





## SNAM ANNOUNCES RESULTS FOR THE FIRST NINE MONTHS AND THE THIRD QUARTER OF 2017

San Donato Milanese, 7 November 2017 – Snam's Board of Directors, at yesterday's meeting chaired by Carlo Malacarne, approved the consolidated results for the first nine months and the third quarter of 2017 (unaudited). The Board also resolved to distribute an interim dividend for 2017 of €0.0862 per share, which will be paid out as of 24 January 2018.

### Financial highlights<sup>1</sup>

- **Total revenue:** €1,896 million (+1.9% compared with adjusted pro-forma total revenue for the first nine months of 2016, due to continued investments and greater volumes of gas injected)
- **EBIT:** €1,063 million (+3.3% compared with adjusted pro-forma EBIT for the first nine months of 2016, due to a reduction in operating costs resulting from the efficiency measures implemented to date)
- **Net profit:** €755 million (+18.2% compared with the adjusted pro-forma net profit for the first nine months of 2016, thanks to lower net financial expenses resulting from a reduction in the average cost of borrowing)
- **Technical investments:** €683 million (+15.0%)
- **Free Cash Flow:** €818 million
- **Interim dividend:** €0.0862 per share

### Operating highlights

- **Natural gas demand:** 52.28 billion cubic metres (+8.1% compared with the first nine months of 2016, up for the eleventh consecutive quarter)
- **Gas injected into the transportation network:** 55.48 billion cubic metres (+7.9% compared with the first nine months of 2016)
- **Available storage capacity:** 12.2 billion cubic metres (99.98% of the available capacity)

### Significant events

- **In accordance with the share buyback programme launched on 7 November 2016, 84,788,366 treasury shares, equal to 2.42% of the share capital, were purchased on 30 September 2017 at a total cost of €313 million and an average unit cost of €3.69 per share**
- **On 13 October 2017, Snam completed the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. and 7.3% of Adriatic LNG S.r.l. from Edison**
- **The buyback of outstanding Snam bonds for a total nominal value of €607 million was successfully concluded. The buyback price, equal to €656 million in total, was largely financed through a bond issue with a nominal value of €650 million**

<sup>1</sup> Unless stated otherwise, the 2016 results pertain to continuing operations (natural gas transportation, regasification and storage) and consequently they do not include the contribution from the natural gas distribution sector stated as "discontinued operations" in accordance with the provisions of the IFRS 5 accounting standard "Non-Current Assets Held for Sale and Discontinued Operations". Please refer to page 11 for the reconciliation of the Reported Income Statement with the Adjusted Pro-Forma Income Statement for the first nine months of 2016.



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

*“Our positive results in the first 9 months reflect the investments we have made and our increased efforts on operating and financial efficiency. We are continuing to invest in Italy - in line with our strategic plan - with the goal of improving the competitiveness and supply security of natural gas, supporting its central role in the energy transition. These solid results confirm our commitment to delivering profitable growth and strong returns for our shareholders.”*

### Summary of results for the first nine months and the third quarter of 2017

Below is the breakdown of the income statement results for the first nine months and the third quarter of 2017 compared with the results of the adjusted pro-forma income statement for the corresponding periods of 2016.

#### INCOME STATEMENT

Third quarter		First nine months					
2016	2017	2016		2017			
Pro-forma adjusted	(€ million)	Reported (*)	Pro-forma adjusted	Change	% change		
594	609	1,789	1,789	1,828	39	2.2	
24	19	20	72	68	(4)	(5.6)	
<b>618</b>	<b>628</b>	<b>1,809</b>	<b>1,861</b>	<b>1,896</b>	<b>35</b>	<b>1.9</b>	
(125)	(118)	(361)	(374)	(351)	23	(6.1)	
<b>493</b>	<b>510</b>	<b>1,448</b>	<b>1,487</b>	<b>1,545</b>	<b>58</b>	<b>3.9</b>	
(153)	(161)	(458)	(458)	(482)	(24)	5.2	
<b>340</b>	<b>349</b>	<b>990</b>	<b>1,029</b>	<b>1,063</b>	<b>34</b>	<b>3.3</b>	
(66)	(56)	(247)	(213)	(171)	42	(19.7)	
36	45	84	106	133	27	25.5	
<b>310</b>	<b>338</b>	<b>827</b>	<b>922</b>	<b>1,025</b>	<b>103</b>	<b>11.2</b>	
(98)	(87)	(283)	(283)	(270)	13	(4.6)	
<b>212</b>	<b>251</b>	<b>544</b>	<b>639</b>	<b>755</b>	<b>116</b>	<b>18.2</b>	
<b>N/A</b>	<b>N/A</b>	<b>239</b>	<b>N/A</b>	<b>N/A</b>			
<b>212</b>	<b>251</b>	<b>783</b>	<b>639</b>	<b>755</b>	<b>116</b>	<b>18.2</b>	

(\*) Pursuant to the provisions of accounting principle IFRS 5 the result of the distribution sector for the first nine months of 2016 is represented separately as discontinued operations on a single line in the Reported Income Statement.

(a) The adjusted pro-forma data for 2016 include the restoration of eliminations originating from inter-company transactions to discontinued operations. Please refer to page 11 for the reconciliation of the Reported Income Statement with the Adjusted Pro-Forma Income Statement for the first nine months of 2016.

(b) Entirely held by Snam shareholders.

#### Total revenue

Total revenue generated in the first nine months of 2017 stood at €1,896 million, an increase of €35 million or 1.9% compared with the adjusted pro-forma total revenue in the first nine months of 2016. Net of components offset in costs<sup>2</sup>, total revenue in the first nine months of 2017 stood at €1,817 million, an increase of €30 million or 1.7%, mainly due to greater regulated revenue (+€34 million; +2.0%) as a result of continued investments and larger volumes of gas injected.

<sup>2</sup> 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.



## EBIT

EBIT<sup>3</sup> in the first nine months of 2017 totalled €1,063 million, up by €34 million or 3.3% compared with the adjusted pro-forma EBIT for the first nine months of 2016 (+€9 million in the quarter, equal to 2.6%). The reduction in operating costs (+€28 million, net of components offset in revenue, equal to 9.3%) and increase in revenue (+€30 million) mainly attributable to the natural gas transportation (+€26 million, equal to +1.9%) and storage (+€7 million, equal to +2.2%) sectors, was partly offset by the increase in amortisation, depreciation and impairments in the period (-€24 million, equal to 5.2%), primarily due to the entry into service of new infrastructure.

Specifically, the reduction in operating costs was mainly due to: (i) lower personnel costs primarily due to a reduction in employees in service following the completion of the demerger in November 2016, lower expenses relating to termination indemnity paid in 2016 (€5 million) and to the different timing of remuneration components; (ii) the positive impacts of the Efficiency Plan (+€12 million); and (iii) lower capital losses from the asset eliminations (+€7 million).

