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Testo del comunicato

Vedi allegato.

Press release

SNAM ANNOUNCES RESULTS FOR THE FIRST HALF OF 2017

San Donato Milanese, 26 July 2017 - Snam's Board of Directors, at yesterday's meeting chaired by Carlo Malacarne, approved the consolidated half-year report to 30 June 2017 (subjected to a limited audit) and the consolidated results for the second quarter of 2017 (unaudited).

Financial highlights[1]

- **Total revenue:** €1,268 million (+2.0% compared with the adjusted pro-forma total revenue for the first half of 2016)
- **EBIT:** €714 million (+3.6% compared with adjusted pro-forma EBIT for the first half of 2016 and also thanks to a reduction in operating costs which benefited from efficiency measures)
- **Net profit:** €504 million (+18.0% compared with the adjusted pro-forma net profit for the first half of 2016 and also thanks to lower net financial expense which benefited from the reduction in the average cost of debt)
- **Technical investments:** €425 million (+13.6%)
- **Free Cash Flow:** €793 million

Operating highlights

- **Gas injected into the transportation network:** 38.08 billion cubic metres (+11.7% compared with 30 June 2016)
- **Available storage capacity:** 12.2 billion cubic metres (+3.4% compared with 30 June 2016)

Significant events

- **In accordance with the share buyback programme launched on 7 November 2016, 82,832,701 treasury shares, equal to 2.37% of the share capital, were purchased on 30 June 2017, at a total cost of €305 million**
- **Framework agreement concluded with Eni for the development of methane supply stations in Italy**
- **Signing of the definitive agreements with Edison for the investment in the 83.3 km-long pipeline connecting Minerbio and Cavarzere, entry point of LNG coming from the Adriatic LNG terminal, thus adding a significant infrastructure to Snam's network**

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

"We achieved positive results in the first half of 2017. Our investments in the national network are progressing well, with 109 new construction sites opened, of which 23 dedicated to major projects. With the new development activities, the connection of the first biomethane plant to our network and the development of methane supply stations we are playing an increasingly significant role in leading the energy transition. Against the backdrop of a favourable environment with gas demand growing 10% in the period, we successfully increased operational efficiency and reduced the cost of debt. The strong results, combined with the investments made over the period, confirm the group's commitment to delivering profitable growth for shareholders".

1 Unless specified otherwise, the results for 2016 refer to continuing operations (gas transportation, regasification and storage, as well as corporate activities) and therefore exclude the contribution of the natural gas distribution segment, represented as discontinued operations, pursuant to IFRS 5 "*Non-current assets held for sale and discontinued operations*". See page 11 for the reconciliation of the reported income statement with the adjusted pro-forma income statement for the first half of 2016.

The main results of the income statement for the first half of 2017 compared with the results of the adjusted pro-forma income statement of the first half of 2016 are analysed below.

Key financial figures

Second quarter			First half				
2016	2017		2016		2017		
Pro-forma adjusted (a)		(€ millions)	Reported	Pro-forma adjusted (a)		Change	% change
628	**640**	Total revenue	1,209	1,243	**1,268**	25	2.0
606	***615***	*- of which from regulated activities*	*1,195*	*1,195*	***1,219***	*24*	*2.0*
512	**521**	EBITDA	968	994	**1,035**	41	4.1
358	**361**	EBIT	663	689	**714**	25	3.6
215	**250**	Net profit (b)	364	427	**504**	77	18.0
N/A	**N/A**	Net Profit - discontinued operations (b)	162	N/A	**N/A**		
215	**250**	Group net profit (b)	526	427	**504**	77	18.0

(a) The reconciliation of the reported income statement with the adjusted pro-forma one is given on page 11 of this press release.
(b) Entirely held by Snam shareholders.

Total revenue

Total revenues in the first half of 2017 amounted to €1,268 million, up by €25 million (+2.0%) compared with the adjusted pro-forma total revenue of the first half of 2016. Total revenues in the first half of 2017, net of components offset in costs[2], amounted to €1,214 million, up by €23 million (+1.9%), mainly as a result of higher regulated revenues (+€22 million; +1.9%).

EBIT

EBIT[3] for the first half of 2017 totalled €714 million, up by €25 million (+3.6%) compared with the adjusted pro-forma EBIT for the first half of 2016. The higher revenues (+€23 million; +1.9%), attributable mainly to the transportation segment (+€19 million; +2.1%), and the reduction in operating costs (+€18 million, net of components offset in revenues equal to +9.1%), which benefited from the efficiency measures launched, were partly offset by the increase in amortisation, depreciation and write-downs for the period (-€16 million; 5.2%), essentially due to the amortisation and depreciation resulting from new infrastructures coming into service.

With reference to the main operating segments[4], the increase in EBIT reflects the positive performance of the transportation segment (+€21 million; +4.1%), partly offset by the reduction recorded in the storage segment (-€6 million; -3.4%), which suffered from higher amortisation, depreciation and write-downs.

2 The main revenue items offset in costs relate to interconnection and to sales of natural gas carried out for the purposes of balancing the gas system.

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

4 The analysis of EBIT by segment is provided on page 13 of this press release.

Net profit

Net profit for the first half of 2017 totalled €504 million, up by €77 million as 18.0% compared with the adjusted pro-forma net profit for the first half of 2016. The increase, in addition to the higher EBIT (+€25 million; +3.6%) is essentially due to the lower net financial expense (+€32 million; 21.8%), mainly attributable to the reduction in the average cost of debt, also following the benefits resulting from the improvement measures implemented in 2016 and 2017, specifically the liability management operation completed in October 2016 and the funding operations implemented in the first half of the year; and the higher income from equity investments valued using the equity method (+€18 million; +25.7%).

Key balance sheet, cash flow and share figures

		First half			
		2016 (*)	**2017**	**Change**	**% change**
Technical investments	(€ millions)	374	425	51	13.6
Net financial debt (a)	(€ millions)	14,177	11,176	(3,001)	(21.2)
Free cash flow (a)	(€ millions)	508	793	285	56.1
Adjusted pro-forma net profit per share (b)	(€)	0.122	N/A		
Net profit per share (b)	(€)	0.104	0.147	0.043	41.3
Group net profit per share (a) (b)	(€)	0.150	0.147	(0.003)	(2.0)
Diluted group net profit per share (a) (b)	(€)	0.150	0.146	(0.004)	(2.7)
Number of shares outstanding at the end of the period	(million)	3,499.5	3,416.7	(82.8)	(2.4)
Average number of shares outstanding during the period	(million)	3,499.5	3,430.1	(69.4)	(2.0)

(*) Unless stated otherwise, the data refer to continuing operations only.
(a) The figures for 2016 include discontinued operations.
(b) Calculated considering the average number of shares outstanding during the year.

