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Oggetto : Snam: 2017 consolidated and draft
financial statements

Testo del comunicato

Vedi allegato.



Snam: 2017 consolidated and draft financial statements

San Donato Milanese, 14 March 2018 – Snam's Board of Directors, which met yesterday under the chairmanship of Carlo Malacarne, has approved: (i) the 2017 consolidated financial statements and the draft financial statements; and (ii) the Consolidated non-financial statement prepared pursuant to Legislative Decree No. 254/2016. The Board also decided to propose to the Shareholders' Meeting a dividend of €0.2155 per share, of which €0.0862 per share was already paid out in January 2018.

Financial highlights¹

- **Total revenue:** EUR 2,441 million² (+EUR 26 million; +1.1% compared to the 2016 pro-forma adjusted total revenues, thanks to the continuous investments and to higher volumes of gas injected)
- **Adjusted EBIT:** EUR 1,363 million (+EUR 27 million; +2.0% compared to the 2016 pro-forma adjusted operating profit, also thanks to the reduction in operating costs that are benefiting from the efficiency measures initiated)
- **Adjusted net profit:** EUR 940 million (+EUR 95 million; +11.2% compared to the 2016 pro-forma adjusted net profit, thanks to lower net financial expenses, which benefit from the reduction in the average cost of debt)
- **Technical investments:** EUR 1,034 million (EUR 906 million in 2016)
- **Free Cash Flow:** EUR 423 million

Operating highlights

- **Natural gas demand:** 75.1 billion cubic metres (+6.0% compared to 2016, an increase for the twelfth consecutive quarter)
- **Gas injected into the transportation network:** 74.6 billion cubic metres (+5.6% compared to 2016)
- **Available storage capacity:** 12.2 billion cubic metres (+0.2 billion cubic metres compared to 31 December 2016), which are almost entirely allocated for the thermal year 2017-2018 (99.9%)

¹ Unless otherwise specified, the following results for the 2016 financial year refer to continuing operations (transport, regasification and storage of natural gas) and exclude, therefore, the contribution of the natural gas distribution sector which is represented as "discontinued operations" pursuant to IFRS 5 "Non-current assets held for sale and discontinued operations". For a reconciliation of the reported income statement with the adjusted pro-forma income statement, see p. 13 of this press release.

² Net of pass-through items.



Main events

- **Purchased as of 31 December 2017, under the share buyback programme initiated on 7 November 2016, 84,788,366 own shares, equal to 2.42% of the share capital, for a total cost equal to EUR 313 million, with an average unit cost equal to EUR 3.69 per share**
- **Completed, on 13 October 2017, the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. and 7.3% of Adriatic LNG S.r.l.**
- **Successfully concluded the buyback of Snam bonds in circulation with a total nominal value equal to EUR 607 million. The repurchase price, equal to a total of EUR 656 million, was mostly financed by a bond issue with a nominal value of EUR 650 million**

The 2017 Annual Report, which contains the 2017 Consolidated non-financial statement, prepared in the form of a specific section of the Management Report in accordance with the provisions referred to in Article 5, paragraph 1 (a) of Legislative Decree No. 254/2016, has been provided to the Board of Statutory Auditors and the Auditing Company, and will be made available to the public at the registered office, on the Company's website www.snam.it, together with the reports of the Board of Statutory Auditors and the Auditing Company, in compliance with the terms provided by Legislative Decree No. 58/98 (Consolidated Finance Act - TUF).

Summary of 2017 results

In order to allow a better evaluation of the performance of the group and a greater comparability of data, Snam management has developed alternative measures of performance that are not required by the IFRS (Non-GAAP measures), represented mainly by the results in the adjusted and pro-forma adjusted configuration.

These results, in addition to excluding special items, because of the elements of discontinuity that have characterised the 2016 financial year and to a limited extent this period, reflect Italgas Group's contribution to continuing operations by applying the relevant participation quota, equal to 13.5%, to Italgas Group's net profit for the whole year.



INCOME STATEMENT (a) (*)

	2016		2017		Change	Change %
	Reported (**)	Pro-forma adjusted	Reported (**)	Adjusted		
(millions of €)						
Regulated revenue	2,444	2,444	2,434	2,434	(10)	(0.4)
Non-regulated revenue	57	116	99	99	(17)	(14.7)
Total revenue	2,501	2,560	2,533	2,533	(27)	(1.1)
Total revenue - net of pass-through items	2,356	2,415	2,441	2,441	26	1.1
Operating costs	(557)	(573)	(526)	(511)	62	(10.8)
<i>Operating costs - net of pass-through items</i>	<i>(412)</i>	<i>(428)</i>	<i>(434)</i>	(419)	9	(2.1)
EBITDA	1,944	1,987	2,007	2,022	35	1.8
Amortisation, depreciation and impairment	(651)	(651)	(659)	(659)	(8)	1.2
EBIT	1,293	1,336	1,348	1,363	27	2.0
Net financial expenses	(510)	(263)	(283)	(227)	36	(13.7)
Net income from equity investments	116	135	161	150	15	11.1
Pre-tax profit	899	1,208	1,226	1,286	78	6.5
Income tax	(308)	(363)	(329)	(346)	17	(4.7)
Net profit (***)	591	845	897	940	95	11.2
Net Profit - discontinued operations (***)	270					
Group Net Profit (***)	861	845	897	940	95	11.2

(a) For the detailed reconciliation on the nature of the individual adjustments, see p. 13 of this press release.

(*) The variations of the results of the income statement indicated in the table, as well as in subsequent ones in this press release, unless otherwise stated, should be understood as variations of the results of the adjusted 2017 financial year with respect to the pro-forma adjusted 2016 financial year. Percentage changes have been calculated in relation to the data indicated in the related tables.

(**) From the legal form of the Income Statement.

(***) Entirely held by Snam shareholders.

Total revenue

Total revenue amounted to 2,441 million, an increase of EUR 26 million, equal to 1.1%. The increase was attributable to higher regulated revenues (+EUR 43 million, equal to 1.9%), thanks to the continuous investments and to higher volumes of gas injected, in part offset by the reduction in non-regulated revenues (-EUR 17 million, equal to 14.7%) mainly due to reduced revenues for services provided to the Italgas Group, which are governed by some contracts concluded as of 31 December 2017.