Below is a breakdown of EBIT by business segment:

Third quarter			First nine months			
Pro-forma adjusted			Pro-forma adjusted			
2016	2017	(€ million)	2016	2017	Change	% change
<b>Business segments</b>						
267	<b>280</b>	Transportation	782	<b>816</b>	34	4.3
	<b>1</b>	Regasification	1	<b>4</b>	3	
83	<b>84</b>	Storage	262	<b>257</b>	(5)	(1.9)
(10)	<b>(16)</b>	Corporate and other activities	(16)	<b>(14)</b>	2	(12.5)
<b>340</b>	<b>349</b>		<b>1,029</b>	<b>1,063</b>	<b>34</b>	<b>3.3</b>

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

- Transportation (+€34 million, equal to +4.3%): due to greater revenue (+€39 million, net of components offset in costs; +2.9%), as a result of an increase in regulated revenue (+30 million, equal to 2.3%), following the updating of the invested capital recognised for RAB purposes (+€22 million), incentives recognised for the Balancing Supervisor (€5 million) and greater revenue from the variable fee (+€3 million), as well as an increase in non-regulated revenue (+€9 million). The reduction in operating costs (+€10 million net of components offset in revenue; 5.4%), due mainly to lower capital losses recorded in the period (+€7 million) as well as the effects of the reorganisation implemented from 1 November 2016, also contributed to the increase in EBIT. These effects were partly offset by higher amortisation and depreciation (-€15 million; 3.9%), mainly following the commissioning of new infrastructure.
- Storage (-€5 million; -1.9%): greater revenue (+€4 million; +1.1%) together with operating cost control, was more than offset by higher amortisation, depreciation and impairments (-€9 million; 14.1%) primarily as a result of the amortisation and depreciation from the entry into service of new infrastructure (-€7 million; 10.9%).

<sup>3</sup> 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.



### **Net profit**

Net profit in the first nine months of 2017 totalled €755 million, up by €116 million or 18.2% compared with the adjusted pro-forma net profit for the first nine months of 2016 (+€39 million in the quarter or 18.4%). In addition to the higher level of EBIT, the increase is due to: (i) lower net financial expenses (+€42 million; 19.7%), which benefited from a reduction in the average cost of debt, as a result of the benefits from the improvement measures implemented during 2016 and 2017, specifically the liability management transaction completed in October 2016 and the funding transactions in the first nine months of the year, and the reduction in the average debt in the period; (ii) the higher income from equity-accounted investments (+€27 million; +25.5%); and (iii) lower income taxes (+€13 million; 4.6%) mainly attributable to the reduction from 1 January 2017 in the rate of IRES from 27.5% to 24.0%, partly offset by the higher pre-tax profit.

The tax rate for the first nine months of 2017 was 26.3% (30.7% for the Adjusted Pro-Forma Income Statement for the first nine months of 2016).

### **Net financial debt**

Net financial debt was €11,156 million at 30 September 2017<sup>4</sup>, compared with €11,056 million at 31 December 2016. The net cash flow from operating activities (€1,645 million) allowed Snam to fully cover the financial requirements associated with net investments for the period (€827 million) and to generate a free cash flow of €818 million. Net financial debt, after paying shareholders the 2016 dividend (€718 million) and including the cash outflow from the purchase of treasury shares (€210 million), recorded an increase of €100 million compared with 31 December 2016.

### **Interim dividend**

Based on the results for the first nine months and the forecasts for the whole of 2017, the Board of Directors has approved the distribution to shareholders of an interim dividend<sup>5</sup>, equal to €0.0862 per share to be paid out as of 24 January 2018, with an ex-dividend date of 22 January and a record date of 23 January.

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<sup>4</sup> More information on the net financial debt can be found on page 18 of this press release.

<sup>5</sup> The Accounting Statement and the Directors' Report prepared pursuant to Article 2433-bis of the Italian Civil Code, together with the opinion of the independent auditors, are available at the company's registered office.



## Operating highlights

Third quarter		First nine months			
2016	2017	2016	2017	Change	% change
<b>Natural gas transportation (a)</b>					
Natural gas injected into the National Gas Transportation					
17.32	<b>17.40</b>	51.40	<b>55.48</b>	4.08	7.9
Network (billions of cubic metres) (b)					
32,455	<b>32,491</b>	32,455	<b>32,491</b>	36	0.1
Transportation network (kilometres in use)					
900	<b>922</b>	900	<b>922</b>	22	2.4
Installed power in the compression stations (MW)					
<b>Liquefied natural gas (LNG) regasification (a)</b>					
0.078	<b>0.466</b>	0.170	<b>0.635</b>	0.465	
LNG regasification (billions of cubic metres)					
<b>Natural gas storage (a)</b>					
10	<b>10</b>	10	<b>10</b>		
Concessions					
9	<b>9</b>	9	<b>9</b>		
- of which operational (c)					
16.5	<b>16.7</b>	16.5	<b>16.7</b>	0.2	1.2
Storage capacity (billions of cubic metres)					
12.0	<b>12.2</b>	12.0	<b>12.2</b>	0.2	1.7
- of which available (d)					
4.5	<b>4.5</b>	4.5	<b>4.5</b>		
- of which strategic					
Natural gas moved through the storage system (billions of cubic metres)					
4.43	<b>4.10</b>	15.85	<b>15.38</b>	(0.47)	(3.0)
- of which injected					
4.43	<b>4.07</b>	9.31	<b>9.16</b>	(0.15)	(1.6)
- of which withdrawn					
<b>3,084</b>	<b>2,941</b>	<b>3,084</b>	<b>2,941</b>	(143)	(4.6)
<b>Employees in service at end of period (number) (e)</b>					
<i>by business segment:</i>					
1,973	1,945	1,973	<b>1,945</b>	(28)	(1.4)
- Transportation (f)					
72	64	72	<b>64</b>	(8)	(11.1)
- Regasification					
309	57	309	<b>57</b>	(252)	(81.6)
- Storage (g)					
730	875	730	<b>875</b>	145	19.9
- Corporate and other activities					

(a) With regard to the first nine months of 2017, 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) for transportation and regasification activities and 39.4 MF/SCM (10.930 Kwh/SCM) for natural gas storage activities for the 2017-2018 thermal year (39.3 MF/SCM, 10.906 Kwh/SCM for the 2016-2017 thermal year).

(b) The figures for the first nine months of 2017 are up to date at 6 October 2017. The update of 2016 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) Working gas capacity for modulation services.

(d) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 September 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.

(e) Fully consolidated companies. The overall change of 143 employees compared with the first nine months of 2016 includes personnel transferred to the Italgas Group (217 persons, net of personnel transferred from the Italgas Group to Snam) following the separation transaction. Compared with 31 December 2016, the number of employees increased by 58.

(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.

(g) With effect from 1 July 2017, following the sale of a business unit, the resources of Stogit S.p.A.'s "Technical Facilities and Services" unit were transferred to the affiliate Snam Rete Gas S.p.A. (221 persons).

### Natural gas injected into the national transportation network

The volumes of gas injected into the network in the first nine months of 2017 amounted to 55.48 billion cubic metres in total, an increase of 4.08 billion cubic metres compared with the first nine months of 2016 (+7.9%). The increase is essentially attributable to the rise in demand for gas in Italy (+3.90 billion cubic metres; +8.1%, up for the eleventh consecutive quarter), recorded in all sectors, respectively in the thermoelectric sector (+2.24 billion cubic metres; +13.8%), driven particularly by buoyant demand in



the summer, the reduction in hydroelectric energy production and the continuing stoppage at several French nuclear plants in the first two months of the year, the industrial sector<sup>6</sup> (+0.93 billion cubic metres; +7.6%) and the residential and tertiary sector (+0.45 billion cubic metres; +2.1%).

Weather adjusted demand for gas, net of the effect of water shortages and the lack of French nuclear power from October 2016, which also continued in the first two months of 2017, is estimated at 51.1 billion cubic metres, up 2.3 billion cubic metres equal to 4.7% compared with the corresponding figure for the first nine months of 2016 (48.8 billion cubic metres).

Natural gas injected from domestic production fields or their collection and treatment centres was 3.88 billion cubic metres, down by 0.16 billion cubic metres (-4.0%) compared with the first nine months of 2016.

