\*) Net special items

**Net Finance Charges** (263 million euro) record a 69 million euro reduction, equal to 20.8%, in respect to the fiscal year 2015. The reduction is due to lower finance charges correlated to the net financial debt (-63 million euro; -18.3%) principally connected to the lower average cost of the debt, also thanks to optimization interventions in the group's financial structure put into effect by Snam.

The finance charges capitalized in the fiscal year 2016 total 23 million euro, a 6 million euro reduction in respect to the fiscal year 2015.

## NET INCOME FROM EQUITY INVESTMENTS

(millions of €)	2014	2015	2016	Change	% change
Equity method valuation effect	33	106	116	10	9.4
	<b>33</b>	<b>106</b>	<b>116</b>	<b>10</b>	<b>9.4</b>

28 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 principally related to interconnection and transfers of natural gas made for the purpose of the rebalancing of the gas system.

The **net revenue on shares** (116 million euro) concern the shares in the net results for the period of companies evaluated with the net worth method, in particular the companies Trans Austria Gasleitung FmbH – RAG (+90 million euro; + 17 million euro in respect to 2015), TIGF Holding S.A.S. (+50 million euro; +27 million euro in respect to 2015) as well as the share in the negative results for the period of Gasbridge 1 B.V. and Gasbridge 2 B.V. (-10 million euro in total; -20 million euro in respect in 2015). In reference to the shares in Gasbridge 1 B.V. and Gasbridge 2 B.V., the evaluation fees with the net worth method include the effects of the devaluation of shares in interconnector (UK) Ltd held by the latter (21 million euro).

## INCOME TAX

(millions of €)	2014	2015	2016	Change	% change
Current taxes (*)	517	426	403	(23)	(5.4)
(Deferred) prepaid taxes (*)					
Deferred taxes	(27)	(17)	(22)	(5)	29.4
Prepaid taxes	(27)	(17)	(18)	(1)	5.9
	(54)	(34)	(40)	(6)	17.6
	463	392	363	(29)	(7.4)

(\*) Al netto degli special item.

The income taxes total 363 million euro, a 29 million euro reduction, equal to 7.4%, in respect to the fiscal year 2015. The reduction is mainly due to: (i) to lower profits before taxes; (ii) to the increase in EGA benefits – Economic Growth Assistance arranged for companies that strengthen their own net worth structure – introduced by Decree Law no. 201 of December 6, 2011, converted by Law no. 214 of December 22, 2014 and subsequent inclusions and modifications.

### Reclassified statement of financial position

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

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

## RECLASSIFIED STATEMENT OF FINANCIAL POSITION (\*)

(millions of €)	31.12.2015	31.12.2016	Change
<b>Fixed capital</b>	<b>22,121</b>	<b>18,080</b>	<b>(4,041)</b>
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 operating activities	78	213	135
Net payables for investments	(445)	(368)	77
<b>Net working capital</b>	<b>(607)</b>	<b>(483)</b>	<b>124</b>
<b>Provisions for employee benefits</b>	<b>(166)</b>	<b>(44)</b>	<b>122</b>
<b>Assets held for sale and directly related liabilities</b>	<b>17</b>		<b>(17)</b>
<b>NET INVESTED CAPITAL</b>	<b>21,365</b>	<b>17,553</b>	<b>(3,812)</b>
<b>Shareholders' equity including minority interests</b>			
- attributable to Snam's shareholders	7,585	6,497	(1,088)
- attributable to minority interests	1		(1)
	7,586	6,497	(1,089)
<b>Net financial debt</b>	<b>13,779</b>	<b>11,056</b>	<b>(2,723)</b>
<b>COVERAGE</b>	<b>21,365</b>	<b>17,553</b>	<b>(3,812)</b>

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

The Fixed Capital (18,080 million euro) decreased by 4,041 million euro in respect to 31 December, 2015 essentially as a result of the reduction of immaterial assets (-4,665 million euro) deriving from the deconsolidation of the Italgas Group (-4,487 million euro), whose effects were compensated in part by the higher financial credits instrumental to operating activities (+135 million euro) and the increase of shares (+127 million euro).

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
<b>Balance at 31 December 2015</b>	<b>15,478</b>	<b>5,275</b>	<b>20,753</b>
Technical investments	863	336	1,199
- of which discontinued operations (*)	9	284	293
Depreciation and devaluation - continuing operations	(605)	(46)	(651)
Depreciation and devaluation - discontinued operations (*)	(15)	(228)	(243)
Divestments	(22)	(16)	(38)
- of which discontinued operations (*)		(16)	(16)
Other changes	89	(24)	65
- of which discontinued operations (*)	1	(25)	(24)
Change in scope of consolidation	(225)	(4,487)	(4,712)
<b>Balance at 31 December 2016</b>	<b>15,563</b>	<b>810</b>	<b>16,373</b>

(\*) The values refer to the period January 1 – November 6, 2016



Other changes (+€66 million) relate essentially to: (i) the effects of adjusting the present value of disbursements for the dismantling and restoration of sites (+€116 million), mainly due to a reduction in the expected discounting rates<sup>29</sup>; (ii) grants for the period (-€41 million); and (iii) the change in inventories of pipes and related accessory materials used to construct the plants (-€12 million). The variation in the area of consolidation (+4,712 million euro) refers to the exit of Italgas Reti S.p.A. (previously Italgas S.p.A.) and the companies controlled by this company, beginning on November 7, 2016 as a result of the operation involving separation from Snam of the natural gas distribution business

## TECHNICAL INVESTMENTS

(millions of €)	2015	2016
<b>Technical investments</b>	<b>1,272</b>	<b>1,199</b>
- continuing operations	879	906
- discontinued operations (*)	393	293
<b>Technical Investments - continuing operations by sector of activity</b>		
Transportation	693	776
Regasification	7	7
Storage	170	117
Corporate and other activities	9	6
<b>Technical investments</b>	<b>879</b>	<b>906</b>

(\*) The values refer to the period January 1 – November 6, 2016

The technical investments of 2016 of the continuing operations total 906 million euro<sup>30</sup> (879 million euro in 2015) and principally refer to the sectors of transport (776 million euro) and storage (117 million euro).

### Compulsory inventories

The fixed warehouse stock – Mandatory Discards – equal to 363 million euro (equal to 31 December 2015), are composed to a minimum degree of natural gas that the storage company are required to withhold in accordance with D.P.R. no. 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<sup>31</sup>.

### Equity investments

The equity investments item (€1,499 million) includes mainly 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 euro), Trans Adriatic Pipeline AG – TAP (161 million euro), AS Gasinfrastruktur Beteiligung GmbH (135 million euro) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (87 million euro in total).

29 Further information is provided in Note 18 "Provision for risks and charges" of the Notes to the consolidated financial statements.

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

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

### Financial receivables held for operating activities

The financial credits instrumental to operating activities (213 million euro), an increase of 135 million euro in respect to 31 December 2015, refer to the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP)<sup>32</sup>.

### NET WORKING CAPITAL

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

The Net Capital for the Fiscal Year (-483 million euro) increased by 124 million euro in respect to 31 December 2015. In addition to the effects deriving from the deconsolidation of Italgas (+56 million euro in total, an expression of the relations of the Italgas group with third parties as of December 2015), the increase is particularly due: (i) to the reduction of business debts (+146 million euro) attributable to the transport sector (+163 million euro) essentially for the effective entry, beginning on 1 October 2016, of the new measures for rebalancing that modified, in particular, the financial regulatory dynamics of the sale of gas through the platform made available by EMO; (ii) the increase of business credits of Snam S.p.A. (+35 million euro) deriving from the provision of services to the companies of the Italgas Group (+30 million euro) with the objective of ensure the continuity of activities previously guaranteed by Snam.

These factors were partially compensated by higher funds for risks and expenses (-123 million euro) which can be traced principally to the dismantling and reset fund for the transport and storage sector (-115 million euro in total) as a result of the reduction of the implementation rates expected.

<sup>32</sup> Based on the agreements entered into, the shareholders are obliged to finance the project pro rata to their respective shareholding, until the pipeline becomes operational. The potential expansion of the pipeline capacity is subject to an assessment on economic viability and, thus, on TAP's economic interest, also in accordance with the exemption decision of the Regulatory Authorities.

## STATEMENT OF COMPREHENSIVE INCOME

(millions of €)	2015	2016
<b>Net profit</b>	1,238	861
<b>Other components of comprehensive income</b>		
<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 gains (losses) on remeasurement of defined-benefit plans for employees	6	(7)
Share of the "other components of the total profit" of the shares evaluated according to the net worth method of the remeasurements of benefit plans defined for employees		1
Tax effect	(2)	2
	4	(4)
<b>Total other components of comprehensive income, net of tax effect</b>	15	(18)
<b>Total comprehensive income</b>	1,253	843
<b>Attributable to Snam</b>		
- continuing operations	809	577
- discontinued operations	444	266
<b>Third parties' share</b>		
- continuing operations		
- discontinued operations		
	1,253	843

(\*) Includes the effects of the conversion of the net worth of the share in Interconnector UK held by the companies under joint control Gasbridge 1 B.V. and Gasbridge 2 B.V. at the spot exchange Euro/Sterling as at 31 December 2016.

## SHAREHOLDERS' EQUITY

(millions of €)	
<b>Shareholders' equity including minority interests at 31 December 2015</b>	<b>7,586</b>
<i>Increases owing to:</i>	
- Comprehensive income for 2016	843
- Other changes (*)	29
	<b>872</b>
<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)
Acquisition of treasury shares	(103)
	<b>(1,961)</b>
<b>Shareholders' equity including minority interests at 31 December 2016</b>	<b>6,497</b>
attributable to:	
- Snam shareholders	<b>6,497</b>
- Minority interests	
	<b>6,497</b>

(\*) The other variations (+29 million euro) essentially refer to the adjustment of prices in favour of Eni, recorded in 2010 as part of contractual agreements with the same Eni during the acquisition of shares in Stogit (+ 21 million euro). The adjustment was a follow-up to the definitive approval, through decision 27/2016/R/gas, on the part of the Authority for Electric Energy, Gas, and the Water System (AEEGWS) on storage rates for the year 2015, the rate year of reference for purposes of the adjustment of the contractual price.

(\*\*) The variation excludes 1 million euro of third party interest.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2015 is provided in Note 22 "Shareholders' equity" in the Notes to the consolidated financial statements.

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

(millions of €)	Net income		Shareholders' equity	
	2015	2016	31.12.2015	31.12.2016
<b>Financial statements of Snam S.p.A.</b>	<b>825</b>	<b>761</b>	<b>6,835</b>	<b>5,394</b>
Net income of companies included in the scope of consolidation	1,171	<b>823</b>		
Difference between the book value of equity investments in consolidated companies and the shareholders' equity in the financial statements, including the net result for the period			739	<b>1,188</b>
<b>Consolidation adjustments for:</b>				
- Dividends	(751)	<b>(733)</b>		
Income from valuation of equity investments using the equity method	(7)	<b>10</b>	20	<b>(85)</b>
other income from equity investments			(9)	
- Other consolidation adjustments, net of tax effect	<b>(758)</b>	<b>(723)</b>	<b>11</b>	<b>(85)</b>
<b>Minority interests</b>			1	
<b>Consolidated Financial Statements</b>	<b>1,238</b>	<b>861</b>	<b>7,586</b>	<b>6,497</b>

## NET FINANCIAL DEBT

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

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

On 31 December 2016 the net financial debt totalled 11,056 million euro, a 2,723 million euro reduction (13,779 million euro as at 31 December 2015).

The net cash flow from operating activities (1,627 million euro), together with the cash flow from disinvestments (1,506 million euro), essentially attributable to the sums received for the transfer of 38.87% of the shares in Italgas Reti S.p.A. (1,502 million euro, net the available liquidity transferred), allowed the company to fully finance the needs connected to technical investments, in shares and financial assets not instrumental to operating activities (1,426 million euro in total) and to generate a Free Cash Flow of 1,707 million euro. Thanks to the effects on the financial position deriving from financial credits towards the Italgas Group, which led to a reduction of the debt in the amount of 2,009 million euro, the net financial debt, after the payment to shareholders of the 2015 dividend (875 million euro) and the payments connected to the purchase of self-owned shares (103 million euro), this figure is reduced to 2,723 million euro, found to be 11,056 million euro.

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

(millions of €)	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)
	<b>13,796</b>	<b>11,090</b>	<b>(2,706)</b>

Financial and bond debts are denominated in euros<sup>33</sup> 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).

The financial debts and bonds decreased by 2,706 million euro in respect to 31 December 2015. The reduction is principally due: (i) to lower bond services (-2,201 million euro) as a result of the repayment of three bonds, which arrived at their natural expiration dates respectively in the months of January, July and October 2016, with a par value of a total of 1,150 million euro and the reacquisition of bonds

<sup>33</sup> Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

conducted in the realm of the Liability Management transaction concluded in the month of October 2016 for a par value, net new issues, of 1.0 billion euro<sup>34</sup>; (ii) to the reduction of the bank loans (-502 million euro) mainly attributable to the entry of Italgas through acceptance, with effective date of 7 November 2016, into two loans previously issued by BEI to Snam S.p.A. (-424 million euro of par value), as well as repayments of Team Loan bank loans (-200 million euro of par value).

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

The available liquidity and equivalents (34 million euro) principally refer to the available liquidity at the company Gasrule Insurance DAC for the exercise of insurance activity of the group (21 million euro) and the liquidity at Snam S.p.A. (12 million euro).

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

Information on financial covenants can be found in Note 15 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the consolidated financial statements.

34 For more information please see the section "Snam in 2016 – Main events".

## Reclassified statement of cash flows

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 (\*)

(millions of €)	2014	2015	2016
Net Profit - continuing operations	692	796	591
Net Profit - discontinued operations	506	442	270
<b>Net profit</b>	<b>1,198</b>	<b>1,238</b>	<b>861</b>
<i>Adjusted for:</i>			
amortisation, depreciation and other non-monetary components	670	744	757
- Net capital losses (capital gains) on asset sales and eliminations	20	32	36
- Interest and income taxes	840	804	884
Change in working capital due to operating activities	(88)	40	(176)
Dividends, interest and income taxes collected (paid)	(1,111)	(804)	(735)
<b>Net cash flow from operating activities</b>	<b>1,529</b>	<b>2,054</b>	<b>1,627</b>
Technical investments	(1,283)	(1,186)	(1,145)
Technical disinvestments	3	6	2
Companies (entering) leaving the area of consolidation (a)	(10)	(46)	1,502
Equity investments	2	3	(168)
Change in financial credits instrumental to operating activities		(78)	(133)
Other changes relating to investment activities	56	18	22
<b>Free cash flow</b>	<b>297</b>	<b>771</b>	<b>1,707</b>
Change in financial receivables not held for operating activities	(216)	216	
Financial credits for companies leaving the area of consolidation (b)			1,585
Change in short- and long-term financial debt	490	(169)	(2,297)
Equity cash flow	(505)	(875)	(978)
Effect of the change in scope of consolidation	6		
<b>Net cash flow for the period</b>	<b>72</b>	<b>(57)</b>	<b>17</b>

## CHANGE IN NET FINANCIAL DEBT

(€ million)	2014	2015	2016
<b>Free cash flow</b>	297	771	1,707
Financial Debts and Credits from companies entering the area of consolidation	(112)		
Financial credits for companies leaving the area of consolidation (b)			2,009
Cash flow from self-owned capital (c)	(505)	(875)	(978)
Other changes (d)	(6)	(23)	(15)
<b>Change in net financial debt</b>	<b>(326)</b>	<b>(127)</b>	<b>2,723</b>

- (\*) 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.
- (a) The amount for 2016 refers to the receipt of the sum deriving from the transfer of 38.87% of the Snam S.p.A. share in Italgas Reti S.p.A. (1,502 million euro, net available liquidity transferred).
- (b) The total refers to the receipt of intercompany financial credits towards the Italgas Group net the financial debts towards BEI (424 million euro) issued by the same BEI to Snam for financing of Italgas S.p.A. projects, the object of subsequent movement of the Italgas Group. The reduction of the net financial debt thus totals 2,009 million euro.
- (c) The dividend paid in 2014 refers to the balance of the 2013 dividend (€507 million). Snam did not pay out any interim dividends in 2015 or 2016.
- (d) Includes the effects of the fair value adjustment and exchange rate of financial debts at the end of the year.





RECONCILIATION OF THE RECLASSIFIED FINANCIAL STATEMENT WITH THE COMPULSORY FORMATS  
RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(millions of €)

Reclassified balance sheet items	31.12.2015		31.12.2016		
	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
<b>Fixed capital</b>					
Property, plant and equipment			15,478		15,563
Compulsory inventories			363		363
Intangible assets			5,275		810
Investments valued using the equity method			1,372		1,499
Financial receivables held for operating activities	(note 8)		78		213
<i>Net payables for investments, consisting of:</i>			(445)		(368)
Payables for investment activities	(note 16)	(468)		(384)	
- Receivables from investment/divestment activities	(note 8)	23		16	
<b>Total fixed capital</b>			22,121		18,080
<b>Net working capital</b>					
Trade receivables	(note 8)		1,677		1,271
Inventories			152		118
<i>Tax receivables, consisting of:</i>			96		42
- Current income tax assets and other current tax assets		62		32	
IRES receivables for the national tax consolidation scheme	(note 8)	34		10	
Trade payables	(note 16)		(694)		(433)
<i>Tax liabilities, consisting of:</i>			(51)		(12)
- Current income tax liabilities and other current tax liabilities		(51)		(10)	
IRES payables for the national tax consolidation scheme	(note 16)			(2)	
Deferred tax liabilities			(388)		(187)
Provisions for risks and charges			(776)		(707)
Derivatives	(note 11 e 17)		7		24
<i>Other assets, consisting of:</i>			167		70
- Other receivables	(note 8)	90		10	
- Other current and non-current assets	(note 11)	77		60	
<i>Assets and liabilities from regulated activities, consisting of:</i>			(56)		(73)
- Regulated assets	(note 11)	150		106	
- Regulated liabilities	(note 17)	(206)		(179)	
<i>Other liabilities, consisting of:</i>			(741)		(596)
- Other payables	(note 16)	(584)		(445)	
- Other current and non-current liabilities	(note 17)	(157)		(151)	

(millions of €)

Reclassified balance sheet items	31.12.2015			31.12.2016	
	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
(Where not expressly stated, the component is taken directly from the legally required format)					
<b>Total net working capital</b>			(607)		(483)
Provisions for employee benefits			(166)		(44)
<b>Assets held for sale and directly related liabilities, consisting of:</b>			17		
- Assets held for sale		23			
- Liabilities directly associated with assets held for sale		(6)			
<b>NET INVESTED CAPITAL</b>			21,365		17,553
Shareholders' equity including minority interests			7,586		6,497
<b>Net financial debt</b>					
<i>Financial liabilities, consisting of:</i>			13,796		11,090
- Long-term financial liabilities		11,067		8,737	
- Short-term portion of long-term financial liabilities		1,378		856	
- Short-term financial liabilities		1,351		1,497	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			(17)		(34)
- Cash and cash equivalents	(note 7)	(17)		(34)	
<b>Total net financial debt</b>			13,779		11,056
<b>COVERAGE</b>			21,365		17,553

## RECLASSIFIED STATEMENT OF CASH FLOWS

(millions of €)	2015		2016	
	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Items from the reclassified statement of cash flows and reconciliation with the legally required format				
Net Profit - continuing operations	796		591	
Net Profit - discontinued operations	442		270	
<b>Net profit</b>		<b>1,238</b>		<b>861</b>
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		744		757
- Amortisation and depreciation	846		859	
- Impairment losses	3		35	
- Equity method valuation effect	(126)		(133)	
- Change in provisions for employee benefits	30		(4)	
- Other changes	(9)			
Net capital losses (capital gains) on asset sales and eliminations		32		36
Interest, income taxes and other changes:		804		884
- Interest income	(8)		(126)	
- Interest expense	345		615	
- Income taxes	467		395	
Change in working capital due to operating activities:		40		(176)
- Inventories	55		15	
- Trade receivables	(9)		34	
- Trade payables	(128)		(148)	
- Change in provisions for risks and charges	(14)		24	
- Other assets and liabilities	136		(101)	
Dividends, interest and income taxes collected (paid):		(804)		(735)
- Dividends collected	141		148	
- Interest collected	5		122	
- Interest paid	(345)		(615)	
- Income taxes (paid) received	(605)		(390)	
<b>Net cash flow from operating activities</b>		<b>2,054</b>		<b>1,627</b>
Technical investments:		(1,186)		(1,145)
Property, plant and equipment	(793)		(832)	
- Intangible assets	(393)		(313)	
Technical disinvestments:		6		2
Property, plant and equipment	6		2	
Companies (entering) leaving the area of consolidation		(46)		1,502
- Companies included in the scope of consolidation	(46)			
- Companies leaving the scope of consolidation			1,502	
Equity investments		3		(168)
- Investments in shares	(144)		(170)	
- Disinvestments in shares	147		2	
Financial receivables held for operating activities		(78)		(133)

(millions of €)	2015		2016	
	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
- Accesses of financial credits instrumental to operating activities	(78)		(133)	
Other changes relating to investment activities:		18		22
Change in net payables relating to investment activities	18		22	
<b>Free cash flow</b>		771		1,707
Change in financial receivables not held for operating activities		216		
Financial credits in companies leaving the area of consolidation				1,585
Change in financial payables:		(169)		(2,297)
- Taking on long-term financial debt	1,167		2,039	
- Repaying long-term financial debt	(1,620)		(4,479)	
- Increase (decrease) in short-term financial debt	284		143	
Equity cash flow		(875)		(978)
- Dividends paid	(875)		(875)	
- Acquisition of self-owned shares			(103)	
<b>Net cash flow for the period</b>		(57)		17

## SNAM S.P.A. FINANCIAL REVIEW

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

The 7<sup>th</sup> of November 2016 was the effective date of the operation involving the separation from Snam of the natural gas distribution business in Italy, divided into several steps both united and contextual among them, which led to the transfer of the entire share packet of Snam S.p.A. to Italgas Reti S.p.A. (previously Italgas S.p.A.) in favour of Italgas S.p.A. (previously ITG Holding S.p.A.). To complete the operation, Snam S.p.A. holds a linked share in Italgas S.p.A., with a 13.5% holding in the share capital of the company<sup>35</sup>.

The operation is configured as a system between entities "under common control" and, as such, it is excluded from the area of application of the IFRS 3 international accounting principles "Company Aggregations" and IFRIC 17 "Distribution to shareholders of assets not represented by available liquidity." In particular, it has been shown that the companies participating in the transaction are controlled, in accordance with IFRS 10 international accounting principle "Consolidated Financial Statement", for the same subject, that is, CDP, both before and after the realization of the aggregation itself and that this control is not of a temporary nature. It follows then that, for the purpose of the financial statement of Snam S.p.A., the transaction in its complexity, has been structured by applying the principle of continuity of values.

For the purpose of the present financial statement for the fiscal year, given the nature of Holding shares in Snam S.p.A., there is the circumstance that the asset which is the object of the separation transaction, represented by the share of Snam S.p.A. in Italgas Reti S.p.A., does not constitute "a discontinued operating asset" in accordance with section 32 of the IFRS 5 international accounting principle "Non-current assets held for sale and discontinued operating assets"<sup>36</sup>. For this reason, the economic results and the cash flow found on the financial statement for the fiscal year of Snam S.p.A. relating to the period January 1 – November 6, 2016 essentially constituted by the dividends distributed by Italgas Reti S.p.A. to Snam S.p.A. are not represented separately according to the measures of IFRS 5.

<sup>35</sup> The operation is illustrated in detail in Note no. 21 "Discontinued Operation" of the Notes to the Consolidated Financial Statement.

<sup>36</sup> According to this principle, a discontinued operating activity is "a component of an entity that was discontinued or classified as held for sale and (a) represents a significant autonomous branch of an activity or geographical area of activity, (b) the part of a single program coordinated for the discontinuation of a significant branch of an activity or geographical area of activity; (c) is a subsidiary acquired exclusively as part of a resale.

### Company information

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. The company is placed at the top of the Snam Group and holds 100% of the share capital of the operating companies Snam Rete Gas S.p.A., Gnl Italia S.p.A., Stogit S.p.A., in addition to Gasrule Insurance D.A.C., which it heads, respectively, in the management and development of activities involving transport, re-gasification, storage of natural gas and shares with the most important players in the sector. Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of companies. Snam S.p.A. is also responsible for the strategic planning, management, coordination and control of its subsidiaries.

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

As at 31 December 2016 CDP S.p.A. holds 28.98% and 1.12% respectively of the share capital of Snam S.p.A. through CDP Reti S.p.A.<sup>37</sup> and CDP GAS S.r.l.<sup>38</sup>



<sup>37</sup> CDP S.p.A. holds 59.10%.

<sup>38</sup> Company wholly owned by CDP S.p.A.

## RECLASSIFIED INCOME STATEMENT

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

## RECLASSIFIED INCOME STATEMENT

(millions of €)	2014	2015	2016	Change	% change
<b>Financial income and expense</b>					
Net income from equity investments	536	875	<b>806</b>	(69)	(7.9)
Interest income and other financial income	385	355	<b>642</b>	287	80.8
Interest expense and other financial expense	(435)	(395)	<b>(647)</b>	(252)	63.8
Losses from derivative contracts			<b>(1)</b>	(1)	
<b>Total financial income and expense</b>	<b>486</b>	<b>835</b>	<b>800</b>	<b>(35)</b>	<b>(4.2)</b>
Income from services rendered	185	186	<b>203</b>	17	9.1
Other income	12	12	<b>12</b>		
<b>Other operating income</b>	<b>197</b>	<b>198</b>	<b>215</b>	<b>17</b>	<b>8.6</b>
For personnel	(68)	(68)	<b>(79)</b>	(11)	16.2
For non-financial services and other costs	(147)	(134)	<b>(162)</b>	(28)	20.9
<b>Other operating expenses</b>	<b>(215)</b>	<b>(202)</b>	<b>(241)</b>	<b>(39)</b>	<b>19.3</b>
<b>Pre-tax profit</b>	<b>468</b>	<b>831</b>	<b>774</b>	<b>(57)</b>	<b>(6.9)</b>
Income tax paid	2	(6)	<b>(13)</b>	(7)	
<b>Net profit</b>	<b>470</b>	<b>825</b>	<b>761</b>	<b>(64)</b>	<b>(7.8)</b>

The **Net Profit** for 2016 totals 761 million euro, a 64 million euro reduction, equal to 7.8%, in respect to the fiscal year 2015. The reduction is principally due to lower net revenue from shares (-69 million euro) principally deriving from the dividends distributed by subsidiaries (-44 million euro) and the devaluation of the share in Gasbridge 1 B.V. and Gasbridge 2 B.V. (-25 million euro in total). The financial operations were substantially in line with the previous fiscal year. The revenue deriving from the adjustment to market value of the financial credits in existence towards the Italgas Group (119 million euro) were compensated in part by the expenses, net recharges to the subsidiary, connected to the bond buyback operation (88 million euro, net recharges to the subsidiary).

## Analysis of income statement items

### FINANCIAL INCOME AND EXPENSE

(millions of €)	2014	2015	2016	Change	% change
Income from equity investments	536	875	<b>831</b>	(44)	(5.0)
Expenses from shares			<b>(25)</b>	(25)	
Interest income and other financial income	385	355	<b>642</b>	287	80.8
Interest expense and other financial expense	(435)	(395)	<b>(647)</b>	(252)	63.8
Losses from derivative contracts			<b>(1)</b>	(1)	
	<b>486</b>	<b>835</b>	<b>800</b>	<b>(35)</b>	<b>(4.2)</b>

Income from equity investments (€831 million) consist of: the dividends (809 million euro) distributed by the subsidiaries Snam Rete S.p.A. (329 million euro), Italgas Reti S.p.A. (275 million euro), and Stogit S.p.A. (92 million euro) as well as companies under joint control Trans Austria Gasleitung GmbH (75 million euro), TIGF Holding S.A.S. (€21 million), Gasbridge 1 B.V. and Gasbridge 2 B.V. (17 million euro)<sup>39</sup>, (ii) by revenue deriving from the underwriting of a bond loan convertible in shares issued by TIGF Holding (22 million euro).

The reduction of the entry in question may be principally traced to lower dividends distributed by Snam Rete Gas S.p.A. (-96 million euro)

The expenses from shares refer to the devaluation of shares in GasBridge 1 B.V. and GasBridge 2 B.V. (25 million euro in total)<sup>40</sup>.

The asset interest and other financial revenue (642 million euro) essentially concern: (i) the asset interest deriving from infra-group loans issued by Snam to Snam Rete Gas S.p.A., (187 million euro), to Stogit S.p.A. (53 million euro) and to the Italgas Group (40 million euro); (ii) the financial revenue deriving from the recharge to the companies Snam Rete Gas S.p.A. and Stogit S.p.A. of the charges connected to the buyback operation put into effect by Snam in the month of October 2016 (241 million euro in total); (iii) the net financial revenue from the adjustment to the fair market value of the financial credits in existence towards the Italgas Group (119 million euro).

The Liability Interest and other financial expenses (647 million euro) principally refer: (i) to the expenses connected to the bond buyback operation (329 million euro), equal to the difference between the reacquisition price for the bonds on the market and the relative value to the depreciated cost; (ii) to expenses on short – long term financial debts and concern expenses on bond loans<sup>41</sup> (293 million euro) and on loans issued by Banks and other Financial Institutions (24 million euro).

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

40 The devaluation refers to the share held by Gasbridge 1 B.V. and GasBridge 2 B.V. in Interconnector UK, whose recuperable value, determined for the purpose of the consolidated financial statement of Snam S.p.A. For further information, see Note no. 14 "Shares evaluated with the net worth method" of the Notes to the consolidated Financial Statement.

41 Details of the bond issues that took place during the year and their conditions are provided in Note 15, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.



## OTHER OPERATING INCOME

(millions of €)	2014	2015	2016	Change	% change
Income from services rendered	185	186	203	17	9.1
Other income	12	12	12		
<b>Total other operating income</b>	<b>197</b>	<b>198</b>	<b>215</b>	<b>17</b>	<b>8.6</b>

The revenue from the provision of services (203 million euro) concern the recharge to subsidiaries of the costs incurred for the provision of services managed at the central level by Snam and the charge of the costs to Italgas deriving from the operation involving the separation of the distribution business from Snam. The services are regulated through contracts stipulated between the Parent Company and its subsidiaries and concern the following areas: ICT, personnel and organisation, planning, administration, finance and control, general services, property and security services, legal and corporate affairs and compliance, health, safety and environment, regulation, external relations and communication, internal audit and Enterprise Risk Management (ERM). The pricing model for service contracts is based on the chargeback of costs incurred to provide the services on a full-cost basis. The pricing model for service contracts is based on the recharge of the costs incurred for the provision of services according to a full-cost logic. In reference to the provision of services issued to the Italgas Group, it should be pointed out that there are partly phase-out contracts in existence between Snam, Italgas Reti and Italgas for a temporary period, with the goal of ensuring the continuity of activities previously guaranteed by Snam.

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

## OTHER OPERATING EXPENSES

(millions of €)	2014	2015	2016	Change	% change
For personnel	68	68	79	11	16,2
For non-financial services and other costs	147	134	162	28	20.9
<b>Total other operating expenses</b>	<b>215</b>	<b>202</b>	<b>241</b>	<b>39</b>	<b>19.3</b>

The cost of personnel totals 79 million euro, an 11 million euro increase in respect to the prior fiscal year, as a result of increased expenses for early retirement.

The number of employees at 31 December 2016 (783 people) is broken down below by professional status:

(No.)	31.12.2014	31.12.2015 (*)	31.12.2016	Change	% change
<b>Professional status</b>					
Executives	54	55	54	(1)	(1.8)
Managers	202	200	215	15	7.5
Office workers	444	453	510	57	12.6
Manual workers	5	5	4	(1)	(20.0)
	<b>705</b>	<b>713</b>	<b>783</b>	<b>70</b>	<b>9.8</b>

(\*) The 2015 figure includes the personnel transferred in 2016 to the Italgas Group (190 people) following the separation transaction.

Costs for non-financial services and other costs (€162 million) consist mainly of expenses for the provision of services that are charged back to subsidiaries.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION <sup>42</sup>

€ million	31.12.2015	31.12.2016	Change
<b>Fixed capital</b>	<b>18,650</b>	<b>13,298</b>	<b>(5,352)</b>
Property, plant and equipment	3	3	
Intangible assets	18	17	(1)
Equity investments	8,693	6,093	(2,600)
Financial receivables held for operating activities	9,965	7,190	(2,775)
Net receivables (payables) for investments	(29)	(5)	24
<b>Net working capital</b>	<b>83</b>	<b>73</b>	<b>(10)</b>
<b>Provisions for employee benefits</b>	<b>(19)</b>	<b>(12)</b>	<b>7</b>
<b>NET INVESTED CAPITAL</b>	<b>18,714</b>	<b>13,359</b>	<b>(5,355)</b>
<b>Shareholders' equity</b>	<b>6,835</b>	<b>5,394</b>	<b>(1,441)</b>
<b>Net financial debt</b>	<b>11,879</b>	<b>7,965</b>	<b>(3,914)</b>
<b>COVERAGE</b>	<b>18,714</b>	<b>13,359</b>	<b>(5,355)</b>

The fixed capital (13,298 million euro) decreased by 5,352 million euro in respect to 31 December 2015 principally as a result of the reduction of shares (2,600 million euro) and lower financial credits in operating activities (2,775 million euro).

### Equity investments

Equity investments of €6,093 million break down as follows:

(millions of €)	% ownership	Opening balance	Acquisitions and subscriptions	Repayments and transfers	Recovery of value	Extraordinary corporate operations	Other changes	Final balance at 31.12.2016
<b>Equity investments in subsidiaries</b>								
Snam Rete Gas S.p.A.	100%	2,849						2,849
GNL Italia S.p.A.	100%	43						43
Italgas Reti S.p.A. (before Italgas S.p.A.)	100%	2,966				(2,966)		
Stogit S.p.A.	100%	1,618					(21)	1,597
Gasrule Insurance DAC	100%	20						20
<b>Investments in joint ventures</b>								
TIGF Holding SAS	40.50%	452						452
- Gasbridge 1 B.V. and Gasbridge 2 B.V.	50%	115		(2)	(25)		(1)	87
Trans Austria Gasleitung GmbH	84.47%	500						500
AS Gasinfrastruktur Beteiligung GmbH	40%		135					135
<b>Investments in associates</b>								
Italgas S.p.A. (before ITG Holding S.p.A.)	13.50%					244		244
Trans Adriatic Pipeline AG	20%	130	35				1	166
		<b>8,693</b>	<b>170</b>	<b>(2)</b>	<b>(25)</b>	<b>(2,722)</b>	<b>(21)</b>	<b>6,093</b>

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

Acquisitions and subscriptions (€170 million) refer to: (i) the capital contribution<sup>43</sup> of the consortium AS Gasinfrastruktur Beteiligung GmbH (ASG HoldCo) (€135 million), a joint venture in which Allianz and Snam hold stakes of 60% and 40%, respectively; (ii) the capital increase of TAP, in which Snam is required to participate to an extent proportionate with the stake held, based on the agreements entered into upon acquisition of the equity investment (€35 million).

Repayments and transfers (€2 million) relate to the reduction of the cost at which the stakes in the companies GasBridge 1 B.V. and GasBridge 2 B.V. are recognised, due to the distribution of part of the share premium reserve generated when the companies were established.

Value adjustments refer to the effects of the impairment loss (€25 million) on the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V.

Extraordinary transactions (€2,722 million) refer to the transfer of Snam S.p.A.'s entire equity investment in Italgas Reti S.p.A. to Italgas S.p.A. (€2,966 million), through a transaction broken down into different unitary and related steps, upon completion of which Snam S.p.A. holds an equity investment of association in Italgas S.p.A. due to its stake of 13.5% in the company's share capital<sup>44</sup> (€244 million).

Other changes mainly relate to the correction of the price adjustment in favour of Eni, recognised in 2010 in relation to contractual agreements made with Eni at the time of the acquisition of the stake in Stogit (€21 million).

#### **Financial receivables held for operating activities**

Financial receivables held for operating activities, including the relative short-term portions, amount to €7,190 million and refer to receivables for loans disbursed to the subsidiaries Snam Rete Gas (€5,411 million) and Stogit (€1,566 million), and the associate TAP (€213 million). The reduction of €2,775 million compared with 31 December 2015 was due to: (i) the repayment of financial receivables outstanding with respect to the Italgas Group at the date of completion of the spin-off transaction (-€1,438 million); (ii) the repayment of financial receivables with respect to Snam Rete Gas (-€1,000 million in nominal value), which had reached their natural expiry; (iii) the closure and simultaneous repayment, net of new receivables, of financial receivables outstanding with respect to Snam Rete Gas and Stogit (-€390 million in total nominal value) for the liability management transaction carried out by Snam in October 2016.