Technical investments

Technical investments for the first half of 2017 totalled €425 million (€374 million in the first half of 2016) and refer essentially to the natural gas transportation segment (€378 million; €319 million in the first half of 2016) and natural gas storage segment (€42 million; €51 million in the first half of 2016).

Net financial debt

Net financial debt was €11,176 million as at 30 June 2017[5], compared with €11,056 million as at 31 December 2016. The net cash flow from operating activities (€1,401 million) allowed us to fully cover the financial requirements associated with net investments for the period (€608 million) and to generate a free cash flow of €793 million. Net financial debt, after paying shareholders the 2016 dividend (€718 million) and the cash flow resulting from the purchase of treasury shares (€202 million) rose by €120 million compared with the figure as at 31 December 2016.

5 More information on the net financial debt can be found on page 20 of this press release.

Operating highlights

Second quarter 2016	Second quarter 2017		First half 2016	First half 2017	Change	% change
		Natural gas transportation (a)				
17.59	**19.10**	Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	34.08	**38.08**	4.00	11.7
32,444	**32,500**	Gas transportation network (kilometres in use)	32,444	**32,497**	53	0.2
877	**922**	Installed power in the compression stations (MW)	877	**922**	45	5.1
		Liquefied natural gas (LNG) regasification (a)				
0.091	**0.169**	LNG regasification (billions of cubic metres)	0.092	**0.169**	0.077	83.7
		Natural gas storage (a)				
10	**10**	Concessions	10	**10**		
9	***9***	*- of which operational (c)*	*9*	***9***		
11.8	**12.2**	Available storage capacity (billions of cubic metres) (d)	11.8	**12.2**	0.4	3.4
4.89	**4.94**	Natural gas moved through the storage system (billions of cubic metres)	11.42	**11.28**	(0.14)	(1.2)
3,072	**2,926**	**Employees in service at end of period (number) (e)**	**3,072**	**2,926**	(146)	(4.8)
		of which business segments:				
1,962	**1,725**	- Transportation (f)	1,962	**1,725**	(237)	(12.1)
73	**68**	- Regasification	73	**68**	(5)	(6.8)
310	**302**	- Storage	310	**302**	(8)	(2.6)
727	**831**	- Corporate and other activities	727	**831**	104	14.3

(a) With regard to the first half of 2017, volumes of gas are expressed in standard cubic metres (SMC) with the average higher heating value (HHV) of 38.1 MJ/SMC (10.572 Kwh/SMC) for natural gas transportation and regasification activities and 39.4 MJ/SMC (10.930 Kwh/SMC) for natural gas storage activities for the thermal year 2017-2018 (39.3 MJ/SMC, 10.906 Kwh/SMC for the thermal year 2016-2017).
(b) The figures for the first half of 2017 are up to date at 7 July 2017. The update of 2016 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.
(c) With working gas capacity for modulation services.
(d) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 June 2017 is that declared to the Electricity, Gas and Water Authority (hereinafter "the Authority") at the start of the 2017-2018 thermal year, in compliance with Resolution 531/2014/R/gas.
(d) Fully consolidated companies. The overall change of 146 employees compared with the first half of 2016 includes personnel transferred to the Italgas Group (209 people, net of personnel transferred from the Italgas Group to Snam) following the demerger transaction. Compared with 31 December 2016, the number of employees in service increased by 43.
(f) 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.

Natural gas injected into the national transportation network

In the first half of 2017 a total of 38.08 billion cubic metres of gas was injected into the network, an increase of 4.0 billion cubic metres (+11.7%) compared with the first half of 2016. The increase is essentially attributable to higher demand for gas in Italy (+3.46 billion cubic metres; +9.6%) recorded in all segments, respectively in the thermoelectric segment (+2.14 billion cubic metres; +21.2%) mainly following a fall in the production of hydroelectric energy and the continuation of the stoppage at several French nuclear plants in the first two months of the year, industrial (+0.61 billion cubic metres; +7.3%) and residential and tertiary (+0.50 billion cubic metres; +3.0%).

Seasonally adjusted demand for gas was estimated at 39.92 billion cubic metres, an increase of 2.74 billion cubic metres (7.4%), compared with the corresponding figure for the first half of 2016 (37.18 billion cubic metres).

Injections into the network from domestic production fields or their collection and treatment centres totalled 2.57 billion cubic metres, down by 0.14 billion cubic metres (-5.2%) compared with the first half of 2016.

A total of 35.51 billion cubic metres of gas was injected into the network for entry points connected with other countries or with LNG regasification plants, an increase of 4.14 billion cubic metres (13.2%) compared with the first half of 2016. The increase was mainly due to the higher volumes injected at the Mazara del Vallo entry points (+1.38 billion cubic metres; +15.9%), Gries Pass entry point (+1.26 billion cubic metres, +47.9%) and Tarvisio entry point (+0.76 billion cubic metres, +5.3%).

Liquefied natural gas (LNG) regasification

During the first half of 2017, the Panigaglia (SP) LNG terminal regasified 0.169 billion cubic metres of natural gas, an increase of 0.077 billion cubic metres compared with the first half of 2016 (0.092 billion cubic metres) of which 0.084 billion cubic metres were regasified as part of the integrated regasification and storage service[6]. In the first half of 2017 4 loads were unloaded from methane tankers, 2 as part of the above-mentioned integrated service.

Natural gas storage

During the first half of 2017, 11.28 billion cubic metres of natural gas was moved through the storage system, a reduction of 0.14 billion cubic metres (1.2%) on the corresponding period of 2016 (11.42 billion cubic metres). The reduction was essentially attributable to lower withdrawals from storage
(-0.35 billion cubic metres; -5.4%) due mainly to weather trends and the behaviour of shippers with regard to the changed market conditions, the effects of which were only partly offset by the higher injections (+0.21 billion cubic metres; +4.3%).

The total storage capacity as at 30 June 2017, including strategic storage, was 16.7 billion cubic metres (+0.4 billion cubic metres compared with 30 June 2016), of which 12.2 billion cubic metres related to available storage capacity, which was allocated almost entirely for the 2017-2018 thermal year, and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2016-2017 thermal year, as established by the Ministry of Economic Development announcement of 25 January 2017).