Volumes of gas injected into the network of entry points connected with other countries or with LNG regasification plants stood at 51.60 billion cubic metres, up by 4.24 billion cubic metres (9.0%) compared with the first nine months of 2016. The increase is mainly attributable to greater volumes injected from the Tarvisio entry point (+2.24 billion cubic metres; +11.1%), the LNG regasification terminals (+1.66 billion cubic metres; +32.4%) and the Passo Gries entry point (+0.68 billion cubic metres; +12.9%).

#### **Liquefied natural gas (LNG) regasification**

In the first nine months of 2017, the LNG terminal at Panigaglia (SP) regasified 0.635 billion cubic metres of natural gas, an increase of 0.465 billion cubic metres compared with the first nine months of 2016 (0.170 billion cubic metres) of which 0.084 billion cubic metres were regasified under the scope of the integrated regasification and storage service<sup>7</sup>. In the first nine months of 2017, 15 methane tankers were unloaded (4 in the first nine months of 2016), 2 of which were part of the integrated regasification and storage service.

#### **Natural gas storage**

In total, 15.38 billion cubic metres of natural gas moved through the storage system in the first nine months of 2017, a decrease of 0.47 billion cubic metres (3.0%) compared with the first nine months of 2016 (15.85 billion cubic metres). The reduction was essentially attributable to lower withdrawals from storage (-0.32 billion cubic metres; -4.9%) mainly due, to the behaviour of shippers in response to various market conditions as well as to weather trends.

Total storage capacity as at 30 September 2017, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 30 September 2016), of which 12.2 billion cubic metres related to available capacity almost fully allocated for the thermal year 2017-2018 (99.98% of the available capacity) and 4.5 billion cubic metres related to strategic storage (unchanged compared with the thermal year 2016-2017, as established by the Ministry of Economic Development through its notice published on 25 January 2017).

<sup>6</sup> It includes the consumption of the following sectors: agricultural and fishing, non-energy uses and automotive.

<sup>7</sup> 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.





## Main events

### Early retirement agreement

On 26 July 2017 Snam signed a preliminary agreement with the major trade unions (hereinafter the "Plan"), in which it expressed its intention to access the early retirement scheme for its employees, regulated by Article 4, paragraphs 1-7 of Law 92/2012 (the so-called Fornero Law).

The Plan proposes to create the conditions to allow all Snam Group companies to promote the early retirement of employees by 31 March 2018 in order to encourage generational replacement. The personnel involved eligible for retirement can join the scheme by 15 October 2017.

As at 30 September 2017 no expenses were recorded in the income statement under personnel costs because the conditions for measuring liabilities and the related cost pursuant to the provisions of IAS 19 - Employee benefits did not exist at that date<sup>8</sup>.

### Renewal of the EMTN programme

On 6 October 2017, the Board of Directors of Snam S.p.A. resolved the annual renewal of the EMTN programme, launched in 2012, for a maximum total value of €10 billion.

As a result, the Board decided to issue, by 6 October 2018, one or more further bond loans, for a maximum amount of approximately €1.8 billion, plus the amount corresponding to the bonds repaid during the same period, to be placed with institutional investors. The total nominal value of issued bonds in circulation in each instance may not exceed the maximum limit of €10 billion. The securities issued can be listed on one or more regulated markets. Under the scope of the EMTN Programme, at the date of this statement, bond loans worth approximately €8.2 billion have been issued<sup>9</sup>.

### Bond buyback

In October 2017, Snam successfully completed a buyback on the bond market of bonds with a total nominal value of €607 million, with an average coupon of approximately 2.5% and a remaining maturity of approximately 4.4 years. The buyback price, equal to €656 million in total, was to a large extent funded by a new fixed-rate bond issue, maturing on 25 October 2027 amounting to €650 million in total, with a coupon of 1.375% and a term of 10 years.

The effects of this transaction on the 2017 income statement, essentially represented by the expenses resulting from the difference between the outlay for buyback of the bonds on the market and the valuation at the amortised cost of the actual bonds (€55 million gross of the tax effect), will be recorded in the fourth quarter of 2017.

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<sup>8</sup> Paragraph 166 of IAS 19 makes provision that "For benefits due for the termination of employment following the decision by the employee to accept an offer of benefits in exchange for the termination of employment, the time when the organisation cannot withdraw the offer of benefits due to employees for the termination of employment is the one immediately between:

a) when the employee accepts the offer; and

b) when a restriction comes into force (for example, a legal, regulatory or contractual provision or one of another kind) to the capacity of the organisation to withdraw the offer. This would coincide with the time when the offer was made if the restriction was in existence."

<sup>9</sup> The convertible bond loan with a nominal value of €400 million does not come under the scope of the EMTN Programme.





**The acquisition from Edison of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. and 7.3% of Adriatic LNG S.r.l. was completed**

On 13 October 2017, following the fulfillment of the conditions that the completion of the transaction was subject to, Snam S.p.A. concluded the purchase from Edison of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. (ITG) and 7.3% of the share capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG), following the payment, net of the price adjustment, of a total sum of €217 million.

On the basis of contractual agreements, if Adriatic LNG signs new agreements to use the capacity of the terminal, Snam will pay Edison a potential further consideration in the form of an earn-out.

The investment enables Snam to reinforce its infrastructure in Italy and to take advantage of further synergies in the integrated management of the entire gas system, connecting a strategic entry point for the Italian natural gas market with the national transportation network.

**Outlook**

The outlook for the main drivers of the natural gas transportation, regasification and storage sectors is illustrated below.

**INVESTMENTS**

In the 2017-2021 period, Snam plans significant investments of approximately €5 billion, of which €1.0 billion in 2017 is to support the development of the Italian infrastructure and its connection with European infrastructure, strengthening the safety, flexibility and liquidity of the whole gas system. The Plan includes the upgrading of the transportation network thereby also enabling the creation of additional reverse flow capacity towards other European countries, and also opening new flows from the Caspian region through the TAP gas pipeline.

In particular, investments of approximately €4.1 billion over the life of the plan are envisaged in the CNG (Compressed Natural Gas) and transportation businesses, not only to ensure the safety and reliability of the network, but also to meet the capacity and diversification requirements of supplies, for the benefit of Shippers and end users. The Plan also includes the creation of around 300 service stations for the supply of natural gas vehicles.

In the storage and LNG business, the planned investment in the 2017-2021 period 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 will also be able to leverage on its international subsidiaries to promote increasing interconnection between European infrastructure systems, and develop greater diversification and flexibility of gas flows, while at the same time maximising the profitability of its assets. The company, applying a selective approach and its financial policy, will monitor new opportunities to invest in infrastructure assets, including at the European level, with a risk profile in line with its current business portfolio's.

**GAS DEMAND**

The latest estimates for trends in natural gas demand on the European market envisage an essentially stable situation for the five-year 2017-2021 period compared with 2016 levels, where the progressive reduction in European production will be offset by growing dependency on imports.



## **EFFICIENCY**

Snam will continue to focus on operating efficiency through initiatives launched in the second half of 2016 which have enabled the company to achieve a cost reduction of €12 million already in the first nine months of 2017.

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This press release on the consolidated results of the first nine months and third quarter of 2017, unaudited, has been prepared on a voluntary basis in accordance with the methods pursuant to Article 82-ter "Additional periodic financial information" of Consob Issuers' Regulation 11971 of 14 March 1999 and later amendments and supplements, as a follow-up to the quarterly information provided by Snam in the past and in line with the minimum contents and deadlines set out in the Group's financial calendar.