<sup>43</sup> This qualifies as a capital reserve pursuant to Article 229, par. 2, section 5 of the "Austrian Companies Act".

<sup>44</sup> The operation is described in detail in Note 21 "Discontinued operations" of the notes to the consolidated financial statements.

## NET WORKING CAPITAL

(millions of €)	31.12.2015	31.12.2016	Change
Trade receivables	87	100	13
Tax receivables	108	67	(41)
Derivatives	7	24	17
Net prepaid tax assets	8	7	(1)
Other assets	32	31	(1)
Trade payables	(58)	(78)	(20)
Provisions for risks and charges	(5)	(6)	(1)
Tax liabilities	(51)	(5)	46
Other liabilities	(45)	(67)	(22)
	<b>83</b>	<b>73</b>	<b>(10)</b>

Net working capital (€73 million) decreased by €10 million compared with 31 December 2015 due primarily to: (i) the reduction in tax receivables (-€41 million) mainly because of the decrease in the Group VAT credit and in receivables for tax consolidation; (ii) the increase in other liabilities (-€22 million) due to an increase in payables due to Snam Rete Gas following the collection of the VAT advance; (iii) the increase in trade payables (-€20 million) due to payment trends. These effects were partially offset by: (i) the reduction in tax liabilities (+€46 million) primarily due to lower liabilities for current taxes relating to the VAT payment; (ii) the increase in the market value of derivatives (+€17 million) due to the valuation carried out at the date of year-end close; (iii) the increase in trade receivables (+€13 million) essentially in relation to receivables for services provided to the Italgas Group companies.

## STATEMENT OF COMPREHENSIVE INCOME

(millions of €)	2015	2016
<b>Net profit</b>	<b>825</b>	<b>761</b>
<b>Other components of comprehensive income</b>		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives		1
<b>Total other components of comprehensive income, net of tax effect</b>		<b>1</b>
<b>Total comprehensive income</b>	<b>825</b>	<b>762</b>

## SHAREHOLDERS' EQUITY

(millions of €)	2015	2016
<b>Shareholders' equity at 31 December 2015</b>		<b>6,835</b>
Increases owing to:		
- Comprehensive income for 2016	762	
		<b>762</b>
Decreases owing to:		
- Distribution of 2015 dividend	(875)	
- Effects of the separation of Italgas Reti S.p.A. from Snam S.p.A. (*)	(1,225)	
Acquisition of treasury shares	(103)	
		<b>(2,203)</b>
<b>Shareholders' equity at 31 December 2016</b>		<b>5,394</b>

(\*) For more details on the effects of the separation of Italgas Reti S.p.A. from Snam S.p.A., refer to note No. 19 "Shareholders' equity" of the Notes to the financial statements.

## NET FINANCIAL DEBT

(millions of €)	31.12.2015	31.12.2016	Change
<b>Financial and bond debt</b>	<b>13,792</b>	<b>11,086</b>	<b>(2,706)</b>
<b>Financial receivables and cash and cash equivalents</b>	<b>(1,913)</b>	<b>(3,121)</b>	<b>(1,208)</b>
Financial receivables not held for operations	(1,912)	<b>(3,109)</b>	(1,197)
Cash and cash equivalents	(1)	<b>(12)</b>	(11)
	<b>11,879</b>	<b>7,965</b>	<b>(3,914)</b>

The breakdown of debt by type of interest rate at 31 December 2016 is as follows:

(millions of €)	31.12.2015	%	31.12.2016	%	Change
Fixed rate	8,855	64	<b>7,092</b>	64	(1,763)
Floating rate	4,937	36	<b>3,994</b>	36	(943)
	<b>13,792</b>	<b>100</b>	<b>11,086</b>	<b>100</b>	<b>(2,706)</b>

Fixed-rate financial liabilities (€7,092 million) reduced by €1,763 million compared with 31 December 2015, essentially following the repayment of bonds that had reached their natural maturity (-€700 million in nominal value) and the net repurchase of bonds for a nominal value of €1.0 billion in relation to the liability management operation.

Floating-rate debt (€3,994 million) fell by €943 million compared with 31 December 2015, owing essentially to: (i) the repayment of bonds that had reached their natural maturity (-€450 million in nominal value); (ii) the assumption and takeover by Italgas S.p.A., effective as of 7 November 2016, of two loans previously disbursed to Snam S.p.A. by the EIB (-€424 million in nominal value); (iii) the net repayment of term loans (-€200 million in nominal value).

Financial receivables not held for operations (€3,109 million) rose by €1,197 million compared with 31 December 2015, primarily due to higher net uses of current accounts available to the subsidiaries Snam Rete Gas, Stogit and GNL Italia (+€1,606 million), offset in part by the repayment of financial

receivables due from the Italgas Group at the date on which the spin-off was completed (-€574 million).

Cash and cash equivalents (€12 million) refer to current account deposits held at banks.

### **Reclassified statement of cash flows**

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

(millions of €)	2015	2016
<b>Net profit</b>	<b>825</b>	<b>761</b>
<i>Adjusted for:</i>		
amortisation, depreciation and other non-monetary components	5	30
- Dividends, interest and income taxes	(852)	(822)
Change in working capital due to operating activities	11	6
Dividends, interest and income taxes collected (paid)	835	833
<b>Net cash flow from operating activities</b>	<b>824</b>	<b>808</b>
Technical investments	(9)	(6)
Equity investments (*)	3	1,335
Financial receivables held for operations (**)	276	2,353
Other changes relating to investment activities	(1)	(4)
<b>Free cash flow</b>	<b>1,093</b>	<b>4,486</b>
Change in financial receivables not held for operating activities (**)	(64)	(1,197)
Change in current and non-current financial debt	(155)	(2,300)
Equity cash flow (***)	(875)	(978)
<b>Net cash flow for the period</b>	<b>(1)</b>	<b>11</b>

## CHANGE IN NET FINANCIAL DEBT

€ million	2015	2016
<b>Free cash flow</b>	<b>1,093</b>	<b>4,486</b>
Exchange rate differences on financial debt	(7)	(6)
Financial debt taken over by Italgas		424
Adjustment to fair value of financial debt		(12)
Equity cash flow (***)	(875)	(978)
<b>Change in net financial debt</b>	<b>211</b>	<b>3,914</b>

(\*) The amount relating to 2016 includes the collection of the consideration deriving from the disposal of 38.87% of Snam S.p.A.'s equity investment in Italgas Reti S.p.A. (€1,503 million).

(\*\*) The change in financial receivables held and not held for operations in 2016 incorporates the repayment of financial receivables due from the Italgas Group (total of €1,588 million).

(\*\*\*) The value relating to 2016 includes the payment of the 2015 dividend to shareholders as well as the cost incurred to purchase treasury shares (€103 million).

## OTHER INFORMATION

### Treasury shares

In compliance with the provisions of Article 2428 of the Italian Civil Code, the treasury shares held by the Company at 31 December 2016 are analysed in the table below:

Period	Number of shares	Average cost (€)(*)	Total cost (€ million)	Share capital (%) (**)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
	<b>224,315,880</b>	<b>3.999</b>	<b>897</b>	
Less treasury shares allocated/sold/cancelled:				
- granted under the 2005 stock grant plans	(39,100)			
- sold under the 2005 stock option plans	(69,000)			
- sold under the 2006 stock option plans	(1,872,050)			
- sold under the 2007 stock option plans	(1,366,850)			
- sold under the 2008 stock option plans	(1,514,000)			
cancelled following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
<b>Treasury shares held by the Company at 31 December 2016</b>	<b>29,905,180</b>			

(\*) Calculated on the basis of historic prices.

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

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 million<sup>45</sup> (€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<sup>46</sup>. The last managers' incentive plan based on the allocation of stock options, the 2006-2008 Plan, reached maturity on 29 July 2014. Consequently, at 31 December 2016, there were no shares committed to incentive plans.

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

<sup>45</sup> 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 €3.923 per share, was approximately €117 million.

<sup>46</sup> For more information on the characteristics of the programme, please refer to the "Snam in 2016 - Main events" section of this Report.



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

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

### **Relationships with related parties**

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

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

Pursuant to the provisions of the 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 31 December 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 32 "Relationships with related parties" of the Notes to the consolidated financial statements.

Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 25 "Operating costs" of the Notes to the consolidated financial statements.

### **Performance of subsidiaries**

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

### **Branch offices**

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

### **Research and Development**

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





## Other operating information and results

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



### DEVELOPMENT OF HUMAN CAPITAL

#### Employment in times of change (GRI: G4-LA1,LA2,LA12)

To continue to play a key role within a dynamic environment while continuing to lead in an international market abundant in challenges and opportunities, it is necessary to become an integrated player capable of enhancing know-how and meeting new challenges in the regulated and free market alike. The new organisational structure helps everyone to collaborate by sharing experiences and skills and through teamwork to reach a single objective: all decisive factors to create innovation and bring value to the business.

The strong sense of belonging to the Group, which was also revealed by the results of the 2016 company climate analysis, makes it possible to actively engage all employees in continuous improvement, which is increasingly driven by an entrepreneurial spirit, simplification and implementation capacity.

At 31 December 2016, out of a total of 2,883 employees, approximately 93% of Snam personnel have permanent employment contracts (including part-time contracts). The average age of Group employees is 46.1, while the average length of employment is around 21 years. As it has done every year, again in 2016 Snam recognised its employees who have dedicated 25 years to the company. Those who reached this milestone received a gold medal and fuel vouchers to commemorate this important event and their individual contribution to the Company's growth. Of the 126 people recognised: 18 were employees of Snam, 105 of Snam Rete Gas and 3 of Stogit.

#### BREAKDOWN OF STAFF AT 31 DECEMBER (NO.)

	2014	2015 (*)	2016
Executives	99	99	87
Managers	447	449	421
Office workers	1,689	1,736	1,651
Manual workers	713	721	724
<b>Total employee accidents</b>	<b>2,948</b>	<b>3,005</b>	<b>2,883</b>

(\*) The 2015 figure includes the personnel transferred in 2016 to the Italgas Group (207 people) following the separation transaction.

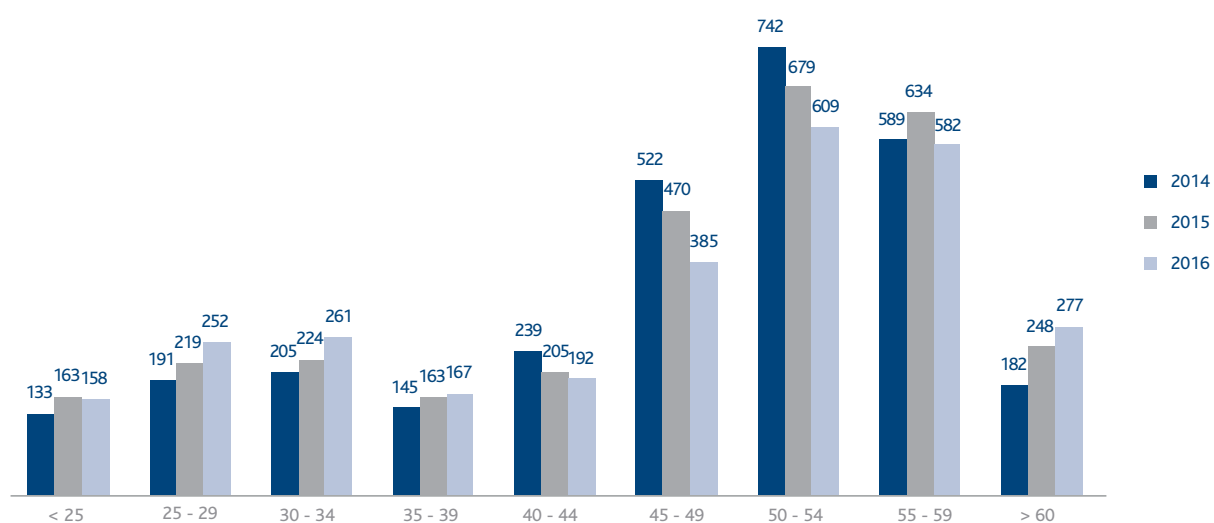
#### PERSONNEL BROKEN DOWN BY TYPE OF CONTRACT (No.)

	2014	2015	2016
Permanent contract	2,713	2,779	2,631
Apprenticeship or internship contract	178	171	206
Fixed-term contract		1	1
Part-time contract	57	54	45

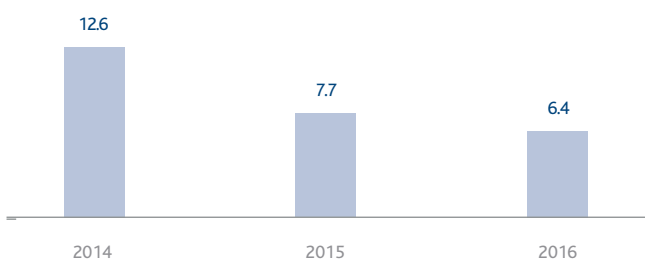
## PERSONNEL HIRED DURING THE YEAR (No.)

	2014	2015	2016
Hired from the market (total)	152	162	141
. of which university graduates	74	75	73
. of which school graduates	78	86	66
. of which women	31	32	35
Other new employees (non-consolidated companies, tender acquisitions, etc.)	6	4	36

## DEMOGRAPHIC DIVERSITY: EMPLOYEES PER AGE BRACKET (NO.)

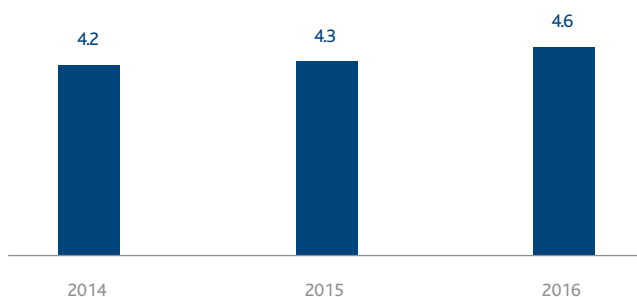


## STAFF TURNOVER (%)



Turnover =  $\frac{(\text{incoming} + \text{departures})}{\text{average headcount employed}} * 100$

## ABSENTEEISM RATE (%) (\*)



Absenteeism rate =  $\frac{(\text{hours absent})}{\text{workable hours}} * 100$

(\*) Hours of absence of Executives are not included.

### Development of roles and skills (GRI: G4-LA11)

The compensation systems are periodically updated based on a comparison with the reference pay markets and criteria inspired by meritocracy and internal equity, as well as in consideration of indications received from external stakeholders. In particular, these systems are meant to ensure recognition of the results achieved, a link with shareholder interests, the quality of the professional contribution provided and individual development potential.

Again in 2016, the competitive positioning and equity of pay policies was verified and optimised for managers and professionals, and the use of the new target assignment and evaluation system, Performance Management, was confirmed, which also contains targets regarding behavioural aspects, sustainability and workplace accident prevention.

All jobs within Snam, Snam Rete Gas, GNL Italia and Stogit are subject to an analytical and overall evaluation of Complexity, Responsibility, Experience and Autonomy (C.R.E.A.) factors. In 2016, 278 CREA assessments were approved. All assessment processes adopted are formalised and include a feedback interview, which constitutes an institutional moment for exchange and communication between the manager and the employee, also in order to gather information that can be used to define new actions for the development and enhancement of people.

### Professional enhancement (GRI: G4-LA9,LA10,SO4)

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

In 2016, a total of 82,184 hours of training were provided (an average of 28.5 hours per employee), with 10,396 participants and a participation rate of 97.5%, testimony to Snam's ongoing and wide-reaching commitment to updating and developing its employees' expertise.

In 2016, training also included differentiated courses targeted to meet specific needs, based on a segmentation of the company population horizontally, by role and professional family, as well as vertically, by level of responsibility.

Technical training for gas operators and technicians continued, to ensure that they maintain their specialised know-how, including by inviting internal experts to act as instructors and providing courses at the regional offices.

A significant commitment was dedicated to worker training programmes regarding sensitive issues such as health, safety and the environment, by organising a number of meetings to provide updates and information and raise awareness amongst all professional figures with respect to the implementation of safety measures.

To favour accurate information and the application of the principles set forth in the Model 231, the Code of Ethics and Anti-corruption legislation, specific training activities were carried out for specific segments of the company's workforce.

As regards training on the Code of Ethics, Model 231 and anti-corruption, a total of 2,641 hours of training were provided to 1,596 participants in 2016.

**STAFF TRAINING BROKEN DOWN BY POSITION (No.)**

	2014	2015	2016
Executives	4,442	2,744	2,940
Managers	11,141	11,143	10,021
Office workers	41,441	41,763	31,072
Manual workers	25,434	31,970	38,151
<b>Total</b>	<b>82,458</b>	<b>87,620</b>	<b>82,184</b>

**KEY TRAINING INITIATIVES**

Description	Hours provided (No.)	Participants (No.)	Recipients
Management Training	8,674	833	High Flyers, Executives, Managers
Training dedicated to plant maintenance and knowledge of technical systems	43,281	4,103	Technical and operational office and manual workers
Foreign languages	8,300	380	Executives, managers, office workers and technicians
Health, safety, environment and quality	19,288	3,484	Executives, managers, office workers and technicians
Updating of Model 231 and the Code of Ethics	2,641	1,596	Executives, managers, office workers and technicians

**Evolution of corporate welfare**

Snam interprets corporate welfare as a way of creating value for its people by seeking a better work/life balance.

To achieve the objective of increasingly meeting the real needs of individuals, investigations into the company population and the services provided were conducted in order to gather feedback through questionnaires, focus groups and detailed climate analyses.

The resulting Welfare Project is a new system designed to be a mix of tradition and innovation, following three guidelines: introduce new initiatives for emerging needs; draw up specific measures based on the needs of the Company's various employees and ensure that employees are aware, informed and involved.

Early February 2016 saw the launch of SnamMY, the new Snam Group Welfare portal, accessible from anywhere and from any device. This is just one of the company's many initiatives meant to improve communication between the company and its people, in addition to work-life balance.

In line with the new welfare model, SnamMY features a panel of services currently organised around four areas: "family", "health and well-being", "personal time" and "saving".

One of the most significant outcomes in terms of perceived value has been the launch of the 'smart working' experiment. The experiment, which is currently limited to certain Snam departments, will be concluded in 2017 and, following analysis of the results, may be extended to all Group companies.

### Diversity (GRI: G4-LA9-LA12-LA13)

Snam respects everyone's dignity, and offers equal opportunities throughout all phases and for all aspects of the employment relationship, avoiding all forms of discrimination based on sex, age, health, nationality, political opinion or religious views. The Group employs 130 disabled people, whose path of development aims to favour their inclusion and integration in company processes.

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

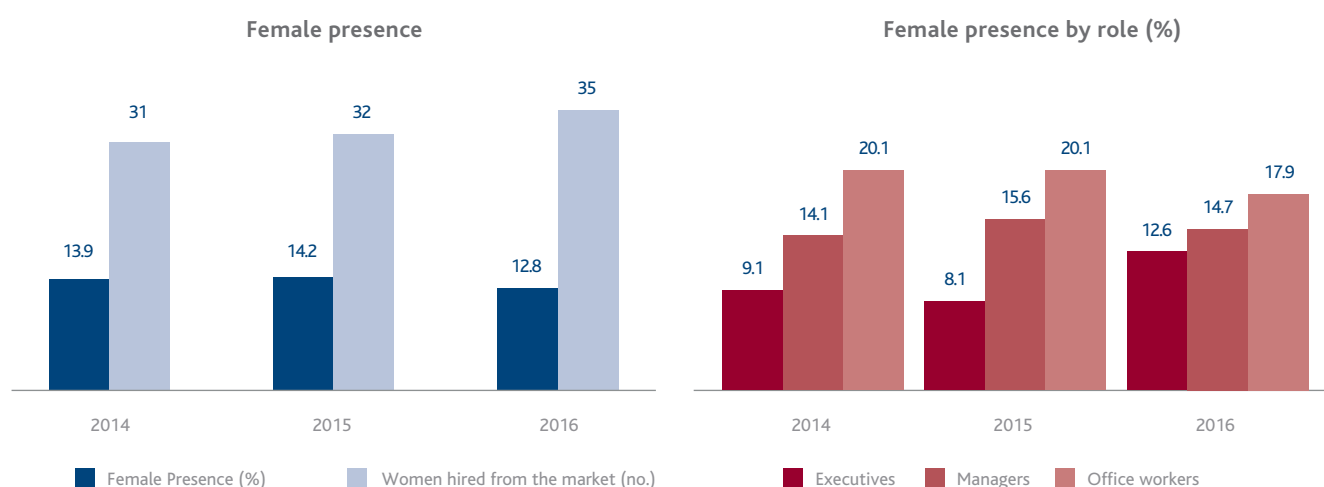
In 2016, 25% of new hires were women, whose proportion of the corporate population as a whole amounts to 12.8%. Women account for 14.7% of managers and 12.6% of executives, with three of the four new executives appointed in 2016 being female.

The overall decrease in women at Snam (12.8% compared with 14.2% in 2015) can be attributed to the spin-off of distribution activities. The transfer of roles from Snam to Italgas also involved the transfer of 87 women who worked for Snam in 2015. In 2015, this number accounted for more than 20% of the women at Snam.

### STAFF TRAINING BROKEN DOWN BY POSITION (No.)

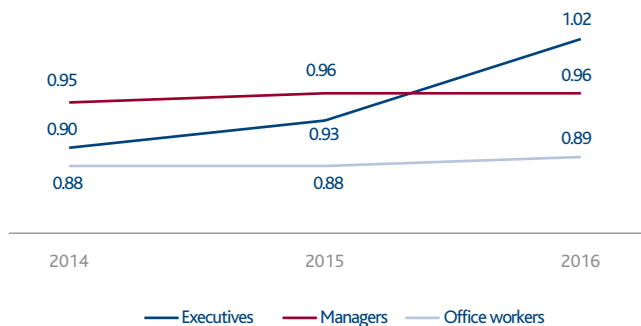
	2014	2015	2016
Average hours of training provided to men (hours/year)	29.1	30.9	30.2
Average hours of training provided to women (hours/year)	20.9	18.4	17.0

### FEMALE PRESENCE, TOTAL AND BY STATUS (%)





## PAY GAP (WOMEN/MEN)



## STAKEHOLDERS AND RELATIONSHIP CAPITAL

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

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

**Internal climate and company cohesion**

In 2016, Snam entered a new business phase in which the link between the company and its people is becoming crucial in order to take advantage of new growth opportunities and create a business culture that is even more dynamic and inclusive.

This is why it was considered fundamental to measure the sentiment of the company's employees by conducting a climate analysis, which received responses from 82% of Snam's employees, who were asked questions about 16 thematic categories to evaluate their level of engagement, the circumstances that favour people's involvement and the positive climate at work and gather perceptions and suggestions for improvement from the company population. The portrait of Snam resulting from the climate analysis is, very briefly, that of an organisation capable of innovating and oriented towards change, within which people work with pride, a sense of belonging and trust in the skills of the top management. The results of the survey were provided to the various stakeholders.

Derivatives	Description
"Easy" the intranet portal	Today, the company intranet is not only a space for providing information to and raising the awareness of everyone at Snam, but it is also a place for sharing knowledge, data and images by means of the collaboration platform.
Newsletters, posters, brochures and other hard-copy documents	The "Energie" magazine, which represents Snam's corporate identity, followed the company's evolution and changes throughout 2016. Starting this year, the house organ is published in hard copy format as well as in digital format on the intranet portal. In 2016, the "Osservatorio Domanda Gas" ("Gas Demand Monitoring Unit") newsletter was born, which provides everyone with news, analyses and comments on gas demand and is also published on the intranet in page turning format based on the flipbook application for iPads and smartphones. In addition, to engage all of its people, Snam creates and uses hard-copy publications: from Safety Bulletins, to brochures on useful topics, to posters.
Videos	In 2016, the exponential rise of videos provided on the intranet portal or projected during meetings, conventions and on the intranet continued.
Statement from management	An opportunity to reflect on the most significant moments in the activities of the business in order to ensure adequate information and a constant sense of involvement and responsibility with regard to company strategies and objectives.

### Market reputation

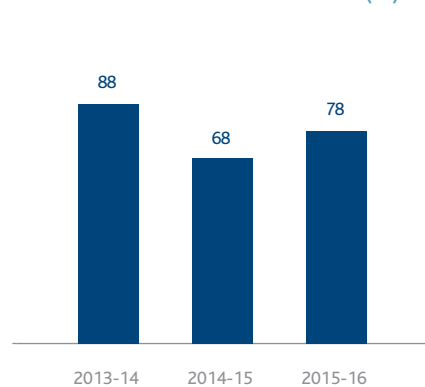
Though in regulated sectors Snam has a natural monopoly, when dealing with its customers it adopts an approach based on a competitive market, in which it is essential to understand how the customer perceives value.

To that end, it carries out annual customer satisfaction surveys to gauge users' level of satisfaction with regard to the clarity of the code, the availability and efficiency of IT services, and commercial management. These surveys are used to gather users' suggestions for improving the services covered in the questionnaire.

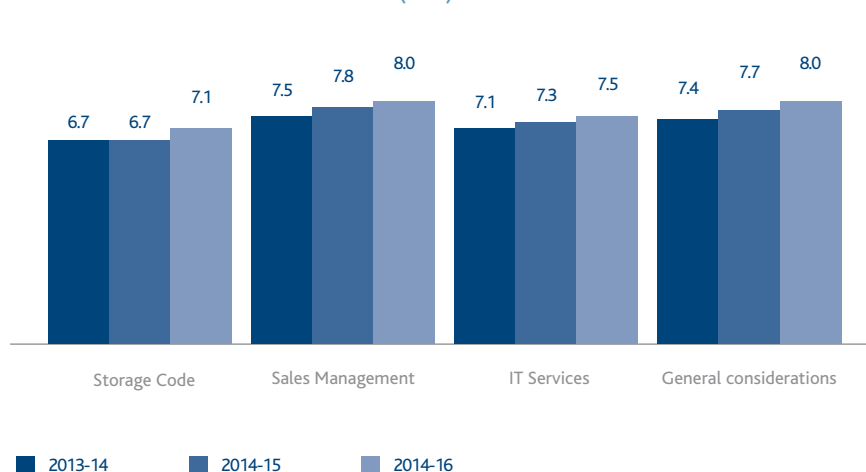
The surveys conducted in 2016 involved 73 customers in the storage sector (with responses received from 78% and 68% in 2015) and 135 customers in the transportation sector (with a response rate of 87%, 83% in 2015). Assessments of the responses provided by customers indicate general satisfaction in both cases.

#### Storage Sector

RESPONSE RATE BY THERMAL YEAR (%)



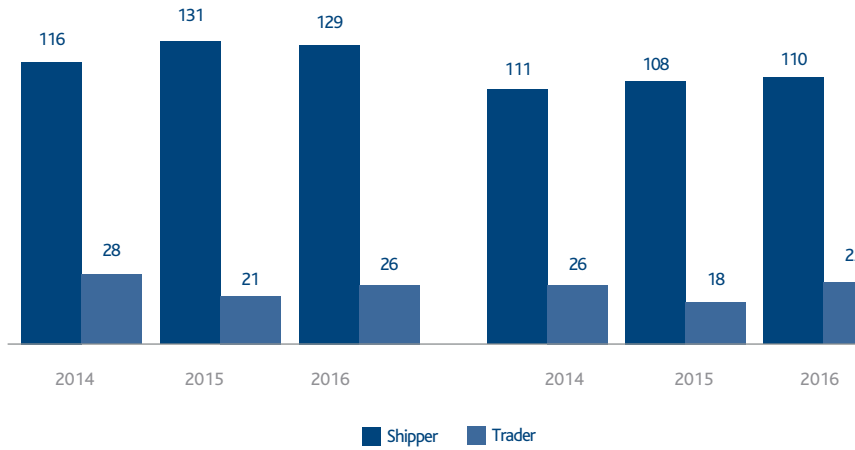
AVERAGE SCORE BY THERMAL YEAR (NO.)



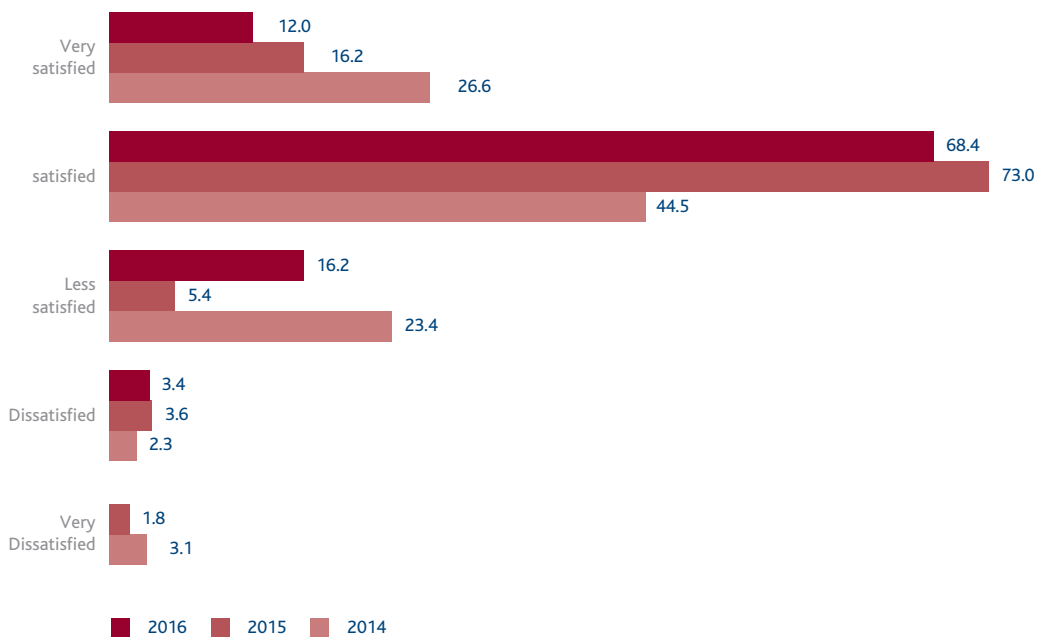
Transportation Sector

QUESTIONNAIRES SENT OUT (No.)

QUESTIONNAIRES RECEIVED BACK (No.)



RATING ON THE CUSTOMER SATISFACTION INITIATIVE (%)



The traditional meetings with customers continued: in the Storage Sector, a shipper meeting was held, during which it was possible to visit the new Bordolano storage plant; in Transport, the event dedicated to shippers and traders was organised during the year. During the event, the Comitato Italiano Gas (CIG) committee General Manager also described the main challenges in store for the market following the increased harmonisation of rules at European level, particularly with regard to access and commercial balancing. Nearly 170 people representing roughly 80 companies participated in the event.

## Relations with local communities

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

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

To that end, the Company collaborates with local and national authorities to best illustrate its work execution plans to both the authorities and the affected communities. During the year, 96 meetings were held with local authorities and 16 meetings with regional associations.

Total expenditure on donations, sponsorship and initiatives to benefit local communities amounted to around €851 thousand, excluding environmental compensation.

*Snam evaluates, in relation to the performance of the most important works (compression systems or large natural gas pipelines), the direct and indirect economic and social impact on the territory and on the local communities.*

*The measures and estimates are made using "Social Impact Assessment" tools and methodologies.*

*The results of the analyses conducted show that, by adding Snam's direct investments to its indirect investments (related to subcontracting activities), an average impact is obtained on the local economy, on a municipal, provincial and regional level, amounting to 17-28% of the economic value linked to the performance and operation of the work.*

## PERFORMANCE OF THE MAIN INITIATIVES

Initiative	
<p>Within the framework of supplier relationships, making corporate know-how available through a system of knowledge sharing, which will help companies in the supply chain in a process of continuous improvement that can increase both their own competitiveness and the dependability of their partnership with Snam, to the benefit of the final service quality.</p>	<p><b>Environment and innovation, a challenge for everyone"</b></p> <p>In 2016 as well Snam met with its suppliers with the aim of creating a shared culture on fundamental issues, such as innovation, sustainability and business ethics. During the meeting, in which more than 450 people took part, a great deal of attention was paid to the value of collaboration between the company and suppliers as a factor for development, the strategic importance of the sustainable supply chain, the theme of transparency and the fight against corruption. Specific discussions then touched on more technical subjects, such as: the new procurement code; the environment and innovation (the best practices of foreign investees); innovative technologies in the oil and gas industry; and the development of technologies to promote alternative uses of natural gas.</p> <hr/> <p><b>Growing together: the Supplier Portal</b></p> <p>Live since 2013, the Supplier Portal is the most important way of implementing Snam's procurement policy and of making an additional contribution in terms of transparent, traceable and complete information.</p> <p>At the end of 2016 there were more than 1,800 suppliers registered (+20% compared with 2015), each of which has information at its disposal, in the dedicated reserved area, on the commodity sectors for which it is qualified, opened contracts, performance in terms of occupational safety, administrative elements and paperwork. Over the course of the year there were more than 102,000 visitors (up around +15% compared with 2015) who accessed the Portal over 298,000 times (up +27% compared with 2015); more than 930,000 pages were read.</p>
<p>As part of Snam's management and enhancement of sites and infrastructure, sharing space and knowledge with stakeholders in the area to encourage public acceptance of the legitimacy of the networks.</p>	<p><b>Stories that tell the future"</b></p> <p>For the third consecutive year, Snam developed an educational project dedicated to the second stage of primary schools aimed at raising awareness of fundamental issues to strengthen sustainable development. The edition for the 2015-2016 academic year entitled "The Network of Confidence and Respect" focused on the theme of legality, understood as respect and civic duty, after having dealt with biodiversity and scientific culture in previous years. The project, produced in conjunction with Federparchi, involved approximately 220 Italian primary schools with around 500 classes and more than 10,000 students.</p> <hr/> <p><b>Giro d'Italia in 80 bookshops</b></p> <p>An initiative launched in partnership with the Associazione Letteratura Rinnovabile, which, for the third year, has made it possible to promote and consolidate Snam's presence in areas in which the Company has had a strong presence for some time. The cultural and environmental cycling race took place following the entire course of the Ticino River, visiting significant and evocative centres of cultural importance. It also provided an opportunity to present "Sustainable Paths - Ticino Park" at various meetings.</p>
<p>Part of the implementation of new investments, sharing with local communities and disseminating among local stakeholders the knowledge of best business practices in the application of naturalistic engineering techniques in particularly fragile areas with complex ecosystems, such as parks and protected areas.</p>	<p><b>Sustainable Paths - Ticino Park</b></p> <p>At the Turin International Book Fair, Snam presented the fourth volume in the Sustainable Paths series, sponsored by the Ministry of the Environment and published by 24ore Cultura-Gruppo Sole 24ore, dedicated to the Ticino Park. The series, aimed at development and restoration works carried out by Snam in protected areas such as parks and nature reserves, is a testament to the Company's commitment to safeguard and enhance the environment in a context of using gas as a strategic energy resource</p> <hr/> <p><b>Seasonal Trails</b></p> <p>This is an IT and multimedia support developed by Snam in partnership with Federparchi and three Italian Parks (Nebrodi, Prealpi Giulie and Ticino), the first key players in the project. The initiative was founded with the objective of giving visitors to these parks the opportunity of easily and immediately enjoying the beauties, using the region's services, planning routes and discovering the social and economic cultural fabric. The digital platform comprises a website that hosts the story of the park and a mobile app so that routes can be carried at all times, even in the absence of WiFi.</p>

### The value of communication

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

In 2016, Snam continued with further improvements to its web identity, creating a responsive version of the corporate website, improved for use on all types of desktops and mobile devices. The action, developed through the most innovative technologies on the market, has also enabled a complete graphic restyling to promote a user-friendly experience to take full advantage of the contents, also thanks to a greater in-depth integration with all the major social platforms where Snam has a presence (Twitter, YouTube, LinkedIn, Google+, Flickr, Instagram, Slideshare and Facebook).

As confirmation of the generosity and continuity of the work that has been done in recent years, Snam has been ranked in first place in the Italian and European Webranking KWD scheme, which awards specialist and independent companies that communicate most efficiently online. With a score of 93.6 points out of 100, Snam also gained the highest points total ever in the 15 years of Webranking's existence.

With regard to the traditional press, in 2016, 541 articles featured Snam (with 446 dedicated to it) nationally and internationally, an increase of 73% compared with 2015 (312, of which 275 were dedicated to it). The content and tone of these articles was judged positive or neutral in almost all cases (99.3%), while the proportion of positive articles rose from 151 in 2015 to 196. The main subjects dealt with were Corporate, Operations, Finance and Sustainability.