Including components that are offset in costs³, total revenue amounted to EUR 2,533 million, a reduction of EUR 27 million, equal to 1.1%, compared to the 2016 pro-forma adjusted total revenues.

Adjusted operating profit (EBIT)

The adjusted operating profit (EBIT)⁴ for the 2017 financial year, which excludes the special items represented by expenses related to the application of the anticipation instrument to a pension regulated by Article 4, paragraphs 1-7, of Law No. 92/2012, so called "Isopensione" (EUR 15 million, including provisions for redundancy incentives) amounts to EUR 1,363 million, an increase of EUR 27 million, equal to 2.0%,

³ 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.

⁴ 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.



compared to the 2016 pro-forma adjusted operating profit. The higher revenues (+EUR 26 million; 1.1%), attributable mainly to the sectors of transport and storage of natural gas, and lower operating costs (+EUR 9 million, equal to 2.1%), were partially offset by the increase in amortisation, depreciation and write-downs for the period (-EUR 8 million; equal to 1.2%), essentially due to the depreciation resulting from the entry into operation of new infrastructures, partly offset by lower write-downs of tangible assets.

In particular, the reduction in operating costs is primarily due to the impact of the efficiency Plan (+EUR 19 million) and lower capital losses from asset removal (+EUR 15 million), partly offset by greater net provisions to funds for risks and charges (-EUR 12 million), mainly attributable to litigation of a fiscal nature for indirect taxes, as well as higher accruals to the provision for asset adjustments (-EUR 10 million).

Below is a breakdown of EBIT by business segment:

(millions of €)	2016	2017	Change	Change %
	Pro-forma adjusted	Adjusted		
Business segments				
Transportation	1,021	1,048	27	2.6
Regasification	(5)	2	7	
Storage	346	339	(7)	(2.0)
Corporate and other activities	(26)	(26)		
	1,336	1,363	27	2.0

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

- Transport (+EUR 27 million; +2.6%): attributable to higher regulated revenues (+EUR 37 million, net of components that are offset in costs; +2.1%), due to higher transport fees (+EUR 30 million), deriving essentially from the contribution of investments made in 2015 (+EUR 85 million) and higher volumes of natural gas injected into the network (+EUR 4 million), partly offset by the effects of the update of the invested capital for regulatory asset base (RAB) purposes (-EUR 60 million). Also contributing to the increase in EBIT is the effect of lower depreciation and write-downs (+EUR 5 million; equal to 0.9%), owing to lower write-downs of material assets (+EUR 22 million), offset in part by higher depreciation due to the entry into operation of new infrastructures (-EUR 17 million). Operating costs, net of components that are offset in revenues, and the effects of the corporate reorganisation, related in particular to the Integra Project, is substantially in line with the previous year (-EUR 1 million, equal to 0.4%). The effects related to the dynamics of provisions for risks and charges, primarily due to higher net provisions for litigation of a fiscal nature, were absorbed by the reduction in capital losses;
- Regasification (+EUR 7 million): mainly due to lower depreciation and write-downs, as a result of the effects of the write-down implemented in 2016 on tangible assets (EUR 7 million);
- Storage (-EUR 7 million; -2.0%): higher revenues (+EUR 8 million, net of pass-through items; +1.6%) were more than offset by higher depreciation and write-downs (-EUR 10 million; -11.5%) due essentially to depreciation resulting from the entry into operation of new infrastructure which is attributable, in particular, to the Bordolano site and to an increase in operating costs (-EUR 5 million; -7.1%).



Adjusted net profit

The adjusted net profit which, in addition to the above charges for Isopensione (EUR 11 million net of the tax effect), excludes the special items represented by the expenses connected to the liability management operation completed in the last quarter of 2017 (EUR 43 million net of the tax effect) and income related to the adjustment of one-off deferred taxes of the equity investment in TIGF (EUR 11 million), amounted to EUR 940 million, an increase of EUR 95 million (+11.2%;) compared to the 2016 pro-forma adjusted net profit.

The increase, in addition to the higher operating profit, is due to: (i) lower net financial expenses (+EUR 36 million; equal to 13.7%), benefiting from a reduction in the average cost of debt, also benefiting from optimisation actions put in place during 2016 and 2017, in particular the bond buyback completed in October 2016, and the financing transactions during the year, as well as the reduction of the average debt of the period; (ii) higher net income from equity investments (+EUR 15 million; +11.1%); (iii) lower income taxes (+EUR 17 million, equal to 4.7%) mainly attributable to the reduction, as from 1 January 2017, of the Ires rate from 27.5% to 24.0%, in part offset by the higher earnings before taxes.

Net financial debt

Net financial debt as at 31 December 2017⁵ amounts to EUR 11,550 million (EUR 11,056 million at 31 December 2016). The net cash flow from operations (EUR 1,864 million) allowed for the full coverage of the financial requirements associated with net investments for the period equal to EUR 1,441 million, and generated a Free Cash Flow of EUR 423 million. Net financial debt, after payment to shareholders of 2016 dividend (EUR 718 million) and the cash flow deriving from the purchase of own shares (EUR 210 million), shows an increase of EUR 494 million compared to 31 December 2016, including non-monetary components related to financial debt (EUR 11 million).

Dividend

The results and solid business fundamentals allow us to propose a dividend of €0.2155 per share to the Shareholders' Meeting, of which €0.0862 per share paid in January 2018 as an interim dividend and the balance of €0.1293 per share will be paid from 20 June 2018 with coupon detachment set for 18 June 2018 (record date 19 June 2018), confirming Snam's commitment to an attractive and sustainable remuneration of its shareholders over time.

⁵ More information on the net financial debt can be found on p. 21 of this press release.



Operating highlights

In conformity with IFRS 8 "Operating segments", the operating segments were defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances. To this end, it is noted that: (i) the company Infrastrutture Trasporto Gas, that was included in the consolidation scope starting from the month of October 2017, was consolidated within the Transportation segment; (ii) the company Snam 4 Mobility, that was included in the consolidation scope starting from the month of November 2017, was consolidated within the Corporate and other activities segment".

