

Annual report  
2017



# Company profile

Snam is Europe's leading gas utility. Founded in 1941 as "Società Nazionale Metanodotti", it has been building and managing sustainable and technologically advanced infrastructure guaranteeing energy security for over 75 years. Snam operates in Italy and, through subsidiaries, Austria (TAG and GCA), France (TIGF) and the United Kingdom (Interconnector UK). It is one of the main shareholders of TAP (Trans Adriatic Pipeline) and is the company most involved in projects for the creation of the Energy Union.

First in Europe by transport network size (over 32,500 km in Italy, about 40,000 with international subsidiaries) and natural gas storage capacity (16.7 billion cubic meters in Italy, about 20 billion with international subsidiaries), Snam manages the first liquefied natural gas (LNG) plant built in Italy and is a shareholder of the country's main terminal.

Snam's business model is based on sustainable growth, transparency, nurturing talent, and development of local areas by dialoguing with communities. It fosters sustainable mobility, expands into energy efficiency, and invests in biomethane and innovative technologies to increase the use of renewable gas, a key resource of the green economy.

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# Corporate bodies

## Board of Directors\*

### Chairman

Carlo Malacarne <sup>1</sup>

### Chief Executive Officer

Marco Alverà <sup>1</sup>

### Directors

Sabrina Bruno <sup>2,3</sup>

Monica De Virgiliis <sup>1,2</sup>

Francesco Gori <sup>2,3</sup>

Yunpeng He <sup>1</sup>

Lucia Morselli <sup>1,2</sup>

Elisabetta Oliveri <sup>2,3</sup>

Alessandro Tonetti <sup>1</sup>

## Control, Risk and Related-Party

### Transactions Committee

Elisabetta Oliveri - Presidente

Sabrina Bruno

Lucia Morselli

## Remuneration Committee

Monica De Virgiliis - Presidente

Elisabetta Oliveri

Alessandro Tonetti

## Auditors' Report \*\*\*

EY S.p.A.

## Board of Statutory Auditors \*

### Chairman

Leo Amato <sup>4</sup>

### Statutory auditors

Massimo Gatto <sup>5</sup>

Maria Luisa Mosconi <sup>4</sup>

### Alternate auditors

Sonia Ferrero <sup>5</sup>

Maria Gimigliano <sup>4</sup>

## Appointments Committee

Francesco Gori - Presidente

Monica De Virgiliis

Alessandro Tonetti

## Sustainability Committee \*\*

Sabrina Bruno - Presidente

Yunpeng He

Lucia Morselli

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

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

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

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

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

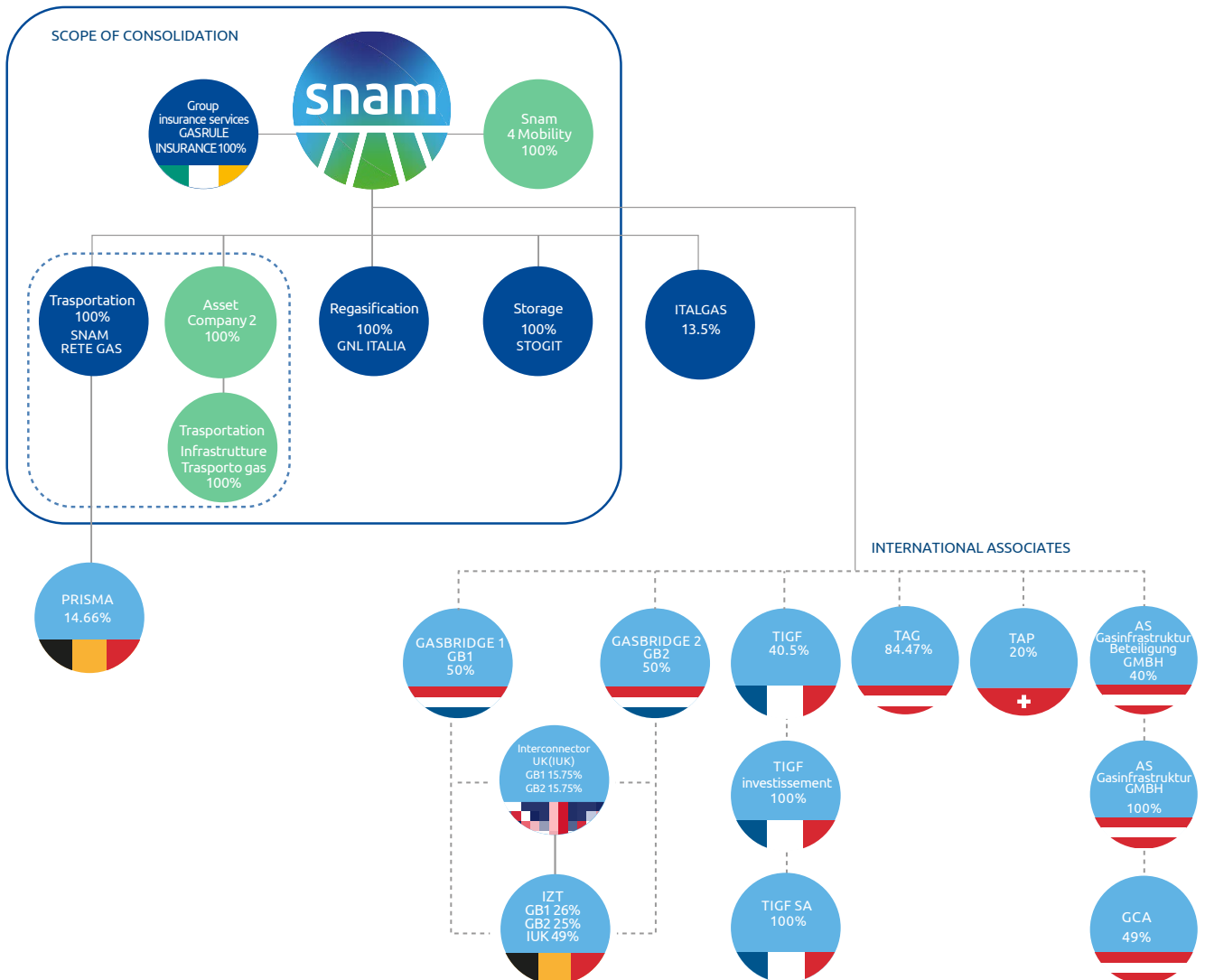
3 Directors that were candidates on a list submitted jointly by Institutional Investors.

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

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

# Group structure at 31 December 2017 NFS

The structure of the Snam Group at 31 December 2017<sup>1</sup> is shown below:



- 1 The graph shows significant investments held by Snam. More information can be found in the Appendix "Snam S.p.A. subsidiaries, associates and equity investments at 31 December 2017" to the Notes to the consolidated financial statements.
- 2 Companies existing at 31 December 2016 and excluded from the scope of consolidation, even if 100% owned, due to their irrelevance as non-operational entities.
- 3 As part of the transaction, Snam S.p.A. acquired from Edison a 7.3% stake in the capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG), a major offshore infrastructure for the discharge, storage and regasification of LNG in Italy.

The main changes in the Snam group structure as at 31 December 2017, as compared with the Snam group structure in effect as at 31 December 2016, were the incorporation of: (i) Asset Company 2 S.r.l.<sup>2</sup>, 100% owned by Snam S.p.A.; (ii) Infrastrutture Trasporto Gas S.p.A. (hereinafter also ITG), 100% owned by Asset Company 2 S.r.l., based on the acquisition by Edison of 100% of the share capital of ITG, effective 13 October 2017<sup>3</sup>. As the third Italian operator in the transport of natural gas, ITG manages the pipeline that connects the Adriatic LNG regasification terminal to the national transport network near Minerbio (BO); (iii) Snam 4 Mobility

S.p.A. (formerly Asset Company 1 S.r.l.<sup>2</sup>), 100% owned by Snam S.p.A., and active in the construction and maintenance of CNG (Compressed Natural Gas) plants for motor vehicles throughout Italy, in the context of the company's operating activity launch. The aforementioned companies were consolidated, respectively, under the "Transportation" (i and ii) and "Corporate and other activities" (iii) sectors.



# Contents

6	Directors' Report - Integrated Report
182	Consolidated Financial Statements

## Disclaimer

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



# Directors' Report - Integrated Report



# Index

<b>8</b>	<b>Reading guide</b>
<b>10</b>	<b>Letter to Shareholders and Stakeholders</b>
<b>12</b>	<b>Highlights</b>
<b>13</b>	<b>Profile of Snam</b>
13	Summary
17	Our mission, our values
14	Our first 75 years
18	Snam today in Italy and in Europe
<b>20</b>	<b>Business model and sustainable development</b>
20	Snam's business model
22	The modernity and sustainability of the gas system
23	Snam's strategy for sustainable business development
27	Governance and organisation
29	Management of risks and the control system
<b>38</b>	<b>Snam in 2017 – Summary Data and Information</b>
38	Applicable regulatory framework and principal developments
41	Results
46	Main events
50	Operating review
59	Snam and the financial markets
<b>65</b>	<b>Business segment operating performance</b>
65	Natural gas transportation
83	Liquefied natural gas (LNG) regasification
83	Natural gas storage
<b>98</b>	<b>Financial review and other information</b>
98	Financial review
122	Snam S.p.A. financial review
132	Other information
<b>135</b>	<b>Other operating information and results</b>
135	Development of human, social and relationship, and intellectual capital
140	Stakeholders and relationship capital
143	Innovation for business development
145	Mitigation of environmental and health and safety effects
<b>150</b>	<b>Elements of risk and uncertainty</b>
<b>156</b>	<b>Outlook</b>
<b>157</b>	<b>2017 Consolidated Non-Financial Statement - Legislative Decree 254/2016</b>
<b>180</b>	<b>Glossary</b>

# Reading guide

The contents of the Directors', which constitutes the **Integrated Report** of Snam (hereinafter also Report on Integrated Management), are presented following the indications of the Framework proposed by the IIRC (International Integrated Reporting Council). The objective of the document is to represent, in addition to annual operating results, Snam's model for the creation of value and the sustainability of the business over the medium and long term, thereby indicating and demonstrating the interconnections between strategy, governance,

business and financial performance, and the social, environmental and economic environment in which the enterprise operates.

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

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

The management report also contains studies referred to some aspects

described in **Consolidated non-financial statement (NFS)** which constitutes a specific section thereof, in compliance with the provisions of Legislative Decree no.254/2016.

NFS contents are integrated, where deemed necessary and appropriate, by some studies described in the Directors' report, which can be identified and consulted by following the specific references:

**NFS** Infographics and gray background / character, associated with the paragraph title (if entirely referring to aspects described in the NFS) or to the specific text content.

## References in the integrated report to value creation

Time frames and dynamics	Value-creation methods	Main operating activities	Report headings
<p>Short-term Snam creates value by pursuing its business in the manner established by the rules and procedures, with particular focus on risk management and operational efficiency. The main point of reference is the <b>annual budget</b></p>	<p>Maintaining the efficiency and availability of the network and providing a quality service without interruptions</p>	<ul style="list-style-type: none"> <li>– Executing the scheduled works</li> <li>– Maintenance</li> <li>– Controls and inspections</li> <li>– Compliance with the network codes</li> </ul>	<ul style="list-style-type: none"> <li>○</li> <li>○</li> <li>●</li> <li>●</li> </ul>
		<ul style="list-style-type: none"> <li>– Managing financial risks</li> <li>– Managing operating risks</li> <li>– Managing foreign partnership portfolios</li> <li>– Managing crises</li> <li>– Preventing accidents</li> <li>– Mitigating environmental impact</li> <li>– Reorganising processes and activities</li> </ul>	<ul style="list-style-type: none"> <li>●</li> <li>●</li> <li>○</li> <li>○</li> <li>⊖</li> <li>⊖</li> <li>⊖</li> </ul>
<p>In the medium term, the ability to carry out investment programmes, thereby ensuring a flow of resources and that favourable economic conditions are maintained, is also important. The main point of reference is the <b>Business Plan</b>, which covers a period of <b>five years</b></p>	<p>Preventing and mitigating risks and detrimental outside forces</p>	<ul style="list-style-type: none"> <li>– Investment planning</li> <li>– Obtaining financial resources on the market</li> <li>– Permissions</li> <li>– Implementation of CNG, biomethane projects</li> </ul>	<ul style="list-style-type: none"> <li>○</li> <li>○</li> <li>●</li> <li>⊖</li> </ul>
		<ul style="list-style-type: none"> <li>– Relationships with the authorities</li> <li>– Managing the supply chain in relation to the development of construction sites</li> <li>– Developing roles and capabilities</li> <li>– Managing relations with local communities</li> <li>– Management of partnerships related to new business</li> </ul>	<ul style="list-style-type: none"> <li>●</li> <li>○</li> <li>⊖</li> <li>⊖</li> <li>⊖</li> </ul>
<p>In the long term, it is vital that the investment decisions and strategic choices made have interpreted trends in the best way possible. The main point of reference is the <b>infrastructure development plan</b> submitted to the Authority, which covers a period of <b>10 years</b></p>	<p>Maintaining the flow of investments</p>	<ul style="list-style-type: none"> <li>– Planning infrastructure development</li> <li>– Snam's strategy</li> <li>– Gas advocacy</li> </ul>	<ul style="list-style-type: none"> <li>○</li> <li>⊖</li> <li>⊖</li> </ul>
		<p>Maintain, develop and transform human and relational capital to develop the business</p>	

## References in the integrated report to capital management



### FINANCIAL

The equity and debt capital obtained on both the financial markets and through self-financing from operating income, invested in the development of the gas system infrastructure

Report headings



### INDUSTRIAL

The network of infrastructure for transporting, storing and distributing natural gas and regasifying LNG required to perform services for operators and users. They constitute the RAB (Regulatory Asset Base) for the recognition of regulated revenues

Report headings



### INTELLECTUAL

Unique to Snam, this consists mainly of the IT systems, procedures and good operating practices developed over time by managing the business

Report headings



### HUMAN

Snam's personnel, the wealth of its knowledge and experience, and the corporate culture of Snam that expresses distinctive values, with the culture of safety at the forefront

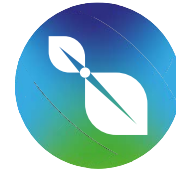
Report headings



### RELATIONAL

The "licence to operate" sustained by relations with stakeholders at European and national levels, as well as by Snam's presence in the areas that host its infrastructure. In the future, Snam's ability to be recognised as a pillar for the development of the gas system through business partnerships shall become increasingly more important

Report headings



### NATURAL

The land, air and biodiversity that Snam is committed to preserving through efficient and responsible environmental management, mitigating the environmental impacts and consequences generated predominantly during the construction of infrastructure

Report headings



### Legend

- Data and Information
- Business segment operating performance
- Elements of risk and uncertainty
- Other operating information and results
- Business model and sustainable development

# Letter to Shareholders and Stakeholders



**Carlo Malacarne**  
Chairman



**Marco Alverà**  
Chief Executive Officer

To our Shareholders and Stakeholders,

In 2017 Snam celebrated its 75<sup>th</sup> anniversary as a company, a period during which it contributed to Italy's industrial, economic and social growth through the expansion of natural gas. Today's Snam strives to capitalise on these 75 years of experience by leading the "energy transition", which sees natural gas as a safe, flexible and sustainable source, a fundamental pillar of a long-term decarbonisation strategy.

To this end, Snam invests in research, decarbonisation, development and innovation, favouring alternative uses of gas.

The year 2017 also saw the launch of Snam 4 Mobility, a new company to develop sustainable transport, and the conclusion of the first framework agreement for the development of methane filling stations in Italy, which was signed with Eni in May. Last June, we connected the first biomethane plant to the network. The transformation of waste and agricultural residues into gas will allow meeting 10% of national consumption from renewable sources, enhancing thus the long-term value of gas infrastructure. To become leaders in a rapidly changing world, we seek to operate in an increasingly agile and efficient manner, to optimise transversal processes whilst enhancing specific skills. With this in mind, the "Integra" project, which redesigned the organisational structure of Snam, was completed in July 2017 as a further step towards Snam's "One company" vision. Thanks to the Efficiency Plan, which was designed to benefit final consumers, we obtained operating cost savings of approximately €19 million in 2017, reaching and exceeding the target set for said year in the Plan itself.

We intend to become increasingly international also through Snam Global Solutions, a transversal business unit that represents Snam's evolution in market services, as well as a new opportunity to capitalise our know-how abroad, with an existing contract portfolio from 2017 onwards of around €64 million.

We seek to develop the skills of our people through the Snam Academy, a training institute that is aimed at Snam people and the territory. In June, we launched the Snam Foundation, an additional channel to establish closer relations with the territory and better respond to the needs of the communities that host our infrastructures.

In a context of rising gas consumption in Italy for the twelfth consecutive quarter (+6.0% compared to 2016), and a general stability of the regulatory environment, with the extension of the fourth regulatory period up to 2019 for the transport, regasification and storage business, we have achieved very positive results that surpass our expectations. Adjusted operating profit amounted to €1,363 million, up €27 million (+2.0%) compared to the corresponding value of 2016, an increase that can be also attributed to the reduction in operating costs driven by the savings obtained with the Efficiency Plan. Adjusted net profit stood at €940 million, up €95 million (+11.2%) compared to the adjusted pro-forma net profit for 2016. The net cash flow from operating activities (€1,864 million) allowed us to fully cover the financial requirements associated with net investments for the period (€1,441 million), as well as to generate a free cash flow of €423 million. Net financial debt, after the payment to shareholders of the 2016 dividend (€718 million) and the cash flow deriving from the purchase of treasury shares (€210 million), shows an increase of €494 million compared to 31 December 2016.

In October 2017, Snam successfully completed a buyback on the 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 purchase was largely financed through a new bond issue with a nominal value of €650 million, with a coupon of 1.375% and a duration of 10 years.

This transaction shall enable Snam to continue along the path of optimisation of its debt structure in terms

of reducing the cost of capital, extending average debt maturity and reducing refinancing risk. In addition, with the aim of optimising the debt structure and supporting the overall remuneration for shareholders, as part of the share buyback program launched by Snam on 7 November 2016, we repurchased on 31 December 2017 a total of 84,788,366 treasury shares (28,777,930 as at 31 December 2016), equal to 2.45% of the share capital for a total cost of €313 million (€103 million at 31 December 2016).

In line with the strategic plan and seeking to strengthen the competitiveness and security of gas supplies, we invested €1,034 million in infrastructure in Italy, and made a €217 million investment with the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas and 7.3% of Adriatic LNG, further to the €220 million invested during the year in TAP, the company that will transport natural gas from the Caspian Sea to Europe.

In the past year, we continued to operate with the utmost care for the environment and the territory, maintaining values in line with previous years and avoiding, thanks to the actions implemented, CO<sub>2eq</sub> emissions for a total of 82,780 tonnes. We also reduced natural gas emissions (-3.2% compared to 2016) in line with the 10% reduction target by 2021 (compared to 2016 with the same perimeter). As confirmation of our continuous effort to enhance sustainability as an integral part of the business growth model, in October 2016 Snam was admitted to the exclusive CDP (formerly Carbon Disclosure Project) "A list", the index that represents an important benchmark to guide investors to enterprises with greater awareness of climate change issues, in which Snam has had a presence since 2012. Furthermore, in September 2017, Snam's stock was confirmed for the eighth straight year, by RobecoSAM on the Dow Jones Sustainability World Index, the most important stock market index in the world for the assessment of social responsibility. Looking at the future, which presents itself as equally

challenging, we confirm infrastructure investments of around €5.2 billion in Italy over the plan period.

We seek to become the leading company in the gas industry. And this means being increasingly global, more innovative as regards the creation and management of new business, more efficient whilst building stronger skills, as well as staying closer to the people and the territory and becoming greener and more renewable. We strive daily to meet these ambitious goals, spreading the spirit of entrepreneurship to help us transform future challenges into opportunities.

On the basis of the results achieved and the Company's prospects, the Board of Directors intends to propose to the Shareholders' Meeting the distribution of a dividend of €0.2155 per share, of which €0.0862 per share already distributed as an advance payment in January 2018, confirming Snam's commitment to ensuring an attractive and sustainable remuneration over time to shareholders.

13 March 2018  
for the Board of Directors

Chairman



The CEO



# Highlights



## Financial highlights

### Total revenue

**€2,441** million  
[€26 million; + 1.1%]

### Free cash flow

**+€423** million

### Adjusted results

#### Adjusted EBIT

**€27** million (+2.0%)

#### Adjusted net profit

**€95** million (+11.2%)

#### Reported net profit

**€897** million

### Purchased in 2017

**56,010,436** shares  
for a total cost of € 210 million

### We supported our strategy with technical investments for

**€1,034** million and  
investments in participations for

**€437** million

### Proposed dividend

**€0.2155** per share



## Operating highlights

### Demand for natural gas

**+6.0%**

### Storage capacity

**12.2** billion cubic metres  
[99.9% of available capacity]

### Gas injected into the network

**+5.6%**

increasing for the twelfth  
consecutive quarter



## Sustainability highlights

Confirmation of inclusion in  
**the CDP list Climate Change**  
**9th consecutive year**  
in the **DJSI - Dow Jones**  
**Sustainability World Index**

### CO2eq emissions avoided

**82,780** tonnes

# Profile of Snam

## Summary

Snam is a European leader in the construction and integrated management of natural gas infrastructure. With approximately 3,000 employees, it conducts regulated gas segment activities and is a leading European operator in terms of regulatory asset base (RAB) in its sector. As an integrated operator, Snam provides natural gas transportation, dispatching and storage services as well as LNG regasification services, and plays a leading role in the natural gas infrastructure system. By managing system infrastructures efficiently and providing integrated services for the market, Snam creates the conditions to guarantee fair energy costs.

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of companies. Snam also offers engineering and technical-operational services for gas operators in national and international markets.

Snam's business is focused on regulated activities and is capital intensive. Regulation makes provision for tariff systems that cover the costs incurred by the operator and for a fair return on invested capital. Snam is therefore able to maintain a **limited risk profile** and **provide its shareholders with attractive and sustainable returns**, while ensuring the provision of its services to all operators in a non-discriminatory manner and with the highest standards of quality and safety.

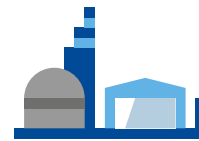
The company actively promotes the **use of natural gas as a flexible, safe and environmentally friendly source of energy**. In the coming years, Snam intends to launch various projects aimed at developing energy efficiency projects and promoting a more sustainable and efficient energy system through the use of CNG-compressed natural gas, biomethane and liquefied natural gas (LNG) in the transport sector.

To fulfill its role as an integrated gas player, Snam has redesigned its organisational structure towards a "One company" divided into four business units and staff functions, designed with a view to simplifying processes, efficiency and continuous improvement. The business units respectively supervise: the management of transport, storage and regasification activities carried out by **Italian subsidiaries**, the coordination of **foreign holdings**, the **development and commercial** activities, and the **development of services dedicated to operators in the gas sector**.

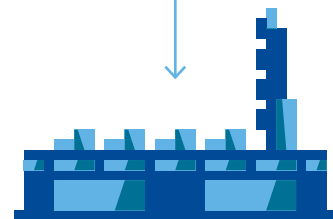
Snam has been listed on the Italian Stock Exchange since 2001. Its share price features not only on the Italian FTSE MIB index but also on leading international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and the major sustainability indices.

## Snam: an integrated gas system player

DOMESTIC PRODUCTION  
AND GAS IMPORT



REGASIFICATION  
OF GNL

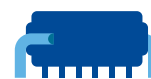


TRANSPORTATION AND  
DISPATCHING



DISTRIBUTION  
AND SALE

STORAGE



## Our first 75 years

### Snam is 75 years old and looks forward to the future

In 2017, Snam celebrated its **75 years in business**, bearing witness to how the ability to place one's commitment and skills at the service of the community, while keeping a constant dialogue with territories have been and will be its key success drivers. With the acquisition from Edison of 100% of the share capital of **Infrastrutture Trasporto Gas and a 7.3% share in Adriatic LNG**, Snam has notably strengthened its infrastructures in Italy and managed to build further synergies in the integrated management of the entire gas system, connecting to the national transport network a strategic entry point for the Italian natural gas market.

As regards Snam's commitment to sustainable development, the Company signed with Eni in December 2017 the first **application contract for the development of methane filling stations in Italy**, starting thus the activities of Snam 4 Mobility S.p.A. (wholly owned by Snam).

## 2016

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### In 2016 Snam completed the separation of its distribution business, acquired a new organisation and continued its path toward development

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

## 2012-2015

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### Snam separates from Eni and expands its scope of activity to cover Europe

On 1 January 2012, the Company changed its name from Snam Rete Gas to Snam and transferred the gas transportation business to a new company, which inherited the respected Snam Rete Gas name. The ownership unbundling from Eni was completed on 15 October 2012 through the sale of approximately 30% of Snam's capital to CDP Reti S.r.l., and Snam began its path toward growth in Europe. Having acquired 31.5% of Interconnector UK in 2012 as part of a joint venture with Fluxys, Snam (45%; 40.5% at 31 December 2015 following the entry of Credit Agricole Assurances (CAA) in the corporate structure of TIGF Holding), alongside the Singapore sovereign wealth fund GIC (35%) and



EDF (20%), successfully completed the acquisition of TIGF from Total in July 2013. TIGF is active in gas transportation and storage in south-west France, with a gas transportation network over 5,000 km and two storage fields. On 19 December 2014, the Company acquired from CDP Gas S.r.l. 84.47% (equivalent to 89.22% of the economic rights) of Trans Austria Gasleitung GmbH (TAG), the company that owns the Austrian section of the gas pipeline linking Russia and Italy. The objective of those transactions was to increase and enhance Snam's industrial capacity in the integrated management of natural gas transportation and storage infrastructure. Snam's international development continued with the acquisition of a 20% stake in Trans Adriatic Pipeline AG (TAP), the company responsible for developing the pipeline that will run from the Turkey-Greece border to Italy along the Southern corridor, enabling gas produced in Azerbaijan to reach European markets. Our investment in the project will consolidate the primary position of Snam and Italian infrastructure in improving competition between energy sources and securing gas supplies for Europe.

## 2009-2011

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### **The integration of all regulated gas activities**

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

## 1941-2008

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### **Methanisation in Italy and expansion of the gas infrastructure, up to listing on Borsa Italiana**

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

# Energy to inspire the world



# Our mission, our values

## Vision

Guiding the evolution of the energy sector thanks to the most innovative sustainability network

## Mission

We create energy infrastructure and offer integrated services



### We connect to create opportunities

We are the connective fabric of our sector, the creators of energy networks, technology and humanity that embrace Italy and unite continents. We are aware that working together is an essential condition for promoting ideas and multiplying opportunities. We create inclusive connections with others, to connect the world, community after community.



### We promote security

We like to do things well and we strive to guarantee security. We improve every day, combining our processes with real progress for everyone's benefit. Operating in a secure manner, we take care of the community and environment we live in, to ensure stable supplies of energy for Europe: the heat and light we all count on.



### We support a changing world

We play an essential role in the sustainable development of our economies, the environment and society as a whole, and we do this in an ethical and transparent manner. Just like our infrastructure integrates with local territories and communities, we evolve with the changing world. This means being at the forefront in terms of clean energy and infrastructure, while also ensuring development opportunities for our people.



### We shape the future

We complete vast and complex long-term projects, and contribute to shaping tomorrow's economic and cultural climate. Our know-how and experience in energy infrastructure, allow us to have a vision and play a leading role in a much broader system. Together we have a duty to imagine and shape a future that extends beyond our own lives.

## Snam today in Italy and in Europe NFS

### Snam's presence in Europe



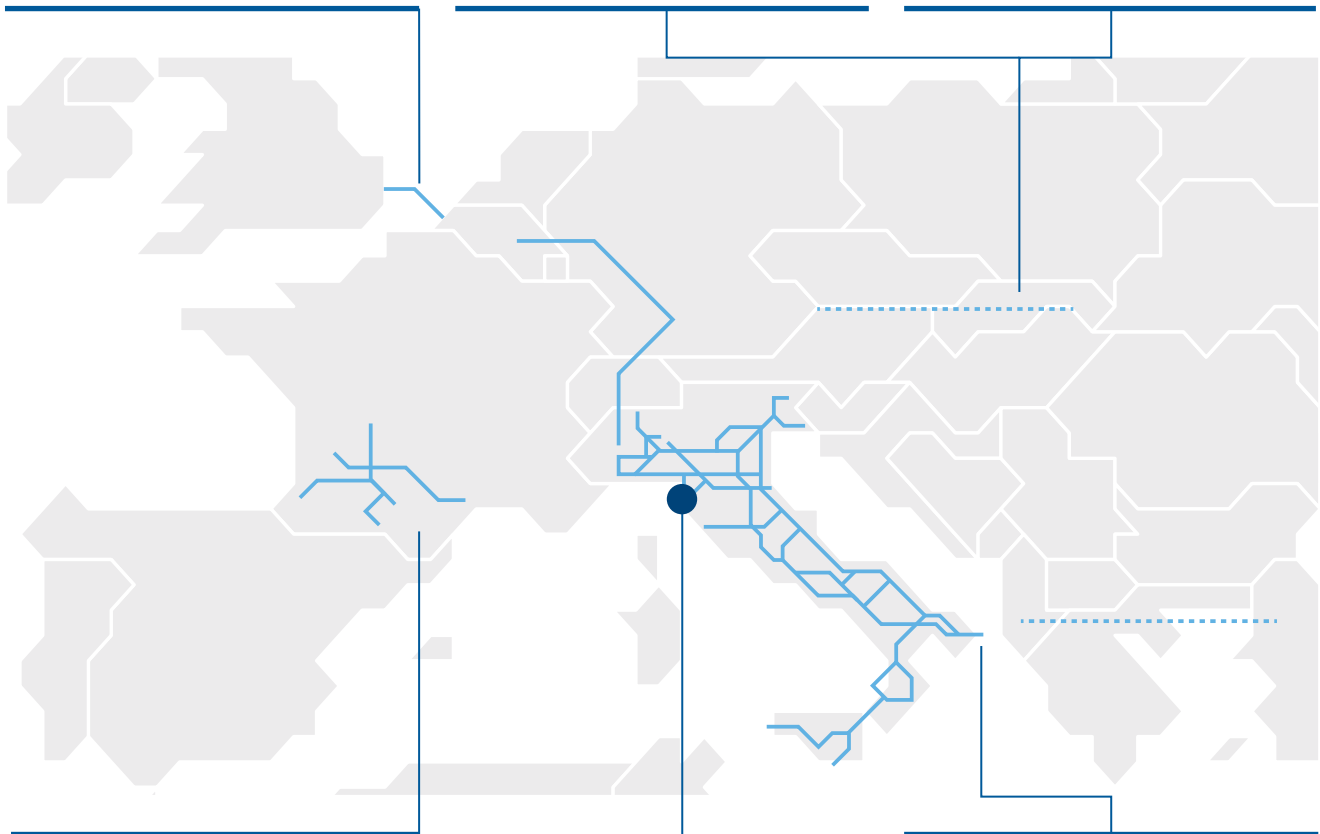
- 235 km undersea pipeline between Bacton (UK) and Zeebrugge (Belgium)
- 1 terminal and 1 compression station at Bacton
- 1 terminal and 1 compression station at Zeebrugge
- Employees in service: 62



- 3 parallel lines of pipelines of around 380 km each
- 5 compression stations
- Employees in service: 164



- 564 km of transportation network
- 322 km of distribution network
- 5 compression stations
- Employees in service: 278



- 5,090 km of network with 6 compression stations (108 MW), around 15% of the total volume of transported gas in France
- 5.8 billion m<sup>3</sup> of storage capacity (2.8 bcm of working gas), or around 25% of national capacity
- Employees in service: 589



- Assets under development, part of the project to bring Azerbaijani gas to Europe. 878 km long, it passes through Greece, Albania and the Adriatic Sea, before reaching Italy (773 km on-shore and 105 km off-shore). Initial capacity of 10 billion m<sup>3</sup>/year, which can be increased to 20 billion m<sup>3</sup>/year. Expected to come into service in 2020
- Employees in service: 173

## Snam's presence in Italy



# Business model and sustainable development

## Snam's business model



- Establishment of **Snam4Mobility**, a company for sustainable transport
- The **Global Solution** business unit is created to enhance Snam's know-how, developing services dedicated to gas operators in international markets
- Completion of the company's business reorganisation as per the **Integra** project

### Resources used

#### Financial capital

Technical investments  
Financial investments

#### Infrastructure capital

Gas pipeline network  
Installed power at the stations  
Storage capacity  
Regasification capacity

#### Human capital

Employees

#### Natural capital

Energy resources  
Water resources

#### Intellectual capital

Know-how, systems

#### Relational Capital

Partnerships, stakeholder relationships

### Business activities

#### Regulated activities

Transportation  
Storage  
Regasification

#### Development of new business

Biomethane  
CNG-CNC  
Small scale LNG  
Market services



- Launch of the Sardinia methanisation project
- Stipulated the application contract to start the construction of the **compressed natural gas distributors network** for motor vehicles (CNG)
- **First biomethane injection** into the network

## Results achieved

### Operating figures

Gas injected into the network  
 Gas moved through the storage system  
 LNG regasification

### Infrastructure

expansion and upgrading of new network km  
 increase/decrease in capacity

### Economic and Financial Performance

Regulated revenue  
 Market revenue  
 Management results (operating profit)  
 Stock performance  
 Reduction/increase in debt

### Non-Financial Results

Employment  
 Accidents  
 Training  
 Carbon footprint  
 Snam energy mix



- Resumption of regasification activities with 15 methane tankers compared to 5 in 2016

- **5.6%** increase in gas transported volumes

## Impact on the gas system

### Access to and cost of energy

Transport cost percentage

### Market facilitation

Balancing metrics

### Creation of a single European market (PRISMA)

Registered shippers  
 Active users  
 Tenders successfully concluded  
 Network points connected

## Impact on the energy system

### Security of supplies

System flexibility index  
 Replenishment of stocks

### Decarbonisation

Gas in the national energy mix

- The new balancing service operating at full capacity
- Number of auctions concluded on the PRISMA platform increased by over 70%
- With the retreat of production from renewables, **gas** has become the **first** primary energy source in the national mix
- Thanks to strategic storage and regasification, **the temporary interruption of gas flows from Russia** had limited effects

## The modernity and sustainability of the gas system

Future scenarios see the economic and population growth of the emerging countries as the main factors driving the world's energy demand, and of which China, India and other Asian countries will absorb around 80% of the increase expected by 2040. In this context, natural gas will continue to play a leading role in the evolution of the energy mix, albeit with different roles in different geographical areas.

If, in fact, natural gas in non-OECD countries is mainly responsible for supporting economic development by integrating coal and oil, in Europe and in Italy, where it already has a significant presence in the energy mix, it can help guarantee the progressive decarbonisation of the economic and social system, together with non-programmable renewable sources such as wind and photovoltaics.

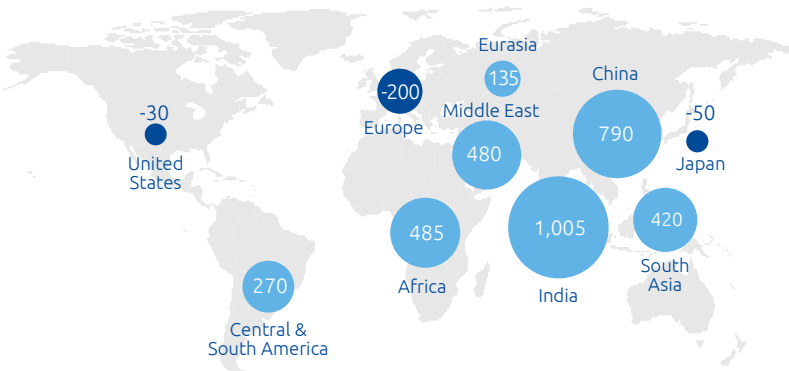
Natural gas will be an increasingly accessible energy source, given the presence of considerable reserves in areas close to Europe

and the growth of the worldwide liquefied natural gas market, which has increased availability at reduced prices.

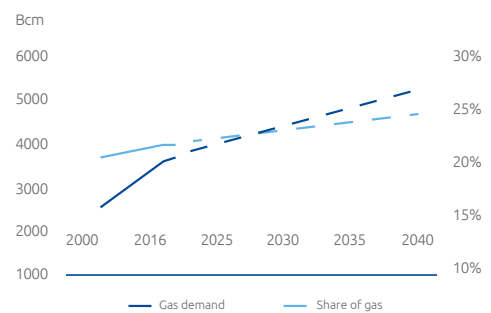
In this context, the network of existing infrastructures for transport, storage and distribution, and those under development and construction, will make Italy the European gas hub, guaranteeing the energy system flexibility, programmability and affordability. This is also due to a gas electrical generation capacity which in Italy is already widely available and extremely efficient.

## The new energy and gas scenario in 2040

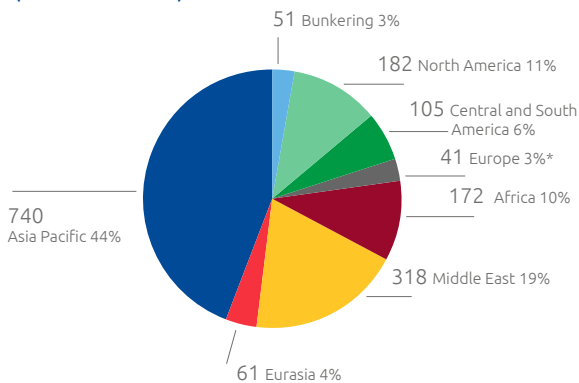
CHANGE IN ENERGY DEMAND 2016 - 2040 (MTOE)



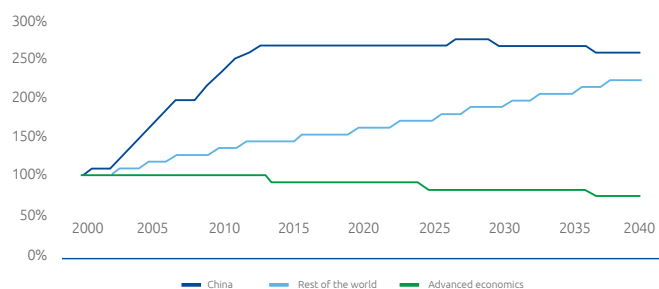
CHANGE IN GHG EMISSIONS



GAS DEMAND TREND BY REGION IN 2040 (BILLIONS OF M<sup>3</sup>)



GAS SHARE IN THE WORLD ENERGY MIX



(\* Includes Europe and other countries.