Main events

Convertible bond loan

An equity linked bond loan for a nominal amount of €400 million was successfully placed on 14 March 2017 with 5-year bonds issued at par with no interest. The regulation and closing of the bonds took place on 20 March 2017. The initial conversion price of the bonds was set at €4.8453, which represents a premium of 26% above the Volume Weighted Average Price (VWAP) of the Company's ordinary shares, according to the Borsa Italiana S.p.A. price between the launch of the offering and the calculation of the price of the bonds, both of which took place on 14 March 2017.

On 11 April 2017, the Shareholders' Meeting approved, among other things, authorisation for the Board of Directors to dispose of treasury shares. On 12 April 2017, Snam sent the bondholders the Physical Settlement Notice with the allocation, from 13 April 2017, of the right to convert the bonds into the Company's ordinary shares.

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[6] This 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.

The bonds will be reimbursed at their nominal value on 20 March 2022, unless there is an early repayment, or if the bonds have been previously converted or bought back by the Company.
This transaction represents a further step forward in the optimisation of the debt structure, making it possible to create additional value through the share buyback programme and obtain funding at competitive costs, with a positive impact on cash flows. The success of the transaction confirms the confidence of investors in Snam's equity story.

Authorisation to purchase and dispose of treasury shares

On 1 August 2016 the Shareholders' Meeting authorised the purchase of treasury shares for an outlay of up to €500 million and a maximum limit of 3.5% of the subscribed and released share capital, with regard to the treasury shares already owned by the Company to take place, also in tranches, within 18 months of the effective date of the demerger from Snam of the natural gas distribution business, i.e. by 7 November 2016.
On 11 April 2017 the Shareholders' Meeting, after the revocation of the above-mentioned authorisation, issued a new authorisation with regard to the purchase of treasury shares, in one or more tranches, for a total outlay of €196 million, resulting from the difference between the maximum outlay (€500 million) and that incurred by the Company for the purchases made until the date of the shareholders' meeting resolution (€304 million), all, in any event, up to the maximum limit of 3.5% of the Company's share capital, with regard to the treasury shares already owned by the Company. Authorisation was conferred for a maximum of 18 months from the date on which the resolution was adopted. The essential contents were unchanged, from the perspective of the purchase, compared with those under the previous authorisation, with the integration of the resolution from the point of view of the authorisation for the Board of Directors for the disposal of both treasury shares already in the portfolio and those that can be bought back during the execution of the share buyback plan. As at 30 June 2017, Snam purchased 82,832,701[7] treasury shares, representing 2.37% of the share capital, for a total of approximately €305 million with an average price of €3.6881 per share.

Long-term share-based incentive plan

On 11 April 2017 the Ordinary Shareholders' Meeting approved the 2017-2019 Long-term share-based incentive plan, conferring on the Board of Directors, and through it on the Chief Executive Officer, with the express power to delegate, all the necessary powers to implement the above-mentioned plan in full.
The adoption of a long-term share-based incentive plan (performance share) is aimed at bringing Snam in line with market practice and strengthening the bond between the creation of value for shareholders and the remuneration of management. This plan is designed for the CEO and a maximum number of 20 executives who cover positions which have a greater impact on the creation of wealth or of strategic importance for the purpose of achieving Snam's multi-year targets.
When implementing the above-mentioned powers, on 20 June 2017, the Board of Directors approved: (i) the annual allocation of the incentive to the CEO; (ii) the approval of the Regulation of each annual allocation; (iii) the identification of the Beneficiaries based on defined criteria; (iv) the conditions for the implementation.
The Plan includes three annual grant cycles of three-year targets (so-called rolling plan) for the years 2017, 2018 and 2019 and at the end of the three-year performance period, if the underlying conditions of the Plan are satisfied, the beneficiary will have the right to receive Company shares free of charge. The Plan also involves the beneficiaries receiving, at the end of the vesting period, a Dividend equivalent, or an additional number of shares equivalent to the ordinary and extraordinary dividends

7 Including 54,054,771 shares bought in the first half of 2017 for a total cost of €202 million.

distributed by Snam during the vesting period based on the number of shares effectively granted to the beneficiaries by way of performance levels achieved under the terms and conditions of the Plan. The vesting of the shares is subject to the performance conditions being achieved, calculated as the average of the annual performance of the parameters identified in the three-year vesting period, which affect EBITDA, adjusted net profit and sustainability.
The maximum number of shares to service the plan is 3,500,000 for each tax year of the Plan. The Plan will end in 2022, when the vesting period of the last allocation in 2019 expires. There will also be a two-year lock-up period for the beneficiaries on 20% of the shares for the CEO and other executives, as recommended in the Code of Corporate Governance.
The Plan was concluded in the second half of the year through the acceptance of the granting letter and the regulation. Therefore, there were no effects with regard to the Consolidated Interim Financial Report as at 30 June 2017.

Framework agreement for the development of methane supply stations

On 25 May 2017 Snam and Eni signed a framework agreement for the development of methane supply stations in Italy. The partnership aims to build new compressed natural gas (CNG) and liquefied natural gas (LNG) supply stations within the national network of Eni distributors, promoting the supply of low-emission alternative fuels such as natural gas. The latter is extremely low in particulate emissions, the main factor responsible for urban pollution, also providing considerable economic advantages for consumers. The framework agreement comes under Snam's initiatives to promote sustainable mobility, with an investment of €150 million up to 2021 to create 300 new distributors to support the development of natural gas supply facilities and ensure a more balanced distribution of stations in the various regions of the country also improving the quality of the supply service to users.
Buoyed by a well-established technology and at the cutting edge globally, Italy is the leading European market for the consumption of methane in the automotive industry, with over 1 billion cubic metres consumed in 2015 and approximately 1 million vehicles currently in circulation. The framework agreement and subsequent executive contracts will also provide additional impetus to the natural gas business segment in the transport segment, 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.

Other information

Consultation document 413/2017/R/gas - "Regulation criteria for the tariffs and service quality of the natural gas transportation service for the fifth regulatory period General framework and areas of intervention"

Through consultation document 413/2017/R/gas, published on 12 June 2017, the AEEGSI submitted guidelines for the updating of the natural gas transportation service tariff criteria. Specifically, there was a proposal to introduce a 2-year transition period (2018 and 2019) during which the regulatory principles in force would essentially be maintained, and the start of the fifth regulatory period from 2020, expected to last 4 years.

The criteria for the transition period were the subject of a specific provision which will be adopted by next August, while the regulatory hypotheses for the fifth period will be illustrated in later consultation documents.