### INNOVATION FOR BUSINESS DEVELOPMENT

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

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

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**Gas metering**

A campaign was carried out to test alternative gas quality metering tools to chromatographs, based on an experimentation protocol set out by the Polytechnic University of Milan. Specifically, test campaigns were concluded in 2016 to check the performance of these tools in terms of measuring heating value, volumetric mass and carbon dioxide content. In the light of the positive results of the experiments conducted, these tools are gradually being introduced into the transportation network. Still in the area of gas metering, technical activities were completed for the metering project that involve the acquisition of metering plants near the transportation network redelivery points, and the subsequent modernisation to the highest technological standards with a view to improving the availability and reliability of the energy metering data passing through the transportation network redelivery points.

In terms of gas storage, in 2016, following the necessary trials conducted over the two previous years, the installation of clamp-on type ultrasound natural gas metering systems was concluded at two stations.

The Company continued its collaboration with the European Gas Research Group (GERG, [www.gerg.info](http://www.gerg.info)) and other European natural gas transporters and distributors, with reference in particular to the project for evaluating methods of estimating natural gas emissions, which was concluded by evaluating real gas leak measurements. Still in the area of the GERG, Snam Rete Gas is taking part in a research project looking into the potential impacts, on the entire gas chain, of chemical components present in traces in biomethane in order to create the conditions for the safe development of biomethane as a gas injection source in the transportation network.

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**Governance and monitoring of the network and plants**

The "Remote Control Systems Development" project continued in 2016, with the aim of ensuring the technological development of field apparatus and the methods through which they are connected and managed, in order to upgrade the administration and monitoring of the transportation network.

Specifically, the project aims to ensure: (i) the technological updating of the field apparatus for the acquisition of technical and process data; (ii) the standardisation of transmission protocols and acquisition systems; (iii) the technological development of the Snam Rete Gas digital terrestrial network; and (iv) the development of monitoring and supervision systems.

In gas storage, following a trial conducted on site, a project was launched to install phonometric systems to record any accidental leaks at plants and enable quick and effective blocking measures. In 2016 installation activities at 6 stations were concluded. The last installation is expected to be completed in 2017

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**Derivatives Description**

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

- the study of a new model to assess the integrity of pipes subjected to mechanical damage;
- preparation of criteria for the non-conservative assessment of geometric irregularities along the circumferential soldering;
- an inventory of buried steel pipes more than 40 years old.

Additionally, several projects of special interest were completed in 2016: an experimental assessment of the resistance of curves created in the field using cold bending and laboratory tests to simulate loss of adhesion for external facings.

Still in 2016, a project was launched involving the protection of the transportation network from corrosion. The activity, carried out in conjunction with the Polytechnic University of Milan, aimed to identify opportunities for the technological improvement and adaptation of the electrical protection system currently used. At the end of this study, a pilot project will be launched in 2017 to test operating equipment and solutions in the field.

For Storage, as far as the new operational projects involving deposits in excess pressure conditions and the upgrading of monitoring systems are concerned, the activities for the construction and installation of geochemical and microseismic monitoring prototypes are ongoing.

Specifically, with regard to the trials with operational projects involving deposits in excess pressure conditions, currently up to a maximum of 110% of the initial field pressure, installation activities are continuing for microseismic monitoring equipment (surface networks and shaft sensors) and also for geochemical monitoring (surface stations).

In 2016, Stogit focused its attention on activities aimed at monitoring microseismicity, by upgrading its networks to standards of technological excellence. Among the activities aimed at guaranteeing high-quality performance, the development of a new automatic data management and processing system called AMPIS (Automatic Microseismic Processing and Interpretation System) is particularly worthy of mention. It is expected to go live in 2017 and will gradually be rolled out to all concessions.

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### Maintenance and checking of networks

The execution phase of the "Gas Transportation Network Asset Maintenance System" was launched, which is aimed specifically at completely overhauling work processes and regulations related to the transportation network, compression stations, storage, plants, metering and remote control. Specifically, during the year, the operators and technicians responsible for maintenance and metering activities were equipped with next-generation devices that use new maps and show real-time additional information about the surrounding environment (e.g. plant) using "augmented reality" technologies. In 2016 the development of the project continued, with the goal of activities being completed at the end of 2017.

Lastly, a trial was launched in 2016 on a system aimed at identifying and locating gas leaks along the network of approximately 33,000 km of pipelines that transport natural gas in Italy. The system is based on the analysis of pressure waves and the detection of possible disturbances and their propagation times.

### Efficiency of plants

Based on the study for the application of high-efficiency cogeneration systems (HEC) in compression stations, in conjunction with the Polytechnic University of Milan, the planning for the construction of two trigeneration systems at the Gallese and Istrana compression stations was completed during 2016. These systems allow electricity self-production of heat recovery plants to support thermal utilities and station cooling. The systems are catalogued as high-efficiency cogeneration plants that benefit from obtaining "white certificates".



## MITIGATION OF ENVIRONMENTAL AND HEALTH AND SAFETY EFFECTS (GRI: G4-EN31)

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

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

On environmental protection, Snam spent approximately €139.8 million (€129.3 million on investments and €10.5 million on management costs).

On health and safety of workers, Snam spent approximately €47.9 million.

During the year Snam Rete Gas obtained ISO 9001 certification, bringing the project launched in 2014 to a conclusion.

The new management system included all four previous certifications relating to specific processes (Gas processing systems, Infrastructure programming units, Metering units, Dispatching centre).

In order to maintain the certifications already in place, the Group companies have implemented all necessary activities, including checks by both internal and external parties. Specifically, the Snam Group has 28 qualified auditors, including those from outside the Group.

In 2016, 212 audits were carried out (166 internal audits conducted by specialist staff and 46 by external teams). In order to check the effectiveness of the management systems adopted, 81 health, safety and environment audits were also carried out on contractors working on Snam sites.



## TOTAL HSEQ AUDITS CONDUCTED

	2014	2015	2016
Audits (No.)	217	203	212

## MANAGEMENT SYSTEMS

Company	Coverage certification	Type of certification and accreditation	Year of first certification
Snam	Company	ISO 14001	2015
		BS OHSAS 18001	2012
Snam Rete Gas	Gas process systems Company	ISO 22301 <b>ISO 9001</b>	2015 <b>2016</b>
	Dispatching centre	ISO 22301	2015
	Information security management for natural gas dispatching and metering	ISO 27001	2014
	Company	ISO 14001	2013
	Company	BS OHSAS 18001	2010
	Testing laboratory (LAB 764 conveyed gas flows)	ISO 17025	2007
	Testing laboratory (LAB 764 conveyed gas flows)	ISO 17025	2002
	GNL Italia	Company	BS OHSAS 18001
ISO 14001			2000
Stogit	Company	BS OHSAS 18001	2012
	Design and delivery of natural gas metering and accounting	ISO 9001	2008
	Company	ISO 14001	2002

**Accident and health protection**

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

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

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

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

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

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

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

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

#### HEALTH AND SAFETY TRAINING (HOURS) (GRI: G4-LA9)

	2014	2015	2016
Hours provided	20,064	24,305	<b>19,288</b>
Equity attendances	3,184	4,117	<b>3,484</b>

#### Zero accidents

#### Sub-groups that achieved 365 days without accidents in 2016

Snam, Gasrule	Not in force
SRG	North District, Central, Operations (San Donato headquarters), Sicily District, Centre-West District. Centre-East District, South-West District
GNL Italia	Shift workers Group
Stogit	Fiume Treste Operations Hub, Crema (headquarters), Ripalta-Sergnano Operations Hub, Cortemaggiore-Bordolano Operations Hub, Brugherio-Settala Operations Hub

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

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

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

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

#### HEALTH MONITORING (No.)

	2014	2015	2016
Medical visits	1,210	1,270	<b>1,561</b>
Periodic medical visits	1,061	991	<b>1,337</b>
Environmental surveys	386	203	<b>172</b>

### Energy efficiency and climate change

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

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

### RENEWABLE ENERGY PLANTS (GRI: G4-EN6)

Type	2014			2015			2016		
	(No.)	Total power (kW)	Total power (kW)	(No.)	Total power (kW)	Energy generated (kWh)	(No.)	Total power (kW)	Energy generated (kWh)
Wind power generators	1	1.7	477,213	1	1.7	711,678	1	1.7	844,608
Photovoltaic plants	924	577.1		1,106	784		1,153 (*)	938.3	
<b>Total</b>	<b>925</b>	<b>578.6</b>		<b>1,017</b>	<b>785.7</b>		<b>1,154 (*)</b>	<b>940</b>	

(\*) Including 1,117 back-up plants.

In addition, 4 compression stations are powered by electricity from renewable resources: Terranuova Bracciolini (Snam Rete Gas), the Messina compression station (Snam Rete Gas), the Brugherio compression station (Stogit) and the Panigaglia regasification facility (GNL Italia).

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

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

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

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

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

## ENVIRONMENTAL MONITORING AND RESTORATION (KM OF NETWORK)

	2014	2015	2016
Restoration	78	240	227
New reforestation (*)	16	11	3.7
Farmland care	124	140	98
Environmental monitoring	1,055	1,009	565

(\*) Surface area covered by new reforestation: 74,700 m<sub>2</sub>.

## MAIN ENVIRONMENTAL MONITORING AND RESTORATION CARRIED OUT DURING THE YEAR

Reference body	Name	Activities carried out
Lombardy Region Veneto Region	Zimella-Cervignano gas pipeline	During 2016, restoration was completed along the Zimella-Cervignano pipeline, an important gas pipeline covering 172 km (with underground pipes measuring 1,400 mm in diameter), which runs through agricultural plains between the Veneto and Lombardy Regions. Work has begun in the same area to remove a 128-km-long section of the decommissioned Tarvisio-Sergnano pipe after the Zimella-Cervignano natural gas pipeline comes into service. In this case, the environmental restoration mainly involved returning plots of land to their original agricultural use, restoring their landscape and fertility.



Category	Value 1	Value 2
56.7	56.7	56.7
58.3	58.3	58.3
79.3	79.3	79.3
125	125	125
58.6	58.6	58.6
59.7	59.7	59.7
961	961	961

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# Elements of risk management and uncertainty

## INTRODUCTION

This chapter illustrates the main uncertainties that characterise Snam's routine operations, in spite of most of them being regulated and therefore exposed to regulatory and compliance risk, all types of risk relating to the business operations that are the subject of careful analysis. In addition, in a constantly evolving context, a brief section is devoted to dealing with emerging risks.

**Financial risks** are described in Note 23, "Guarantees, commitments and risks – financial risk management", of the Notes to the consolidated financial statements.

**Regulatory risk** for Snam is closely linked to the regulation of activities in the gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the Authority and, more generally, changes to the regulatory framework may have a significant impact on the Company's operating activities, financial position and results. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

**Legal and non-compliance risk** concerns the failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam'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). With regard to the Risk of Fraud and Corruption, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations.

Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the Global Corporate Supporter Partnership.

Reputational checks and accepting and signing the ethics and integrity agreement are pillars of the control system designed to prevent the risks associated with illegal behaviour and criminal infiltration of our suppliers and subcontractors, with the goal of guaranteeing transparent relations and professional morality requirements throughout the production chain and for the entire duration of the association; in this context Snam confirmed its Suppliers' Workshop in 2016 as well, dedicating a special area to the subject of ethics and transparency as excellence and innovation in business operations.

For Snam, **economic risk** is closely connected to the impacts that *changes in the macroeconomic situation* could have on the capacity of the Group to access the debt and capital markets, or to refinance the

existing debt to meet its liquidity requirements, creating an increase in the cost of the Snam Group's debt with consequent negative effects on its operations, results, balance sheet and cash flow.

Because of the specific nature of the business in which Snam operates, there *are also risks associated with political, social and economic instability in natural gas supplier countries*, mainly related to the gas transportation sector. A large proportion of the natural gas transported through the Italian national transportation network is imported from or passes through countries that are currently politically, socially or economically unstable, and/or which may also suffer instability in the future. The importing of natural gas from these countries, or the transit through them, is subject to the inherent risks in these countries, such as: high inflation; volatile exchange rates; inadequate legislation on insolvency and creditor protection; social tensions; limits on investment and the import and export of goods; increases in taxes and excises; forced renegotiation of contracts; nationalisation or renationalisation of assets; political unrest; changes in trade policies; monetary restrictions; and losses or damage caused by disorder and unrest.

If a Shipper using the transportation service via Snam's networks cannot procure natural gas from the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, or is consequently unable to fulfil contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

**Operating risks** consist mainly of the *malfunctioning and unforeseen interruption of the service* determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

There is also the concrete possibility that Snam could incur *delays in the progress of infrastructure construction programmes* as a result of several unknowns linked to operating, economic, regulatory, authorisation and competition factors, regardless of its intentions. Snam is therefore unable to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting Snam's financial position and results. Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations, or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. In addition, changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results.

Lastly, these operating risks include *risks associated with the emissions market that* fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. At the start of the third regulatory period (2013 - 2020), the greenhouse gas emission authorisation system, previously governed by Legislative Decree 216/2006, was updated and modified by Legislative Decree 30 of 13 March 2013, effective from 5 April 2013. According to the new provisions, the main aim of the decree was to update laws on greenhouse gas emission authorisations and to continually reduce free emission allowances. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant (as in the second regulatory period), and will also depend on the actual functionality of the plants.

Compliance with greenhouse gas regulations in the future may require Snam to adjust its facilities, and to control or limit its emissions or undertake other actions that could increase the costs of complying with the regulations in force, and therefore have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

With regard to **market and competition risks**, note the risk related to *retaining gas storage* concessions, related to the gas storage business in which the subsidiary Stogit operates based on concessions issued by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted – within the statutory terms – the extension request at the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion. One concession (Fiume Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years<sup>47</sup>. 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.

With reference to the *risk connected with changes in the price of natural gas*, however, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover Fuel Gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided 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, by means of Resolution 514/2013/R/gas, defined the permitted level of the UFG given the average value registered over the last two years, and decided to keep this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. 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. The change in the regulatory framework currently in force on the payment in kind of natural gas could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

With reference to the *risk connected with demand for gas*, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via Snam Rete Gas, is partly correlated to volumes transported. The Authority, however, introduced a mechanism to guarantee the portion of revenues correlated to volumes transported; this mechanism provides for the reconciliation of revenue more than 4% higher or 4% lower than the reference revenue correlated to volumes transported. Under this mechanism, approximately 99.5% of total revenue from transportation activities is guaranteed. Based on the tariff system currently applied by the Authority to natural gas storage activities, Snam's revenue, via Stogit, correlates to infrastructure usage. However, the Authority has introduced a mechanism to guarantee reference revenue that allows companies to *cover a significant*

<sup>47</sup> 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.



portion of revenues recorded. For 2015 and 2016, the minimum guaranteed level of revenue recorded was approximately 97%. The Authority is reviewing an integration of such mechanism which, for subsequent years, will result in reliance on the guaranteed minimum level of revenue, as well as the storage company's efficiency in terms of managing capacity allocation procedures and service provision procedures, following a procedure launched by the Authority. The change to the regulatory framework in force could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

### Emerging risks

The purpose of the process to identify emerging risks is to be able to look into the impacts and put in place the necessary strategies and mitigation measures with a view to both prevention and control. Some of the emerging risks identified by Snam are in the area of cybersecurity and risks relating to climate change, specifically with regard to emissions trading.

#### Cybersecurity

Snam carries out its activities through a complex technological architecture relying on an integrated model of processes and solutions capable of promoting the efficient management of the gas system for the entire country. The development of the business and recourse to innovative solutions capable of continuous improvement, however, requires increasing attention to be focused on aspects of cybersecurity.

For this reason Snam has developed its own cybersecurity strategy based on a framework defined in accordance with standard principles on the subject and focusing constant attention on Italian and European regulatory developments, especially as far as the world of critical infrastructures and essential services is concerned. First and foremost, this strategy involves adapting one's own processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and ISO 22301 (Business Continuity Management Systems) and the formal certification of conformity to the listed standards.

Alongside this and in accordance with technological developments, preventative and reactive solutions aimed at protecting the Company from the cyber threats and malware are assessed and, where deemed appropriate, implemented. Information sharing with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events.

A great deal of attention is also paid to increasing awareness and specialist training of personnel, in order to facilitate the identification of *weak signals* and raising consciousness about risks of a cyber nature that could occur during the course of normal work activities.

#### Climate change and emissions trading

The *risks connected with the emissions market fall* within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. At the start of the third regulatory period (2013 - 2020), the greenhouse gas emission authorisation system, previously governed by Legislative Decree 216/2006, was updated and modified by Legislative Decree 30 of 13 March 2013, effective from 5 April 2013. According to the new provisions, the main aim of the decree was to update laws on greenhouse gas emission authorisations and to continually reduce free emission allowances. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant (as in the second regulatory period), and will also depend on the actual functionality of the plants.

Compliance with greenhouse gas regulations in the future may require Snam to adjust its facilities, and to control or limit its emissions or undertake other actions that could increase the costs of complying with the regulations in force, and therefore have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

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

TYPE	DESCRIPTION	MITIGATION AND MONITORING MEASURES IMPLEMENTED	REFERENCE IN THE DIRECTORS' REPORT OR OTHER CORPORATE DOCUMENTS
Regulatory risk	Definition and updating of a regulatory framework in Italy and countries of interest that presents penalising parameters	<ul style="list-style-type: none"> <li>- Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system</li> </ul>	<ul style="list-style-type: none"> <li>- Summary data and information</li> <li>- Business segment operating performance</li> </ul>
	Significant change in regulations and/or case law	<ul style="list-style-type: none"> <li>- Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system</li> </ul>	
Legal and non-compliance risk	<p>Non-alignment of corporate governance and/or the internal control and risk system with regulations and/or best practices</p> <hr/> <p>The Company's responsibility for offences committed by management or third parties</p>	<ul style="list-style-type: none"> <li>- Periodic revision of employer model</li> <li>- Updating of Model 231 and the Code of Ethics</li> <li>- Analysis of updates to the latest version (July 2015) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices</li> <li>- Anti-corruption monitoring</li> <li>- Monitoring of corporate anti-trust and anti-corruption policies</li> </ul>	<ul style="list-style-type: none"> <li>- Report on corporate governance and ownership structure</li> <li>- Other operating information and results-</li> <li>- Natural gas for decarbonisation – 2016 Sustainability report</li> </ul>

TYPE	DESCRIPTION	MITIGATION AND MONITORING MEASURES IMPLEMENTED	REFERENCE IN THE DIRECTORS' REPORT OR OTHER CORPORATE DOCUMENTS
	<p>Delay to the progress of programmes involving the construction of large transportation and storage infrastructure</p>	<ul style="list-style-type: none"> <li>- Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity</li> <li>- Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset.</li> <li>- Use of innovative construction technologies with low environmental impacts (e.g. trenchless technologies, use of turbo gas with low atmospheric emissions)</li> <li>- Strict, structured system for selecting contractors and monitoring their performance</li> </ul>	<ul style="list-style-type: none"> <li>- Summary data and information</li> <li>- Other results and information on management</li> <li>- Natural gas for decarbonisation 2016 Sustainability Report</li> </ul>
Operating risks	<p>Breakage of or damage to pipes/plants, including as a result of exogenous events. Interruption of the service due to malfunctioning of plants or operating systems</p>	<ul style="list-style-type: none"> <li>- Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity</li> <li>- Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset.</li> <li>- Use of innovative construction technologies with low environmental impacts (e.g. trenchless technologies, use of turbo gas with low atmospheric emissions)</li> <li>- Strict, structured system for selecting contractors and monitoring their performance</li> </ul>	<ul style="list-style-type: none"> <li>- Summary data and information</li> <li>- Other operating information and results</li> </ul>

TYPE	DESCRIPTION	MITIGATION AND MONITORING MEASURES IMPLEMENTED	REFERENCE IN THE DIRECTORS' REPORT OR OTHER CORPORATE DOCUMENTS
Operating risks (supply chain)	Maintaining an adequate reputational profile for suppliers and subcontractors	<ul style="list-style-type: none"> <li>- Introduction of additional measures to prevent corruption and criminal infiltration:</li> <li>° Ethics and integrity pact signed by suppliers/contractors</li> <li>° Reputational checks on suppliers and subcontractors</li> </ul>	<ul style="list-style-type: none"> <li>- Other results and information on management</li> <li>- Natural gas for decarbonisation – 2016 Sustainability Report</li> </ul>
Market and competition risk	Retaining gas storage concessions	<ul style="list-style-type: none"> <li>- Development of storage carried out in line with the most up-to-date technical and economic criteria and best practices in science and technology so as not to damage the deposit, not to cause harm to third parties or the environment and to guarantee the optimisation of capacity in compliance with the security of the national gas system</li> </ul>	
	Change in the price of natural gas related to the payment in kind of natural gas	<ul style="list-style-type: none"> <li>· Monitoring of the regulatory framework in force and subsequent changes</li> </ul>	Business segment operating performance - Natural gas transport
	Change in the gas demand with adverse effects on the business and on the financial position	<ul style="list-style-type: none"> <li>· Monitoring of the pricing systems defined by AEEGSI</li> </ul>	Business segment operating performance
Risks related to climate change	Emissions trading	<ul style="list-style-type: none"> <li>· Ongoing regulatory supervision with monitoring of the development of the greenhouse gas emissions authorisation system</li> </ul>	

TYPE	DESCRIPTION	MITIGATION AND MONITORING MEASURES IMPLEMENTED	REFERENCE IN THE DIRECTORS' REPORT OR OTHER CORPORATE DOCUMENTS
	Medium- and long-term debt rating downgrade	- Constant monitoring of rating indicators and availability of long-term credit lines	- Snam and the financial markets
	Changes in the interest rate	- Monitoring cash-flow-at-risk using an asset and liability management (ALM) model	- Snam in 2016 - Main Events - Snam and the financial markets
	Exchange rate changes	- Minimisation of transaction risk, through measures such as the use of derivatives	
	Inability to raise new funds (funding liquidity risk) or to liquidate assets on the market	- Minimisation of opportunity cost and maintaining a balance in terms of debt duration and composition	
Financial/liquidity risks	Default	- Monitoring of the contractual protection clauses in loan agreements	- Note no. 15 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities"
		- Scoring system for evaluation and segmentation of customers (creditworthiness), and systematic management of requests upon specific maturities.	
	Bad debts	- Evaluation of the authenticity and validity of guarantees.	
		- Reporting of any issues with the regulatory system that may lead to opportunistic/fraudulent behaviour by operators	

## CONTROL ACTIVITIES

The results of the risk assessment and monitoring activities and the related mitigation measures are presented regularly to the Control and Risk Committee, the Board of Statutory Auditors and the Watch Structures of Snam and its subsidiaries. They were also used by the Internal Audit department to draw up the audit schedules. In 2016, audit activities were performed by a dedicated team of 16 auditors.

	2014	2015	2016
Total number of audits performed	93	64	42
Reports received	20	17	5
- of which related to the internal control system		2	1
- of which related to accounting, auditing, fraud, etc.	-	-	-
- of which related to administrative responsibility pursuant to Legislative Decree 231/2001	-	-	1
- of which relating to breaches of the anti-corruption law	-	-	3
- of which related to other subjects (Code of Ethics, harassment, theft, security, etc.)	18	15	-
Reports received	13	8	2
Segnalazioni concluse con interventi disciplinari, gestionali e/o sottoposte all'Autorità Giudiziaria	1	3	-
Segnalazioni in corso di esame (n.)	6	6	3

All internal audit activities are carried out based on the international standards issued by the Institute of Internal Auditors (IIA). In accordance with the provisions of the standards, in 2016, following the specific mandate conferred by Snam on the auditing bodies, a Quality Assurance Review (QAR) was carried out of the Internal Audit function by an independent specialised company, which included a benchmark analysis with respect to similar entities to Snam by business type and size; the analysis revealed the full compliance, of the practices adopted by Snam's Internal Audit department, with the international auditing standards specifying, also in relation to benchmark performed, the qualifying factors and certain areas of improvement, for which Internal Audit has prepared an action plan that will be implemented during 2017.

### Corporate Reporting Internal Control System

The internal control and risk management system and the corporate reporting process of the Snam Group are elements of the same "System" (the Corporate Reporting Internal Control System), which is meant to ensure the reliability,<sup>48</sup> accuracy<sup>49</sup>, dependability<sup>50</sup> and timeliness of corporate disclosure with regard to financial reporting and the ability of the relevant business processes to produce this information in keeping with generally accepted accounting principles.

The reporting in question consists of all data and information contained in the periodic accounting documents required by law – the separate and consolidated annual financial report, half-year financial report and interim report on operations – as well as in any other accounting document or external communication – such as press releases and prospectuses prepared for specific transactions – covered by the statements provided for by Article 154-bis of the TUF. This reporting includes both financial and non-financial data and information, where the latter aims to describe significant aspects of the business, comment on the financial results for the year and/or describe future prospects.

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

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

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

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

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

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

48 Credibility of reporting: reporting that is correct and that complies with generally accepted accounting standards and fulfils the requirements of the applicable laws and regulations.

49 Accuracy of reporting: error-free reporting.

50 Reliability of reporting: reporting that is clear and comprehensive, enabling investors to make informed investment decisions.

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

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

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





# Outlook

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

## GAS DEMAND

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

## INVESTMENTS

Snam confirms a significant investment plan, equal to approximately €5 billion in the five-year period 2017 – 2021 of which €4.7 billion for projects 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 922.2 Megawatts 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 delivery point 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 controllable costs more or less stable in real terms, on a constant-size basis.

## NEW BUSINESS

Initiatives aimed at the development of new innovative services in the CNG and "Small Scale LNG" sector are being examined, specifically to support the use of gas in the transport industry.

Snam will also ensure all necessary measures for promoting the use of its know-how in gas infrastructure to serve investees and third parties.



# Glossary

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at [www.snam.it](http://www.snam.it). The most common terms are described below.

## ECONOMIC AND FINANCIAL TERMS

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### **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 expense 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.

**Derivatives**

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

**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

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#### **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 supplies 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**

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**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, predominantly made of methane liquefied by cooling to approximately  $-160^{\circ}\text{C}$ , at atmospheric pressure, for ease of transfer into dedicated vessels (tankers) or storage in tanks. In order to be sent in the transportation network the liquid product has to be converted into gaseous stage into regasification plants and pressurise to the operating pressure of gas pipes.

**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**

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#### **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 natural gas storage services. We are currently in the fourth regulatory period, which began on 1 January 2015 and will end on 31 December 2018.

#### **Regulatory time lag**

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

### **TECHNICAL TERMS**

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#### **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 the optimum cultivation of Italy's natural gas fields.

#### **Strategic storage**

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





# Consolidated Financial Statements

## STATEMENT OF FINANCIAL POSITION

(€ million)	Notes	31.12.2015		31.12.2016	
		Total	<i>of which with related parties</i>	Total	<i>of which with related parties</i>
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	(7)	17		34	
Trade and other receivables	(8)	1,824	627	1,307	501
Inventories	(9)	152		118	
Current income tax assets	(10)	54		26	
Other current tax assets	(10)	8		6	
Other current assets	(11)	98		52	
		<b>2,153</b>		<b>1,543</b>	
<b>Non-current assets</b>					
Property, plant and equipment	(12)	15,478		15,563	
Compulsory inventories	(9)	363		363	
Intangible assets	(13)	5,275		810	
Investments valued using the equity method	(14)	1,372		1,499	
Other receivables	(8)	78	78	213	213
Other non-current assets	(11)	137	2	138	2
		<b>22,703</b>		<b>18,586</b>	
<b>Non-current assets held for sale</b>		<b>24</b>			
<b>TOTAL ASSETS</b>		<b>24,880</b>		<b>20,129</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term financial liabilities	(15)	1,351	19	1,497	18
Short-term portion of long-term financial liabilities	(15)	1,378		856	
Trade and other payables	(16)	1,746	220	1,264	116
Current income tax liabilities	(10)	1		2	
Other current tax liabilities	(10)	50		8	
Other current liabilities	(17)	71	1	21	2
		<b>4,597</b>		<b>3,648</b>	
<b>Non-current liabilities</b>					
Long-term financial liabilities	(15)	11,067		8,737	
Provisions for risks and charges	(18)	776		707	
Provisions for employee benefits	(19)	166		44	
Deferred tax liabilities	(20)	388		187	
Other non-current liabilities	(17)	293		309	
		<b>12,690</b>		<b>9,984</b>	
<b>Liabilities directly associated with assets held for sale</b>		<b>7</b>			
<b>TOTAL LIABILITIES</b>		<b>17,294</b>		<b>13,632</b>	
<b>SHAREHOLDERS' EQUITY</b>					
<b>Snam shareholders' equity</b>					
Share capital		3,697		2,736	
Reserves		2,650		2,900	
Net profit		1,238		861	
<b>Total Snam shareholders' equity</b>		<b>7,585</b>		<b>6,497</b>	
<b>Minority interests</b>		<b>1</b>			
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>7,586</b>		<b>6,497</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>24,880</b>		<b>20,129</b>	

## INCOME STATEMENT

(€ million)	Notes	2015		2016	
		Total	of which with related parties	Total	of which with related parties
<b>REVENUE</b>	(24)				
Core business revenue		2,470	1,693	2,419	1,553
Other revenue and income		84	36	82	25
		<b>2,554</b>		<b>2,501</b>	
<b>OPERATING COSTS</b>	(25)				
Purchases, services and other costs		(403)	(38)	(390)	(43)
Personnel cost		(148)		(167)	
		<b>(551)</b>		<b>(557)</b>	
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES</b>	(26)	<b>(576)</b>		<b>(651)</b>	
<b>EBIT</b>		<b>1,427</b>		<b>1,293</b>	
<b>FINANCIAL INCOME (EXPENSES)</b>	(27)				
Financial expenses		(387)		(635)	(1)
Financial income		7	3	126	123
Derivatives				(1)	
		<b>(380)</b>		<b>(510)</b>	
<b>INCOME (EXPENSE) FROM EQUITY INVESTMENTS</b>	(28)				
Equity method valuation effect		106		116	
		<b>106</b>		<b>116</b>	
<b>PRE-TAX PROFIT</b>		<b>1,153</b>		<b>899</b>	
Income tax	(29)	(357)		(308)	
<b>Net profit - continuing operations</b>		<b>796</b>		<b>591</b>	
<b>Net profit - discontinued operations (*)</b>	(21)	<b>442</b>	788	<b>270</b>	665
<b>Net profit</b>		<b>1,238</b>		<b>861</b>	
<b>Attributable to Snam shareholders:</b>					
- continuing operations		796		591	
- discontinued operations		442		270	
<b>Minority interests:</b>					
- continuing operations					
- discontinued operations					
<b>Net profit per share attributable to Snam shareholders (€ per share)</b>	(30)				
- basic		0.35		0.25	
- diluted		0.35		0.25	
<b>Net profit per share attributable to Snam shareholders - continuing operations (€ per share)</b>	(30)				
- basic		0.23		0.17	
- diluted		0.23		0.17	

(\*) In conformity with the provisions of paragraph 33 of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the analysis of the net profit from discontinued operations cannot be presented alternatively in the Income statement or the Notes. Snam has chosen to give this analysis in the Notes to Note 21 "Discontinued operations", which should be referred to.

## STATEMENT OF COMPREHENSIVE INCOME

(€ million)	2015	2016
<b>Net profit</b>	<b>1,238</b>	<b>861</b>
<b>Other components of comprehensive income</b>		
<i><b>Components that can be reclassified to the income statement</b></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><b>Components that cannot be reclassified to the income statement</b></i>		
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees	6	(7)
Portion of equity-accounted investments pertaining to "other components of comprehensive income" referring to remeasurement of defined-benefit plans for employees		1
Tax effect	(2)	2
	4	(4)
<b>Total other components of comprehensive income, net of tax effect</b>	<b>15</b>	<b>(18)</b>
<b>Total comprehensive income</b>	<b>1,253</b>	<b>843</b>
<b>Attributable to Snam shareholders:</b>		
- continuing operations	809	577
- discontinued operations	444	266
<b>Minority interests:</b>		
- continuing operations		
- discontinued operations		
	1,253	843

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Snam shareholders' equity													
(€ million)	Share capital	Negative reserve for treasury shares in the portfolio (*)	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	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
<b>Balance at 31 December 2014 (a)</b>	3,697	(5)	1,700	714	(3)	(20)	(1,701)	(1)	1,592	1,198	7,171	1	7,172
<b>Profit for 2015</b>										1,238	1,238		1,238
<b>Other components of comprehensive income:</b>													
<b>Components that can be reclassified to the income statement:</b>													
- Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"								11			11		11
<b>Components that cannot be reclassified to the income statement:</b>													
- Actuarial gains on remeasurement of defined-benefit plans for employees						4					4		4
<b>Total comprehensive income for 2015 (b)</b>						4		11		1,238	1,253		1,253
<b>Transactions with shareholders</b>													
- 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)			
<b>Total transactions with shareholders (c)</b>			(97)	25					395	(1,198)	(875)		(875)
<b>Other changes in shareholders' equity (d)</b>								36			36		36
<b>Balance at 31 December 2015 (e=a+b+c+d)</b>	3,697	(5)	1,603	739	(3)	(16)	(1,701)	46	1,987	1,238	7,585	1	7,586

(\*) Renamed following Legislative Decree 139/15 which came into force on 1 January 2016.

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

		Snam shareholders' equity												
(€ million)	Note	Share capital	Negative reserve for treasury shares in the portfolio (*)	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	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
<b>Balance at 31 December 2015 (a)</b>	<b>(22)</b>	3,697	(5)	1,603	739	(3)	(16)	(1,701)	46	1,987	1,238	7,585	1	7,586
<b>Profit for 2016</b>											861	861		861
<b>Other components of comprehensive income:</b>														
<b>Components that can be reclassified to the income statement:</b>														
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"									(15)			(15)		(15)
- Change in fair value of cash flow hedge derivatives						1						1		1
						1			(15)			(14)		(14)
<b>Components that cannot be reclassified to the income statement:</b>														
- Actuarial gains/(losses) on remeasurement of defined-benefit plans for employees							(5)					(5)		(5)
									1			1		1
							(5)		1			(4)		(4)
<b>Total comprehensive income for 2016 (b)</b>						1	(5)		(14)	861		843		843
<b>Transactions with shareholders:</b>														
- Allocation of dividend for 2015 (€0.25 per share)				(50)						(825)		(875)		(875)
- Allocation of 2015 residual net profit									413	(413)				
- Purchase of treasury shares			103									(103)		(103)
- Effects of the separation of Italgas Reti S.p.A. from Snam S.p.A.		(961)	(416)	(192)			14	1,006	(433)			(982)	(1)	(983)
<b>Total transactions with shareholders (c)</b>		<b>(961)</b>	<b>(103)</b>	<b>(466)</b>	<b>(192)</b>		<b>14</b>	<b>1,006</b>	<b>(20)</b>	<b>(1,238)</b>		<b>(1,960)</b>	<b>(1)</b>	<b>(1,961)</b>
<b>Other changes in shareholders' equity:</b>														
- Effect of Stogit acquisition price adjustment								21				21		21
- Reclassification of reserves for purchase of treasury shares				3					(5)	2				
- Other changes									8			8		8
<b>Total other changes in shareholders' equity (d)</b>				<b>3</b>				<b>21</b>	<b>3</b>	<b>2</b>		<b>29</b>		<b>29</b>
<b>Balance at 31 December 2016 (e=a+b+c+d)</b>	<b>(22)</b>	<b>2,736</b>	<b>(108)</b>	<b>1,140</b>	<b>547</b>	<b>(2)</b>	<b>(7)</b>	<b>(674)</b>	<b>35</b>	<b>1,969</b>		<b>6,497</b>		<b>6,497</b>

(\*) Renamed following Legislative Decree 139/15 which came into force on 1 January 2016.