GRAPHIC SOURCE: IEA World Energy Outlook 2017



## Snam's strategy for sustainable business development

Snam's business, following the trends in the energy scenario, will continue to evolve with a strategic focus on providing the energy that the market demands, safely and at a fair cost, whilst contributing to strengthening the centrality of the gas system in the European and Italian energy scenario.

To achieve these objectives, the update of the Snam 2017-2021 strategic plan confirms total investments of around €5.2 billion over the plan period. In Italy, Snam will continue to invest in the strengthening and expansion of the national network, which includes the

Sardinian methanisation project, and to complete the reverse flow projects that allow its integration with the continental markets along the North-South and East-West corridor, creating a bidirectional gas flow at the national borders in the Gries Pass and Tarvisio respectively.

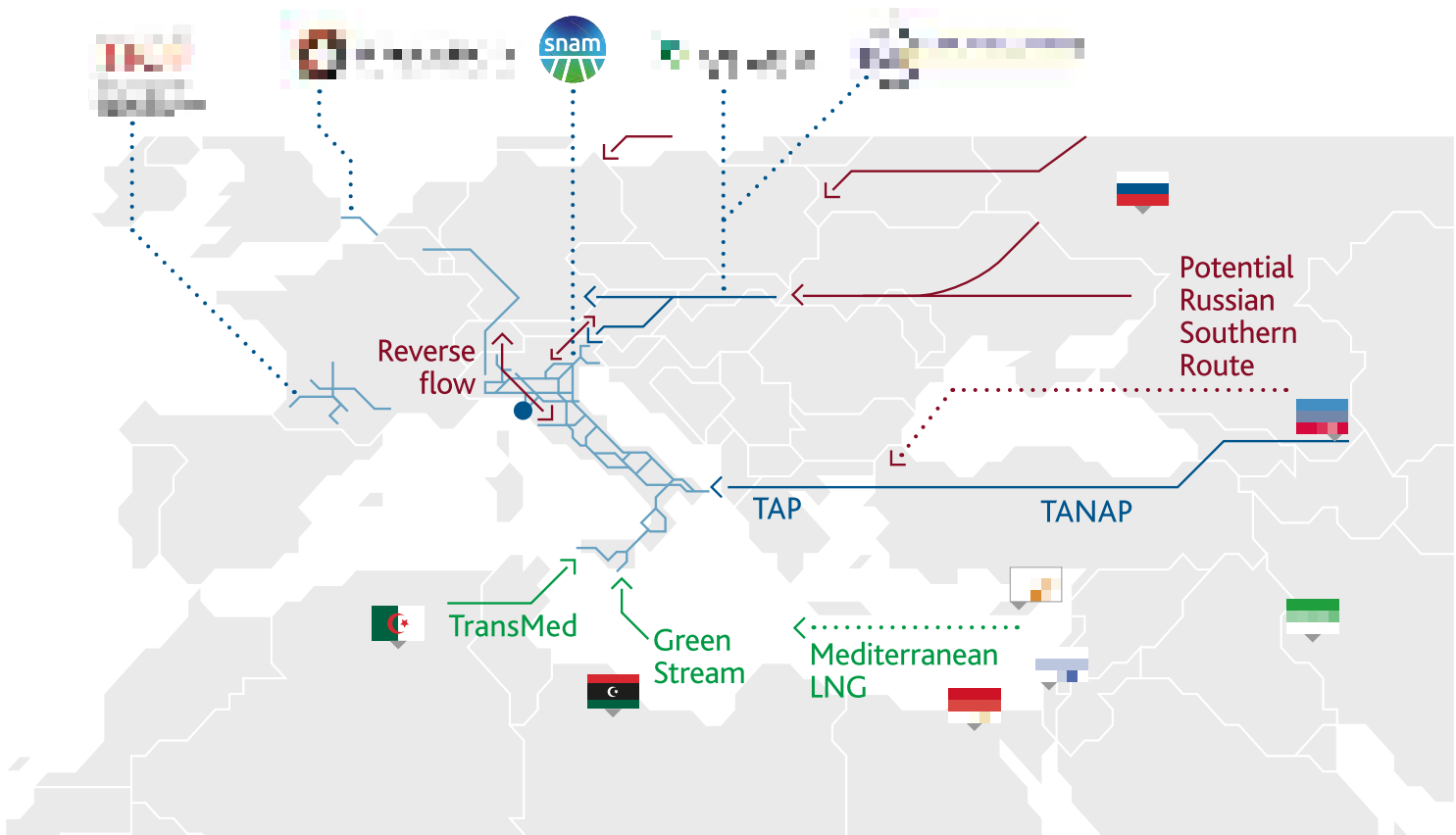
In conjunction with institutional stakeholders and interested operators, it shall also contribute to the evolution of the "gas product" through the expansion of liquefied natural gas (LNG) and compressed natural gas (CNG) infrastructure for the maritime and highway transport sectors, and the conversion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

Looking ahead, Snam is also devoted to the development of market services, relying on the new Global Solution business unit to globally promote the heritage of distinctive experiences, skills and know-how, which the company has developed in its 75 years of business and management of the entire gas infrastructure chain, in Italy and Europe.

**5.2** billions of euro

**2017-2021: Snam will invest to develop and integrate the gas system infrastructure.**

### The integration of the European gas infrastructure network



**NFS** Progress of new business projects



### **Biomethane**

Biomethane uses existing gas networks and also generates positive effects on the agri-food sector, promoting an economic model based on sustainability and circularity in the use of resources.

In June 2017, the first gas injection was made into the national network.

During the year, Snam made 13 new connections and received numerous expressions of interest with over 500 requests.



### **Sustainable mobility**

The compressed natural gas (CNG) used for the automotive sector can significantly reduce carbon dioxide emissions, whilst nearly eliminating emissions of nitrogen and fine particles.

In December 2017, was signed agreement for the design, construction and maintenance by Snam of a first batch of 16 new compressed natural gas plants (compressed natural gas - CNG) to which are added a further 3 plants contracted in January 2018.

Snam's goal is to contribute to the realisation of CNG and L-CNG (liquefied-compressed natural gas) stations nationwide, ensuring a more balanced spread throughout the country's regions and improving the quality of the service provided to users.

## Impacts of Snam's activities on the gas system and on the energy scenario

### MARKET FACILITATION

With the new "Network Balancing Code" regime, which has been in effect since October 2016, the balancing service is conducted in accordance with common and harmonised European rules, which are aimed at promoting trading and market liquidity. In a new system, users are the primary parties responsible for system equilibrium and they can balance their own trading positions (injections and withdrawals from the system) through an hourly reprogramming of their own requirements, and/or by executing gas transactions on both the organised and over-the-counter markets. Snam also performs the role of Default Transportation Supplier, namely supplies gas to Sales Companies and Final Customers for which the Balancing User responsible for the related withdrawals is not identifiable. The same service is also performed for Sales Companies and Final Customers on third-party carrier networks who have expressly requested them.

### Impact of the Default Transportation Service

The service in the 2016-2017 thermal year involved 108 parties amongst Final Customers and Sales Companies, for a total volume of approximately 42,743.9 MWh.

### New transport capacity products

In 2017, Snam introduced greater flexibility in offering transport capacity at the re-delivery points that power the thermoelectric plants and the withdrawal areas through the provision of short-term capacity products (daily and monthly).

### Integrated storage and regasification service

For the second year in 2017, Snam offered a service for the integrated allocation of regasification and storage capacity. Following the recovery of regasification activities of the GNL Italia plant, this capacity was increased by one third over 2016 to 1.5 billion cubic meters for the thermal year 2017-2018.

### GAS ACCESS AND COST

The cost of transport, distribution and metering (meter reading) services, which allow the delivery of gas to end users, is one of the three main items of the gas bill.

### Impact of infrastructure services on gas costs

On the basis of data published quarterly by ARERA, the impact of gas system infrastructure services ("Cost of transportation and meter management") in 2017 was approximately 18% of the total cost for a typical household customer (family with individual heating system and annual consumption of 1,400 standard cubic metres), which translates to a cost of €0.13 per standard cubic metre (approximately €183 per annum).

### New connections

In 2017, 78 connection contracts were signed for the construction of new delivery/re-delivery points (of which 13 were for biomethane inputs) or the upgrading of existing points, up 73% over 2016.

### CREATION OF A EUROPEAN GAS MARKET

Snam is one of the founders of PRISMA, the international project established to promote the harmonisation of rules for accessing and providing services in implementation of the European Codes, by offering services through a single shared digital platform. 41 European operators active in the transport and storage of gas from 16 countries participate in the development of PRISMA.

### The PRISMA platform in numbers

During 2017, the PRISMA platform recorded a significant activity increase, experiencing a two-fold increase in the number of auctions, which went from 2.5 million in 2016 to 4.5 million in 2017.

The number of registered shippers reached 600, up by 50 units compared to 2016. The number of active users and connected network points remain unchanged (2,500 and 1,500).

### SECURITY OF SUPPLIES

In Italy, the constant and structural decrease in national production entails a strong dependence on foreign gas, which at the end of 2017 could exceed 92% of total demand (source ENEA).

### Diversification of sources

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

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

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

In the instance of Italy, if any of the supply sources should fail, the remaining sources of supply are capable of satisfying more than 120% of the area's total gas demand, calculated during a day of particularly high gas demand.

### Storage capacity utilisation

In 2017 Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand.

The replenishment level at the end of the injection campaign was 98% as opposed to a European average of 89%.

### CONTRIBUTION TO DECARBONISATION

Gas in its various forms guarantees lower carbon dioxide emissions, by 25% to 40% compared to other fossil fuels, as well as reduced nitrogen oxides and fine particle levels.

### Gas in the national energy mix

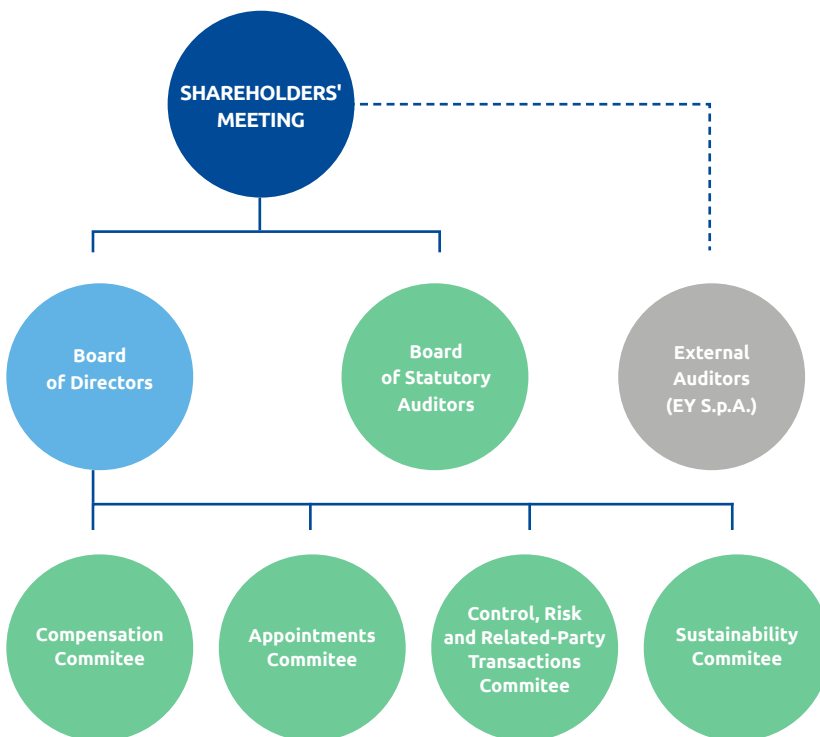
For 2017, ENEA expects, on the basis of the data for the third quarter, a return to the historical highs of the weight of gas on total primary energy (with an estimated share of 38%), thanks to the combined effect of the lower contribution from hydroelectric energy, due to unfavorable weather conditions, the downward trend in consumption of solid fuels and oil, and the consequent significant increase in consumption and imports of natural gas.

## NFS Governance and organisation

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

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

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



(More detailed information on governance can be found in the document "2017 Report on corporate governance and ownership structure", which was published online at [www.snam.it](http://www.snam.it) at the same time as the Annual Report).

(More detailed information on remuneration can be found in the document "2018 Remuneration Report").

The evolution from Group to "One Company", also as a result of the separation of natural gas distribution activities, seeks to facilitate inter-functional collaboration and effective end-to-end process management, moving towards an organisational structure that supports the implementation of the strategic plan through:

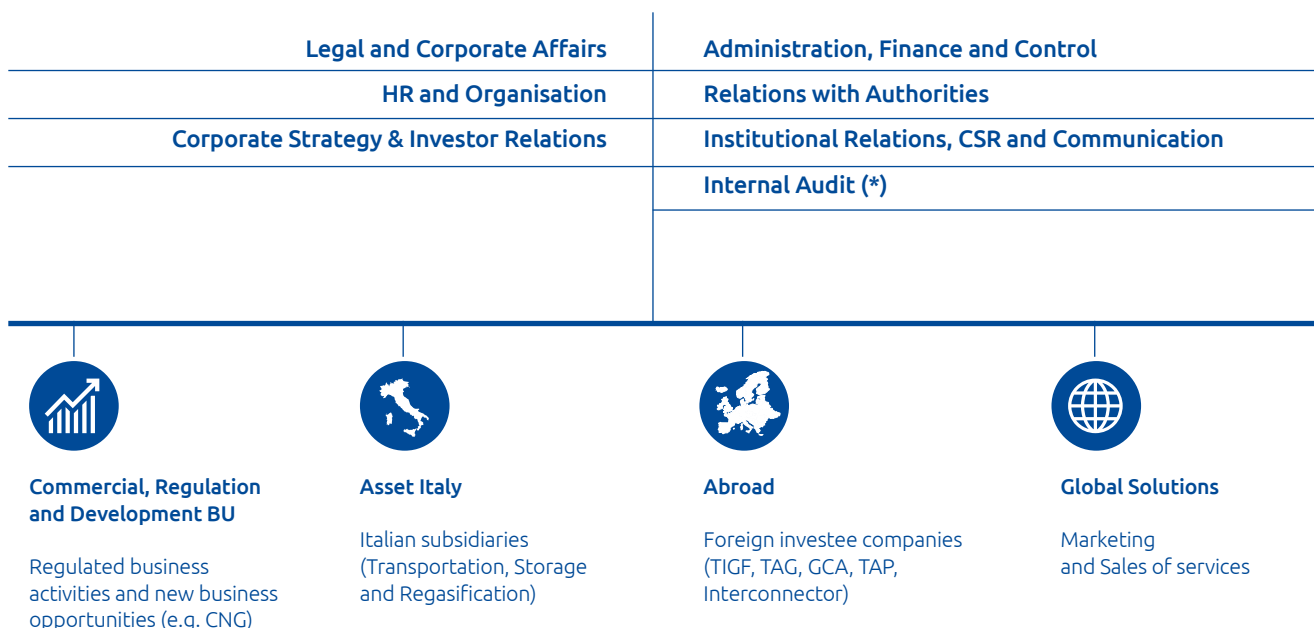
- the creation of four business units focused respectively on commercial development activities, the management of Italian subsidiaries, the management of foreign investments, and the development of services dedicated to operators in the gas sector;
- Staff functions redesigned with a view to simplifying processes, efficiency and continuous improvement.

On July 1, the new organisational structure, born of the **Integra** project and inspired by the *One Company* model was implemented. As a result, the management of compression and storage plants, commercial activities and business support activities have become faster and more streamlined, placing an even stronger focus on the market and on all of Snam's stakeholders. The new structure entailed:

- the transfer of Operation & Maintenance and storage dispatching activities from Stogit to Snam Rete Gas;
- the merger into Snam of the Commercial functions, HSEQ - with the exception of the prevention and protection service - Administration, Budget and Supply Chain of Stogit and LNG.

**The objective of Snam's reorganisation is to optimise transversal processes, enhance specific skills, and create centres of competence.**

**Founding elements of Snam's new organisational model**



\* As part of a team reporting to the CEO, the Internal Auditor performs fully independent audit activities in accordance with guidelines from the Board of Directors.

## Management of risks and the control system

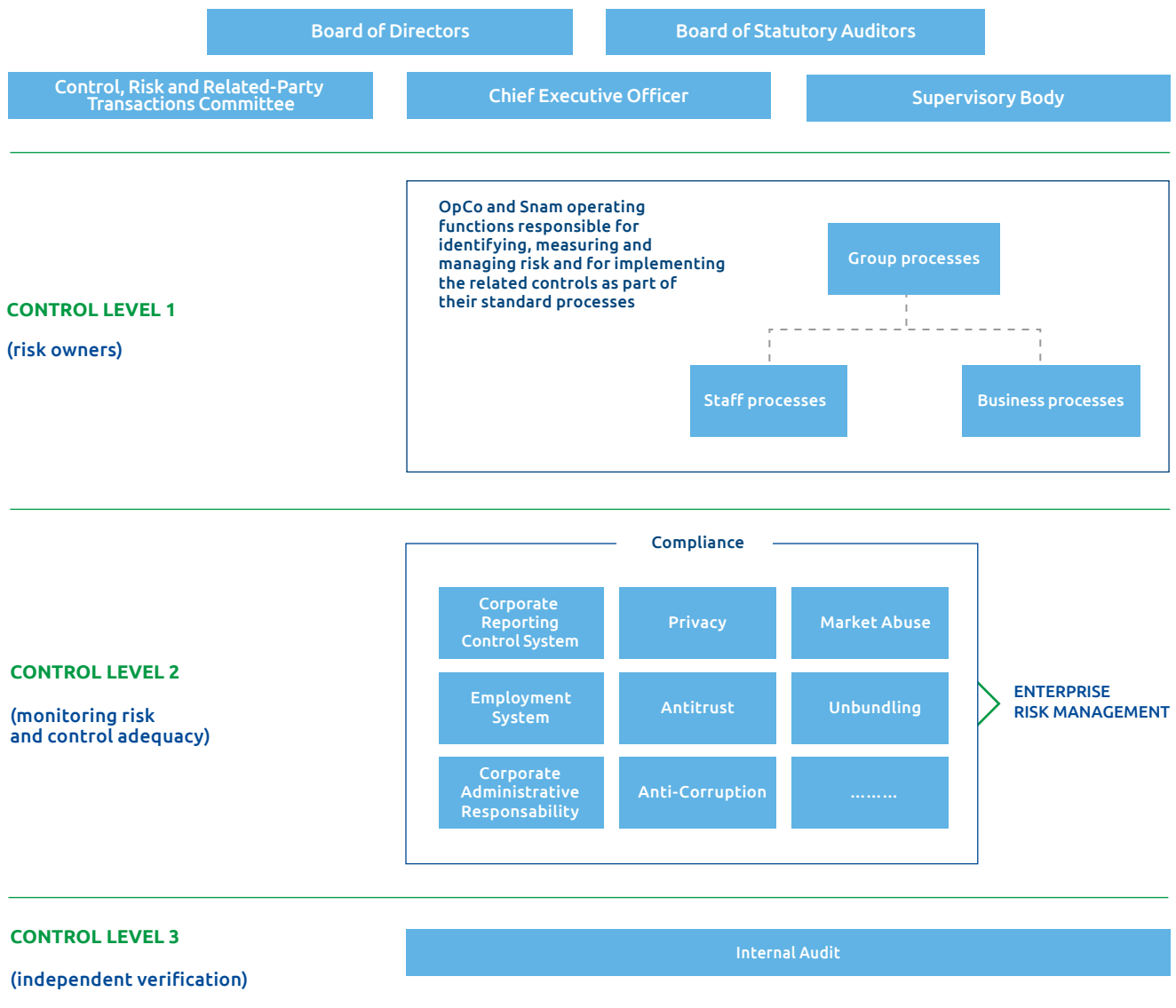
Although it has a limited economic and financial risk profile because most of its operations are in regulated business segments, Snam adopts a structured and systemic approach to governing all risks that could affect value creation.

The system we use across the Group to identify, assess, manage and control risk has three levels, each with

different objectives and associated responsibilities. The Board of Directors charges the CEO with giving structure to and maintaining the entire system.

We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the **prevention of fraud and corruption** and **health, safety, environment and quality**.

These same controls form an integral part of the managerial processes. Management must therefore foster an environment that encourages controls, and must specifically manage "line controls", consisting of all the control activities that individual operating units or companies perform over their own processes. Independent controls are performed by the Internal Audit department, which is responsible for checking that the system is functioning and adequate.



In 2017, audit activities were performed by a dedicated team of 8 auditors.

### Activities performed by Internal Audit

	2015	2016	2017
Total number of audits performed	64	42	<b>44</b>
Reports received	17	5	<b>5</b>
- of which related to the internal control system	2	1	-
- of which related to accounting, auditing, fraud, etc.	-	-	-
- of which related to administrative responsibility pursuant to Italian Legislative Decree 231/2001	-	1	-
- of which relating to breaches of the anti-corruption law	1	1	<b>1</b>
- of which related to other subjects (Code of Ethics, harassment, theft, security, etc.)	14	-	<b>4</b>
Reports shelved due to lack of proof or because untrue (no.)	9	2	<b>1</b>
Reports resulting in disciplinary or managerial interventions, and/or submitted to judicial authorities	2	-	<b>3</b>
Reports under examination (no)	6	3	<b>3</b>

In 2017, all internal audit activities were carried out in accordance with the international standards issued by the Institute of Internal Auditor (IIA) and, following the 2016 Quality Assurance Review (QAR) (whose final summary opinion is one of general compliance of the structure and Internal Audit activities of Snam S.p.A. with IIA Standards and Code of Ethics), the Internal Audit department has prepared and launched a program to implement the improvement actions highlighted by the QAR. In particular, the main actions implemented by the function include:

- Review and approval of the Guidelines for the Board regarding internal audit activities. The changes took into consideration: (i) the update of IIA international standards (effective January 2017), (ii) the update of the Italian Stock Exchange Code (published in July 2015), and (iii) the change in the scope of audit activities following organisational changes and the updating the company procedural framework;

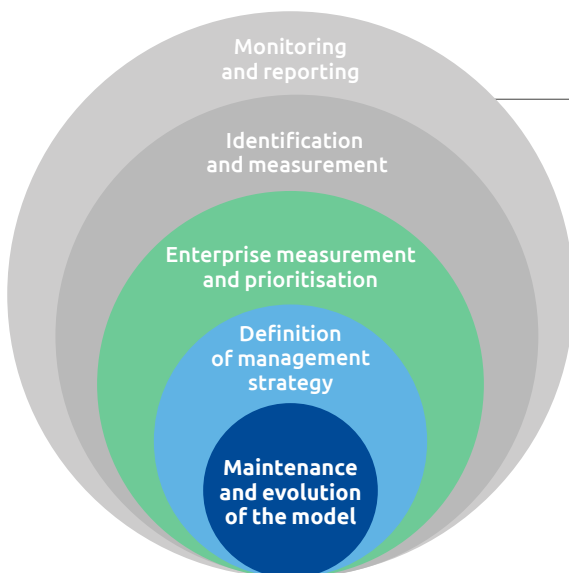
- the updating of the operating guides through the preparation of an Internal Audit Manual, which, with a view to continuous improvement, seeks to increase the process efficiency and make information easier to consume.

These activities were performed with the support of an independent specialist consultant, who also carried out a benchmark relative to similar companies in terms of size and operation; this work did not reveal any non-compliance with the standards, whilst ensuring that changes made were in line with IIA International Standards and best practices.



## Enterprise Risk Management process (ERM)

The Snam group, in line with the indications of the Code of Corporate Governance and international best practices, has instituted, under the direct supervision of the General Counsel, the Enterprise Risk Management (ERM) unit, which operates within the wider Internal Control and Risk Management System, in order to manage the integrated management process of corporate risks for all Group companies. The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to mitigate these risks and to draw up a reporting system.



1.

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

2.

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

3.

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

4.

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

### Cross-organisational nature

One of the best features of Snam's ERM model is the wide-ranging nature of its impact measurement. Any risk event may have 10 different types of impact, some determined by the risk owners (operational impacts) and others by specialist departments (e.g. legal and financial impacts). This means risk measurement from different perspectives and team risk prioritisation. The most common operational impact is industrial impact, consistent with the fact that risk identification begins with process analysis. The most prevalent specialist impacts include reputational and legal impacts, confirming the existence of an increasingly globalised external context subject to ever more complex regulations.















Using the model described above, the risk assessment cycles were performed on the entire Snam Group in 2017. As at the end of 2017, 136 enterprise risks had been mapped and broken down between all corporate processes. A project was also launched in 2017 to define and implement an integrated *risk assessment* model that, through a single IT tool and a single database, rationalises and integrates all information flows of second-level controls with a synergistic approach aimed at maximum overall efficiency. The main corporate risks identified, monitored and, insofar as specified below, have been classified into the following categories:


- strategic risks
- legal and non-compliance risk
- operating risks
- financial risks




The table below shows the mitigation and monitoring measures implemented for each type of risk.

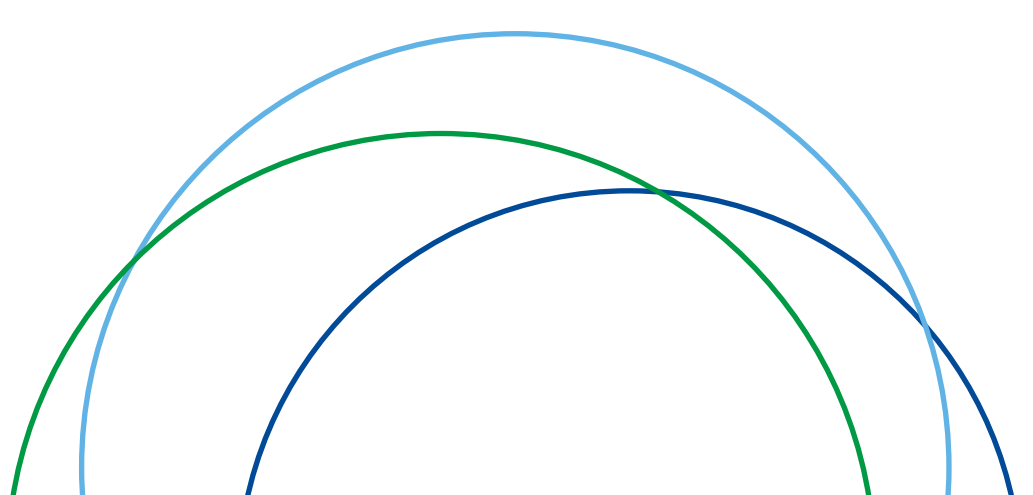
● For more information on all the main risk and uncertainty factors, please refer to page 151 of this Report.


Classification	Description	Mitigation and monitoring measures implemented	Impact on capitals
Strategic risks	<b>Macroeconomic and geo-political risk:</b>		
	Risks associated with political, social and economic instability in natural gas supplier countries	• Continuous monitoring of the political, social and macroeconomic framework	
		• Maintenance of constant relations with Authorities and Institutions responsible for managing possible crises in high-risk scenarios	
	<b>Regulatory and legislative risk:</b>		
	Definition and updating of a regulatory framework in Italy and in the countries of interest that presents penalising parameters, in particular with regard to criteria for determining tariffs	• Maintenance of ongoing constructive dialogue with the regulator that can contribute to the definition of a clear, transparent and stable framework in order to incentivise the sustainable development of the gas system	 
	Significant change in regulations and/or case law	• Ongoing regulatory oversight through the monitoring of changes in laws and rulings, analysis of changes, and the dissemination of information and further details to business and commercial departments	
	<b>Risks related to climate change:</b>		
	Reinforcement of the regulatory framework for greenhouse gas emissions	• Ongoing regulatory supervision with monitoring of the development of the greenhouse gas emissions authorisation system	 
		• Target of -10% of natural gas emissions from 2016 to 2021, for the same perimeter	
	Change of scenarios with impact on the demand for natural gas and transported volumes	• Recovery of 33% of potential emissions deriving from maintenance activities, each year from 2017 to 2022	 
• Development of new business related to alternative uses of gas and implementation of the use of gas to support the energy transition (biomethane and other renewable gases, small scale LNG, CNG, gas heat-pumps and micro-cogeneration)			
 <b>Increase in the severity of extreme atmospheric phenomena, with impacts on continuity and quality of service</b>	• Adaptation of the recovery plan and business continuity management system to international best practices	    	
	• Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected		
	• Elaboration of corporate energy scenarios consistent with the national and European decarbonisation objectives developed for the containment of temperatures increase envisaged by the Paris agreements.		
	• Ongoing, systematic maintenance and monitoring measures		




Classification	Description	Mitigation and monitoring measures implemented	Impact on capitals
Legal and non-compliance risk	<p><b>NFS</b></p> <p>Possible violation of rules and regulations, with particular reference to Legislative Decree 231/2001 which provides for the company's liability for malfeasances committed by management or by third parties in relation to certain cases (corruption, fraud, health and safety of workers, environment)</p>	<ul style="list-style-type: none"> <li>Updating and monitoring protocols of Model 231</li> <li>Awareness-raising initiatives and training on the prevention of corruption</li> <li>Analysis and evaluation of reports received through the channels provided for by the reporting procedure</li> <li>Adoption and maintenance of Health, Safety and Environment management systems certified according to ISO14001 and OSHAS18001 standards</li> <li>Awareness-raising and training initiatives on accident prevention for employees and contractors</li> </ul>	
	<p>Maintaining an adequate reputational profile for suppliers and subcontractors</p>	<ul style="list-style-type: none"> <li>Introduction of additional measures to prevent corruption and criminal infiltration</li> <li>Obligation of suppliers and contractors to subscribe the Ethical and integrity Agreement</li> <li>Reputational checks on suppliers and subcontractors</li> </ul>	
	<p>Non-alignment of corporate governance and/or the internal control and risk system with regulations and/or best practices</p>	<ul style="list-style-type: none"> <li>Periodic revision of employer model</li> <li>Updating of Model 231 and the Code of Ethics</li> <li>Analysis of updates to the latest version (July 2015) of the Borsa Italiana Code of Corporate Governance and to corporate governance best practices</li> </ul>	

Operating risks

Classification	Description	Mitigation and monitoring measures implemented	Impact on capitals
Operating risks	Retaining gas storage concessions	<ul style="list-style-type: none"> <li>Development of storage carried out in line with the most up-to-date technical and economic criteria and best practices in science and technology so as not to damage the deposit, not to cause harm to third parties or the environment and to guarantee the optimisation of capacity in compliance with the security of the national gas system</li> </ul>	
	<div style="background-color: #e0e0e0; padding: 5px; border: 1px solid #ccc;"> <div style="display: flex; align-items: center;"> <div style="background-color: #333; color: white; border-radius: 50%; width: 20px; height: 20px; display: flex; align-items: center; justify-content: center; margin-right: 5px;">NFS</div> <div> <p><b>Delay to the progress of programmes involving the construction of large transportation and storage infrastructure</b></p> </div> </div> </div>	<ul style="list-style-type: none"> <li>Application of the strictest national and international environmental and safety standards during planning, with particular attention to safeguarding the natural value of the area and biodiversity</li> <li>Communication policy on the planned work, with a view to sharing projects with the local community and stakeholders from the outset.</li> <li>Use of innovative construction technologies with low environmental impacts (e.g. trenchless technologies, use of turbo gas with low atmospheric emissions)</li> <li>Strict, structured system for selecting contractors and monitoring their performance</li> </ul>	



Classification	Description	Mitigation and monitoring measures implemented	Impact on capitals
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Operating risks</p>	<p><b>NFS</b></p> <p><b>Breakages or damages to pipelines/ installations also upon exogenous events, which can cause malfunction and unexpected service interruption</b></p>	<ul style="list-style-type: none"> <li>• Application of management systems and procedures that take into account the specific nature of Snam's activities</li> <li>• Recovery plan system and business continuity management in line with international best practices</li> <li>• Communication initiatives aimed at providing information about the presence of infrastructure and behaviours to avoid/implement by third parties so as not to damage it</li> <li>• Technologically advanced tools for monitoring/controlling the status of infrastructure/plants and the areas affected</li> <li>• Continuous verification of insurance coverage in relation to the type of business and related risks</li> <li>• Ongoing, systematic maintenance and monitoring measures</li> </ul>	
	<p>Computer threats (Cybersecurity)</p>	<ul style="list-style-type: none"> <li>• Adaptation of IT security and business continuity systems to the ISO / IEC 27001 and ISO22013 standards respectively, with provision for related certification</li> </ul>	
		<ul style="list-style-type: none"> <li>• Definition of a model of <i>security incident management team</i> to respond promptly to events that may damage the integrity of the information and IT systems used</li> </ul>	

Classification	Description	Mitigation and monitoring measures implemented	Impact on capitals
Financial risks	Medium- and long-term debt rating downgrade	<ul style="list-style-type: none"> <li>Constant monitoring of rating indicators and availability of long-term credit lines</li> </ul>	  
	Changes in the interest rate	<ul style="list-style-type: none"> <li>Monitoring cash-flow-at-risk using an asset and liability management (ALM) model</li> </ul>	
	Exchange rate changes	<ul style="list-style-type: none"> <li>Minimisation of transaction risk, through measures such as the use of derivatives</li> </ul>	
	Inability to raise new funds (funding liquidity risk) or to liquidate assets on the market	<ul style="list-style-type: none"> <li>Minimisation of opportunity cost and maintaining a balance in terms of debt duration and composition</li> </ul>	
	Default	<ul style="list-style-type: none"> <li>Monitoring of the contractual protection clauses in loan agreements</li> </ul>	
	Bad debts	<ul style="list-style-type: none"> <li>Scoring system for evaluation and segmentation of customers (creditworthiness), and systematic management of requests upon specific maturities</li> </ul>	
		<ul style="list-style-type: none"> <li>Evaluation of the authenticity and validity of guarantees</li> </ul>	
<ul style="list-style-type: none"> <li>Reporting of any issues with the regulatory system that may lead to opportunistic/fraudulent behaviour by operators</li> </ul>			



# Snam in 2017 - Summary Data and Information

## Applicable regulatory framework and principal developments

### Tariff regulation in Italy

By means of Resolutions 514/2013/R/gas, 438/2013/R/gas and 531/2014/R/gas, the Energy Grid and Environment Regulatory Authority (ARERA) defined the tariff criteria for the fourth regulatory period, in force from 1 January 2014, for transportation and regasification activities, and from 1 January 2015 for storage activities. Furthermore, with resolutions 575/2017/R/gas, 653/2017/R/gas and 68/2018/R/gas, the Authority defined tariff criteria for the transport and regasification sectors respectively for the transitional period 1 January 2018 - 31 December 2019, and 1 January 2019 - 31 December 2019 for the storage sector.

### Fourth regulatory period

Transport	4 years + 2 years (transitory period)	January 2014	December 2019
Regasification	4 years + 2 years (transitory period)	January 2014	December 2019
Storage	4 years + 1 years (transitory period)	January 2015	December 2019

The following graphic shows the main tariff components for each of the regulated activities carried out by Snam, based on the regulatory framework in force as at 31 December 2017. Further information regarding major new rate developments occurred, with respect to each business sector, is provided in the chapter "Business segment operating performance – Tariff regulations" of this Report.



	Transportation	Regasification	Storage
<b>End of regulatory period (TARIFFS)</b>	<p><i>Current period:</i> 31 December 2017</p> <p><i>Transitional period:</i> 1 January 2018 - 31 December 2019</p>	<p><i>Current period:</i> 31 December 2017</p> <p><i>Transitional period:</i> 1 January 2018 - 31 December 2019</p>	<p><i>Current period:</i> 31 December 2018</p> <p><i>Transitional period:</i> 1 January 2019 - 31 December 2019</p>
<b>Calculation of net invested capital recognised for regulatory purposes (RAB)</b>	Revalued historical cost	Revalued historical cost	Revalued historical cost Deduction of restoration costs recognised
<b>Return of net invested capital recognised for regulatory purposes</b>	<b>5.4% 2016-18 (*)</b>	<b>6.6% 2016-18 (*)</b>	<b>6.5% 2016-18 (*)</b>
<b>Incentives on new investments</b>	<p><i>Current period (investments in 2014-2017):</i></p> <p><b>+1% for 7 years</b> (regional network development investments)</p> <p><b>+1% for 10 years</b> (national network development investments)</p> <p><b>+2% for 10 years</b> (entry point development investments)</p> <p><b>WACC +1%</b> on investments made in 2014-2016 to offset the regulatory time-lag</p> <p><i>Transitional period (investments in 2018-2019):</i> <b>+1% for 12 years (investments in new transportation capacity and with positive cost-benefit analysis)</b></p> <p>Return on investments t 1 (from 2017 investments) to offset regulatory time-lag</p>	<p><i>Current period (investments in 2014-2017):</i></p> <p><b>+2% for 16 years</b> (new terminals or expanding existing terminal capacity &gt;30%)</p> <p><b>WACC +1% on investments made in 2014-2016 to offset the regulatory time-lag</b></p> <p><i>Transitional period (investments in 2018-2019):</i> <b>+1.5% for 12 years (investments in new regasification capacity)</b></p> <p>Return on investments t 1 (from 2017 investments) to offset regulatory time-lag</p>	<p><i>Current and transitional period:</i></p> <p>Withholding for 8 years of 20% of revenues in excess of revenue recognised resulting from insolvency procedures</p> <p>Return on investments t-1 to offset the regulatory time-lag (from 2014)</p>
<b>Efficiency factor (X FACTOR)</b>	<p><i>Current period:</i> <b>2.4%</b> - on operating costs</p> <p><i>Transitional period:</i> <b>1.3%</b> - operating costs</p>	<b>0%</b>	<p><i>Current period</i> <b>1.4%</b> - on operating costs</p> <p><i>Transitional period:</i> To be defined in P.T. 2019</p>

(\*) The rate of return on net invested capital (WACC) in force from 1 January 2016 was set by the Authority by means of Resolution 583/2015/R/com of 2 December 2015, "Rate of return on invested capital for infrastructural services in the electricity and gas sectors: calculation and updating criteria". The duration of the WACC regulatory period for infrastructure regulations in the gas sector is set at six years (2016-2021), and a mechanism is provided for updating the rate at mid-period according to the prevailing situation.