	2016	2017	Change	Change %
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	70.64	74.59	3.95	5.6
Transportation network (kilometres in use) (c)	32,508	32,584	76	0.2
Installed power in the compression stations (MW)	922.2	922.2		
Liquefied Natural Gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	0.21	0.63	0.42	
Natural gas storage (a)				
Available storage capacity (billions of cubic metres) (d)	12.0	12.2	0.2	1.7
Natural gas moved through the storage system (billions of cubic metres)	20.00	19.92	(0.08)	(0.4)
Employees in service at period end (number) (e) (f)	2,883	2,919	36	1.2
<i>by business segment:</i>				
- Transportation	1,726	1,972	246	14.3
- Regasification	71	63	(8)	(11.3)
- Storage	301	60	(241)	(80.1)
- Corporate and other activities	785	824	39	5.0

(a) With reference to the 2017 financial year, gas volumes are expressed in Standard cubic metres (SCM) with average Higher Calorific Value (HCV) equal to 38.1 MJ/SCM (10.572 Kwh/SCM) for the activities of transport and regasification, and to 39.4 MJ/SCM (10.930 Kwh/SCM), for the storage of natural gas for the thermal year 2017-2018 (39.3 MJ/SCM, 10.906 Kwh/SCM, for the thermal year 2016-2017).

(b) The data for 2017 was updated at 11 January 2018. The update of 2016 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) The data relating to 2017 includes 84 Km of network, referring to the company Infrastrutture Trasporto Gas, fully consolidated as from the month of October 2017.

(d) Working gas capacity for modulation, mining and balancing services, allocated almost in full for the 2017-2018 thermal year.

(e) Fully consolidated companies.

(f) The increase of 36 resources is essentially due to the entry of 27 resources that came in with the entry of Infrastrutture Trasporto Gas, fully consolidated as from October 2017. The movement of resources among the different companies of the group, especially for transportation and storage sector, was also affected by the adjustment of organisational structures, launched by Snam in November 2016, with the aim of simplifying and optimising some processes, realized by INTEGRA project, with the transfer to the affiliate Snam Rete Gas S.p.A. of 247 persons, following the sale of a business unit "Technical Facilities and Services".



Natural gas transportation

The volume of gas injected into the network in 2017 totalled 74.6 billion cubic metres, an increase of 4 billion cubic metres (+5.6%) compared with 2016. The increase is mainly attributable to higher demand for gas in Italy (+4.2 billion cubic metres; +6.0%, increasing for the twelfth consecutive quarter), recorded in all the sectors, respectively in the thermoelectric sector (+1.9 billion cubic metres; +8.2%), driven by a particularly strong summer demand, by the reduction of the hydro-electric power production, and by the continuation of the shut-down of some French nuclear plants in the first two months of the year, industrial (+1.2 billion cubic metres; +7.3%), and the residential and tertiary (+0.6 billion cubic metres; +2.1%).

Adjusted for the weather effect, gas demand was estimated at 75.2 billion cubic metres, up by 3.3 billion cubic metres (+4.6%) compared with 2016 (71.9 billion cubic metres). The gas demand, normalised for terms other than the weather effect, regarding the effects deriving from the reduction of the production from hydro-electric power and from the unavailability of the French nuclear plants, starting from the month of October 2016, and continued also in the first two months of 2017, is estimated to amount to 71.4 billion cubic metres, an increase of 1.9 billion cubic metres, or 2.7%, compared to the corresponding value for 2016 (69.5 billion cubic metres).

Injections into the network from domestic production fields or their collection and treatment centres totalled 5.2 billion cubic metres, down by 0.3 billion cubic metres (-5.9%) compared with 2016.

Volumes injected at entry points connected with other countries and with regasification plants, overall equal to 69.3 billion cubic metres, rose by 4.3 billion cubic metres (+6.6%) compared with 2016. This change is attributable to higher volumes injected by the LNG regasification terminals (+2 billion cubic metres; +30.5%) and by the entry point of Tarvisio (+1.9 billion cubic metres; +6.8%)

Liquefied natural gas (LNG) regasification

During 2017 at the LNG terminal of Panigaglia (SP), 0.6 billion cubic metres of LNG were regasified (0.2 billion cubic metres in 2016; +0.4 billion cubic metres) of which 0.1 billion cubic metres were in the context of the integrated service of regasification and storage of natural gas.

In 2017, 15 LNG tanker ships were unloaded, 2 of which as part of the integrated service (5 unloaded in 2016, 1 of which as part of the integrated service).

Natural gas storage

The volumes of gas moved in the storage system in the 2017 financial year amounted to 19.9 billion cubic metres, basically unchanged compared to the 2016 financial year (-0.1 billion cubic metres, equal to -0.4%), despite the greater inventory present in the system at 31 March 2017.

The fewer injections for the replenishment of storage facilities (-0.2 billion cubic metres) related to the conduct of the shipper in relation to the various market conditions, were offset in part by increased disbursements (+0.1 billion cubic metres) due to the changes in climate.

Total storage capacity as at 31 December 2016, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 2016, made available by the new Bordolano deposit), of which 12.2 billion cubic metres related to available capacity almost fully allocated for the thermal year 2017-2018 (12 billion cubic metres in the thermal year 2016-2017) and 4.5 billion cubic metres related to strategic storage (unchanged compared with thermal year 2016-2017, as established by the Ministry of Economic Development by means of the notice dated 25 January 2017).



Main events

Optimisation of the Group's financial structure

Bond buyback

On 25 October 2017, Snam successfully completed a buyback on the market of bonds with a total nominal value of EUR 607 million, with an average coupon of approximately 2.5% and a remaining maturity of approximately 4.4 years. The repurchase price, equal to a total of EUR 656 million, was in large part financed through a new bond issue, at a fixed rate, with maturity on 25 October 2027, for an overall amount of EUR 650 million, with a coupon equal to 1.375% and a 10-year term.

The effects of this transaction on the 2017 income statement (EUR 56 million gross of the tax effect) are essentially represented by the charges deriving from the difference between the disbursement deriving from the repurchase of part of the bonds on the market and the valuation at amortised cost of the bonds themselves.