Income, expenses and cash flows are provided in relation to the first nine months and the third quarter of 2017 and the first nine months and third quarter of 2016. Information on financial position is provided with reference to 30 September 2017 and 31 December 2016. The form of the financial statements corresponds to that of the statements presented in the Interim Directors' Report of the Half-Year Consolidated Report and the Directors' Report of the Annual 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.

The recognition and measurement criteria adopted for the preparation of the results for the first nine months of 2017 are the same as those used to compile the Consolidated Half-Year Report as at 30 June 2017, which should be referred to for a description of these criteria.

The changes in the scope of consolidation of the Snam Group as at 30 September 2017 compared with those at 30 September 2016 involved the exit of Italgas Reti S.p.A. (previously Italgas S.p.A.), and the companies controlled by this company, beginning on 7 November 2016 as a result of the demerger operation. 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. The consolidation scope of the Snam Group at 30 September 2017 is the same as on 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 today, 7 November 2017, to present the consolidated results of the first nine months and the third 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](http://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.



### ***First nine months of 2016 - Reconciliation of the Reported Income Statement with the Adjusted Pro-Forma one***

The transaction to separate the natural gas distribution business from Snam took effect from 7 November 2016. Therefore, the economic results for the first nine months of 2017 refer exclusively to the natural gas transportation, regasification and storage businesses. 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 1 January – 30 September 2016 have been represented as “Discontinued Operations” and, for this reason, expressed separately on 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 intra-group economic relations of the discontinued sectors increase.

In order to remove distortions resulting from the application of IFRS 5, the adjusted result measurements were obtained by restoring the eliminations from intercompany transactions to discontinued operations to the results for continuing operations at an individual income statement item level. In addition, in order to allow a better evaluation of the performance of continuing operations and better comparability of the results for the periods under comparison, in addition to restoring intercompany transactions to discontinued operations to continuing operations, non-GAAP measures are also represented by the adjusted pro-forma net profit which reflects the contribution of the distribution sector applying the relevant shareholding, equal to 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 between the Reported Income Statement for the first nine months of 2016 with the Adjusted Pro-Forma Income Statement which refers to the same period.



	First nine months of 2016				
(€ million)	REPORTED	Restoration of the elisions originating from intercompany transactions to discontinued operations	ADJUSTED	Pro-forma adjustments	PRO-FORMA ADJUSTED
<b>Continuing operations</b>					
Regulated revenue	1,789		1,789		1,789
Non-regulated revenue	20	52	72		72
<b>Total revenue</b>	<b>1,809</b>	<b>52</b>	<b>1,861</b>		<b>1,861</b>
Operating costs	(361)	(13)	(374)		(374)
<b>EBITDA</b>	<b>1,448</b>	<b>39</b>	<b>1,487</b>		<b>1,487</b>
Amortisation, depreciation and impairment	(458)		(458)		(458)
<b>EBIT</b>	<b>990</b>	<b>39</b>	<b>1,029</b>		<b>1,029</b>
Net financial expenses	(247)	34	(213)		(213)
Net income from equity investments	84		84	22	106
<b>Pre-tax profit</b>	<b>827</b>	<b>73</b>	<b>900</b>	<b>22</b>	<b>922</b>
Income tax paid	(283)		(283)		(283)
<b>Net profit (*)</b>	<b>544</b>	<b>73</b>	<b>617</b>	<b>22</b>	<b>639</b>
<b>Net Profit - discontinued operations (*)</b>	<b>239</b>	<b>(73)</b>	<b>166</b>	<b>(166)</b>	
<b>Group Net Profit (*)</b>	<b>783</b>		<b>783</b>	<b>(144)</b>	<b>639</b>

(\*) Entirely held by Snam shareholders.



## Summary tables income statement items

### Total revenue

Third quarter			First nine months			
2016	2017		2016	2017	Change	Change %
		(€ million)				
<b>Business segments</b>						
495	<b>515</b>	Transportation	1,481	<b>1,523</b>	42	2.8
4	<b>7</b>	Regasification	14	<b>19</b>	5	35.7
144	<b>151</b>	Storage	437	<b>448</b>	11	2.5
50	<b>43</b>	Corporate and other activities	144	<b>153</b>	9	6.3
(75)	<b>(88)</b>	Consolidation eliminations (*)	(215)	<b>(247)</b>	(32)	14.9
<b>618</b>	<b>628</b>	<b>Total revenue</b>	<b>1,861</b>	<b>1,896</b>	<b>35</b>	<b>1.9</b>

(\*) The data for the first nine months and the third quarter of 2016 include the restoration of eliminations originating from intercompany transactions to discontinued operations.

### Regulated and non-regulated revenue

Third quarter			First nine months			
2016	2017		2016	2017	Change	Change %
		(€ million)				
<b>594</b>	<b>609</b>	<b>Regulated revenue</b>	<b>1,789</b>	<b>1,828</b>	<b>39</b>	<b>2.2</b>
<b>Business segments</b>						
465	<b>471</b>	Transportation	1,383	<b>1,410</b>	27	2.0
3	<b>4</b>	Regasification	13	<b>14</b>	1	7.7
104	<b>109</b>	Storage	319	<b>325</b>	6	1.9
22	<b>25</b>	Revenue items offset in costs (*)	74	<b>79</b>	5	6.8
<b>24</b>	<b>19</b>	<b>Non-regulated revenue (**)</b>	<b>72</b>	<b>68</b>	<b>(4)</b>	<b>(5.6)</b>
<b>618</b>	<b>628</b>		<b>1,861</b>	<b>1,896</b>	<b>35</b>	<b>1.9</b>

(\*) 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 nine months and the third quarter of 2016 include the restoration of eliminations originating from intercompany transactions to discontinued operations.

### Operating costs

Third quarter			First nine months			
2016	2017		2016	2017	Change	Change %
		(€ million)				
<b>Business segments</b>						
100	<b>101</b>	Transportation	314	<b>307</b>	(7)	(2.2)
3	<b>4</b>	Regasification	9	<b>11</b>	2	22.2
39	<b>43</b>	Storage	111	<b>118</b>	7	6.3
58	<b>58</b>	Corporate and other activities	155	<b>162</b>	7	4.5
(75)	<b>(88)</b>	Consolidation eliminations (*)	(215)	<b>(247)</b>	(32)	14.9
<b>125</b>	<b>118</b>		<b>374</b>	<b>351</b>	<b>(23)</b>	<b>(6.1)</b>

(\*) The data for the first nine months and the third quarter of 2016 include the restoration of eliminations originating from intercompany transactions to discontinued operations.



### Operating costs - Regulated and non-regulated activities

Third quarter			First nine months			
2016	2017	(€ million)	2016	2017	Change	Change %
<b>99</b>	<b>94</b>	<b>Costs of regulated activities</b>	<b>297</b>	<b>286</b>	<b>(11)</b>	<b>(3.7)</b>
69	57	Controllable fixed costs	193	182	(11)	(5.7)
1		Variable costs	8	5	(3)	(37.5)
7	12	Other costs	22	20	(2)	(9.1)
22	25	Cost items offset in revenue (*)	74	79	5	6.8
26	24	<b>Costs of non-regulated activities (**)</b>	<b>77</b>	<b>65</b>	<b>(12)</b>	<b>(15.6)</b>
<b>125</b>	<b>118</b>		<b>374</b>	<b>351</b>	<b>(23)</b>	<b>(6.1)</b>

(\*) The main cost 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 nine months and the third quarter of 2016 include the restoration of eliminations originating from intercompany transactions to discontinued operations.