## CASH FLOWS STATEMENT (\*)

(€ million)	Notes	2015	2016
Net profit - continuing operations		796	591
Net profit - discontinued operations		442	270
<b>NET PROFIT</b>		<b>1,238</b>	<b>861</b>
Adjustments for reconciling net profit with cash flows from operating activities:			
Amortisation and depreciation - continuing operations	(26)	573	616
Amortisation and depreciation - discontinued operations		273	243
Impairment losses from tangible and intangible fixed assets	(26)	3	35
Effect of valuation using the equity method	(14)	(126)	(133)
Net capital losses (capital gains) on asset sales, cancellations and eliminations		32	36
Interest income		(8)	(126)
Interest expense		345	615
Income tax - continuing operations	(29)	357	308
Income tax - discontinued operations		110	87
Other changes		(9)	
<b>Changes in working capital:</b>			
- Inventories		55	15
- Trade receivables		(9)	34
- Trade payables		(128)	(148)
- Provisions for risks and charges		(14)	24
- Other assets and liabilities		136	(101)
<i>Working capital cash flow</i>		40	(176)
Change in provisions for employee benefits		30	(4)
Dividends collected		141	148
Interest collected		5	122
Interest paid		(345)	(615)
Income taxes paid net of reimbursed tax credits		(605)	(390)
<b>NET CASH FLOW FROM OPERATING ACTIVITIES</b>		<b>2,054</b>	<b>1,627</b>
- of which with related parties	(32)	2,450	2,343
Investments:			
- Property, plant and equipment	(12)	(793)	(832)
- Intangible assets	(13)	(393)	(313)
- Change in scope of consolidation and business units		(46)	
- Equity investments		(144)	(170)
- Financial receivables held for operations		(78)	(133)
- Change in payables and receivables relating to investments		18	
<i>Cash flow from investments</i>		<i>(1,436)</i>	<i>(1,448)</i>
Divestments:			
- Property, plant and equipment		6	2
- Change in receivables relating to divestment activities			22
- Companies leaving the scope of consolidation (**)			1,502
- Equity investments		147	2
<i>Cash flow from divestments</i>		<i>153</i>	<i>1,528</i>
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>		<b>(1,283)</b>	<b>80</b>
- of which with related parties	(32)	(157)	1,326

## CON'T CASH FLOWS STATEMENT (\*)

(€ million)	Notes	2015	2016
<b>NET CASH FLOW FROM INVESTMENT ACTIVITIES</b>		<b>(1,283)</b>	<b>80</b>
- of which with related parties	(32)	(157)	1,326
Assumption of long-term financial debt		1,167	2,039
Repayment of long-term financial debt		(1,620)	(4,479)
Increase (decrease) in short-term financial debt		284	143
Change in financial receivables not held for operating activities		216	
Financial receivables of companies leaving the scope of consolidation (***)			1,585
		47	(712)
Purchase of treasury shares			(103)
Dividends paid to Snam shareholders		(875)	(875)
<b>NET CASH FLOW FROM FINANCING ACTIVITIES</b>		<b>(828)</b>	<b>(1,690)</b>
- of which with related parties	(32)	222	1,584
<b>NET CASH FLOW FOR THE PERIOD</b>		<b>(57)</b>	<b>17</b>
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD</b>	(7)	74	17
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	(7)	17	34

(\*) In conformity with the provisions of paragraph 33 of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the net financial flows attributable to operations, investment, and financing of discontinued operations can be presented alternatively in the Notes or in the financial statements. Snam chose to represent the Group total cash flows in the Cash flow statement, including both continuing and discontinued operations. The additional information on the cash flows of discontinued operations is given in Note 21 "Discontinued operations".

(\*\*) The amount relates to the collection of the consideration from the sale of 38.87% of the equity investment held by Snam S.p.A. in Italgas Reti S.p.A. (€1,502 million, net of cash sold). For more information about the operation of separating Italgas Reti S.p.A. from Snam S.p.A., refer to Note 21 "Discontinued operations".

(\*\*\*) This refers to the repayment to Snam S.p.A. of inter-company financial receivables from the Italgas Group net of financial payables to the EIB (€424 million), provided by the EIB to Snam for financing Italgas S.p.A. projects, that are being taken over by the Italgas Group. For more information about the operation of separating Italgas Reti S.p.A. from Snam S.p.A., refer to Note 21 "Discontinued operations".



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### Introduction

Following the operation of separating the natural gas business in Italy from Snam, which led to the transfer, with effect from 7 November 2016, of the entire equity investment held by Snam S.p.A. in Italgas Reti S.p.A. (formerly Italgas S.p.A.) to Italgas S.p.A. (formerly ITG Holding S.p.A.)<sup>1</sup>, in the 2016 consolidated financial statements the natural gas distribution business segment is represented as a "Discontinued operation" based on the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations"<sup>2</sup>.

Based on these provisions, the economic results of the natural gas distribution sector for the period 1 January - 6 November 2016 are reported separately in a single line of the income statement<sup>3</sup> and limited to relations with third parties, with inter-company transaction eliminations continuing to be conducted until the effective date of the transactions, a date until which Italgas and its subsidiaries were entities controlled by Snam and, consequently, included in the scope of consolidation. The financial years used for comparison were reclassified in a consistent manner.

In this representation method, if there are significant transactions between the discontinued operations (distribution activity) and the continuing operations, the results of the continuing operations, (transportation, regasification, storage, as well as corporate activities) do not represent the performance as if there were standalone activities by way of the elimination of inter-company transactions.

Specifically, revenue for the provision of services and financial income, respectively, with regard to services rendered and loans supplied centrally by Snam S.p.A. to Italgas Reti S.p.A., are subject to elimination, with the costs that generated these chargebacks remaining under continuing operations. As laid down by the provisions of IFRS 10 "Consolidated financial statements", assets and liabilities attributable to the natural gas distribution sector were eliminated from the Group Consolidated statement of financial position at the date of the loss of control against the corresponding portion of shareholders' equity<sup>4</sup>.

The economic information on the cash flows of discontinued operations is given in Note 21 "Discontinued operations".

For the sake of completeness, note that the operation of separating the natural gas distribution business from Snam qualifies as a "Business combination involving entities under common control" and, as such, is excluded from the scope of application of IFRS 3 "Business combinations" and IFRIC 17 "Distribution to shareholders of assets not represented by cash". Specifically, there is the situation in which the companies participating in the business consolidation are ultimately controlled, pursuant to IFRS 10, by the same party, i.e. by CDP, both before and after the combination and such control is not transitory. As a result, for the purpose of the Snam Group consolidated financial statements, the transaction in its entirety was recorded applying the principle of continuity of values.

### Company information

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as "Snam", the "Snam Group" or the "Group"), is an integrated group at the forefront of the regulated gas sector and a major player in terms of its regulatory asset base (RAB) in the sector. Since 7

1 To complete this operation, which spans several stages that are unitary and simultaneous, Snam S.p.A. has a significant interest in Italgas S.p.A. owning a 13.5% stake in the company's share capital. The operation is illustrated in detail in Note 21 "Discontinued operations".

2 The evaluation criteria in accordance with the provisions of IFRS 5 are illustrated in Note 3, "Evaluation criteria - Non-current assets held for sale and discontinued operations".

3 These results also include the contribution to the income statement of Italgas S.p.A. because the company, controlled by Snam until the effective date of the transaction, was established, on 1 June 2016, exclusively under the scope of the operation in question as the future beneficiary holding company of the transfer of the entire equity investment of Snam S.p.A. in Italgas Reti S.p.A.

4 With reference to the tables of the change in amounts on the balance sheet reported in the later notes, in order to allow the reconciliation between the mandatory income statement items and those in the above tables, the effects relating to discontinued operations for 2016 and for 2015 were presented separately.

November 2016, after the separation of the natural gas distribution business in Italy from Snam S.p.A. took effect, Snam has had a presence nationally, through three wholly-owned operating companies, in the natural gas transportation and dispatching business, regasification of liquefied natural gas and natural gas storage. Snam operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players.

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).

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

At 31 December 2016 CDP S.p.A. owns, via CDP Reti S.p.A. and CDP GAS S.r.l., respectively, 28.98% and 1.12% of the share capital of Snam S.p.A.

### **1. Basis of presentation**

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission according to the procedure pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and pursuant to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) as well as the interpretation documents currently in force issued by the IFRS Interpretation Committee (IFRS IC), including those previously issued by the International Financial Reporting Interpretations Committee (IFRIC) and, even earlier, by the Standing Interpretations Committee (SIC). For simplicity, all the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".

The consolidated financial statements are prepared in consideration of future continuing business using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.

The consolidated financial statements as at 31 December 2016, approved by the Board of Directors of Snam S.p.A. at the meeting of 6 March 2017 were subjected to an audit by EY S.p.A. EY S.p.A., as the main auditor, is entirely responsible for the auditing of the Snam Group consolidated financial statements; in the limited cases in which other auditors also take part, it assumes responsibility for the work performed by the latter.

The consolidated financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in millions of Euros, unless otherwise specified.

### **Accounting standards and interpretations applicable from 2016**

In the financial year ended 31 December 2016, the Company applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2016, which are described below.

On 9 January 2015, Commission Regulations (EU) 2015/28 and 2015/29 of 17 December 2014, were published in the Official Journal of the European Union. The Regulations approved, respectively: (i) the regulatory provisions contained in the document "Annual Improvements to International Financial Reporting Standards 2010-2012 Cycle"; and (ii) the amendments to IAS 19 in the provisions in the document "Defined-Benefit Plans: Employee Contributions (Amendments to IAS 19)".

The provisions contained in the document "Annual Improvements to International Financial Reporting Standards 2010-2012 Cycle" introduced amendments to: (i) IFRS 2, by clarifying the definition of

“vesting condition” and adding definitions of service conditions and vesting conditions; (ii) IFRS 3, by clarifying that obligations to pay contingent considerations, other than those defined as equity instruments, are measured at fair value through profit or loss at each reporting date; (iii) IFRS 8, by requiring disclosure of the judgements made by management, describing the segments that have been aggregated and the economic indicators that have been assessed in determining the existence of the economic characteristics that are similar in the aggregated segments; (iv) IAS 16 and IAS 38, by clarifying the way in which the gross carrying amount is calculated when revaluation takes place; and (v) IAS 24, by establishing the information to be provided when a third party that provides key management personnel services to the reporting entity (or the parent company).

The amendments to IAS 19 allow contributions paid by employees or third parties that are independent of the number of years of service to be recognised as a reduction in the current service cost for the period, instead of attributing these contributions across the entire time period in which the service is rendered (i) not related to the number of years of service of the employee (ii) indicated in the formal conditions of the plan (iii) connected to the service performed by the employee.

Through regulation no. 2015/2173, issued by the European Commission on 24 November 2015, the regulatory provisions of the document “Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)”, issued by the IASB on 6 May 2014, were approved. The document governs the accounting treatment for acquisitions of initial or additional interests in joint operations (that do not alter the categorisation of the interest as such), falling within the definition of business pursuant to IFRS 3, which involve the adoption of the provisions for business combination operations applicable to this case.

Commission Regulation (EU) 2015/2231 of 2 December 2015 approved the regulatory provisions contained in the document “Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)”, issued by the IASB on 12 May 2014 with the aim of clarifying that an amortisation method based on revenue generated by the asset (the revenue-based method) is not regarded as appropriate as it exclusively reflects the revenue flows generated by this asset, rather than the way in which the economic benefits incorporated in the asset are consumed. In the case of intangible assets, this presumption may be overcome if: (i) the right to use the asset is related to the achievement of a predetermined revenue threshold to be produced; or (ii) it can be shown that the achievement of revenue and use of the economic benefits generated by the assets are closely correlated.

Commission Regulation (EU) 2015/2343 of 15 December 2015 approved the regulatory provisions contained in the “Annual Improvements to International Financial Reporting Standards 2012-2014 Cycle”, issued by the IASB on 25 September 2014. The document: (i) in relation to IFRS 5, clarifies that any change in the classification of an asset (or disposal group) from held for sale to held for distribution to shareholders (or vice-versa) should be considered as a continuation of the original disposal plan rather than as a new plan; (ii) in relation to IFRS 7 – “Financial Instruments: Disclosures”, provides additional guidance on determining whether there is continued involvement in transferred financial assets, in the case where there is a related servicing contract, in order to establish the level of disclosure required. In relation to the same standard, it also clarifies the applicability of disclosure required on the offsetting of financial assets and liabilities in interim financial statements; (iii) in relation to IAS 19, clarifies that the rate used to discount bonds must be determined using the market yields on leading corporate bonds denominated in the same currency used to pay benefits rather than at country level; and (iv) in relation to IAS 34, clarifies that the information required by IAS 34 on the transactions and significant facts can be provided within the interim financial statements or through other documents, to which the users of the interim financial statements have access in the same conditions and the same time frames as the actual financial statements, otherwise the latter is incomplete.

Through regulation no. 2015/2406, issued by the European Commission on 18 December 2015, the

regulatory provisions of the document “Disclosure Initiative (Amendments to IAS 1)”, issued by the IASB on 18 December 2014, were approved. The document includes a number of clarifications relating to materiality, any disaggregation of items, the structure of the explanatory notes, information on the accounting policies used and the presentation of other components of comprehensive income arising from the valuation of equity investments using the equity method.

On the same date, the European Commission issued Regulation (EU) 2015/2441, approving the regulatory provisions contained in the document “Equity Method in Separate Financial Statements” (Amendments to IAS 27, issued by the IASB on 12 August 2014, which permits the recognition in the separate financial statements of investments in subsidiaries, joint ventures and associates using the equity method, as well as at cost or pursuant to IAS 39 (the two methods already permitted). The selected accounting option must be applied consistently for each category of equity investment. The same amendment consequently modified the definition of separate financial statements.

Through regulation no. 2016/1703, issued by the European Commission on 22 September 2016, the regulatory provisions of the document “Investment entities: applying the consolidation exception (Amendments to IFRS 10, IFRS 12 and IAS 28)”, issued by the IASB on 18 December 2014, were approved. The document aims to clarify the cases in which the consolidation exception can be applied for investment entities.

The above changes did not have an impact on the Group’s operations, results, balance sheet and cash flow.

## 2. Consolidation principles

The consolidated financial statements comprise the financial statements of Snam S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – “Consolidated Financial Statements”. Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.

The exclusion from the scope of consolidation of some subsidiaries, which are not significant either individually or collectively, had no material effect<sup>5</sup> for the purposes of correctly representing the results, balance sheet and cash flow of the Snam Group. These investments are valued at cost.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix “Subsidiaries, associates and equity investments of Snam S.p.A. at 31 December 2016”, which is an integral part of these notes. The same appendix lists the changes that took place in the scope of consolidation between 31 December 2015 and 31 December 2016.

All financial statements of consolidated companies close at 31 December and are presented in Euro.

### Companies included in the scope of consolidation

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

5 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.

The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.

The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income.

Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company. Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the alignment to the relative fair value of any residual equity investment maintained; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

### **Equity investments in associates and joint ventures**

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control<sup>6</sup>. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.

Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity-accounted investments".

### **Business combinations**

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement. Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition

<sup>6</sup> Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

of control, net of any goodwill (the “partial goodwill method”). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the “full goodwill method”). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

#### Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as “business combinations of entities under common control”. Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired (or the vendor company) pre-dating the transaction or, alternatively, at the values from the consolidated financial statements of the common ultimate parent.

With special reference to the above transactions, with regard to the sale of a business, the treatment of the difference between the contractually-defined consideration and the book values of the business transferred is differentiated according to the parties involved in the transfer transaction.

With regard to business transfers under common control, on the other hand, irrespective of the pre-existing investment relationship, the transferee entity should record the business transferred at its historical book value increasing its shareholders' equity by this amount; the transferring entity will record the investment in the transferee entity for the same amount as the increase in the shareholders' equity of the latter.

This accounting treatment refers to the proposal by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1 Revised) - “Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements” issued in October 2016.

#### Intragroup transactions that are eliminated in the consolidation process

Unrealised gains from transactions between consolidated companies are derecognised, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

### 3. Measurement criteria

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

#### Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws. The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The balance sheet assets also contain items purchased for security or environmental reasons which, although not directly improving the future economic benefits of the existing assets, are necessary to obtain benefits for the other tangible fixed assets.

The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses, unlike replacements of identifiable components, which restore and do not improve the performance of the assets, are posted in the income statement of the year in which they are incurred.

Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the "initial line pack") is depreciated over the useful life of the plant to which it refers. On the contrary, the commercial component, which may be sold on the market or employed for alternative uses (the "operating line pack"), is not depreciated, since it is not, by its nature, subject to depreciation; and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas.

Property, plant and equipment are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use or decommissioning; the related profit or loss is posted in the income statement.

#### Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	Annual depreciation rate (%)
<b>Buildings</b>	
- Buildings	2-2.5 or greater, depending on residual life
<b>Plant and equipment - Transportation</b>	
- Pipelines	2 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Gas reduction/regulation plants	5 or greater, depending on residual life
- Metering and control instruments and systems	5 or greater, depending on residual life
<b>Plant and equipment - Storage</b>	
- Pipes	2
- Treatment stations	4 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Storage wells	1.66 or greater, depending on residual life
- Monitoring and control instruments and systems	4 or greater, depending on residual life
<b>Plant and equipment - Regasification</b>	
- Regasification plants	4 or greater, depending on residual life
- Reservoirs and pipelines	4 or greater, depending on residual life
<b>Other plant and equipment</b>	2.5.-12.5
<b>Metering equipment</b>	5 or greater, depending on residual life
<b>Industrial and commercial equipment</b>	10-35
<b>Other assets</b>	10-33

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section).

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or ways of obtaining economic benefit from it are recognised prospectively.

Freely transferable assets are depreciated during the period of the concession or of the useful life of the asset, if lower.

#### Assets under finance leases

Assets under finance leases, or under agreements which may not take the specific form of a finance lease, but call for the essential transfer of the benefits and risks of ownership, are recorded at the lower of fair value less fees payable by the lessee and the present value of minimum lease payments, including any sum payable to exercise a call option, under property, plant and equipment as a contra-entry to the financial debt to the lessor. The assets are depreciated using the criteria and rates adopted for owned property, plant and equipment. When there is no reasonable certainty that the right of redemption can be exercised, depreciation takes place during the shorter of the term of the lease and



the useful life of the asset.

Leases under which the lessee maintains nearly all of the risks and benefits associated with ownership of the assets are classified as operating leases. In this case, the lessee incurs only costs for the period in the amount of the lease expenses set out in the contract, and does not record fixed assets. Improvements to assets under leases are amortised over the useful life of the actual improvements or the lower residual period of the lease taking into account any renewal period if it depends exclusively on the lessee and is virtually definite.

### **Intangible assets**

Intangible assets are those assets without identifiable physical form which are controlled by the company and capable of producing future economic benefits, as well as goodwill, when purchased for consideration. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. The company's control consists of the power to utilise future economic benefits deriving from the asset and the ability to limit access to it by others. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws. Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.

Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.

Intangible fixed assets are eliminated at the time they are decommissioned, or when no future economic benefit is expected from their use or decommissioning; the related profit or loss is posted in the income statement.

### **Storage concessions**

The value of storage concessions, which consists of the natural gas reserves present in deposits ("cushion gas"), is recorded under "Concessions, licences, trademarks and similar rights" and is not subject to amortisation, since: (i) the volume of said gas is not modified by storage activities; and (ii) the economic value of the gas that can be recovered at the end of the concession, pursuant to the provisions of the Ministerial Decree of 3 November 2005, "Criteria for determining an adequate consideration for the return of assets intended for a concession-holder for natural gas storage" of the Ministry of Productive Activities, is not lower than the value recorded in the financial statements.

### **Amortisation of intangible assets**

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	<b>Annual depreciation rate (%)</b>
<b>Other intangible fixed assets</b>	
- Industrial patent rights and intellectual property rights	20-33
- Other intangible assets	20, or according to the duration of the contract

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation.

### **Grants**

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions. Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

### **Impairment of non-financial fixed assets**

#### Impairment of property, plant and equipment and intangible assets with a finite useful life

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

The recoverable value of property, plant and equipment classed under regulated assets is determined by taking into consideration: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; and (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended. As with the quantification of tariffs, the quantification of the recoverable value of property, plant and equipment classed under regulated assets is done on the basis of the regulatory provisions in force.

If the reasons for impairment losses no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

### Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the level of the smallest aggregate, on the basis of which the Company's management directly or indirectly assesses the return on investment, including goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is attributed by priority to the goodwill up to its amount; any surplus in the impairment with respect to the goodwill is attributed pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

### **Investments valued using the equity method**

Equity investments in joint ventures and associates are valued using the equity method.

In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the share of the equity investment of the other components of comprehensive income of the investee. Dividends paid out by the investee are recognised net of the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).

In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of revaluing the book value of the investments previously held at assumption of association is posted to the income statement, including any components recognised under other components of comprehensive income. When the transferral of equity investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the book value transferred; (ii) the effect of the alignment to the relative fair value of any residual equity investment maintained; and (iii) any amounts posted to other components of comprehensive income relating to the investee company which will be reversed to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria. If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the book value with the related recoverable value determined using the criteria indicated in the section "Impairment of non-financial fixed assets".

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments".

The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

### **Inventories**

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the company expects to receive from their sale in the normal course of business.

The cost of natural gas inventories is determined using the weighted average cost method.

The sale and purchase of strategic gas do not involve the effective transfer of risks and benefits associated with ownership, and thus do not result in a change in inventories.

### **Financial instruments**

The financial instruments held by Snam are included in the following balance sheet items:

#### Cash and cash equivalents

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

#### Trade and other receivables and other assets

Trade and other receivables and other assets are valued when the comprehensive fair value of the costs of the transaction (e.g. commission, consultancy fees, etc.) are first recognised. The initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording (the amortised cost method).

Where there is actual evidence of impairment, the impairment loss is calculated by comparing the book value with the current value of anticipated cash flows discounted at the effective interest rate defined at the time of the initial recognition, or at the time of its updating to reflect the contractually defined repricing. There is objective evidence of impairment when, among other things, there are significant breaches of contract, major financial difficulties or the risk of the counterparty's insolvency.

Receivables are shown net of provisions for impairment losses; this provision, which is previously created, may be used if there is an assessed reduction in the asset's value or due to a surplus. If the reasons for a previous write-down cease to be valid, the value of the asset is restored up to the value of applying the amortised cost if the write-down had not been made.

The economic effects of measuring at amortised cost are recorded in the "Financial income (expense)" item.

Financial assets that are disposed of are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument are realised, expire or are transferred to third parties.

#### Financial liabilities

Financial liabilities, including financial debt, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Trade and other receivables and other assets" above.

Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

### Offsetting of financial assets and liabilities

Financial assets and liabilities are offset in the balance sheet when there is a legal right for offsetting, which can currently be exercised, and there is the intention of settlement on a net basis (or realising the assets and, at the same time, extinguishing the liabilities).

### Derivative financial instruments

Derivatives are assets and liabilities recognised at fair value using the criteria set out under "Fair-value measurement" below.

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, verified periodically, is high. When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.

When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of the effective derivatives are initially recognised in the shareholders' equity reserve for other components of comprehensive income and subsequently reported in the income statement in the same way as the economic effects produced by the hedged transaction.

The ineffective portion of the hedge is recorded under "(Expense) income from derivatives" in the income statement.

Changes in the fair value of derivatives which do not satisfy the requirements to be classed as hedging instruments are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "(Expense) income from derivatives".

Derivatives embedded in hybrid instruments are separate from the main contract and recorded separately if the hybrid instrument in its entirety is not measured at fair value and posted to the income statement and if the characteristics and risks of the derivative are not closely connected to those of the main contract. Verifying the existence of embedded derivatives to separate and measure separately takes place at the time when the company becomes part of the contract and, later on, when there are amendments to the contract conditions which result in significant changes to the cash flows generated.

### Fair-value measurements

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by putting the asset to its maximum and best use or by selling it to another market participant capable of using it in such a way as to maximise its value. The maximum and best use of an asset is determined from the perspective of market operators, also hypothesising

that the company intends to put it to a different use; the current use by the company of a non-financial asset is assumed to be the maximum and best use of this asset, unless the market or other factors suggest that a different use by market operators would maximise its value.

The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of financial instruments is measured taking into consideration the credit risk of the counterparty of a financial asset ("Credit Valuation Adjustment" - CVA) and the default risk of the actual entity, with reference to a financial liability ("Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: inputs represented by (unmodified) quoted prices on active markets for assets or liabilities identical to those that can be accessed as at the valuation date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs that cannot be observed for the asset or liability.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

### **Non-current assets held for sale and discontinued operations**

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether an investment is maintained following the sale. The verification of the compliance with the conditions for the classification of an item held for sale requires management to make subjective valuations formulating reasonable and realistic theories based on the available information.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.

Immediately before the classification as held for sale, the assets and liabilities coming under discontinued operations are valued in accordance with the accounting principles applicable to them. Later, non-current assets held for sale are not depreciated, and are accounted for at the lower of book value and the related fair value, less any sales costs (see "Measurement at fair value" above).

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and the fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in

value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

### **Provisions for risks and charges**

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year. Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract. When the financial impact of time is significant, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows in consideration of the risks associated with the obligation at the Company's average debt rate; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place. Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

## Employee benefits

### Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as “defined-benefit” or “defined-contribution” plans.

#### ■ *Defined-benefit plans*

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in “Finance expense (income)”.

#### ■ *Defined-contribution plans*

In defined-contribution plans, the Company’s obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (fund), based on contributions due.

The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

### Other long-term plans

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

## Treasury shares

Treasury shares are recognised at cost and entered as a reduction of shareholders’ equity. The economic effects arising from any subsequent sales are recognised in shareholders’ equity.

## Distribution of dividends

The distribution of dividends to the Company’s shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company’s shareholders or, in the case of interim dividends, by the Board of Directors.



### Foreign currency transactions

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- Monetary assets and liabilities in currencies other than the working currency are converted into euros by applying the exchange rate in effect on the reporting date, with attribution of the effect to the income statement.
- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

### Revenue

Revenue from sales and the provision of services is recognised upon the effective transfer of the risks and benefits typically relating to ownership or on the fulfilment of the service when it is likely that the financial benefits deriving from the transaction will be realised by the vendor or the provider of the service.

Revenue is recognised at the fair value of the payment received or to be received.

As regards the activities carried out by the Snam Group, revenue is recognised when the service is provided. The largest share of core revenue relates to regulated revenue, which is governed by the regulatory framework established by the AEEGSI. Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. In the transportation segment<sup>7</sup>, the difference between the revenue recognised by the regulator (the "revenue cap") and the revenue actually accrued is recognised with a contra-entry in the balance sheet under "Other assets", if positive, or "Other liabilities", if negative. This difference will be reversed in the income statement in future years by way of tariff changes. In the regasification and storage segments, however, any difference between the revenue recognised by the regulator and the accrued revenue is recognised in the balance sheet item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA).

Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) and depending on their connection to a network for the provision of supply, are recognised at fair value as a contra-entry to revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.

Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes. Revenue is reported net of items involving tariff components, in addition to the tariff, applied to cover gas system expenses of a general nature. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in

<sup>7</sup> With regard to the capacity portion of revenue, penalties for exceeding committed capacity and balancing fees.

Note 24 - "Revenue" of the Notes to the consolidated financial statements.

Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

### Dividends received

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

### Costs

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs relating to emission allowances, calculated on the basis of market prices, are only recognised for the portion of carbon dioxide emissions in excess of the allocated allowances. Earnings relating to emissions allowances are recognised at the point of realising the earnings by transfer.

The monetary receivables assigned in place of the free assignment of emissions allowances are recognised as a contra-entry under the income statement item "Other revenue and income".

Fees relating to operating leases are charged to the income statement for the duration of the contract.

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

### Income tax

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/ recovered to/ from the tax authorities under the prevailing tax regulations and rates or those essentially approved at the reporting date.

Regarding corporation tax (IRES)<sup>8</sup>, Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

8 On November 7 2016, by reason of the separation of Italgas Reti S.p.A. (formerly Italgas S.p.A.) by Snam S.p.A, has failed the requirement of control in order to be part of the Group's of the National Tax Consolidation regime Snam for Italgas Reti S.p.A. and Napoletanagas S.p.A. With regard to companies controlled by Snam S.p.A., Snam Rete Gas S.p.A., Stogit S.p.A. and GNL Italia S.p.A. the separation does not change the effects arising from the taxation of group and, therefore, for the above company continues on consolidating the National tax consolidation regime Snam S.p.A.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities"/"Current income tax assets".

Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the prevailing tax regulations and rates or those essentially approved for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when taxable income is expected to be available in the period in which the temporary difference is cancelled, allowing the activation of the tax deduction. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability.

Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

#### **Information by operating segment**

Disclosure on business segments has been prepared pursuant to IFRS 8 – "Operating Segments": consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management to allocate resources to the different segments and to analyse the respective performances.

An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (ii) whose operating results are regularly reviewed by the entity's most senior decision-makers for purposes of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.

Specifically, the declared operating segments are as follows: (i) natural gas transportation (the "transportation segment"); (ii) liquefied natural gas regasification (the "regasification segment"); (iii) natural gas storage (the "storage segment"). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit, respectively.

With reference to the natural gas distribution segment, on 7 November 2016 the separation of the natural gas distribution activities from Snam, which had, until then, been conducted by Italgas Reti S.p.A. (formerly Italgas) and by its subsidiaries, took place, involving the transfer of Snam S.p.A.'s entire equity investment. (100%) in Italgas Reti S.p.A. to Italgas S.p.A. (formerly ITG Holding S.p.A.). For the purpose of Snam's 2016 consolidated financial statements, the distribution segment is no longer represented as an operating segment.

#### 4. Financial statements<sup>9</sup>

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). In particular:

- the balance sheet items are broken down into assets and liabilities, and then further into current or non-current items<sup>10</sup>;
- the income statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the statement of comprehensive income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the statement of changes in shareholders' equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders' equity;
- the cash flow statement is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is believed that these statements adequately represent the Group's situation with regard to its balance sheet, income statement and financial position.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.

With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 33 – "Related-party transactions", are shown separately in the financial statements.

In compliance with IAS 1, unless otherwise stated, comparative data refer to the previous year.

#### 5. Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

<sup>9</sup> The financial statements are the same as those adopted in the 2015 Annual Report except for the representation of the Italgas Group as discontinued operations. The effects of the representation as discontinued operations are illustrated in Note 21 "Discontinued operations".

<sup>10</sup> The assets and liabilities are classified as current if: (i) their realisation is expected in the normal corporate operating cycle or in the twelve months after the financial year-end; (ii) they are composed of cash or cash equivalents which do not have restrictions on their use over the twelve months following the year-end date; or (iii) they are mainly held for trading purposes. Derivative instruments established for trading purposes are classified under current components, irrespective of the maturity date. Derivative instruments are classified as current when their realisation is expected within the twelve months after the year-end date; otherwise they are classified under non-current components.

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**Impairment of assets**

Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.

The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value in use, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are updated using a rate that takes account of the risk inherent to the asset concerned.

More information on the impairment test carried out by the Company's management on property, plant and equipment and on intangible assets can be found in the "Impairment of non-financial fixed assets" section.

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**Provision for site dismantling and restoration**

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for compliance with dismantling and restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.

The criticality of estimates of dismantling and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied. The determination of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the company's management.

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**Business combinations**

The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the allocation of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

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**Environmental liabilities**

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of a large liability can be reliably estimated, provisions are made for the associated costs.

The Group does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, however it cannot be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the possible emergence of contamination; (ii) the results of current and future refurbishment and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

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<b>Employee benefits</b>	<p>Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.</p> <p>The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.</p> <p>Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.</p>
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<b>Provisions for risks and charges</b>	<p>In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimate of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.</p>
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## 6. Recently issued accounting standards

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

The main accounting standards and interpretations approved by the European Commission in 2016 but not yet in force are listed and described below.

Through regulation no. 2016/1905, issued by the European Commission on 22 September 2016, the regulatory provisions of IFRS 15 "Revenue from Contracts with Customers", issued by the IASB on 28 May 2014, were approved. The document provides a single model for recognising revenue (including that derived from contract work) based on the transfer of control of a good or service to a customer. It provides a more structured approach to measuring and recognising revenue, including a detailed application guide. Specifically, the key principle of IFRS 15 requires that revenues are recognised for an amount which reflects the consideration that the entity has the right to receive with regard to the transfer of the goods and/or services. This principle breaks down into five stages: (i) identification of the contract (contracts) with the customer; the provisions of the principle apply to every single contract except for cases in which the actual principle requires the entity to consider several contracts together and makes provision as a result for the accounting; (ii) identification of the performance obligations (or the contractual promises to transfer goods and/or services) in the contract; (iii) calculating the price of the transaction; if the consideration is variable, this is estimated by the entity, to the extent to which it is highly probable that when the uncertainty associated with the variable consideration is later resolved there will not be a significant downwards adjustment to the amount of cumulated revenues measured; (iv) allocation of the transaction price to the performance obligations identified, usually based on the prices relating to the standalone sale of each of the goods or services; and (v) recording of the revenue when and/or to the extent to which the related performance obligation has not been satisfied. IFRS 15 also includes the request for financial statement information to be provided with regard to the nature, amount, timing and uncertainty of revenues and related cash flows. The Group revenue streams come from regulated activities carried out in the transportation and dispatching, storage and regasification segments, where income is governed by the regulatory framework defined by the Authority, which

defines the revenue cap annually. On the basis of this consideration, and a preliminary analysis conducted into the main existing contracts, it is believed that the application of IFRS 15 will not have significant impacts on the consolidated financial statements of the Snam Group. After the changes introduced by the amendment issued on 11 September 2015, the provisions of IFRS 15 will take effect from financial years starting on or after 1 January 2018; currently Snam is not planning to exercise the right of early adoption granted by the principle. The standard requires mandatory retroactive application and transition can take place in two possible ways: through a full retrospective approach in conformity with IAS 8 or through a modified retrospective approach. If the second approach is chosen, IFRS 15 is only applied retroactively to contracts which have not been concluded at the initial application date (1 January 2018). Snam is evaluating which of the two retroactive options to apply. For the full implementation of IFRS 15, the Group expects its analyses to be completed by the end of 2017, in time for the evaluation of the quantitative aspects of the adoption of the new principle, to be presented in the financial statements at 31 December 2017.

Regulation 2016/2067, issued by the European Commission on 22 November 2016, endorses the regulatory provision in "IFRS 9 Financial Instruments", issued by the IASB on 24 July 2014, together with the Basis for Conclusions and the Implementation Guide, replacing all the previous versions issued for the principle. The new provisions: (i) amend the classification of financial assets and provide for this classification to be based on contractual financial flows of the actual asset as well as the business model of the company; (ii) also eliminate the obligation of separating the embedded derivatives in the financial assets; (iii) identify a new impairment model that uses forward-looking information to bring forward the recognition of credit losses compared with the incurred-loss model, which delays recognition until a loss event takes place with reference to financial assets measured at amortised cost, financial assets measured at fair value in the other comprehensive income statement components, receivables from lease agreements, as well as assets from contracts and certain loan supply and financial guarantee agreement commitments; (iv) introduce substantial reforms to the qualification of hedge transactions in order to ensure that hedges are aligned with the companies' risk management strategies and founded on a more principle-based approach. As a result, IFRS 9 has also amended IFRS 7 "Financial instruments: disclosures". The provisions of the aforementioned texts, which replace those contained in IAS 39 - "Financial Instruments: Recognition and Measurement" will take effect from financial years starting on or after 1 January 2018. The impact of the adoption of this principle on the Group is currently being analysed, however, the Group does not expect significant impacts from the application on recurring transactions.

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

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed.

On 11 September 2014, the IASB issued the document "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28". In particular, the aim of the amendments is to provide a more detailed definition of the accounting treatment and the recognition of related effects in the income statement of the loss of control of an investee company due to its transferral to an associate or joint venture. The accounting treatment used in the investor's financial statements depends on whether the object of the transaction is or is not a business as defined by IFRS 3. On 17 December 2015, the IASB indefinitely deferred the adoption date for the regulatory provisions in this document.