Consultation document 485/2017/R/gas - "Regasification service tariff regulation criteria for LNG for the fifth regulatory period and for the 2018 and 2019 transition period"

Through consultation document 485/2017/R7/gas, published on 29 June 2017, the AEEGSI submitted guidelines regarding updating the natural gas regasification service tariff criteria. Specifically, there was a proposal to introduce a 2-year transition period (2018 and 2019), in order to also maintain the alignment with the fifth regulatory period of the transportation service, which was proposed to run from 2020 (Ref. DCO 413/2017/R/gas). The criteria for this period will be the subject of a specific provision which will be adopted by next September, and it is proposed that the general principles of the regulations in force will essentially be maintained, while the regulatory hypotheses for the fifth period will be illustrated in later consultation documents.

Post-balance sheet events

Appointment of Snam Rete Gas CEO

At the meeting on 24 July 2017, the Board of Directors co-opted Marco Alverà as a new member of the Board replacing Luca Schieppati who resigned on account of his position as Managing Director at Trans Adriatic Pipeline ("TAP"). The Board appointed Marco Alverà as CEO of the company; a post he will take up while remaining the CEO of Snam.

Infrastrutture Trasporto Gas S.p.A. and Terminale GNL Adriatico S.r.l.

On 25 July 2017, Snam has today entered into definitive agreements with Edison for the purchase of 100% of the issued share capital of Infrastrutture Trasporto Gas S.p.A. (ITG), third player in the Italian gas transportation market that operates the 83.3km-long gas transmission pipeline which extends from Cavarzere (Veneto) to Minerbio (Emilia Romagna) connecting the Adriatic LNG regasification terminal to the Italian gas transmission network in Minerbio, and a 7.3% quota of the capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG), the largest offshore gravity based structure for LNG unloading, storing and regasification and the largest LNG terminal in Italy.
The total consideration of the transaction is equal to 225 million euro, subject to price adjustment at closing. Moreover, should Adriatic LNG sign new contracts for utilization of the terminal capacity, Snam will recognize to Edison a potential additional consideration under the form of an earn-out.
The closing of the transaction is expected by the end of 2017 and, with reference to the participation in Adriatic LNG, remains subject to, inter alia, the non-exercise of pre-emption rights granted to the other current shareholders.
This transaction enables us to strengthen our position in the Italian gas transportation market as well as exploit new synergies in the integrated management of the gas system, connecting to our network an entry point that was not directly under Snam's control.

Outlook

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

INVESTMENTS
In the period 2017-2021 Snam has a significant investment plan scheduled. It is equal to approximately €5 billion, of which €1.0 billion in 2017 for sustaining the development of Italian infrastructures and their connection with European ones, reinforcing the safety, flexibility and liquidity of the entire gas system. The Plan involves the upgrading of the transportation network also enabling the completion of the

reverse flow capacity to other European countries and receiving new gas flows from the Caspian region through the TAP pipeline.
Specifically, investments in the transportation business and in the CNG (Compressed Natural Gas), equal to €4.1 billion in the time frame of the plan, will be directed, not only at guaranteeing the safety and reliability of the network, but at satisfying the supply capacity and diversification requirements, to the advantage of shippers and end users. Around 300 service stations for supply of natural gas vehicles are planned to be completed during the time frame of the plan.
In the LNG storage business, the planned investment in the period 2017-2021 is €0.6 billion, to increase modulation and peak capacity, improving the overall flexibility and liquidity of the system and promoting further opportunities for gas trading.
Snam could also leverage its international investments to promote growing connections of European infrastructures and the development of higher diversification and flexibility of gas flows, at the same time maximising the profitability of its assets. The company will monitor potential new investment opportunities in infrastructure assets, in Europe too, with a risk profile aligned to the one in its current business portfolio with its usual selective and financially-disciplined approach.

GAS DEMAND
Based on the latest forecasts, the demand for natural gas in Europe for the five-year period 2017-2021 is expected to remain essentially stable compared with 2016 levels. However, a gradual reduction in European domestic production will be offset by increasing dependence on imports.

EFFICIENCY
Snam will continue to focus on operating efficiency, through initiatives launched in the second half of 2016, which will allow a reduction in costs of over €10 million in 2017 and more than €25 million in 2020.

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This press release, which is prepared voluntarily in line with best market practice, illustrates the consolidated results for the first half (subjected to a limited audit) and second quarter of 2017 (unaudited). The results for the first half, together with the key business trends, represent a summary of the half-year report prepared in accordance with Article 154-*ter* of the Consolidated Finance Act (TUF). The report has been approved by Snam's Board of Directors on 25 July 2017 and will be published in compliance with the terms of the law.

The economic and cash flow information is provided with regard to the first half and second quarter of 2017 and with regard to the first half and second quarter of 2016[8]. Information on financial position is provided with reference to 31 December 2016 and 30 June 2017. The form of the financial statements corresponds to that of the statements presented in the Interim Directors' Report of the Consolidated Half-Year Report and the Directors' Report of the Annual Financial Report.

The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

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8 Unless specified otherwise, the results for 2016 refer to continuing operations (gas transportation, regasification and storage, as well as corporate activities) and therefore exclude the contribution of the natural gas distribution segment, represented as discontinued operations, pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations". See page 11 for the reconciliation of the reported income statement with the adjusted pro-forma income statement for the first quarter of 2016.

The recognition and measurement criteria adopted for the preparation of the half-year report at 30 June 2017 are the same as those used to compile the 2016 annual report, which should be referred to for a description of these criteria.

The changes in the scope of consolidation of the Snam Group at 30 June 2017 compared with 30 June 2016 involved the exit of Italgas Reti S.p.A. (previously Italgas S.p.A.) and the companies controlled by this company, starting from 7 November 2016 as a result of the operation involving the separation from Snam of 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 an equity investment in Italgas S.p.A. representing 13.5% of the share capital. The scope of consolidation of the Snam Group at 30 June 2017 has not changed compared with 31 December 2016. Given their size, amounts are expressed in millions of euros.

Pursuant to Article 154-bis, paragraph 2 of the TUF, the Manager charged with preparing the Company's financial reports, Franco Pruzzi, declares that the accounting information included in this press release corresponds to the documents, accounting ledgers and other records.

Disclaimer

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

A conference call will take place at 15:00 (CET) today, 26 July 2017, to present the results of the first half and the second quarter of 2017 to investors and financial analysts. An audio webcast of the presentation will be available on the Company's website (www.snam.it). In conjunction with the start of the conference call, the presentation support material will also be made available in the "Investor Relations/Presentations" section of the website.