### Amortisation, depreciation and impairment

Third quarter			First nine months			
2016	2017	(€ million)	2016	2017	Change	Change %
<b>153</b>	<b>161</b>	<b>Total amortisation and depreciation</b>	<b>458</b>	<b>480</b>	<b>22</b>	<b>4.8</b>
		<b>Business segments</b>				
128	134	Transportation	385	400	15	3.9
1	2	Regasification	4	4		
22	24	Storage	64	71	7	10.9
2	1	Corporate and other activities	5	5		
		<b>Impairment losses (Reversals)</b>		<b>2</b>	<b>2</b>	
<b>153</b>	<b>161</b>		<b>458</b>	<b>482</b>	<b>24</b>	<b>5.2</b>

### EBIT

Third quarter			First nine months			
2016 (*)	2017	(€ million)	2016 (*)	2017	Change	% change
		<b>Business segments</b>				
267	280	Transportation	782	816	34	4.3
	1	Regasification	1	4	3	
83	84	Storage	262	257	(5)	(1.9)
(10)	(16)	Corporate and other activities	(16)	(14)	2	(12.5)
<b>340</b>	<b>349</b>		<b>1,029</b>	<b>1,063</b>	<b>34</b>	<b>3.3</b>

(\*) The data for the first nine months and the third quarter of 2016 include the restoration of eliminations originating from intercompany transactions to discontinued operations.





### Net financial expenses

Third quarter			First nine months			
2016	2017	(€ million)	2016	2017	Change	Change %
69	59	<b>Financial expense related to net financial debt</b>	220	178	(42)	(19.1)
69	59	- Interest and other expense on short- and long-term financial debt (*)	220	178	(42)	(19.1)
3		<b>Other net financial expense (income)</b>	6	2	(4)	(66.7)
2	3	- Accretion discount	8	8		
1	(3)	- Other net financial expense (income)	(2)	(6)	(4)	
(1)		<b>Losses on hedging derivatives – ineffective portion</b>	1	1		
(5)	(3)	<b>Financial expense capitalised</b>	(14)	(10)	4	(28.6)
66	56		213	171	(42)	(19.7)

(\*) The data for the first nine months and the third quarter of 2016 include the restoration of eliminations originating from intercompany transactions to discontinued operations.

### Net income from equity investments

Third quarter			First nine months			
2016	2017	(€ million)	2016	2017	Change	Change %
36	45	Equity method valuation effect (*)	106	133	27	25.5
36	45		106	133	27	25.5

(\*) The data for the first nine months and the third quarter of 2016 include the pro-forma adjustments.

### Income tax

Third quarter			First nine months			
2016	2017	(€ million)	2016	2017	Change	Change %
104	87	<b>Current taxes</b>	304	286	(18)	(5.9)
		<b>(Prepaid) deferred taxes</b>				
(4)	(3)	Deferred taxes	(13)	(12)	1	(7.7)
(2)	3	Prepaid taxes	(8)	(4)	4	(50.0)
(6)			(21)	(16)	5	(23.8)
31.6%	25.7%	<b>Tax rate (%) (*)</b>	30.7%	26.3%	(4.4)	
98	87		283	270	(13)	(4.6)

(\*) The data for the first nine months and the third quarter of 2016 are calculated with reference to the pre-tax profit of the Adjusted Pro-Forma Income Statement.



### Reclassified statement of financial position

The reclassified statement of financial position combines the assets and liabilities of the condensed statement based on how the business operates, conventionally split into the three basic functions: investment, operations and financing.

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

The reclassified consolidated statement of financial position format is used by management to calculate the key leverage and profitability ratios.

### RECLASSIFIED STATEMENT OF FINANCIAL POSITION

30.06.2017 (€ million)	31.12.2016	30.09.2017	Change
<b>18,296</b> Fixed capital	<b>18,080</b>	<b>18,400</b>	<b>320</b>
15,623 Property, plant and equipment	15,563	15,712	149
363 Compulsory inventories	363	363	
809 Intangible assets	810	807	(3)
1,483 Equity investments	1,499	1,539	40
309 Financial receivables held for operating activities	213	338	125
(291) Net payables for investments	(368)	(359)	9
<b>(974)</b> Net working capital	<b>(483)</b>	<b>(860)</b>	<b>(377)</b>
<b>(46)</b> Provisions for employee benefits	<b>(44)</b>	<b>(44)</b>	
<b>17,276</b> NET INVESTED CAPITAL	<b>17,553</b>	<b>17,496</b>	<b>(57)</b>
<b>Shareholders' equity</b>			
<b>6,100</b> - attributable to Snam	6,497	<b>6,340</b>	(157)
- attributable to minority interests			
<b>6,100</b>	<b>6,497</b>	<b>6,340</b>	<b>(157)</b>
<b>11,176</b> Net financial debt	<b>11,056</b>	<b>11,156</b>	<b>100</b>
<b>17,276</b> COVERAGE	<b>17,553</b>	<b>17,496</b>	<b>(57)</b>

**Long-term assets** (€18,400 million) rose by €320 million compared with 31 December 2016 essentially as a result of the increase in: (i) property, plant and equipment (+€149 million); (ii) financial receivables not held for operations (+€125 million); (iii) equity investments (+€40 million).

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

(€ million)	Property, plant and equipment	Intangible assets	Total
<b>Balance at 31 December 2016</b>	<b>15,563</b>	<b>810</b>	<b>16,373</b>
Technical investments	647	36	<b>683</b>
Amortisation, depreciation and impairment	(443)	(39)	<b>(482)</b>
Transfers, eliminations and divestments	(3)		<b>(3)</b>
Other changes	(52)		<b>(52)</b>
<b>Balance at 30 September 2017</b>	<b>15,712</b>	<b>807</b>	<b>16,519</b>



### Technical investments

Third quarter		First nine months	
2016 (*)	2017 (€ million)	2016 (*)	2017
<b>Business segments</b>			
193	229	512	<b>607</b>
2	1	4	<b>2</b>
24	27	75	<b>69</b>
1	1	3	<b>5</b>
<b>220</b>	<b>258</b>	<b>594</b>	<b>683</b>

(\*) The figures refer to the technical investments of continuing operations.

Technical investments totalled €683 million (€594 million in the first nine months of 2016) and relate mainly to the following business segments:

- Transportation (€607 million; €229 million in the third quarter of 2017): relating to: (i) works for the development of new transportation in the National Network for import and export capacity (€194 million), mainly 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 in the Po Valley area; (ii) investments for the development of new transportation capacity of the National and Regional Network (€73 million), for works aimed at upgrading the network and connecting it to new regional and national redelivery points; (iii) investments for replacements and other investments (€340 million) mainly aimed at maintaining facility safety and quality levels;
- Storage (€69 million; €27 million in the third quarter of 2017): relating to development investments in new fields and upgrading capacity (€20 million), mainly relating to the Minerbio and Bordolano fields, and maintenance and other investments (€49 million) which essentially refer to the partial overhaul of the Cortemaggiore wells and the purchase of capital spares for compression stations.

### Equity investments

The equity investments item (€1,539 million) includes the valuation of equity investments using the equity method and refers mainly to the companies Trans Austria Gasleitung GmbH - TAG (€489 million), TIGF Holding S.A.S. (€478 million), Trans Adriatic Pipeline AG - TAP (€222 million)<sup>10</sup>, Italgas S.p.A. (€150 million) and AS Gasinfrastruktur Beteiligung GmbH (€127 million).

### Financial receivables held for operating activities

Financial receivables held for operating activities (€338 million) relate to the share of the Shareholders' Loan granted to the associate company Trans Adriatic Pipeline AG (TAP) pertaining to Snam. Compared with 31 December 2016<sup>11</sup> financial receivables increased by €125 million essentially following the cash calls received during the first nine months of 2017.