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

Share buyback programme

On 11 April 2017, subject to prior revocation of the previous resolution of the Ordinary Shareholders' Meeting of 1 August 2016, the Shareholders' Meeting authorised the purchase of own shares, in one or more tranches, for a maximum duration of 18 months⁶, and for a maximum disbursement corresponding to the remaining unimplemented part of EUR 196 million, resulting from the difference between the maximum disbursement amount (EUR 500 million) and that incurred by the Company for purchases made up to the date of the Shareholders' Meeting resolution (EUR 304 million), all, however, up to the maximum limit of 3.5% of the share capital of the Company, having regard to the own shares already held by the Company. The essential contents are substantially unchanged, as a purchase, compared to those already provided for by the previous authorisation, with the supplement of the resolution authorising the Board of Directors to the disposal of both the own shares already in the portfolio and those that may be repurchased under the share buyback programme.

In the context of this programme, as of 31 December 2017, Snam has purchased 84,788,366⁷ own shares (equal to 2.42% of the share capital), for a total amount of EUR 313 million and, at the same date, it holds in portfolio 85,915,616 own shares, equal to 2.45% of the share capital.

With effect from 12 January 2018, Snam has also concluded an enhanced buyback agreement for a period not exceeding 3 months with a leading intermediary. Snam renewed the appointment to the same intermediary through an enhanced buyback agreement for a period of maximum 2 months from 20 February 2018.

The appointed intermediary will make the purchases completely independently, in compliance with contractually defined parameters and criteria, as well as the constraints of applicable law and the Shareholders' resolution.

Any purchases shall be made on the MTA in accordance with Article 144-bis, paragraph 1, section b) of Consob Regulation 11971/1999 and with other applicable provisions, in order to ensure compliance with the fair treatment of shareholders pursuant to Article 132 of the Consolidated Finance Act, as well as

⁶ The 18 months began from the date of execution of the resolution of the Shareholders' Meeting.

⁷ Of which 56,010,436 shares were purchased in 2017 for a total cost of EUR 210 million.



according to the operating procedures established in the organisation and management regulations of Borsa Italiana S.p.A.

Business developments on Italian infrastructure

Infrastrutture Trasporto Gas S.p.A. (ITG) and Terminale GNL Adriatico S.r.l. (Adriatic LNG)

On 25 July 2017, Snam signed a final agreement with Edison for the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. (ITG), the third Italian operator in natural gas transportation, which manages the 83.3 km pipeline from Cavarzere (Veneto) and Minerbio (Emilia-Romagna), connecting the regasification terminal Adriatic LNG to the national transportation network at Minerbio, and a share of 7.3% of the share capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG), a major offshore infrastructure for the unloading, storage and regasification of LNG and the largest LNG terminal in Italy.

On 13 October 2017, based on the result of the occurrence of the conditions precedent to which the completion of the transaction was subject, Snam S.p.A. completed the acquisition with a payment, net of the price adjustment, amounting to EUR 217 million.

It is also provided, on the basis of the contractual agreements, that if Adriatic LNG executes new contracts for the use of the capacity of the terminal, Snam will pay Edison a potential additional consideration in the form of an Earn-out.

The investment allows Snam to strengthen its infrastructure in Italy and to leverage further synergies in the integrated management of the entire gas system, connecting a strategic point of entry to the national transportation network of the Italian natural gas market.

Significant post-balance sheet events

Joint acquisition by Snam and Fluxys of a 33.5% share of Interconnector UK

Completed on 12 March 2018, Snam and Fluxys acquired a share equal to 33.5% held by the Caisse de dépôt et placement du Québec (CDPQ) in Interconnector UK, the company which owns the bi-directional gas pipeline, which connects the United Kingdom to Belgium and the rest of Europe.

Through joint ventures, Gasbridge 1 BV and Gasbridge 2 BV, Fluxys and Snam have agreed to proportionally exercise their pre-emptive rights on the shares held by CDPQ. The total value of the transaction amounts to about GDP 75 million.

Downstream of the finalisation of the equity transfer, Fluxys and Snam have become the sole shareholders of Interconnector UK, passing respectively to 76.32% and to 23.68% of the share capital, as a confirmation of their full support to the company in its new phase of development.

The carrying amount of Snam equity investments in Gasbridge 1 BV and Gasbridge 2 BV, as at 31 December 2017, was aligned on the basis of the fair value of the transaction price.



Outlook

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

GAS DEMAND

The most recent estimates on the evolution of natural gas demand in the Italian market foresee a situation of substantial stability with respect to the 2017 levels in the period 2017-2021, even in the presence of a gradual reduction of domestic European production that will be offset by an increasing dependence on imports.

INVESTMENTS

Snam confirms a major investment plan, of around EUR 5.2 billion in the period 2017-2021, of which EUR 1.0 billion realised in 2017, to support Italian infrastructure development and its interconnection with European infrastructure, strengthening the security, flexibility and liquidity of the entire gas system. The Plan provides for the enhancement of the transportation network, also allowing for the completion of additional reverse flow capacity towards other European countries, and accepting new gas flows from the Caspian region through the TAP gas pipeline.

More specifically, the investments in the transportation business are aimed at:

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

Over the period in question, the planned investments should allow the Company to extend the total length of the transportation network (32,500 km in 2017) by around 2% and to increase the installed power in the compression stations by around 5% (922 MW in 2017).

The investments in the storage business and LNG are aimed at improving the system's overall security and flexibility, allowing an increase in the period in question of approximately 4% of the available storage capacity (12.2 billion standard cubic metres in 2017) and approximately 2% of delivery point capacity (250 million standard cubic metres/day in 2017).

In addition, during the period of the plan, Snam will construct refuelling stations for natural gas vehicles, with the goal of increasing the number of existing methane service stations, to improve the quality of the service and to ensure a more balanced distribution of the stations.

Furthermore, Snam will be able to leverage its international subsidiaries to promote greater interconnection between European infrastructure systems, and to develop greater diversification and flexibility of gas flows, while at the same time maximising the profitability of its assets. Snam, 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 that of its current business portfolio.



OPERATING EFFICIENCY

Also for 2018, Snam confirms its attention to operational efficiency, applying initiatives that allow the maintenance of an essentially constant cost level in real terms for the core business.

Snam will also ensure all necessary measures to promote the use of its know-how in gas infrastructure to serve investees and third parties.

This Press Release, which is prepared voluntarily in line with best market practice, illustrates the audited consolidated results for 2017.