Summary of the results for the first half and second quarter of 2017

INCOME STATEMENT

Second quarter			First half				
2016	2017		2016		2017		
Pro-forma adjusted		(€ millions)	Reported (*)	Pro-forma adjusted		Change	% change
606	615	Regulated revenues	1,195	1,195	**1,219**	24	2.0
22	25	Non-regulated revenue (a)	14	48	**49**	1	2.1
628	**640**	**Total revenue**	**1,209**	**1,243**	**1,268**	**25**	**2.0**
(116)	(119)	Operating costs (a)	(241)	(249)	**(233)**	16	(6.4)
512	**521**	**EBITDA**	**968**	**994**	**1,035**	**41**	**4.1**
(154)	(160)	Amortisation, depreciation and impairment	(305)	(305)	**(321)**	(16)	5.2
358	**361**	**EBIT**	**663**	**689**	**714**	**25**	**3.6**
(72)	(59)	Net financial expense (a)	(169)	(147)	**(115)**	32	(21.8)
35	47	Net income from equity investments	55	70	**88**	18	25.7
321	**349**	**Pre-tax profit**	**549**	**612**	**687**	**75**	**12.3**
(106)	(99)	Income taxes	(185)	(185)	**(183)**	2	(1.1)
215	**250**	**Net profit (a) (b)**	**364**	**427**	**504**	**77**	**18.0**
N/A	**N/A**	**Net Profit - discontinued operations (b)**	**162**	**N/A**	**N/A**		
215	**250**	**Group net profit (a) (b)**	**526**	**427**	**504**	**77**	**18.0**

(a) The adjusted pro-forma data for the first half of 2016 includes the restoration of eliminations from inter-company transactions to discontinued operations.
(b) Entirely held by Snam shareholders.
(*) Pursuant to the provisions of IFRS 5 the result of the distribution segment for the first half of 2016 is represented separately as discontinued operations in a single line in the reported income statement.

First half of 2016 - Reconciliation of the reported income statement with the adjusted pro-forma one

The separation of the natural gas distribution business from Snam took effect on 7 November 2016. Therefore, the economic results for the first half of 2017 refer exclusively to the natural gas transportation, regasification and storage businesses as well as corporate activities. In accordance with the terms of IFRS 5 accounting principle "*Non-current assets held for sale and discontinued operations*", the economic results in the natural gas distribution segment referring to the period 1 January-30 June 2016 have been represented as "discontinued operations" and, for this reason, expressed separately in a single line in the income statement. 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 segments increase.

In order to remove the distortions resulting from the application of IFRS 5, the adjusted result measurements were obtained by restoring the eliminations resulting from inter-company transactions to discontinued operations at the level of each individual income statement item in the continuing operations results. In addition, in order to allow a better evaluation of the performance of continuing operations and greater compatibility of the results, as well as restore inter-company transactions to discontinued operations in the continuing operations, the non-GAAP measurements were also represented from the adjusted pro-forma net profit which, assuming the ownership of the Snam's equity investment in Italgas from 1 January 2016 includes the contribution of the distribution segment applying the investment share of 13.5% to the net profit for the period of the Italgas Group. Management considers that these performance metrics allow for analysis of the business trends, making it easier to compare results. The table below illustrates the reconciliation of the reported income statement for the first half of 2016 with the adjusted pro-forma income statement for the same period.

	First half 2016				
(€ millions)	**REPORTED**	***Restoration of the elisions originating from intercompany transactions to discontinued operations***	**ADJUSTED**	***Pro-forma adjustments***	**PRO-FORMA ADJUSTED**
Continuing operations					
Regulated revenues	1,195		1,195		1,195
Non-regulated revenue	14	34	48		48
Total revenue	**1,209**	**34**	**1,243**		**1,243**
Operating costs	(241)	(8)	(249)		(249)
EBITDA	**968**	**26**	**994**		**994**
Amortisation, depreciation and impairment	(305)		(305)		(305)
EBIT	**663**	**26**	**689**		**689**
Net financial expenses	(169)	22	(147)		(147)
Net income from equity investments	55		55	15	70
Pre-tax profit	**549**	**48**	**597**	**15**	**612**
Income taxes	(185)		(185)		(185)
Net profit (*)	**364**	**48**	**412**	**15**	**427**
Net Profit - discontinued operations (*)	**162**	**(48)**	**114**	**(114)**	
Group net profit (*)	**526**		**526**	**(99)**	**427**

(*) Entirely held by Snam shareholders

EBIT

EBIT for the first half of 2017 totalled €714 million, up by €25 million (3.6%) compared with the adjusted pro-forma EBIT for the first half of 2016 (€361 million in the quarter). The increase is due to higher revenues (+€23 million; +1.9%), attributable mainly to the transportation segment (+€19 million; +2.1%), and the reduction in operating costs (+€18 million; 9.1%), the effects of which were partly offset by the increase in amortisation, depreciation and write-downs for the period (-€16 million; 5.2%), essentially due to the amortisation and depreciation resulting from new infrastructures coming into service. Specifically, the reduction in operating costs is mainly due to: (i) the absence of the expenses related to the separation of Italgas from Snam (+€6 million); (ii) lower capital losses from the write-off of assets (+€5 million); (iii) the impacts of the efficiency plan (+€5 million).

Below is a breakdown of EBIT by business segment:

Second quarter 2016	Second quarter 2017	(€ millions)	First half Pro-forma adjusted 2016	First half 2017	Change	% change
		Business segments				
268	**271**	Transportation	515	**536**	21	4.1
	2	Regasification	1	**3**	2	
100	**89**	Storage	179	**173**	(6)	(3.4)
(10)	**(1)**	Corporate and other activities	(6)	**2**	8	
358	**361**		**689**	**714**	**25**	**3.6**

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

- Transportation (+€21 million; +4.1%, +€3 million in the quarter; +1.1%): due to higher revenues (+€20 million; +2.2%) and lower operating costs (+€10 million; 7.9%), due mainly to the lower capital losses recorded in the period (+€5 million) and the lower withdrawals for sales of natural gas (+€2 million). These effects were partially offset by higher depreciation and amortisation (-€9 million, equal to 3.5%) mainly following the entry into operation of new infrastructures;
- Storage (-€6 million; -3.4%, -€11 million in the quarter; -11.0%): the higher revenues (+€1 million; +0.4%) were more than offset by the higher amortisation, depreciation and write-downs (-€7 million; 16.7%) essentially as a result of the depreciation resulting from the new infrastructures coming into service (-€5 million; 11.9%).