On 13 January 2016, the IASB issued "IFRS 16 Leases", which defines leasing as a contract which gives an entity the right to use an asset for a given period of time in exchange for a consideration and eliminates the distinction for the lessee between finance leases and operating leases, introducing a

single accounting model for recognising leases. By applying this model the entity recognises: (i) in its balance sheet items an asset, representative of its right to use, and a liability, representative of the obligation to make the contractually-required payments, for all leases of more than twelve months whose value can be considered significant; (ii) in the income statement the depreciation of the asset recognised and the interest on the payable entered separately. A distinction is maintained between operating leases and finance leases for the purpose of preparing the financial statements of lessees. The provisions of IFRS 16, which replace those in IAS 17 "Leasing" and in the interpretations, will take effect from financial years starting on or after 1 January 2019, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 19 January 2016, the IASB issued the document "Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12", which clarifies that unrealised losses on debt securities recognised at fair value and at cost for tax purposes give rise to deductible temporary differences; it also clarifies that the estimate of future taxable income: (i) includes income arising from the realisation of assets for amounts higher than the relative book value; and (ii) excludes the reversal of deductible temporary tax differences. These measures will take effect from financial years starting on or after 1 January 2017, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 29 January 2016 the IASB issued "Disclosure Initiative - Amendments to IAS 7", which clarifies how to improve the disclosure of financial liabilities in order to allow users of the financial statements to understand the changes, resulting from currency movements and not liabilities resulting from financing transactions, resulting, where necessary, from: (i) flow associated with financing transactions; (ii) the acquisition or loss of control of a subsidiary or a business; (iii) changes in foreign exchange rates; (iv) changes in fair value; (v) other changes. 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 April 2016 the IASB issued "Clarifications to IFRS 15 Revenue from Contracts with Customers", which clarifies: (i) when a contractual promise to transfer goods and/or services can be identified separately from other performance obligations in a contract; (ii) how to determine whether the entity is a principal or an agent, depending on whether it controls the underlying goods or services before the transaction; (iii) how to determine whether the revenues from a licence agreement should be recognised throughout the period or at a given time. The document also provides two (optional) expedient procedures with regard to the transition to IFRS 15, according to which an entity can opt: (i) if the full retrospective method is being used, not to make the restatement of the contracts completed at the start of the first comparative period presented (the principle already included a similar approach in the case of the modified retrospective approach); (ii) instead of accounting the effects of each single amendment separately, to calculate the aggregate effects of all the changes made from the start date of the contract until the beginning of the first comparative period presented or the date of the first application in the case of the full retrospective method or the modified retrospective approach, respectively. These measures will take effect from financial years starting on or after 1 January 2018, notwithstanding any subsequent deferrals established upon approval by the European Commission.

On 20 June 2016 the IASB issued "Classification and Measurement of Share-based Payment Transaction - Amendments to IFRS 2", which: (i) clarifies the effects of the (vesting and non-vesting) conditions on the measurement of the cash-settled share-based transactions; (ii) specifies that the changes in cash-settled and equity-settled share-based transactions generates the elimination of the original liability, the recognition in shareholders' equity of the share-based payment regulated through equity instruments at fair value at the amendment date, to the extent to which, at the same date, the services were rendered and the any difference was immediately posted in the income statement; (iii) with regard to share-based payment transactions with net settlement resulting from withholdings at source made by the employer as a result of tax laws and regulations, introduces an exception so that



these transactions are classified as equity-settled in their entirety, if there were identified as such in the absence of the net settlement imposed by the application of tax regulations. 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 12 September 2016 the IASB introduced "Applying IFRS 9 Financial instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4", which is designed to solve the problems that insurance companies face if they apply the new standard on financial instruments, IFRS 9, before the IASB replaces the current principle IFRS 4 with the new one currently in the process of being prepared. The document introduces two approaches: (i) for all entities that issue insurance contracts coming under the scope of the application of IFRS 4 and which IFRS 9 will apply to, there is the option of reclassifying the changes in fair value resulting from designated financial assets from the income statement to other components of the comprehensive income statement (CIS) (overlay approach), as if the entity were applying IAS 39 to these assets; (ii) for entities mainly carrying out insurance activities, there is an option for temporary exemption which allows the application of IFRS 9 to be postponed until 2021 (the deferral 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.

The provisions in "Annual Improvements to IFRS Standards 2014 - 2016 Cycle", issued by the IASB on 8 December 2016 have made changes to: (i) IFRS 1, eliminating the short-term exemptions with regard to IFRS 7, IAS 19 and IFRS 10 with reference to Investment entities for first time adopters; (ii) IFRS 12, clarifying that the information required by the principle, with the exception of that set out in paragraphs B10-B16, applies to all equity investments which are classified as held for sale, held for distribution to shareholders or as discontinued operations in accordance with IFRS 5; (iii) IAS 28 clarifying that the option for an investment company, a mutual fund, an investment fund or similar entities to value its investments in associates or joint ventures at fair value with effects on the income statement can be exercised separately for each single investment, at the time of the initial measurement; the changes also clarify that an entity, which is not an investment entity but which holds an investment in associates or joint ventures which are investment entities, can opt to keep the fair value measurement made by these investment entities for the purpose of valuing its own investments. The provisions of IFRS 1 and IAS 28 are effective from the financial years beginning on or after 1 January 2018, while the changes relating to IFRS 12 are effective from the financial years beginning on or after 1 January 2017, with the exception of any deferrals established during approval by the European Commission.

On 8 December 2016 the IASB issued "Transfers of Investment property - Amendments to IAS 40", which clarifies that an entity should reclassify a property to, or from, the category of property investments if and only if there is a change in use of the property; a change in management's intended use with regard to a property does not, in itself, constitute evidence of a change in use. 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 the same date the IASB issued "IFRIC 22 Foreign Currency Transaction and Advance Consideration", which establishes that when foreign currency transactions take place whereby payment is made or received in advance, the exchange rate to apply for the initial recording of the asset, costs or revenue generated from the transaction for which advance payment/collection took place, corresponds to the exchange rate in force on the advance payment date. 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.

## 7. Cash and cash equivalents

Cash and cash equivalents, which amount to €34 million (€17 million at 31 December 2015), relate to current account deposits with credit institutions and mainly refer to Gasrule Insurance DAC, the Group's captive insurance company (€21 million) and Snam S.p.A. (€12 million).

Cash and cash equivalents are not subject to any usage restrictions.

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

## 8. Trade receivables and other current and non-current receivables

Trade receivables and other current receivables equal to €1,307 million (€1,824 million at 31 December 2015) and other non-current receivables equal to €213 million (€78 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015			31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,677		1,677	1,271		1,271
Financial receivables		78	78		213	213
- held for operations		78	78		213	213
Receivables from investment/divestment activities	23		23	16		16
Other receivables	124		124	20		20
	1,824	78	1,902	1,307	213	1,520

Trade receivables of €1,271 million (€1,677 million at 31 December 2015) mainly refer to the natural gas transportation (€988 million) and storage (€218 million) segments.

Trade receivables relating to the storage segment (€218 million) include the effects of the addition of revenue connected to the allocation of natural gas storage capacity by auction (€68 million)<sup>11</sup>.

Receivables are reported net of the provision for impairment losses of €132 million (€157 million at 31 December 2015). The provision essentially involves the impairment losses in previous financial years on receivables from the balancing service pursuant to Resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas), of uncollected receivables for the period from 1 December 2011 to 23 October 2012<sup>12</sup>. With regard to these receivables, the provision for impairment losses, including interest, totalled approximately €126 million.

11 This revenue follows the application of Resolution 323/2016/R/gas of the Authority ("Provisions for the regulation of income statement items related to the storage service for the 2016 - 2017 thermal year"), published on 17 June 2016, with which the Authority defined, for the 2016-2017 thermal year, ways of neutralising any differences between the amount paid to storage companies based on tariffs defined under Resolution 77/2016/R/gas and the amount received from the auctions for the allocation of capacity referred to in the same resolution.

12 Through resolution 608/2015/R/gas, published on 11 December 2015, the Authority closed the process launched through resolution 145/2013/R/gas of 5 April 2013 for determining the share of expenses to be paid to the balance director with regard to receivables not collected related to the balance sheet entries in the period 1 December 2011 - 23 October 2012. The nominal value of the total receivables not paid by the Authority with regard to the case that is covered by the preliminary investigation comes to a total of approximately €130 million, including VAT. For more information, please see Note 23 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system".

Changes in the provision for impairment losses on receivables during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2015	Provisions (*)	Utilisations	Changes in scope of consolidation	Other changes	Provision for impairment losses at 31.12.2016
Trade receivables	156	1	(3)	(20)	(2)	132
Other receivables	1			(1)		
	<b>157</b>	<b>1</b>	<b>(3)</b>	<b>(21)</b>	<b>(2)</b>	<b>132</b>

(\*) The value refers entirely to discontinued operations.

The changes in the scope of consolidation (€21 million) refer to the deconsolidation of Italgas Reti S.p.A. following the loss of control after the transaction separating the natural gas distribution business from Snam S.p.A.

Financial receivables held for operating activities (€213 million; €78 million at 31 December 2015) relate to the shareholders' loan to the associate Trans Adriatic Pipeline AG (TAP), which Snam took on under contractual agreements relating to the acquisition of the equity investment<sup>13</sup>. The classification of receivables as "non-current" was based on the contractual agreements in place between shareholders. Compared with 31 December 2015, receivables rose by €135 million, including accrued interest, following the cash calls requested by the Snam investee companies in 2016 based on the above-mentioned agreements.

Receivables for investment/divestment activities (€16 million; €23 million at 31 December 2015) include receivables for public and private contributions recorded in the light of investment activities involving the transportation segment. The reduction of €7 million compared with 31 December 2015 is due to the deconsolidation of Italgas Reti S.p.A.

Other receivables of €20 million (€124 million at 31 December 2015) comprise:

(€ million)	31.12.2015	31.12.2016
IRES receivables for the national tax consolidation scheme	34	10
Other receivables:	90	10
- Advances to suppliers	9	5
- Energy and Environmental Services Fund (CSEA)	48	
- Other	33	5
	<b>124</b>	<b>20</b>

IRES receivables for the national tax consolidation scheme (€10 million, compared with €34 million at 31 December 2015) mainly concern receivables with the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

The reduction in trade receivables and other current receivables of €517 million compared with 31

<sup>13</sup> Based on the agreements entered into, the shareholders are obliged to finance the project pro rata to their respective shareholding, until the pipeline becomes operational. The potential expansion of the pipeline capacity is subject to an assessment on economic viability and, thus, on TAP's economic interest, also in accordance with the exemption decision of the Regulatory Authorities. For additional information, see Note no. 14 "Shares evaluated with the net worth method" of the Notes to the consolidated Financial Statement.

December 2015 is due mainly to the deconsolidation of Italgas Reti S.p.A.

All receivables are in euros. 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 contractual conditions.

The seniority of trade and other receivables is shown below:

(€ million)	31.12.2015			31.12.2016		
	Trade receivables	Other receivables (*)	Total	Trade receivables	Other receivables (*)	Total
Non-overdue and non-impaired receivables	1,461	190	1,651	1,130	236	1,366
Overdue and non-impaired receivables:	216	35	251	141	13	154
- 0-3 months overdue	37	9	46	10	5	15
- 3-6 months overdue	3		3	2		2
- 6-12 months overdue	4	14	18	1	2	3
- more than 12 months overdue	172	12	184	128	6	134
	<b>1,677</b>	<b>225</b>	<b>1,902</b>	<b>1,271</b>	<b>249</b>	<b>1,520</b>

(\*) Including financial receivables, receivables from investment/divestment activities and other receivables.

Overdue and non-impaired receivables (€154 million; €251 million at 31 December 2015) mainly relate to the following sectors: (i) storage (€99 million) mainly with regard to VAT<sup>14</sup> invoiced to users in previous years for the use of strategic gas withdrawn and not replenished under the terms of the Storage Code; (ii) transportation (€47 million) essentially involving receivables from users (€31 million) for penalties and additional tariffs, not impaired because they were covered through the fee tariff method.

Receivables from related parties are described in Note 32 "Related-party transactions".

Specific information on credit risk can be found in Note 23 "Guarantees, commitments and risks – Financial risk management – Credit risk".

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

## 9. Inventories

*Inventories*, which amount to €481 million (€515 million at 31 December 2015) are analysed in the table below:

(€ million)	31.12.2015			31.12.2016		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
<b>Inventories (current assets)</b>	191	(39)	152	160	(42)	118
- Raw materials, consumables and supplies	141	(7)	134	110	(10)	100
- Finished products and merchandise	50	(32)	18	50	(32)	18
<b>Compulsory inventories (non-current assets)</b>	363		363	363		363
	554	(39)	515	523	(42)	481

### Inventories (current assets)

Inventories of raw materials, consumables and supplies (€100 million, compared with €134 million at 31 December 2015) primarily include: (i) natural gas used for transportation activities (€42 million); and (ii) stock materials relating to the pipeline network (€42 million) and storage plants (€10 million). Inventories of finished products and merchandise (€18 million, the same as at 31 December 2015) refer to the natural gas present in the storage system (619 million standard cubic metres, unchanged from 31 December 2015) and do not include compulsory inventories, recognised under "Non-current assets" in the balance sheet.

Inventories are reported net of the provision for impairment losses of €42 million (€39 million at 31 December 2015). The provision essentially involves the impairment (€30 million) made in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011<sup>15</sup>.

Changes in the provision for impairment losses during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2015	Provisions	Provision for impairment losses at 31.12.2016
Raw materials, consumables and supplies	7	3	10
Finished products and merchandise	32		32
	39	3	42

Provisions (€3 million) related to spare parts involving to the transportation segment.

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

<sup>15</sup> For more information on the development of the judicial proceedings in progress refer to Note. 23 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the storage system".

### Compulsory inventories (non-current assets)

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<sup>16</sup>.

### **10. Current income tax assets/liabilities and other current tax assets/liabilities**

*Current income tax assets/liabilities and other current tax assets/liabilities* break down as follows:

(€ million)	31.12.2015	31.12.2016
<b>Current income tax assets</b>	<b>54</b>	<b>26</b>
- IRES	32	21
- IRAP	8	4
- Tax credits on withholding tax on foreign dividends	12	
- Other assets	2	1
<b>Other current tax assets</b>	<b>8</b>	<b>6</b>
- VAT	2	4
- Other taxes	6	2
	<b>62</b>	<b>32</b>
<b>Current income tax liabilities</b>	<b>(1)</b>	<b>(2)</b>
- IRES		
- IRAP	(1)	(2)
<b>Other current tax liabilities</b>	<b>(50)</b>	<b>(8)</b>
- IRPEF withholdings for employees	(13)	(6)
- VAT	(35)	
- Other taxes	(2)	(2)
	<b>(51)</b>	<b>(10)</b>

*Current income tax assets* of €26 million (€54 million at 31 December 2015) mainly involve IRES receivables (€21 million) following the excess amount paid under the national tax consolidation scheme (€13 million) and additional IRES (€8 million).

*Other current tax assets*, amounting to €6 million (€8 million at 31 December 2015) mainly refer to VAT receivables (€4 million) and receivables for consumption tax (€1 million).

*Other current tax liabilities* of €8 million (€50 million at 31 December 2015) mainly relate to IRPEF (personal income tax) withholdings for employees (€6 million).

Taxes pertaining to the year under review are shown in Note 29 - "Income taxes".

<sup>16</sup> 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 2015-2016 year (1 April 2015 - 31 March 2016). The Stogit share was unchanged at 4.5 billion cubic metres. On 25 January 2017, the Ministry confirmed the total volume of strategic storage for the contractual year 2017-2018 (1 April 2017 - 31 March 2018) at 4.62 billion cubic metres (equal to approximately 48,846 Gigawatt house (GWh)).

## 11. Other current and non-current assets

Other current assets, which amount to €52 million (€98 million at 31 December 2015) and other non-current assets of €138 million (€137 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015			31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	78	72	150	37	69	106
Market value of derivative financial instruments	3	5	8	5	19	24
Other assets	17	60	77	10	50	60
- Prepayments	11	21	32	9	16	25
- Security deposits		14	14		11	11
- Other	6	25	31	1	23	24
	<b>98</b>	<b>137</b>	<b>235</b>	<b>52</b>	<b>138</b>	<b>190</b>

Other regulated assets (€106 million; €150 million at 31 December 2015) relate to the natural gas transportation service and refer to the shortfall in amounts invoiced compared with the restriction imposed by the regulator<sup>17</sup>, of which the current portion accounts for €37 million (€76 million at 31 December 2015) and the non-current portion accounts for €69 million (€70 million at 31 December 2015).

The market value of derivatives outstanding at 31 December 2016 is as follows:

(€ million)	31.12.2015			31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
<b>Other assets</b>	<b>3</b>	<b>5</b>	<b>8</b>	<b>5</b>	<b>19</b>	<b>24</b>
Fair value hedging derivatives:						
- Fair value interest rate hedging derivatives	1	5	6	2	16	18
- Accrued income on derivatives	2		2	3		3
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives					3	3
<b>Other liabilities</b>		<b>(1)</b>	<b>(1)</b>			
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives		(1)	(1)			

The assets arising from the market-value measurement of fair value hedging derivatives (€21 million, including the share of the accrual matured) refer to an interest rate swap (IRS) entered into in 2014. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of more than €500 million. 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

<sup>17</sup> See Note 3 "Measurement criteria - Revenue".

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 31.12.2016	Market value at 31.12.2015	Market value at 31.12.2016
Interest rate swap	22.10.2014	21.04.2023	6.3	12-month + 0.5645%	1.5%	500	500	8	21

(\*) From 27 January 2017 the above coverage was discontinued following the extinguishment of the derivative instrument.

The assets arising from the market-value measurement of cash flow hedging derivatives (€3 million) refer to a Cross Currency Swap agreement (CCS) entered into in 2013. The CCS is used to hedge against fluctuations in the exchange rate of a ¥10 billion long-term bond issue. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in Euro with a fixed annual rate of 2.717%.

The main characteristics of the derivative in question are summarised in the table below:

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	JPY/EUR exchange rate Purchased	JPY/EUR exchange rate Sold	Nominal value (*) at 31.12.2015	Nominal value (*) at 31.12.2016	Market value at 31.12.2015	Market value at 31.12.2016
Cross-currency swap	25.10.2013	25.10.2019	2.8	133.98	138.2	75	75	(1)	3

(\*) Equal to a value of ¥10 billion at an exchange rate of 133.98 JPY/€ at the issue date.

In relation to this contract, Snam agrees with its counterparties on the exchange of two capital flows (at the time of entering into the contract and upon the maturity of the underlying financial instrument) and periodic interest flows (on the same dates stipulated for the hedged item) denominated in different currencies at a predetermined exchange rate.

The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 23 - "Guarantees, commitments and risks - Management of financial risks".



The item "Other assets" (€60 million; €77 million at 31 December 2015) essentially comprises:

- prepayments (€25 million), relating mainly to up-front fees and the substitute tax on revolving credit lines<sup>18</sup> (€22 million) and to insurance premiums (€3 million). The current and non-current portions amount to €9 million and €16 million respectively (€11 million and €21 million at 31 December 2015);
- security deposits (€11 million) refer to the transportation segment;
- assets in the transportation segment (€21 million), mainly recognised for lower quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, adjusted in future years by increasing the quantity to be allocated by the users. The amount corresponds entirely to the non-current portion (€2 million and €21 million respectively for the current and the non-current portions at 31 December 2015).

## 12. Property, plant and equipment

Property, plant and equipment, which amounts to €15,563 million (€15,478 million at 31 December 2015) breaks down as follows:

	31.12.2015							
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total	
<b>Cost at 31.12.2014</b>	165	721	19,253	236	122	1,829	22,326	
Investments (*)	3	2	5	13		823	846	
Disposals (*)		(3)	(77)	(10)	(9)	(20)	(119)	
Other changes	3	47	1,005	21	65	(1,334)	(193)	
<b>Cost at 31.12.2015</b>	171	767	20,186	260	178	1,298	22,860	
<b>Provisions for amortisation and depreciation at 31.12.2014</b>		(241)	(6,400)	(180)	(79)		(6,900)	
Amortisation and depreciation - continuing operations		(9)	(495)	(9)	(18)		(531)	
Amortisation and depreciation - discontinued operations		(6)		(8)			(14)	
Disposals (*)		2	72	9	10		93	
Other changes			38		(39)		(1)	
<b>Provisions for amortisation and depreciation at 31.12.2015</b>		(254)	(6,785)	(188)	(126)		(7,353)	
<b>Provision for impairment losses at 31.12.2014</b>		(5)	(22)				(27)	
(Impairment losses)/reversals			(3)				(3)	
Other changes			1				1	
<b>Provision for impairment losses at 31.12.2015</b>		(5)	(24)				(29)	
<b>Net balance at 31.12.2014</b>	165	475	12,831	56	43	1,829	15,399	
<b>Net balance at 31.12.2015</b>	171	508	13,377	72	52	1,298	15,478	

(\*) The values include €19 million in investments and €2 million in net disposals attributable to discontinued operations.

18 Up-front fees to be paid as a one-off and substitute tax are to be regarded as "transaction costs" pursuant to IAS 39 "Financial instruments: recognition and measurement"; the relative charges are spread over the (expected) life of the financial instrument.

31.12.2016

(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
<b>Cost at 31.12.2015</b>	171	767	20,186	260	178	1,298	22,860
Investments (*)	1		2	13	2	845	863
Disposals	(1)	(3)	(19)	(11)	(5)	(9)	(48)
Other changes	3	13	1,118	7	20	(1,067)	94
Change in scope of consolidation	(11)	(350)	(12)	(179)		(6)	(558)
<b>Cost at 31.12.2016</b>	<b>163</b>	<b>427</b>	<b>21,275</b>	<b>90</b>	<b>195</b>	<b>1,061</b>	<b>23,211</b>
<b>Provisions for amortisation and depreciation at 31.12.2015</b>		(254)	(6,785)	(188)	(126)		(7,353)
Amortisation and depreciation - continuing operations		(9)	(532)	(10)	(19)		(570)
Amortisation and depreciation - discontinued operations		(8)		(7)			(15)
Disposals		1	10	10	5		26
Other changes				(5)			(5)
Change in scope of consolidation		172	5	152			329
<b>Provisions for amortisation and depreciation at 31.12.2016</b>		<b>(98)</b>	<b>(7,302)</b>	<b>(48)</b>	<b>(140)</b>		<b>(7,588)</b>
<b>Provision for impairment losses at 31.12.2015</b>		(5)	(24)				(29)
(Impairment losses)/reversals	(1)	(1)	(3)			(30)	(35)
Change in scope of consolidation			4				4
<b>Provision for impairment losses at 31.12.2016</b>	<b>(1)</b>	<b>(6)</b>	<b>(23)</b>			<b>(30)</b>	<b>(60)</b>
<b>Net balance at 31.12.2015</b>	<b>171</b>	<b>508</b>	<b>13,377</b>	<b>72</b>	<b>52</b>	<b>1,298</b>	<b>15,478</b>
<b>Net balance at 31.12.2016</b>	<b>162</b>	<b>323</b>	<b>13,950</b>	<b>42</b>	<b>55</b>	<b>1,031</b>	<b>15,563</b>

(\*) The values include €9 million in investments attributable to discontinued operations in the period 1 January - 6 November 2016.

Property, plant and equipment (€15,563 million, compared with €15,478 million at 31 December 2015) relates mainly to transportation (€12,638 million), storage (€2,838 million) and regasification (€84 million) infrastructure.

Investments<sup>19</sup> (€863 million) mainly relate to continuing operations (€854 million) and refer mainly to the transportation (€734 million) and storage (€113 million) segments.

During the year, Snam capitalised €23 million of financial expenses (€28 million in 2015).

Depreciation of continuing operations (€570 million) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company. Capital contributions from government authorities and other entities (€69 million and €307 million; €71 million and €298 million respectively at 31 December 2015) are recorded as a deduction in the net value of property, plant and equipment.

The changes in the scope of consolidation (€225 million, net of the related provisions for depreciation, amortisation and impairment losses) refer to the deconsolidation of Italgas Reti S.p.A. following the

19 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

loss of control after the transaction separating the natural gas distribution business from Snam S.p.A. Divestments (€22 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to the transportation segment.

Impairment losses and reversals (€35 million) refer essentially to the impairment of the assets not yet available for use mainly with regard to the transportation segment.

The value of plant and equipment includes site dismantling and restoration costs (€287 million), relating mainly to natural gas storage (€192 million) and transportation (€93 million) sites.

Other changes (€89 million net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to: (i) the revision of estimated (discounted) costs for site restoration and dismantling (€116 million) in the natural gas storage and transportation segments, which are offset by the recognition of a specific provision<sup>20</sup>, mainly due to the change in expected discount rates; (ii) the change in stocks of pipes and related accessory materials used in the production of plants in the natural gas transportation segment (€12 million); and (iii) grants for the period (€18 million).

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 23 "Guarantees, commitments and risks".

### Tangible assets by business segment

Property, plant and equipment by business segment, break down as illustrated below:

(€ million)	31.12.2015	31.12.2016
<b>Historical cost</b>	<b>22,860</b>	<b>23,211</b>
Transportation	18,608	19,296
Storage	3,550	3,753
Distribution	547	
Regasification	148	154
Corporate and other activities	7	8
<b>Provision for amortisation, depreciation and impairment losses</b>	<b>(7,382)</b>	<b>(7,648)</b>
Transportation	(6,167)	(6,659)
Storage	(836)	(914)
Distribution	(317)	
Regasification	(58)	(70)
Corporate and other activities	(4)	(5)
<b>Net balance</b>	<b>15,478</b>	<b>15,563</b>
Transportation	12,441	12,637
Storage	2,714	2,839
Distribution	230	
Regasification	90	84
Corporate and other activities	3	3

<sup>20</sup> Further information can be found in Note 18 "Provisions for risks and charges".

### 13. Intangible assets

Intangible assets, which amount to €810 million (€5,275 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015							
	Finite useful life					Indefinite useful life		Total
	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible	Non-current assets under construction and payments on account	Goodwill		
<b>Cost at 31.12.2014</b>	6,858	808	741	54	44	9	8,514	
Investments (*)	321	5		16	84		426	
Disposals (*)	(37)	(2)					(39)	
Other changes	(16)	79	3	(1)	(78)		(13)	
Change in scope of consolidation	138						138	
<b>Cost at 31.12.2015</b>	7,264	890	744	69	50	9	9,026	
<b>Provisions for amortisation and depreciation at 31.12.2014</b>	(2,659)	(649)	(80)	(49)			(3,437)	
Amortisation and depreciation - continuing operations		(39)	(3)				(42)	
Amortisation and depreciation - discontinued operations	(230)	(23)		(6)			(259)	
Disposals (*)	25	2					27	
Other changes	(6)						(6)	
Change in scope of consolidation	(33)						(33)	
<b>Provisions for amortisation and depreciation at 31.12.2015</b>	(2,903)	(709)	(83)	(55)			(3,750)	
<b>Provision for impairment losses at 31.12.2014</b>			(1)				(1)	
<b>Provision for impairment losses at 31.12.2015</b>			(1)				(1)	
<b>Net balance at 31.12.2014</b>	4,199	159	660	5	44	9	5,076	
<b>Net balance at 31.12.2015</b>	4,361	181	660	14	50	9	5,275	

(\*) The values include €341 million in investments and €12 million in net disposals attributable to discontinued operations.

	31.12.2016						
	Finite useful life					Indefinite useful life	
(€ million)	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	Total
<b>Cost at 31.12.2015</b>	7,264	890	744	69	50	9	9,026
Investments (*)	258			3	75		336
Disposals (*)	(39)						(39)
Other changes	(39)	89	11	7	(78)		(10)
Change in scope of consolidation	(7,444)	(332)		(37)	(27)	(9)	(7,849)
<b>Cost at 31.12.2016</b>		647	755	42	20		1,464
<b>Provisions for amortisation and depreciation at 31.12.2015</b>	(2,903)	(709)	(83)	(55)			(3,750)
Amortisation and depreciation - continuing operations		(43)	(3)				(46)
Amortisation and depreciation - discontinued operations	(197)	(24)		(7)			(228)
Disposals (*)	23						23
Other changes	9	(12)	(7)	(4)			(14)
Change in scope of consolidation	3,068	269		24			3,361
<b>Provisions for amortisation and depreciation at 31.12.2016</b>		(519)	(93)	(42)			(654)
<b>Provision for impairment losses at 31.12.2015</b>			(1)				(1)
Other changes	(1)		1				
Change in scope of consolidation	1						1
<b>Provision for impairment losses at 31.12.2016</b>							
<b>Net balance at 31.12.2015</b>	4,361	181	660	14	50	9	5,275
<b>Net balance at 31.12.2016</b>		128	662		20		810

(\*) The values include €284 million in investments and €16 million in net disposals attributable to discontinued operations in the period 1 January - 6 November 2016.

Industrial patent rights and intellectual property rights of €128 million (€181 million at 31 December 2015) mainly concern information systems and applications in support of operating activities. Concessions, licences, trademarks and similar rights (€662 million compared with €660 million at 31 December 2015) refer essentially to concessions for natural gas storage activities (€656 million) and, specifically to the concessions of Settala (€226 million), Sergnano (€126 million), Fiume Treste (€91 million) and Brugherio (€56 million). The value of the storage concessions is represented by the reserves of natural gas in the fields ("cushion gas"<sup>21</sup>).

Investments (€336 million) mainly relate to continuing operations (€52 million) and refer mainly to the transportation (€42 million)<sup>22</sup> and discontinued operations (€284 million) segments.

21 Cushion gas is not depreciated.

22 Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

The changes in the scope of consolidation (€4,487 million, net of the related provisions for depreciation, amortisation and impairment losses) refer to the deconsolidation of the assets of Italgas Reti S.p.A. following the loss of control after the transaction separating the natural gas distribution business from Snam S.p.A.

Amortisation of continuing operations (€46 million) refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company.

Due to the nature of the activities carried out by the Group, i.e. regulated activities in the gas supply chain, the recoverable value of property, plant and equipment and intangible assets was defined in keeping with the estimated value of net invested capital recognised for such assets for tariff purposes (regulatory asset base, or RAB) by the AEEGSI, net of flat-fee components<sup>23</sup>, employee severance pay (TFR) and grants received.

For the purposes of identifying cash-generating units (CGUs) and allocating any goodwill, in accordance with the segmentation defined by the AEEGSI for the definition of the return on assets, the CGUs are represented by the business units (BUs) that carry out regulated activities in the natural gas transportation, regasification and storage sectors.

As defined above, the recoverable value of property, plant and equipment, including compulsory inventories, and intangible assets is around €19 billion<sup>24</sup>.

Other changes (€24 million, net of the depreciation and impairment provisions) mainly consist of grants during the period (€23 million).

Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note 23 - "Guarantees, commitments and risks".

#### Intangible assets by business segment

Intangible assets by business segment, break down as illustrated below:

(€ million)	31.12.2015	31.12.2016
<b>Historical cost</b>	<b>9,026</b>	<b>1,464</b>
Transportation	530	573
Storage	819	824
Distribution	7,615	
Regasification	3	4
Corporate and other activities	59	63
<b>Provision for amortisation, depreciation and impairment losses</b>	<b>(3,751)</b>	<b>(654)</b>
Transportation	(426)	(458)
Storage	(140)	(147)
Distribution	(3,142)	
Regasification	(3)	(3)
Corporate and other activities	(40)	(46)
<b>Net balance</b>	<b>5,275</b>	<b>810</b>
Transportation	104	115
Storage	679	677
Distribution	4,473	
Regasification		1
Corporate and other activities	19	17

23 The RAB is used to determine the service tariffs and, therefore, the cash flows generated by the assets. The RAB value is defined through the historical cost method revalued as far as Fixed capital is concerned and on a flat-fee basis for the Working capital, severance pay and, with reference to the storage sector, the site dismantling and restoration provision.

24 Estimated value as at 31 December 2016.

## 14. Investments valued using the equity method

Investments valued using the equity method, amounting to €1,499 million (€1,372 million at 31 December 2015) break down as follows:

(€ million)	Equity investments in			
	joint ventures	associates	non-consolidated subsidiaries	Total
<b>Initial value at 01.01.2015</b>	<b>1,343</b>	<b>50</b>	<b>9</b>	<b>1,402</b>
Acquisitions and subscriptions	14	130		144
Capital gains from measurement using the equity method - continuing operations	106			106
Capital gains from measurement using the equity method - discontinued operations	20			20
Exchange rate conversion differences	7			7
Sales and repayments	(147)			(147)
Decrease owing to dividends (*)	(141)			(141)
Other changes	40	(50)	(9)	(19)
<b>Final value at 31.12.2015</b>	<b>1,242</b>	<b>130</b>		<b>1,372</b>
<b>Initial value at 01.01.2016</b>	<b>1,242</b>	<b>130</b>		<b>1,372</b>
Acquisitions and subscriptions	135	35		170
Capital gains from measurement using the equity method - continuing operations	140			140
Capital gains from measurement using the equity method - discontinued operations	17			17
(Capital losses) from measurement using the equity method - continuing operations	(10)	(14)		(24)
Exchange rate conversion differences	(15)			(15)
Sales and repayments	(2)			(2)
Decrease owing to dividends (*)	(148)			(148)
Other changes	(164)	153		(11)
<b>Final value at 31.12.2016</b>	<b>1,195</b>	<b>304</b>		<b>1,499</b>

(\*) The values include €13 million (€16 million in 2015) regarding dividends collected from equity investments with reference to discontinued operations.

Acquisitions and subscriptions (€170 million) relate to: (i) the capital contribution<sup>25</sup> to the consortium AS Gasinfrastruktur Beteiligung GmbH (ASG HoldCo) (€135 million), a joint venture in which Allianz and Snam respectively hold stakes of 60% and 40%. The contribution follows the agreements signed on 22 September 2016 between the consortium AS Gasinfrastruktur Beteiligung GmbH (ASG HoldCo) and OMV Gas & Power GmbH (OGP) for the sale of 49% di Gas Connect Austria GmbH (GCA), a company operating in the transportation of natural gas in Austria. The transaction was concluded on 15 December 2016 following a total outlay of €135 million<sup>26</sup>; (ii) the share capital increase of the associate company Trans Adriatic Pipeline AG - TAP, which is involved in the development of the project that will enable the transportation of the gas from Azerbaijan to European markets, whereby Snam is involved to an extent proportional to the shareholding owned, through the agreements signed during the acquisition of the equity investment (€35 million).

Capital gains arising from the valuation using the equity method net of continuing operations (€140

<sup>25</sup> This case involves the capital reserve pursuant to Article 229, section 2, paragraph 5 of the Austrian Companies Act.

<sup>26</sup> The acquisition of GCA took place via AS Gasinfrastruktur GmbH (ASG BidCo), wholly-owned by the consortium ASG HoldCo. Snam's indirect equity investment in GCA is therefore 19.6%. As a result of the acquisition, AS BidCo took over a share of OMV Gas & Power GmbH (OGP) equal to 49% of the existing shareholders' loan in favour of GCA for a nominal amount of €147 million.

million) refer to the joint-control companies TAG (€90 million) and TIGF (€50 million).

Capital losses arising from the valuation using the equity method (€24 million) refer to the share of the negative result of the joint-control companies and associates. With specific reference of the equity investments, the negative result of GasBridge 1 B.V. and Gasbridge 2 B.V. (-€10 million in total), which includes the effects of the impairment on the equity investments of the latter held in Interconnector UK (€21 million).

With specific reference to the recoverable value of the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V. in Interconnector UK, the valuation was conducted over a time horizon of five years, through the Discounted Dividend Model (DDM) and using the rate calculated according to the cost of equity, which takes account of the risk premium as the discount rate. After the fifth year, projected cash flows using the perpetuity method based on the estimated dividend of the last year of the plan with a zero growth rate were used. The discount rate used for the estimation of the flows was around 6.5%. Sales and repayments (€2 million) relate to the reduction in the book value of the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V. following the distribution to shareholders of part of the share premium reserve generated during the establishment of the companies.

The decrease in dividends (€148 million) essentially involves the joint-control companies TAG (€75 million), TIGF (€43 million) and GasBridge 1 B.V. and GasBridge 2 B.V. (€17 million in total).

Other changes (€11 million) relate essentially to: (i) the book value of the residual equity investment (13.5%) of Snam S.p.A. in Italgas S.p.A. (formerly ITG Holding) resulting from the operation of separating Italgas Reti S.p.A. from Snam S.p.A.<sup>27</sup> (+€153 million); (ii) the elimination of the equity investments of Snam S.p.A. in the jointly controlled companies in the distribution segment following the above-mentioned separation operation (-€173 million).

Equity investments are not collateralised.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2016", which is an integral part of these Notes.

#### Other information on equity investments

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.

<sup>27</sup> The operation is illustrated in detail in Note 21 "Discontinued operations".



### Investments in joint ventures

The IFRS-compliant economic and financial data for each significant joint venture<sup>28</sup>, are reported below:

(€ million)	31.12.2015			
	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	Toscana Energia S.p.A.	GasBridge 1 B.V. e 2 B.V.
Current assets	130	119	79	38
- of which cash and cash equivalents	47	82	4	
Non-current assets	2,824	1,018	794	224
<b>Total assets</b>	<b>2,954</b>	<b>1,137</b>	<b>873</b>	<b>262</b>
Current liabilities	(101)	(47)	(248)	
- of which current financial liabilities	(16)		(153)	
Non-current liabilities	(1,751)	(535)	(243)	
- of which non-current financial liabilities	(1,446)	(439)	(206)	
<b>Total liabilities</b>	<b>(1,852)</b>	<b>(582)</b>	<b>(491)</b>	
<b>Shareholders' equity</b>	<b>1,102</b>	<b>555</b>	<b>382</b>	<b>262</b>
Equity interest held by the Group % (*)	40.50%	89.22%	48.08%	50%
Share attributable to the Group	446	496	184	131
Other adjustments			(17)	
<b>Book value of the equity investment</b>	<b>446</b>	<b>496</b>	<b>167</b>	<b>131</b>
Revenue	441	283	128	
Operating costs	(159)	(117)	(39)	
Amortisation, depreciation and impairment	(131)	(52)	(28)	
<b>EBIT</b>	<b>151</b>	<b>114</b>	<b>61</b>	
Financial income				
Financial expenses	(47)	(6)	(5)	
Income (expense) from equity investments			1	20
Income tax	(46)	(27)	(17)	
<b>Net profit</b>	<b>58</b>	<b>81</b>	<b>40</b>	<b>20</b>
Other components of comprehensive income	10			14
<b>Total comprehensive income</b>	<b>68</b>	<b>81</b>	<b>40</b>	<b>34</b>

28 Unless otherwise indicated, the financial statement figures for joint ventures, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method. These values refer to the preliminary reporting package and/or approved.