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 are the same as those used for the 2016 Annual Report, which should be referred to for a description thereof, except for the international accounting standards that came into force on 1 January 2017, as described in the 2016 Annual Report.

The application of the newly issued accounting principles and the adoption of changes to accounting standards already in force had no effects on the 2017 Annual Report.

The variations in the consolidation area of the Snam Group at 31 December 2017 as compared to that at 31 December 2016, related to the entry of the companies: (i) Asset Company 2 S.r.l.⁸, a 100% owned subsidiary of Snam S.p.A.; (ii) Infrastrutture Trasporto Gas S.p.A.-ITG, a 100% owned subsidiary of Asset Company 2 S.r.l., pursuant to the acquisition from Edison of 100% of the share capital of the company, effective 13 October 2017; (iii) Snam 4 Mobility S.p.A. (Asset Company 1 S.r.l.⁸ up until 13 December 2017), a 100% subsidiary of Snam S.p.A., since the launch of the operational activities of the company.

The companies Asset Company 1 S.r.l. and Asset Company 2 S.r.l., although wholly-owned at 31 December 2016, were excluded from the scope of consolidation as at this date due to immateriality, since they are inactive.

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

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

Disclaimer

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

⁸ The companies Asset Company 1 S.r.l. and Asset Company 2 S.r.l., although wholly-owned at 31 December 2016, were excluded from the scope of consolidation as at this date due to immateriality, since they are inactive.



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 4:30 p.m. CET (3:30 p.m. G.M.T.) of today, 14 March 2018, to present the consolidated results for 2017 to investors and financial analysts. An audio webcast of the presentation will be available on the Company's website (www.snam.it). The presentation support material will also be made available on the "Investor Relations/Presentations" section of the website at the start of the conference call.

Non-GAAP measures

In addition to the financial performance measures established by the IFRS, the Directors' Report also makes use of certain measures derived from these latter measures, which are not required by the IFRS or by other standard setters ("Non-GAAP Measures").

The management of Snam believes that these measures permit an analysis of the performance of the Group and business sectors and enhance the comparability of results over time.

Non-GAAP financial information should be considered as complementing rather than replacing financial information in accordance with IFRS.

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, as subsequently amended (Consob Communication no.0092543 of 3 December 2015, implementing the ESMA/2015/1415 guidelines on alternative performance measures), the following paragraphs describe the composition of the principal alternative performance measures employed in this document that have not been derived directly from reclassifications or by combining conventional measures⁹ calculated in accordance with international accounting standards.

EBIT and adjusted net profit

EBIT and adjusted net profit are calculated by excluding special items, respectively including and excluding the related tax effect, from EBIT and reported net profit (as per the income statement in the legally required format).

Income entries classified as special items for 2017 relate to: (i) the financial expense deriving from bond buybacks undertaken as part of the liability management exercise (56 million euro; 43 million euro net of the related tax effect) carried out by Snam in October 2017 (ii) the expenses recorded under the item "personnel cost" in relation to the application of the early retirement scheme governed by Article 4, paragraphs 1-7 of Law no. 92/2012, also known as 'Isopesione' (15 million euro, including charges relating to early retirement incentives; 11 million euro, net of the related tax effect; (iii) income of a one-off deferred tax adjustment relating to the investee TIGF (11 million euro).

With reference to 2016, in order to remove distortions resulting from the application of IFRS 5 "Non-current assets held for sale and discontinued operations", the calculation of the adjusted measurements, in addition to excluding special items, also restores the eliminations originating from transactions involving the Italgas group (presented under discontinued operations) to continuing operations.

⁹ Pursuant to the recommendation CESR/05-178b of October 2005, all of the data presented in audited IFRS financial statements or included in the balance sheet, the income statement, the statement of changes in equity, the cash flow statement or the notes, are conventional performance measures.



Pro-forma adjusted net profit

In view of the elements of discontinuity characterizing 2016, the non-GAAP measures related to that period also include adjusted pro-forma net profit which, assuming ownership by Snam of a significant interest in Italgas from 1 January 2016, includes the contribution of the distribution segment, applying the ownership interest of 13.5% to the net profit for the period of the Italgas Group.

Special items

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

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion.

The following tables illustrate the reconciliation of the reported income statement with the adjusted pro-forma income statement as well as a table summarizing the special items.

	2017		
	REPORTED	Special Items	ADJUSTED
(millions of €)			
Regulated revenue	2,434		2,434
Non-regulated revenue	99		99
Total revenue	2,533		2,533
Operating costs	(526)	15	(511)
EBITDA	2,007	15	2,022
Amortisation, depreciation and impairment	(659)		(659)
EBIT	1,348	15	1,363
Net financial expenses	(283)	56	(227)
Net income from equity investments	161	(11)	150
Pre-tax profit	1,226	60	1,286
Income tax	(329)	(17)	(346)
Net profit (*)	897	43	940

(*) Entirely held by Snam shareholders.



	2016				
(millions of €)	REPORTED	Restoration of the elisions originating from intercompany transactions to discontinued	Special Items	Share of Italgas Group profit	ADJUSTED PRO-FORMA
Continuing operations					
Regulated revenue	2,444				2,444
Non-regulated revenue	57	59			116
Total revenue	2,501	59			2,560
Operating costs	(557)	(16)			(573)
EBITDA	1,944	43			1,987
Amortisation, depreciation and impairment	(651)				(651)
EBIT	1,293	43			1,336
Net financial expenses	(510)	37	210		(263)
Net income from equity investments	116		(18)	37	135
Pre-tax profit	899	80	192	37	1,208
Income tax	(308)		(55)		(363)
Net profit (*)	591	80	137	37	845
Net profit - discontinued operations (*)	270	(80)		(190)	
Group net profit (*)	861		137	(153)	845

(*) Entirely held by Snam shareholders.