Net profit

Net profit for the first half of 2017 totalled €504 million, up by €77 million (18.0%) compared with the adjusted pro-forma net profit for the first half of 2016 (+€65 million in the quarter; 34.6%). This increase was due mainly to: (i) the higher EBIT (+€25 million; +3.6%); (ii) lower net financial expense (+€32 million; 21.8%) which benefited from a reduction in the average cost of debt, also following the benefits resulting from the improvement measures implemented in 2016 and 2017, specifically the liability management operation completed in October 2016 and the funding operations implemented in the first half of the year and the reduction in average net financial debt for the period; (iii) the higher income from equity investments valued using the shareholders' equity method (+€18 million; +25.7%); (iv) the reduction in income tax (+€2 million).

The tax rate for the first half of 2017 was 26.6% (30.2% for the adjusted pro-forma income statement for the first half of 2016). The decrease is mainly due to the reduction, from 1 January 2017, in the IRES rate from 27.5% to 24.0%.

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

Total revenue

Second quarter 2016	Second quarter 2017	(€ millions)	First half 2016	First half 2017	Change	% Change
		Business segments				
491	**508**	Transportation	986	**1,008**	22	2.2
5	**7**	Regasification	10	**12**	2	20.0
157	**150**	Storage	293	**297**	4	1.4
47	**55**	Corporate and other activities	94	**110**	16	17.0
(72)	***(80)***	*Consolidation eliminations (*)*	*(140)*	***(159)***	*(19)*	*13.6*
628	**640**	**Total revenue**	**1,243**	**1,268**	**25**	**2.0**

(*) The data for the first half of 2016 includes the restoration of eliminations from inter-company transactions to discontinued operations.

Regulated and non-regulated revenue

Second quarter 2016	Second quarter 2017	(€ millions)	First half 2016	First half 2017	Change	% Change
606	**615**	**Regulated revenues**	**1,195**	**1,219**	**24**	**2.0**
		Business segments				
463	**473**	Transportation	918	**939**	21	2.3
5	**6**	Regasification	10	**10**		
116	**109**	Storage	215	**216**	1	0.5
22	**27**	Revenue items offset in costs (*)	52	**54**	2	3.8
22	**25**	**Non-regulated revenue (**)**	**48**	**49**	**1**	**2.1**
628	**640**		**1,243**	**1,268**	**25**	**2.0**

(*) The main revenue items offset in costs relate to interconnection and sales of natural gas carried out for balancing purposes.
(**) The data for the first half of 2016 includes the restoration of eliminations from inter-company transactions to discontinued operations.

Operating costs

Second quarter 2016	Second quarter 2017	(€ millions)	First half 2016	First half 2017	Change	% Change
		Business segments				
94	**104**	Transportation	214	**206**	(8)	(3.7)
3	**4**	Regasification	6	**7**	1	16.7
35	**37**	Storage	72	**75**	3	4.2
56	**54**	Corporate and other activities	97	**104**	7	7.2
(72)	***(80)***	*Consolidation eliminations (*)*	*(140)*	***(159)***	*(19)*	*13.6*
116	**119**		**249**	**233**	**(16)**	**(6.4)**

(*) The data for the first half of 2016 includes the restoration of eliminations from inter-company transactions to discontinued operations.

Operating costs - Regulated and non-regulated activities

Second quarter			First half			
2016	2017	(€ millions)	2016	2017	Change	% Change
83	**93**	**Costs of regulated activities**	**198**	**192**	**(6)**	**(3.0)**
55	**60**	Controllable fixed costs	124	**125**	1	0.8
1	**3**	Variable costs	7	**5**	(2)	(28.6)
5	**3**	Other costs	15	**8**	(7)	(46.7)
22	**27**	Cost items offset in revenue (*)	52	**54**	2	3.8
33	**26**	**Costs of non-regulated activities (**)**	**51**	**41**	**(10)**	**(19.6)**
116	**119**		**249**	**233**	**(16)**	**(6.4)**

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

(**) The data for the first half of 2016 includes the restoration of eliminations from inter-company transactions to discontinued operations.

Amortisation, depreciation and impairment

Second quarter			First half			
2016	2017	(€ millions)	2016	2017	Change	% Change
154	**158**	**Depreciation and amortisation**	**305**	**319**	**14**	**4.6**
		Business segments				
129	**133**	Transportation	257	**266**	9	3.5
2	**1**	Regasification	3	**2**	(1)	(33.3)
22	**22**	Storage	42	**47**	5	11.9
1	**2**	Corporate and other activities	3	**4**	1	33.3
	2	**Impairment losses (Reversals)**		**2**	2	
154	**160**		**305**	**321**	**16**	**5.2**

EBIT

Second quarter			First half			
2016	2017	(€ millions)	2016	2017	Change	% change
		Business segments				
268	**271**	Transportation	515	**536**	21	4.1
	2	Regasification	1	**3**	2	
100	**89**	Storage	179	**173**	(6)	(3.4)
(10)	**(1)**	Corporate and other activities	(6)	**2**	8	
358	**361**		**689**	**714**	**25**	**3.6**

Net financial expenses

Second quarter			First half			
2016	2017	(€ millions)	2016	2017	Change	% Change
75	**61**	**Financial expense related to net financial debt**	**151**	**119**	**(32)**	**(21.2)**
75	**61**	- Interest and other expense on short- and long-term financial debt (*)	151	**119**	(32)	(21.2)
1	**1**	**Other net financial expense (income)**	**3**	**2**	**(1)**	**(33.3)**
3	**2**	- Accretion discount	6	**5**	(1)	(16.7)
(2)	**(1)**	- Other net financial expense (income)	(3)	**(3)**		
1	**1**	**Losses on hedging derivatives – ineffective portion**	2	**1**	**(1)**	**(50.0)**
(5)	**(4)**	**Financial expense capitalised**	**(9)**	**(7)**	**2**	**(22.2)**
72	**59**		**147**	**115**	**(32)**	**(21.8)**

(*) The data for the first half of 2016 includes the restoration of eliminations from inter-company transactions to discontinued operations.

Net income from equity investments

Second quarter			First half			
2016	2017	(€ millions)	2016	2017	Change	% Change
35	**47**	Equity method valuation effect (*)	70	**88**	18	25.7
35	**47**		**70**	**88**	**18**	**25.7**

(a) The figures for the first half of 2016 include pro-forma adjustments.

Income taxes

Second quarter			First half			
2016	2017	(€ millions)	2016	2017	Change	% Change
113	**109**	**Current taxes**	**200**	**199**	**(1)**	**(0.5)**
		(Prepaid) deferred taxes				
(4)	**(6)**	Deferred taxes	(9)	**(9)**		
(3)	**(4)**	Prepaid taxes	(6)	**(7)**	(1)	16.7
(7)	**(10)**		**(15)**	**(16)**	**(1)**	**6.7**
		Adjustment of deferred taxes				
33.0	**28.4**	**Tax rate (%) (*)**	**30.2**	**26.6**	**(3.6)**	**(12.0)**
106	**99**		**185**	**183**	**(2)**	**(1.1)**

(*) The figure for the first half of 2016 was calculated with reference to the pre-tax profit of the adjusted pro-forma income statement.