<sup>10</sup> It includes approximately €33 million (equal to CHF 37 million) relating to the TAP future capital increase, in which Snam is required to participate to an extent proportional with the stake held, based on the agreements entered into during the acquisition of the equity investment. Snam arranged to make the payment on 4 October 2017.

<sup>11</sup> Based on contractual agreements entered into, shareholders are responsible for the funding on the project, according to the equity investment held by each shareholder, until the pipeline enters into service. Any expansion of capacity is subject to an economic feasibility study and the verification of benefits for TAP, also in conformity with the exemption decision by the supervisory Authorities.



*Net financial debt*

<b>30.06.2017</b>	(€ million)	<b>31.12.2016</b>	<b>30.09.2017</b>	<b>Change</b>
<b>11,204</b>	<b>Financial and bond debt</b>	<b>11,090</b>	<b>11,834</b>	<b>744</b>
2,150	Short-term financial debt (*)	2,353	<b>2,189</b>	(164)
9,054	Long-term financial debt	8,737	<b>9,645</b>	908
<b>(28)</b>	<b>Financial receivables and cash and cash equivalents</b>	<b>(34)</b>	<b>(678)</b>	<b>(644)</b>
	Financial receivables not held for operations		<b>(350)</b>	(350)
<b>(28)</b>	Cash and cash equivalents	<b>(34)</b>	<b>(328)</b>	(294)
<b>11,176</b>		<b>11,056</b>	<b>11,156</b>	<b>100</b>

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

The net cash flow from operating activities (€1,645 million) allowed us to fully cover the financial requirements associated with net investments for the period (€827 million) and to generate a free cash flow of €818 million. The net financial debt, after paying shareholders the 2016 dividend (€718 million) and the cash flow from the purchase of treasury shares (€210 million), recorded an increase of €100 million compared with 31 December 2016, including non-monetary components related to financial debt (€10 million).

Financial and bond debts at 30 September 2017, amounting to €11,834 million (€11,090 million at 31 December 2016), comprised the following:

<b>30.06.2017</b>	(€ million)	<b>31.12.2016</b>	<b>30.09.2017</b>	<b>Change</b>
8,246	Bonds	7,610	8,605	995
2,949	Bank loans	3,448	3,216	(232)
9	Other financing	32	13	(19)
<b>11,204</b>		<b>11,090</b>	<b>11,834</b>	<b>744</b>

Financial and bond debts are denominated in euros<sup>12</sup> and refer mainly to bond loans (€8,605 million, or 72.7%) and bank loans (€3,216 million, or 27.2%, including €1,482 million provided by the European Investment Bank - EIB).

Bond loans increased by €995 million compared with 31 December 2016. The increase is mainly attributable to the issue of: (i) a fixed-rate bond loan, on 25 January 2017, for a nominal value of €500 million; (ii) a floating-rate bond loan<sup>13</sup>, on 21 February 2017, for a nominal value of €300 million; (iii) a convertible bond loan<sup>14</sup> without the accrual of interest, on 20 March 2017, for a nominal value of €400 million; (iv) a floating-rate bond loan<sup>15</sup>, on 2 August 2017, for a nominal value of €350 million. These effects were partly offset by the repayment of a fixed-rate bond loan due on 30 June 2017, for a nominal amount of €506 million.

Bank loans (€3,216 million) decreased by €232 million essentially following lower use of uncommitted lines of credit.

Long-term financial debt (€9,645 million) represented around 81% of gross financial debt (around 79% at 31 December 2016). Fixed-rate financial debts amounted to around 78% of gross financial debt (approximately 64% at 31 December 2016).

<sup>12</sup> Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

<sup>13</sup> The floating-rate bond loan was converted to a fixed-rate bond loan through an Interest Rate Swap (IRS).

<sup>14</sup> The bond loan became convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

<sup>15</sup> The floating-rate bond loan was converted to a fixed-rate bond loan through an Interest Rate Swap (IRS).



Financial receivables not held for operations (€350 million) refer entirely to a short-term liquidity utilisation due in less than six months, with a banking institution with a high counterparty credit rating.

Cash and cash equivalents (€328 million) refers essentially to a short-term liquidity utilisation transaction, due in less than three months, with a banking institution with a high counterparty credit rating (€300 million), and to bank deposits of Gasrule Insurance D.A.C. for exercising the groups' insurance activities (€24 million).

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

### *Net working capital*

<b>30.06.2017</b>	<b>(€ million)</b>	<b>31.12.2016</b>	<b>30.09.2017</b>	<b>Change</b>
941	Trade receivables	1,271	<b>854</b>	(417)
124	- of which balancing	282	<b>112</b>	(170)
132	Inventories	118	<b>117</b>	(1)
23	Tax receivables	42	<b>24</b>	(18)
105	Other assets	70	<b>99</b>	29
(669)	Provisions for risks and charges	(707)	<b>(656)</b>	51
(329)	Trade payables	(433)	<b>(327)</b>	106
(138)	- of which balancing	(213)	<b>(124)</b>	89
(172)	Deferred tax liabilities	(187)	<b>(170)</b>	17
(177)	Accruals and deferrals from regulated activities	(73)	<b>(159)</b>	(86)
(82)	Tax liabilities	(12)	<b>(147)</b>	(135)
1	Derivatives	24	<b>(8)</b>	(32)
(747)	Other liabilities	(596)	<b>(487)</b>	109
<b>(974)</b>		<b>(483)</b>	<b>(860)</b>	<b>(377)</b>

Net working capital (-€860 million) decreased by €377 million compared with 31 December 2016 due primarily to: (i) the reduction in trade receivables (-€247 million, net of balancing effects) essentially attributable to the natural gas transportation sector (-€216 million); (ii) the increase in tax payables (-€135 million) mainly as a result of the recording of taxes for the period; (iii) greater prepaid income from regulated activity (-€86 million); (iv) the net effects resulting from balancing activities (-€81 million).

These factors were partly offset by: (i) a reduction in other liabilities (+€109 million) following lower payables to the CSEA relating to the transportation sector, mainly attributable to additional tariff components, which from 1 January 2017, were passed on with different timing and on the basis of volumes sold in the reference two-month period in question in place of volumes recorded in the two-month period in question; (ii) less provision for risks and charges (+€51 million) mainly attributable to the provision for the dismantling and restoration of sites in the transportation and storage segment following an increase in anticipated discount rates.



### Statement of comprehensive income

(€ million)	First nine months	
	2016 (*)	2017
<b>Net profit</b>	<b>783</b>	<b>755</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 hedging derivatives (effective portion)	1	(5)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income" (**)	(17)	(2)
Tax effect		1
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(16)</b>	<b>(6)</b>
<b>Total comprehensive income</b>	<b>767</b>	<b>749</b>
<b>Attributable to Snam:</b>	<b>767</b>	<b>749</b>
- continuing operations	528	
- discontinued operations	239	
<b>Third parties' share:</b>		
- continuing operations		
- discontinued operations		
	<b>767</b>	<b>749</b>

(\*) The data for the first nine months of 2016 refers to reported values (continuing and discontinued operations).

(\*\*) Concerns 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 September 2017.

### Shareholders' equity

(€ million)	
<b>Shareholders' equity at 31 December 2016 (*)</b>	<b>6,497</b>
<i>Increases owing to:</i>	
- Comprehensive income for the first nine months of 2017	749
- Other changes (**)	22
	<b>771</b>
<i>Decreases owing to:</i>	
- Distribution of 2016 dividend	(718)
- Acquisition of treasury shares	(210)
	<b>(928)</b>
<b>Shareholders' equity at 30 September 2017 (*)</b>	<b>6,340</b>

(\*) Entirely held by Snam shareholders.