Breakdown of special items relating to continuing operations:

(millions of €)	2016	2017	Change	Change %
Special items in EBIT		15	15	
Early retirement incentives and Isopensione		15	15	
Special item Net financial expenses	210	56	(154)	(73.3)
- Liability management finance charges	329	56	(273)	(83.0)
- Financial income from fair value adjustment of financial receivables of the Italgas Group	(119)		119	(100.0)
Special item Equity-accounted investments	(18)	(11)	7	(38.9)
- Deferred tax adjustment TIGF	(18)	(11)	7	(38.9)
Special item Income taxes	(55)	(17)	38	(69.1)
- Deferred tax adjustment (2016 Stability Law)				
- Tax effect of special items in EBIT		(4)	(4)	
- Tax effect of special item net financial expenses	(55)	(13)	42	(76.4)
Total special items in net profit	137	43	(94)	(68.6)



Summary of income statement items

Total revenue

(millions of €)	2016	2017	Change	Change %
Business segments				
Transportation	2,035	2,039	4	0.2
Regasification	19	22	3	15.8
Storage	584	601	17	2.9
Corporate and other activities	226	233	7	3.1
<i>Consolidation eliminations (*)</i>	<i>(304)</i>	<i>(362)</i>	<i>(58)</i>	<i>19.1</i>
	2,560	2,533	(27)	(1.1)

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

Regulated and non-regulated revenue

(millions of €)	2016	2017	Change	Change %
Regulated revenue	2,444	2,434	(10)	(0.4)
Business segments				
Transportation	1,855	1,889	34	1.8
Regasification	18	18		
Storage	426	435	9	2.1
Revenue items offset in costs (*)	145	92	(53)	(36.6)
Non-regulated revenue (**)	116	99	(17)	(14.7)
Total revenue	2,560	2,533	(27)	(1.1)

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

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

Operating costs

(millions of €)	2016	2017	Change	Change %
Business segments				
Transportation	469	441	(28)	(6.0)
Regasification	12	15	3	25.0
Storage	151	165	14	9.3
Corporate and other activities	245	252	7	2.9
<i>Consolidation eliminations (*) (**)</i>	<i>(304)</i>	<i>(362)</i>	<i>(58)</i>	<i>19.1</i>
	573	511	(62)	(10.8)

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

(**) With reference to 2017, the interconnection cost to Infrastrutture Trasporto Gas has been eliminated against the corresponding revenue of Snam Rete Gas (5 million euro in October-December 2017).



Operating costs - Regulated and non-regulated activities

(millions of €)	2016	2017	Change	Change %
Costs of regulated activities	456	404	(52)	(11.4)
Controllable fixed costs	271	267	(4)	(1.5)
Variable costs	9	7	(2)	(22.2)
Other costs (*)	31	38	7	22.6
Cost items offset in revenue (**)	145	92	(53)	(36.6)
Costs of non-regulated activities (***)	117	107	(10)	(8.5)
Total operating costs	573	511	(62)	(10.8)

(*) Net of special items.

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

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

Amortisation, depreciation and impairment

(millions of €)	2016	2017	Change	Change %
Amortisation and depreciation	616	646	30	4.9
Business segments				
Transportation	517	539	22	4.3
Regasification	5	5		
Storage	87	95	8	9.2
Corporate and other activities	7	7		
Impairment losses (Reversals)	35	13	(22)	(62.9)
	651	659	8	1.2

Adjusted EBIT

(millions of €)	2016	2017	Change	Change %
Business segments				
Transportation	1,021	1,048	27	2.6
Regasification	(5)	2	7	
Storage	346	339	(7)	(2.0)
Corporate and other activities	(26)	(26)		
	1,336	1,363	27	2.0



Net financial expenses

(millions of €)	2016	2017	Change	Change %
Financial expense (income) related to net financial debt	281	235	(46)	(16.4)
- Interest and other expense on short- and long-term financial debt (*) (**)	281	236	(45)	(16.0)
- Interest on financial receivables not held for operating activities		(1)	(1)	
Other net adjusted finance charges	4	4		
- Accretion discount	10	11	1	10.0
- Other net financial expense (income) (**)	(6)	(7)	(1)	16.7
Losses (gains) on hedging derivatives – ineffective portion	1	1		
Financial expense capitalised	(23)	(13)	10	(43.5)
	263	227	(36)	(13.7)

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

(**) Net of special items.

Net income from equity investments

(millions of €)	2016	2017	Change	Change %
Equity method valuation effect (*) (**)	135	150	15	11.1
	135	150	15	11.1

(*) The data for 2015 and 2016 include the pro-forma adjustments.

(**) Net of special items

Income tax

(millions of €)	2016	2017	Change	Change %
Current taxes (*)	403	373	(30)	(7.4)
(Prepaid) deferred taxes (*)				
Deferred taxes	(22)	(16)	6	(27.3)
Prepaid taxes	(18)	(11)	7	(38.9)
	(40)	(27)	13	(32.5)
Total taxes	363	346	(17)	(4.7)

(*) Net of special items.



Reclassified statement of financial position

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

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

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(millions of €)	31.12.2016	31.12.2017	Change
Fixed capital	18,080	18,875	795
Property, plant and equipment	15,563	16,033	470
Compulsory inventories	363	363	
Intangible assets	810	850	40
Equity investments	1,499	1,591	92
Financial receivables held for operating activities	213	373	160
Net payables for investments	(368)	(335)	33
Net working capital	(483)	(1,079)	(596)
Provisions for employee benefits	(44)	(58)	(14)
NET INVESTED CAPITAL	17,553	17,738	185
Shareholders' equity (including minority interests)			
- entirely attributable to Snam's shareholders	6,497	6,188	(309)
Net financial debt	11,056	11,550	494
COVERAGE	17,553	17,738	185

Fixed capital (18,875 million euro) increased by 795 million euro compared with 31 December 2016, mainly due to an increase in property, plant and equipment and intangible assets (+510 million euro) that was in part a result of Infrastrutture Trasporto Gas entry into the scope of consolidation (+179 million euro in total), as well as to an increase in financial receivables held for operating activities (+160 million euro) and an increase in the value of equity investments (+92 million euro).

Technical investments

(millions of €)	2016	2017
Technical investments	906	1,034
Transportation	776	917
Regasification	7	5
Storage	117	101
Corporate and other activities	6	11
	906	1,034

(*) Data for 2016 relates to continuing operations.