## Regulation in European countries of interest to Snam: main features

The countries of interest where Snam operates through international investments have implemented tariff regimes with distinct reference parameters by context, or negotiated regimes that are, therefore, non-regulated from a tariff standpoint. Snam constantly monitors the regulatory evolution in these contexts.

		2016	2017	2018	2019	2020	2021
<b>TAG GCA Transportation</b>	Regulated System			3rd Regulatory Period			
<b>TIGF Transportation</b>	Regulated System			ATRT6			
<b>TIGF Storage</b>	Negotiating System			Introduction of the regulated system			
<b>IUK Transportation</b>	Exemption System			Introduction of the regulated system			
<b>TAP Transportation</b>	Exemption System					Long-term contracts	

(\*) This value includes a premium for the risk related to the marketing of capacity equal to 3.5%.

<b>TAG GCA Transportation</b>	<b>TIGF Transportation</b>	<b>IUK Transportation</b>	<b>TAP Transportation</b>
<ul style="list-style-type: none"> <li>Differentiated RAB between Revalued Historical Cost and Book Value. There is also different treatment of (pre-2012) old assets and new investments;</li> <li>There are differentiated return rates for the share of RAB financed through Equity (Cost of Equity(*) 8.92% Actual Pre-Tax) and for the share financed through Debt (Cost of Debt 2.7% Nominal Pre-Tax).</li> </ul>	<ul style="list-style-type: none"> <li>RAB revalued annually using inflation (Consumer Price Index) taking into account new investments and amortisation and depreciation (Current economic cost method);</li> <li>WACC return rate equal to 5.25% Actual Pre-Tax.</li> </ul> <p style="text-align: center;"><b>Storage</b></p> <ul style="list-style-type: none"> <li>Storage under regulated system from January 2018;</li> <li>WACC return rate equal to 5.75% Actual Pre-Tax; RAB around €1.2 billion.</li> </ul>	<ul style="list-style-type: none"> <li>Exemption system until October 2018;</li> <li>Shift from an exemption system to a regulated system at the expiry of the long-term contracts (October 2018).</li> </ul>	<ul style="list-style-type: none"> <li>Third Party Access exemption on the initial capacity (10 bcm/y);</li> <li>Exemption from tariff regulation on the initial and expansion capacity.</li> </ul>

## Results<sup>4</sup>

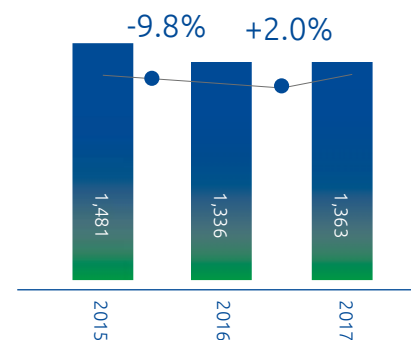
In order to allow a better assessment of group performance and greater data comparability, Snam's management has developed alternative performance measures not provided for by the IFRS (Non-GAAP measures), mainly represented by the pro-forma and adjusted results. Further to excluding the special item, limited to the comparative periods (2015 and 2016) alone due to the discontinuity elements that characterised 2016, these results reflect Italgas Group's contribution to continuing operations by applying the related 13.5 shareholding percent to the net profit of the Italgas Group for the entire year.

## Adjusted results<sup>5</sup>

Due to soundness of operational management and rigorous financial discipline, Snam achieved very positive results in 2017. **Adjusted EBIT<sup>6</sup>** totalled €1,363 million, up €27 million (2.0%) compared with the same value from the 2016 financial year. The higher revenues (+€26 million, 1.1%), mainly attributable to the natural gas transportation and storage sectors, and lower operating costs (+€9 million, or 2.1%), also due to the effects of the Efficiency Plan (+€19 million), were partially offset by the increase in amortisations and depreciations for the period (-€8 million, or 1.2%), mainly due to the amortisation deriving from the entry into service of new infrastructure, which was partly absorbed by lower impairment of tangible assets.

As regards business sectors, the increase in adjusted EBIT essentially reflects the positive performance recorded by the transport sector (+2.6%, + € +27 million).

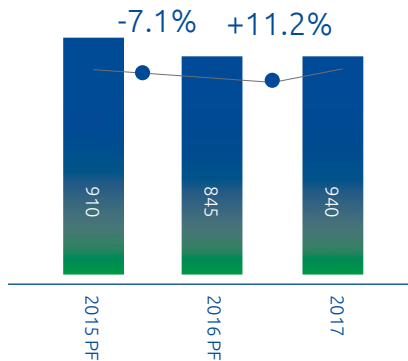
Ebit adjusted (€ million)



4 Unless otherwise specified, results for 2015 and 2016 shown below refer to continuing operations (transport, re-gasification and storage of natural gas) and, therefore, exclude the contribution of the natural gas distribution sector, represented as "discontinued operations" pursuant to accounting standard IFRS 5 "Non-current assets held for sale and discontinued operations". To allow greater data comparability and in with a view to remove distortions arising from the application of the aforementioned principle, eliminations deriving from intercompany transactions towards discontinued operations have been restored to continuing operations.

5 For the definition of these indicators and the reconciliation of the economic ones with the related reported results, in line with the guidelines of the 2015/2016 ESMA1415 document "ESMA Guidelines on Alternative Performance Measures" of 5 October 2015, please refer to the chapter "Financial review and other information - Non-GAAP measures".

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

**Adjusted net profit (€ million)**

Adjusted **net profit stood at €940 million**, up €95 million (+11.2%) compared to the adjusted pro-forma net profit for 2016. The increase, in addition to the greater operating profit, was due to: (i) lower net financial expenses (+€36 million, or 13.7%), which benefitted from a reduction in the average cost of debt, as well as benefits deriving from optimisation actions carried out during the period 2016 and 2017, in particular, the liability management operation completed in October 2016 and the financing operations carried out during the year, as well as the reduction in average debt for the period; (ii) higher net income from investments (+ €15 million, +11.1%); (iii) lower income taxes (+ €17 million, or 4.7%) mainly attributable to the reduction from January 1, 2017 of the IRES rate from 27.5 to 24.0%, partially offset by the higher pre-tax profits.

**Net financial debt** was €11,550 million as at 31 December 2017, compared with €11,056 million as at 31 December 2016. The net cash flow from operating activities (€1.864 million) allowed us to fully cover the financial requirements associated with net investments for the period equal to €1.441 million, including investments in shareholdings, and to generate a free cash flow of €423 million. Net financial debt, after the payment to shareholders of the 2016 dividend (€718 million) and the cash flow deriving from the purchase of treasury shares (€210 million), shows an increase of €494 million compared to 31 December 2016, including non-monetary components related to financial indebtedness (€ 11 million).

**Dividends**

Our healthy 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 was paid in January 2018 as an interim dividend and the balance of €0.1293 per share will be paid from 18 June 2018 (record date 19 June 2018), confirming Snam's commitment to an attractive and sustainable remuneration of its shareholders over time.

**Free cash flow**

**+€423** million

**2017 dividend**

€0.2155 per share

**Main income statement data (a)**

	Pro-forma		Adjusted
	2015	2016	2017
(millions of €)			
Total revenue	2,627	2,560	<b>2,533</b>
- of which from regulated activities	2,502	2,444	<b>2,434</b>
Operating costs	570	573	<b>511</b>
Operating profit (EBIT)	1,481	1,336	<b>1,363</b>
Net profit (b)	910	845	<b>940</b>

(a) Changes in the income statement results shown in the table, as well as in those later in this Report, unless otherwise indicated, must be understood as changes in the results for the adjusted 2017 financial year compared to the 2016 pro-forma adjusted year. Percentage changes are calculated in relation to the data indicated in the related tables.

(b) Entirely held by Snam shareholders.

	2015	2016	2017
(millions of €)			
<b>Reported Results</b>			
Operating profit (EBIT)	1,427	1,293	<b>1,348</b>
Group net income (*)	1,238	861	<b>897</b>

(\*) Entirely held by Snam shareholders.

**Key profit and financial indicators**

		2015	2016	2017
Net profit per share (b)	(€)	0.227	0.169	<b>0.262</b>
Adjusted net profit per share (a) (c)	(€)	0.260	0.242	<b>0.275</b>
Group shareholders' equity per share (a)	(€)	2.17	1.86	<b>1.81</b>
Pay-out (Dividends for the period/Group net profit) (d) (e) (f)	%	70.68	83.86	<b>81.61</b>
Dividend yield (Dividend for the period/year-end official share price) (d) (e)	%	5.2	5.4	<b>5.3</b>
Price/Book value (Average official price per share/Group shareholders' equity per share) (g)	(€)	2.08	2.21	<b>2.24</b>

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

(b) Figures for 2015 and 2016 have been calculated with reference to the net profit of continuing operations.

(c) Figures for 2015 and 2016 have been calculated with reference to the adjusted pro-forma net profit.

(d) The 2017 amount (relating to the dividends) is estimated based on the outstanding number of shares as at the date of this Report (13 March 2018).

(e) The figure for the 2015 financial year refers to the scope of consolidation of the Snam Group prior to the separation operation of Italgas.

(f) Figures for 2015 and 2016 were calculated with reference to the Group's net income (continuing and discontinued operations) of € 1,238 and €861 million, respectively.

(g) The official average price per share for the year 2015 refers to the historical average and does not take into account the price adjustment carried out following the demerger operation.

### Key balance sheet and cash flow figures

(millions of €)	2015	2016	2017
Technical investments	879	906	<b>1,034</b>
Net invested capital at 31 December	21,365	17,553	<b>17,738</b>
Group shareholders' equity at 31 December	7,585	6,497	<b>6,188</b>
Net financial debt at 31 December	13,779	11,056	<b>11,550</b>
Free cash flow	771	1,707	<b>423</b>

### Key share figures

		2015	2016	2017
Number of shares of share capital	(million)	3,500.6	3,500.6	<b>3,500.6</b>
Number of shares outstanding at 31 December	(million)	3,499.5	3,470.7	<b>3,414.5</b>
Average number of shares outstanding during the year	(million)	3,499.5	3,496.8	<b>3,422.4</b>
Year-end official share price (a)	(€)	4.002	3.923	<b>4.086</b>
Average official share price during the period	(€)	3.721	4.101	<b>4.043</b>
Market capitalisation (b)	(million)	16,973	13,612	<b>13,953</b>
Dividend per share	(€ per share)	0.25	0.21	<b>0.22</b>
Dividends per period (c)	(million)	875	718	<b>732</b>
Dividends paid in the period	(million)	875	875	<b>718</b>

- (a) According to the definitions in Borsa Italiana S.p.A.'s "Principles and Conventions", following the extraordinary transactions, in order to restore the continuity and comparability of stock prices, an appropriate coefficient to adjust the historical series must be applied. Therefore, the official price of Snam's stock relating to 2015 has been adjusted.
- (b) The product of the number of shares outstanding (exact number) multiplied by the year-end official share price. The value for 2015 was calculated on the basis of the historical official prices recorded at the end of the year equal to €4.85, and do not take into account the price adjustments made following the demerger operation.
- (c) The amount for 2017, representing the balance, was estimated on the basis of the number of shares outstanding as at the date of this Report (13 March 2018).

## Breakdown of added value

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

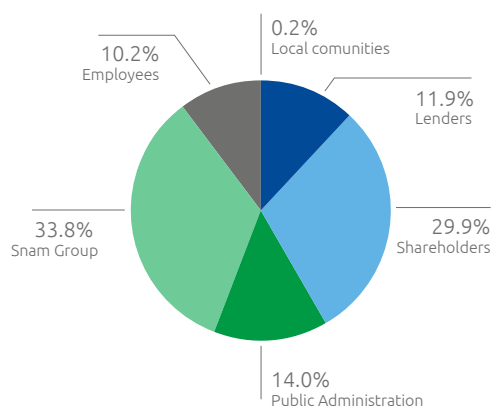
Snam calculates the added value taking inspiration from the standard prepared by the Gruppo di Studio per il Bilancio Sociale (GBS) and the GRI Standards. The table below is useful for understanding the Group's economic impact and makes it possible to read the consolidated financial statements from the standpoint of stakeholders. To this end, it should be noted that the calculation of the Value Added in 2017 was made on the basis of the values drawn from the legal scheme of the Income Statement. As for 2016, also due to the elements of discontinuity that characterised this year, we used the income statement values referring to continuing operations.<sup>7</sup>

In 2017, the gross global added value produced by Snam was €2,447 million: a slight reduction (€71 million, 2.8%) compared to 2016 (€2,518 million). The reduction is mainly due to the effects of the separation from Snam of natural gas distribution activities completed in 2016, which generated extraordinary financial income related to the repayment to Snam by the demerged companies, of the financial debts outstanding at the relative market value.

A total of 33.8% of the gross global added value produced by Snam was **reinvested within the Group** (in line compared with 2016: +9.8%), and intended essentially for the amortisation and depreciation of the intangible and tangible fixed assets used in the production process (100% in 2016). With regard to the main reference stakeholders, 2017 shows a stable incidence of Added Value distributed to **employees** (10.2%; -0.1% compared to 2016) through direct remuneration consisting of wages, salaries and employee severance indemnity and indirect remuneration consisting of social charges and personnel service costs

(canteen services, travel expenses reimbursement), whilst there was an increase in the value destined for the **Public administration** through the payment of direct and indirect taxes (14.0%, +1.2% compared to 2016), mainly attributable to the higher pre-tax profit, despite the reduction of the IRES tax rate from 27.5% at 24.0%, which started on 1 January 2017. With reference to **lenders**, there was a reduction in the value distributed of 12.3% (11.9%; 24.2% in 2016) also against the benefits deriving from the optimisation actions implemented in 2016 and 2017, in particular the operation of liability management completed in October 2016. The value distributed to **shareholders** through distributed dividends is up (29.9%, +1.3% compared to 2016) despite the lower number of shares outstanding following the repurchase of treasury stock carried out by Snam as part of the share buyback program launched in November 2016. Lastly, an amount of approximately €5 million was designated for **local communities** (0.2% of the value generated) through donations and sponsorship initiatives and environmental compensation pursuant to the law.

### Breakdown of added value



In addition, for the protection of the environment, Snam has incurred expenses for a value of approximately 120.6 million € (108.4 million € for investments and 12.2 million € for operating costs).

<sup>7</sup> These values include the restoration of continuing operations, for each item in the income statement, of the eliminations arising from transactions towards discontinued operations.

## Main events

### Share buyback programme

On 11 April 2017, subject to revocation of the previous resolution of the Ordinary Shareholders' Meeting of 1 August 2016, the Shareholders' Meeting authorised the purchase of treasury shares, in one or more transactions, for a maximum duration of 18 months<sup>8</sup>, and for a maximum disbursement corresponding to the remaining unrealised portion of € 196 million, resulting from the difference between the maximum outlay (€500 million) and that incurred by the Company for purchases made up to the date of the Shareholders' Meeting resolution (€304 million), all however up to the maximum limit of 3.5% of the Company's share capital, having regard to the treasury shares already held by the Company. The essential acquisition-related contents are substantially unchanged compared to those already provided for in the previous authorisation, with the addition of the resolution concerning the authorisation to the Board of Directors for the sale of both own shares already held in portfolio and those that they may be repurchased under the share buyback plan.

As part of the aforementioned plan, on 31 December 2017, Snam purchased 84,788,366<sup>9</sup> of its own shares (equal to a 2.42% stake), for a total value of € 313 million and, on the same date, holds 85,915,616 of its own shares, equal to a 2.45% stake.

With effect from 12 January 2018, Snam has also stipulated an enhanced buyback agreement with a top-level intermediary with a duration of not more than three months. Snam has subsequently renewed the mandate of the same intermediary through an "enhanced

buyback agreement" not exceeding two months starting from 20 February 2018. The appointed intermediary will perform independent purchases, in compliance with the contractually predefined parameters and criteria, as well as the constraints of the applicable legislation and of 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 TUF, as well as according to the operating procedures established in the organisation and management regulations of Borsa Italiana S.p.A.

### Long-term stock incentive plan

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term stock incentive plan, conferring to the Board of Directors, and for it to the CEO, with express faculty to sub-delegate, every necessary power for the complete implementation of the aforementioned Plan. The adoption of a long-term stock incentive plan (performance share) aims to align Snam with market practices and strengthen the link between the creation of value for shareholders and management remuneration. This plan is envisaged for the Chief Executive Officer and a maximum of 20 other management executives who hold positions with the greatest impact on the creation of value or with strategic importance for the achievement of the multi-year objectives of Snam. In implementation of the aforementioned delegation, on 20 June 2017 the Board of Directors resolved:(i) the annual allocation of

the incentive in favour of the Chief Executive Officer; (ii) approval of the Regulations for each annual award; (iii) identification of the Beneficiaries on the basis of the defined criteria; (iv) the conditions for implementation. Further information on the characteristics of the Plan is provided in the section "Other information - Long-term stock incentive plan 2017-2019".

### Exit incentive agreement

On 17 November 2017, Snam and a series of the most representative trade unions signed the implementation agreement (hereafter the "Plan"), relating to the pension advance instrument for its employees, regulated by Art. 4 paragraphs 1-7 of the Italian Law No 92/2012 (the so-called "Fornero Law"). This agreement follows the preliminary agreement signed by the parties on 26 July 2017. The Plan intends to create, by 31 March 2018, the conditions for the companies of the Snam Group that favour the early exit of beneficiary employees in order to achieve a generational turnover. The personnel concerned who have completed the pension requirements set out in the Plan, subject to approval of the same by INPS, and currently amounts to 100 individuals. As far as the application of this implementing agreement is concerned, Snam has committed itself to pay the beneficiary employees, in addition to the amounts set out in the Plan, a further amount as a retirement incentive. In relation to the aforementioned Plan, in the fourth quarter of 2017 the income statement recorded expenses of € 15 million, including personnel costs and the costs for early retirement incentives granted to employees participating in the Plan (€ 2 million).

<sup>8</sup> The 18-month period starts on the date of execution of the Shareholders' resolution.

<sup>9</sup> Of which 56,010,436 shares purchased in 2017 for a total cost of € 210 million.



## Optimisation of the Group's financial structure

### Convertible bond loan

On 14 March 2017, an equity-linked bond loan was successfully placed for a nominal amount of € 400 million with five-year bonds issued at par and with no monetary interest. The Regulation and closing of the bonds took place on 20 March 2017. The initial conversion price of the bonds was set at € 48.453, which represents a premium of 26% above the volume weighted average price (VWAP) of the Company's ordinary shares, as shown in the price list of Borsa Italiana S.p.A. between the launch of the offer and the determination of the price of the bonds, both of which occurred on 14 March 2017.

On 11 April 2017, the Shareholders' Meeting approved, among other things, an authorisation of the Board of Directors for the disposal of treasury shares. On 12 April 2017, Snam sent the bond holders the Physical Settlement Notice, from 13 April 2017 assigning the right to convert the bonds into ordinary shares of the Company.

The bonds will be redeemed at their face value on 20 March 2022, unless there is an early repayment or the bonds are previously converted or repurchased by the Company.

This transaction represents a step forward in the optimisation of the debt structure, allowing the creation of further value through the share buyback program and obtaining funding at competitive costs, with a positive impact on cash flows. The success of the transaction confirms investor confidence in Snam's equity story.

### Renewal of the EMTN programme

On 6 October 2017, the Board of Directors of Snam resolved to renew the EMTN programme for a maximum value of € 10 billion.

As a result, the Board has decided to issue one or more additional bonds to be executed by 6 October 2018, for a maximum amount of approximately € 1.8 billion, increased by 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 may be listed on one or more regulated markets. At 31 December 2017 there are outstanding bonds for a nominal value of approximately € 8.2 billion<sup>10</sup> issued under the EMTN Programme. The EMTN programme represents an effective instrument to raise funding on the market in a flexible manner and at competitive costs, in a way consistent with Group requirements in terms of changes in the financial structure.

### Bond buyback

On 25 October 2017, Snam successfully completed a buyback on the 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 repurchase price totaling € 656 million was largely financed through a new fixed rate bond issue, expiring on 25 October 2027, for a total amount of € 650 million, with a coupon equal to 1.375% and a duration of ten years.

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

<sup>10</sup> The convertible bond loan with a nominal value of € 400 million is not part of the EMTN Programme.

## Private placement in January 2018

As part of the € Medium Term Notes (EMTN) programme approved by the Board of Directors on 6 October 2017, on 22 January 2018 Snam S.p.A. completed a private placement with primary institutional investors for a total amount of € 350 million, a two-year duration and variable yield equal to three-month Euribor plus 0.15%. With the aforementioned issue, Snam continues to optimise its debt structure and continuously improve the cost of capital, in line with its objectives.

## Business developments

### Acquisitions

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

On 25 July 2017, Snam signed a definitive agreement with Edison for the acquisition of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A.(ITG), the third-largest Italian operator in the transport of natural gas that manages the 83.3 km pipeline between Cavarzere (Veneto) and Minerbio (Emilia Romagna), connecting the Adriatic LNG regasification terminal to the national transport network at the height of Minerbio, and a 7.3% stake in Terminale GNL Adriatico S.r.l. (Adriatic LNG), the largest offshore infrastructure for the unloading, storage and regasification of LNG and the largest LNG terminal in Italy. On 13 October 2017, following the occurrence of the conditions precedent to the completion of the transaction, Snam S.p.A. concluded the acquisition against a consideration, net of the price adjustment, totaling € 217 million. Relevant contractual agreements also envisage that if Adriatic LNG signs new contracts to use terminal

capacity, Snam will grant Edison a potential additional consideration in the form of an earn-out. The investment allows Snam to strengthen its infrastructures in Italy and to exploit further synergies in the integrated management of the entire gas system, connecting a strategic entry point for the Italian natural gas market to the national transportation network.

### Main partnership agreements

#### CNG - Framework agreement for the development of methane stations

On 25 May 2017, Snam and Eni signed a framework agreement for the development of methane filling stations in Italy. The partnership aims to create new compressed natural gas (CNG) and liquefied natural gas (LNG) plants within the national network of Eni distributors, favouring the supply of low-emission alternative fuels such as natural gas. Natural gas eliminates particulate matter, the main substance responsible for the pollution of urban areas, as well as ensuring significant economic benefits for consumers. The framework agreement is one of Snam's initiatives to promote sustainable mobility for the construction of new distributors, in order to support the development of plants for the supply of natural gas and their more balanced dissemination in the various regions of the country, also improving the quality of the service provided to users.

With a consolidated and cutting-edge technology, Italy is the leading European market for methane fuel consumption, with over 1 billion cubic metres consumed in 2015 and around 1 million vehicles currently in circulation. The framework agreement and subsequent contracts for its application will provide additional impetus to the natural gas business segment in the transport sector,

which represents technological and environmental excellence that is recognised worldwide and can further leverage Europe's more extensive and accessible network of methane pipelines, which are more than 32,000 kilometres in length.

#### Methanisation of Sardinia

Snam, Società Gasdotti Italia (SGI) and its shareholders Macquarie European Infrastructure Fund 4 and Swiss Life Holding have identified a shared project for the construction of the natural gas transport infrastructure in Sardinia, which can be powered by a multiplicity of entry points currently identified in Cagliari, Oristano and Porto Torres. The project is able to bring about lower utilities costs for households and businesses, as well as new development and competitiveness opportunities for the local economy. This includes new employment prospects, in particular in the manufacturing and maritime transport sectors.

The joint Snam-SGI implementation and management of the project and of the natural gas transport network may be entrusted to a company controlled by Snam. The construction and commissioning of the first section of the network is estimated for 2020, after obtaining the necessary authorisations.

### Snam Global Solutions

#### Memorandum of Understanding with Eustream, Naftogaz and Ukrtransgaz

On 10 April 2017 Snam, the Slovakian company Eustream, and the Ukrainian companies Naftogaz and Ukrtransgaz signed a Memorandum of Understanding aimed at jointly evaluating opportunities for collaboration in the management and modernisation of the Ukrainian gas

network. The Memorandum is also aimed at supporting the reliability of natural gas transportation in Ukraine, in line with European market standards, ensuring the safe and efficient management of the Ukrainian gas transport system and making it accessible to third parties in a transparent and non-discriminatory manner, consistent with the legislation in force.

#### Memorandum of Understanding with EDA THESS

On 24 July 2017, Snam and EDA THESS, one of Greece's leading gas infrastructure operators, signed a Memorandum of Understanding aimed at developing areas of collaboration to support the management and development of the infrastructure system managed by the Greek company, in view of the final phase of the opening of the Greek domestic market to third parties.

#### Memorandum of Understanding with Albgaz

On 31 July 2017, Snam and Albgaz, the infrastructure operator of the Albanian gas market, signed a Memorandum of Understanding aimed at developing areas of collaboration to support the start-up and development of the infrastructural system that will be managed by the Albanian company, in connection to methanisation expected with the arrival of the TAP pipeline in the country.

#### Memorandum of Understanding with Baker Hughes

Snam and Baker Hughes, world leader in digital services and solutions to support the industry in the energy field, signed a Memorandum of Understanding on 26 September 2017, aimed at starting a collaboration for

the development of integrated and technologically advanced solutions in the gas infrastructure supply chain.

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

### Post-balance sheet events

#### Agreement for the acquisition of a controlling stake in tep energy solution (TEP)

On 23 February 2018, Snam signed an agreement for the acquisition of a controlling stake, equal to 82% of the capital, of TEP Energy Solution (TEP), one of the leading Italian energy service companies (Esco) active in the energy efficiency sector. The agreement was concluded on the basis of an enterprise value referred to 100% of TEP, equal to € 21 million. Price adjustments are planned based on the results for the next three years and, moreover, put and call options exercisable by 2020.

The initiative is part of the company's strategic plans to promote decarbonisation and better use of energy in the areas in which it operates.

With its offices in Rome, Milan and Udine, TEP is among the first independent industrial Esco's in Italy, with over 200 customers from among the leading national and multinational companies, 950 thousand energy efficiency certificates, and a 2017 EBITDA of approximately € 6 million. TEP's mission is to make its customers more competitive by reducing energy costs by optimising the quantities used. TEP does not and will not deal with the production or sale of electricity and gas: it intervenes to enhance its customers' investments through the production of energy efficiency certificates, and acts as an

investor for the implementation of energy efficiency measures. The transaction closing is expected by September 2018 and is subject to obtaining the authorisation by the Italian Competition Authority.

#### Joint acquisition between Snam and Fluxys of a 33.5% stake in Interconnector UK

On 12 March 2018, Snam and Fluxys successfully acquired a 33.5% stake in Interconnector UK, formerly held by Caisse de dépôt et placement du Québec (CDPQ). Interconnector UK owns the two-way gas pipeline that connects the United Kingdom to Belgium and the rest of Europe. Through the joint ventures Gasbridge 1 BV and Gasbridge 2 BV, Fluxys and Snam decided to exercise their right of pre-emption in proportion to the share held by CDPQ. The total value of the transaction amounts to approximately GBP 75 million.

Following the finalisation of the share transfer, Fluxys and Snam became the sole shareholders of Interconnector UK, passing respectively to 76.32% and 23.68% of the capital, confirming their full support for the company in a new phase of development.

At 31 December 2017, the book value of Snam's holdings in Gasbridge 1 BV and Gasbridge 2 BV was aligned on the basis of the fair value of the transaction price.

## Operating review

### Technical investments

Technical investments totalling € 1,034 million (€ 906 million in 2016) referred mainly to the natural gas transportation (€ 917 million) and storage (€ 101 million) business segments.

### Infrastructure development and integration

The main investments for the development of new infrastructure mainly involved work for **the reversal of physical transportation flows at interconnection points with northern Europe** (€ 249 million), the **upgrade of the transportation network from entry points in southern Italy** (€ 20 million) and the upgrade of the network and connection of new regional and national redelivery points (€ 107 million). A total of € 31 million was invested in 2017 for the **development of new storage fields and upgrading capacity**. With regard to completed works and disposals, as well as the acquisition of a 100% stake in Infrastrutture Trasporto Gas, a company that owns the pipeline connecting the Adriatic LNG regasification terminal to the national transport network at the height of Minerbio, **the network of gas pipelines in operation** saw an increase of 76 km compared to 31 December 2016) while **the installed power in the compression plants amounted to 922.2 Megawatts** (unchanged compared to 2016). Available **storage capacity** rose by 0.2 billion cubic metres, made available by the new Bordolano deposit, to a level of 12.2 billion cubic metres.

### NFS Maintenance of plant security and quality

Investments in projects aimed at maintaining plant security and quality totalled € 432 million for transportation and € 70 million for storage.

Throughout the year, the plants in the network are monitored 24 hours a day. With the help of simulation and optimisation programmes, their best asset is guaranteed with the aim of reducing the consumption of gas boosting fuels and thus containing the level of emissions.

The section of lines is inspected regularly by vehicles, using helicopters and personnel on foot in order to detect potentially hazardous situations caused, for example, by the works of third parties in the area of the pipelines. Geological inspections of pipeline sections are also carried out to identify potential instabilities along their routes. Similarly, any land slippage at specific points of the route is also kept under surveillance using suitable sophisticated equipment. The integrity of the pipelines is also inspected by passing devices along them known as “smart pigs”, which can detect any faults.

In terms of storage, particular attention is paid to the safety plants and people. Regular maintenance and plant improvement interventions are performed on a continuous and targeted basis, in order to always apply the best available technologies.

### Control and inspection of transportation activities

	2015	2016	2017
Network inspected using smart pigs (km)	1,315	1,660	<b>1,632</b>
Network inspected by helicopter (km)	16,330	16,218	<b>16,274</b>
Network subjected to geological inspection (km)	2,300	1,478	<b>4,080</b>

### Interconnected transportation-storage capacity and network utilisation

The average transportation capacity provided in 2017 was 364.2 million cubic metres/day on average, which was in line with 2016 (-0.8%), while transferred capacity totalled 258.8 million cubic metres/day on average. Network saturation<sup>11</sup> was 71.0%, a decrease compared with 2016 (79.1%). The number of active transport users in 2017 was 128, compared to 136 users active in 2016. During the year, 78 connection agreements were entered into for the creation of new delivery/redelivery points, including 13 biomethane points.

Overall storage capacity, including strategic storage, was 16.7 billion cubic metres at 31 December 2017, an increase of 0.2 billion cubic metres over 2016 following the Bordolano site's gradual entry into service, of which 12.2 was available capacity that was fully transferred for the 2017-2018 thermal year (99.9%), and the remaining 4.5 billion cubic metres was for strategic storage. There were 89 active storage customers (91 in 2016).

### Business volume

In 2016 a total of 74.59 billion cubic metres of gas was injected into the network, an increase of 3.95 billion cubic metres (+5.6%) compared with 2016. The increase is essentially attributable to the increased demand for gas in Italy (+4.23 billion cubic metres, +6.0%, up for the twelfth consecutive quarter) recorded in all sectors, respectively in the thermoelectric sector (+1.93 billion cubic metres, +8.2%), driven by a particularly strong summer demand, by the reduction in hydroelectric production and by the continuation of the shutdown of some French nuclear

plants in the first two months of the year, industrial (+1.22 billion cubic metres, +7.3%), and residential and tertiary (+0.62 billion cubic metres, +2.1%).

The volumes of gas moved through the storage system in 2017 totalled 19.9 billion cubic metres, a substantially in line with the volumes handled in 2016 (-0.08 billion cubic metres; equal to -0.4%). The reduction is mainly attributable to lower injections for the replenishment of storage facilities (-0.16 billion cubic metres, -1.6%), to shipper behaviour in relation to the different market conditions, partly offset by higher disbursements (+0.08 billion cubic metres, +0.8%) due to the climatic trend.

During 2017, 0.63 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.21 billion cubic metres in 2016; +0.42 billion cubic metres), of which 0.084 billion cubic metres within the integrated natural gas regasification and storage service<sup>12</sup>. In 2017, 15 landfills from methane tankers were performed (5 landfills in 2016), of which 2 were landfills in the context of the aforementioned integrated service.

# +3.95

billion cubic metres of gas injected into the network (+5.6%)

# +6.0%

increasing gas demand for the twelfth consecutive quarter

Volumes handled in storage in line with the previous year

# +0.42

billion cubic metres of regasified LNG

<sup>11</sup> Ratio of capacity transferred to available capacity.

<sup>12</sup> The convertible bond loan with a nominal value of € 400 million is not part of the EMTN Programme.

## Key operating figures

In conformity with IFRS 8 “Operating segments”, the operating segments were defined on the basis of the internal reporting used by the Company’s management for allocating resources to the different segments and for analysing the respective performances.

To this end it is noted that:(i) the company Infrastrutture Trasporto Gas, which entered the scope of consolidation as of October 2017, has been consolidated within the Transportation sector; (ii) the company Snam 4 Mobility, which entered the scope of consolidation as of November

2017, has been consolidated within the Corporate and Other Activities sector.

	2015	2016	2017	Change	Change %
<b>Natural gas transportation (a)</b>					
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	67.25	70.64	<b>74.59</b>	3.95	5.6
Transportation network (kilometres in use) (c)	32,534	32,508	<b>32,584</b>	76	0.2
Installed power in the compression stations (MW)	876.5	922.2	<b>922.2</b>		
<b>Liquefied Natural Gas (LNG) regasification (a)</b>					
LNG regasification (billions of cubic metres)	0.03	0.21	<b>0.63</b>	0.42	
<b>Natural gas storage (a)</b>					
Available storage capacity (billions of cubic metres) (d)	11.5	12.0	<b>12.2</b>	0.2	1.7
Natural gas moved through the storage system (billions of cubic metres)	19.58	20.00	<b>19.92</b>	(0.08)	(0.4)
<b>Employees in service at period end (number) (e) (f)</b>	<b>3,005</b>	<b>2,883</b>	<b>2,919</b>	<b>36</b>	<b>1.2</b>
<i>by business segment:</i>					
- Transportation	1,918	1,726	<b>1,972</b>	246	14.3
- Regasification	73	71	<b>63</b>	(8)	(11.3)
- Storage	299	301	<b>60</b>	(241)	(80.1)
- Corporate and other activities	715	785	<b>824</b>	39	5.0

(a) With reference to the 2017 financial year, gas volumes are expressed in Standard cubic metres (Smc) with an Average Calorific Value (ACV) of 38.1 MJ/Smc (10.572 Kwh/Smc) for transport and regasification and 39.4 MJ/Smc (10.930 Kwh/Smc) for the storage of natural gas for the thermal year 2017-2018 (39.3 MJ/Smc, 10.906 Kwh/Smc, 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 the figures are consistent with those published by the Ministry of Economic Development.

(c) The figure for 2017 includes 84 Km of the network of the company Infrastrutture Trasporto Gas, fully consolidated starting from the month of October 2017.

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

(e) Fully consolidated companies.

(f) The increase of 36 staff members is essentially due to the entry of 27 persons following the entry of Infrastrutture Trasporto Gas into the consolidation area starting from the month of October 2017. The movement of resources between the various companies in the Group is also affected by the adaptation of the organisational structures, initiated by Snam in November 2016, with the aim of simplifying and optimising certain processes.

**NFS** The number of employees in service at 31 December 2017 was n. 2,919 (n. 2,883 employees at 31 December 2016), an increase of 36 (+1.2%) over the previous year. The average number of payroll employees for entities included in the scope of consolidation at 31 December 2017 was n. 2,880 (n. 2,804 employees in 2016).

On the one side 2017 featured significant organisational changes also related to the demerger of the distribution business segment and, on the other side, the development of the employment mix, which recorded the following dynamics over the course of the year:

- 184 employees joining, of which 148 were recruited from the market, and 36 others joining, including 27 due to the change in the consolidation of the company Infrastrutture Trasporto Gas in October 2017, 1 from non-consolidated companies and 8 returning from leave;
- 148 employees left the company, including 33 as a result of the termination of employment, 36 were terminated unilaterally, 73 transfers to non-consolidated companies and 6 other departures.

With respect to the Group's national distribution, 2,204 people are employed in the northern regions of Italy, 202 in the central regions and 509 in the south. Furthermore, 4 individuals are permanently employed abroad.

## **NFS** Industrial relations

In 2017, the relationship with the trade unions at national and local level was characterised by numerous meetings (119). The activities concerned the analysis of the business development projects and new organisational structures, following the sale of the "Plants and Technical Services" business unit from Stogit S.p.A. to Snam Rete Gas S.p.A., carried out within the Integra project which provides for the integration of the transversal activities of the operating companies in order to develop and enhance specific skills. Among the transport activities, the technical commission of the SMART GAS project continued its work on a more rational planning of the intervention agenda, with the objective of analysing the technical aspects of the project.

In the regasification area, meetings were held with the trade unions, at national and local level, aimed at sharing and comparing the issues concerning the evolution of the business.