Reclassified statement of financial position

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

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

Management uses the reclassified balance sheet to calculate the key profitability ratios (ROI and ROE).

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

31.03.2017	(€ millions)	31.12.2016	30.06.2017	Change
18,215	**Fixed capital**	**18,080**	**18,296**	**216**
15,574	Property, plant and equipment	15,563	15,623	60
363	Compulsory inventories	363	363	
811	Intangible assets	810	809	(1)
1,462	Equity investments	1,499	1,483	(16)
268	Financial receivables held for operations	213	309	96
(263)	Net payables for investments	(368)	(291)	77
(925)	**Net working capital**	**(483)**	**(974)**	**(491)**
(44)	**Provisions for employee benefits**	**(44)**	**(46)**	**(2)**
17,246	**NET INVESTED CAPITAL**	**17,553**	**17,276**	**(277)**
	Shareholders' equity (including minority interests)			
6,552	- attributable to Snam	6,497	**6,100**	(397)
	- attributable to minority interests			
6,552		**6,497**	**6,100**	**(397)**
10,694	**Net financial debt**	**11,056**	**11,176**	**120**
17,246	**COVERAGE**	**17,553**	**17,276**	**(277)**

Fixed capital

Fixed capital (€18,296 million) increased by €216 million compared with 31 December 2016 essentially as a result of the increase in financial receivables held for operations (+€96 million), the reduction in net financial payables relating to investment activities (+€77 million) and the increase in property, plant and equipment (+€60 million). This increase was partly offset by the reduction in equity investments (-€16 million).

Equity investments

The item equity investments (€1,483 million) includes the equity method valuation and refers mainly to TIGF Holding S.A.S. (€472 million), Trans Austria Gasleitung GmbH - TAG (€468 million), Trans Adriatic Pipeline AG - TAP (€193 million)[9] and AS Gasinfrastruktur Beteiligung GmbH (€140 million).

9 It includes the increase of approximately €20 million (equal to CFH 22 million) relating to the future share capital increase of TAP, which Snam is obliged to invest in in proportion to the shareholding owned, by virtue of the agreements signed during the acquisition of the equity investment. Snam organised the payment for 7 July 2017.

Financial receivables held for operations

Financial receivables held for operations (€309 million) relate to Snam's share of the shareholders' loan granted to the associate company Trans Adriatic Pipeline AG (TAP). Financial receivables rose by €96 million compared with 31 December 2016[10].

Net working capital

31.03.2017	(€ millions)	31.12.2016	30.06.2017	Change
1,236	Trade receivables	1,271	**941**	(330)
140	Inventories	118	**132**	14
22	Tax receivables	42	**23**	(19)
(11)	Derivatives	24	**1**	(23)
172	Other assets	70	**105**	35
(698)	Provisions for risks and charges	(707)	**(669)**	38
(458)	Trade payables	(433)	**(329)**	104
(182)	Liabilities for deferred taxes	(187)	**(172)**	15
(165)	Accruals and deferrals from regulated activities	(73)	**(177)**	(104)
(133)	Tax liabilities	(12)	**(82)**	(70)
(848)	Other liabilities	(596)	**(747)**	(151)
(925)		**(483)**	**(974)**	**(491)**

Net working capital (€974 million) decreased by €491 million compared with 31 December 2016 due primarily to: (i) the reduction in trade receivables (-€330 million) essentially attributable to the natural gas transportation segment (-€325 million, including -€158 million relating to the balancing service; (ii) the increase in other liabilities (-€151 million) following the higher payables to the CSEA relating to the transportation segment, attributable mainly to the different timing of the payment of the additional tariff items, which involved the deferral of the settlement of the March-April two-month period[11]; (iii) higher accruals and deferrals from regulated activities (-€104 million).

These factors were partly offset by the reduction in trade payables (+€104 million) resulting essentially from the balancing service (+€75 million).

[10] According to the contractual agreements drawn up, the shareholders are responsible for the funding of the project, by way of the percentage shareholding, until the gas pipeline comes into service. Any expansion of the capacity is subject to an economic feasibility study and therefore the verification of the benefits for TAP, also in conformity with the decision of the regulatory authorities to opt out.

[11] In this regard, from 1 January 2017, these items are subject to settlement based on the volumes invoiced in the two-month reference period rather than the volumes pertaining to the two-month period.

Statement of comprehensive income

(€ millions)	First half 2016 (*)	First half 2017
Net profit	**526**	**504**
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)	1	
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (**)	(13)	**(2)**
Total other components of comprehensive income, net of tax effect	**(12)**	**(2)**
Total comprehensive income	**514**	**502**
Attributable to Snam	**514**	**502**
- continuing operations	352	
- discontinued operations	162	
Third parties' share		
- continuing operations		
- discontinued operations		
	514	**502**

(*) The data for the first half of 2016 refer to the reported values (continuing and discontinued operations).
(**) Involves 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 30 June 2017.

Shareholders' equity

(€ millions)		
Shareholders' equity at 31 December 2016 (*)		**6,497**
Increases owing to:		
- Comprehensive income for the first half of 2017	502	
- Other changes (**)	21	
		523
Decreases owing to:		
- Distribution of 2016 dividend	(718)	
- Acquisition of treasury shares	(202)	
		(920)
Shareholders' equity at 30 June 2017 (*)		**6,100**

(*) Entirely held by Snam shareholders
(**) The item includes the equity of the convertible bond loan (€17 million).

At 30 June 2017 Snam held 83,959,951 treasury shares (29,905,180 at 31 December 2016) equal to 2.40% of the share capital, bought for a total of €310 million (€108 million as at 31 December 2016) and entered as a reduction of shareholders' equity. The market value of the treasury shares at 30 June 2017 was around €324 million[12]. The acquisition of 82,832,701 of Snam shares (equal to 2.37% of the share

12 Calculated by multiplying the number of treasury shares by the period-end official price of €3.8616 per share.

capital) for a cost of €305 million, was carried out as part of the share buyback programme launched by Snam on 7 November 2016.

With reference to the 2017-2019 Long-term share-based incentive plan approved by the Ordinary Shareholders' Meeting on 11 April 2017, which, if the underlying conditions of the plan are satisfied, involves the free granting of a maximum number of treasury shares for each tax year of the plan, please refer to the chapter "Main events - Long-term share-based incentive plan" of this Report.