Technical investments in 2017 totalled 1,034 million euro (906 million euro in 2016) and related mainly to the following business segments:

- Transportation (917 million euro): relating to works for the development of new transportation capacity instrumental to import and export capacity (276 million euro), investments in the development of new transportation capacity on the National and Regional Network (107 million euro), maintenance investments and other investments (534 million euro);
- Storage (101 million euro): relating to investments to develop new fields and enhance capacity (31 million euro) and to maintenance and other investments (70 million euro).

Equity investments

Equity investments (1,591 million euro) related to: (i) equity method valuation of the companies Trans Austria Gasleitung GmbH - TAG (508 million euro), TIGF Holding S.A.S. (471 million euro), Trans Adriatic Pipeline AG – TAP (223 million euro), Italgas S.p.A. (160 million euro), AS Gasinfrastruktur Beteiligung GmbH (129 million euro), and Gasbridge 1 B.V. and Gasbridge 2 B.V. (56 million euro in total); (ii) the valuation of the minority interest in Terminale GNL Adriatico S.r.l. (Adriatic LNG) purchased from Edison on 13 October 2017 (44 million euro).

Financial receivables held for operating activities

The financial receivables held for operating activities (373 million euro), which increased by 160 million euro compared with 31 December 2016, related to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP)¹⁰.

Net working capital

(millions of €)	31.12.2016	31.12.2017	Change
Trade receivables	1,271	1,274	3
- of which balancing	282	251	(31)
Inventories	118	86	(32)
Tax receivables	42	46	4
Other assets	70	50	(20)
Provisions for risks and charges	(707)	(677)	30
Trade payables	(433)	(406)	27
- of which balancing	213	207	(6)
Accruals and deferrals from regulated activities	(73)	(231)	(158)
Deferred tax liabilities	(187)	(165)	22
Hedging derivative assets (liabilities)	24	(12)	(36)
Tax liabilities	(12)	(11)	1
Other liabilities	(596)	(1,033)	(437)
	(483)	(1,079)	(596)

¹⁰ Under the contractual agreements entered into, the project partners are responsible for project funding until the pipeline enters into service, based on their respective equity interests. Including in conformity with the exemption decision by the Regulatory Authorities, any expansion of capacity is subject to an economic feasibility study and the verification of benefits for TAP.



Net working capital (-1,079 million euro) decreased by 596 million euro compared with 31 December 2016. The reduction was mainly due to: (i) an increase in other liabilities (-437 million euro), due principally to the recording of a payable to the shareholders in relation to the 2017 interim dividend of 0.0862 euro per share (-294 million euro), distributed in January 2018, and to increased payables to the CSEA relating to the transportation sector (-183 million euro), mainly in relation to additional tariff components, which as of 1 January 2017 are passed on with a different timing and on the basis of volumes invoiced in the reference two-month period instead of volumes recorded in the two-month period; (ii) an increase in accruals and deferred income from regulated activities (-158 million euro) that was essentially related to fees invoiced to transportation users that exceeded the revenue ceiling established by the Regulatory Authority ARERA.

Statement of comprehensive income

(millions of €)	2016	2017
Net profit (*)	861	897
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of Cash Flow Hedging derivatives (effective portion)	1	(8)
Share of "other comprehensive income" of investments accounted for using the equity method	(15)	(3)
Tax effect		2
	(14)	(9)
<i>Components that cannot be reclassified to the income statement:</i>		
Actuarial (losses)/gains on remeasurement of defined benefit plans for employees	(7)	(1)
Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method	1	1
Tax effect	2	
	(4)	
Total other components of comprehensive income, net of tax effect	(18)	(9)
Total comprehensive income (*)	843	888
Of which:		
- continuing operations	577	
- discontinued operations	266	
	843	888

(*) Entirely held by Snam shareholders.



Shareholders' equity

(millions of €)	
Shareholders' equity at 31 December 2016 (*)	6,497
<i>Increases owing to:</i>	
- Comprehensive income for 2017	888
- Other changes (**)	25
	913
<i>Decreases owing to:</i>	
- 2016 dividend	(718)
- 2017 interim dividend	(294)
- Acquisition of treasury shares	(210)
	(1,222)
Shareholders' equity at 31 December 2017 (*)	6,188

(*) Entirely held by Snam shareholders.

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

As at 31 December 2017, Snam held 85,915,616 treasury shares (29,905,180 shares as at 31 December 2016), equal to 2.45% of its share capital¹¹, with a total book value of approximately 318 million euro¹² (108 million euro at 31 December 2016).

The acquisition of 56,010,436 Snam shares (equal to 1.60% of the share capital), for a total cost of 210 million euro, was carried out as part of the share buyback programme approved by the Shareholders' Meeting of 11 April 2017¹³.

Net financial debt

(millions of €)	31.12.2016	31.12.2017	Change
Financial and bond debt	11,090	12,619	1,529
Short-term financial debt (*)	2,353	2,443	90
Long-term financial debt	8,737	10,176	1,439
Financial receivables and cash and cash equivalents	(34)	(1,069)	(1,035)
Cash and cash equivalents	(34)	(719)	(685)
Financial receivables not held for operating activities		(350)	(350)
	11,056	11,550	494

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

Net financial debt at 31 December 2017 amounted to 11,550 million euro, representing an increase of 494 million euro (11,056 million euro at 31 December 2016). Net cash flow from operations (EUR 1,864 million)

¹¹ As at the date of this press release, Snam held 117,908,323 treasury shares (equal to 3.37% of its share capital), with a book value of approximately 444 million euro.

¹² The market value at 31 December 2017, calculated by multiplying the number of treasury shares at that date by the period-end official price of 4.086 euro per share, was approximately 351 million euro.

¹³ Following the revocation of the previous resolution of the Ordinary Shareholders' Meeting of 1 August 2016, which authorized the purchase of treasury shares for a maximum expenditure of 500,000,000 euro, the Shareholders' Meeting authorized the purchase of treasury shares, in one or more tranches, for a maximum duration of 18 months. For more information, refer to the "Main events" section of this press release.



allowed for the full coverage of the financial requirements associated with net investments for the period equal to EUR 1,441 million, including equity investments, and generated a Free Cash Flow of EUR 423 million. The net financial debt, after payment to shareholders of a dividend in 2016 (EUR 718 million) and the cash flow deriving from the purchase of own shares (EUR 210 million), shows an increase of EUR 494 million compared to 31 December 2016, including non-monetary components related to financial debt (EUR 11 million).