(\*\*) The item includes the equity component of the convertible bond loan (€17 million).

As at 30 September 2017, Snam held 85,915,616 treasury shares (29,905,180 as at 31 December 2016), equal to 2.45% of its share capital, in its portfolio, purchased for a total of €318 million (€108 million as at 31 December 2016) and recorded as a reduction of shareholders' equity. Their market value at 30 September 2017 was around €350 million<sup>16</sup>. The acquisition of 84,788,366 Snam shares (equal to

<sup>16</sup> Calculated by multiplying the number of treasury shares by the period-end official price of €4.0759 per share.



2.42% of the share capital), for a cost of €313 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 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 (1,368,397 shares pledged for 2017), on 1 July 2017, the grant date, the fair value of the shares was calculated as €3.8548. The expenses from the fair value of the shares granted for the period 1 July-30 September 2017, measured at the personnel cost item following a corresponding shareholders' equity reserve, was less than €1 million.

### *Covenants*

As at 30 September 2017, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Part of these agreements involves, *inter alia*, compliance with typical international practice undertakings, some of which are subject to specific significance thresholds, 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) debt limits of subsidiaries.

Failure to comply with these covenants, and the occurrence of other events, such as cross-default events could trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees, if Snam's rating is below BBB (Standard & Poor's/Fitch Ratings Limited) or Baa3 (Moody's) for at least two of the three ratings agencies<sup>17</sup>.

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.

At 30 September 2017, the financial debt subject to these restrictive clauses amounted to approximately €2.1 billion.

Bond loans issued by Snam at 30 September 2017, with a nominal value of €8.6 billion, mainly refer to securities issued under the Euro Medium Term Notes programme<sup>18</sup>. The covenants set for the programme's securities reflect international market practices and relate, *inter alia*, to negative pledge and *pari passu* clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted. Failure to comply with these covenants – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan.

As a testament to Snam's credit standing, there are no covenants in the loan agreements which include compliance with ratios of an economic and/or financial nature.

<sup>17</sup> In this regard, note that on 30 October 2017, following the recent upgrading by one notch of the rating assigned to the Republic of Italy (from BBB- to BBB), Standard and Poor's (S&P) upgraded Snam's long-term rating from BBB to BBB+, at the same time confirming the company's short-term rating to A-2. The outlook assigned remains stable.

<sup>18</sup> The convertible bond loan with a nominal value of €400 million does not come under the scope of the EMTN Programme.





### Reclassified statement of cash flows and change in net financial debt

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

#### RECLASSIFIED STATEMENT OF CASH FLOWS

Third quarter			First nine months	
2016 (*)	2017	(€ million)	2016 (*)	2017
180	<b>251</b>	Net Profit - continuing operations	544	<b>755</b>
77		Net Profit - discontinued operations	239	
<b>257</b>	<b>251</b>	<b>Net profit</b>	<b>783</b>	<b>755</b>
		<i>Adjusted for:</i>		
191	<b>115</b>	- Amortisation, depreciation and other non-monetary components	573	<b>350</b>
9	<b>1</b>	- Net capital losses (capital gains) on asset sales and eliminations	24	<b>2</b>
201	<b>136</b>	- Interest and income taxes	586	<b>421</b>
(118)	<b>(213)</b>	Change in working capital due to operating activities (**)	49	<b>282</b>
(54)	<b>(46)</b>	Interest and income taxes collected (paid)	(329)	<b>(165)</b>
<b>486</b>	<b>244</b>	<b>Net cash flow from operating activities</b>	<b>1,686</b>	<b>1,645</b>
(302)	<b>(243)</b>	Technical investments	(801)	<b>(667)</b>
1	<b>(18)</b>	Technical disinvestments	3	<b>1</b>
	<b>35</b>	Equity investments	(26)	<b>2</b>
(15)	<b>(28)</b>	Financial receivables held for operating activities	(84)	<b>(121)</b>
(9)	<b>35</b>	Other changes relating to investment activities	(109)	<b>(42)</b>
<b>161</b>	<b>25</b>	<b>Free cash flow</b>	<b>669</b>	<b>818</b>
	<b>(350)</b>	Change in financial receivables not held for operating activities		<b>(350)</b>
(158)	<b>633</b>	Change in short- and long-term financial debt	213	<b>754</b>
	<b>(8)</b>	Equity cash flow	(875)	<b>(928)</b>
<b>3</b>	<b>300</b>	<b>Net cash flow for the period</b>	<b>7</b>	<b>294</b>



## CHANGE IN NET FINANCIAL DEBT

Third quarter			First nine months	
2016 (*)	2017	(€ million)	2016 (*)	2017
161	25	<b>Free cash flow</b>	669	818
(11)		Adjustment to fair value of financial debt	(22)	4
8	3	Exchange rate differences on financial debt	(12)	6
	(8)	Equity cash flow	(875)	(928)
158	20	<b>Change in net financial debt</b>	(240)	(100)

(\*) Cash flow pertained to the Snam Group and consequently includes financial flows from both continuing operations (natural gas transportation, regasification and storage) and discontinued operations (natural gas distribution). Net cash flows from operating activities, investment activities and financing activities attributable to discontinued operations, with regard to the first nine months of 2016, amounted, respectively to +€427 million (+€135 million in the third quarter of 2016), -€267 million (-€82 million in the third quarter of 2016) and +€160 million (+€53 million in the third quarter of 2016).

(\*\*) The cash flow for the first nine months of 2017 takes into account different timing with regard to the payment of additional tariff components to the CSEA in relation to the transportation sector. In this regard, from 1 January 2017, these components were subject to settlement on the basis of volumes invoiced in the two-month reference period in place of volumes pertaining to the two-month period. It is anticipated that this situation can be normalised.

## Other information

### 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. A summary of the most significant proceedings in which important developments have taken place in relation to what was reported in the 2016 Annual Report and in the Consolidated Half-Year Report at 30 June 2017, including new proceedings and proceedings which have ended is given below.

#### *Criminal cases*

##### **Snam Rete Gas – 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 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.

Following the committal to trial declared by the hearing judge, on 23 June 2015 the proceedings began. At the hearing on 15 September 2017, the Court of Massa acquitted all the defendants due to lack of evidence.

#### *Electricity, Gas and Water Authority (AEEGSI)*

##### **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 ruling 1729/2014 of the Regional Administrative Court of Milan regarding the partial annulment of the resolutions of the AEEGSI [Italian Regulatory Authority for Electricity, Gas and Water] 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 afore-mentioned ruling. In the meantime, the



original appellants submitted an application for compliance with the afore-mentioned ruling before the competent judicial authority. Through the non-definitive ruling 883/2017 the Regional Administrative Court of Milan accepted the appeal ordering the Authority to conclude the proceedings launched under resolution 429/2015/R/gas within sixty days. To verify the implementation of the provisions of the non-definitive ruling, the continuation of proceedings was deferred until 13 July 2017 during which the plaintiffs, following the approval of Resolution AEEGSI 512/2017/R/GAS, formalised the claims waiver. Through the later ruling 1648/2017, the Regional Administrative Court consequently declared that the appeal could not proceed because of a lack of interest in acting.

**Snam Rete Gas – 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, the Authority opened further proceedings to determine whether there had been violations with regard to natural gas metering, simultaneously joining with the afore-mentioned investigative proceedings.