Net financial debt

31.03.2017	(€ millions)	31.12.2016	30.06.2017	Change
10,744	**Financial and bond debt**	**11,090**	**11,204**	**114**
1,675	Short-term financial debt (*)	2,353	**2,150**	(203)
9,069	Long-term financial debt	8,737	**9,054**	317
(50)	**Financial receivables and cash and cash equivalents**	**(34)**	**(28)**	**6**
(50)	Cash and cash equivalents	(34)	**(28)**	6
10,694		**11,056**	**11,176**	**120**

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

The net cash flow from operating activities (€1,401 million) allowed us to fully cover the financial requirements associated with net investments for the period (€608 million) and to generate a free cash flow of €793 million. Net financial debt, after paying shareholders the 2016 dividend (€718 million) and the cash flow resulting from the purchase of treasury shares (€202 million) rose by €120 million compared with the figure as at 31 December 2016, including the non-monetary components related to the financial debt.

Financial and bond debts at 30 June 2017, amounting to €11,204 million (€11,090 million at 31 December 2016), break down as follows:

31.03.2017	(€ millions)	31.12.2016	30.06.2017	Change
8,728	Bonds	7,610	8,246	636
1,992	Bank loans	3,448	2,949	(499)
24	Other loans	32	9	(23)
10,744		**11,090**	**11,204**	**114**

Financial and bond debts are denominated in euros[13] and refer mainly to bond loans (€8,246 million, or 73.6%) and bank loans (€2,949 million, or 26.3%, including €1,171 million provided by the European Investment Bank - EIB).

Bond loans (€8,246 million) rose by €636 million compared with 31 December 2016. The increase is mainly attributable to the issuing of: (i) a fixed rate bond loan, issued on 25 January 2017, for a nominal value of €500 million; (ii) a floating rate[14] bond loan issued on 21 February 2017, for a nominal value of €300 million; (iii) a convertible bond loan[15] with no interest accrual, issued on 20 March 2017, for a nominal value of €400 million. These effects were partly offset by the repayment of a bond loan due on 30 June 2017 for a nominal amount of €506 million.

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

[14] The above-mentioned floating rate bond loan was converted to a fixed rate one through an Interest Rate Swap agreement (IRS).

[15] The bond loan became convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

Long-term financial debt (€9,054 million) represented around 81% of gross financial debt (around 79% at 31 December 2016). Fixed-rate financial debts amounted to around 77% of gross financial debt (approximately 64% at 31 December 2016).

Cash and cash equivalents (€28 million) mainly refer to the bank deposits of Gasrule Insurance DAC for the Group's insurance activities (€26 million).

At 30 June 2017, Snam had unused committed long-term credit lines worth €3.2 billion.

Covenants

At 30 June 2017, Snam had medium/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 30 June 2017, Snam also had medium/long-term loans taken out with the European Investment Bank (EIB), the contractual clauses of which are broadly in line with those described above. Exclusively for the EIB loans, the lender has the option to request additional guarantees if Snam’s credit rating is downgraded below BBB- (Standard & Poor’s/Fitch Ratings Limited) or below Baa2 (Moody’s) for at least two of the three ratings agencies.

At 30 June 2017, the banking financial liabilities subject to these restrictive clauses amounted to approximately €1.8 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 €8.2 billion, refer mainly to securities issued under the Euro Medium Term Notes programme[16]. The covenants set for the EMTN and convertible bond programme reflect international market practices and relate, *inter alia*, to negative pledge and *pari passu* clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

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

As at 30 June 2017, there were no identified events resulting in failure to comply with the aforementioned commitments and covenants.

Reclassified statement of cash flows and change in net financial debt

The reclassified statement of cash flows set out below summarises the legally required format. It shows the connection between opening and closing cash and cash equivalents and the change in net financial

[16] The convertible bond loan worth a nominal €400 million does not come under the scope of the EMTN Programme.

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

Second quarter			First half	
2016 (*)	**2017**	(€ millions)	**2016 (*)**	**2017**
184		Net Profit - continuing operations	364	**504**
76		Net Profit - discontinued operations	162	
260	**250**	**Net profit**	**526**	**504**
		Adjusted for:		
199	**114**	- Amortisation, depreciation and other non-monetary components	382	**235**
10	**1**	- Net capital losses on asset sales and eliminations	15	**1**
203	**151**	- Interest and income taxes	385	**285**
156	**40**	Change in working capital due to operating activities (**)	167	**495**
(200)	**(72)**	Dividends, interest and income taxes collected (paid)	(275)	**(119)**
628	**484**	**Net cash flow from operating activities**	**1,200**	**1,401**
(287)	**(240)**	Technical investments	(499)	**(424)**
(21)		Companies leaving the scope of consolidation and business units		
(26)	**(21)**	Equity investments	(26)	**(33)**
(69)	**(40)**	Financial receivables held for operations	(69)	**(93)**
2	**19**	Divestments	2	**19**
30	**29**	Other changes relating to investment activities	(100)	**(77)**
257	**231**	**Free cash flow**	**508**	**793**
616	**466**	Change in short- and long-term financial debt	371	**121**
(875)	**(719)**	Equity cash flow	(875)	**(920)**
(2)	**(22)**	**Net cash flow for the period**	**4**	**(6)**

CHANGE IN NET FINANCIAL DEBT

Second quarter			First half	
2016 (*)	**2017**	(€ millions)	**2016 (*)**	**2017**
257	**231**	**Free cash flow**	**508**	**793**
(9)	**7**	Adjustment to fair value of financial debt	(11)	**4**
(7)	**(1)**	Exchange rate differences on financial debt	(20)	**3**
(875)	**(719)**	Equity cash flow	(875)	**(920)**
(634)	**(482)**	**Change in net financial debt**	**(398)**	**(120)**

(*) 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). Net cash flows from operating activities, investment activities and financing activities attributable to discontinued operations, with reference to the first half of 2016, amounted respectively to +€292 million (+€89 million in the second quarter of 2016), -€185 million (-€96 million in the second quarter of 2016) and -€108 million (+€7 million in the second quarter of 2016).

(**) The cash flow for the first half of 2017 takes into account different timing relating to the payment of the additional tariff items to be paid to the CSEA with reference to the transportation segment. In this regard, from 1 January 2017, these items are subject to settlement based on the volumes invoiced in the two-month reference period rather than the volumes pertaining to the two-month period. It is expected that this matter will be normalised during the year.

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