Financial and bond debts at 31 December 2017, amounting to 12,619 million euro (11,090 million euro at 31 December 2016), comprised the following:

(millions of €)	31.12.2016	31.12.2017	Change
Bonds	7,610	8,672	1,062
Bank loans	3,448	3,931	483
Other financing	32	16	(16)
	11,090	12,619	1,529

Financial and bond debts are denominated in euros¹⁴ and relate mainly to bond loans (8,672 million euro, or 68.7%) and bank loans (3,931 million euro, or 31.2%, including 1,473 million euro provided by the European Investment Bank - EIB).

Bond loans increased by 1,062 million euro compared with 31 December 2016. The increase is mainly attributable to the issuance of: (i) a fixed-rate bond loan, on 25 January 2017, with a nominal value of 500 million euro; (ii) a floating-rate bond loan¹⁵, on 21 February 2017, with a nominal value of 300 million euro; (iii) a non-interest bearing convertible bond loan¹⁶, on 20 March 2017, with a nominal value of 400 million euro; (iv) a floating-rate bond loan¹⁷, on 2 August 2017, with a nominal value of 350 million euro; (v) a fixed rate bond loan, on 25 October 2017, with a nominal value of 650 million euro and maturity date of 25 October 2027. These effects were partly offset by the repayment of a bond loan due on 30 June 2017, with a nominal amount of 506 million euro, and the buyback of fixed rate bonds with a total nominal value of 607 million euro, with an average coupon of approximately 2.5% and a remaining maturity of approximately 4.4 years. The total outlay for the bond buyback programme, which was undertaken as part of the liability management exercise completed in October 2017, was approximately 656 million euro.

Bank loans (3,931 million euro) increased by 483 million euro essentially after the company secured a bank term loan with a nominal value of 500 million euro and a bank loan from the European Investment Bank (EIB) with a nominal value of 310 million. This change was partly offset by the repayment of a bank term loan with a nominal value of 200 million euro and a net decrease in the use of lines of uncommitted credit with a value of approximately 108 million euro.

Long-term financial debt (10,176 million euro) represented approximately 81% of gross financial debt (approximately 79% at 31 December 2016). Fixed-rate financial debt amounted to around 78% of gross financial debt.

¹⁴ With the exception of a fixed-rate bond loan for 10 billion Japanese Yen, fully swapped into euros through a Cross-Currency Swap (CCS).

¹⁵ The floating-rate bond loan has been swapped to a fixed-rate through an Interest Rate Swap (IRS).

¹⁶ The bond loan became convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

¹⁷ The floating-rate bond loan has been swapped to a fixed-rate through an Interest Rate Swap (IRS).



Financial receivables not held for operations (350 million euro) related entirely to a short-term liquidity investment with a maturity of less than six months, with a banking institution with a high credit rating.

Cash and cash equivalents (719 million euro) related mainly to a short-term liquidity investment with a maturity of less than three months, with a banking institution with a high credit rating (300 million euro), to a bank deposit (395 million euro) and to liquidity held with Gasrule Insurance D.A.C. for the purpose of the group's insurance operations (23 million euro).

At 31 December 2017, Snam had unused committed long-term credit lines worth 3.2 billion euro.

Covenants

As at 31 December 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; (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, some of which are subject to specific threshold values 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 Baa2 (Moody's) for at least two of the three ratings agencies.

The occurrence of one or more of the aforementioned scenarios could have negative effects on Snam Group's operations, results, balance sheet and cash flow, creating additional costs and/or liquidity problems.

At 31 December 2017, the financial debt subject to these restrictive clauses amounted to approximately 2.6 billion euro.

Bonds issued by Snam as at 31 December 2017, with a nominal value of 8.6 billion euro, related mainly to securities issued under the Euro Medium Term Notes programme. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

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

As 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.



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

(millions of €)	2016 (*)	2017
Net profit - continuing operations	591	
Net profit - discontinued operations	270	
Net profit	861	897
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	757	511
- Net capital losses (capital gains) on asset sales and eliminations	36	4
- Interest and income taxes	884	585
Change in working capital due to operating activities	(176)	334
Dividends, interest and income taxes collected (paid)	(735)	(467)
Net cash flow from operating activities	1,627	1,864
Technical investments	(1,145)	(1,016)
Technical disinvestments	2	3
Companies (entering) leaving the area of consolidation (a)	1,502	(166)
Equity investments	(168)	(75)
Change in financial receivables held for operating activities	(133)	(154)
Other changes relating to investment activities	22	(33)
Free Cash Flow	1,707	423
Change in financial receivables not held for operating activities		(350)
Financial receivables of companies leaving the scope of consolidation	1,585	
Change in short- and long-term financial debt	(2,297)	1,540
Equity cash flow (b)	(978)	(928)
Net cash flow for the period	17	685

CHANGE IN NET FINANCIAL DEBT

(millions of €)	2016	2017
Free Cash Flow	1,707	423
Financial receivables of companies leaving the scope of consolidation	2,009	
Equity cash flow	(978)	(928)
Other changes (c)	(15)	11
Change in net financial debt	2,723	(494)

(*) Cash flow pertained to the Snam Group and, consequently, included financial flows from both continuing operations (natural gas transportation, regasification and storage) and discontinued operations (natural gas distribution). With reference to 2016, the net cash flows from operating activities, investing activities and financing activities attributable to discontinued operations amounted to +413 million euro, -298 million euro and -116 million euro, respectively.

(a) The amount for 2017 relates to the fee for the purchase from Edison of 100% of the share capital of Infrastrutture Trasporto Gas - ITG (166 million euro, including the repayment of the intercompany loan in place between ITG and Edison and net of the liquidity acquired). The amount for 2016 relates to the receipt of the fee for the sale of 38.87% of Snam S.p.A.'s interest in Italgas Reti S.p.A. (1,502 million euro, net of the liquidity transferred).

(b) The figure for 2016 and 2017 includes the payment of the dividend to shareholders and the cost incurred to purchase treasury shares (103 million euro and 210 million euro, respectively).

(c) Includes the effects of adjusting foreign currency denominated debt to the year-end exchange rate.

Fine Comunicato n.0542-27

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