Snam Rete Gas has submitted proposals in relation to the alleged conduct, as well as an update on the situation at the regulating and metering facilities in question. The Authority declared the proposals to be inadmissible in its Resolution 332/2015/S/gas of 9 July 2015, 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. On 20 October 2017, the AEEGSI submitted the results of the investigation which confirmed the objections pursuant to the decisions to launch the proceedings. The Company asked for a deadline to conduct its defence including at the hearing before the Board. The Authority's feedback is pending.

*Other provisions*

**Stogit – Tax settlement proposal ICI/IMU 2011 – 2015**

On 22 August 2017, the Municipality of Minerbio, through "Terre di Pianura - Unione dei Comuni", acknowledged an invitation to appear for the definition of a tax settlement proposal for ICI/IMU from 2011 to 2015, with reference to the wells, the compression station and the treatment station.

The Company has made a provision for risks and charges.

**Snam Rete Gas – 2003 Excise duties and VAT formal notice of assessment**

On 15 September 2017 Snam Rete Gas was notified by the Customs and Monopolies Agency of a formal notice of assessment of administrative breaches with the recovery of excise duties, VAT and administrative penalties (hereinafter "PVC").

The Guardia di Finanza – Milan Tax Police Unit – carried out an investigation into the annual natural gas consumption declarations and the technical statements for the years between 2003 and 2007. The results were sent to the Milan Customs Office.

The Customs Agency asked for clarifications on the subject, and between 2011 and 2016 Snam Rete Gas produced a series of explanatory notes, accompanied by tables and technical reports, to justify the differences in volumes of natural gas that were the object of the investigations.

These notes were only received in part by the Customs Agency and, with regard to 2003, the disputed amounts come to a total of approximately €6 million.

The company is carrying out the necessary evaluations on the matter and, within 60 days of the notification of the above-mentioned order, will file comments and clarification requests.



In the interest of providing complete information, please note that the investigations conducted by the Guardia di Finanza triggered criminal proceedings for the removal of the assessment or the payment of the excise duty on energy products which were concluded at the first instance with the acquittal of the defendants due to lack of evidence and because no offence was committed. The public prosecutor has appealed.

#### *Regulation*

#### **Resolution 575/2017/R/gas - “Regulation criteria for natural gas transportation service tariffs for the 2018 and 2019 period”**

The Authority approved the tariff criteria for the transportation service through its Resolution 575/2017/R/gas, published on 4 August 2017, valid for the 2018-2019 transition period. The resolution confirms the main criteria for the existing regulation, with several amendments:

- The current asset  $\beta$  parameter is confirmed for the 2018-2019 Transition Period. The value of the WACC equal to 5.4% in pre-tax real terms was therefore confirmed to 2018 and was calculated for 2019 through the updating of the basic parameters.
- The investments made in the year t-1 will be included in the invested capital recognised for the purpose of calculating the tariffs for the year t, replacing the 1% increase in the WACC covering the regulatory time lag. The 1% increase in the WACC covering the regulatory time lag is applied to investments made in the period 1 January 2014 - 31 December 2016.
- The current input-based incentive scheme (1-2% for 7/10 years, respectively for regional and national networks) will be applied to new development investments which came into operation by 31 December 2017.
- An input-based incentive scheme (1% for 12 years for regional and national networks) will be applied to investments intended to create a new transportation capacity, launched by 31 December 2017, which will come into operation in 2018 and 2019. The incentive will also be paid for investments which come into operation in the transition period launched after 1 January 2018 included in the Development Plan and with a benefit-cost ratio of more than 1.5.
- Operating costs recognised in the 4th Regulatory Period will be updated based on inflation and a productivity recovery factor (X-factor). The variable unit fee (CV) will be calculated for the years 2018 and 2019 using a reference volume of 67.2 cubic metres.

#### **Resolution 653/2017/R/gas - “Regulation criteria for liquefied natural gas regasification service tariffs for the 2018 and 2019 period”**

By means of Resolution 653/2017/R/gas, published on 2 October 2017, the Authority approved the tariff criteria for the regasification service for the 2018-2019 transition period. The resolution confirms the main criteria for the existing regulation, with several amendments:

- The current asset  $\beta$  parameter is confirmed for the 2018-2019 Transition Period. The value of the WACC equal to 6.6% in pre-tax real terms was therefore confirmed to 2018 and was calculated for 2019 through the updating of the basic parameters.
- The investments made in the year t-1 will be included in the invested capital recognised for the purpose of calculating the tariffs for the year t, replacing the 1% increase in the WACC covering the regulatory time lag. The 1% increase in the WACC covering the regulatory time lag is applied to investments made in the period 1 January 2014 - 31 December 2016.
- The current input-based incentive scheme (2% for 16 years for the upgrading of the regasification capacity) will be applied to new development investments which came into operation by 31 December 2017.

- An input-based incentive scheme (1.5% for 12 years) will be applied to investments intended to create new regasification capacity, which will come into operation in 2018 and 2019.
- Operating costs recognised in the 4th Regulatory Period will be updated based on inflation and a productivity recovery factor (X-factor).
- The current provisions for the factor for covering revenue are confirmed.

**Resolution 660/2017/R/gas – “Reform of the regulation for the allocation of the LNG regasification capacity based on market mechanisms (Tenders)”**

Through resolution 660/2017/R/gas, published on 2 October 2017, the Authority introduced market mechanisms to allocate regasification capacity and supplemented the provisions in a Consolidated Act (Annex A to resolution 660/2017- TIRG) concerning the regasification service access and withdrawal methods. Specifically, the TIRG introduced an open type ascending tender mechanism, for capacity allocation lasting one year/many years, similar to the one provided for by the CAM Regulation for international connection points, and for the infra-annual capacity allocation of pay as bid type tenders. The reserve price definition criteria for allocation tenders will be defined by the Authority in a later provision.

**Resolution 589/2017/R/gas – “Closing of the preliminary investigation into the status of the services provided by the storage fields under concession to Stogit S.p.A. Provisions on settlement relating to storage services for the 2017 - -2018 thermal year**

Through resolution 589/2017/R/gas published on 7 August 2017, the Authority, in continuity with the 2016-2017 thermal year, issued provisions regarding the neutralisation of the effects of the storage capacity allocations at consideration below the regulated tariff to ensure a revenue flow to storage businesses that is essentially equivalent to the one that can be obtained through the application, to the capacities allocated by tender, of the tariff considerations. The Authority also closed within the scope of this resolution the preliminary investigation launched through resolution 323/2016/R/gas concerning the services provided by the Stogit storage fields, not having discovered breaches or failed compliance; the Authority also launched a process for the definition of incentive mechanisms for the provision of additional services by storage businesses, to be concluded by 31 January 2018.

**Resolution 643/2017/R/gas – “Definitive approval of the business revenues for the storage service for the year 2017 for Stogit S.p.a.”**

The Authority approved the definitive base revenue for the storage service for 2017 for the company Stogit with this resolution, published on 22 September 2017. Revenue recognised for the natural gas storage service for 2016 amounted to €503.2 million. The RAB for storage activities was €4.0 billion.

**Balancing activities**

*Resolution 554/2016/R/gas – “Definition of incentive parameters for the Head of Balancing”*

*Resolution 661/2017/R/gas – “Definition of incentive parameters pursuant to Article 9 of the TIB (amended balancing document), for the period 1 October 2017 - 1 October 2018”*

Through Resolution 554/2016/R/gas, published on 7 October 2016, the Authority defined the parameters for these incentives with reference to the 2016-2017 thermal year (starting 17 October 2016).

Through Resolution 661/2017/R/gas, published on 2 October 2017, the Authority defined the parameters for the incentives with reference to the 2017-2018 thermal year.

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