31.12.2016

(€ million)	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH	GasBridge 1 B.V. e 2 B.V.
Current assets	143	71	17	36
- of which cash and cash equivalents	68	24	17	
Non-current assets	2,807	1,020	601	138
<b>Total assets</b>	<b>2,950</b>	<b>1,091</b>	<b>618</b>	<b>174</b>
Current liabilities	(396)	(55)		
- of which current financial liabilities	(17)			
Non-current liabilities	(1,416)	(462)	(280)	
- of which non-current financial liabilities	(26)	(301)	(280)	
<b>Total liabilities</b>	<b>(1,812)</b>	<b>(517)</b>	<b>(280)</b>	
<b>Shareholders' equity</b>	<b>1,138</b>	<b>574</b>	<b>338</b>	<b>174</b>
Equity interest held by the Group % (*)	40.50%	89.22%	40.0%	50.0%
Share attributable to the Group	461	512	135	87
Other adjustments				
<b>Book value of the equity investment</b>	<b>461</b>	<b>512</b>	<b>135</b>	<b>87</b>
Revenue	465	344		
Operating costs	(162)	(129)		
Amortisation, depreciation and impairment	(133)	(77)		
<b>EBIT</b>	<b>170</b>	<b>138</b>		
Financial income		1		
Financial expenses	(37)	(3)		
Income (expense) from equity investments				(20)
Income tax	(10)	(35)		
<b>Net profit</b>	<b>123</b>	<b>101</b>		<b>(20)</b>
Other components of comprehensive income		1		(30)
<b>Total comprehensive income</b>	<b>123</b>	<b>102</b>		<b>(50)</b>

(\*) The equity investment held in Trans Austria Gasleitung GmbH is valued based on the percentage of economic rights owned.

### Information on Investments in joint ventures

#### TIGF Holding S.A.S.

TIGF Holding SAS is a company operating under French law, which, through TIGF Investissements SAS (a wholly owned subsidiary of TIGF Holding), controls 100% of TIGF SA.

TIGF SA (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation in France is a regulated activity.

At 31 December 2016, TIGF Holding S.A.S. had the following shareholders: Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue, a company owned by Crédit Agricole).

TIGF Holding SAS's consolidated financial statements include TIGF Investissements SAS and TIGF SA. The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GIC.

Trans Austria Gasleitung GmbH (TAG)

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment, and it owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2016, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and (GCA) also stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GCA.

AS Gasinfrastruktur Beteiligung GmbH

AS Gasinfrastruktur Beteiligung GmbH is a company under Austrian law jointly controlled by Snam S.p.A. and the Allianz Group, respectively owning 40% and 60%.

The company owns 100% of the company under Austrian law AS Gasinfrastruktur GmbH, which, in turn owns 49% of the share capital of Gas Connect Austria GmbH, a subsidiary of OMV AG.

The corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and Allianz.

Gasbridge 1 B.V. and Gasbridge 2 B.V.

Gasbridge 1 B.V. and Gasbridge 2 B.V. are two companies operating under Dutch law that are equal-stake joint ventures of Snam S.p.A. and Fluxys Europe B.V.

The two companies hold equal shares in the following equity investments:

- 31.5% of Interconnector UK Ltd, a subsidiary of Fluxys;
- 51% of Interconnector Zeebrugge Terminal SCRL;

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the two shareholders Snam S.p.A. and Fluxys Europe B.V.

### Significant restrictions

Pursuant to the provisions of IFRS 12, the major significant restrictions on investee companies' ability to transfer funds to Snam in the form of dividends, loan repayments or advances appear below.

### TIGF Investissement SAS

The payment of interest on the residual nominal amount of the €670 million convertible bond (of which Snam has subscribed €272 million) may be deferred at the discretion of the issuer TIGF Investissement. The bond debt is subordinate to the outstanding bank loans.

### Investments in associates

The IFRS-compliant economic and financial data for all equity-accounted associates<sup>29</sup> not deemed to be significant are reported below:

(€ million)	31.12.2015 (*)	31.12.2016 (**)
Current assets	165	739
Non-current assets	983	7.044
<b>Total assets</b>	<b>1.148</b>	<b>7.783</b>
Current liabilities	(100)	(3.434)
Non-current liabilities	(397)	(2.477)
<b>Total liabilities</b>	<b>(497)</b>	<b>(5.911)</b>
<b>Shareholders' equity</b>	<b>651</b>	<b>1.872</b>
<b>Book value of the equity investment</b>	<b>130</b>	<b>304</b>
Revenue		274
<b>EBIT</b>		<b>11</b>
<b>Net loss</b>		<b>(90)</b>
Other components of comprehensive income		3
<b>Total comprehensive income</b>		<b>(87)</b>

(\*) The values of 2015 refer to investment in associated company TAP that was acquired on 17 December 2015.

(\*\*) The values of 2016 refer to investments in associated companies TAP and Italgas, representing a total of about 1.5% of the total assets. The 2016 economic data refer for TAP to the whole exercise 2016 and for Italgas to the period 7.11.2016 - 31.12.2016.

### Information on investments in associates

#### Trans Adriatic Pipeline AG (TAP)

Trans Adriatic Pipeline A.G. (TAP) is a Swiss company formed to design, develop and build a new gas pipeline, currently under construction, which will extend from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania.

At 31 December 2016, TAP A.G. had the following shareholders: Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).

Based on the agreements entered into, the shareholders are obliged to finance the project pro rata to their respective shareholding, until the pipeline becomes operational, both through a shareholder's loan and through the subscription of share capital increases. The potential expansion of the pipeline capacity is subject to an assessment on economic viability and, thus, on TAP's economic interest, also in accordance with the exemption decision of the Regulatory Authorities.<sup>30</sup>

29 The financial statement figures for associates, reported in full, have been updated to include adjustments made by the Parent Company pursuant to the equity-accounting method.

30 For more information on the commitments undertaken by the shareholders with regard to TAP, refer to Note 23 "Guarantees, commitments and risks".

Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

#### Italgas S.p.A.

Italgas S.p.A. is an Italian company which controls 100% of Italgas Reti S.p.A., Napoletanagas S.p.A. and Acam Gas S.p.A., companies operating in the natural gas distribution segment in Italy.

Natural gas distribution is a regulated activity.

At 31 December 2016, following the separation of the natural gas distribution business from Snam S.p.A., Italgas S.p.A.'s shareholders were: Snam (13.5%), C.D.P. Reti S.r.l. (25.08%), C.D.P. Gas S.p.A. (0.97%) and the remaining part owned by third parties.

On 7 November 2016, the date that the above-mentioned separation operation took effect, the shareholder's agreement, signed on 20 October 2016 by CDP Reti S.p.A. and CDP Gas S.r.l., involving all the shares held by each of them in Italgas S.p.A., became effective. The shareholder's agreement constitutes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (even in the case of accelerated exit) are subject to the consent and pre-emptive rights of CDP Reti, as well as to the obligation of a takeover by a third party. Snam may also increase its equity investment. The agreement is for three years, renewable unless notice is given; if Snam does not renew it, CDP Reti will have the option to purchase Snam's equity investment in Italgas at the fair market value.

### **15. Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities**

*Short-term financial liabilities*, amounting to €1,497 million (€1,351 million at 31 December 2015), and *long-term financial liabilities*, including short-term portions of long-term liabilities totalling €9,593 million (€12,445 million at 31 December 2015), break down as follows:

	31.12.2015					31.12.2016				
	Long-term financial liabilities					Long-term financial liabilities				
	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bonds		1,356	4,935	3,520	8,455	634	3,384	3,592		6,976
Bank loans	1,323	22	1,178	1,427	2,605	1,466	221	799	962	1,761
Other lenders	28		7		7	31	1			
	1,351	1,378	6,120	4,947	11,067	1,497	856	4,183	4,554	8,737

### Short-term financial liabilities

Short-term financial liabilities, amounting to €1,497 million (€1,351 million at 31 December 2015), relate mainly to uncommitted variable-rate credit lines (€1,466 million).

The increase compared with 31 December 2015 (€146 million) is essentially due to net utilisations of uncommitted lines of bank credit (€143 million).

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

The weighted average interest rate on short-term financial liabilities was 0.07% (0.05% for 2015).

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, amounted to €9,593 million (€12,445 million at 31 December 2015).

The breakdown of bond loans (€7,610 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(€ million)							
Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 31.12.2016	Rate (%)	Maturity (year)
<b>Euro Medium Term Notes</b>							
SNAM S.p.A. (b)	2012	€	851	23	874	3.875	2018
SNAM S.p.A. (c)	2012	€	741	5	746	5.25	2022
SNAM S.p.A. (c) (d)	2012	€	716	21	737	3.5	2020
SNAM S.p.A. (b) (c)	2012	€	583	25	608	5	2019
SNAM S.p.A. (b) (c) (e)	2013	€	506	5	511	2.375	2017
SNAM S.p.A.	2013	€	332	8	340	3.375	2021
SNAM S.p.A. (f)	2013	Yen	81		81	1.115	2019
SNAM S.p.A.	2013	€	70	1	71	2.625	2018
SNAM S.p.A.	2014	€	426	8	434	3.25	2024
						12-month Euribor	
SNAM S.p.A. (g)	2014	€	500	18	518	+ 0.5645	2023
SNAM S.p.A.	2014	€	265	1	266	1.5	2019
SNAM S.p.A. (b)	2015	€	592	(49)	543	1.375	2023
SNAM S.p.A.	2015	€	138	4	142	1.5	2023
SNAM S.p.A.	2016	€	1,250	(8)	1,242	0.875	2026
SNAM S.p.A.	2016	€	500	(3)	497	0	2020
			<b>7,551</b>	<b>59</b>	<b>7,610</b>		

(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 2015 liability management operation.

(c) Bond loans subject to the 2016 liability management operation.

(d) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.

(e) Bond tapped for an incremental amount of €250 million, with the same interest rate and maturity as the original placement.

(f) Bond loan 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.

(g) Fixed-rate bond, converted into variable-rate through an IRS hedging derivative.

The €2,201 million reduction in bond loans compared with 31 December 2015 was mainly due to: (i) the liability management transaction, concluded in October 2016, which involved the buying back on the bond market at a fixed rate for a total nominal value of €2.75 billion with an average coupon of approximately 3.3% and a remaining term of around 3 years, following a total outlay of approximately €3.1 billion<sup>31</sup>; (ii) the repayment of 3 bonds that had reached their natural maturity in January 2016,

31 For more information about the acquisition, please see the section "Annual profile – Main events" in the Directors' Report.

July 2016 and October 2016, for a nominal value, respectively, of €150 million, €700 million and €300 million. This reduction was partly offset by the new bond issues made with regard to the financing of part of the liability management transaction, relating to two fixed-rate bond loans, issued on 25 October 2016, for a nominal value of €1,250 million and €500 million, respectively.

Payables for bank loans (€1,982 million) relate to term loans, of which €1,182 million concern European Investment Bank (EIB) funding. In 2016, note that under the scope of the operation separating Italgas Reti S.p.A. from Snam S.p.A. the assumption of Snam S.p.A.'s debt by Italgas S.p.A. relating to two loans provided to Snam S.p.A. by the EIB intended to fund Italgas S.p.A. projects with a total nominal value of €424 million was finalised. The assumption of the two EIB loans and the repayment net of bank term loans of a nominal value of €200 million, led to a total reduction in bank loan payables worth a nominal €624 million.

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 0.4%<sup>32</sup> (the same as in 2015).

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

The market value of the long-term financial debt, including the short-term portion, stands at €10,230 million<sup>33</sup> (€13,383 million at 31 December 2015).

Snam has unused committed and uncommitted credit lines of €3.2 billion and €1.7 billion, respectively.

#### **Financial covenants and negative pledge commitments**

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 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.

<sup>32</sup> It excludes the up-front fee amortisation.

<sup>33</sup> It includes bond loans, whose value is estimated on the basis of the market listings at 31 December 2016, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.

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.

#### Breakdown of net financial debt

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

(€ million)	31.12.2015			31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	17		17	34		34
B. Securities available for sale and held to maturity						
<b>C. Cash (A+B)</b>	<b>17</b>		<b>17</b>	<b>34</b>		<b>34</b>
<b>D. Financial receivables not held for operating activities</b>						
E. Short-term financial liabilities to banks	1,323		1,323	1,466		1,466
F. Long-term financial liabilities to banks	22	2,605	2,627	221	1,761	1,982
G. Bonds	1,356	8,455	9,811	634	6,976	7,610
H. Short-term financial liabilities to related parties	19		19	18		18
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	9		9	13		13
M. Other long-term financial liabilities		7	7		1	1
<b>N. Gross financial debt (E+F+G+H+I+L+M)</b>	<b>2,729</b>	<b>11,067</b>	<b>13,796</b>	<b>2,352</b>	<b>8,738</b>	<b>11,090</b>
<b>O. Net financial debt (N-C-D)</b>	<b>2,712</b>	<b>11,067</b>	<b>13,779</b>	<b>2,318</b>	<b>8,738</b>	<b>11,056</b>

#### **16. Trade and other payables**

Trade payables and other payables, which amount to €1,264 million (€1,746 million at 31 December 2015) comprise the following:

(€ million)	31.12.2015	31.12.2016
Trade payables	694	433
Payables for investment activities	468	384
Other payables	584	447
	<b>1,746</b>	<b>1,264</b>

Trade payables of €433 million (€694 million at 31 December 2015) relate mainly to the natural gas transportation (€313 million, including €213 million relating to gas balancing activities), storage (€46 million) and regasification (€1 million) business segments.

Payables for investment activities (€384 million, including €4 million expiring after the period; €468 million at 31 December 2015) refer mainly to the natural gas transportation (€312 million) and storage (€64 million) business segments.



Other payables of €447 million (€584 million at 31 December 2015) break down as follows:

(€ million)	31.12.2015	31.12.2016
IRES payables for the national tax consolidation scheme		2
Other payables	584	445
- Payables to the Energy and Environmental Services Fund (CSEA)	418	381
- Payables to employees	54	26
- Payables to pension and social security institutions	32	16
- Consultants and professionals	12	8
- Payables to the government	42	
- Other	26	14
	584	447

Payables to the CSEA (€381 million) refer to accessory tariffs for the transportation segment pursuant to the following resolutions: ARG/gas 177/10 (measures and interventions for energy saving and development of renewable energy sources in the natural gas sector: €138 million); ARG/gas 87/11 (payment to cover costs arising from the application of the revenue guarantee factor for the storage service and the charges borne by the GSE: €114 million); ARG/gas 92/08 (payment to cover costs arising from the application of the revenue guarantee factor for the LNG regasification service: €58 million); ARG/gas 155/11, as amended (recovery of charges related to outstanding receivables from the balancing of the gas system: €20 million); 363/2012/R/gas (recovery of charges applied for the default service on the transportation network: €20 million); ARG/com 93/10 (discounts for disadvantaged gas customers: €15 million); ARG/gas 184/09 (coverage of the equalisation imbalances of the revenues relating to the regional network capacity fee) (€6 million).

The reduction in trade and other Payables of €482 million compared with 31 December 2015 is due mainly to the deconsolidation of Italgas Reti S.p.A.

Note 32 - "Related-party transactions" contains information about payables due to related parties.

The fair value measurement of trade and other payables has no material impact given the short period of time between when the payable arises and its due date.

### 17. Other current and non-current assets

*Other current liabilities*, amounting to €21 million (€71 million at 31 December 2015), and *other non-current liabilities*, amounting to €309 million (€293 million at 31 December 2015), break down as follows:

(€ million)	31.12.2015			31.12.2016		
	Current	Non-current	Total	Current	Non-current	Total
<b>Other liabilities from regulated activities</b>	57	149	206	12	167	179
<b>Market value of derivative financial instruments</b>		1	1			
<b>Other liabilities</b>	14	143	157	9	142	151
- Prepaid revenue and income	5	18	23	5	10	15
- Prepaid contributions for connecting to the transportation network		4	4		4	4
- Other	9	121	130	4	128	132
	71	293	364	21	309	330

Liabilities from regulated activities, amounting to €179 million (€206 million at 31 December 2015), relate to:

- the transportation segment (€141 million) due to the transportation revenue invoiced in excess of the restriction established by the regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 166/05 of the Authority. The current and non-current portions amount to €12 million and €129 million respectively (€57 million and €110 million at 31 December 2015);
- the storage segment (€38 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 (€39 million at 31 December 2015).

Other liabilities of €151 million (€157 million at 31 December 2015) include:

- prepaid revenue and income (€12 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 €10 million, respectively);
- other liabilities relating mainly to: (i) guarantee deposits paid as collateral by users of the balancing service, pursuant to Resolution ARG/gas 45/11 (€62 million); and (ii) the higher quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 compared with the quantities actually used in those years, equalised by reducing the quantities allocated by users (€66 million). The amount corresponds entirely to the non-current portion (€9 million and €53 million respectively for the current and the non-current portions at 31 December 2015).

## 18. Provisions for risks and charges

*Provisions for risks and charges*, which amount to €707 million (€776 million at 31 December 2015) are analysed in the table below:

(€ million)	31.12.2015						Final balance
	Opening balance	Provisions (*)	Increases due to passing of time	Utilisations		Other changes	
				against charges	for excess (*)		
Provision for site dismantling and restoration	650		11	(8)		(138)	515
Provision for environmental risks and charges	136	1	1	(3)		(4)	131
Provision for litigation	52	5		(5)	(19)	1	34
Other provisions	176	20		(5)	(8)	(87)	96
	<b>1,014</b>	<b>26</b>	<b>12</b>	<b>(21)</b>	<b>(27)</b>	<b>(228)</b>	<b>776</b>

(\*) The values include €14 million in net utilisation of provisions for risks and charges attributable to discontinued operations.

31.12.2016

(€ million)	Opening balance	Provisions (*)	Increases due to passing of time	Utilisations		Other changes	Change in scope of consolidation	Final balance
				against charges	for excess (*)			
Provision for site dismantling and restoration	515		9	(11)		116	(1)	<b>628</b>
Provision for environmental risks and charges	131	6	1	(4)	(1)	5	(136)	<b>2</b>
Provision for litigation	34	7		(1)	(3)		(23)	<b>14</b>
Other provisions	96	27		(10)	(1)		(49)	<b>63</b>
	<b>776</b>	<b>40</b>	<b>10</b>	<b>(26)</b>	<b>(5)</b>	<b>121</b>	<b>(209)</b>	<b>707</b>

(\*) The values include €20 million in net accruals to provisions for risks and charges attributable to discontinued operations in the period 1 January - 6 November 2016.

The change in the scope of consolidation (€209 million) refers to the deconsolidation of Italgas Reti S.p.A. following the transaction separating the natural gas distribution business from Snam.

Other changes (€121 million) relate essentially to: (i) the revision of estimated (discounted) costs for site dismantling and restoration (€116 million) in the storage segment (€91 million) and transportation segment (€25 million), essentially following the reduction of expected discount rates.

The provision of €628 million for site dismantling and restoration (€515 million at 31 December 2015) was recognised primarily due to expenses which are expected to be incurred for the removal of facilities and the restoration of sites in the natural gas storage (€518 million) and transportation (€105 million) business segments.

The provision for litigation (€14 million, compared with €34 million at 31 December 2015) included costs which the Company has estimated it will incur for existing lawsuits.

Other provisions for risks and charges (€63 million compared with €96 million at 31 December 2015) mainly involve expenses recognised to offset the item "Change in inventories", arising from the difference between the estimated quantities of Unaccounted-For Gas (UFG), which the Company expects to calculate definitively in the four-year period 2015-2018, and the forecast quantities that will be granted in kind by users as required by Resolution 514/2013/R/gas (€40 million).

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity<sup>34</sup> of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ million)	Change in discount rate	
	Reduction of 10%	Increase of 10%
<b>Effect on the net obligation at 31.12.2016</b>		
Provision for site dismantling and restoration	24	(23)

34 For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

## 19. Provisions for employee benefits

*Provisions for employee benefits*, amounting to €44 million (€166 million at 31 December 2015), can be broken down as follows:

(€ million)	31.12.2015	31.12.2016
Employee severance pay (TFR)	100	29
Supplemental healthcare provision for company executives of Eni (FISDE)	10	3
Gas Fund	35	
Other employee benefit provisions	21	12
	<b>166</b>	<b>44</b>

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€29 million; €100 million at 31 December 2015).

The supplementary healthcare provision for Company executives of Eni (FISDE) of €3 million (€10 million at 31 December 2015) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current<sup>35</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group<sup>36</sup> executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners.

Other employee benefit provisions of €12 million (€21 million at 31 December 2015) concern long-term benefits connected with deferred cash incentive plans (IMD), long-term cash incentive plans (ILT) (€9 million in total) and seniority bonuses (€3 million).

Deferred cash incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is provisioned when Snam's commitment to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to profit forecasts (above or below target).

The long-term incentive plans, which replaced the preceding stock option allocations, involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following

<sup>35</sup> For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

<sup>36</sup> The fund provides the same benefits for Snam Group executives.

the allocation (the “vesting period”). This benefit is allocated pro rata over the three-year period depending on the final performance parameters.

Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.

Deferred cash incentive plans, long-term cash incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.

The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows<sup>37</sup>:

(€ million)	31.12.2015					31.12.2016				
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions	Total
<b>Current value of the obligation at the start of the year</b>	<b>108</b>	<b>11</b>		<b>22</b>	<b>141</b>	<b>100</b>	<b>10</b>	<b>35</b>	<b>21</b>	<b>166</b>
Current cost				6	6				5	5
Cost of past service (*)			35		35			(1)		(1)
Cost in interest	2				2	2				2
Revaluations/ (Impairment losses):	(5)	(1)			(6)	6	(1)	2		7
- Actuarial (gains) / losses resulting from changes in the financial assumptions (**)	(4)	(1)			(5)	7		2		9
- Effect of past experience (**)	(1)				(1)	(1)	(1)			(2)
Benefits paid	(6)			(7)	(13)	(3)			(7)	(10)
Change in scope of consolidation	1				1	(76)	(6)	(36)	(7)	(125)
<b>Current value of the obligation at the end of the year</b>	<b>100</b>	<b>10</b>	<b>35</b>	<b>21</b>	<b>166</b>	<b>29</b>	<b>3</b>		<b>12</b>	<b>44</b>

(\*) The values are entirely attributable to discontinued operations and involve the expenses, including in the changes in the estimate, resulting from the closure of the gas fund (-€1 million in 2016; +€35 million in 2015).

(\*\*) The values include +€6 million in 2016 (-€4 million in 2015) of Actuarial (Gains) / Losses from remeasurements of defined-benefit plans for employees attributable to discontinued operations.

37 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(€ million)	2015			2016			
	Provision for employee severance pay (TFR)	FISDE	Total	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Total
Revaluations/(Impairment losses):							
Actuarial (gains) / losses resulting from changes in the financial assumptions	(4)	(1)	(5)	7		2	9
- Effect of past experience	(1)		(1)	(1)	(1)		(2)
	(5)	(1)	(6)	6	(1)	2	7

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2015				2016		
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other	Provision for employee severance pay (TFR)	FISDE	Other
Discount rate (%)	1.9	1.9	1.8	0.6-1.9	1.2	1.2	0.5-0.8
Inflation rate (%) (*)	1.8	1.8	N.A.	1.8	1.2	1.2	1.2

(\*) With regard to the other provisions, the rate relates only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible<sup>38</sup> change in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ million)	Discount rate	
	Reduction of 0.5%	Increase of 0.5%
<b>Effect on the net obligation at 31.12.2016</b>		
Employee severance pay (TFR)	2	(2)
FISDE		1
	2	(1)

<sup>38</sup> With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ million)	31.12.2015					31.12.2016			
	Provision for employee severance pay (TFR)	FISDE	Gas Fund (*)	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Other provisions	Total
Within the next year	3		3	9	15	1		4	5
Within five years	19	1	12	11	43	4		6	10
Between five and ten years	39	2	15	1	57	10		1	11
Beyond 10 years	39	7	8		54	14	3	1	18
	<b>100</b>	<b>10</b>	<b>38</b>	<b>21</b>	<b>169</b>	<b>29</b>	<b>3</b>	<b>12</b>	<b>44</b>

(\*) The amount includes an estimate of the INPS solidarity surcharge of 10% applied to the amounts to be allocated to the supplementary pension schemes.

The weighted average maturity of obligations for employee benefit plans is shown below:

	2015				2016		
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other	Provision for employee severance pay (TFR)	FISDE	Other
Weighted average maturity (years)	9	17	6	3	11	23	3

## 20. Deferred tax liabilities

*Deferred tax liabilities* of €187 million (€388 million at 31 December 2015) are stated net of offsettable prepaid tax assets of €369 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	Change in scope of consolidation	31.12.2016
Deferred tax liabilities	903		(47)	30	(330)	556
Prepaid tax assets	(515)	(64)	23	(25)	212	(369)
	<b>388</b>	<b>(64)</b>	<b>(24)</b>	<b>5</b>	<b>(118)</b>	<b>187</b>

(\*) The values include €40 million in net prepaid taxes investments from discontinued operations in the period 1 January - 6 November 2016.

Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

31.12.2016									
(€ million)	Opening balance	Provisions	Utilisations	Significant impacts on shareholders' equity (*)	Other changes	Change in scope of consolidation	Final balance	of which: IRES	of which: IRAP
<b>Deferred tax liabilities</b>	<b>903</b>		<b>(47)</b>		<b>30</b>	<b>(330)</b>	<b>556</b>	<b>541</b>	<b>15</b>
Depreciation and amortisation exclusively for tax purposes	663		(26)		(2)	(182)	453	453	
Revaluation of property, plant and equipment	141		(6)			(135)			
Capital gains subject to deferred taxation	18		(14)			(4)			
Site dismantling and restoration	57				32		89	76	13
Capitalisation of financial expenses	10					(3)	7	6	1
Impairment losses on receivables in excess of tax deductibility	4					(1)	3	3	
Other temporary differences	10		(1)			(5)	4	3	1
<b>Prepaid tax assets</b>	<b>(515)</b>	<b>(64)</b>	<b>23</b>	<b>(2)</b>	<b>(23)</b>	<b>212</b>	<b>(369)</b>	<b>(333)</b>	<b>(36)</b>
Site dismantling and restoration	(144)	(3)	3		(32)		(176)	(150)	(26)
Provision for risks and charges and other non-deductible provisions	(119)	(23)	6		3	62	(71)	(66)	(5)
Non-repayable and contractual grants	(104)		2			80	(22)	(19)	(3)
Non-deductible amortisation and depreciation	(117)	(35)	7		7	50	(88)	(87)	(1)
Employee benefits	(16)	(3)	3	(2)	(1)	11	(8)	(7)	(1)
Other temporary differences	(15)		2			9	(4)	(4)	
<b>Net deferred tax liabilities</b>	<b>388</b>	<b>(64)</b>	<b>(24)</b>	<b>(2)</b>	<b>7</b>	<b>(118)</b>	<b>187</b>	<b>208</b>	<b>(21)</b>

(\*) The values refer to tax on Actuarial (Gains) / losses from remeasurements of defined-benefit plans for employees attributable to discontinued operations of the period 1 January - 6 November 2016.

Prepaid tax assets and deferred tax liabilities are considered to be long term.  
Note 29 "Income taxes" provides information about taxes for the year.

## 21. Discontinued Operations

On 7 November 2016, the start date of the listing of Italgas S.p.A. (formerly ITG Holding S.p.A.) on the Mercato Telematico Azionario organised and managed by Borsa Italiana S.p.A., the transaction separating Italgas Reti S.p.A. (formerly Italgas S.p.A.) from Snam S.p.A. became effective. The purpose of the transaction was primarily a business one, aimed at separating the Snam Group's Italian gas distribution activities, featuring specific characteristics compared with other Snam Group operations in terms of operational organisation, competitive context, regulation and investment requirements, from the gas transportation and dispatching, regasification and storage businesses in Italy and abroad.



Under the scope of the transaction, in a unitary and substantially simultaneous manner<sup>39</sup>, which led to the transfer to Italgas S.p.A. of the 100% stake of Snam S.p.a. in Italgas Reti S.p.A., the following was agreed on 2 November 2016:

- the partial and proportional demerger with the allocation to Italgas of an equity investment equal to the 52.90% held by Snam in Italgas Reti and consequent allocation to Snam shareholders of the remaining 86.50% of the share capital of Italgas. As a result of the demerger, Italgas S.p.A. issued and assigned one Italgas S.p.A. share for every five Snam S.p.A. shares owned to Snam S.p.A. shareholders;
- the contribution in kind by Snam S.p.A. to Italgas S.p.A. of a shareholding equal to 8.23% of the share capital of Italgas Reti S.p.A. following the allocation to Snam of 108,957,843 newly issued shares of Italgas S.p.A., in order to enable Snam S.p.A. to hold, post-demerger, a stake of 13.5% in Italgas S.p.A.;
- the sale by Snam S.p.A. to Italgas S.p.A. of 98,054,833 Italgas Reti S.p.A. shares, equal to 38.87% of the share capital, for a consideration of €1,503 million, following the assumption of a debt of the same amount pertaining to Italgas S.p.A. in order to generate an adequate level of financial debt.

The deed of demerger was recorded in the Milan Companies Register on 3 November 2016 following the issuing by Borsa Italiana of the admission to listing on the Mercato Telematico Azionario, issued on 2 November 2016, and the judgment of equivalence by CONSOB, pursuant to Article 57, paragraph 1, letter d) of the Issuers' Regulation, for the Information Document relating to the demerger, issued on 3 November 2016.

As laid down in the deed of demerger, the effects begin from the start date of trading, i.e. 7 November 2016.

On 7 November 2016, through the listing of Italgas S.p.A., the shareholder's agreement, signed on 20 October 2016 by CDP Reti S.p.A. and CDP Gas S.r.l., involving all the shares held by each of them in Italgas S.p.A., became effective. The shareholder's agreement constitutes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). The shareholder's agreement also requires CDP Reti, CDP Gas and Snam to submit a joint list for the appoint of the Board of Directors of Italgas that ensures Snam has 1 candidate. The transfers of Snam's equity investment in Italgas (even in the case of accelerated exit) are subject to the consent and pre-emptive rights of CDP Reti, as well as to the obligation of a takeover by a third-party. Snam may also increase its equity investment. The agreement is for three years, renewable unless notice is given; if Snam does not renew it, CDP Reti will have the option to purchase Snam's equity investment in Italgas at the fair market value.

Following the transaction, each Snam shareholder will own two different shares, in place of each Snam share, representing two different areas of the business. Specifically, the Snam shares, on the one side, Snam being a company operating in the transportation, dispatching, regasification and storage of natural gas, and the ITG Holding shares, on the other side, Italgas being a company operating in the distribution of natural gas.

For the purpose of the 2016 financial statements, as the separation of the natural gas distribution business involves a major line of business, this led to the separate representation of the results and cash flows of the natural gas distribution segment for the period 1 January - 6 November 2016, the

<sup>39</sup> Under the scope of this transaction, as illustrated in the Information Document on the listing of Italgas ordinary shares published on 4 November 2016, Snam S.p.A. submitted a tax ruling request to the Italian Tax Authority to obtain an opinion with regard to the absence of unlawful profiles with reference to the existing transactions under the scope of the separation of the gas distribution business pertaining to its subsidiary Italgas S.p.A., from Snam. In response to this request, the Tax Authority confirmed the absence of unlawful profiles in relation to the above-mentioned transactions.

distribution segment as discontinued operations pursuant to IFRS 5 Non-current Assets Held for Sale and Discontinued Operations”.

The main economic - financial data of discontinued operations, net of inter-company items for 2016 (01.01.2016 - 06.11.2016) and for the year of comparison 2015:

(€ million)	2015	2016
Total income	1,416	<b>1,134</b>
Operating costs	(620)	<b>(543)</b>
EBIT	523	<b>348</b>
Financial income (expense)		<b>(8)</b>
Income (expense) from equity investments	29	<b>17</b>
Pre-tax profit	552	<b>357</b>
Income tax	(110)	<b>(87)</b>
- of which current taxes	169	<b>127</b>
- of which prepaid taxes	(59)	<b>(40)</b>
Net result	442	<b>270</b>
- of which Snam shareholders'	442	<b>270</b>
- of which minority interests		
Net cash flow from operating activities	517	<b>413</b>
Net cash flow from investment activities	(379)	<b>(298)</b>
Net cash flow from financing activities	(183)	<b>(116)</b>
Technical investments	393	<b>293</b>

The transaction of separating the natural gas distribution business from Snam led to a reduction in the net financial debt of €3.6 billion in total, of which €2.1 billion related to the repayment at market value of the inter-company loans and €1.5 billion to the repayment of the vendor loan under the transaction involving the sale of 38.87% of Snam S.p.A.'s stake in Italgas S.p.A. The cash in for the company amounted to a total of €3.2 billion, net of €0.4 billion in EIB loans relating to Italgas projects transferred to the latter.

Note that the transaction of separating the natural gas distribution from Snam is a business combination involving entities under common control, specifically, the companies participating in the business combination are ultimately controlled, pursuant to IFRS 10 by the same party, i.e. CDP, both before and after the combination and this control is not temporary in nature. As a result, for the purpose of the Snam Group consolidated financial statements, the transaction in its entirety was recorded applying the principle of continuity of values.

## 22. Shareholders' equity

Shareholders' equity, which amounts to €6,497 million (€7,586 million at 31 December 2015) breaks down as follows:

(€ million)	31.12.2015	31.12.2016
<b>Snam net asset</b>	<b>7,585</b>	<b>6,497</b>
Share capital	3,697	2,736
Share premium reserve	1,603	1,140
Legal reserve	739	547
Cash flow hedge reserve	(3)	(2)
Reserve from remeasurement of defined-benefit plans	(16)	(7)
Consolidation reserve	(1,701)	(674)
Other reserves	46	35
Retained earnings	1,987	1,969
Net profit	1,238	861
Less:		
- Negative reserve for treasury shares in the portfolio	(5)	(108)
<b>Shareholders' equity attributable to third parties</b>	<b>1</b>	
Napoletanagas	1	
	<b>7,586</b>	<b>6,497</b>

Below is a breakdown of the shareholders' equity of Snam at 31 December 2016.

### Share capital

The share capital as at 31 December 2016 consisted of 3,500,638,294 shares without nominal value (the same as at 31 December 2015), with a total value of €2,735,670,476 (€3,696,851,994 at 31 December 2015).

The reduction in the composition of the share capital is due to the partial and proportional demerger of Snam which took effect on 7 November 2016.

### Share premium reserve

The share premium reserve at 31 December 2016 totalled €1,140 million (€1,603 million at 31 December 2015). The reduction of €463 million is mainly due to: (i) the partial and proportional demerger of Snam with effect from 7 November 2016 (€416 million); (ii) the use of part of the reserve to pay shareholders the 2015 dividend (€50 million).

### Legal reserve

The legal reserve at 31 December 2016 totalled €547 million (€739 million at 31 December 2016). The reduction compared with 31 December 2015 is due to the partial and proportional demerger of Snam which took effect on 7 November 2016.