The negotiation dynamics, consistent with the provisions of the Protocol on Industrial Relations of 17 October 2013 (based on the strengthening of second-level bargaining), have led the Parties to define the productivity and profitability indicators of the Participation Premium for 2017 for all the companies of Snam.

At the beginning of the year, the national employment contract applied in the Group was renewed.

In addition, all the companies of the Snam Group have signed the implementation agreement pursuant to Article 4 of Italian Law No. 92/2012 (the so-called "Fornero Law"), for an early exit of workers who meet the requirements set out therein.



## Supply chain management

Snam adopts an 'extended' management model that, going beyond the boundaries of its company perimeter, involves and takes on the responsibility of supply chain operators (suppliers and subcontractors): everyone is encouraged to achieve increasingly sustainable performance in terms of risk mitigation, innovation of management processes, increase in operational efficiency and promotion of responsible governance procedures.

In 2016 Snam directly provided work for around 574 companies, 416 of which belong to the small-medium business sector (SME), concluding over 800 procurement contracts worth a total of approximately € 844 million. Among the goods purchased the most important material is steel (piping, connectors, etc.) which, in 2017, amounted to a supply of approximately 14,300 tonnes.

The change in the amount of procurement over the previous year must take into account the cyclical nature of the procurement process, in particular the fact that the 2017 purchase plan was also covered by multi-year contracts already stipulated in previous years.

More than 92% of the procurement concerns national companies (distributed in all Italian regions in line with the territorial belonging of each company), and about 7% concern Europe.

In order to guarantee the adequacy of the supply chain with respect to the supply requirements, in 2017 Snam conducted an intense market intelligence activity on about thirty different product categories connected to the core business and new activities (construction of new natural gas compression and storage stations for motor vehicles). The number of spontaneous applications received by aspiring suppliers was around 1,900.

At 31 December, the vendor list included 1,612 qualified suppliers, and 403 suppliers were in the process of being renewed or obtaining new qualifications. Snam exercises control of its supply chain by monitoring supplier performance during the execution phase of contracts through audits, inspections and evaluation processes. During the year, 854 feedback reports were collected on the services rendered by 156 suppliers. Additionally, 1,647 suppliers and sub-contractors were checked with regard to the regularity of contributions, through

3,739 inspections which led to the interception of 3% of irregularities.

With regard to the fight against corruption, all suppliers and subcontractors are required to accept the Integrity Ethics Pact and are subject to reputational checks. A total of 1,810 reputational checks were performed in 2017.

In the procurement of works, which is the most important category because it is related to core activities, the suppliers considered critical (critical levels A and B) were all in possession of quality and environment management systems certified with ISO 9001, ISO 14001 and ISO 18001 standards. In 2017 an objective was set to have at least 65% of the suppliers of goods (critical level A) who possess environmental management systems certified according to ISO 14001.

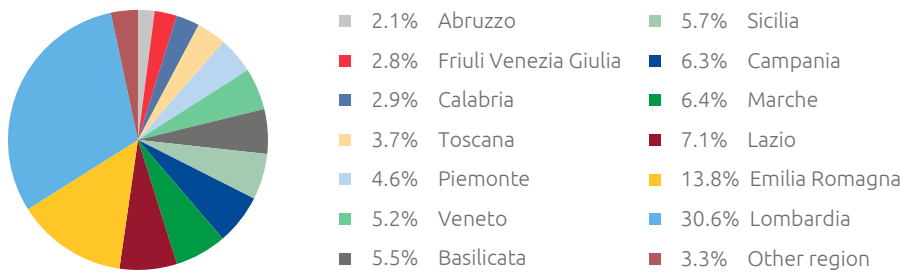
## Procurement (millions of €)

	2015	2016	2017	2015-2017
Procured value	1,266	1,359	844	3,469



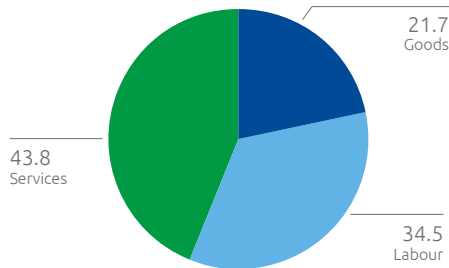
**Procurement by region and merchandise category (\*)**

**Geographical breakdown procurement in Italy (%)**

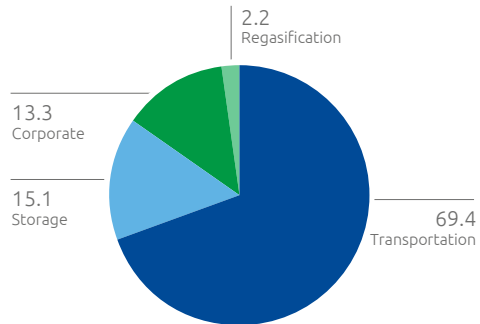


(\*) Representation of the geographical distribution refers to the registered offices of suppliers.

**Procurement by product category (%)**



**Breakdown of procurement by business segment (%)**



**Accidents**

Snam is constantly committed to developing and promoting the protection of health and safety in the workplace. Research and adoption of good business practices are the subject of progressive promotion not only in the corporate area but also towards suppliers, with the aim of extending and improving collaboration on achieving the best performances.

In 2017 there were a total of 11 accidents (9 in 2016), of which 6 occurred to employees (4 in 2016) and 5 to contracting suppliers (5 in 2016); unfortunately, one accident had a fatal outcome.

**Accidents at work (no.)**

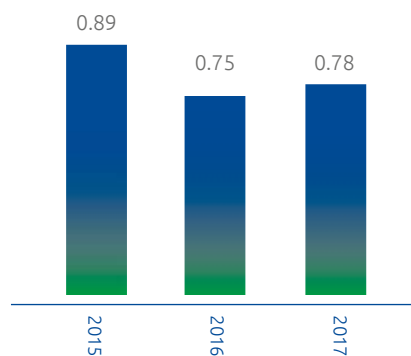
	2015	2016	2017
Total employee accidents	3	4	6
Total contract worker accidents	8	5	5

**Accident indices**

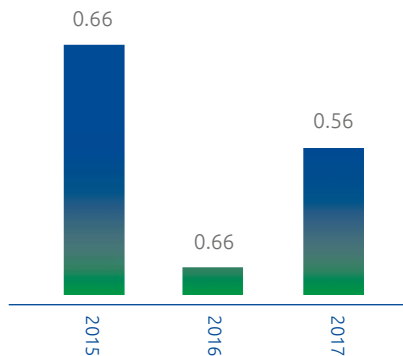
	2015	2016	2017
<b>Employees and contract workers</b>			
Frequency index	0.89	0.75	0.78
Severity index	0.66	0.05	0.56
<b>Employees</b>			
Frequency index	0.62	0.81	1.24
Severity index	1.55	0.04	0.05
<b>Contract workers</b>			
Frequency index	1.07	0.71	0.54
Severity index	0.07	0.05	0.83

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

**Severity index:** number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

**Employee and contract worker accident graphs****Employee and Contractor accidents at work - frequency index (\*)**

(\*) number of non-commuting accidents with incapacity of at least one day, per million hours worked.

**Employee and contractor accidents at work - severity index (\*\*)**

(\*\*) number of working days lost in relation to non-commuting accidents with incapacity of at least one day, per thousand hours worked. Date do not include fatal accidents.

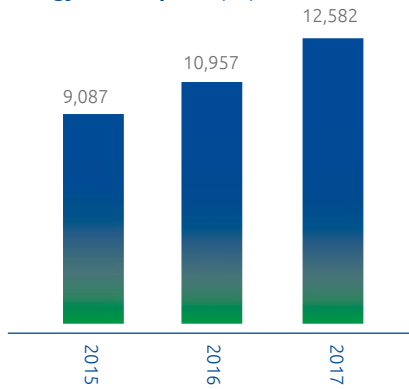
### Energy consumption

Snam's main energy consumption is attributable to gas turbines used in compression plants that provide the pressure needed to transport gas (boost consumption) and storage concessions (storage consumption), which globally represent 88% of total consumption.

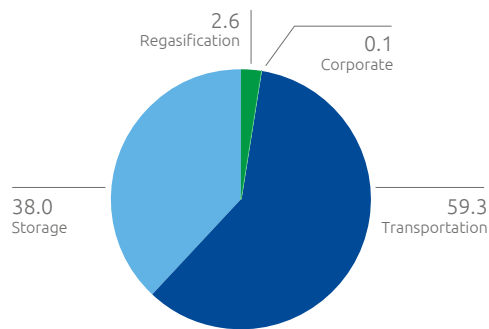
In 2017 energy consumption totalled around 12,582 terajoules (TJ), an increase of +14.8% over 2016. This increase is mainly due to the greater quantity of gas injected into the network (+5.6% compared to 2016) and to a different structure of the network for gas calculation management, from daily to hourly. Natural gas accounted for 96.6% of the energy needs. Other sources used are electricity (2.7%) and other fuels (diesel fuel, gasoline, LPG and heat), which together are equivalent to 0.7%.

### Energy consumption data

Energy consumption (TJ)



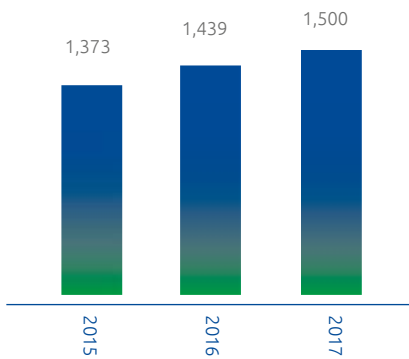
Energy Consumption by activity (%)



### Greenhouse gas emissions

Direct emissions of CO<sub>2eq</sub> – Scope 1 (10<sup>3</sup> t) (\*)

Total direct GHG emissions scope 1 (kt CO<sub>2eq</sub>)



(\*) In 2015, CO<sub>2eq</sub> emissions were calculated based on a methane GWP of 28, as indicated in the scientific study carried out by the Intergovernmental Panel on Climate Change (IPCC), "Fifth Assessment Report IPCC". Assessment Report IPCC".

In 2016 direct CO<sub>2eq</sub> emissions were equal to approximately 1.50 million tonnes (+4.3% compared to 2016). Direct CO<sub>2</sub> emissions from combustion were equal to approximately 0.69 million tonnes (+14.4% compared to 2016), while CO<sub>2eq</sub> emissions from methane stood at approximately 0.81 million tonnes. In 2017, methane emissions per kilometre of transport network were reduced by 1.5% compared to 2016.

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Italian Legislative Decree 30 of 13 March 2013, as amended, and transposing Directive 2009/29/EC.

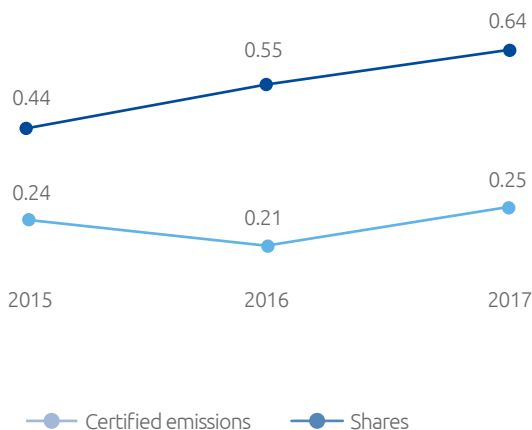
In 2017, the Snam Group's total CO<sub>2</sub> emissions from ETS plants, certified by an accredited body according to the provisions of the competent national authority, amounted to approximately 0.64 million tonnes, out of total annual allowances of approximately 0.252 million issued by the Ministry for the Environment, Land and Sea (negative balance of 0.39 million allowances). This deficit is offset by the allowances already present in the registers for Snam Group plants, accumulated thanks to the surplus from previous years.

### Snam Emission Trading Plants

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

### CO<sub>2</sub> emissions from ETS plants

CO<sub>2</sub> emissions ETS plants (10<sup>6</sup> t)



## Snam and the financial markets

In 2017, European equity markets showed a positive trend (STOXX Europe 600 index +7.7%), linked to the Eurozone's economic recovery despite the high level of political instability.

This instability led to volatility in price lists during the year, linked to some factors including the elections in France, which required two rounds before seeing the affirmation of the pro-European candidate, and in England, where no party successfully obtained an absolute majority of seats. A further element of instability derives from the negotiations between London and Brussels to establish the strategies on trade agreements that will have to regulate relations between the EU and the United Kingdom after Brexit.

The utilities sector closed 2017 with +5.5% (Stoxx Europe 600 Utilities), negatively impacted by the prospects for an increase in interest rates.

In Italy, the FTSE Mib index was +13.6%, driven by good results in the industrial sector, led by the manufacturing and mechanical sectors (the main supplier of goods needed for the 4.0-based renewal), and by the expansionary policies of the ECB from which the banking sector has particularly benefited.

### Snam Share Performance

The Snam share price ended 2017 at an official price of € 4.086, up 4.2% from the € 3.923 recorded at the end of the previous year.

The stock showed an upward trend in the first few months of the year, with a slight decline at the end of the first half. The uncertainty linked to both the Italian political situation and to the UK elections, with the start of Brexit negotiations, weighed heavily.

In the second half of the year there was a reversal of the trend and the stock reached its maximum on 7 November (€ 4.486 per share). Both the results of the first six months of the year and a clear regulatory framework with medium to long-term visibility supported the positive performance.

In line with the strategic plan, the company has continued its investment activity in Italy with the aim of improving the competitiveness and security of gas supplies, which is central to the energy transition to a low-emissions economy, and the country's commitment to guaranteeing profitable growth to shareholders.

## SNAM - Comparison of prices of Snam, FTSE MIB and STOXX Europe 600 Utilities

(01 January 2017 - 31 December 2017)



## Snam Shareholding at 31 December 2017

CONSOLIDATED COMPANY	SHAREHOLDERS	% OWNERSHIP
Snam S.p.A.	CDP Reti S.p.A.(a)	(b) 30.10
	Romano Minozzi	5.75
	Snam S.p.A.	2.45
	Other shareholders	61.70
		<b>100.00</b>

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

(b) On 19 May 2017, CDP S.p.A. sold CDP Reti SpA the entire investment held in Snam S.p.A. represented by 39,200,638 shares, equal to 1.12% of the share capital. At 31 December 2017, CDP Reti S.p.A. holds a stake in Snam S.p.A. represented by a total of 1,053,692,127 shares, equal to 30.10% of the share capital.

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

At year end, based on entries in the Shareholders' Register and other information gathered, CDP Reti S.p.A. held 30.10% of share capital, Snam S.p.A. held 2.45% in the form of

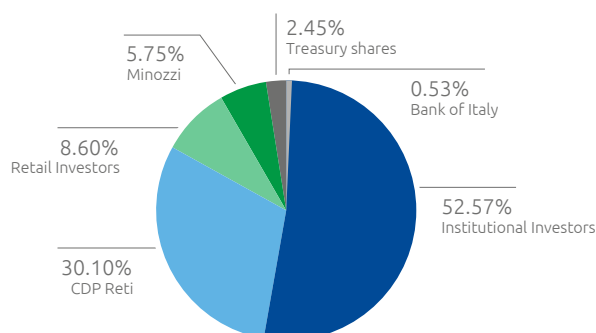
treasury shares, and the remaining 67.45% was in the hands of other shareholders.

The share capital as at 31 December 2017 consisted of 3,500,638,294 shares with no indication of nominal value (unchanged from 31 December 2016), with a total value of € 2,735,670,475.56 (equal at 31 December 2016).

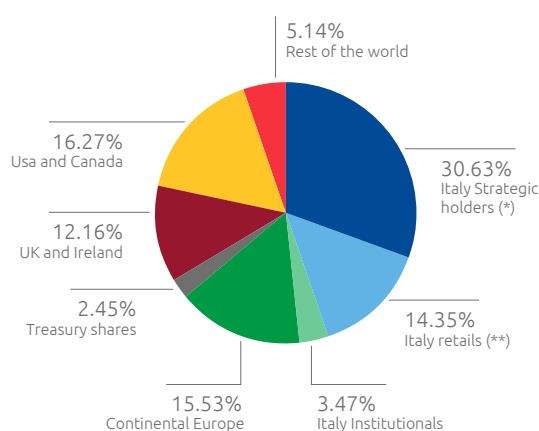
As at 31 December 2017, Snam held 85,915,616 treasury shares

(29,905,180 as at 31 December 2016), equal to 2.45% of its share capital, with a book value of about € 318 million (0.85% for a book value equal to € 108 million as at 31 December 2016). The purchase, in the 2017 financial year, of 56,010,436 Snam shares (representing 1.6% of the share capital) at a total cost of € 210 million, was carried out pursuant to the share buyback programme deliberated by the Shareholders' Meeting of 11 April 2017<sup>13</sup>.

#### Snam shareholder structure



#### Snam shareholders by geographic area



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

(\*\*) Italian Retail Investors include the shares held by Romano Minozzi (5.75%).

<sup>13</sup> For more information on the characteristics of the programme, please refer to the "Main events" section of this Report.

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

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

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

This communications policy takes the form of many economic and financial publications concerning business performance and sustainability developments, in addition to ongoing meetings and events, which throughout 2017 included the following:

- Presentation of the 2017-2021 strategic plan in London;
- conference calls upon the publication of the Company’s results (annual, semi-annual and quarterly) and a presentation of the Business Plan;
- Roadshows to meet shareholders and institutional investors in the major financial centres of Europe, North America, the Middle East and Asia;
- Industry conferences allowing investors specialising in the utilities and infrastructure sectors to meet the Company’s senior management;
- One-to-one and group meetings between the company and the investors;
- Proxy Engagement activity;
- Sustainability Conference.

### Inclusion of Snam stock in sustainability indices

In 2017, for the ninth consecutive year, Snam stock was again included by **RobecoSAM** in the **Dow Jones Sustainability World Index**, the main international equity index formed on the basis of the performance of companies in the area of economic, social and environmental sustainability.

In January 2018, for the fourth consecutive year, RobecoSAM placed Snam in the **Silver Class** of the Sustainability Yearbook 2018, a distinguished group of companies, which in the industrial sector concerned includes companies with a high score in terms of sustainability.

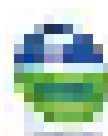
Reconfirmation also took the form of inclusion in the prestigious **FTSE4Good** index, which the Company has been in since 2002.

Snam was also included for the fifth consecutive year among the highest scorers of **CDP**.

The Company was also included in the A List, the highest score of the CDP evaluation model, which in 2017 was only awarded to 112 companies globally.



Snam stock is also included in the following sustainability indices:





### Debt management and credit rating

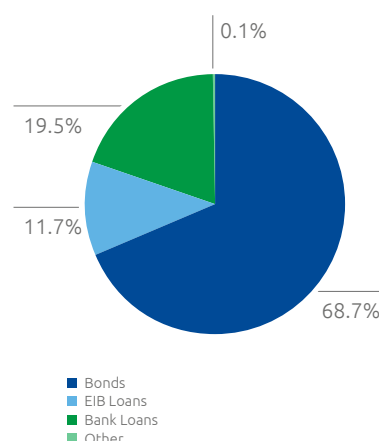
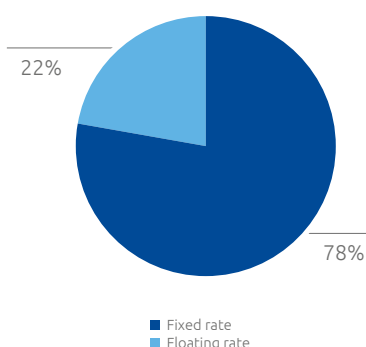
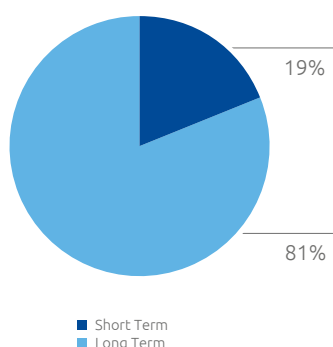
At 31 December 2017, the Group's net financial position was € 11,550 million, resulting from a financial debt of € 12,619 million and liquid assets of € 1,069 million (including short-term financial receivables). Snam's goal is to achieve a debt structure consistent with business requirements in terms of loan term and interest rate exposure. In October 2017, Snam successfully completed a buyback on the 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 repurchase price totaling € 656 million was largely financed through a new fixed rate

bond issue, expiring on 25 October 2027, for a total amount of € 650 million, with a coupon equal to 1.375% and a duration of ten years.

In addition, Snam has also signed a contract with the EIB for the financing of projects promoted by Snam Rete Gas, for € 310 million, with a fixed rate of about 1.5% and maturing in 2037. Loans with the EIB fall under the Group's policy to optimise its financial structure since they complement bonds and bank loans and have longer terms (up to 20 years) and competitive costs.

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

average borrowing costs in 2018. At 31 December 2017, Snam has unused committed long-term credit facilities for an amount of approximately € 3.2 billion. During the year, as part of the process to optimise the financial structure of Group, their duration was extended with a simultaneous reduction in margins. Following the renegotiation, the two syndicated lines, amounting to € 2.0 billion and € 1.2 billion, will expire in 2021 and 2022, with an extension of two years and one and a half years respectively with respect to the previous duration. In addition, on the same date, Snam has a € Medium Term Notes (EMTN) programme for a total maximum nominal value of € 10 billion, of which around € 8.2 billion<sup>14</sup> are being used<sup>15</sup>.



14 On 6 October 2017, the Board of Directors of Snam resolved to renew the EMTN programme for a maximum value of € 10 billion. The renewal of the programme allows for the issue, by 6 October 2018, of bonds worth up to € 1.8 billion, to be placed with institutional investors.

15 It should be noted that the convertible bond issued in March 2017, for a value of € 400 million, is not part of the EMTN programme.

At the same time, the communication activity continued with the rating agencies Moody's, Fitch and Standard & Poor's, with the maintenance of the creditworthiness rating at the solid investment grade level by Moody's (Baa1 with negative outlook), Fitch (BBB + with stable outlook), and Standard & Poor's (BBB + with stable outlook) following the upgrade of a

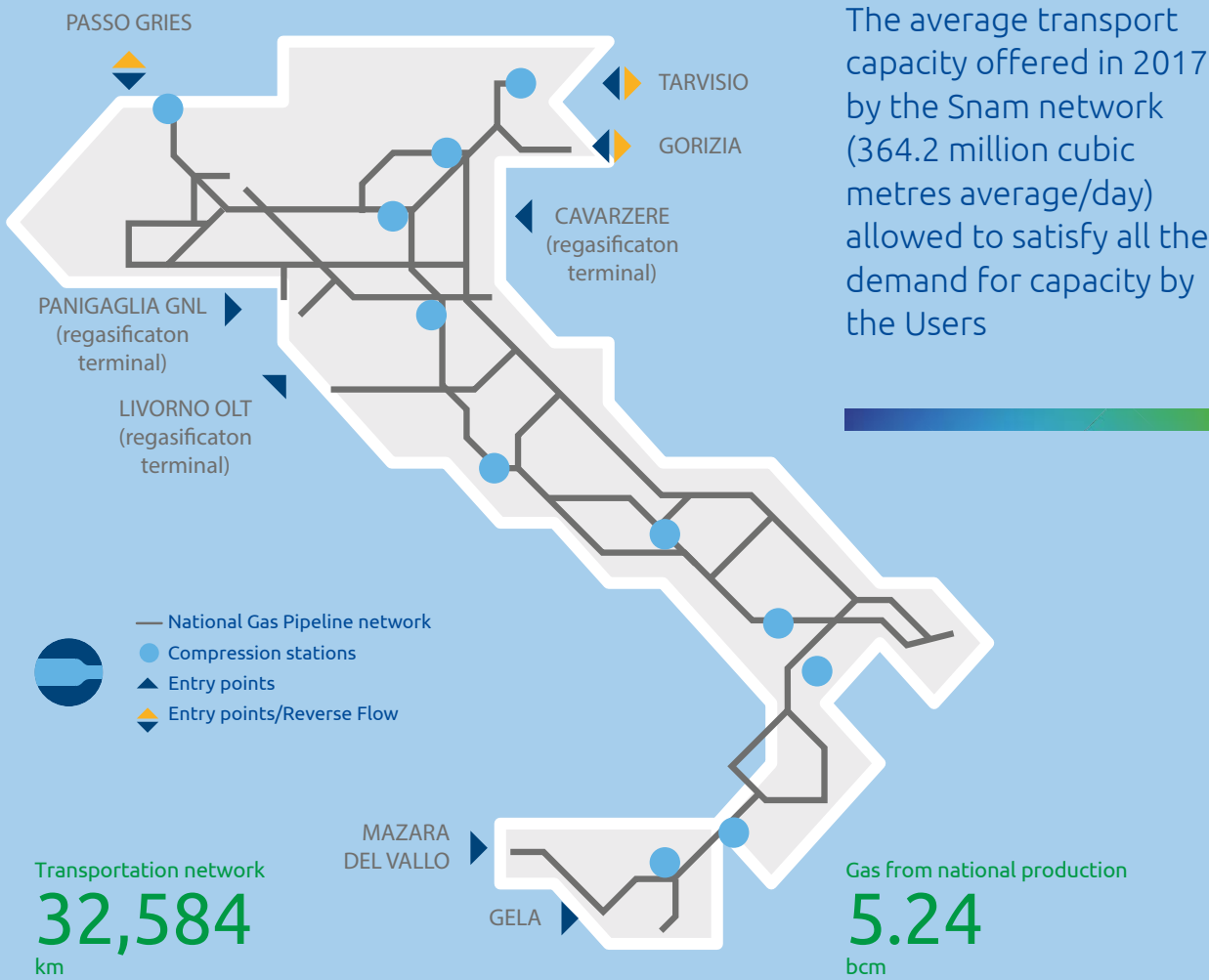
notch on 30th October. The upgrade is the result of a similar improvement by a notch of the Italian Republic's rating. Snam's long-term rating by Moody's, Fitch and Standard & Poor's is a notch higher than that of Italian sovereign debt.

Moody's	Fitch	Standard & Poor's
<b>LAST UPDATING</b>	<b>LAST UPDATING</b>	<b>LAST UPDATING</b>
22 september 2017	8 november 2017	12 october 2017
▼	▼	▼
<b>RATING ON DEBT A LONG TERM</b>	<b>RATING ON DEBT A LONG TERM</b>	<b>RATING ON DEBT A LONG TERM</b>
Baa1	BBB+	BBB+
▼	▼	▼
<b>RATING ON DEBT A SHORT TERM</b>	<b>RATING ON DEBT A SHORT TERM</b>	<b>RATING ON DEBT A SHORT TERM</b>
Not assigned	A-2	F2
▼	▼	▼
<b>OUTLOOK</b>	<b>OUTLOOK</b>	<b>OUTLOOK</b>
Negative	Stable	Stable

# Business segment operating performance

## Natural gas transportation Infrastructure and transport service

### SNAM PRESENCE IN TRANSPORT IN ITALY



Transportation network  
**32,584**  
km

Gas from national production  
**5.24**  
bcm

National network  
**9,704**  
km

Gas injected into the national network  
**74.59**  
bcm

**11**  
Compression stations

Regional network  
**22,880**  
km

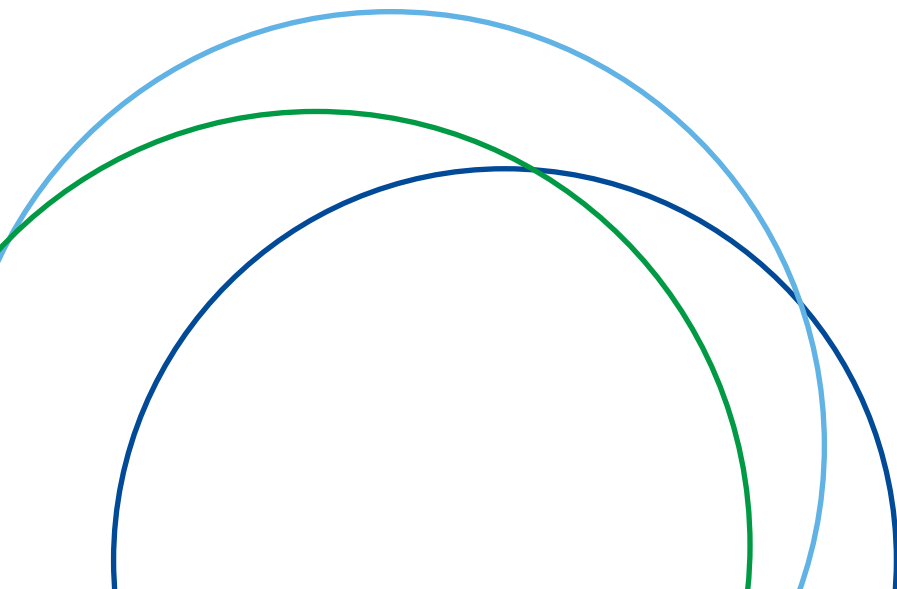
Imported gas  
**69.35**  
bcm

**8**  
Entry points from national production

Snam is the leading Italian natural gas transportation and dispatching operator, and owns almost all of the transportation infrastructure in Italy, with 32,584 km of high- and medium-pressure gas pipelines (approximately 97% of the entire transportation system). Snam manages the gas pipeline network via 8 districts, 48 maintenance centres throughout Italy, 11 compression stations and a new dispatching unit that has been extensively renovated in terms of structure and technology. The gas coming from abroad is fed into the network at the seven entry points, corresponding to the interconnections with the import pipelines and LNG regasification terminals. Once it has been imported or regasified, the gas is transported to the local distribution networks, the regional network redelivery points or large end users such as thermoelectric power stations or manufacturing plants. Snam awards transportation capacity

to applicant shippers. In this way, users acquire the right to feed or withdraw, on any day of the thermal year, a quantity of gas not exceeding the daily flow rate. The conditions for access to the service are contained in the Network Code. The shippers have the possibility to make sales and gas exchanges at a Virtual Trading Point (PSV) of the National Network, thanks to the dedicated IT platform. In 2017, the average transport capacity offered at entry points interconnected with foreign countries and with LNG terminals was 364.2 million cubic metres/day; in addition to this capacity, Snam has made transport capacities available at entry points interconnected with national producers for a total of 25.2 million cubic metres average/day and with the production of biomethane for a total of 0.1 million of cubic metres average/day. During the last 14 years, transport operators have grown steadily,

going from 30 in 2003 to around 200 subjects in 2017 (between shippers and traders), with 128 customers (-6% compared to 2016). In 2017, 78 connection contracts were signed for the construction of new delivery/redelivery points (of which 13 were for biomethane injection) or the upgrading of existing points.



## Key performance indicators

The information in the Natural Gas Transportation sector, starting from October 2017, includes the values deriving from the company Infrastrutture Trasporto Gas S.p.A., which entered the consolidation scope as of that date.

(millions of €)	2015	2016	2017	Change	Change %
Total revenue (a)	2,145	2,035	<b>2,039</b>	4	0.2
Regulated revenue (a)	2,094	1,999	<b>1,981</b>	(18)	(0.9)
- revenue items offset in costs	182	220	<b>165</b>	(55)	(25.0)
Operating costs (a)	485	469	<b>452</b>	(17)	(3.6)
- of which special items			<b>11</b>	11	
Adjusted operating costs (a) (b)	485	469	<b>441</b>	(28)	(6.0)
EBIT	1,165	1,021	<b>1,037</b>	16	1.6
Adjusted EBIT (b)	1,165	1,021	<b>1,048</b>	27	2.6
Technical investments	693	776	<b>917</b>	141	18.2
- of which with a greater return	328	345	<b>383</b>	38	11.0
- of which with a basic return (c)	365	431	<b>534</b>	103	23.9
Net invested capital at 31 December	12,011	12,263	<b>12,542</b>	279	2.3
Natural gas injected in the National Gas Transportation Network (billions of cubic metres) (d)	67.25	70.64	<b>74.59</b>	3.95	5.6
Transportation network (kilometres in use) (e)	32,534	32,508	<b>32,584</b>	76	0.2
- of which national network	9,630	9,590	<b>9,704</b>	114	1.2
- of which regional network	22,904	22,918	<b>22,880</b>	(38)	(0.2)
Installed power in the compression stations (MW)	876.5	922.2	<b>922.2</b>		
Employees in service at 31 December (number) (f)	1,918	1,726	<b>1,972</b>	246	14.3

- (a) Before consolidation adjustments.  
 (b) More information concerning the adjusted result measures and related special items that are recognised at the consolidated level are provided in the chapter "Comment on the financial results - Non-GAAP measures".  
 (c) Compared with an actual pre-tax basic WACC equal, respectively, to 6.3% for 2015 and 5.4% for 2016 and 2017, to which the 1% for offsetting the regulatory lag must be added for 2015 and 2016.  
 (d) The data for 2018 were updated at 11 January 2018. The update of 2016 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development. With reference to 2017, gas volumes are expressed in standard cubic metres (Smc) with an average traditional higher heating value (HHV) conventionally of 38.1 Mj/Smc (10.572 Kwh/Smc).  
 (e) Of which 84 Km of network deriving from the consolidation of Infrastrutture Trasporto Gas S.p.A.  
 (f) The variation includes: (i) the transfer of 227 staff members, effective from 1 July 2017, mainly due to the sale of the "Plant and Technical Services" business unit by Stogit S.p.A.; (ii) the entry of 27 new staff deriving from the consolidation of Infrastrutture Trasporto Gas S.p.A.

## Results

**Total revenue** amounted to Euro 2,039 million, up by Euro 4 million, or 0.2%, compared with 2016 (Euro 2,035 million). Net of components offset in costs<sup>16</sup>, total revenue amounted to Euro 1,874 million, up by Euro 59 million, or 3.3%, compared with the previous year.

The **regulated revenues** (Euro 1,981 million) essentially refer to the fees for the natural gas transportation service (Euro 1,951 million), income from natural gas sales carried out for the purpose of balancing the gas system (Euro 22 million)<sup>17</sup> and to the incentives granted to the Balancing Manager (RdB) (Euro 8 million) following the actions implemented, as required by Resolution 554/2016/R/gas. Regulated revenue, net of components that are offset in costs, amounted to Euro 1,816 million, up by Euro 37 million, or 2.1%, compared with 2016. The increase is mainly due to higher transportation revenues (+ Euro 30 million) essentially deriving from the contribution of investments made in 2015 (+ Euro 85 million) and higher volumes of natural gas introduced into the network (+ Euro 4 million), partly offset by the effects of the updated capital invested recognized for RAB regulatory purposes (- Euro 60 million).

**Non-regulated revenue** (Euro 58 million) increased by Euro 22 million, or 61.1%, compared with 2016. The increase is essentially attributable to the recharging of services provided to the Stogit subsidiary (+ Euro 27

million) following the transfer of the "Plants and technical services" business segment from Stogit to Snam Rete Gas with effect from 1 July 2017, as part of the Integra Project. The increase is matched by higher labour costs associated with the staff members transferred.

The **adjusted operating profit**, which excludes the special items represented by the charges related to the application of the pension advance instrument regulated by Art. 4 paragraphs 1-7 of Italian Law No. 92/2012, the so-called "Fornero Law" (Euro 11 million, including exit incentive costs), amounts to Euro 1,048 million, up by Euro 27 million, or 2.6% compared to 2016. The increase is attributable to higher regulated revenues (+ Euro 37 million) and lower amortisation, depreciation and write-downs (+ Euro 5 million, or 0.9%), following lower impairment of tangible assets (+ Euro 22 million) partly offset by higher amortisation due to the entry into service of new infrastructures (- Euro 17 million).

Operating costs, net of components that are offset in revenues and the effects of the company reorganisation related, in particular, to the Integra Project, are substantially in line with the previous year (- Euro 1 million, equal to 0.4%), thanks also to the results brought from the efficiency initiatives adopted. The effects connected to the dynamics of provisions for risks and charges, mainly due to higher net provisions for tax disputes, were absorbed by lower losses.

<sup>16</sup> The main revenue items offset in costs relate to sales of natural gas carried out for the purposes of balancing the gas system, modulation and interconnection.

<sup>17</sup> Revenues refer to the Operational Balancing Account (OBA) contracts signed with infrastructure operators interconnected to the transportation network and are offset in the operating costs associated with withdrawals of gas from storage.

## Technical investments

Fourth regulatory period		Financial year 2015	Financial year 2016	Financial year 2017
Type of investment	Higher compensation in fourth regulatory period (%) (*)	€/million	€/million	€/million
New import and/or export capacity	2.0%	249	226	276
New National Network transportation capacity	1.0%		1	10
New Regional Network transportation capacity	1.0%	79	118	97
Replacement and other		365	431	534
		<b>693</b>	<b>776</b>	<b>917</b>

(\*) Compared with the base WACC of 6.3% for 2015 and 5.4% for 2016 and 2017, in addition to 1% to offset the regulatory lag for 2015 and 2016.

**Technical investments** in 2017 amounted to Euro 917 million, an increase of Euro 141 million, or 18.2%, compared with 2016 (Euro 776 million).

Investments were classified in accordance with Resolution 514/2013/R/gas of the Electricity, Gas and Water Authority, which identified various categories of projects with different rates of return. The main investments for the **development of new transportation capacity on the National Network to bolster import and export capacity**, for which a **higher return of 2.0%** (Euro 276 million) is projected, concern the following:

- 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 Pianura Padana area (Euro 249 million):(i) the continuation of activities related to the supply of turbochargers relating to the new plants at Sergnano and Minerbio; (ii) the continuation of the construction of the Cervignano-Mortara pipeline.
- as part of the projects to upgrade the transportation network from the entry points in southern Italy

(Euro 20 million):(i) completion of the main construction works on the Biccari-Campochiaro pipeline; and (ii) continuation of construction works on the Massafra-Biccari pipeline connection points.