### Reserve for fair value of cash flow hedging derivatives

The cash flow hedge reserve (-€2 million, compared with -€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 11 "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
<b>Reserve at 31.12.2015</b>	<b>(4)</b>	<b>1</b>	<b>(3)</b>
Changes in 2016	1		1
<b>Reserve at 31.12.2016</b>	<b>(3)</b>	<b>1</b>	<b>(2)</b>

#### Reserve for remeasurement of defined-benefit plans for employees

At 31 December 2016, the reserve for remeasurement of employee benefit plans (-€7 million; -€16 million at 31 December 2015) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
<b>Reserve at 31.12.2015</b>	<b>(25)</b>	<b>9</b>	<b>(16)</b>
Changes in 2016	(7)	2	(5)
Change in scope of consolidation	20	(6)	14
<b>Reserve at 31.12.2016</b>	<b>(12)</b>	<b>5</b>	<b>(7)</b>

#### Consolidation reserve

The negative consolidation reserve of €674 million (compared with €1,701 million at 31 December 2015) includes the value derived from the difference between the acquisition cost of the Stogit equity investments (€1,597 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the shareholders' equity attributable to the Group on the transaction completion date (€923 million). The reduction of €1,027 million is due to: (i) the reclassification of the reserve for the deconsolidation of Italgas Reti S.p.A. following the partial and proportional demerger of Snam S.p.A. with the allocation to Italgas S.p.A. of 52.90% of the stake in Italgas Reti S.p.A.; (ii) 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.

#### Other reserves

The other reserves of €35 million (€46 million at 31 December 2015) refer mainly to the effects of the valuation of the equity investments using the equity method.

#### Retained earnings

Retained earnings totalled €1,969 million (€1,987 million at 31 December 2015). The change is mainly due to the allocation of the residual profit for 2015 (€413 million) partly offset by the effect of the partial and proportional demerger of Snam as from 7 November 2016.

#### Negative reserve for treasury shares in the portfolio

The treasury shares held by the Company, amounting to €108 million (€5 million at 31 December 2015), are broken down in the table below:

Period	Number of shares	Average cost (€)	Total cost (€ million) (*)	Share capital (%) (**)
Treasury shares acquired	<b>224,315,880</b>			
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
<b>Less treasury shares allocated/sold/cancelled:</b>	<b>(194,410,700)</b>			
. granted under the 2005 stock grant plans	(39,100)			
. sold under the 2005 stock option plans	(69,000)			
. sold under the 2006 stock option plans	(1,872,050)			
. sold under the 2007 stock option plans	(1,366,850)			
. sold under the 2008 stock option plans	(1,514,000)			
. cancelled following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
<b>Treasury shares held by the Company at 31 December 2016</b>	<b>29,905,180</b>			

(\*) Calculated on the basis of historical prices.

(\*\*) The share capital is the same as that of the date of the last acquisition in the year.

At 31 December 2016, Snam held 29,905,180 treasury shares (1,127,250 at 31 December 2015), equal to 0.85% of its share capital, recorded as a €108 million reduction in shareholders' equity (€5 million at 31 December 2015). Their market value at 31 December 2016 was around €117 million<sup>40</sup>. At this date, all stock options had been exercised. There are therefore no remaining treasury shares committed to these plans.

The increase of €103 million follows the decision of the Shareholders' Meeting which, on 1 August 2016, authorised the Board of Directors, pursuant to Articles 2357, paragraph 3 and 2357-ter of the Civil Code to purchase<sup>41</sup>, in one or more tranches, on the Mercato Telematico Azionario managed by Borsa Italiana S.p.A. within 48 months of the date of the partial and proportional demerger of Snam up to a maximum of 121,395,090 Snam ordinary shares up to the maximum limit of 3.5% of the subscribed and paid-up share capital.

On 2 March 2017, Snam S.p.A. purchased a total of 64,046,725 treasury shares, equal to 1.83% of the share capital, for a total cost of €233,081,796.89 million.

#### Dividends

On 27 April 2016, the Ordinary Shareholders' Meeting of Snam S.p.A. resolved 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 an ex-coupon date of 23 May 2016 and a record date of 24 May 2016.

In its meeting of 6 March 2017, the Board of Directors proposed to the Shareholders' Meeting convened for 11 April 2017 the distribution of an ordinary dividend of €0.21 per share. The dividend will be paid out as of 24 May 2017, with an ex-coupon date of 22 May 2017 and a record date of 23 May 2017.

<sup>40</sup> Calculated by multiplying the number of treasury shares by the official share price at 31 December 2016 (€3.92 per share).

<sup>41</sup> The purchases should be made at a price not lower than or higher than 5% of the reference price on the stock exchange the day before each individual purchase and therefore up to a total amount of no more than €500 million.

### 23. Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €4,605 million (€4,334 million at 31 December 2015) comprise:

(€ million)	31.12.2015	31.12.2016
<b>Guarantees given in the interest of:</b>	<b>124</b>	<b>123</b>
- subsidiaries (*)	124	35
- associates (*)		88
<b>Financial commitments and risks:</b>	<b>4,210</b>	<b>4,482</b>
<b>Commitments</b>	<b>1,907</b>	<b>2,632</b>
Commitments for the purchase of goods and services	1,898	1,853
Commitments in associates		776
Other	9	3
<b>Risks</b>	<b>2,303</b>	<b>1,850</b>
- third-party assets on deposit	2,210	1,785
- compensation and litigation	93	65
	<b>4,334</b>	<b>4,605</b>

(\*) At 31 December 2016, hold-harmless letters issued to Eni in favour of Snam amounted to €1 million.

#### Guarantees

Guarantees issued in the interest of subsidiaries (€35 million) essentially refer to hold-harmless letters issued in favour of third parties for performance bonds.

Other personal guarantees issued in the interest of associates (€88 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 (€63 million) and performance bonds (€24 million).

#### Commitments

At 31 December 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 €1,853 million (€1,898 million at 31 December 2015).

Commitments in associates (€776 million) refer to the commitment undertaken by Snam S.p.A. with regard to TAP as the shareholder responsible for financing the project according to the level of the shareholding. The total commitment of Snam S.p.A. at 31 December 2016 undertaken with regard to the estimated cost of the entire project approved by TAP in 2016 stands at around €0.8 billion. At 31 December 2016 Snam paid a total of €0.3 billion, including sums recognised during the conclusion of the transaction to purchase the company, of which €0.1 billion refers to the above commitment. It should, however, be pointed out that in the case of finance agreements finalised for the market cost of the project, guarantees on the loans will be defined, with a consequent reduction of the overall amount of the commitment, as well as the repayment methods for the shareholder loans.

Other commitments refer to future minimum payments relating to operating lease transactions that cannot be cancelled (€3 million expiring in the following year).

#### Risks

Risks related to third-party assets on deposit, equal to €1,785 million (€2,210 million at 31 December 2015) relate to approximately 8.36 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 €0.22 per standard cubic metre (€0.26 at 31 December 2015).

Risks concerning compensation and litigation (€65 million) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

## FINANCIAL RISK MANAGEMENT

### Introduction

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations in interest and exchange rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Snam's policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.

Information on other risks affecting the Company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

### Interest rate risk

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. At 31 December 2016, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.

The exposure to interest rate risk at 31 December 2016 was approximately 36% of the total exposure of the Group (the same at 31 December 2015). At 31 December 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<sup>42</sup>.

The effects on shareholders' equity and net profit at 31 December 2016 of a hypothetical change of +/-10% in interest rates applied over the course of the year is less than €1 million. Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow.

<sup>42</sup> From 27 January 2017 the above coverage was discontinued following the extinguishment of the derivative instrument.

### Exchange rate risk

Snam's exposure to exchange rate risk relates to both transaction risk and translation risk. Transaction risk is generated by the conversion of commercial or financial receivables (payables) into currencies other than the functional currency and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is carried out and the time it is settled (collection/payment). Translation risk relates to fluctuations in the exchange rates of currencies other than the consolidation currency (the euro), which can result in changes to consolidated shareholders' equity. Snam's risk management system aims to minimise transaction risk through measures such as the use of derivatives. It cannot be ruled out that significant future changes in exchange rates may generate negative effects on Snam Group's operations, balance sheet and cash flow, irrespective of the policies for hedging the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.

As at 31 December 2016, Snam's foreign-currency items essentially refer to a ¥10 billion bond maturing in 2019 and with an issue-date value of approximately €75 million. The bond has been fully converted into Euros by a cross-currency swap, with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedging derivative. Snam does not have any cross-currency swaps in place for speculative purposes.

The effects on shareholders' equity and net profit at 31 December 2016 of a hypothetical change of +/-10% in €/¥ exchange rates actually applied over the course of the year is less than €1 million. The exchange rate change has no effect on the profit for the period since the effects of such a change are offset by the effects of the hedging derivative.

### Credit risk

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and the financial balance of Snam. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is 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's maximum exposure to credit risk as at 31 December 2016 is represented by the book value of the financial assets recorded in the consolidated financial statements of the Snam Group as at 31 December 2016. As shown in Note 8 "Trade and other receivables", overdue and non-impaired receivables as at 31 December 2016 came to €154 million (€251 million at 31 December 2015) and mainly refer to the storage segment (€99 million), principally comprising VAT billed to users for the use of strategic gas unduly withdrawn in 2010 and 2011 and various receivables from Public administrations and the transportation sector (€47 million) essentially involving receivables from Users



(€31 million) for penalties and additional tariffs, for which no impairment loss is registered as they are covered through the fee tariff methods.

Approximately 65% of trade receivables (60% as at 31 December 2015) were with extremely reliable clients, including Eni, which represents 21% of total trade receivables (28% as at 31 December 2015). It cannot be ruled out however, that Snam may incur liabilities and/or losses from the failure of its clients to comply with payment obligations, particularly given the current economic and financial situation, which makes the collection of receivables more complex and critical. Snam's maximum exposure to credit risk at 31 December 2016 is the book value of the financial assets in its statement of financial position.

### Liquidity risk

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

Snam's risk management system aims to establish, under the financial plan, a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt. As shown in the "Interest rate risk" section, the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the EIB and bonds).

Snam's objective is to maintain a debt structure that is balanced in composition between bonds and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

At 31 December 2016, Snam had unused committed long-term credit lines worth approximately €3.2 billion. In addition, at the same date Snam had a Euro Medium Term Notes (EMTN) programme for a maximum total value of €10 billion, of which approximately €7.5 billion was used at 31 December 2016. Based on existing bond loans at 31 December 2016, the renewal of the programme allows for the issue, by 30 September 2017, of bonds worth up to €2.5 billion<sup>43</sup>, to be placed with institutional investors operating in Europe.

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.

### Rating risk

With reference to rating risk, Snam's long term rating is equal to: (i) Baa1, confirmed on 19 December 2016 by Moody's Investors Services Ltd ("Moody's"), downgrading the outlook from stable to negative following the same action taken on the rating of the Italian Republic (which was downgraded from Baa2 with a stable outlook to Baa2 with a negative outlook) which took place of 7 December 2016; (ii) BBB with a stable outlook, confirmed on 29 November 2016 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with a stable outlook, confirmed on 29 July 2016 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's and Standard & Poor's is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by these rating agencies, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating.

<sup>43</sup> Also taking into consideration the additional bond issues in January and February 2017, for a nominal overall amount of €800 million, the programme allows the issuing of bond loans of a maximum amount of €1.7 billion.

The current credit ratings of the ratings' agencies include the separation of Italgas from Snam. In this regard note that, 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. The main elements that caused the confirmation of the rating are: (i) the improvement of the credit metrics immediately following the transaction; (ii) Snam's confirmed focus on the regulated business in Italy, considered as stable and favourable with the minimum exposure of the results to the volatility of volumes of gas transported and (iii) the resilience of the financial metrics in stress tests featuring a reduction of the regulatory return.

Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **Debt covenant and default risk**

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk. As at 31 December 2016, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these agreements include, *inter alia*, compliance with typical international practice commitments, some of which are subject to specific threshold values, such as, for example: (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; (iv) limits on the debt of subsidiaries.

The bonds issued by Snam at 31 December 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, for example 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 credit rating is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or Baa2 (Moody's) for at least two of the three ratings agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow, creating additional costs and/or liquidity problems. There are no covenants among these commitments that involve compliance with ratios of an economic and/or financial nature.

With specific reference to the covenants in the context of the transaction of separating Italgas Reti from Snam, note that, at the date of this document, the consent issued by the financial institutions and the EIB has become effective and, in relation to the bond loans, issued under the scope of the Euro Medium Term Notes programme, Snam has obtained approval from the bondholders. In addition, the assumption of Snam's debt relating to two loans provided by the EIB and intended to financial Italgas projects has been finalised.

### Future payments for financial liabilities, trade and other payables

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments:

(€ million)	Maturity								
	Balance at 31.12.2015	Balance at 31.12.2016	Maturing within 12 months	Maturing beyond 12 months	2018	2019	2020	2021	Beyond
<b>Financial liabilities</b>									
Bank loans	3,948	<b>3,447</b>	<b>1,686</b>	<b>1,761</b>	24	643	50	82	962
Bonds (*)	9,695	<b>7,545</b>	<b>505</b>	<b>7,040</b>	922	922	1,216	332	3,648
Other lenders	35	<b>32</b>	<b>32</b>						
Interest on loans (*)	1,632	<b>977</b>	<b>201</b>	<b>776</b>	197	148	120	96	215
	<b>15,310</b>	<b>12,001</b>	<b>2,424</b>	<b>9,577</b>	<b>1,143</b>	<b>1,713</b>	<b>1,386</b>	<b>510</b>	<b>4,825</b>

(\*) Future payments include the cash flow generated by hedging derivatives (CCS and IRS).

For information on the payment terms for trade and other payables, please see Note 16 of the consolidated financial statement.

### Other information on financial instruments

In relation to the categories mentioned in IAS 39 "Financial instruments: recognition and measurement", Snam has no financial assets held to maturity, available for sale or held for trading. As a result, the financial assets and liabilities all fall within the classification of financial instruments measured at amortised cost.

The book value of financial instruments and the relative effects on results and the balance sheet can be seen below.

(€ million)	Book value		Income/Expense recognised in the income statement		Income/Expense recognised in shareholders' equity (a)	
	Balance at 31.12.2015	Balance at 31.12.2016	2015	2016	2015	2016
<b>Financial instruments measured at amortised cost</b>						
- Trade and other receivables (b)	1,804	<b>1,308</b>	(40)	<b>2</b>		
- Financial receivables (c)	78	<b>213</b>	3	<b>4</b>		
- Trade and other payables (b)	1,746	<b>1,264</b>				
- Financial payables (c)	(13,796)	<b>(11,090)</b>	(364)	<b>(624)</b>		
<b>Financial instruments measured at fair value</b>						
Net assets (liabilities) for hedging derivatives (c)	7	<b>24</b>		<b>1</b>	...	<b>1</b>
Adjustment of financial receivables from the Italgas Group				<b>119</b>		

(a) Net of tax effect.

(b) The effects on the income statement are recorded under "Purchases, services and other costs" and "Financial income/(expense)".

(c) The effects on the income statement are recorded under "Financial income/(expense)".

### Market value of financial instruments

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

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

With regard to the above, the classification of the assets and liabilities measured at fair value on the statement of financial position according to the fair value hierarchy concerned derivative financial instruments at 31 December 2016 classified at level 2 and recognised in Note 11 under "Other current and non-current liabilities" (€24 million).

### Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements.

The following is a summary of the most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

### Criminal cases

#### Snam Rete Gas S.p.A. - Judiciary investigations into gas metering

In 2006, the public prosecutor at the Court of Milan opened a criminal case on the issue of gas metering and the legitimacy and reliability of "Venturi meters". This case involved several companies in the gas sector, including Snam Rete Gas. The company was investigated pursuant to Article 24 and 25-ter of Legislative Decree 231/2001. The notice of conclusion of preliminary investigations was served in November 2009. Some managers and department heads (including some no longer employed by the company) were under investigation with regard to various matters.

The period under investigation is a time span that, in total, covers the years from 2003 to 2007, relating primarily to annual natural gas consumption reports and to assessment and/or payment of excise duties on natural gas, as well as to possible obstruction of supervisory duties. With the help of independent external experts, the administrative, tax and European legislation aspects have been examined more closely. Snam Rete Gas is reassured by the opinions of the experts and maintains that the allegations made are unfounded. The company therefore considers itself unlikely to suffer a subsequent negative economic impact.

On 24 January 2012, the preliminary hearing judge ruled that there was insufficient evidence to proceed to a trial of any of those under investigation and simultaneously ordered the release from seizure of the meters.

The assistant public prosecutor has filed for an appeal before the Court of Cassation at the Court of Milan. The Court of Cassation partially annulled the contested ruling, rejecting the rest of the public prosecutor's appeal, in particular for the effect of the indictments referred to in Articles 472, paragraphs 1 and 2 of the Criminal Code and Article 2638, paragraph 1 of the Italian Civil Code, and the charge pursuant to Legislative Decree 231/2001.

Following the adjournment implemented by the Court of Cassation, the new preliminary hearing opened on 12 December 2013, following which the preliminary hearing judge ordered committal to trial only for 2006 and 2007. The hearing began on 18 April 2014. At the hearing of 27 March 2015, the Court of Milan absolved the charges against the defendants due to lack of evidence and because it did not constitute an offence. The public prosecutor has appealed.

#### **Snam Rete Gas S.p.A. - Tresana incident**

On 18 January 2012, an explosion took place on the La Spezia-Cortemaggiore (Tresana) pipeline during maintenance work being conducted on the line (performed by a subcontractor). Snam Rete Gas took immediate action to provide all the necessary assistance and to ascertain responsibility and the causes of the incident. The gas flow was promptly re-established on the line. After the conclusion of the preliminary investigation, several charges were brought against several managers and directors and as a result of the committal to trial declared by the preliminary hearing judge on 23 June 2015, the proceedings began.

#### **Snam Rete Gas S.p.A. - Pineto incident**

The public prosecutor at the Court of Teramo opened an investigation against certain directors, executives and managers (including some no longer employed by the company), in relation to the incident that took place on 6 March 2015 near the town of Pineto (Teramo) involving a gas leak on a section of piping. The causes of the gas leak and fire are currently being investigated. The infrastructure was quickly made safe, stopping the gas leak and facilitating the firefighting operations.

The public prosecutor arranged the removal of the names of several senior positions, believing that in the light of the investigations carried out, the liability of several senior Snam Rete Gas managers could be excluded.

On 2 February 2017, the notice of conclusion of the preliminary investigations was announced, the accused offences were deemed criminal negligence causing wide-scale disaster and wildfire caused by arson.

Positions within the employer model are still being investigated - Employer, Safety Manager, Safety Officer - and also technical positions. Snam Rete Gas is actively cooperating with the relevant authorities.

#### **Snam Rete Gas – Sestino (AR) incident**

The public prosecutor at the Court of Arezzo brought a criminal case against several Snam Rete Gas directors and executives (including some no longer employed by the company), in relation to an event that took place on 19 November 2015 in the municipality of Sestino (AR).

On that date there was a break in the pipeline that caused an uncontrolled gas leak. The reasons for the gas leak and fire are currently being ascertained. Snam Rete Gas is actively cooperating with the relevant authorities.

### **Snam Rete Gas - Badia Tedalda (AR) criminal proceedings**

The public prosecutor at the Court of Arezzo opened criminal proceedings with regard to Snam Rete Gas for an alleged violation of the landscape and environmental protection order with regard to the work of reopening the network for the pipeline in the Municipality of Badia Tedalda (AR), which took place without the necessary permits. The Company is cooperating with the Authorities.

*Electricity, Gas and Water Authority (AEEGSI)*

### **Snam Rete Gas S.p.A. Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A and request for information**

Through Resolution VIS 97/11, notified on 15 November 2011, the Electricity, Gas and Water Authority (the Authority) started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 plants. Through its subsequent Resolution 431/2012/S/gas of 25 October 2012, the Electricity and Gas Authority opened further proceedings to determine whether there had been violations with regard to natural gas metering, simultaneously joining with the aforementioned investigative proceedings. Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct, as well as an update on the situation at the regulating and metering plants in question. By means of Resolution 332/2015/S/gas of 9 July 2015, the Authority declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Snam Rete Gas is awaiting the final order.

### **Snam Rete Gas S.p.A. - Resolution 608/2015/R/gas – Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor**

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

The proceedings in question were triggered by the outcome of the investigation launched through resolution 282/2012/R/gas on the procedures for regulating the economic aspects of balancing and the steps taken to protect the system relating to the period 1 December 2011 - 31 May 2012. This investigation was concluded by way of Resolution 144/2013/E/gas, and the AEEGSI used Resolution 145/2013/R/gas to rule that dedicated proceedings should be opened to determine the share of the costs owing to Snam Rete Gas S.p.A. with regard to "*fully outstanding receivables*" and to monitor the situation going forward.

Following the investigation, through resolution 608/2015/R/gas of 11 December 2015, the Authority closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately €130 million including VAT. Lastly, the Authority paid Snam Rete Gas the remaining part of the receivables not collected for the period from 1 December 2011 - 23 October 2012. The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged resolution 608/2015/R/gas before the competent legal authorities. The merit hearing took place on 17 January 2017; the decision of the Milan Regional Administrative Court is awaited.

The Company made an allocation to the provision for impairment losses on receivables.

### **Snam Rete Gas S.p.A. - Resolution 9/2014/S/gas – "Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas".**

By means of Resolution 9/2014/S/gas, published on 27 January 2014, the Authority provided for the

launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement or determination of the relative physical and financial items of the balancing of the gas system. On 11 July 2016 the Authority announced the findings of the preliminary investigation. Snam Rete Gas asked for the deadlines for submitting its defence.

**Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 on the:** "Adoption of measures on the odorising of gas for domestic use and similar for end users connected directly to the natural gas transportation networks"

Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the AEEGSI amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation pursuant to transportation companies to odorise gas for end users connected directly to the transportation network, which, taking into account the categories of use indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the AEEGSI arranged that the transportation companies, after carrying out a survey of the redelivery points involved (by 31 July 2015)) and sending the AEEGSI the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified, should complete the implementation of the adaptation plans by 31 January 2017.

Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey. Having carried out the survey, when sending the plan and the subsequent updates, given the high number of redelivery points involved (more than 1300) and the critical areas that emerged in the implementation of the plan, Snam Rete Gas found that the deadline set by the AEEGSI was unreasonable.

Moreover, through the subsequent Resolution 484/2016/E/gas, entitled: "*formal notice to comply with the obligations regarding the odorising of gas for domestic use and similar by end users connected directly to the natural gas transportation networks*" the AEEGSI confirmed the deadline of 31 January 2017.

Consequently, under the scope of an application through which Snam Rete Gas challenged Resolution 250/2015/R/gas, it submitted an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended. The application for a suspension, rejected at first by the Milan administrative regional court through ruling no. 1690/2016 of 20 December 2016, was later accepted by the Council of State through the ruling of 23 January 2017. A date is yet to be set for a merit hearing before the Milan regional administrative court.

**Cerved Rating Agency S.p.A. and Cerved Group S.p.A. /AEEGSI/Snam Rete Gas S.p.A.**

In February 2015, the Cerved Group and Cerved Rating Agency requested, firstly before the Lombardy - Milan administrative regional court, the annulment of AEEGSI Resolution 207/2014/R/gas, because the part in which Cerved is excluded from parties accredited to issue credit ratings guaranteeing the payment of bonds from the transfer and the provision of the gas transportation and balancing service is unlawful.

Through the ruling filed in April 2016, the Lombardy regional administrative court only partly accepted the appeal submitted by Cerved, believing Cerved's applications with regard to the request to annul the AEEGSI's resolution to have grounds and therefore the Snam Rete Gas Network Code, in the part in which it does not consider Cerved among the parties entitled to issue credit ratings for the purpose of the Network Code. However, the demand to confirm Cerved's right to be admitted to the list of parties accredited for issue credit ratings for the purpose of the Network Code was rejected, as was the claim for compensation for damages.

As a result of the ruling, Snam Rete Gas and the AEEGSI, each as far as their area of responsibility is

concerned, should evaluate the claim of the plaintiff once again. Moreover, the Council of State was notified of the appeal which is pending. The merit hearing took place on 9 February 2017; the decision of the Council of State is awaited.

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

Through the appeal announced on 15 June 2016, the Gas Tera Consortium and the Gas Tera PMI Consortium challenged Resolution 180/2016/R/gas on "Determinations following the Lombardy administrative regional court ruling no. 1124/2015", through which the Authority asked Stogit to notify investors pursuant to Legislative Decree 130/2010 of the amounts that were paid through Resolution 144/2014/R/gas by the Authority to the parties to whom the investors had sold the storage capacities for A.T. 2013/2014, in accordance with what was established by Resolution 144/2014/R/gas. The sums were paid by the then Cassa Conguaglio Settore Elettrico (CCSE) to Stogit in December 2014 and then promptly repaid to those with rights according to the above Resolution. According to the reconstruction of the plaintiffs, Stogit paid an apparent creditor, by virtue of Resolution 144/2014/R/gas, which in the meantime was challenged, but not suspended in the trial which concluded with ruling no. 1124/2015 which established that it is the sellers and not the assignees who have the right to collect these sums. The plaintiffs asked for a declaration of invalidity or, alternatively, the annulment of the challenged Resolution, asking to know whether the burden of recovering the payable with regard to third parties where the sum due to the plaintiffs was incorrectly paid was incumbent upon them. The merit hearing took place on 31 January 2017; the decision of the Milan Regional Administrative Court is awaited.

**Tax cases**

**Stoccaggi gas Italia S.p.A. - Registration tax**

On 30 November 2012, the Milan branch of Italy's Revenue Agency served the Company with notice of a tax assessment for the value adjustment of the transfer by Saipem Energy Services S.p.A. to Stogit of its plant operating maintenance business unit. The assessed transfer value was greater than the declared value owing to a higher goodwill calculation, resulting in an additional figure of approximately €88,000 in registration tax, plus fines and interest.

Pursuant to Article 12 of Legislative Decree No. 218/1997, the Company responded to this order by submitting a tax settlement proposal with a view to establishing whether the grounds exist to definitively resolve the matter. This proposal was not accepted.

The Company has therefore submitted a joint appeal with Saipem S.p.A. to the Milan provincial tax commission, opposing the Milan branch of the Revenue Agency.

On 18 September 2014, the appeal was processed by the Milan provincial tax commission, which issued a ruling upholding the appeal on 2 October 2014.

On 19 March 2015, the Revenue Agency (Provincial Office II – Milan) brought an appeal before the regional tax commission and the Company, in consortium with Saipem S.p.A., appeared before the court.

On 19 March 2016 there was a hearing to discuss the appeal at the regional tax commission. The ruling has not yet been filed.

The allocation made by the Company to the provision for risks and charges in 2012 remains unchanged.

**Stoccaggi gas Italia S.p.A. – Payment notice for registration tax**

On 4 March 2015, the Revenue Agency issued Stogit S.p.A. with a payment notice requesting payment of the total sum of approximately €2.7 million in tax, relating mainly to registration tax for legal deeds. The Company brought an appeal before the provincial tax commission of Milan, requesting that the tax be redetermined.



By means of the internal review provision No 55/2015, the Revenue Agency, in accepting the request, corrected the contested notice from €2.7 million to €0.4 million, in addition to service fees, which the company paid on 4 May 2015.

The hearing before the Milan provincial tax commission to deal with the dispute was held on 9 February 2017. The ruling of the commission's is awaited.

#### **GNL Italia S.p.A. - Local duties**

In 2016, with regard to the Panigaglia plant, the Municipality of Portovenere issued TARSU adjustment notices for 2012 and TARES notices for 2013 (approximately €180 thousand), as well as TARI notices for 2015 (approximately €63 thousand).

The notices involve the industrial areas where the Company disposes of its special waste and were therefore challenged with appeals at the La Spezia provincial tax commission.

The hearing to deal with the dispute for the 2015 TARI notices was held on 24 February 2017. The ruling of the commission's is awaited.

Also note that a similar notice of investigation, issued by the Municipality of Portovenere in 2015 for the 2014 TARSU (approximately €58 thousand) was cancelled by the La Spezia provincial tax commission through a ruling on 05/05/2016; however, the allocated provision, which took place in 2015, was not transferred because the Municipality of Portovenere submitted an appeal to the Liguria regional tax commission.

#### **Recovering receivables from certain users of the transportation and balancing system**

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.

#### **a) Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012**

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority. This Resolution, with reference to the income statement items pertaining to the balancing system, stipulated that the Balancing Supervisor would receive from the Electricity Equalisation Fund (as of 1 January 2016, the Energy and Environmental Services Fund, CSEA) the value of receivables unpaid by the end of the month following the month in which notification was given<sup>44</sup>.

<sup>44</sup> To be presented to the CSEA four months after the due date of unpaid invoices.

Through its subsequent Resolution 351/2012/R/gas<sup>45</sup>, the Authority ordered, with effect from 1 October 2012, the application of the variable unit fee CV<sup>BL</sup> to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to €6 million over a minimum of 36 months.

Through Resolution 282/2012/R/gas, as subsequently amended by Resolution 444/2012/R/gas, the Authority opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012<sup>46</sup>. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013. On the same date, the Authority: (i) adopted Resolution 145/2013/R/gas, through which it opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the natural gas balancing service<sup>47</sup>.

With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company challenged Resolution 608/2015/R/gas, before the competent judicial Authority.

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to income statement items arising from commercial balancing operations entrusted to Snam Rete Gas in its capacity as Balancing Supervisor, and also relating to the transportation service.

Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service<sup>48</sup>. Having received these orders, Snam Rete Gas initiated the necessary executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the users, partly because of the bankruptcy procedures under way at all of these users.

In particular, at present:

- four Users were declared bankrupt. With regard to all four User, Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest;
- two Users applied for composition procedures. For the first user, the judicial authority issued a provision of composition with creditors<sup>49</sup>. With regard to the second, the proceedings pursuant to Article 173 L.F. have just concluded with the application to dismiss being rejected and the user filed a new arrangement proposal which has yet to be put to a vote by the creditors<sup>50</sup>.

45 The above resolution was cancelled through the ruling 1587/2014 of the Milan regional administrative court in relation to the obligation for users to pay the CVBL fee of 0.001 €/Smc from 1 October 2012. Therefore, the coefficient was recalculated through Resolution 372/2014/R/gas at the same amount of 0.001 €/Smc.

46 The period covered by the preliminary investigation was initially limited to the period 1 December 2011 – 31 May 2012, but it was subsequently extended until 23 October 2012 by Resolution 444/2012/R/gas.

47 As at 31 December 2016, four of the aforementioned proceedings had been concluded through the approval of Resolutions 151/2014/S/gas, 188/2014/S/gas, 241/2014/S/gas and 471/2014/S/gas, with which the Authority imposed significant financial penalties on the four users in question.

48 The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that Snam Rete Gas be ordered to compensate them for alleged damage suffered. In relation to the two users, the oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

49 In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

50 With this user, Snam Rete Gas formalised a repayment plan for the full repayment of the receivables owed. In addition, following the presentation of a request for an arrangement with creditors, the party interrupted payment.

### b) Unpaid receivables after 23 October 2012

Two additional transportation contracts were terminated in 2013. In relation to one user, the Court of Milan issued a provisional executive injunction ordering the user to pay Snam Rete Gas a total of around €14 million, plus interest and expenses, in relation to the balancing service. The executive procedures initiated resulted in the recovery of around €500 thousand. The user appealed against the injunction, submitting a counterclaim requesting compensation for alleged damage suffered. Moreover, recently, the ruling was declared lapsed with the consequent consolidation of the securities purchased by Snam Rete Gas.

Two provisional executive injunctions were issued in relation to a second user. The first concerned the balancing service, for a sum of around €700 thousand, while the other related to the transportation service, for approximately €4.5 million. As a result, proceedings were launched to implement the injunctions, in response to which the user appealed but did not bring a counterclaim. For this reason, the user was recently declared bankrupt<sup>51</sup>.

In 2014, another transportation contract was terminated in relation to a user that had failed to pay outstanding balancing service invoices in the amount of around €75 thousand and transportation service invoices worth approximately €180 thousand. As a result, Snam Rete Gas initiated debt recovery measures, having recently obtained two provisional executive injunctions. For this reason, the user was declared bankrupt<sup>52</sup>.

Lastly, two provisional executive injunctions were recently issued with regard to a user that had failed to pay outstanding balancing service invoices in the amount of around €95 thousand and transportation service invoices worth approximately €860 thousand.

Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation.

Finally, it should be noted that, in terms of the preliminary investigation, on 12 February 2016 the public prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five users. This criminal proceeding resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud. At present, the Company is still the offended party of the crime.

### Recovering receivables from users of the storage system

*Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code*

Following withdrawals from strategic storage made by a user in November and December 2010, in 2012 Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. Executive actions were launched.

Following the withdrawals and the failed reintegration of the strategic gas in January, February and March 2011 as well, in 2013 Stogit requested and obtained a second provisional executive injunction for the further sums accrued.

Urgent proceedings were also launched for the reintegration of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

The above rulings were later combined.

<sup>51</sup> The credit declared by Snam Rete Gas was included in the liabilities as requested.

<sup>52</sup> Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.

In September 2012 the Court of Asti admitted the above user together with another two users (who also defaulted with regard to Stogit) in proceedings for an arrangement with creditors. Under the terms and conditions established by the court-appointed receiver, Stogit formally transmitted and documented the amounts of its receivables with these users.

Moreover, following the sub-proceedings to dismiss the arrangement, in November 2013 the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit promptly filed a proof of claim. Following the examination of the list of creditors, Stogit's receivables were admitted in full. However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was approved by way of an order issued by the Court of Asti on 2 July 2014. In reference to the approval decree, against which an appeal was brought by one of the creditors, the Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

**Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years**

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one user. At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million SCM.

Stogit promoted the appropriate executive measures.

Through a ruling made on 4 March 2015, the Court of Rome declared the user bankrupt. Stogit therefore initiated proceedings to prove the receivable was owed to it, in compliance with the timeline indicated. The receivable was declared unsecured by the presiding judge.

**Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code, ascribable to October and November 2011**

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable.

Pending the proceedings, the Court of Rome declared the user bankrupt on 30 October 2014. As a result the Civil Court of Milan declared the interruption of Stogit's legal action and Stogit then initiated proceedings to prove the receivables owed to it in compliance with the timeline indicated. The receivable was declared unsecured by the presiding judge.

At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.

**Emissions trading**

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC. The reduction of CO<sub>2</sub> emissions comes under the objectives set by the European Union in the 2020 Climate and Energy Package, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%.

In 2016 the free allocation for the Snam Group was equal to around 207,000 shares, with a decrease of approximate 13% compared with 2015. The reduction was due in part to the progressively decreasing allocation of the free shares on the part of the competent national authority, established for the third regulatory period by Article 10-bis of Directive 2009/29/EC, and in part by lower consumption recorded over the course of 2015.

In 2016, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater

than the emission permits allocated. In view of 0.550 million tonnes of carbon dioxide emitted into the atmosphere, around 0.207 million tonnes were allocated, resulting in a 0.343 million-tonne deficit. This deficit is offset by the allowances already present in the registers for Snam Group plants, accumulated thanks to the surplus from previous years.

### **Other commitments and risks**

The other unevaluated commitments and risks are:

#### Commitments arising from the contract for the acquisition of Italgas and Stogit from Eni

The price determined for the acquisition of Italgas and Stogit is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

#### **Acquisition of Italgas**

Note that, at the same time as the transaction to separate Italgas Reti S.p.A. from Snam S.p.A., the following were transferred to the Company Italgas S.p.A. (formerly ITG Holding S.p.A) all the rights and obligations pertaining to Snam S.p.A with regard to the sale of the Roma Ostiense property complex as a result of contractual arrangements entered into during the purchase in 2009 by Eni of the entire share capital of Italgas.

Therefore at 31 December 2016 there are no residual commitments from the above agreements with regard to the adjustment of the Italgas purchase price.

For more information, refer to the Information Document on the demerger of Snam S.p.A. in favour of Italgas S.p.A., prepared pursuant to Article 70, paragraph 6 of the regulation adopted by CONSOB through Resolution 11971 of 14 May 1999 and later amendments and supplements, available on the Snam website ([www.snam.it](http://www.snam.it), in the section "Investor Relations/Separation of Italgas from Snam).

#### **Acquisition of Stogit**

At 31 December 2016 the residual commitments resulting from the above agreements involve hedging mechanisms to keep the risks and/or benefits that may derive from the following pertaining to Eni: (i) the possible exploitation of the gas owned by Stogit at the time of the transfer of the shares other than that recognised by the Authority for Electricity, Gas and the Water System (the AEEGSI) in the case of its sale, or partial sale, if certain quantities were to become no longer instrumental to the regulated concessions and therefore available for sale; (ii) the possible sale of the storage capacity which should be freely available on a negotiable basis rather than a regulated basis, or the transfer of concessions held by Stogit at the time of the share transfer that may become dedicated mainly to storage activities which are no longer regulated.

With regard to the adjustment of the Stogit purchase price, in order to take into account the different value, compared with the share transfer date, paid by the AEEGSI for the quantities of natural gas owned by Stogit included in the RAB (Regulatory Asset Base) assets, note that following the definitive approval by the AEEGSI of the 2015 storage tariffs, a price adjustment was made in favour of Eni, amounting to a total of €6 million.