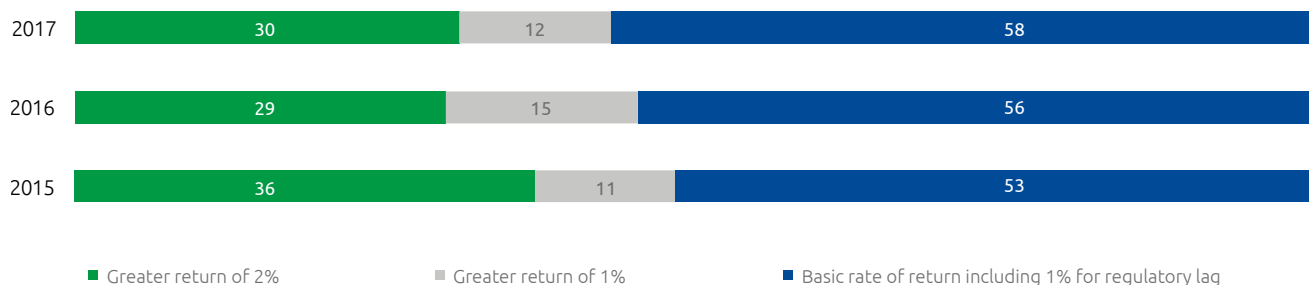
The main development investments have an envisaged **greater return of 1.0%** (Euro 107 million) relate to a number of works to upgrade the network and to connect to new regional and national redelivery points, including:(i) the continuation of the construction of pipelines and connections connected to the methanisation initiative of the Calabria Region (Euro 40 million) including the bypass for Montebello J. and the delivery of materials for the Sant' Andrea Apostolo dello Jonio-Caulonia methane pipeline; (ii) the continuation of the complementary construction works related to the upgrading of the Gavi-Pietralavezzara methane pipeline in Piedmont-Liguria (Euro 10 million); (iii) the start of the delivery of materials related to the Italgas Storage s.r.l. connection in Cornegliano Laudense (Euro 10 million); (iv) the continuation of construction works related to the upgrading of Varese bypass (Euro 7 million); (v) the continuation of the complementary construction works of

the Lainate - Olgiate Olona methane pipeline relating to the upgrading of the Lombardy network (Euro 4 million).

Investments with **basic remuneration**<sup>18</sup> (Euro 534 million), concerning:(i) works aimed at maintaining the safety and quality levels of the plants (Euro 432 million) including the continuation of construction works for the rebuilding of the Pontremoli - Cortemaggiore methane pipeline (Euro 29 million); (ii) projects relating to the development of new information systems, as well as the implementation of the existing ones (Euro 42 million); (iii) upgrading projects for the redelivery plants (Euro 34 million); (iv) reclamation works for third parties (Euro 10 million); and (v) the purchase of assets instrumental to operating activities (Euro 16 million).

<sup>18</sup> For the investments of 2017, the basic rate of return includes the rate of return on net invested capital (real pre-tax WACC) of 5.4%.

### Investment proportions by type of return (%)



### **NFS** Progress of work to obtain permits

To develop new settlements, in addition to the technical-economic feasibility criteria, Snam adopts procedures that respond to stringent environmental and safety compatibility assessments.

Environmental impact assessments cover all phases of the life cycle of the work, location, design, construction,

operation and disposal. These assessments are carried out as part of the Environmental Impact Assessment (EIA) procedures, at the end of which the administrations in charge, both at central and local level, issue the authorisations required by current legislation.

### EIA decrees obtained during the year

Name	Length (km)	Regions affected	Authority	Date of decree
<b>Gas Pipelines</b>				
Bussero - Osnago enhancement	26.00	Lombardy	Lombardy Region	11/01/2017
TAP interconnection	55.43	Puglia	Ministry of the Environment and Protection of Land and Sea	22/09/2017
Trieste - Grado - Villesse Sealine	46.00	Friuli-Venezia Giulia	MATTM - MiBACT	12/06/2017
<b>Concessions</b>				
Fiume Treste for overpressure and development of new level F		Abruzzo and Molise	MATTM	18/05/2017
--	Abruzzo and Molise	Ministry of the Environment and Protection of Land and Sea	18/05/2017	07/04/2017
Ripalta - for overpressure and treatment plant relocation	--	Lombardy	Ministry of the Environment and Protection of Land and Sea	07/04/2017
Minerbio for overpressure exercise	--	Emilia Romagna	Ministry of the Environment and Protection of Land and Sea	14/03/2017



### Orders received during the year to check EIA requirements

Name	Length (km)	Regions affected	Authority	Date of order
<b>Gas Pipelines</b>				
Cortemaggiore - Genoa modification in the Municipality of Rottofreno	5.275	Emilia-Romagna	Region	30/01/2017
Emilia-Romagna	30/01/2017	Campania	Regione Campania	12/07/2017
Modifications "Derivazione per Salerno"	2.08	Campania	Region Campania	12/07/2017
Pietravairano - Pignataro M. connection	25.10	Campania	Region Campania	12/10/2017
Modifications Benevento-Cisterna	3.38	Campania	Region Campania	10/05/2017
Modifications Castrovillari-Melizzano	3.1	Campania	Ministry of the Environment and Protection of Land and Sea	22/06/2017
EDISON Garaguso and Masseria Monaco connection	4.599	Basilicata	Basilicata Region	30/03/2017
Modifications Pisticci - Sant'Eufemia	4.925	Calabria	Calabria Region	19/04/2017
Modification S. Eufemia - Crotone Loc. Calderaio and Loc.Marcellinara	3.4	Calabria	Calabria Region	30/06/2017
<b>Plants</b>				
Adjustment of the Istrana compression system	75 MW	Veneto	Province of Treviso	30/06/2017

### EIA applications submitted to Ministry of the Environment and Ministry of Cultural Heritage and Activities

Name	Length (km)	Regions affected	Submission date
<b>Gas Pipelines</b>			
Reconstruction Campodarsego - Castelfranco Veneto	33.459	Veneto	15/12/2017
Reconstruction Pieve di Soligo - S. Polo - Salgareda	33.56	Veneto	15/12/2017
Reconstruction Mestre - Trieste Section Casale sul Sile - Gonars	117.486	Veneto - Friuli Venezia Giulia	15/12/2017
Declassification Mestre - Trieste			
Reconstruction Ravenna - Chieti section Recanati - San Benedetto del Tronto	93.61	Marche	30/11/2017
Reconstruction Ravenna - Chieti section San Benedetto del Tronto - Chieti	90.74	Marche - Abruzzo	30/11/2017
Reconstruction Ravenna Mare - Ravenna Terra	33.696	Emilia Romagna	21/12/2017
Reconstruction San Salvo - Biccari	87	Puglia - Molise - Abruzzo	15/12/2017
Reconstruction Gagliano - Termini Imerese	45.99	Sicily	12/12/2017
Methanisation Sardinia - North section and Connected Works	230.98/110.00	Sardinia	26/07/2017
Methanisation Sardinia - South Section and Connected Works	150.57/80.06	Sardinia	21/06/2017

## EIA applications submitted to regions or provinces

Name	Length (km)	Regions - Provinces concerned	Submission date
<b>Gas Pipelines</b>			
Reconstruction Rimini - Sansepolcro	81.92	Emilia-Romagna - Tuscany	04/05/2017

## Applications submitted to regions or provinces to check EIA requirements

Name	Length (km)	Regions - Provinces concerned	Submission date
<b>Gas Pipelines</b>			
Modifications Pisticci - Sant'Eufemia	4.925	Calabria	26/01/2017
Modification S. Eufemia - Crotona Loc.Calderaio and Loc.Marcellinara	3.4	Calabria	01/02/2017
<b>Plants</b>			
	<b>Power</b>		
Adjustment of the Istrana compression system	75 MW	Treviso	01/03/2017

## Operating review

### Gas distribution on the National Transportation Network

Gas volumes are expressed in standard cubic metres (Smc) with a traditional higher heating value (HHV) of 38.1 Mj/Smc (10.572 Kwh/Smc). The basic figure is measured in energy (MJ) and obtained by multiplying the physical cubic metres actually measured by the relative heating value.

### Gas demand in Italy

(billions of m <sup>3</sup> )	2015	2016 (*)	2017	Change	Change % (**)
Residential and tertiary	28.97	28.86	<b>29.48</b>	0.62	2.1
Thermoelectric	20.62	23.43	<b>25.36</b>	1.93	8.2
Industrial (***)	15.97	16.58	<b>17.80</b>	1.22	7.3
Other (****)	1.96	2.04	<b>2.50</b>	0.46	22.9
	<b>67.52</b>	<b>70.91</b>	<b>75.14</b>	<b>4.23</b>	<b>6.0</b>

(\*) The update of 2016 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

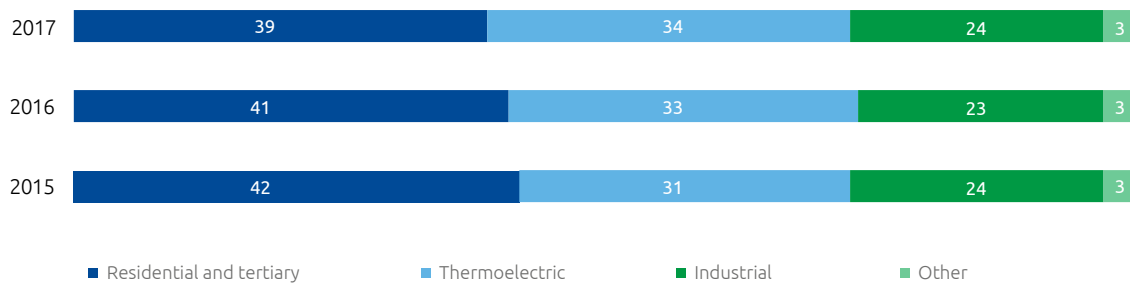
(\*\*) The percentage changes were calculated with reference to the figures in cubic metres.

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

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

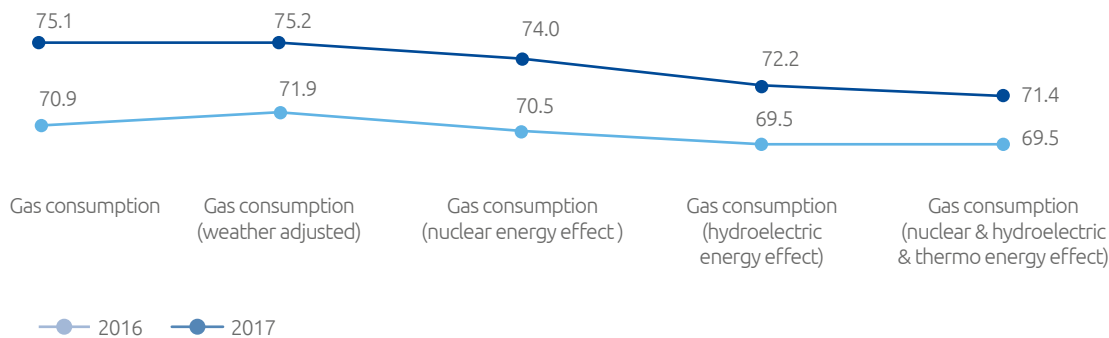
The **gas demand in Italy** in 2017 was **75.14 billion cubic metres**, up 4.23 billion cubic metres (**+6.0% for the twelfth consecutive quarter**) compared with 2016. Recorded in all sectors, the increase is attributable to higher consumption of the thermoelectric sector (+1.93 billion cubic metres, +8.2%), driven by a particularly strong summer demand, by the reduction of hydroelectricity production due to water scarcity and by the continued shutdown of some French nuclear plants in the first two months of the year, the industrial sector (+1.22 billion cubic metres, +7.3%) thanks to the recovery in industrial, residential and tertiary production (+0.62 billion cubic metres, +2.1%) attributable to climate trends.

**Gas demand by sector (% of total gas demand)**



Adjusted for the weather effect, gas demand has been estimated as equal to 75.2 billion cubic metres, increasing by 3.3 billion cubic metres (+4.6%) compared to the corresponding value for 2016 (71.9 billion cubic metres). Starting from October 2016 and continuing into the first two months of 2017, the normalised demand for gas, not only in terms of the temperature, but also normalised for effects caused by the reduction of hydroelectric production and the unavailability of the French nuclear power, was estimated at 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).

**Normalised gas demand (billions of m³)**



## Availability of natural gas

(billions of m <sup>3</sup> )	2015	2016 (*)	2017	Change	Change%
Gas injected into the network by entry point	60.82	65.07	<b>69.35</b>	4.28	6.6
Domestic output	6.43	5.57	<b>5.24</b>	(0.33)	(5.9)
<b>Total gas injected into the network</b>	<b>67.25</b>	<b>70.64</b>	<b>74.59</b>	<b>3.95</b>	<b>5.6</b>
Net balance of withdrawals from/injections into storage (**)	(0.31)	(0.20)	<b>0.22</b>	0.42	
<b>Total availability of natural gas</b>	<b>66.94</b>	<b>70.44</b>	<b>74.81</b>	<b>4.37</b>	<b>6.2</b>

(\*) The update of 2016 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.

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

The **availability of natural gas in Italy** (74.81 billion cubic metres) is equal to the sum of the gas injected into the National Transportation Network and the net balance of withdrawals from and injections into the storage system, and has increased by 4.37 billion cubic metres (+6.2%) when compared to 2016. This increase has been due to higher volumes of gas injected into the network at entry points (+3.95 billion cubic metres; +5.6%) and higher net withdrawals from the storage system (+0.42 billion cubic metres), the effects of which were partially offset by lower national production levels (-0.33 billion cubic metres; -5.9%).

## Gas injected into the network

(billions of m <sup>3</sup> )	2015	2016 (*)	2017	Change	Change%
<b>Domestic output</b>	<b>6.43</b>	<b>5.57</b>	<b>5.24</b>	<b>(0.33)</b>	<b>(5.9)</b>
<b>Entry points (**)</b>	<b>60.82</b>	<b>65.07</b>	<b>69.35</b>	<b>4.28</b>	<b>6.6</b>
Tarvisio	29.92	28.27	<b>30.18</b>	1.91	6.8
Mazara del Vallo	7.24	18.87	<b>18.88</b>	0.01	0.1
Gries Pass	10.63	6.70	<b>7.25</b>	0.55	8.2
Gela	7.11	4.81	<b>4.64</b>	(0.17)	(3.5)
Cavarzere (LNG)	5.80	5.72	<b>6.85</b>	1.13	19.8
Panigaglia (LNG)	0.05	0.22	<b>0.62</b>	0.40	
Livorno (LNG)	0.04	0.48	<b>0.91</b>	0.43	89.6
Gorizia	0.03		<b>0.02</b>	0.02	
	<b>67.25</b>	<b>70.64</b>	<b>74.59</b>	<b>3.95</b>	<b>5.6</b>

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

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

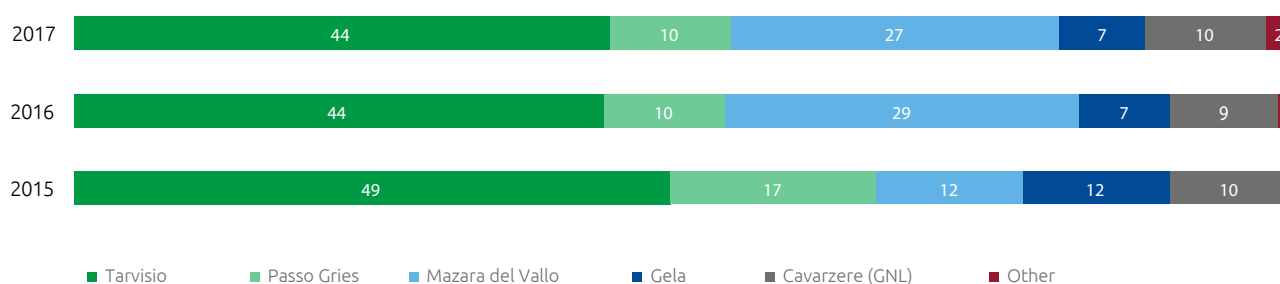
## Injections into and withdrawals from the transportation network

In 2017, a total of 74.59 billion cubic metres of gas was injected into the network, an increase of 3.95 billion cubic metres (+ 5.6%) compared with 2016. Injections into the network from domestic production fields or collection and treatment centres totalled 5.24

billion cubic metres, down by 0.33 billion cubic metres (-5.9%) compared to 2016. The volumes injected at entry points connected with other countries and with regasification plants, equalled 69.35 billion cubic metres overall, a rise of 4.28 billion cubic metres (+ 6.6%) compared to 2016. This change is attributable to the higher volumes introduced by LNG regasification plants (+1.96 billion cubic

metres, + 30.5%) and the Tarvisio entry point (+1.91 billion cubic metres; + 6.8%) and Passo Gries (+0.55 billion cubic metres, + 8.2%), the effects of which were partly offset by lower volumes introduced via the Gela entry points (-0.17 billion cubic metres; -3.5%)

## Natural gas injected into the network per importation point (% of total gas injected into the network)



## Withdrawals of natural gas

(billions of m <sup>3</sup> )	2015	2016	2017	Change	Change%
Redelivery to the domestic market	66.46	69.91	<b>73.98</b>	4.07	5.8
Exports and transits (*)	0.27	0.27	<b>0.33</b>	0.06	22.2
Consumption and emissions attributable to Snam Rete Gas	0.18	0.23	<b>0.27</b>	0.04	17.4
Unaccounted-for gas (UFG) and other changes (**)	0.03	0.03	<b>0.23</b>	0.20	
<b>Total withdrawals of natural gas</b>	<b>66.94</b>	<b>70.44</b>	<b>74.81</b>	<b>4.37</b>	<b>6.2</b>

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

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

The natural gas withdrawn from the National Transportation Network in 2017 (74.81 billion cubic metres) was mainly: (i) for re-supply to users at network exit points (73.98 billion cubic metres; + 5.8%); (ii) exports

and transit (0.33 billion cubic metres, +22.2%); and (iii) for consumption by compression stations and gas emissions from the network and Snam Rete Gas plants (0.27 billion cubic metres; + 17.4%).

### Reconciliation between gas withdrawn from the network and gas demand in Italy

(billions of m <sup>3</sup> )	2015	2016 (*)	2017	Change	Change %(**)
<b>Quantities withdrawn</b>	<b>66.94</b>	<b>70.44</b>	<b>74.81</b>	<b>4.37</b>	<b>6.2</b>
Exports (-) (***)	(0.27)	<b>(0.27)</b>	<b>(0.33)</b>	(0.06)	22.2
Gas injected into the regional networks of other operators	0.05	<b>0.04</b>	<b>0.03</b>	(0.01)	(25.0)
Other consumption (****)	0.80	<b>0.70</b>	<b>0.63</b>	(0.07)	(10.0)
<b>Total Italian demand</b>	<b>67.52</b>	<b>70.91</b>	<b>75.14</b>	<b>4.23</b>	<b>6.0</b>

(\*) The update of 2016 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.

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

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

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

### Transport capacity

(millions of m <sup>3</sup> average/day)	Calendar year 2015			Calendar year 2016			Calendar year 2017		
Entry points	Transport capacity	Transferred capacity	Saturation (%)	Transport capacity	Transferred capacity	Saturation (%)	Transport capacity	Transferred capacity	Saturation (%)
Tarvisio	111.8	97.9	87.6	111.6	93.4	83.7	<b>111.4</b>	<b>94.6</b>	<b>84.9</b>
Mazara del Vallo (*)	101.1	85.9	85.0	91.5	84.9	92.8	<b>84.4</b>	<b>78.3</b>	<b>92.8</b>
Gries Pass	64.4	36.6	56.8	64.4	22.1	34.3	<b>64.4</b>	<b>22.4</b>	<b>34.7</b>
Gela (*)	35.3	29.3	83.0	30.8	26.0	84.4	<b>23.8</b>	<b>22.0</b>	<b>92.4</b>
Cavarzere (LNG)	26.4	24.4	92.4	26.4	24.4	92.4	<b>26.4</b>	<b>24.4</b>	<b>92.5</b>
Livorno (LNG)	15.0	15.0	100.0	15.0	15.0	100.0	<b>15.0</b>	<b>15.0</b>	<b>100.0</b>
Panigaglia (LNG)	13.0	4.6	35.4	13.0	0.6	4.6	<b>13.0</b>	<b>2.0</b>	<b>15.5</b>
Gorizia	4.6	0.1	2.2	4.6			<b>4.6</b>	<b>0.1</b>	
Competing capacity (*)				9.7			<b>21.2</b>		
	<b>371.6</b>	<b>293.8</b>	<b>79.1</b>	<b>367.0</b>	<b>266.4</b>	<b>72.6</b>	<b>364.2</b>	<b>258.8</b>	<b>71.0</b>

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

The transportation capacity of the network again covered all user demand in 2017. Average transportation capacity provided in 2017 was 364.2 million cubic metres on average per day, 21.2 million cubic metres of which were offered as competing capacities between the Mazara del Vallo and Gela entry points. In addition to the aforementioned capacities which concern the entry points interconnected with foreign countries and the LNG terminals, a transportation capacity is available at the domestic production entry points:

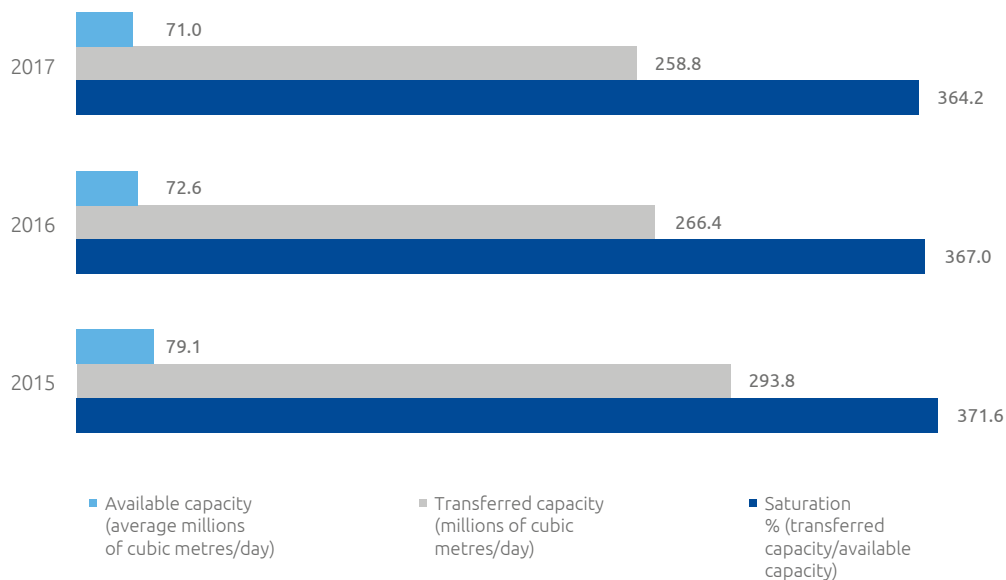
- national production at a total of 25.2 million cubic metres/day;
- the production of biomethane at a total of 0.1 million cubic metres/day.

Snam Rete Gas has prepared a long-term plan for available transportation capacity, which was sent to the Ministry of Economic Development on 30 June 2017 and published on the Business & Services section [www.snamretegas.it](http://www.snamretegas.it).

The document shows data about capacity at all entry points interconnected with foreign countries and with LNG terminals for the thermal year 2017-2018 and subsequent years up to 30 September 2032. Also shown for the thermal year 2017-2018 are the transport capacities of the interconnected exit points with the foreign countries of Passo Gries, Gorizia, Bizzarone and

San Marino at a total of 11.0 million cubic metres/day. On the Tarvisio exit point, 18 million cubic metres/day of interruptible transport capacity is available, subject to the presence of an incoming physical flow or a null physical flow at the Passo Gries entry point. For the exit point from Passo Gries, there is currently a transport capacity equal, physically, to 5 million cubic metres/day, and projects are underway to build a physical transport capacity of up to 40 million cubic metres/day by the end of 2018.

### Transport capacity and saturation



## Provisions and development of transport services

	2015	2016	2017
Active customers (shippers)	139	136	128
New connection agreements for delivery/redelivery points	65	45	78

Since the start of July 2017, commercial management of the 3 businesses concerned with transport, storage and regasification, respectively headed by Snam Rete Gas, Stogit and GNL Italia, have been merged into Snam within a single organisation.

In 2017, 78 connection contracts were signed for the construction of new delivery/redelivery points (of which 13 were for biomethane injection) or the upgrading of existing points. Via the PRISMA platform, with the new balancing regime that's been in operation since October 2016, operators can respectively operate gas exchanges and carry out transport capacity transactions on an infra-daily, daily, monthly, quarterly or annual basis, for up to a maximum of 15 years. To promote even greater flexibility of the system, in compliance with the Authority's Resolutions no. 336/2016/R/gas and 512/2017/R/gas, the Italian gas system has the possibility of booking monthly and daily transport capacity at the redelivery points, and related withdrawal areas that feed electricity generation plants.

This new mode of access to the gas transport system is combined with the needs of the electricity system to have more flexible assignment methods, so it can respond in a timely and efficient way to changes in the operating

conditions of the electricity system. To manage customer relations, Snam currently uses numerous software applications and web portals that have been developed over time, represent a distinguishing capital for the company and are continuously updated. In particular, Snam provides the Myg@sview Portal, a tool aimed at supporting timely and flexible communications, that allows a set of "smart" data to be personalised according to individual needs, as well as direct communications with them, and inform them via SRG ("chat" mode). This tool has been improved and expanded over time by incorporating suggestions from operators, particularly in reference to needs related to the new balancing regime. In 2017, this tool was integrated further by increasing its usability, through the in production release of a new version of the extended Help-online section, with simple training "tablets" that provide immediate, intuitive support to users about using the myg@sview portal and individual Widgets, a quick guide for printing, and a video about the creation and development of the myg@sview portal.

In addition, the project to revise the information content in the "Business & Services" area of the Snam Rete Gas website was started and has been completed following the launch

of the new balancing model. The objective was to improve the usability of information for customers, and introduce the use of graphic forms of representation.

Within the network codes are lists of a series of indicators for monitoring the quality of services offered by the companies. When compared against these indicators, the Snam companies maintained a high level of performance, even in 2016. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.



	2015	2016	2017
Contracted transport capacity/Available transport capacity (foreign entry/interconnection points) (%)	86	72	71
Compliance with deadlines for issuing offers for connection (%)	100	100	100
Compliance with deadlines for performing services subject to specific business quality standards (%)	100	100	100
Interruptions carried out with adequate advance notice (%)	92	98	98

### Organisational changes related to operational activities

During the course of 2017, the recorded number of personnel in service fell by a total of 220, from 1,726 on 31 December 2016 to 1,946 at 31 December 2017. The increase was due to implementation of the Integra Project and, in particular, to the transfer of the "Plants and technical services" business unit from Stogit to Snam Rete Gas, which entailed transferring 221 staff members to the Snam Rete Gas company.

During 2017, the operational mechanisms needed to optimise the diverse processes in the Operations area were strengthened, particularly with regard to continuation of SmartGas project activities, which were aimed at revising the regulations and maintenance standards for gas pipelines and power plants, activating new professional roles operating in the territory, developing and implementing more advanced digital and IT solutions for managing operational processes and consolidating and developing procurement activities, particularly by creating a dedicated unit for procuring goods, works and services specifically for the compressed

natural gas business, for activities upstream of the storage business as well as for international activities and strengthening the centralised coordinating role of materials management activity.

In addition, with a view to enhancing and organisation of the synergic integration of Italian assets and, after the transfer process starting from 1 July 2017, of the Stogit business units "Plants and Technical Services", the skilled roles of Snam Rete Gas in the context of Plant Management, Dispatching & Measurements, Engineering and Construction and Supply Chain have taken direct control of the operations, maintenance and control activities for storage facilities, storage dispatching operations and engineering activities, and implementation of investment projects related to surface facilities, improvements to plant engineering and the procurement of goods, works and services related to the business of storage.

On 1 October, the assets of the facility forming the subject of integration were optimised with a view to maximising synergies between the various operating processes and promoting total integration, which will have to be finalised during 2018 with specific projects of a design nature.

In the second half of the year, the project to streamline and simplify the current regulatory framework for Snam Rete Gas was launched, and the implementation phase for this will be developed in 2018.

## Accidents

During the course of 2017, the number of accidents, involving both employees and contractors, remained in line with the previous year. It should be noted that as regards contractors, one fatal accident occurred.

### Accidents at work (no.)

	2015	2016	2017
Total employee accidents	3	1	2
Total contract worker accidents	7	4	4

### Indexes - Accidents

	2015	2016	2017
<b>Employees</b>			
Frequency index (*)	0.97	0.32	0.66
Severity index (**)	2.48	0.004	0.03
<b>Contract workers</b>			
Frequency index (*)	1.13	0.65	0.47
Severity index (**)	0.05	0.05	0.9

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

(\*\*) Number of working days lost (calendar days) due to accidents at work resulting in an absence of at least one day per thousand hours worked. These data have been calculated taking fatal accidents into consideration.

### Energy consumption and emissions

In order to limit natural gas emissions from the transport network, measures were taken to recover gas through on-line re-compression interventions and at compression stations (4.1 million cubic metres of natural gas was

recovered, equal to 71,500 tonnes of CO<sub>2eq</sub>).

In 2017, nitrous oxide emissions totalled 341.9 tonnes (+ 49.9% compared to 2016). The increase was mainly attributable to the higher volumes of gas transported. To reduce emissions, a program has been

underway for several years to modify some of the existing turbines and to install new units with low-emission combustion systems (DLE).

	2015	2016	2017
Energy consumption (TJ)	4,278	5,824	7,459
Emissions of CO <sub>2eq</sub> - scope1 (ton) (*)	883,826	921,954	1,008,051
Emissions of natural gas (10 <sup>6</sup> m <sup>3</sup> )	37.0	34.6	34.4
Natural gas recovered (10 <sup>6</sup> m <sup>3</sup> )	3.6	4.5	4.1
NO x emissions (tonnes)	225	228	342

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

## Regulations for business sectors

### Relationships with the regulatory Authority

(no.)	2015	2016	2017
Responses to consultation documents	7	10	8
Responses to consultations/observations through associations (*)	11	14	16
Tariff proposals	3	5	4
Data collections	87	112	129
Preliminary investigations (**)	3	1	3
Proposal to amend/update contractual documents and codes (***)	16	12	14
Proposal to amend/update contractual documents and codes (approved)	9	12	12

(\*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

(\*\*) Information sent to the Authority during 2017 with reference to investigations in the context of the sector. Including preliminary inquiries.

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

### Tariff regulations for 2017

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

### Regulation transition period 2018-2019

#### Criteria for adjusting the tariffs for natural gas transport services for the transition period in the years 2018 and 2019

By means of Resolution 575/2017/R/gas, which was issued on 04 August 2017, the Authority approved the tariffs for the transport, dispatch and metering service for 2018 -2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- The current asset  $\beta$  parameter was confirmed for the Transitional Period 2018-2019. The WACC value of 5.4% in real pre-tax terms was therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;
- From 2018 the investments made in the year t-1 will be included in the investment capital for the purpose of determining the tariffs for year t, replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time-lag

has been 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 for regional and national networks respectively) will be applied to new development investments that have entered into service by 31 December 2017;
- An input-based incentive scheme (1% for 12 years for regional and national networks) will be applied to investments for the construction of new transportation capacity, launched as of 31 December 2017, which will start operating in the years 2018 and 2019. The incentive will also be recognised for investments that start operating during the transition period after 1 January 2018, included in the Development Plan and with a benefit-cost ratio higher than 1.5;
- The operating costs recognised in the fourth regulatory period will be updated according to inflation, and a productivity recovery factor (X-factor). The variable unit price (CV) will be calculated for the years 2018 and 2019 using a

reference volume of 67.2 billion cubic metres.

### Tariff regulations for 2018

By means of Resolution 757/2017/R/gas, published on 17 November 2017, the Authority approved the revenue recognised for the natural gas transportation and dispatching service for 2018. Revenue recognised for the natural gas storage service for 2018 amounted to € 1,947 million. The RAB used to calculate 2018 revenues for transport, dispatching and measurement activities was 16 billion euros, and included the investments made in 2017.

By means of Resolution 795/2017/R/gas, published on 05 December 2017, the Authority approved the proposed revenue for the natural gas transportation and dispatching service for 2018.

### Other provisions

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

Under ruling no. 3735/2015 the State Council confirmed sentence 1729/2014 of the TAR of Milan regarding the partial annulment of the resolutions of the Regulatory Authority (then AEEGSI, ARERA since 1 January 2018) no. 514/2013/R/gas, and of 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 AEEGSI launched a procedure, which should have been completed by 31 December 2015, to comply with the aforementioned ruling. In the meantime, the original appellants

submitted an application for compliance with the aforementioned ruling before the competent judicial authority. With non-definitive ruling no. 883/2017, the TAR Milan upheld the appeal by ordering the Authority to provide, within sixty days, conclusion of the procedure initiated by Resolution 429/2015/R/gas. In order to verify fulfilment of the provisions in the non-definitive ruling, continuation of proceedings was therefore postponed until 13 July 2017 during which the applicants - after the approval of AEEGSI Resolution 512/2017/R/GAS - formally withdrew the appeal. As a result, in a later ruling 1648/2017, the TAR declared the appeal inadmissible due to the lack of interest.

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

By means of Ruling 2888/2015, the State Council rejected the appeal filed by AEEGSI for a review of the ruling of the TAR Milan No. 995/2013, which had annulled the provisions contained in Resolutions ARG/gas/184/09, 192/09, 198/09 and 218/10 regarding natural gas transportation and dispatch tariffs for the period 2010-2013 relating, specifically, to the commodity/capacity distribution, reform of the entry/exit model and gas intended for consumption by the central compressor stations (self-consumption).

By means of Resolution 428/2015/C/gas, the Authority decided to file an appeal for the aforementioned ruling to be overturned on the grounds of factual errors, which will be discussed at the hearing of 29 March 2018. At the same time, the Authority - as a result of the proceedings brought by Resolution 430/2015/R/gas - complied with the aforementioned

rulings under Resolution 550/2016/R/gas, with which the Authority, having reformed the rules for self-consumption, justifiably confirmed the pricing criteria for the rest, in the light of consultations carried out. Given the confirmatory nature of the aforementioned resolution, the original applicant filed an appeal for compliance with the aforementioned rulings and a declaration of the nullity of 550/2016/R/gas. With ruling no. 494/2017, the T.A.R. Milan partially heard the appeal with specific reference to the issues of commodity/capacity distribution, believing that with Resolution 550/2016/R/Gas, there has been an inaccurate and partial compliance with ruling 995/2013 and that, therefore, the Authority should carry out an additional assessment of the effects of the decisions made.

The ruling no. 494/2017 was contested by the appellant, as well as, incidentally, by the AEEGSI. The appeals were discussed before the Council of State at the hearing on 30 November 2017. We are awaiting the ruling.

# Regasification of Liquefied Natural Gas (LNG)

## The infrastructures and the Liquefied Natural Gas Regasification service (LNG)

SNAM PRESENCE  
IN REGASIFICATION IN ITALY



GNL Italia plays a key role in ensuring adequate diversification and flexibility of supplies to the gas system

Maximum daily regasification capacity of the Panigaglia terminal

**17,500**  
cubic metres

Maximum annual quantity of natural gas injectable into the transport network

**3.5**  
bcm

LNG quantity regasified in 2017 at Panigaglia

**0.63**  
bcm

The Panigaglia plant, built in 1971 and owned by GNL Italia, is able to regasify 17,500 cubic metres of LNG every day; under conditions of maximum efficiency, it can supply more than 3.5 billion cubic metres of natural gas into the transport network every year. In 2017, the total gas regasified at the Panigaglia plant amounted to 0.63 billion cubic metres (0.21 billion cubic metres in 2016), of which 0.084 billion cubic metres were regasified in the context of integrated regasification service and storage. In 2017, 15 landfills from methane tankers were performed (5 landfills in 2016), of which 2 were landfills in the context of the integrated service.

Throughout 2017, GNL Italia had 4 active customers, (the same as in 2016).

The Decree from the Ministry for Economic Development on 25 February 2016 determined that a storage capacity of 1 billion m3 should be reserved for the integrated storage and re-gasification service, and that the regasification companies and the main storage companies should collaborate to enable the redelivery of regasified LNG to the users directly for storage, by the end of the month following its unloading from methane tankers. With regard to the contractual period from 1 April 2017 - 31 March 2018, the Ministerial Decree of 7 December 2016, subsequently integrated into Ministerial Decree of 13 February 2017, established that a storage space equal to 1.5 billion metres 3 should be set aside for an integrated regasification and storage

service, in order to allow industrial companies to purchase LNG directly from other countries. The service involves the injection of amounts of regasified gas into storage, minus consumption and losses, by the end of the month after the same amount of LNG has been unloaded.

## Key performance indicators

(millions of €)	2015	2016	2017	Change	% change
Total revenue (a)	25	19	<b>22</b>	3	15.8
Regulated revenue (a)	19	18	<b>21</b>	3	16.7
- revenue items offset in costs	1		<b>3</b>	3	
Operating costs (a)	19	12	<b>15</b>	3	25.0
EBIT	1	(5)	<b>2</b>	7	
Net invested capital at 31 December	89	93	<b>89</b>	(4)	(4.3)
Technical investments (b)	7	7	<b>5</b>	(2)	(28.6)
Volumes of regasified LNG (billions of cubic metres) (c) (d)	0.03	0.21	<b>0.63</b>	0.42	
Tanker loads (number)	1	5	<b>15</b>	10	
Employees in service at 31 December (number)	73	71	<b>63</b>	(8)	(11.3)

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 7.3% for 2015 and 2015 and 6.6% for 2017, in addition to the flat-rate increase of 1% to offset the regulatory lag.

(c) For the year 2017, gas volumes are expressed in standard cubic metres (SCM) with an average traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 kWh/SCM).

(d) The regasified quantities are shown gross of self-consumption and losses (QCP component), equal to 1.7% for the Panigaglia terminal.

## Results

**Total revenue** amounted to €22 million, down by €3 million (15.8%) compared with 2016. Excluding components that are offset in costs<sup>19</sup>, total revenues amounted to 19 million euros, which was unchanged when compared to 2016.

The **regulated revenues**, amounting to € 21 million, include the fees for the regasification service (€ 18 million, in line with 2016) essentially relating to the share of the guarantee factor for the year 2017, provided for in art. 18 of Annex A to Resolution 438/2013/R/gas, and the chargeback to users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (3 million euro).<sup>20</sup>

The **operating profit** amounts to € 2 million, against an operating loss of € 5 million recorded in 2016. The positive change of € 7 million was mainly due to lower amortisation and depreciation, following the effects of the write-down made on tangible assets in 2016 (€ 7 million).

## Technical investments

Technical investments in 2017 totalled €5 million (€7 million in 2016) and involved maintenance projects aimed at guaranteeing plant system safety.

Of these, we highlight: (i) engineering interventions on tanks (€ 2 million); (ii) interventions involved in the installation of cryogenic pumps (about € 1 million); (iii) plant revamping interventions (€1 million).

## Operating review

During 2017, 0.63 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal (0.21 billion cubic metres in 2016; +0.42 billion cubic metres), of which 0.084 billion cubic metres within the integrated natural gas regasification and storage service.

In 2017, 15 tanker ships were unloaded, 2 of which as part of the integrated regasification and storage service (5 unloaded in 2016, including 1 relating to the integrated service).

## Provision and development of regasification services

	2015	2016	2017
Active customers (shippers)	3	4	4
Compliance with the maximum period of interruption/reduction in capacity at the terminal due to maintenance works (%)	100	100	100

## Organisational changes related to operational activities

At the end of 2017, the number of personnel in service totalled 63, a decrease of 8 compared with 31 December 2016 (71).

As part of the process for integrating Snam's Italian assets, with effect from 1 July 2017, the responsibility for procurement activities has been attributed to the competent department at Snam Rete Gas, which will operate on the basis of a specific service contract. Similarly, some coordination and specialist activities in the field of health, safety and the environment have been centralised at Snam (e.g.: regulatory system development, support for certification systems). The unit dedicated to the Prevention and Protection Service has been established at GNL Italia. In the second half of the year, the project to streamline and simplify the current regulatory framework for the Snam Rete Gas was launched, and the implementation phase for this will be developed in 2018.

## Accidents

### Accidents at work (No.)

	2015	2016	2017
Total employee accidents	0	1	1
Total contract worker accidents	0	0	0

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

<sup>20</sup> For the purposes of the consolidated financial statements, this revenue is eliminated, along with transportation costs, by GNL Italia S.p.A. in order to represent the substance of operations.

## Indexes - Accidents

	2015	2016	2017
<b>Employees</b>			
Frequency index (*)	0	8.65	<b>9.31</b>
Severity index (**)	0	0.66	<b>0.17</b>
<b>Contract workers</b>			
Frequency index (*)	0	0	<b>0</b>
Severity index (**)	0	0	<b>0</b>

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

(\*\*) Number of working days lost (calendar days) in relation to accidents at work resulting in absence of at least one day, per million hours worked. These data have been calculated taking fatal accidents into consideration.

## Energy consumption and emissions

	2015	2016	2017
Energy consumption (TJ)	52	127.8	<b>325</b>
Emissions of CO <sub>2eq</sub> – scope1 (ton) (*)	38,659	54,298	<b>44,421</b>
Emissions of natural gas (10 <sup>6</sup> m <sup>3</sup> )	2	2.9	<b>1.7</b>
NO <sub>x</sub> emissions (tonnes)	1.1	5.5	<b>14.8</b>

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

## Regulations for business sectors

### Relationships with the regulatory Authority

(no.)	2015	2016	2017
Responses to consultation documents	4	1	<b>2</b>
Responses to consultations/observations through associations (*)	6	1	<b>5</b>
Tariff proposals	2	1	<b>1</b>
Data collections	25	25	<b>28</b>
Proposals to amend/update contractual documents and codes (**)	3	3	<b>0</b>
Proposal to amend/update contractual documents and codes (approved)	2	0	<b>0</b>

(\*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

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



## Tariff regulations for 2016

### Coverage factors for revenues pertaining to the company GNL Italia SpA for the year 2016

With the ruling DIEU 7/2017, published on 7 June 2017, the Authority set the amount of the revenue coverage factor for the company GNL Italia for the year 2016 to € 15.6 million.

## Tariff regulations for 2017

By means of Resolution 392/2016/R/gas, published on 14 July 2016, the Authority approved tariffs for the LNG regasification service for 2017.

The tariffs were set on the basis of the base revenue of €27.9 million. Effective revenue must take account of capacity actually allocated. The net capital invested as at 31 December 2015 (RAB) was around €0.1 billion. The Authority also recognised the amount of roughly €0.34 million to GNL Italia to cover the increase in the IMU tax rate for the years 2013-2014.

## Regulation transition period 2018-2019

### Criteria for adjusting the tariffs for the natural gas transport service for the transition period in the years 2018 and 2019

By means of Resolution 653/2017/R/gas, published on 2 October 2017, the Authority approved tariffs for the LNG regasification service for 2018-2019. The resolution confirmed the main criteria of the regulation currently in force, with some modifications:

- The current asset  $\beta$  parameter was confirmed for the Transitional Period 2018-2019. The WACC value of 6.6% in real pre-tax terms is therefore confirmed for 2018, and will be determined for the year 2019 by updating the basic parameters;

- The investments made in the year t-1 will be included in the investment capital for the purpose of determining the tariffs for year t, replacing the 1% increase in the WACC to cover the regulatory time-lag. The 1% increase in the WACC covering the regulatory time-lag has been 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 regasification capacity) will be applied to new development investments that come into service by 31 December 2017;
- An input-based incentive scheme (1.5% for 12 years) will be applied to investments for constructing new regasification capacities that will become operational in the years 2018 and 2019;
- The operating costs recognised in the fourth regulatory period will be updated according to inflation and a productivity recovery factor (X-factor);
- The current provisions relating to the revenue coverage factor are confirmed.

## Tariff regulations for 2018

With Resolution 878/2017/R/gas, "Determination of the tariffs for the LNG regasification service of the company GNL Italia S.p.A., for the year 2018", the Authority approved the recognised revenues for the regasification service for the year 2018 on the basis of the proposal presented by GNL Italia. The tariffs were set on the basis of a reference revenue of €26.9 million. The revenue coverage factor has been set at 64% of the reference revenue. As at 31 December 2017, the RAB for regasification activities was €107.9 million.

## Other provisions

### Integrated storage and regasification service

With regard to the contractual period from 1 April 2017 to 31 March 2018, the Ministry of Economic Development established, by the Decree of 7 December 2016 (Official Gazette, General Series, No. 295 of 19 December 2016), that a storage space equal to 1.5 billion cubic metres should be set aside for an integrated regasification and storage service, in order to allow industrial companies to procure LNG directly from other countries. The service involves the injection of amounts of regasified gas into storage, minus consumption and losses, by the end of the month after the same amount of LNG has been unloaded.

For the purposes of providing the service, Stogit will make a storage space available, equivalent to the assigned regasification capacity, and an injection capacity that allows quantities of the LNG delivered to be injected into storage and fed into the network by regasification terminals. Where necessary, physical management of the gas flows to be injected and stored will take place by acquiring additional injection capacity through the procedure for selling short-term capacity. The decree has also established that the Authority will define the competitive auction procedure for allocating capacities related to the integrated service, a reserve price that takes product value as well as market developments and the criteria for splitting the proceeds between the regasification companies and Stogit into account. Ministerial Decree 13/02/2017 (Official Gazette, General Series No. 46 of 24 February 2017) integrated Ministerial Decree 7/12/2016 by specifying the type of industrial companies to

which the integrated regasification and storage service is aimed, and introduced a priority in the allocation of available injection capacity for transfer on a daily basis by the owners of this service, within the limits of the quantities needed to allow injection for storage of the quantities to be regasified.

Finally, the Decree provides that the Regulatory Authority for Energy Networks and the Environment (ARERA), when determining the reserve price for the purposes of assigning the service, can evaluate alternative ways of covering the transportation fees for entry and exit from storage facilities.

#### Regulatory reform regarding the allocation of LNG regasification capacity on the basis of market mechanisms (Auctions)

With Resolution 660/2017/R/gas, which was published on 2 October 2017, the Authority introduced market mechanisms for assigning regasification capacity, and integrated it into a Consolidated Law (Integrated text on the adoption of free access assurances to the "TIRG" liquefied natural gas regasification service - Annex A to Resolution 660/2017) the provisions concern the methods of access and provision of regasification services. In particular, for the assignment of capacity for annual/long-term duration, the TIRG introduced an open-ended type auction mechanism, similar to the provisions of the CAM Regulation for interconnection points with foreign countries, and for the assignment of infra - annual duration capacity for pay as bid auctions. The criteria for defining reserve prices for auction contributions will be defined by the Authority by a later provision.

#### Emergency Plan for the natural gas system

With Ministerial Decree 18/10/2017, the Ministry of Economic Development updated the Preventive Action Plan and the Emergency Plan for the natural gas system, taking into account the new European Regulation on the security of natural gas supplies (Regulation EU 2017/1938).

The Preventive Action Plan contains a description of the risk scenarios inherent to the safety of gas supplies in Italy, an analysis of the compliance of the gas system's infrastructure, compliance with supplies to protected customers and the measures for improving the overall safety of the Italian gas system that can be developed over the short and medium term.

The Emergency Plan contains conditions for activating crisis levels (early warning, warning and emergency) by the Ministry of Economic Development, provides for non-market measures that can be activated in the event of a state of emergency (such as by way of example, maximising imports, reducing consumption by interruptible customers, using strategic storage, etc) and introduces solidarity measures in favour of the other states with which bilateral agreements have been signed.

With reference to regasification activity, among the non-market measures, the use of LNG warehouses with "peak shaving" functions was confirmed; this measure envisages that the Balancing Manager can use the LNG previously stored in the regasification terminal tanks to compensate for critical situations to cover the requirements of the gas system.

With Resolution 739/2017/R/gas, which was published on 6 November 2017, the Authority defined the procedures for managing the peak

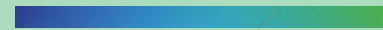
shaving service for the winter period of the 2017-2018 thermal year, as well as the measures to cover the charges related to the disbursement of this service by the regasification companies and the Balancing Manager, in continuity with the Thermal Year 2016-2017.

# Storage of natural gas

SNAM PRESENCE  
IN STORAGE IN ITALY



In 2017, Snam took action to promote the replenishment of national storage facilities for the purpose of being able to manage seasonal peaks in demand. The replenishment level at the end of the injection campaign was 98% as opposed to a European average of 89%



Total storage capacity  
**16.7**  
bcm

Gas withdraw  
**10.12**  
bcm

Gas moved through the storage system

**19.92**  
bcm

Available storage capacity

**12.2**  
bcm

**9**

Operating concessions

Strategic storage capacity

**4.5**  
bcm

Gas injected into the fields

**9.80**  
bcm

**1**

Concession not currently in use

## Infrastructure and storage service

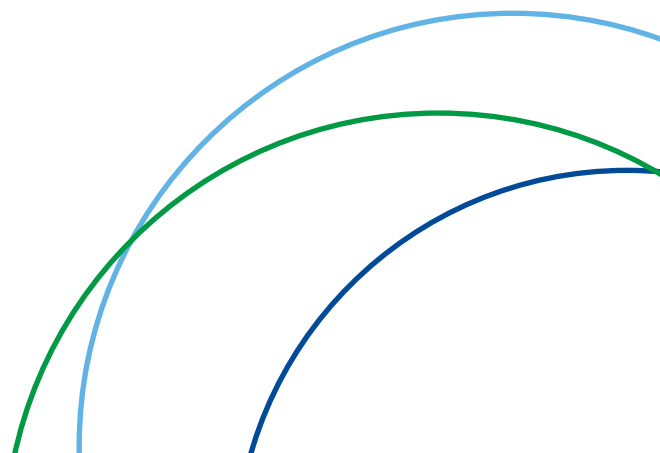
Through its subsidiary company Stogit, Snam is the largest storage operator in Italy, with a 97% share of total available storage capacity, and one of the largest in Europe. It carries out its activity through an integrated system of infrastructures, composed of deposits, gas treatment plants, compression stations and dispatching operations. The storage system makes it possible to compensate for the different requirements for gas supply and consumption: whilst supply has a substantially constant flow throughout the year, the demand for gas is concentrated mainly in the winter period. Storage also ensures that quantities of strategic gas are available to compensate for any lack of or reduction in non-EU supply or crises in the gas system. The storage business makes use of integrated infrastructure comprising deposits, wells, gas treatment plants, compression stations and the operational dispatching system. Snam has nine storage concessions located in Lombardy (five), Emilia-Romagna (three) and Abruzzo (one). The new Bordolano site has been operational since 2015.

Thanks to the investments made into developing new fields and strengthening existing ones, the total storage capacity at the end of 2017, including strategic storage, reached 16.7 billion cubic metres (+ 0.2 billion cubic metres compared to 2016).

In 2017, 19.92 billion cubic metres of natural gas was moved through the storage system, (which was in line with volumes moved in 2016: -0.4%).

In October 2017, Stogit reached a modulation storage volume at the storage system of 11,829 million standard cubic metres of gas, achieving a new historical peak. A result that attests to Stogit's ability to respond to both the needs of the national market as well as the contingent dynamics linked to international markets and policies, which can significantly modify demand by increasing the value of business with policies to support the security of supplies.

**The total storage capacity in 2017, including strategic storage, amounts to 16.7 billion cubic metres: the largest capacity at the European level**



## Key performance indicators

(millions of €)	2015	2016	2017	Change	% change
Total revenue (a)	535	584	<b>601</b>	17	2.9
Regulated revenue (a)	534	583	<b>598</b>	15	2.6
- revenue items offset in costs	<i>80</i>	<i>81</i>	<i>90</i>	<i>9</i>	<i>11.1</i>
Operating costs (a)	145	151	<b>165</b>	14	9.3
EBIT	319	346	<b>339</b>	(7)	(2.0)
Technical investments (b)	170	117	<b>101</b>	(16)	(13.7)
Net invested capital at 31 December	3,365	3,421	<b>3,429</b>	8	0.2
Concessions (number)	10	10	<b>10</b>		
- of which operational (c)	<i>9</i>	<i>9</i>	<i>9</i>		
Natural gas moved through the storage system (billions of cubic metres) (d)	19.58	20.00	<b>19.92</b>	(0.08)	(0.4)
- of which injected	<i>9.84</i>	<i>9.96</i>	<i>9.80</i>	<i>(0.16)</i>	<i>(1.6)</i>
- of which withdrawn	<i>9.74</i>	<i>10.04</i>	<i>10.12</i>	<i>0.08</i>	<i>0.8</i>
Total storage capacity (billions of cubic metres)	16.0	16.5	<b>16.7</b>	0.2	1.2
- of which available (e)	<i>11.5</i>	<i>12.0</i>	<i>12.2</i>	<i>0.2</i>	<i>1.7</i>
- of which strategic	<i>4.5</i>	<i>4.5</i>	<i>4.5</i>		
Employees in service at 31 December (number) (f)	299	301	<b>60</b>	(241)	(80.1)

(a) Before consolidation adjustments.

(b) Investments remunerated at the pre-tax real base WACC, amounting to 6.0% for 2015, 6.5% for 2016 and for 2017.

(c) Working gas capacity for modulation services.

(d) The volumes of gas are expressed in Standard cubic metres (SCM) with an average higher heating value (HHV) conventionally equal to 39.4 MJ/Smc (10.930 Kwh/SCM) for natural gas storage activities for the thermal year 2017-2018 (39.3 MJ/SCM, 10.906 Kwh/SCM, for the thermal year 2016-2017).

(e) Working gas capacity for modulation, mining and balancing services. The figure indicated represents the maximum available capacity, which was allocated in full for the 2017-2018 thermal year.

(f) The change includes the transfer of no. 247 staff members, effective from 1 July 2017, mainly for the sale of the "Plant and Technical Services" business unit to the subsidiary Snam Rete Gas S.p.A. (No. 221 staff members), as well as transfer to the parent company Snam S.p.A. of resources belonging to staff functions.

## Results

**Total revenue** amounted to €601 million, an increase of €17 million, or 2.9%, compared with 2016. Total revenue net of items offset in costs<sup>21</sup> was €511 million, representing an increase of €8 million or 1.6% compared with 2016.

**Regulated revenue** (€598 million) comprised fees for the natural gas storage service (€510 million) and the fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€ 81 million) and recognition by the Authority of the charges for compensatory contributions to the Regions pursuant to Law No. 244 of 24 December 2007<sup>22</sup>, registered in 2017 (€5 million). Storage revenues, net of items offset in costs, was €508 million, representing an increase of €6 million or 1.2% compared with 2016.

<sup>21</sup> These components refer mainly to revenue from the redebiting to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation. It should be noted that, starting from the thermal year 2017-2018, resolution 64/2017/R/gas established that most of the costs for the transport service are no longer charged back to the Users, but are liquidated directly by funds for Energy and Environmental Services (CSEA).

<sup>22</sup> Pursuant to Article 2, paragraphs 558 and 559 of Italian Law No. 244 of 24 December 2007, starting from 1 January 2008, holders of concessions for natural gas storage activities in fields or deep geological units, or in any case authorised to install and operate new natural gas storage facilities, correspond to those regions in which the respective storage facilities are located, will own, as a compensatory contribution for non-alternative use of the territory, an annual amount equal to 1% of the value of the total authorised natural gas storage capacity. With Resolution 855/2017/R/gas published on 15 December 2017, the Regulatory Authority has established that these costs are allocated to the storage company by applying the revenue restriction (the so-called SG Factor), thus ensuring neutrality.

The **non-regulated revenues** equal to €3 million (€1 million in 2016) mainly refer to income derived from insurance reimbursements relating to the Fiume Treste concession.

The **operating profit** achieved in 2016 amounted to €339 million, down by €7 million, or 2.0% compared to 2016, following higher amortisation and depreciation (-€10 million) due to the entry into service of new infrastructures, in particular, to the Bordolano site.

## Technical investments

**Technical investments** in 2017 totalled €101 million, a decrease of €16 million (-13.7%) compared with the previous year (€117 million), and refer to the **development of new fields and upgrading of capacity** (€31 million) and **maintenance and other** investments (€70 million).

The main investments in the development of new fields and upgrading of capacity (€31 million) primarily concerned the following initiatives:

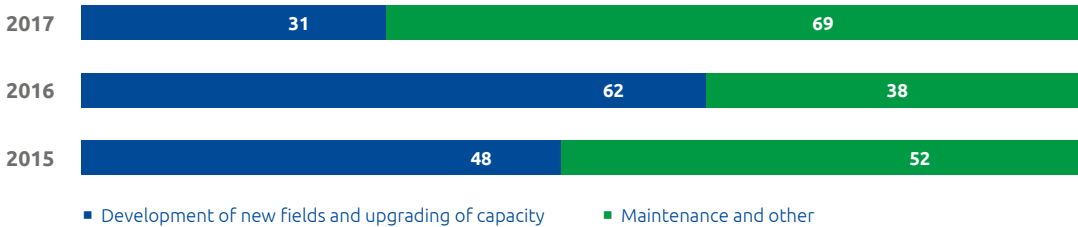
- Minerbio Overpressures (€12 million) for construction activities related to installing the new TC7 compression unit;
- Bordolano (€ 7 million) for environmental restoration and mitigation activities, additional engineering and other charges deriving from the modification of the work program requested by Stogit;
- Sabbioncello Overpressure (€5 million), for completion of repowering of the TC2 compression unit, for the additional engineering activity linked to updating the documentation (relating to electrical systems) following the repowering of the turbo compressors and the regulations, for acquisition of capital spare

parts for the TC2 compression unit and the main activities linked to commissioning it;

- Fiume Treste Sviluppo (€3 million), for the purchase and replacement of two tanks for the collection of water to be treated.

The investments of **maintenance and more** (€ 70 million) mainly related to the reconstruction of wells 109 and 112 at Cortemaggiore (€ 16 million), the revamping project for the Cortemaggiore compression units (€ 6 million) and investments in new information systems (€7 million).

**Investment proportions by type (% of total investments)**



Thanks to the significant investments made to develop new deposits and upgrade existing ones, Stogit exceeded the previous maximum quantity of gas deposits in its storage systems, thereby increasing its volume and peak capacity. Total storage capacity as at 31 December 2017, 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 fully allocated for the thermal year 2017-2018 (12.0 billion cubic metres in 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).

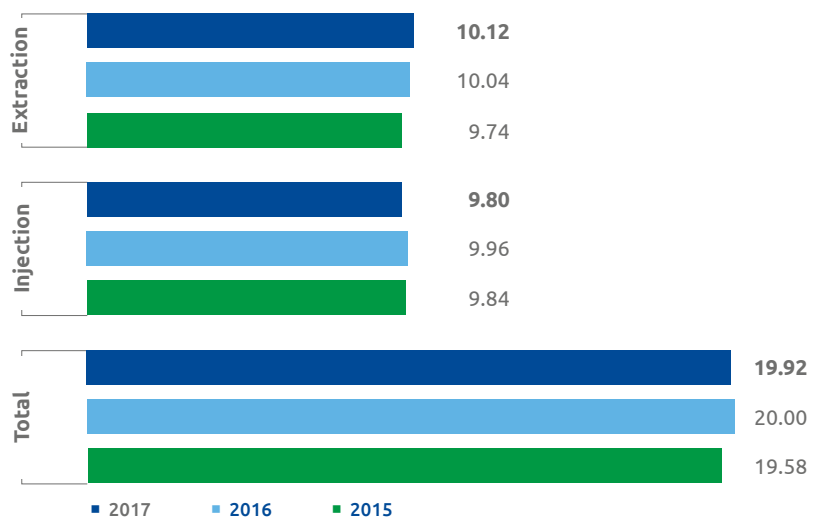
**Operating review**

**Gas moved through the storage system**

The volumes of gas handled in the storage system in the financial year 2017 amounted to 19.9 billion cubic metres, substantially unchanged compared to 2016 (-0.08 billion cubic metres, equal to -0.4%) despite the greater presence in the system as of 31 March 2017.

The lower injections for replenishing the storage facilities (-0.16 billion cubic metres), attributable to the shippers' behaviour in relation to various market conditions, were partly offset by higher disbursements (+0.08 billion cubic metres) due to climatic conditions.

**Natural gas moved through the storage system (billions of cubic metres)**



## Provision and development of storage services

	2015	2016	2017
Active customers (shippers) (no.)	118	91	89

Since the start of July 2017, commercial management of the 3 businesses concerned with transport, storage and regasification, respectively headed by Snam Rete Gas, Stogit and GNL Italia, have been merged into Snam within a single organisation.

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

Similar to Snam Rete Gas, work tables have been set up to review the information contained in the area dedicated to the site's business.

Within the network codes are lists of a series of indicators for monitoring the quality of services offered by the companies. Snam companies continued to maintain excellent performance with respect to these indicators in 2017. One part of these indicators, which refers to specific levels of business quality, gives rise to automatic indemnification of customers in the event of a failure to comply with service quality standards.

	2015	2016	2017
Contractual storage capacity/Available storage capacity (%)	100	100	99.9
Compliance with deadlines for performing services subject to specific business quality standards (%)	100	100	100
Connection flow lines subject to supervision (%)	76	100	100
Total capacity not made available following interruptions/reductions to the service (%)	0	0	0

## Organisational changes related to operational activities

During 2017, the number of personnel in service rose by 241, from 301 at 31 December 2016 to 542 at 31 December 2017. The increase was due to implementation of the Integra Project and, in particular, transfer of the "Plants and technical services" business unit from Stogit to Snam Rete Gas, which entailed transferring 221 staff members to the Snam Rete Gas company.

In the Operations area during 2017, the second phase of the SmartGas project was completed, an initiative aimed at revising maintenance standards and regulations to ensure the necessary development of professional roles operating at the hubs, and the development and implementation of more highly developed IT solutions to manage operating processes.

With a view to the enhancement and integrated synergic organisation of Snam's Italian assets, with effect from 1 July 2017, the sale of the Stogit "Plant and Technical Services" business unit to Snam Rete Gas was finalised. After this reorganisation, the competent Snam Rete Gas operators in the areas of Plant Management, Dispatching & Measurement, Engineering and Construction, and Supply Chain ensure, on the basis of specific service contracts, management of the operation, maintenance and control of storage facilities, storage dispatching operations, engineering activities and the implementation of investment



projects related to surface facilities, improvements to plant engineering and procurement of goods and works and services related to the business of storage. Correspondingly within Stogit, the Storage Facilities function was established to manage the related service contracts. In addition, some coordination and specialist activities in the field of health, safety and the environment have been centralised at Snam (e.g.: regulatory system development, support for certification systems) whilst Stogit has set up the unit dedicated to the Prevention and Protection Service.

The integration process will continue during 2018 with specific training initiatives dedicated to dispatching and plant management personnel. In the second half of the year, the project to streamline and simplify the current regulatory framework for Stogit was launched, and the implementation phase for this will be developed during 2018

## Accidents

The number of accidents increased in 2017 for employees, whereas they remained unchanged for contract workers.

### Accidents at work (no.)

	2015	2016	2017
Total employee accidents	0	1	2
Total contract worker accidents	1	1	0

### Indexes - Accidents

	2015	2016	2017
<b>Employees</b>			
Frequency index (*)	0	2	6.71
Severity index (**)	0	0.11	0.43
<b>Contract workers</b>			
Frequency index (*)	0.89	1.27	0
Severity index (**)	0.18	0.07	0

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

(\*\*) Number of working days lost (calendar days) due to accidents at work resulting in an absence of at least one day per thousand hours worked. The data are calculated taking the fatal accidents into account.

## Energy consumption and emissions

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

In 2017, nitrous oxide emissions totalled 175.5 tonnes (-12.7% compared with 2016).

To reduce emissions, a program has been underway for several years to modify some of the existing turbines and to install new units with low-emission combustion systems (DLE). In 2017, 3 turbines were introduced to DLE at storage facilities (TC2 Sabbioncello and TC1 and TC2 at Bordolano).

	2015	2016	2017
Energy consumption (TJ)	4,740	4,985	<b>4,787</b>
Emissions of CO <sub>2eq</sub> – scope1 (t) (*)	450,162	461,976	<b>447,662</b>
Emissions of natural gas (10 <sup>6</sup> m <sup>3</sup> )	10.7	10.7	<b>10.7</b>
NOx emissions (tonnes)	175	201	<b>175</b>

(\*) In 2015 CO<sub>2eq</sub> emissions were calculated with a methane GWP of 28, as indicated in the scientific study of the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

## Regulations for business sectors

### Relationships with the regulatory Authority

(No.)	2015	2016	2017
Responses to consultation documents	4	2	<b>0</b>
Responses to consultations/observations through associations (*)	6	4	<b>3</b>
Tariff proposals	6	3	<b>5</b>
Data collections	75	89	<b>91</b>
Preliminary investigations (**)		1	<b>2</b>
Proposal to amend/update contractual documents and codes (***)	4	4	<b>4</b>
Proposal to amend/update contractual documents and codes (approved)	2	1	<b>2</b>

(\*) Responses to consultations (the Authority, Ministry of Economic Development and Energy Market Operator) through trade associations.

(\*\*) Information sent to the Authority during 2017 with reference to investigations in the context of the sector. Including preliminary inquiries.

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

### Tariff regulations for 2017

Subsequently, by means of Resolution 643/2017/R/gas, published on 22 September 2017, the Authority approved the definitive base revenue for the storage service for 2017 for the company Stogit. The recognised revenues amounted to € 503.2 million. The RAB for storage activities was €4.0 billion.

### Tariff regulations for 2018

By means of Resolution 855/2017/R/gas, published on 15 December 2017, the Authority provisionally approved the corporate base revenue for the storage service for 2018, as per the tariff proposal presented by Stogit. The provisionally approved revenue is aimed at providing a base figure for calculating the fees for the allocation of storage capacity. By 31 May 2018, storage companies will submit their final base revenue proposals to the Authority, calculated using the total annual increases in assets relating to 2017. These proposals are subject to approval by the Authority.

### Temporary period regulations for 2019

**Resolution 68/2018/R/gas – “Start of the procedure for the definition of provisions related to the tariffs and the quality of storage services for the fifth regulatory period (SPRS) and extension of the current provisions to year 2019”**

The Resolution 68/2018/R/gas extends for the year 2019 the regulatory criteria in force for the period 2015-2018 for the storage service, confirming the  $\beta$  parameter for the year 2019. At the same time, the resolution starts a procedure for the definition of the provisions related to the tariffs and the quality of storage services to be applied in

the fifth regulatory period from 2020, during which it will be evaluated the opportunity to implement a regulatory approach based on total expenditure (so-called “Totex”).

### Other provisions

**Italian Ministerial Decree MISE of 14/02/2017 (Official Gazette No. 49 of 28 February 2017) - “Determination and allocation of modulation storage capacity for the contractual period 1 April 2017-31 March 2018”**

With this decree, the Ministry of Economic Development defined the modulation storage space for the thermal year 2017-2018, to be used primarily for entities supplying domestic customers, at 7,625 million cubic metres plus the mining storage share not requested and allocated by the storage companies. The Decree confirmed that this storage space, together with that reserved for the uniform storage of annual and multi-year duration, would be allocated by competitive auctions, with the reserve price defined by the Authority on the basis of the criteria set forth in Resolution 76/2017/R/gas, “Provisions for storage service for the thermal year 2017-2018”.

**Resolution 589/2017/R/gas - “Closure of investigation regarding the status of services provided by the storage fields under concession to the company Stogit S.p.A. Provisions on the regulation of economic items related to the storage service, for the thermal year 2017-2018”**

With Resolution 589/2017/R/gas published on 7 August 2017, the Authority envisaged, in continuity with the 2016-17 thermal year, provisions for the issue of sterilising the impact of transferring storage capacity at fees below the regulated tariff, to guarantee the storage companies have a revenue flow that is substantially

equivalent to that obtained by applying, to the capacity allocated through auction, of the corresponding tariffs. As part of the same resolution, the Authority also closed the fact-finding investigation initiated by Resolution 323/2016/R/gas regarding the services provided by Stogit storage fields, and did not find any violations or non-compliance.

### Emergency Plan for the natural gas system

With Italian Ministerial Decree 18/10/2017, the Ministry of Economic Development updated the Preventive Action Plan and the Emergency Plan<sup>23</sup> for the natural gas system, by taking into account the new European Regulations on the security of natural gas supplies (Regulation EU 2017/1938).

With reference to the storage activity, the Emergency Plan provides inter alia that Stogit will update the Storage Code in relation to some measures for using storage capacities in the areas of warning and emergency levels. The Stogit proposal is being evaluated by the Authority.

<sup>23</sup> For further information on the Action and Emergency Plans, as well as the measures taken with reference to the regasification activity, see the “Other provisions” section of the chapter “Regasification of Liquefied Natural Gas (LNG)”.

# Comments on the financial review and other information

## Comments on the financial review

### Consolidated income statement (\*)

2015		2016		2017		Change	Change %
Pro-forma adjusted	(millions of €)	Reported (**)	Pro-forma adjusted	Reported (**)	Adjusted		
2,502	Regulated revenue	2,444	2,444	2,434	<b>2,434</b>	(10)	(0.4)
125	Non-regulated revenue	57	116	99	<b>99</b>	(17)	(14.7)
<b>2,627</b>	<b>Total revenue</b>	<b>2,501</b>	<b>2,560</b>	<b>2,533</b>	<b>2,533</b>	<b>(27)</b>	<b>(1.1)</b>
<b>2,509</b>	<b>Total revenue - net pass through items</b>	<b>2,356</b>	<b>2,415</b>	<b>2,441</b>	<b>2,441</b>	<b>26</b>	<b>1.1</b>
(570)	Operating costs	(557)	(573)	(526)	<b>(511)</b>	62	(10.8)
(452)	Operating expenses-NET pass through items	(412)	(428)	(434)	<b>(419)</b>	9	(2.1)
<b>2,057</b>	<b>EBITDA</b>	<b>1,944</b>	<b>1,987</b>	<b>2,007</b>	<b>2,022</b>	<b>35</b>	<b>1.8</b>
(576)	Amortisation, depreciation and impairment	(651)	(651)	(659)	<b>(659)</b>	(8)	1.2
<b>1,481</b>	<b>Operating profit (EBIT)</b>	<b>1,293</b>	<b>1,336</b>	<b>1,348</b>	<b>1,363</b>	<b>27</b>	<b>2.0</b>
(332)	Net financial expenses	(510)	(263)	(283)	<b>(227)</b>	36	(13.7)
153	Net income from equity investments	116	135	161	<b>150</b>	15	11.1
<b>1,302</b>	<b>Pre-tax profit</b>	<b>899</b>	<b>1,208</b>	<b>1,226</b>	<b>1,286</b>	<b>78</b>	<b>6.5</b>
(392)	Income tax	(308)	(363)	(329)	<b>(346)</b>	17	(4.7)
<b>910</b>	<b>Net profit (***)</b>	<b>591</b>	<b>845</b>	<b>897</b>	<b>940</b>	<b>95</b>	<b>11.2</b>
	<b>Net Profit - discontinued operations (***)</b>	<b>270</b>					
<b>910</b>	<b>Group net income (***)</b>	<b>861</b>	<b>845</b>	<b>897</b>	<b>940</b>	<b>95</b>	<b>11.2</b>

(\*) Changes in the income statement results shown in the table, as well as in those later in this Report, unless otherwise indicated, must be understood as changes in the results for the adjusted 2017 financial year compared to the 2016 pro-forma adjusted year. Percentage changes, unless otherwise specified, are calculated in relation to the data indicated in the related tables.

(\*\*) The Legal table of the Financial Statement.

(\*\*\*) Entirely held by Snam shareholders

**Reconciled summary of adjusted results (\*)**

2015	(millions of €)	2016	2017	Change	Change %
<b>1,427</b>	<b>Operating profit (EBIT)</b>	<b>1,293</b>	<b>1,348</b>	<b>55</b>	<b>4.3</b>
54	<i>Movement of the elisions originating from intercompany transactions to discontinued operations</i>	43		(43)	(100.0)
	<i>Excluding special items</i>		15	15	
<b>1,481</b>	<b>Adjusted EBIT</b>	<b>1,336</b>	<b>1,363</b>	<b>27</b>	<b>2.0</b>
<b>796</b>	<b>Net profit (**)</b>	<b>591</b>	<b>897</b>	<b>306</b>	<b>51.8</b>
48	<i>Movement of the elisions originating from intercompany transactions to discontinued operations</i>	80		(80)	(100.0)
19	<i>Excluding special items</i>	137	43	(94)	(68.6)
47	<i>Pro-forma adjustments/Italgas Group results by share (13.5%) for the entire year</i>	37		(37)	(100.0)
<b>910</b>	<b>Adjusted net profit</b>	<b>845</b>	<b>940</b>	<b>95</b>	<b>11.2</b>

(\*) For reconciliation of the nature of the individual adjustments, read the paragraph: "Non-GAAP measures" of this Report.

(\*\*) Entirely held by Snam shareholders.

The **adjusted<sup>24</sup> operating profit** for the financial year 2017, which excludes special items represented by charges connected to the application of advance instrument for pensions, regulated by Art. 4 paragraphs 1-7 of Italian Law No. 92/2012, the so-called "Fornero Law" (€ 15 million, including exit incentives) amounted to 1,363, an increase of 27 million euros, equal to 2.0%, compared to the 2016 pro-forma adjusted operating profit. The higher revenues (+€ 26 million, 1.1%), mainly attributable to the natural gas transportation and storage sectors, and lower operating costs (+€ 9 million, or 2.1%), were partially offset by the increase in amortisations and depreciations for the period (-€ 8 million, or 1.2%), mainly due to the amortisation deriving from the entry into service of new infrastructure, which was partly absorbed by lower

impairment of tangible assets. In particular, the reduction in operating costs was mainly due to the impact of the efficiency plan (+ € 19 million) and lower capital losses from assets (+ € 15 million), partly offset by higher net provisions for risks and charges (- € 12 million), which was mainly attributable to tax disputes for indirect taxes, as well as greater provisions for adjustments to asset items (- € 10 million).

The **adjusted net profit** that, in addition to the aforementioned charges for Isopensione (€11 million net of the tax effect), excludes special items represented by the charges connected to the repurchase of bonds in the last quarter of 2017 (€ 43 million net of the tax effect) and income related to the one-off adjustment of deferred tax liabilities of the investee TIGF (€ 11 million), it attests to €940 million, up by €95 million (+ 11.2%); compared to the adjusted pro-forma net profit for the financial year 2016. The increase, in addition to the greater operating profit, was due to: (i) lower net financial expenses (+36 million euros, or 13.7%), which benefitted

from a reduction in the average cost of debt, as well as benefits deriving from optimisation actions carried out during the period 2016 and 2017, in particular the liability management operation completed in October 2016 and the financing operations carried out during the year, as well as the reduction in average debt for the period; (ii) higher net income from investments (+ € 15 million, +11.1%); (iii) lower income taxes (+ € 17 million, or 4.7%) mainly attributable to the reduction from 1 January 2017 of the IRES rate from 27.5 to 24.0%, partially offset by the higher pre-tax profits.

<sup>24</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. Those components mainly pertained to natural gas interconnections and transfers carried out for purposes of balancing the gas system.