See below for the comments on the income statement items. Note that, following the operation of separating the natural gas business in Italy from Snam, which led to the transfer, with effect from 7 November 2016, of the entire equity investment held by Snam S.p.A. in Italgas Reti S.p.A. (formerly Italgas S.p.A.) to Italgas S.p.A. (formerly ITG Holding S.p.A.), the result of the Natural gas distribution sector for the period 1 January - 6 November 2016 was reported separately under the item "Net profit - discontinued operations" in the income statement<sup>53</sup>, as required by the provisions of IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations". Therefore, the comments below refer solely to continuing operations (transportation and dispatching, regasification, storage, as well as corporate activities).

However, it should be borne in mind that the separate reporting of discontinued operations in accordance with the criteria pursuant to IFRS 5 only refers to relations with third parties leaving eliminations for inter-company transactions in place. This creates a distortion in the separation of the values between continuing and discontinued operations which, at an economic level, penalises one or the other, the more important, the greater the inter-company relations of the discontinued sectors. To eliminate these distortions, the Directors' Report contains alternative performance measures, not included in the IFRS (Non - GAAP measures), which restore inter-company transactions for discontinued operations in the results of continuing operations, at the level of individual income statement items, to obtain a representation of the results of continuing operations as if the discontinued operations had been deconsolidated. On the basis of these representations, refer to the chapter "Financial review and other information" in the Directors' Report for the reasons behind the most significant changes.

#### 24) Revenue

The breakdown of revenue for the period, which totalled €2,501 million (€2,554 million in 2015), is shown in the following table:

(€ million)	2015	2016
Core business revenue	2,470	2,419
Other revenue and income	84	82
	<b>2,554</b>	<b>2,501</b>

The Group generates all of its revenue in Italy. An analysis of revenue by business segment can be found in Note 31 - "Information by business segment".

Revenues from related parties are described in Note 32 "Related-party transactions".

#### Core business revenue

Core business revenue, which totalled €2,419 million (€2,470 million in 2015), is analysed in the following table:

(€ million)	2015	2016
Natural gas transportation	2,040	1,925
Liquefied natural gas (LNG) regasification	18	18
Natural gas storage	397	434
Corporate and other activities	15	42
	<b>2,470</b>	<b>2,419</b>

<sup>53</sup> The analysis of the net profit of discontinued operations, in conformity with the provisions of paragraph 33 of IFRS 5, is given in Note 21 "Discontinued operations".

### Natural gas transportation

Core business revenue (€1,925 million) relates mainly to fees for transportation services (€1,918 million) and mainly relate to Eni S.p.A. (€1,069 million) and Enel Trade S.p.A. (€379 million). Transportation revenue includes the chargeback to users of the costs of connecting the Company's network to that of other operators (€63 million)<sup>54</sup>. Snam provided its transportation service to 136 companies in 2016.

### Liquefied natural gas (LNG) regasification

Core business revenue (€18 million) refers almost entirely to the factor for covering revenue paid by the AEEGSI pursuant to Resolution 438/2013/R/gas<sup>55</sup>. Snam provided its regasification service to four companies in 2016.

### Natural gas storage

Core business revenue (€434 million) relates mainly to fees for modulation (€345 million) and strategic (€91 million) storage, and mainly concerns Eni S.p.A. (€60 million) and Enel Trade S.p.A. (€14 million). Snam provided its natural gas storage service to 91 companies in 2016. Group core business revenue is reported net of tariff components, additional to the tariff, applied to cover expenses of a general nature of the gas system<sup>56</sup>. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund (CSEA).

(€ million)	2015	2016
Additional fees for the transportation service	791	955

### Other revenue and income

*Other revenue and income*, which amounted to €82 million (€84 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Income from gas sales for the balancing service (*)	49	72
Natural gas connection competitive tendering procedure	3	3
Capital gains from disposals of property, plant and equipment and intangible assets	3	
Other income	29	7
	<b>84</b>	<b>82</b>

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

54 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

55 Article 18 "Application methods for the factor for covering revenue" of Annex A of Resolution 438/2013/R/gas defined the factor for covering revenue at 64% of the benchmark revenues.

56 These items, totalling €955 million (€791 million in 2015) refer essentially to the following fees: (i) CRVOS, introduced by the Authority through Resolution ARG/gas 29/11 to cover the expenses pursuant to Article 9 of Legislative Decree 130/10, incurred by the Energy Services Operator (GSE) for paying the amounts due to the storage company relating to the SG guarantee factor (€293 million); (ii) GST and RET, respectively to cover expenses for offsetting tariff breaks for disadvantaged gas sector customers and expenses for energy-saving measures, and interventions and the development of renewable sources in the gas sector (€374 million in total); (iii) CVFG, to cover expenses arising from the application of the guarantee factor for LNG regasification revenue pursuant to Article 18 of Resolution 92/08 (€120 million); (iv) CRVBL, to cover expenses associated with balancing the gas system (€61 million); (v) CRVI, to cover expenses for reducing gas consumption (€45 million); (vi) UG3T introduced by means of Resolution 134/14/R/gas to cover expenses arising from the default service provided to customers who are directly connected to the regional transportation network (€46 million); (vii) established by Resolution ARG/gas 184/09 to cover the equalisation imbalances of revenues relating to the Regional network capacity fee (€12 million).

## 25. Operating costs

The breakdown of *operating costs* for the period, which totalled €557 million (€551 million in 2015), is shown in the following table:

(€ million)	2015	2016
Purchases, services and other costs	403	390
Personnel cost	148	167
	551	557

Revenues from related parties are described in Note 32 "Related-party transactions".

### Purchases, services and other costs

*Purchases, services and other costs*, which amounted to €390 million (€403 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Purchase costs for raw materials, consumables, supplies and goods	76	109
Costs for services	270	307
Costs for the use of third-party assets	26	21
Changes in raw materials, consumables, supplies and goods	89	32
Net accrual to (utilisation of) provisions for risks and charges	3	6
Net (utilisation of)/allocations to the provision for impairment losses on receivables	34	(2)
Other expenses	42	37
	540	510
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(137)</b>	<b>(120)</b>
- of which purchase costs for raw materials, consumables, supplies and goods	(76)	(66)
- of which costs for services	(61)	(54)
	403	390



Costs for services, which amounted to €253 million (€209 million in 2015), related to:

(€ million)	2015	2016
IT (Information Technology) services	59	65
Purchase of transportation capacity (interconnection)	59	62
Technical, legal, administrative and professional services	27	49
Ordinary maintenance	31	32
Personnel-related services	18	20
Construction, planning and coordination of work	13	16
Telecommunications services	14	15
Provision of utilities	12	12
Insurance	9	9
Other services	28	27
	<b>270</b>	<b>307</b>
<i>Less:</i>		
<b>Increase on internal work</b>	(61)	(54)
	<b>209</b>	<b>253</b>

Costs for the use of third-party assets, which amounted to €21 million (€26 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Leases and rentals	21	15
Fees, patents and licences	5	6
	<b>26</b>	<b>21</b>

Leasings and rentals (€15 million) mainly relate to charges for operating leases of properties for use as offices.

Changes in raw materials, consumables, supplies and goods (€32 million) were due essentially to withdrawals of natural gas from storage for the purpose of being sold, primarily in the transportation segment, and to a reduction in inventories caused for the most part by the development of the natural gas transportation networks (€12 million).

Net allocation to the provision for risks and charges (€6 million net of utilisation) refers mainly to the accident reserve fund with reference to the captive company Gasrule.

For more details about the change in provisions for risks and charges, please see Note 18 "Provisions for risks and charges".

Net utilisation of the provision for impairment losses on receivables (€2 million) essentially relates to the transport sector and involves the release of the surplus fund, as a result of the collection of receivables previously impaired.

More information on changes of the provision for impairment losses can be found in Note 8 "Trade and other receivables".

Other expenses, which amounted to €37 million (€42 million in 2016), can be broken down as follows:

(€ million)	2015	2016
Capital losses on eliminations of property, plant and equipment and intangible assets	23	21
Direct and indirect taxes	11	13
Methane consumption tax	1	2
Other expenses	7	1
	<b>42</b>	<b>37</b>

### Personnel cost

Personnel cost, which amounted to €167 million (€148 million in 2015), can be broken down as follows:

(€ million)	2015	2016
Wages and salaries	145	151
Social security contributions (pensions and healthcare assistance)	42	45
Employee benefits	5	5
Other expenses	13	27
	<b>205</b>	<b>228</b>
Less:		
Increase on internal work	(57)	(61)
	<b>148</b>	<b>167</b>

Other expenses (€27 million) mainly includes expenses for defined-contribution plans (€11 million) and for voluntary redundancy expenses (€8 million), with reference to the estimate of expenses from the early retirement of 74 employees expected in the two-year period 2017-2018.

A description of employee benefits can be found in Note 19 "Provisions for employee benefits".

### Average number of employees

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

Professional status	2015	2016
Executives	104	101
Managers	414	429
Office workers	1,537	1,594
Manual workers	718	726
	<b>2,773</b>	<b>2,850</b>

The average number of employees is calculated on the basis of the monthly number of employees for each category and does not include employees of discontinued operations.

The number of personnel in service at 31 December 2016 was 2,883 (3,005 at 31 December 2015, including staff transferred to the Italgas Group in 2016 pairs to 207 persons, as a result of the separation operation), an decrease of 122 compared with 31 December 2015.

### Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office during the year (including ancillary costs and contributions) amounted to €14 million (€6 million in 2015) and breaks down as follows:

(€ million)	2015	2016
Wages and salaries	4	6
Severance indemnity		6
Other long-term benefits	2	2
	6	14

### Remuneration due to directors and statutory auditors

Remuneration due to directors totalled €4 million and €11 million, respectively, for 2015 and 2016. Remuneration due to auditors totalled €0.2 million (the same as in 2016). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income tax.

## 26. Amortisation, depreciation and impairment

*Amortisation, depreciation and impairment*, which amounted to €651 million (€576 million in 2015), can be broken down as follows:

(€ million)	2015	2016
<b>Amortisation and depreciation</b>	<b>573</b>	<b>616</b>
- Property, plant and equipment	531	570
- Intangible assets	42	46
<b>Impairment losses</b>	<b>3</b>	<b>35</b>
- Impairment losses on property, plant and equipment	3	35
	576	651

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 12 "Property, plant and equipment", and Note 13 "Intangible assets".

An analysis of amortisation, depreciation and impairment by business segment can be found in Note 31 "Information by business segment".

## 27. Financial expense (income)

*Financial expense (income)*, which amounted to €510 million (€380 million in 2015), can be broken down as follows:

(€ million)	2015	2016
<b>Financial expense (income)</b>	<b>363</b>	<b>624</b>
Financial expenses	366	624
Financial income	(3)	
<b>Other financial expense (income)</b>	<b>17</b>	<b>(115)</b>
Other financial expense	21	11
Other financial income	(4)	(126)
<b>Losses (Gains) on hedging derivatives – ineffective portion</b>		<b>1</b>
Losses on derivative contracts		1
	<b>380</b>	<b>510</b>

(€ million)	2015	2016
<b>Financial expense (income)</b>	<b>363</b>	<b>624</b>
<b>Expense on financial debt:</b>	<b>395</b>	<b>647</b>
- Interest and other expenses on bond loans	364	622
- Fees on loans and bank credit lines	16	13
- Interest expense on credit lines and loans due to banks and other lenders	15	12
<b>Financial expense capitalised</b>	<b>(29)</b>	<b>(23)</b>
<b>Income from financial receivables:</b>	<b>(3)</b>	
- Interest and other income from financial assets not held for operations	(3)	
<b>Other financial expense (income):</b>	<b>17</b>	<b>(115)</b>
- Interest income on financial receivables held for operations		(123)
- Other income	(4)	(3)
- Accretion discount (*)	12	10
- Other expenses	9	1
<b>Losses (Gains) on hedging derivatives – ineffective portion</b>		<b>1</b>
	<b>380</b>	<b>510</b>

(\*) 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 18 "Provisions for risks and charges", and Note 19 "Provisions for employee benefits".

Expense on financial debt (€647 million) is mainly related to: (i) interest expense and other expenses on bond loans (€622 million) with reference essentially to the expenses from the liability management transaction<sup>57</sup> (€329 million) which led to the buying back on the bond market for a total nominal value of €2.75 billion with an average coupon of approximately 3.3% and a remaining term of around 3 years and to interest on 15 bond loans (€293 million); (ii) the portion pertaining to the year of up-front

57 There is more information on the transaction in the chapter, "Snam in 2016 - Main events" in the Directors' Report.

fees on revolving credit lines (€7 million) and fees on unused credit lines (€5 million); and (iii) interest expense payable to banks relating to revolving credit lines, uncommitted credit lines and maturing loans totalling €12 million.

Financial expense capitalised (€23 million) is related to the portion of financial expense capitalised pursuant to investment activities.

Net financial expense (€115 million) mainly relates to: (i) income from adjustment of financial receivables from the Italgas Group from the operation of separating the natural gas distribution business from Snam (+€119 million); ii) expenses connected to the accretion discount on the provision for storage and transportation sector site dismantling and restoration provisions (+€10 million in total); (iii) income from the Shareholders' Loan granted to TAP (+€2 million).

## 28. Income and expense from equity investments

*Income and expense from equity investments*, which amounted to €116 million (€106 million in 2015), can be broken down as follows:

(€ million)	2015	2016
<b>Equity method valuation effect</b>		
Capital gains from valuation using the equity method	106	140
Capital losses from valuation using the equity method		(24)
	106	116

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 14 "Equity-accounted investments".

## 29 Income taxes

*Income taxes* for the year, which amounted to €308 million (€357 million in 2015), can be broken down as follows:

(€ million)	2015			2016		
	IRES	IRAP	Total	IRES	IRAP	Total
<b>Current taxes (*)</b>	361	65	426	287	61	348
Current taxes for the year	362	66	428	285	61	346
Adjustments for current taxes relating to previous years	(1)	(1)	(2)	2		2
<b>Deferred and prepaid taxes (*)</b>	(73)	4	(69)	(39)	(1)	(40)
Deferred taxes	(16)		(16)	(22)		(22)
Prepaid taxes	(22)	4	(18)	(17)	(1)	(18)
Adjustment to deferred taxes (IRES) pursuant to the 2016 Financial Stability Law	(35)		(35)			
	288	69	357	248	60	308

(\*) For more information on discontinued operations, refer to Note 21, "Discontinued operations".

Income taxes amounted to €308 million, consisting of €348 million in current taxes, which were partially offset by net prepaid taxes totalling €40 million.

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year can be broken down as follows:

(€ million)	2015		2016	
	Tax rate	Balance	Tax rate	Balance
<b>IRES</b>				
Pre-tax profit		1,255		899
<b>IRES due, calculated based on the theoretical tax rate</b>	<b>27.5%</b>	<b>345</b>	<b>27.5%</b>	<b>247</b>
<i>Changes to the theoretical rate:</i>				
- Income from equity investments	(2.3%)	(29)	<b>(2.8%)</b>	<b>(25)</b>
- Tax and dividends	1.0%	12	<b>1.2%</b>	<b>11</b>
- Adjustment to deferred taxes (IRES) pursuant to the 2016 Financial Stability Law	(2.8%)	(35)		
- Other permanent differences	(0.4%)	(5)	<b>1.7%</b>	<b>15</b>
<b>IRES due for the year recorded on the income statement</b>	<b>22.9%</b>	<b>288</b>	<b>27.6%</b>	<b>248</b>

(€ million)	2015		2016	
	Tax rate	Balance	Tax rate	Balance
<b>IRAP</b>				
<b>Difference between value and production costs</b>		1,547		1,318
<b>IRAP due, calculated based on the theoretical tax rate</b>	<b>3.9%</b>	<b>60</b>	<b>3.9%</b>	<b>51</b>
<i>Changes to the theoretical rate</i>				
Different IRAP rates	0.3%	4	<b>0.2%</b>	<b>3</b>
Other permanent differences	0.3%	5	<b>0.5%</b>	<b>6</b>
<b>IRAP due for the year recorded in the Income statement</b>	<b>4.5%</b>	<b>69</b>	<b>4.6%</b>	<b>60</b>

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note 20 "Deferred tax liabilities".

#### Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ million)	2015			2016		
	Pre-tax value	Tax effect	Post-tax value	Pre-tax value	Tax effect	Post-tax value
- Remeasurement of defined-benefit plans for employees	3	(1)	2	(1)		(1)
- Portion of equity investments measured using the equity method pertaining to "other components of comprehensive income"	11		11	(14)		(14)
- Change in fair value of cash flow hedge derivatives				1		1
<b>Other components of comprehensive income</b>	<b>14</b>	<b>(1)</b>	<b>13</b>	<b>(14)</b>		<b>(14)</b>
<b>Deferred/prepaid taxes</b>		<b>(1)</b>				

### 30. Earnings per share

Basic earnings per share, equal to €0.25 (€0.35 per share in 2015), are calculated by dividing the net profit attributable to Snam (€861 million; €1,238 million in 2015) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,470,733,114 shares; 3,499,511,044 shares in 2015).

As at 31 December 2015 and 31 December 2016 there were no potential issues with dilutive effects on the results, therefore, in the years under consideration, basic earnings per share are the same as diluted earnings per share.

### Reconciliation of basic and diluted earnings per share

The reconciliation of the weighted average number of outstanding shares used to determine basic and diluted earnings per share is set out below:

	31.12.2015	31.12.2016
<b>Weighted average number of outstanding shares used to calculate basic earnings and diluted earnings</b>	<b>3,499,511,044</b>	<b>3,470,733,114</b>
<b>Net profit attributable to Snam (€ million)</b>	<b>1,238</b>	<b>861</b>
Basic earnings and diluted earnings per share (€ per share)	0.35	<b>0.25</b>
<b>Net profit attributable to Snam - continuing operations (€ million)</b>	<b>796</b>	<b>591</b>
Basic and diluted earnings per share	0.23	<b>0.17</b>
<b>Net profit attributable to Snam - discontinued operations (€ million)</b>	<b>442</b>	<b>270</b>
Basic and diluted earnings per share	0.12	<b>0.08</b>

### 31 Segment information

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 for 2016 by the Company's management for allocating resources to the different segments and for analysing the respective performances.

Following the operation of separating the natural gas business in Italy from Snam, which led to the transfer of the entire equity investment held by Snam S.p.A. in Italgas Reti S.p.A. to Italgas S.p.A., the business segments for which information is provided are natural gas transportation ("Transportation"), LNG regasification ("Regasification") and natural gas storage ("Storage"). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit.

As revealed on 13 October 2016, Snam announced significant changes to its organisation, effective from 1 November 2016. Any impacts of these organisational changes on the breakdown of the Snam Group business segments will be reflected in the segment reporting pursuant to IFRS 8 from the first quarter of 2017, following the definition of the internal reporting which will be used by company management.

The information by business segment as at 31 December 2016 is listed below, compared with the figures as at 31 December 2015.



(€ million)	Corporate and other activities	Transportation and dispatching	Distribution	Storage	Regasification	Reinstatement of eliminations from transactions to Discontinued operations	Consolidation adjustments and eliminations	Total
<b>2015</b>								
Net core business revenue (a)	209	2,064		533	19	(73)		2,752
to be deducted: inter-segment revenue	(127)	(19)		(135)	(1)			(282)
Revenue from third parties	82	2,045		398	18	(73)		2,470
Other revenue and income		77		2	5			84
Net (accruals to)/utilisation of provisions for risks and charges		(3)						(3)
Amortisation, depreciation and impairment	(5)	(495)		(71)	(5)			(576)
EBIT	(4)	1,165		319	1	(54)		1,427
Valuation of equity investments using the equity method	106							106
Total assets	1,416	13,860	5,498	4,003	103			24,880
- of which investments valued using the equity method	1,203		169					1,372
Total liabilities	13,992	9,775	2,787	2,728	40		(12,028)	17,294
Investments in property, plant and equipment and intangible assets	9	693	7	170				879
<b>2016</b>								
Net core business revenue (a)	226	1,947		581	18	(59)		2,713
to be deducted: inter-segment revenue	(128)	(19)		(147)				(294)
Revenue from third parties	98	1,928		434	18	(59)		2,419
Other revenue and income		80		2				82
Net (accruals to)/utilisation of provisions for risks and charges	(5)	(1)						(6)
Amortisation, depreciation and impairment	(7)	(545)		(87)	(12)			(651)
EBIT	(26)	1,021		346	(5)	(43)		1,293
Valuation of equity investments using the equity method	116							116
Total assets	1,893	13,999		4,130	107			20,129
- of which investments valued using the equity method	1,499							1,499
Total liabilities	11,278	10,012		2,930	50		(10,638)	13,632
Investments in property, plant and equipment and intangible assets	6	776		117	7			906

(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.

### 32. 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.

As explained in detail below, 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 applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

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

Snam is not subject to management and coordination. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of related-party transactions, pursuant to the disclosure obligations set forth under Consob Regulation No. 17221 of 12 March 2010, should be pointed out: the agreement between Snam Rete Gas S.p.A. and Eni S.p.A., of natural gas transportation capacity for the 2016 - 2017 thermal year. On 3 March 2017, the transport contract value exceeded the materiality threshold of 140 million identified in the Procedure "Transactions involving the interests of the Directors and Statutory Auditors and transactions with related parties" of Snam.

The contract is defined in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code, which was approved by the Electricity, Gas and Water Authority with Resolution No. 75/2003, as subsequently amended.

As in the case of contractual agreements, the finalisation of these commitments entails the calculation of a fee for services rendered by applying the natural gas transportation and dispatching tariffs approved by the Authority Resolution.

The contract is classed as ordinary transaction concluded under market-equivalent or standard conditions, pursuant to art. 3 of the Procedure (published on [www.snam.it](http://www.snam.it) site), since: (i) they fall within the scope of normal business operations and the associated financial activities; and (ii) the terms applied are based on regulated tariffs.

With reference to the operation of separating Italgas Reti S.p.A. (formerly Italgas S.p.A.) from Snam S.p.A., implemented through three transactions (transfer, sale and demerger) which took place jointly and at the same time with effect from 7 November 2016, note that: (i) the demerger transaction with the proportional granting of shares to shareholders does not constitute a "Related-party transaction" pursuant to the reporting obligations of CONSOB Regulation 17221 of 12 March 2010 and CONSOB Communication DEM/10078683 of 24 September 2010); (ii) the transfer and sale transactions, despite

qualifying as related-party transactions, fall under the exemption set forth in Article 14, paragraph 2 of the Regulations on Related-Party Transactions and in Article X, Paragraph 8 of the Procedure on Related-Party Transactions of Snam, which stipulates that the procedures to be applied in the event of Related-Party Transactions are not applicable in the event of transactions carried out with subsidiaries (Italgas S.p.A., formerly ITG Holding S.p.A.). In light of CDP's involvement as a Related Party of Snam, Snam has not made use of the aforementioned exemption and has subjected the entire Transaction to the procedure for "Significant Transactions" provided for by Article 8 of the Regulations on Related-Party Transactions and by Article VI of the Procedure on Related-Party Transactions<sup>58</sup>.

Under the scope of related-party transactions, there are no further transactions to report for 2016 pursuant to the disclosure requirements of Consob Regulation 17221 of 12 March 2010.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the 2015 and 2016 financial years. The nature of the most significant transactions is also stated.

<sup>58</sup> The procedure for related-party transactions, pursuant to Article 4 of CONSOB Regulation 17221 of 12 March 2010, as subsequently amended, which was approved by the Board on 30 November 2010, is available on the Company's website at [www.snam.it](http://www.snam.it) in the Governance section.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

	31.12.2015					2015				
	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Costs (a)			Revenue (b)	
(€ million)						Goods	Services	Other	Services	Other
<b>Companies under joint control and associates</b>										
- TAG GmbH	2		1	1		13			1	14
- Toscana Energia S.p.A.	3									
- TIGF Investissements	1									
- Umbria Distribuzione Gas S.p.A.	1									
	<b>7</b>		<b>1</b>	<b>1</b>		<b>13</b>			<b>1</b>	<b>14</b>
<b>Companies owned or controlled by the State</b>										
- Gestore dei mercati energetici S.p.A.			1			5				22
- Anas Group	3	1	5					1	5	
- Enel Group (c)	110		47					1	1	352
- Eni Group (c)	506	1	164		3	19	59			1,335
- Ferrovie dello Stato Group	1		2							
	<b>620</b>	<b>2</b>	<b>219</b>		<b>3</b>	<b>24</b>	<b>60</b>	<b>2</b>	<b>1,692</b>	<b>22</b>
	<b>627</b>	<b>2</b>	<b>220</b>	<b>1</b>	<b>3</b>	<b>37</b>	<b>60</b>	<b>2</b>	<b>1,693</b>	<b>36</b>
<b>Discontinued operation</b>										
- Enel group								1	90	1
- Eni group						7	5	5	703	9
- Toscana Energia S.p.A.									2	
- Umbria Distribuzione Gas S.p.A.									1	
						<b>7</b>	<b>5</b>	<b>6</b>	<b>796</b>	<b>10</b>
<b>Total</b>	<b>627</b>	<b>2</b>	<b>220</b>	<b>1</b>	<b>3</b>	<b>44</b>	<b>65</b>	<b>8</b>	<b>2,489</b>	<b>46</b>

(€ million)	31.12.2016					2016				
	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Costs (a)			Revenue (b)	
						Goods	Services	Other	Services	Other
<b>Companies under joint control and associates</b>										
- AS Gasinfrastruktur GmbH (BidCo)	4								4	
- TAG GmbH	3		3	2		21			2	21
- TIGF Investissements	1									
	8		3	2		21			6	21
<b>Subsidiaries of the parent company Cassa Depositi e Prestiti</b>										
- Italgas Group	33		10		88			1	24	
	33		10		88			1	24	
<b>Companies under the joint control of the parent company Cassa Depositi e Prestiti</b>										
- Saipem Group			43				40			
			43				40			
<b>Companies owned or controlled by the State</b>										
- Gestore dei mercati energetici S.p.A.	12		10			2				2
- Anas Group	1	1	5					1		
- Enel Group (c)	166		13						394	
- Eni Group (c)	280	1	31		1		16	1	1,129	2
- Ferrovie dello Stato Group	1		1							
	460	2	60		1	2	16	2	1,523	4
	501	2	116	2	89	23	56	3	1,553	25
<b>Discontinued operation</b>										
- Gestore dei mercati energetici S.p.A.								2		
- Enel group									88	1
- Eni group						6	4	1	580	7
- Toscana Energia S.p.A.									2	
						6	4	3	670	8
<b>Total</b>	<b>501</b>	<b>2</b>	<b>116</b>	<b>2</b>	<b>89</b>	<b>29</b>	<b>60</b>	<b>6</b>	<b>2,223</b>	<b>33</b>

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

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

(c) Inclusive of amounts on the balance sheet relating to natural gas balancing activities.

### Companies under joint control and associates

The most significant commercial relations with companies under joint control and associates include:

- the sale and the purchase of gas from TAG, governed by the Service Balance Agreement, an agreement aimed at ensuring the daily balance between the quantities metered and the quantities expected at the Tarvisio entry point;
- the provision to TAG of services for the realisation of the transport infrastructures governed by the Engineering, Procurement and Construction Management (EPCM) Agreement.

#### **Subsidiaries of the parent company Cassa Depositi e Prestiti**

The most significant commercial relations with subsidiaries of Cassa Depositi e Prestiti include:

- guarantees issued in the interest of Italgas Group 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 and performance bonds.
- the provision to the Italgas Group of services by Snam S.p.A. in the period 7 November - 31 December 2016, mainly relating to the administration of personnel and legal affairs, corporate and compliance and ICT services. The services provided, regulated on tariffs defined on the basis of costs incurred through a full cost logic, refer to phase-out agreements for a transition period, aimed at ensuring the continuity of the activities previously guaranteed by Snam.

#### **Companies under the joint control of the parent company Cassa Depositi e Prestiti**

The most significant commercial relations with companies under the joint control of Cassa Depositi e Prestiti include the purchase by Saipem of design and works supervision services for the realisation of natural gas transportation and storage infrastructures, regulated by agreements signed at normal market conditions.

#### **Companies owned or controlled by the State**

The most significant commercial relations with companies controlled or owned by the State involve:

- the provision to the Eni Group and the Enel Group of natural gas transportation, regasification and storage services, regulated by tariffs established by the Authority;
- the purchase by the Eni Group of electricity used for carrying out activities.

Additionally, as at 31 December 2016 there were assets posted in reference to transactions arising from the national tax consolidation scheme in force until 31 July 2012.

### Financial transactions

Financial transactions can be broken down as follows:

(€ million)	31.12.2015		2015
	Receivables	Payables	Income
<b>Companies under joint control and associates</b>			
- GasBridge1 B.V. GasBridge 2 B.V.		19	
- Trans Austria Gasleitung GmbH (TAG)			3
- Trans Adriatic Pipeline AG (TAP)	78		
	78	19	3

(€ million)	31.12.2016		2016	
	Receivables	Payables	Expenses	Income
<b>Companies under joint control and associates</b>				
- GasBridge1 B.V. GasBridge 2 B.V.		18		
- Trans Adriatic Pipeline AG (TAP)	213			2
	213	18		2
<b>Parent company</b>				
- Cassa Depositi e Prestiti (*)			1	
			1	
<b>Subsidiaries of the parent company Cassa Depositi e Prestiti</b>				
- Italgas Group				121
				121
	213	18	1	123

(\*) This refers to the costs incurred regarding loans granted by the European Investment Bank (EIB).

### Companies under joint control and associates

Financial relations with companies under joint control and associates include:

- loans received by GasBridge1 B.V. and GasBridge2 B.V. repayable on demand;
- financial receivables relating to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP) and related financial income.

### Subsidiaries of the parent company Cassa Depositi e Prestiti

Financial relations with subsidiaries of the parent company Cassa Depositi e Prestiti refer, in the main, to financial income relating to the adjustment to the market value of financial receivables from the Italgas Group at 6 November 2016 (€119 million), the effective date of the transaction separating the

natural gas distribution business from Snam.

Transactions with directors, statutory auditors and key managers, with reference in particular to their remuneration, are described in Note 25 "Operating costs".

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

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

(€ million)	31.12.2015			31.12.2016		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Balance sheet</b>						
Trade receivables and other current receivables	1,824	627	34.4	<b>1,307</b>	<b>501</b>	<b>38.3</b>
Other non-current receivables	78	78	100.0	<b>213</b>	<b>213</b>	<b>100.0</b>
Other non-current assets	137	2	1.5	<b>138</b>	<b>2</b>	<b>1.4</b>
Short-term financial liabilities	1,351	19	1.4	<b>1,497</b>	<b>18</b>	<b>1.2</b>
Trade and other payables	1,746	220	12.6	<b>1,264</b>	<b>116</b>	<b>9.2</b>
Other current liabilities	71	1	1.4	<b>21</b>	<b>2</b>	<b>9.5</b>

The impact of related-party transactions on the income statement is summarised in the following table:

(€ million)	2015			2016		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Income statement</b>						
Core business revenue	2,470	1,693	68.5	<b>2,419</b>	<b>1,553</b>	<b>64.2</b>
Other revenue and income	84	36	42.9	<b>82</b>	<b>25</b>	<b>30.5</b>
Purchases, services and other costs	403	38	9.4	<b>390</b>	<b>43</b>	<b>11.0</b>
Financial income	7	3	42.9	<b>126</b>	<b>123</b>	<b>97.6</b>
<b>Discontinued operation</b>						
Core business revenue	1,386	796	57.4	<b>1,111</b>	<b>670</b>	<b>60.3</b>
Other revenue and income	30	10	33.3	<b>23</b>	<b>8</b>	<b>34.8</b>
Purchases, services and other costs	379	18	4.7	<b>369</b>	<b>13</b>	<b>3.5</b>

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions



that would be applied between two independent parties.

The principal cash flows with related parties (\*) are shown in the following table:

(€ million)	2015	2016
Revenue and income	2,535	2,256
Cost and expense	(56)	(56)
Change in trade receivables and other current receivables	(54)	102
Change in other current assets	(2)	
Change in trade and other payables	23	(80)
Change in other current liabilities	1	1
Interest received (paid)	3	120
<b>Net cash flow from operating activities</b>	<b>2,450</b>	<b>2,343</b>
Investments:		
- Tangible and intangible fixed assets	(61)	(39)
- Equity investments	(14)	
- Financial receivables held for operations	(78)	(133)
- Change in payables and receivables relating to investments	(4)	(5)
<b>Cash flow from investments</b>	<b>(157)</b>	<b>(177)</b>
Divestments:		
Companies leaving the scope of consolidation		1,503
<b>Net cash flow from investment activities</b>	<b>(157)</b>	<b>1,326</b>
Financial receivables of companies leaving the scope of consolidation		1,585
Increase (decrease) in short-term financial debt	6	(1)
Financial receivables not held for operations	216	
<b>Net cash flow from financing activities</b>	<b>222</b>	<b>1,584</b>
<b>Total cash flows with related parties (*)</b>	<b>2,515</b>	<b>5,253</b>

(\*) The financial flows refer to both continuing and discontinued operations.

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

(€ million)	31.12.2015			31.12.2016		
	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	2,054	2,450	N.A.	1,627	2,343	N.A.
Net cash flow from investment activities	(1,283)	(157)	12.2	80	1,326	N.A.
Net cash flow from financing activities	(828)	222	(26.8)	(1,690)	1,584	N.A.

**33. Significant non-recurring events and transactions**

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

**34. Positions or transactions arising from atypical and/or unusual transactions**

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no atypical and/or unusual positions or transactions took place during the course of the year.

**35. Significant events after the end of the fiscal year**

Other than those illustrated in the Directors' Report, there were no significant events after the end of the fiscal year.

**36. Publication of the financial statements**

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 06 March 2017, in accordance with the law. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the format of the document during the period between 6 March 2017 and the date of approval by the Shareholders' Meeting.

## CERTIFICATION OF THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ARTICLE 154-BIS, PARAGRAPH 5 OF LEGISLATIVE DECREE NO. 58/98 (CONSOLIDATED FINANCE ACT)

1. The undersigned Marco Alverà and Franco Pruzzi, as Chief Executive Officer and the Manager charged with preparing the Company's financial reports of Snam S.p.A. respectively, certify, taking into account Article 154- *bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:

- the adequacy, considering the Company's characteristics, and
- the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2016.

2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 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 consolidated financial statements at 31 December 2016:

- a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
- b) are consistent with the accounting records and ledgers;
- c) are able to provide a true and fair view of the financial position, operating results and cash flows of the issuer and of the companies included in the scope of consolidation.

3.2 The Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

6 March 2017

Signed/Marco Alverà

/Signed/Franco Pruzzi

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Marco Alverà  
The Chief Executive Officer

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Franco Pruzzi  
The Manager charged with preparing  
the Company's financial reports



**Snam S.p.A.**

**Consolidated financial statements as at 31 December 2016**

**Independent auditor's report in accordance with articles 14  
and 16 of Legislative Decree n. 39, dated 27 January 2010  
(Translation from the original Italian text)**



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**Independent auditor's report  
in accordance with articles 14 and 16 of Legislative Decree n. 39, dated 27 January 2010  
(Translation from the original Italian text)**

To the Shareholders of Snam S.p.A.

**Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of the Snam Group, which comprise the balance sheet as at 31 December 2016, the income statement, the statement of comprehensive income, the statement of changes in shareholders' equity and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

*Directors' responsibility for the consolidated financial statements*

The Directors of Snam S.p.A. are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union as well as with the regulations issued to implement art. 9 of Legislative Decree n. 38, dated 28 February 2005.

*Auditor's responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (ISA Italia) implemented in accordance with article 11 of Legislative Decree n. 39, dated 27 January 2010. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's professional judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

EY S.p.A.  
Sede Legale: Via Po, 12 - 00198 Roma  
Capitale Sociale deliberato Euro 3.250.000,00 - sottoscritto e versato Euro 2.950.000,00 (+)  
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### *Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Snam Group as at 31 December 2016 , and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with article 9 of Legislative Decree n. 38, dated 28 February 2005.

### **Report on other legal and regulatory requirements**

#### *Opinion on the consistency of the Directors' Report and of specific information of the Report on Corporate Governance and Ownership Structure with the consolidated financial statements*

We have performed the procedures required under audit standard SA Italia n. 720B in order to express an opinion, as required by law, on the consistency of the Directors' Report and of specific information of the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4 of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements. The Directors of Snam S.p.A. are responsible for the preparation of the Directors' Report and of the Report on Corporate Governance and Ownership Structure in accordance with the applicable laws and regulations. In our opinion the Directors' Report and the specific information of the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of the Snam Group as at 31 December 2016.

Turin, 20 March 2017

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.*