## Analysis of the entries on the adjusted financial statement

### Total revenue

2015 (millions of €)	2016	2017	Change	Change %
<b>Business segments</b>				
2,145 Transportation	2,035	<b>2,039</b>	4	0.2
25 Regasification	19	<b>22</b>	3	15.8
535 Storage	584	<b>601</b>	17	2.9
209 Corporate and other activities	226	<b>233</b>	7	3.1
<i>(287) Elisions from consolidation (*)</i>	<i>(304)</i>	<i><b>(362)</b></i>	<i>(58)</i>	<i>19.1</i>
<b>2,627</b>	<b>2,560</b>	<b>2,533</b>	<b>(27)</b>	<b>(1.1)</b>

(\*) The figures for 2015 and 2016 include the restoration of the eliminations deriving from intercompany transactions with discontinued operations.

### Regulated and non-regulated revenue

2015 (millions of €)	2016	2017	Change	Change %
<b>2,502 Regulated revenue</b>	<b>2,444</b>	<b>2,434</b>	<b>(10)</b>	<b>(0.4)</b>
<b>Business segments</b>				
1,977 Transportation	1,855	<b>1,889</b>	34	1.8
18 Regasification	18	<b>18</b>		
389 Storage	426	<b>435</b>	9	2.1
118 Revenue items offset in costs (*)	145	<b>92</b>	(53)	(36.6)
<b>125 Non-regulated revenue (**)</b>	<b>116</b>	<b>99</b>	<b>(17)</b>	<b>(14.7)</b>
<b>2,627 Total revenue</b>	<b>2,560</b>	<b>2,533</b>	<b>(27)</b>	<b>(1.1)</b>

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

(\*\*) The figures for 2015 and 2016 include restoration of the adjustments deriving from inter-company transactions with discontinued operations.

**Regulated Revenue** (€2,434 million) declined by €10 million in respect to the fiscal year 2016 (-0.4%). Net the components that have a counterpart in costs, the regulated revenue total €2,342 million, an increase of €43 million, equal to 1.9%, thanks to the continuous investment and greater volumes of injected gas, and relate to transport (€1,889 million), storage (€435 million) and re-gasification (€18 million).

The **non-regulated revenues** (€99

million euros, net of consolidation adjustments) decreased by €17 million compared to 2016, equal to -14.7%, and mainly refer to revenues from services rendered to the Italgas Group (€60 million), technical and specialist services to unconsolidated foreign companies (€11 million) and income from the rental and maintenance of fibre optic telecommunications cables (€13 million). The reduction was mainly due to lower revenues from services

provided to the Italgas Group, settled through several contracts concluded as of 31 December 2017.

## Operating costs

### Operating Costs by Business segments

2015	(millions of €)	2016	2017	Change	Change %
<b>Business segments</b>					
485	Transportation	469	<b>441</b>	(28)	(6.0)
19	Regasification	12	<b>15</b>	3	25.0
145	Storage	151	<b>165</b>	14	9.3
208	Corporate and other activities	245	<b>252</b>	7	2.9
(287)	Elisions from consolidation (*)	(304)	<b>(362)</b>	(58)	19.1
<b>570</b>		<b>573</b>	<b>511</b>	<b>(62)</b>	<b>(10.8)</b>

(\*) The figures for 2015 and 2016 include the restoration of the eliminations deriving from intercompany transactions with discontinued operations.

(\*\*) With reference to 2017, the cost of interconnections to Gas Transport Infrastructures was adjusted by the corresponding revenue from Snam Rete Gas (€ 5 million in the period October-December 2017).

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

2015	(millions of €)	2016	2017	Change	Change %
<b>463</b>	<b>Costs of regulated activities</b>	<b>456</b>	<b>404</b>	<b>(52)</b>	<b>(11.4)</b>
268	Controllable fixed costs	271	<b>267</b>	(4)	(1.5)
13	Variable costs	9	<b>7</b>	(2)	(22.2)
64	Other costs (*)	31	<b>38</b>	7	22.6
118	Cost items offset in revenue (**)	145	<b>92</b>	(53)	(36.6)
<b>107</b>	<b>Costs of non-regulated activities (***)</b>	<b>117</b>	<b>107</b>	<b>(10)</b>	<b>(8.5)</b>
<b>570</b>	<b>Total operating costs</b>	<b>573</b>	<b>511</b>	<b>(62)</b>	<b>(10.8)</b>

(\*) Net special items.

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

(\*\*\*) The figures for 2015 and 2016 include restoring the adjustments deriving from inter-company transactions with discontinued operations.

### Operating costs of regulated activities

Operating costs of regulated activities (€404 million) decreased by €52 million, or 11.4% compared to 2016. Net of the components that are offset by revenue, the operating costs of the regulated activities are substantially in line with the year 2016 (+€1 million).

The fixed controllable costs (€267 million) represented by the total of the cost of personnel and external costs of a recurrent nature, record a decrease of €4 million, equal to 1.5% compared to the fiscal year 2016 (€271 million),

partly due to the implementation of efficiency measures.

Variable costs (€7 million) decreased by €2 million, or 22.6%, compared to 2016. Other costs (€38 million, net of the special items represented by the provisions of the former Fornero law early retirement plan) increased by €7 million, or 22.6% compared to 2016. The increase is due essentially to the higher net provisions for risks and charges (-€8 million), mainly attributable to tax disputes for indirect taxes, as well as higher provisions for bad debt provisions (-€2 million).

### Operating costs of non-regulated activities

Operating costs of non-regulated assets (€107 million) decreased by €10 million, or 8.5% compared to 2016, mainly as a result of lower labour costs, the loss of charges directly related to the division operations completed in November 2016, and lower charges relating to compensation for termination of employment relationships paid in 2016 (€5 million). These effects were partly offset by the higher net provisions for risks and charges and the allowance for bad debt provisions (€12 million overall).

## Service personnel

The number of employees as of 31 December 2017 (2,919 people) is analysed below according to professional status.

2015 (no.)	2016	2017	Change	Change %
<b>Professional status</b>				
99 Executives	87	93	6	6.9
449 Managers	421	456	35	8.3
1,736 Skilled workers	1,651	1,655	4	0.2
721 Manual workers	724	715	(9)	(1.2)
<b>3,005</b>	<b>2,883</b>	<b>2,919</b>	<b>36</b>	<b>1.2</b>

The change of 36 units compared to 2016 is mainly due to the entry of 27 resources deriving from the entry of Infrastrutture Trasporto Gas into the consolidation area.

## Amortisation, depreciation and impairment

2015 (millions of €)	2016	2017	Change	Change %
<b>573 Total amortisation and depreciation</b>	<b>616</b>	<b>646</b>	<b>30</b>	<b>4.9</b>
<b>Business segments</b>				
492 Transportation	517	539	22	4.3
5 Regasification	5	5		
71 Storage	87	95	8	9.2
5 Corporate and other activities	7	7		
<b>3 Impairment losses (Reversals)</b>	<b>35</b>	<b>13</b>	<b>(22)</b>	<b>(62.9)</b>
<b>576</b>	<b>651</b>	<b>659</b>	<b>8</b>	<b>1.2</b>

**Depreciation and Devaluation** (€659 million) increased by €8 million, equal to 1.2% compared to the fiscal year 2016. The increase was principally due to higher depreciation (+€30 million; +4.9%) recorded in all sectors of activities, essentially as a result of the effective date of new infrastructure and higher devaluation (€22 million; -62.9%) relating to the transport and regasification sectors.



## Adjusted EBIT

Below is a breakdown of adjusted EBIT by business segment:

2015 (millions of €)	2016	2017	Change	Change %
<b>Business segments</b>				
1,165 Transportation	1,021	<b>1,048</b>	27	2.6
1 Regasification	(5)	<b>2</b>	7	
319 Storage	346	<b>339</b>	(7)	(2.0)
(4) Corporate and other activities	(26)	<b>(26)</b>		
<b>1,481</b>	<b>1,336</b>	<b>1,363</b>	<b>27</b>	<b>2.0</b>

## Net financial expenses

2015 (millions of €)	2016	2017	Change	Change %
<b>344</b> Financial expense (income) related to net financial debt	<b>281</b>	<b>235</b>	<b>(46)</b>	<b>(16.4)</b>
347 - Interest and other expense on short- and long-term financial debt (*) (**)	281	<b>236</b>	(45)	(16.0)
(3) Interest on financial receivables not held for operating activities		<b>(1)</b>	(1)	
<b>17</b> Other net adjusted finance charges	<b>4</b>	<b>4</b>		
12 - Accretion discount	10	<b>11</b>	1	10.0
5 - Other net financial expense (income) (**)	(6)	<b>(7)</b>	(1)	16.7
<b>Losses (Gains) on hedging derivatives – ineffective portion</b>	<b>1</b>	<b>1</b>		
<b>(29)</b> Financial expense capitalised	<b>(23)</b>	<b>(13)</b>	<b>10</b>	<b>(43.5)</b>
<b>332</b>	<b>263</b>	<b>227</b>	<b>(36)</b>	<b>(13.7)</b>

(\*) The figures for 2015 and 2016 include the restoration of the eliminations deriving from intercompany transactions with discontinued operations.

(\*\*) Net special items.

The **net financial charges** (€227 million, net of the special items related to the liability management operation implemented in October 2017) show a reduction of €36 million, or 13.7%, compared to 2016. The reduction is due to lower finance charges correlated to the net financial debt (-€46 million; -16.4%) principally connected to the lower average cost of the debt, also thanks to optimisation interventions in the group's financial structure put into effect by Snam. The finance charges capitalized in the fiscal year 2017 total €13 million, a €10 million reduction in respect to the fiscal year 2016.

**Net income from equity investments**

2015	(millions of €)	2016	2017	Change	Change%
153	Equity method valuation effect (*) (**)	135	150	15	11.1
<b>153</b>		<b>135</b>	<b>150</b>	<b>15</b>	<b>11.1</b>

(\*) Values for 2015 and 2016 include pro-forma adjustments.

(\*\*) Net special items.

The **net proceeds on investments** (€150 million) refer to the relative contributions pertaining to the interim net results of the companies valued using the equity method. In particular, to the jointly-controlled companies TAG (€ 84 million), TIGF (€ 30 million, net of a one-off adjustment of deferred taxes) and AS Gasinfrastruktur Beteiligung GmbH (€ 11 million) and the associated company Italgas (€ 39 million), as well as the share attributable to the loss for this period by GasBridge 1 BV and Gasbridge 2 BV (-€ 10 million in total), which includes the effects of the write-down on investments of the latter held in Interconnector UK (€18 million).

**Income tax**

2015	(millions of €)	2016	2017	Change	Change %
<b>426</b>	<b>Current taxes (*)</b>	<b>403</b>	<b>373</b>	<b>(30)</b>	<b>(7.4)</b>
	<b>(Prepaid) deferred taxes (*)</b>				
(17)	Deferred taxes	(22)	(16)	6	(27.3)
(17)	Prepaid taxes	(18)	(11)	7	(38.9)
<b>(34)</b>		<b>(40)</b>	<b>(27)</b>	<b>13</b>	<b>(32.5)</b>
<b>392</b>	<b>Total taxes</b>	<b>363</b>	<b>346</b>	<b>(17)</b>	<b>(4.7)</b>

(\*) Net special items.

The **income taxes** total €346 million, a €17 million reduction, equal to 4.7%, in respect to the fiscal year 2016. The decrease is essentially attributable to the reduction from 1 January 2017 of the IRES rate from 27.5 to 24.0%, partly offset by the higher pre-tax profit and lower ACE - Economic Growth Aid benefit, introduced by Italian Legislative Decree of 6 December 2011 no. 201 converted by the Law of 22 December 2011, no. 214 and subsequent additions and modifications.

## Non-GAAP measures

Snam presents in the management report, in addition to the financial results envisaged by the IFRS, certain variables deriving from the latter, even if not envisaged by the IFRS or by other standard setters (Non-GAAP measures).

Snam's management believes that these measures facilitate the analysis of the Group's performance and of the business sectors, ensuring better comparability of results over time. Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS. In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from reclassifications or algebraic sums of conventional indicators<sup>25</sup> and compliant with international accounting standards.<sup>26</sup>

### Operating profit and adjusted net profit

The operating profit and the adjusted net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating

profit and the reported net profit, as per the legal scheme of the Income Statement.

Income entries classified as special items for 2017 refer to: (i) the financial charges deriving from the repurchase on the bond market, carried out as part of the Liability management operation (€56 million, €43 million net of the related tax effect) implemented by Snam in October 2017; (ii) the charges recognised under the item "personnel costs" in application of the pension anticipation instrument regulated by Art. 4 paragraphs 1-7 of Italian Law no. 92/2012, so-called "Fornero Law" (€15 million included exit incentive costs, €11 million net of the related tax effect); (iii) income from the one-off adjustment of deferred tax liabilities of the investee TIGF (€11 million).

With reference to 2016, in order to remove the distorting effects deriving from the application of IFRS 5 "Non-current assets held for sale and discontinued operations", the adjusted result measures, in addition to excluding special items, restore the eliminations originating from transactions with the Italgas Group, (represented as discontinued operations) on continuing operations.

### Pro-forma adjusted net income

In consideration of the elements of discontinuity that characterized the 2016 financial year, the Non-GAAP Measures referring to this period are also represented by the adjusted pro-forma net profit which includes the contribution of the distribution sector by applying the related shareholding, equal to 13.5%, to the net interim income of the Italgas Group, taking ownership of the connection of Snam in Italgas, starting from 1 January 2016.

### 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. Any income components deriving from non-recurring transactions in accordance with Consob Resolution no. 15519 of 27 July 2006 are also shown separately in the IFRS financial report.

### Free cash flow

Free cash flow is the measure that allows the connection between the obligatory financial statement, which expresses the change in liquidity between the beginning and end of the period, and the change in net financial debt between the beginning and end of the reclassified cash flow statement. "Free cash flow" represents the surplus or cash deficit remaining after the investment financing and closes alternatively: (i) on the cash change for the period, after the cash flows related to the financial payables/assets (credit/debit repayments/financial payables) have been added/subtracted, to the equity capital (payment of dividends/net acquisition of own shares/capital injections), as well as the effects on cash and cash equivalents of changes in the scope of consolidation and exchange differences arising from conversion; (ii) on the change in net financial debt for the period, after the flows relating to own capital have been added/subtracted, as well as the effects on

<sup>25</sup> According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the balance sheet, the income statement, the statement of changes in equity and the cash flow statement are conventional indicators or in the commentary notes.

<sup>26</sup> For the definition of these quantities refer to the Glossary.

net financial debt of changes in the scope of consolidation and exchange differences arising on conversion.

### Net financial debt

Net financial debt is calculated as financial debt, net of cash and cash equivalents, held for trading securities and other non-operating securities, as well as short-term financial receivables not used for

operating activities. The long-term financial assets functional to the operations are considered to be instrumental to operational activity.

The tables below show the reconciliation between the reported Income Statement and the adjusted and pro-forma adjusted Income Statements, as well as a table summarizing the special items:

(millions of €)

2017

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

(\*) Entirely held by Snam shareholders.

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

(\*) Entirely held by Snam shareholders.

2015					
(millions of €)	REPORTED	<i>Movement of the elisions originating from intercompany transactions to discontinued operations</i>	<i>Special Item</i>	<i>Results from Italgas Group</i>	PRO-FORMA ADJUSTED
<b>Continuing operations</b>					
Regulated revenue	2,502				2,502
Non-regulated revenue	52		73		125
<b>Total revenue</b>	<b>2,554</b>		<b>73</b>		<b>2,627</b>
Operating costs	(551)		(19)		(570)
<b>EBITDA</b>	<b>2,003</b>		<b>54</b>		<b>2,057</b>
Amortisation, depreciation and impairment	(576)				(576)
<b>Operating profit (EBIT)</b>	<b>1,427</b>		<b>54</b>		<b>1,481</b>
Net financial expenses	(380)		48		(332)
Net income from equity investments	106			47	153
<b>Pre-tax profit</b>	<b>1,153</b>		<b>102</b>	<b>47</b>	<b>1,302</b>
Income tax	(357)			(35)	(392)
<b>Net profit (*)</b>	<b>796</b>		<b>102</b>	<b>(35)</b>	<b>910</b>
<b>Net profit - discontinued operations (*)</b>	<b>442</b>		<b>(102)</b>		<b>(346)</b>
<b>Group net income (*)</b>	<b>1,238</b>			<b>(29)</b>	<b>910</b>

(\*) Entirely held by Snam shareholders.

**Breakdown of special items related to continuing operations:**

2015	(millions of €)	2016	2017	Change	Change %
	<b>Special item of operating profit</b>		<b>15</b>	<b>15</b>	
	Charges for facilitated movements and Isopension		<b>15</b>	15	
	<b>Special item Net financial charges</b>	<b>210</b>	<b>56</b>	<b>(154)</b>	<b>(73.3)</b>
	- Liability management finance charges	329	<b>56</b>	(273)	(83.0)
	- Financial revenue from market value adjustment of financial credits of the Italgas Group	(119)		119	(100.0)
	<b>Special Item - Investments valued using the equity method</b>	<b>(18)</b>	<b>(11)</b>	<b>7</b>	<b>(38.9)</b>
	- Adjustment of TIGF deferred taxes	(18)	<b>(11)</b>	7	(38.9)
<b>(35)</b>	<b>Special item Income taxes</b>	<b>(55)</b>	<b>(17)</b>	<b>38</b>	<b>(69.1)</b>
(35)	- Adjustment of deferred taxes (2016 Stability Law)				
	- Taxation on special items operating profit		<b>(4)</b>	(4)	
	- Taxation on special item net financial charges	(55)	<b>(13)</b>	42	(76.4)
<b>(35)</b>	<b>Total special item of net profit</b>	<b>137</b>	<b>43</b>	<b>(94)</b>	<b>(68.6)</b>

**Reclassified statement of financial position**

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

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

**Reclassified statement of financial position (\*)**

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

(\*) For the reconciliation of the reclassified balance sheets with the compulsory format, please see the paragraph "Reconciliation of the reclassified financial statements with the compulsory formats" below.

Fixed assets (€18,875 million) increased by €795 million compared to 31 December 2016, due essentially to the increase in property, facilities and equipment, in intangible assets (+510 million euros), and also thanks to the inclusion of Infrastrutture Trasporto Gas within the scope of consolidation (+€179 million in total), as well as to the greater financial claims instrumental to operating activities (+€160 million) and the increase in investments (+€92 million).

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

(millions of €)	Property, plants 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	968	66	<b>1,034</b>
Amortisation, depreciation and impairment	(605)	(54)	<b>(659)</b>
Divestments	(7)		<b>(7)</b>
Change in scope of consolidation	151	28	<b>179</b>
Other changes	(37)		<b>(37)</b>
<b>Balance at 31 December 2017</b>	<b>16,033</b>	<b>850</b>	<b>16,883</b>

Other changes (+€37 million) relate essentially to: (i) the effects of adjusting the present value of disbursements for the dismantling and restoration of sites (-€19 million), mainly due to a reduction in the expected discounting rates;<sup>27</sup> (ii) the change in inventories of pipes and related accessory materials purchased for investment activities and not yet used to construct the plants (-€10 million); and (iii) grants for the period (-€8 million).

The change in the scope of consolidation (+179 million euros) refers to the entry of Infrastrutture Trasporto Gas, effective as of 13 October 2017, following the acquisition of 100% of the company's share capital from Edison S.p.A.

### Technical investments

(millions of €)	2016	2017
<b>Technical Investments by sector of activity</b>		
Transportation	776	917
Regasification	7	5
Storage	117	101
Corporate and other activities	6	11
<b>Technical investments</b>	<b>906</b>	<b>1,034</b>

The technical investments of 2017 of the continuing operations total €1,034 million<sup>28</sup> (€906 million in 2016) and principally refer to the sectors of transport (€917 million) and storage (€101 million).

### Compulsory inventories

The fixed warehouse stock – compulsory inventories – equal to €363 million (equal at 31 December 2016), comprise a minimum degree of natural gas that the storage company is required to withhold in accordance with Italian Presidential Decree 31 January 2001, no. 22. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development.<sup>29</sup>

### Equity investments

The item investments (€1,591 million) includes: (i) the valuation of equity investments using the equity method and refers to the companies Trans Austria Gasleitung GmbH - TAG (€508 million), T IGF Holding S.A.S. (€471 million), Trans Adriatic Pipeline AG – TAP (€223 million), Italgas S.p.A. (€160 million), AS Gasinfrastruktur Beteiligung GmbH (€129 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€56 million cumulatively); (ii) the valuation of the minority interest in the company Terminale GNL Adriatico S.r.l. (Adriatic LNG) acquired by Edison on 13 October 2017 (€44 million).

27 Further information is provided in Note 19 "Provision for risks and charges" of the Notes to the consolidated financial statements.

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

29 On 21 January 2015, the Ministry established that for the contractual storage year 2016-2017 (1 April 2016 – 31 March 2017) the strategic storage volume would be 4.62 billion cubic metres. On 25 January 2017, the Ministry established that for the contractual storage year 2017-2018 (1 April 2017 – 31 March 2018) the strategic storage volume would be 4.62 billion cubic metres. The Stogit share was unchanged at 4.5 billion cubic metres.



### Financial receivables held for operating activities

The financial credits instrumental to operating activities (€373 million), an increase of €160 million in respect to 31 December 2016, refer to the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP).<sup>30</sup>

### 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
Derivative liabilities/(assets)	24	(12)	(36)
Tax liabilities	(12)	(11)	1
Other liabilities	(596)	(1,033)	(437)
	<b>(483)</b>	<b>(1,079)</b>	<b>(596)</b>

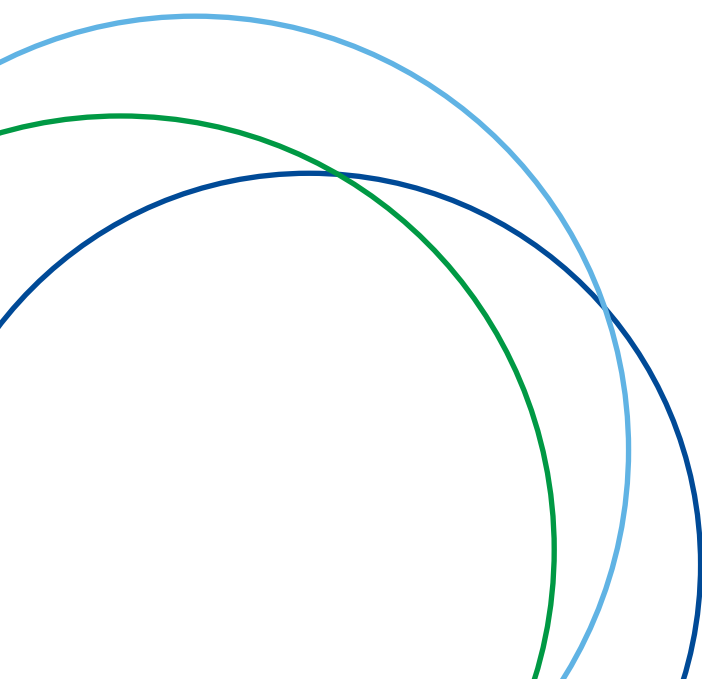
Net working capital (-€ 1,079 million) increased by € 596 million in respect to 31 December 2016. The reduction is mainly due to: (i) the increase in other liabilities (-€ 437 million) mainly due to the allocation of the amount owed to shareholders for the 2017 interim dividend payment equal to €0.0862 per share (-€ 294 million euros) distributed in January 2018, and to increased payables to the CSEA relating to the transport sector (-€ 183 million), mainly attributable to the additional tariff components, which, starting from 1 January 2017, are reversed with a different timing and on the basis of the volumes invoiced in the two months of reference instead of the volumes recorded in the relevant two months; (ii) the increase in accrued liabilities and deferred income from regulated activities (-€ 158 million) essentially due to the higher fees invoiced to transport users compared to the revenue restriction established by the ARERA Regulatory Authority.

<sup>30</sup> Following the stipulated contractual agreements, the shareholders are responsible for financing the project on the basis of shares held, until the pipeline enters into operation. Any capacity expansion is subject to an assessment of economic feasibility and therefore to the verification of benefits for TAP, also in compliance with the decision on exemption by the regulatory Authorities. For more information, see Notes 14 and 15 to the consolidated financial statements.

## Statement of comprehensive income

(millions of €)	2016	2017
<b>Net profit (*)</b>	<b>861</b>	<b>897</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 share)	1	(8)
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	(15)	(3)
Tax effect		2
	<b>(14)</b>	<b>(9)</b>
<i>Components that cannot be reclassified to the income statement:</i>		
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees	(7)	(1)
Share of the "other components of the total profit" of the shares evaluated according to the net worth method of the remeasurements of benefit plans defined for employees	1	1
Tax effect	2	
	<b>(4)</b>	
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(18)</b>	<b>(9)</b>
<b>Total comprehensive income (*)</b>	<b>843</b>	<b>888</b>
<b>Including:</b>		
- continuing operations	<b>577</b>	
- discontinued operations	<b>266</b>	
	<b>843</b>	<b>888</b>

(\*) Entirely held by Snam shareholders.



## Shareholders' equity

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

(\*) Entirely held by Snam shareholders.

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

Information about the individual equity items and changes therein compared with 31 December 2016 is given in Note 23 to the consolidated financial statements, "Shareholders' Equity".

## Reconciliation between the separate and consolidated net income and shareholders' equity of Snam S.p.A.

(millions of €)	Net income		Shareholders' equity	
	2016	2017	31.12.2016	31.12.2017
<b>Financial statements of Snam S.p.A.</b>	<b>761</b>	<b>677</b>	<b>5,394</b>	<b>4,861</b>
Net income of companies included in the scope of consolidation	<b>823</b>	<b>799</b>		
Difference between the book value of equity investments in consolidated companies and the shareholders' equity in the financial statements, including the net result for the period			<b>1,188</b>	<b>1,382</b>
<b>Consolidation adjustments for:</b>				
- Dividends	(733)	<b>(604)</b>		
- Income from valuation of equity investments using the equity method other income from equity investments	10	<b>25</b>	(85)	<b>(55)</b>
	<b>(723)</b>	<b>(579)</b>	<b>(85)</b>	<b>(55)</b>
Minority interests				
<b>Consolidated Financial Statements</b>	<b>861</b>	<b>897</b>	<b>6,497</b>	<b>6,188</b>

**Net financial debt**

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

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

On 31 December 2017 the net financial debt totalled 11,550 million euro, an increased of 494 million euro (11,056 million euro as at 31 December 2016). Net cash flow from operating activities (€1,864 million) made it possible to fully finance the requirements related to net investments for the period, equal to €1,441 million, including the purchase transactions of investments in Infrastrutture Trasporto Gas and the Adriatic GNL Terminal completed in October 2017, and to generate a free cash flow of €423 million. Net financial debt, after the payment to shareholders of the 2016 dividend (€718 million) and the cash flow deriving from the purchase of treasury shares (€210 million), shows an increase of €494 million compared to 31 December 2016, including non-monetary components related to financial indebtedness (€ 11 million).

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

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

Financial and bond debts are denominated in euros<sup>31</sup> and refer mainly to bond loans (€8,672 million, or 68.7%) and bank loans (€3,931 million, or 31.2%, including €1,473 million provided by the European Investment Bank - EIB).

Bond loans recorded an increase of €1,062 million compared to 31 December 2016. The increase is mainly attributable to the issuing of: (i) a fixed-rate bond on 25 January 2017 for a nominal value of €500 million; (ii) a variable rate bond loan<sup>32</sup> on 21 February 2017, for a nominal amount of €300 million; (iii) a convertible bond loan<sup>33</sup> without interest accrued on 20 March 2017, for a nominal value of €400 million; (iv) a variable

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

32 The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

33 The bond loan has become convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

rate bond loan<sup>34</sup>, on 2 August 2017, for a nominal value of €350 million; (v) a fixed-rate bond loan for a nominal amount of €650 million, issued on 25 October 2017 and maturing on 25 October 2027. These effects were partially offset by the repayment of a bond maturing on 30 June 2017, for a nominal amount of €506 million, and by the repurchase on the market of fixed-rate bonds for a total nominal value of €607 million with an average coupon of 2.5% and a residual duration of approximately 4.4 years. The total outlay resulting from the repurchase of the securities was carried out as part of the Liability Management transaction, completed in October 2017, and totals approximately €656 million.<sup>35</sup>

Funding for bank loans (€3,931 million) increased by €483 million mainly following the underwriting of a term loan funding for bank loan for the nominal value of €500 million, and of a funding for a bank loan on the provision of the European Investment Bank (EIB) for the nominal value of €310 million. This change was partially offset by the repayment of a Term Loan bank loan for the nominal value of €200 million and the lower net use of uncommitted credit lines for a value of approximately €108 million. Long-term financial debt (€10,176 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. Non-operating financial claims (€350 million) refer entirely to a short-term liquidity loan, with a maturity of less than six months, including a bank with a high credit standing as counterparty.

Cash and cash equivalents (€719 million) mainly refer to a short-term liquidity facility, with a maturity of less than three months, including a bank with a high credit standing (€300 million) as counterparty, a bank deposit (€395 million) and cash and cash equivalents at Gasrule Insurance DAC for the Group's insurance business (€23 million). At 31 December 2017, Snam had unused committed long-term credit lines worth €3.2 billion. Information on financial covenants can be found in Note 16 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the consolidated financial statements.

34 The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

35 For more information about the acquisition, please see the section "Snam in 2017 - Summary of data and informations - Main events" in the Directors' Report.

## Reclassified statement of cash flows

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

### Reclassified statement of cash flows (\*)

(millions of €)	2015 (**)	2016 (**)	2017
Net Profit - continuing operations	796	591	
Net Profit - discontinued operations	442	270	
<b>Net profit</b>	<b>1,238</b>	<b>861</b>	<b>897</b>
<i>Adjusted for:</i>			
- Amortisation, depreciation and other non-monetary components	744	757	<b>511</b>
- Net capital losses (capital gains) on asset sales and eliminations	32	36	<b>4</b>
- Interest and income taxes	804	884	<b>585</b>
Change in working capital due to operating activities	40	(176)	<b>334</b>
Dividends, interest and income taxes collected (paid)	(804)	(735)	<b>(467)</b>
<b>Net cash flow from operating activities</b>	<b>2,054</b>	<b>1,627</b>	<b>1,864</b>
Technical investments	(1,186)	(1,145)	<b>(1,016)</b>
Technical disinvestments	6	2	<b>3</b>
Companies (entering) leaving the scope of consolidation (a)	(46)	1,502	<b>(166)</b>
Equity investments	3	(168)	<b>(75)</b>
Change in financial credits instrumental to operating activities	(78)	(133)	<b>(154)</b>
Other changes relating to investment activities	18	22	<b>(33)</b>
<b>Free cash flow</b>	<b>771</b>	<b>1,707</b>	<b>423</b>
Change in financial receivables not held for operating activities	216		<b>(350)</b>
Financial credits in companies leaving the scope of consolidation		1,585	
Change in short- and long-term financial debt	(169)	(2,297)	<b>1,540</b>
Equity cash flow (b)	(875)	(978)	<b>(928)</b>
<b>Net cash flow for the period</b>	<b>(57)</b>	<b>17</b>	<b>685</b>

**Change in net financial debt**

(millions of €)	2015	2016	2017
<b>Free cash flow</b>	<b>771</b>	<b>1,707</b>	<b>423</b>
Financial credits in companies leaving the scope of consolidation		2,009	
Equity cash flow	(875)	(978)	<b>(928)</b>
Other changes (c)	(23)	(15)	<b>11</b>
<b>Change in net financial debt</b>	<b>(127)</b>	<b>2,723</b>	<b>(494)</b>

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

- (\*\*) Cash flow pertained to the Snam Group and consequently includes financial flows from both continuing operations (natural gas transportation, regasification and storage, as well as Corporate activities) and discontinued operations (natural gas distribution). With reference to 2016, the net cash flows from operating activities, investment activities and financing activities attributable to discontinued operations amounted respectively to +€413 million, -€298 million and -€116 million.
- (a) The amount relating to 2017 refers to the consideration for the acquisition from Edison of 100% of the share capital of Infrastrutture Trasporto Gas - ITG (€166 million, including the repayment of the intercompany loan between ITG and Edison and net of liquid assets acquired). The amount for 2016 refers to the receipt of the sum deriving from the transfer of 38.87% of the Snam S.p.A. share in Italgas Reti S.p.A. (€1,502 million, net available liquidity transferred).
- (b) The value relating to 2016 and 2017 includes the payment of the dividend to shareholders as well as the cost incurred to purchase treasury shares (respectively €103 million and €210 million).
- (c) Include the effects of adjustment to the year-end exchange rate of financial payables in foreign currency.

## Reconciliation of the reclassified financial statement with the compulsory formats

### Reclassified statement of financial position

(millions of €)

Reclassified balance sheet items	31.12.2016			31.12.2017	
(Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<b>Fixed capital</b>					
Property, plants and equipment			<b>15,563</b>		<b>16,033</b>
Compulsory inventories			<b>363</b>		<b>363</b>
Intangible assets			<b>810</b>		<b>850</b>
Equity investments			<b>1,499</b>		<b>1,591</b>
Financial receivables held for operating activities	(Note 8)		<b>213</b>		<b>373</b>
<i>Net payables for investments, consisting of:</i>			<b>(368)</b>		<b>(335)</b>
- Payables for investment activities	(Note 17)	(384)		<b>(347)</b>	
- Receivables from investment/divestment activities	(Note 8)	16		<b>12</b>	
<b>Total fixed capital</b>			<b>18,080</b>		<b>18,875</b>
<b>Net working capital</b>					
Trade receivables	(Note 8)		<b>1,271</b>		<b>1,274</b>
Inventories			<b>118</b>		<b>86</b>
<i>Tax receivables, consisting of:</i>			<b>42</b>		<b>46</b>
- Current income tax assets and other current tax assets		32		<b>37</b>	
- IRES receivables for the national tax consolidation scheme	(Note 8)	10		<b>9</b>	
Trade payables	(Note 17)		<b>(433)</b>		<b>(406)</b>
<i>Tax liabilities, consisting of:</i>			<b>(12)</b>		<b>(11)</b>
- Current income tax liabilities and other current tax liabilities		(10)		<b>(11)</b>	
- IRES payables for the national tax consolidation scheme	(Note 17)	(2)			
Deferred tax liabilities			<b>(187)</b>		<b>(165)</b>
Provisions for risks and charges			<b>(707)</b>		<b>(677)</b>
Derivative hedging instruments	(Notes 11 and 18)		<b>24</b>		<b>(12)</b>
<i>Other assets, consisting of:</i>			<b>70</b>		<b>50</b>
- Other receivables	(Note 8)	10		<b>13</b>	
- Other current and non-current assets	(Note 11)	60		<b>37</b>	
<i>Assets and liabilities from regulated activities, consisting of:</i>			<b>(73)</b>		<b>(231)</b>
- Regulated assets	(Note 11)	106		<b>68</b>	
- Regulated liabilities	(Note 18)	(179)		<b>(299)</b>	



(millions of €)

Reclassified balance sheet items	31.12.2016			31.12.2017	
(Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
<i>Other liabilities, consisting of:</i>			<b>(596)</b>		<b>(1,033)</b>
- Other payables	(Note 17)	(445)		<b>(920)</b>	
- Other current and non-current liabilities	(Note 18)	(151)		<b>(113)</b>	
<b>Total net working capital</b>			<b>(483)</b>		<b>(1,079)</b>
Provisions for employee benefits			<b>(44)</b>		<b>(58)</b>
<b>NET INVESTED CAPITAL</b>			<b>17,553</b>		<b>17,738</b>
Shareholders' equity including minority interests			<b>6,497</b>		<b>6,188</b>
<b>Net financial debt</b>					
<i>Financial liabilities, consisting of:</i>			<b>11,090</b>		<b>12,619</b>
- Long-term financial liabilities		8,737		<b>10,176</b>	
- Short-term portion of long-term financial liabilities		856		<b>1,070</b>	
- Short-term financial liabilities		1,497		<b>1,373</b>	
<i>Financial receivables and cash and cash equivalents, consisting of:</i>			<b>(34)</b>		<b>(1,069)</b>
Financial receivables not held for operations				<b>(350)</b>	
- Cash and cash equivalents	(Note 7)	(34)		<b>(719)</b>	
<b>Total net financial debt</b>			<b>11,056</b>		<b>11,550</b>
<b>COVERAGE</b>			<b>17,553</b>		<b>17,738</b>

## Reclassified statement of cash flows

(millions of €)	2016		2017	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	Partial amount from legally required format	Amount from reclassified format
Net Profit - continuing operations	591			
Net Profit - discontinued operations	270			
<b>Net profit</b>		<b>861</b>		<b>897</b>
<i>Adjusted for:</i>				
Amortisation, depreciation and other non-monetary components:		<b>757</b>		<b>511</b>
- Amortisation and depreciation	859		<b>646</b>	
- Impairment losses	35		<b>13</b>	
- Equity method valuation effect	(133)		<b>(161)</b>	
- Change in provisions for employee benefits	(4)		<b>13</b>	
- Other changes				
Net capital losses (capital gains) on asset sales and eliminations		<b>36</b>		<b>4</b>
Interest, income taxes and other changes:		<b>884</b>		<b>585</b>
- Interest income	(126)		<b>(9)</b>	
- Interest expense	615		<b>265</b>	
- Income taxes	395		<b>329</b>	
Change in working capital due to operating activities:		<b>(176)</b>		<b>334</b>
- Inventories	15		<b>(42)</b>	
- Trade receivables	34		<b>1</b>	
- Trade payables	(148)		<b>(26)</b>	
- Change in provisions for risks and charges	24		<b>16</b>	
- Other assets and liabilities	(101)		<b>385</b>	
Dividends, interest and income taxes collected (paid):		<b>(735)</b>		<b>(467)</b>
- Dividends collected	148		<b>149</b>	
- Interest collected	122		<b>2</b>	
- Interest paid	(615)		<b>(265)</b>	
- Income taxes (paid) received	(390)		(353)	
<b>Net cash flow from operating activities</b>		<b>1,627</b>		<b>1,864</b>
Technical investments:		<b>(1,145)</b>		<b>(1,016)</b>
Property, plant and equipment	(832)		<b>(950)</b>	
- Intangible assets	(313)		<b>(66)</b>	
Technical disinvestments:		<b>2</b>		<b>3</b>
Property, plant and equipment	2		<b>3</b>	

(millions of €)	2016		2017	
<b>Items from the reclassified statement of cash flows and reconciliation with the legally required format</b>	<b>Partial amount from legally required format</b>	<b>Amount from reclassified format</b>	<b>Partial amount from legally required format</b>	<b>Amount from reclassified format</b>
Companies (entering) leaving the area of consolidation		1,502		(166)
- Companies entering the consolidation scope			(166)	
- Companies leaving the scope of consolidation	1,502			
Equity investments		(168)		(75)
- Investments in shares	(170)		(111)	
- Disinvestments in shares	2		36	
Financial receivables held for operating activities		(133)		(154)
- Accesses of financial credits instrumental to operating activities	(133)		(154)	
Other changes relating to investment activities:		22		(33)
<b>Change in net payables relating to investment activities</b>	<b>22</b>		<b>(33)</b>	
Free cash flow		1,707		423
Free cash flow		1,707		423
Change in financial receivables not held for operating activities				(350)
Financial credits in companies leaving the area of consolidation		1,585		
Change in financial payables:		(2,297)		1,540
- Taking on long-term financial debt	2,039		3,129	
- Repaying long-term financial debt	(4,479)		(1,465)	
- Increase (decrease) in short-term financial debt	143		(124)	
Equity cash flow		(978)		(928)
<b>- Dividends paid</b>	<b>(875)</b>		<b>(718)</b>	
<b>- Acquisition of self-owned shares</b>	<b>(103)</b>		<b>(210)</b>	
<b>Net cash flow for the period</b>		<b>17</b>		<b>685</b>

# Snam S.p.A. financial review

## Company information

Snam S.p.A. is an industrial holding company listed on the Milan stock exchange. The Company is at the top of the Snam Group and holds 100% of the share capital of the operating companies Snam Rete Gas S.p.A. and Infrastrutture Trasporto Gas S.p.A. (ITG)<sup>36</sup>, GNL Italia S.p.A., Stogit S.p.A. as well as Gasrule Insurance D.A.C., which respectively manage and develop the transportation, regasification, storage of natural gas and insurance activities.

During 2017, the company Snam 4 Mobility S.p.A. became operational, with the main activity being the construction, acquisition, development and maintenance of compressed natural gas (CNG) and liquefied natural gas (LNG) filling plants, the study and design of filling stations.

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

Snam S.p.A. is also responsible for the strategic planning, management, coordination and control of its subsidiaries.

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

At 31 December 2017, CDP S.p.A. holds, through CDP Reti S.p.A.<sup>37</sup> 30.10% of the share capital of Snam S.p.A.

## Reclassified income statement

To facilitate the reading of the income statement, in view of the fact that Snam S.p.A. is an industrial holding company, the following reclassified income statement has been prepared, which *"inverts the order of the income statement items pursuant to Italian Legislative Decree 127/1991, presenting first those which relate to the financial operations, as this is the most significant component of income for those companies"* (see Consob Communication no. 94001437 of 23 February 1994).

Furthermore, in order to allow greater comparability of the economic results for 2017 with the corresponding period of the previous year, the 2016 Pro-forma and 2015 Pro-forma accounts were prepared, which take over the shareholding of Snam S.p.A. in Italgas S.p.A. equal to 13.5%. Therefore the dividends for 2015 and 2014 have been adjusted to reflect this interest.

<sup>36</sup> Acquired on 13 October 2017 through the vehicle company Asset Company 2 S.r.l.

<sup>37</sup> CDP S.p.A. holds 59.10%. On 19 May 2017, CDP S.p.A. sold CDP Reti S.p.A. the entire investment held in Snam S.p.A. represented by 39,200,638 shares, equal to 1.12% of the share capital. At 31 December 2017, CDP Reti S.p.A. holds a stake in Snam S.p.A. represented by a total of 1,053,692,127 shares, equal to 30.10% of the share capital.

## Reclassified income statement

(millions of €)	Pro-forma 2015	Pro-forma 2016	2017	Change	Change %
<b>Financial income and expense</b>					
Net income from equity investments	690	568	<b>740</b>	172	30.3
Interest income and other financial income	355	642	<b>262</b>	(380)	(59.2)
Interest expense and other financial expense	(395)	(647)	<b>(292)</b>	355	(54.9)
Losses from derivative contracts		(1)	<b>(1)</b>		
<b>Total financial income and expense</b>	<b>650</b>	<b>562</b>	<b>709</b>	<b>147</b>	<b>26.2</b>
Income from services rendered	186	203	<b>210</b>	7	3.4
Other income	12	12	<b>13</b>	1	8.3
<b>Other operating income</b>	<b>198</b>	<b>215</b>	<b>223</b>	<b>8</b>	<b>3.7</b>
For personnel	(68)	(79)	<b>(81)</b>	(2)	2.5
For non-financial services and other costs	(134)	(162)	<b>(173)</b>	(11)	6.8
<b>Other operating expenses</b>	<b>(202)</b>	<b>(241)</b>	<b>(254)</b>	<b>(13)</b>	<b>5.4</b>
<b>Pre-tax</b>	<b>646</b>	<b>536</b>	<b>678</b>	<b>142</b>	<b>26.5</b>
Income tax	(6)	(13)	<b>(1)</b>	12	(92.3)
<b>Net profit</b>	<b>640</b>	<b>523</b>	<b>677</b>	<b>154</b>	<b>29.4</b>

The **Net Profit** for 2017 totals €677 million, a €154 million euro increase, equal to 29.4%, in respect to the fiscal year 2016. The increase is mainly due to the higher net income from investments (+€172 million), essentially due to the higher dividends distributed by the subsidiaries Snam Rete Gas S.p.A. (+€106 million), and Stogit S.p.A. (+€77 million).

### Analysis of income statement items

#### Financial income and expense

(millions of €)	2015	2016	2017	Change	Change %
Income from equity investments	690	593	<b>753</b>	160	27.0
Expenses from shares		(25)	<b>(13)</b>	12	(48.0)
Interest income and other financial income	355	642	<b>262</b>	(380)	(59.2)
Interest expense and other financial expense	(395)	(647)	<b>(292)</b>	355	(54.9)
Losses from derivative contracts		(1)	<b>(1)</b>		
	<b>650</b>	<b>562</b>	<b>709</b>	<b>147</b>	<b>26.2</b>

(a) The 2016 figure includes the pro-forma adjustment.

Income from equity investments (€753 million) consist of the dividends distributed by the subsidiaries Snam Rete S.p.A.(€435 million), and Stogit S.p.A.(€169 million) as well as companies under joint control Trans Austria Gasleitung GmbH (€88 million), TIGF Holding S.A.S. (€39 million) and the associated company Italgas S.p.A.(€22 million)<sup>38</sup>.

The expenses from shares refer to the devaluation of shares in GasBridge 1 B.V. and GasBridge 2 B.V. (€13 million total)<sup>39</sup>.

The asset interest and other financial revenue (€262 million) essentially concern: (i) interest income deriving from intragroup loans granted by Snam S.p.A. to the subsidiaries Snam Rete Gas S.p.A. and Stogit S.p.A. (€205 million total); (ii) the financial revenue deriving from the recharge to the companies Snam Rete Gas S.p.A. and Stogit S.p.A. of the charges connected to the buyback operation put into effect by Snam in the month of October 2017 (€50 million total); (iii) the revenue connected to the Shareholders' Loan granted in favour of TAP (€6 million).

The Liability Interest and other financial expenses (€292 million) principally refer:(i) to the expenses connected to the bond buyback operation (€56 million), equal to the difference between the reacquisition price for the bonds on the market and the relative value to the depreciated cost; (ii) to expenses on short-long term financial debts and concern expenses on bond loans<sup>40</sup> (€219 million) and on loans issued by Banks and other Financial Institutions (€17 million).

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

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

40 Details of the bond issues that took place during the year and their conditions are provided in Note 14, "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" in the Notes to the separate financial statements.

## Other operating income

(millions of €)	2015	2016	2017	Change	Change %
Income from services rendered	186	203	210	7	3.4
Other income	12	12	13	1	8.3
<b>Total other operating income</b>	<b>198</b>	<b>215</b>	<b>223</b>	<b>8</b>	<b>3.7</b>

Revenues from services (€210 million) mainly refer to the recharges to subsidiaries and to the Italgas Group of the costs for the provision of services performed by Snam S.p.A. (respectively €140 and €60 million). The services provided by Snam S.p.A. to the subsidiaries are regulated by service contracts which concern the following areas: ICT, personnel and organisation, planning, administration, finance and control, general services, property services, legal and corporate affairs and compliance, health, safety and environment, external relations and communication, internal audits, commercial services, regulation and development, security, technical services and procurement. The services provided by Snam S.p.A. to the Italgas Group are settled by means of certain contracts for a transitional period, as provided for in the contract for the spin-off transaction, finalised in November last year.

Other income (€13 million) essentially refers to revenue from leasing and maintaining fibre-optic telecommunications cables for third parties.

## Other operating expenses

(millions of €)	2015	2016	2017	Change	Change %
For personnel	68	79	81	2	2.5
For non-financial services and other costs	134	162	173	11	6.8
<b>Total other operating expenses</b>	<b>202</b>	<b>241</b>	<b>254</b>	<b>13</b>	<b>5.4</b>

Personnel costs increased by €2 million compared to the previous year, mainly due to higher charges for the Isopensione fund.

The number of employees at 31 December 2017 (822 people) is broken down below by professional status:

(no.)	31.12.2015	31.12.2016	31.12.2017	Change	Change %
<b>Professional status</b>					
Executives	55	54	63	9	16.7
Managers	200	215	239	24	11.2
Skilled workers	453	510	517	7	1.4
Manual workers	5	4	3	(1)	(25.0)
	<b>713</b>	<b>783</b>	<b>822</b>	<b>39</b>	<b>5.0</b>

The increase of 39 persons is mainly attributable to the adjustment of the organisational structures, started on 1 November 2016, to which some staff services are assigned, which involved the centralisation of certain functions previously performed by the operating companies on Snam.

Costs for the provision of non-financial services and other costs increased (€11 million) mainly due to higher provisions for risks and charges (€11 million). Further information is provided in Note 17 "Provision for risks and charges" of the Notes to the financial statements.

### Income tax

Income taxes (€1 million) recorded a reduction of €12 million compared to the corresponding period of the previous year. The effects deriving from the higher pre-tax profit were more than offset by the reduction of the IRES rate starting from 1 January 2017, from 27.5% to 24.0%<sup>41</sup>.

### Reclassified statement of financial position<sup>42</sup>

(millions of €)	31.12.2016	31.12.2017	Change
<b>Fixed capital</b>	<b>13,298</b>	<b>13,125</b>	<b>(173)</b>
Property, plants and equipment	3	6	3
Intangible assets	17	16	(1)
Equity investments	6,093	6,327	234
Financial receivables held for operations	7,190	6,780	(410)
Net payables for investments	(5)	(4)	1
<b>Net working capital</b>	<b>73</b>	<b>(271)</b>	<b>(344)</b>
<b>Provisions for employee benefits</b>	<b>(12)</b>	<b>(16)</b>	<b>(4)</b>
<b>NET INVESTED CAPITAL</b>	<b>13,359</b>	<b>12,838</b>	<b>(521)</b>
<b>Shareholders' equity</b>	<b>5,394</b>	<b>4,861</b>	<b>(533)</b>
<b>Net financial debt</b>	<b>7,965</b>	<b>7,977</b>	<b>12</b>
<b>COVERAGE</b>	<b>13,359</b>	<b>12,838</b>	<b>(521)</b>

The fixed capital (€13,125 million) decreased by €173 million in respect to 31 December 2016 principally as a result of lower financial credits in operating activities (-€410 million). These effects were partly offset by the increase in equity investments (+€234 million), mainly due to increases in the share capital of Asset Company 2 S.r.l. (+€172 million) and Trans Adriatic Pipeline AG - TAP (+€66 million).

41 Introduced by Italian Law no. 208/2015 (Stability Law 2016) containing "Provisions for the preparation of the annual and multi-annual State budget", published in the Official Gazette of 30 December 2015 and effective as of 1 January 2016.

42 Please refer to the paragraph "Non-GAAP measures" for the methodological illustration of the reclassified statements.



## Equity investments

Equity investments of €6,327 million break down as follows:

(millions of €)	% ownership	Opening balance	Acquisitions and subscriptions	Repayments and transfers	Recovery of value	Final balance at 31.12.2017
<b>Equity investments in subsidiaries</b>						
Snam Rete Gas S.p.A.	100%	2,849				<b>2,849</b>
GNL Italia S.p.A.	100%	43				<b>43</b>
Stogit S.p.A.	100%	1,597				<b>1,597</b>
Gasrule Insurance D.A.C.	100%	20				<b>20</b>
Asset Company 2 S.r.l.	100%		172			<b>172</b>
<b>Investments in joint ventures</b>						
TIGF Holding SAS	40.50%	452				<b>452</b>
Gasbridge 1 B.V. and Gasbridge 2 B.V.	50%	87		(18)	(13)	<b>56</b>
Trans Austria Gasleitung GmbH	84.47%	500				<b>500</b>
AS Gasinfrastruktur Beteiligung GmbH	40%	135		(17)		<b>118</b>
<b>Investments in associates</b>						
Italgas S.p.A.	13.50%	244				<b>244</b>
Trans Adriatic Pipeline AG	20%	166	66			<b>232</b>
<b>Other investments</b>						
Terminale GNL Adriatico S.r.l.	7.30%		45	(1)		<b>44</b>
		<b>6,093</b>	<b>283</b>	<b>(36)</b>	<b>(13)</b>	<b>6,327</b>

Acquisitions and subscriptions (€283 million) relate to:(i) the capital increase of Asset Company 2 S.r.l.(€172 million) for the acquisition transaction of Infrastrutture Trasporto Gas S.p.A. (ITG); (ii) the capital increase of TAP paid in 2017 (€66 million); (iii) the acquisition of an amount equal to 7.3% of the capital of Terminale GNL Adriatico S.r.l. from Edison(€45 million).

The disposals and redemptions (€36 million) mainly refer to the reduction in the cost of registration of the investments in the companies GasBridge 1 BV, GasBridge 2 BV(€18 million) and AS Gasinfrastruktur Beteiligung GmbH (€ 17 million), against the distribution of part of the share premium reserve generated

at the time the companies were established.

Value adjustments refer to the effects of the impairment loss (€13 million) on the equity investments in GasBridge 1 B.V. and GasBridge 2 B.V.

### Financial receivables held for operations

Financial receivables held for operating activities, including the relative short-term portions, amount to €6,780 million and refer to receivables for loans disbursed to the subsidiaries Snam Rete Gas (€4,983 million) and Stogit (€1,424million), and the associate TAP (€373 million). The reduction of 411 million euros

compared to 31 December 2016 is mainly due to the closure and simultaneous repayment of loans in place with Snam Rete Gas S.p.A. and Stogit S.p.A.(-€889 million of total nominal value, of which -€424 million as part of the Liability Management operation).This change was partially offset by the loan to Snam Rete Gas S.p.A.(+€310 million) on funding from the European Investment Bank - EIB and higher receivables in favour of TAP (+€154 million) against cash calls received during the year.

**Net working capital**

(millions of €)	31.12.2016	31.12.2017	Change
Trade receivables	100	94	(6)
Tax receivables	67	44	(23)
Other assets	31	32	1
Net prepaid tax assets	7	12	5
Derivative liabilities/(assets)	24	(12)	(36)
Provisions for risks and charges	(6)	(7)	(1)
Tax liabilities	(5)	(15)	(10)
Trade payables	(78)	(68)	10
Other liabilities	(67)	(351)	(284)
	<b>73</b>	<b>(271)</b>	<b>(344)</b>

Net working capital (-€271 million) decreased by €344 million compared with 31 December 2016 due primarily to: (i) the increase in other liabilities (-€284 million) mainly due to the distribution of the interim dividend (-€294 million); (ii) the reduction in the market value of derivative financial instruments (-€36 million); (iii) the reduction in tax receivables (-€23 million) mainly due to lower Group VAT credits.

**Statement of comprehensive income**

(millions of €)	2016	2017
<b>Net profit</b>	<b>761</b>	<b>677</b>
<b>Other components of comprehensive income</b>		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives	1	(8)
Tax effect		2
	<b>1</b>	<b>(6)</b>
<b>Total other components of comprehensive income, net of tax effect</b>	<b>1</b>	<b>(6)</b>
<b>Total comprehensive income</b>	<b>762</b>	<b>671</b>

## Shareholders' equity

(millions of €)	
<b>Shareholders' equity as at 31 December 2016</b>	<b>5,394</b>
Increases owing to:	
- Comprehensive income for 2017 (*)	671
- Other changes (**)	18
	<b>689</b>
Decreases owing to:	
- 2016 dividend	(718)
- 2017 interim dividend	(294)
- Acquisition of treasury shares	(210)
	<b>(1,222)</b>
<b>Shareholders' equity as at 31 December 2017</b>	<b>4,861</b>

(\*) For further details, please refer to the Statement of comprehensive income of the Snam SpA Financial Statement.

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

## Net financial debt

(millions of €)	31.12.2016	31.12.2017	Change
<b>Financial and bond debt</b>	<b>11,086</b>	<b>12,634</b>	<b>1,548</b>
Short-term financial debt (*)	2,349	2,458	109
Long-term financial debt	8,737	10,176	1,439
<b>Financial receivables and cash and cash equivalents</b>	<b>(3,121)</b>	<b>(4,657)</b>	<b>(1,536)</b>
Financial receivables not held for operations	(3,109)	(3,962)	(853)
Cash and cash equivalents	(12)	(695)	(683)
	<b>7,965</b>	<b>7,977</b>	<b>12</b>

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

The breakdown of debt by type of interest rate at 31 December 2017 is as follows:

(millions of €)	31.12.2016	%	31.12.2017	%	Change
Fixed rate	7,092	64	9,834	78	2,742
Floating rate	3,994	36	2,800	22	(1,194)
	<b>11,086</b>	<b>100</b>	<b>12,634</b>	<b>100</b>	<b>1,548</b>

Fixed-rate financial liabilities (€9,834 million) increased by €2,742 million mainly as a result of: (i) the issue of a bond on 25 January 2017, for a nominal value of €500 million; (ii) the classification of a bond with a nominal value of €338 million at a fixed rate following the aforementioned early repayment of the Interest Rate Swap (IRS) derivative hedging contract; (iii) the issue of a variable rate bond loan<sup>43</sup> on 21 February 2017 for a nominal amount of €300 million; (iv) the issue of a convertible bond loan<sup>44</sup> without interest accrued on 20 March 2017, for a nominal value of €400 million; (v) the issue of a variable rate bond<sup>45</sup> on 2 August 2017, for a nominal value of €350 million; (vi) the subscription of an EIB bank loan issued on 24 August 2017 for a nominal amount of €310 million; (vii) the issue of a bond on 25 October 2017, for a nominal value of €650 million; (viii) the subscription of a Term Loan bank loan for a nominal value of €500 million. These effects were partially offset by the repayment of a bond maturing on 30 June 2017, for a nominal amount of €506 million and by the repurchase on the market of fixed-rate bonds for a total nominal value of €607 million with average coupon of 2.5% and a residual term of around 4.4 years, for a total outlay of approximately €656 million<sup>46</sup>, carried out as part of the Liability Management operation completed in October 2017.

Variable-rate financial liabilities (€2,800 million) show a reduction of €1,194 million compared to

31 December 2016 attributable essentially to: (i) the classification of a bond with a nominal value of €500 million at a fixed rate, following the early termination, on 27 January 2017, of the Interest Rate Swap (IRS) derivative hedging contract used up to that date to convert the fixed rate debt into an equivalent variable rate liability (-€518 million); (ii) lower net utilisation of uncommitted lines of credit (-€108 million); (iii) repayment of a Term Loan bank loan with a nominal value of €200 million.

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

Non-operating financial receivables (€3,962 million) show an increase of €853 million compared to 31 December 2016. The increase is mainly attributable to a short-term liquidity-use transaction, with a maturity of less than six months, with a bank with a high credit standing (€350 million) as counterparty, and greater net use of account balances current of the subsidiaries Snam Rete Gas and Stogit (€502 million overall).

Cash and cash equivalents (€695 million) essentially refer to a short-term liquidity facility, with a maturity of less than three months, with a bank with a high credit standing (€300 million) as counterparty, and to a bank deposit (€395 million).

## Reclassified statement of cash flows

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

<sup>43</sup> The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

<sup>44</sup> The bond loan has become convertible following the resolution of the Shareholders' Meeting of 11 April 2017.

<sup>45</sup> The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.

<sup>46</sup> For more information on the transaction, refer to the section "Snam in 2017 - Summary data and information - Main events" of this Report.

**Reclassified statement of cash flows**

(millions of €)	2016	2017
<b>Net profit</b>	<b>761</b>	<b>677</b>
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	30	<b>24</b>
- Dividends, interest and income taxes	(822)	<b>(736)</b>
Change in working capital due to operating activities	6	<b>45</b>
Dividends, interest and income taxes collected (paid)	833	<b>736</b>
<b>Net cash flow from operating activities</b>	<b>808</b>	<b>746</b>
Technical investments	(6)	<b>(9)</b>
Equity investments	1,335	<b>(247)</b>
Financial receivables held for operating activities	2,353	<b>416</b>
Other changes relating to investment activities	(4)	<b>(1)</b>
<b>Free cash flow</b>	<b>4,486</b>	<b>905</b>
Change in financial receivables not held for operating activities	(1,197)	<b>(853)</b>
Change in current and non-current financial debt	(2,300)	<b>1,559</b>
Equity cash flow (*)	(978)	<b>(928)</b>
<b>Net cash flow for the period</b>	<b>11</b>	<b>683</b>

**Change in net financial debt**

(millions of €)	2016	2017
<b>Free cash flow</b>	<b>4,486</b>	<b>905</b>
Exchange rate differences on financial debt	(6)	<b>7</b>
Adjustment to fair value of financial debt	(12)	<b>4</b>
<b>Other changes</b>	424	
Equity cash flow (*)	(978)	<b>(928)</b>
<b>Change in net financial debt</b>	<b>3,914</b>	<b>(12)</b>

(\*) The value includes the payment of the dividend to shareholders as well as the cost incurred to purchase treasury shares (respectively €103 million and €210 million in 2016 and 2017).

## Other information

### Treasury shares

In compliance with the provisions of Article 2428 of the Italian Civil Code, the treasury shares held by the Company at 31 December 2017 are analysed in the table below:

Period	Number of shares	Average cost (€)(*)	Total cost (€ millions)	Share capital (%) (**)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Year 2017	56,010,436	3.748	210	1.60
	<b>280,326,316</b>	<b>3.949</b>	<b>1,107</b>	
Less treasury shares allocated/sold/cancelled:				
. granted under the 2005 stock grant plans	(39,100)			
. sold under the 2005 stock option plans	(69,000)			
. sold under the 2006 stock option plans	(1,872,050)			
. sold under the 2007 stock option plans	(1,366,850)			
. sold under the 2008 stock option plans	(1,514,000)			
. cancelled in 2012 following resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
<b>Treasury shares held by the Company at 31 December 2017</b>	<b>85,915,616</b>			

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

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

As at 31 December 2017, Snam held 85,915,616 treasury shares (29,905,180 as at 31 December 2016), equal to 2.45% of its share capital<sup>47</sup>, with a book value of about €318 million<sup>48</sup> (€108 million at 31 December 2016). The acquisition of 56,010,436 Snam shares (equal to 1.60% of the share capital), for a cost of €210 million, was carried out as part of the share buyback programme based on the resolution of the Shareholders' Meeting of 11 April 2017<sup>49</sup>.

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

47 At the date of this Report, the outstanding treasury shares equal to 117.908.323 (3,37% of the share capital), with a book value of about €443 million.

48 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 per share, was approximately €351 million.

49 Subject to revocation of the previous resolution of the Ordinary Shareholders' Meeting of 1 August 2016, which authorised the purchase of treasury shares for an amount of up to € 500,000,000, the Shareholders' Meeting authorised the purchase of treasury shares, in one or more times, for a maximum duration of 18 months. For more information, refer to the chapter "Snam in 2017 - Summary data and information - Main events" of the present Report.

## Incentive plans for executives with Snam shares

### 2017-2019 long-term stock incentive plan

On 11 April 2017, the Shareholders' Meeting approved the 2017-2019 long-term stock incentive plan. The plan, envisaged for the Chief Executive Officer and for a maximum of 20 executives, identified among those who hold positions with greater impact on the creation of value or with strategic relevance for the achievement of the multiannual objectives of Snam, is aimed at

ensuring, in line with international best practices, the following objectives:

- a greater alignment with the interests of the shareholders in the medium-long term through the assignment of a premium denominated in Shares;
- improve the operational efficiency of the business through the use of EBITDA;
- support company profitability through the use of adjusted net profit;
- combine the economic and financial performance of the company with sustainability objectives.

On 20 June 2017, the Board of

Directors, in implementation of the proxy granted by the Shareholders' Meeting of 11 April 2017, resolved: (i) the annual allocation of the incentive in favour of the Chief Executive Officer; (ii) approval of the Regulations for each annual award; (iii) identification of the Beneficiaries on the basis of the defined criteria; (iv) the conditions for implementation. The Plan includes three cycles of annual assignment of three-year objectives (the so-called rolling Plan) for the years 2017, 2018 and 2019 and, at the end of the three-year performance period, if the conditions underlying the Plan are met, the

2017 ALLOCATION	Vesting and performance period			2020 Granted shares allocation
	2017	2018	2019	
2018 ALLOCATION	Vesting and performance period			2021 Granted shares allocation
	2018	2019	2020	
2019 ALLOCATION	Vesting and performance period			2022 Granted shares allocation
	2019	2020	2021	

beneficiary will be entitled to receive Company shares free of charge: The Plan also provides that beneficiaries receive, at the end of the Vesting Period, a Dividend Equivalent, or an additional number of shares equal to the ordinary and extraordinary dividends distributed by Snam during the Vesting Period which would be due to the number of shares effectively assigned to beneficiaries based on the levels of performance achieved under the terms and conditions set out in the Plan. The vesting of the shares is subject to the achievement of performance

conditions, calculated as the average of the annual performance of the parameters identified in the three-year vesting period, which affect EBITDA, adjusted net profit and sustainability. The maximum number of shares serving the plan is 3,500,000 shares for each fiscal year of the Plan. The Plan will end in 2022, at the end of the Vesting Period relating to the last assignment of 2019. In addition, a two-year lock-up period for 20% of the beneficiaries' shares, as recommended by the Corporate Governance Code, is envisaged for the Chief Executive Officer and for the other assignee

managers. With reference to the year 2017, the number of shares promised is equal to 1,368,397, while the unit fair value of the share, determined on 1 July 2017 (grant date), was valued at €3.8548 per share. The charges, referred to the period from 1 July to 31 December 2017, equal to the product between the number of shares expected to mature on maturity and their fair value to the grant date, have been recorded under the item labour cost against a corresponding reserve of shareholders' equity, and amounted to €1 million.

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

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

### **Relationships with related parties**

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance.

Operations with these parties involve the exchange of goods and the provision of regulated services in the gas sector.

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

Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and auditors declare their interests affecting the company and the group every six months, and/or when changes in said interests occur; they also inform the CEO (or the Chairman, in the case of the CEO), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the company intends to carry out and in which they have an interest.

No management or coordination activity of CDP S.p.A. has been formalised or exercised.

As at 31 December 2017, Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in Note 28 "Relationships with related parties" of the Notes to the consolidated financial statements. Relations with managers with strategic responsibilities ("Key Managers") are shown in Note 22 "Operating costs" of the Notes to the consolidated financial statements.

### **Performance of subsidiaries**

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

### **Branch offices**

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

### **Research and Development**

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



# Other operating information and results

This section of the report deals with activities and initiatives that have an impact on aspects that do not relate directly to core business processes, but contribute to the creation of value for the Company and its stakeholders. In Snam's business model, the stakeholders "interpret" the industry environment and can influence, sometimes decisively, the conditions that determine the availability of the different capitals that the business needs to be able to operate. These close ties with the capitals, which develop around material issue of mutual interest, enable the stakeholders to benefit from the value that the business creates through its activities.

## Development of human, social and relationship, and intellectual capital

### **NFS** Employment in times of change

To continue to play a key role within a dynamic environment while continuing to lead in an international market abundant in challenges and opportunities, it is necessary to become an integrated player capable of enhancing know-how and meeting new challenges in the regulated and free market alike.

The new organisational structure of Snam, inspired by the *one company* model, was founded with the aim of creating centres of expertise and facilitating collaboration between the structures. People are called to more effectively share experiences and skills guided by the logic of entrepreneurship, simplification and capacity for implementation. This means working more in a team towards a single goal: all determining factors to create innovation and

bring value to the company. The strong sense of belonging to the Group makes it possible to actively engage all employees in continuous improvement, which is increasingly driven by an entrepreneurial spirit, simplification and implementation capacity. For this and to face the new challenges, the new People Strategy was created and the new values of Snam were defined.

In this way, Snam will continue to generate "good employment", characterised by stable and continuous work relationships for qualified and specialised activities. Moreover, through the Snam Institute, the Company intends to enhance the skills not only within the company but also outside.

As of 31 December 2017, out of a total of 2,919 people in service, 94% have an open-ended employment contract, including part-time employment contracts, which were 42 at the end of 2017. The average age of Group employees is 45.7, while the average length of employment is around 21 years, unchanged from the previous year.

### Breakdown of Staff at 31 December (no.)

	2015	2016	2017
Executives	99	87	93
Managers	449	421	456
Office workers	1,736	1,651	1,655
Manual workers	721	724	715
<b>Total employee</b>	<b>3,005</b>	<b>2,883</b>	<b>2,919</b>

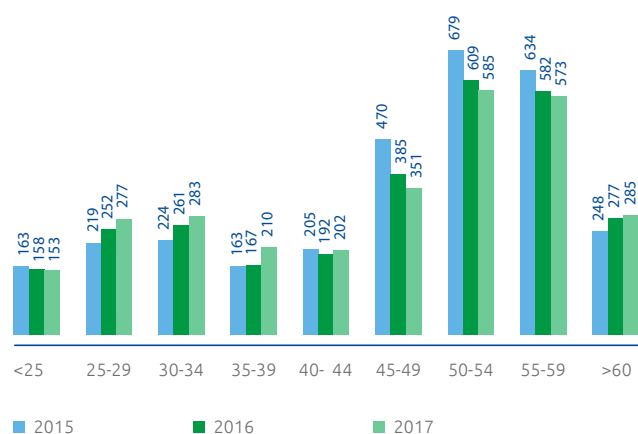
### Personnel broken down by type of contract (no.)

	2015	2016	2017
Permanent contract	2,779	2,631	2,755
Apprenticeship or internship contract	171	206	150
Fixed-term contract	1	1	14
Part-time contract	54	45	42

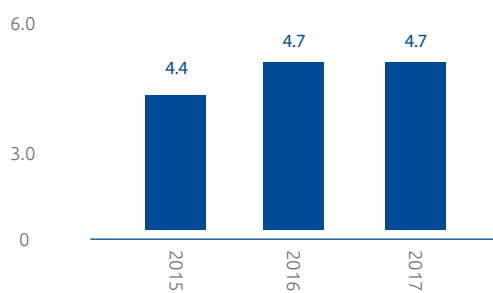
### Personnel hired during the year (no.)

	2015	2016	2017
Hired from the market (total)	162	141	148
. of which university graduates	75	73	100
. of which high school graduates	86	66	48
. of which women	32	35	53
Other new employees (non-consolidated companies, tender acquisitions, etc.)	4	36	36

### Demographic diversity: employees per age bracket (no.)

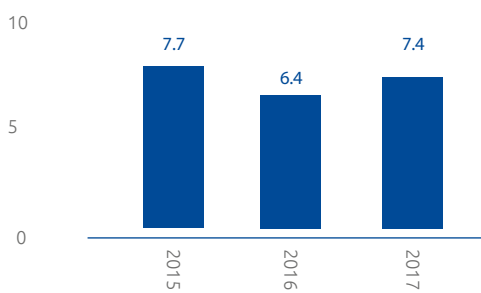


### Absenteeism rate (%)



■ Absenteeism rate = (hours absent/workable hours)\*100

### Staff turnover (%)



■ Turnover = ((incoming + departures)/average headcount employed)\*100

For the purposes of calculating the employee absenteeism rate, all hours worked (paid and unpaid) were excluded, excluding holidays and recoveries. The unprocessed hours of managers were not considered.

### **NFS** Development of roles and skills

With the new People Strategy the model of Leadership has been updated with the fundamental objective of enhancing people, increasing involvement and promoting the culture of innovation and change.

In particular, in 2018 Snam will focus on improving leadership skills by implementing the new skills model, maintaining solid and structured succession

plans, identifying and enhancing talent throughout the organisation, to guarantee a sustainable succession line and intensify the level of engagement. In 2017, the use of the Performance Management objective assignment and evaluation system was also confirmed, which also contains objectives on behavioural aspects and sustainability issues, including those relating to accident prevention at work. All assessment processes are formalised and include a feedback interview, which constitutes an institutional moment for exchange and communication between the manager and the employee, also in order to gather information that can be used to define new actions for the development and enhancement of people.

Also in 2017, in view of the 2018 performance cycle, a redesign of the company's performance management system was launched with a view to optimising the current process of assigning and assessing the objectives. All jobs within Snam, Snam Rete Gas, GNL Italia and Stogit are subject to an analytical and overall evaluation of Complexity, Responsibility, Experience and Autonomy (C.R.E.A.) factors. In 2017, 238 CREA assessments were approved. All assessment processes adopted are formalised and include a feedback interview, which constitutes an institutional moment for exchange and communication between the manager and the employee, also in order to gather information that can be used to define new actions for the development and enhancement of people.

The compensation systems are periodically updated based on a comparison with the reference pay markets and criteria inspired by meritocracy and internal equity, as well as in consideration of indications received from external stakeholders.

In particular, these systems are meant to ensure recognition of the results achieved, a link with shareholder interests, the quality of the professional contribution provided and individual development potential.

### Professional enhancement

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

In 2017, a total of 85,346 hours of training were provided (an average of 29.2 hours per employee), with 8,604 participants and a participation rate of 75%, testimony to Snam's ongoing and wide-reaching commitment to updating and developing its employees' expertise. The involvement rate decreased compared to previous years because there were more training initiatives dedicated to specific employee targets.

In 2017, training also included differentiated courses targeted to meet specific needs, based on a segmentation of the company population horizontally, by role and professional family, as well as vertically,

by level of responsibility.

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

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

As regards training on the Code of Ethics, Model 231 and anti-corruption, a total of 327 hours of training were provided to 112 participants in 2017.

#### Staff training broken down by position (no.)

	2015	2016	2017
Executives	2,744	2,940	1,908
Managers	11,143	10,021	8,600
Office workers	41,763	31,072	39,316
Manual workers	31,970	38,151	35,522
<b>Total</b>	<b>87,620</b>	<b>82,184</b>	<b>85,346</b>

## Key training initiatives

Description	Hours provided (no.)	Participants (no.)	Recipients
Technical training	66,576	5,543	Office and manual workers
Health, safety, environment and quality	9,675	1,702	Corporate population
Managerial training	5,853	1,096	Executives, Managers

### **NFS** Corporate welfare and work-life balance

Corporate welfare is a powerful tool that is integrated and integrated with the public welfare system and which attempts to respond to new social risks. Corporate welfare refers to a multiplicity of interventions, both monetary and in the form of services, which on the one hand generate benefits for employees who see increasing social protection and purchasing power, on the other they become a lever fundamental for companies, which benefit from a better working and productive climate. Precisely to promote a positive work environment, over the years Snam has created a welfare system that draws on a long tradition of attention to people. It grows and changes over the years with the aim of meeting the emerging needs and requirements of the different sections of the corporate population. The in-depth analysis of the population, different needs and sensitivities, periodically updated, allows Snam to develop a shared, functional and effective welfare system.

Today the Snam Welfare system is a mix of tradition and innovation, whose structure includes actions to support employees in daily practices in traditional areas, such as Family, Health and Savings, and new proposals, also created as a result of agreements with trade unions, to better respond to the

need for a work-life balance.

Snam's corporate welfare system is constantly evolving in order to get closer and closer to the real needs of individuals.

The first group consists of all health and welfare support operations (cancer prevention, WHP Program), study and work orientation for employees' children, parenting support operations (nursery reimbursements, summer camps, SOS Family), mobility (TPL subscriptions, shuttles, mobility portal) and micro-financing.

The "Welfare Award" (part of the Participation Award can be converted to services) and the Smart Working project are part of the second group. With the "Welfare Award" it will be possible, as an alternative to fully paying the individual amount of the Participation Award, to voluntarily choose whether to convert a percentage of the usable Welfare Credit Award for oneself or for one's family members.

The welfare system also includes:

- insurance against workplace and non-work-related accidents additional to the mandatory insurance;
- supplementary healthcare assistance covering public and private healthcare and hospital expenses;
- complementary pension funds, which in most cases are topped up by employer contributions.

### **NFS** Diversity

Snam respects everyone's dignity, and offers equal opportunities throughout all phases and for all aspects of the employment relationship, avoiding all forms of discrimination based on sex, age, health, nationality, political opinion or religious views.

For Snam, diversity is a value and, in particular, great attention is paid to gender diversity which is considered a resource for the development of the company.

This is proven by the fact that, despite a large part of our business activities, in particular the operational ones, requiring technical training which on the market is predominantly found amongst men, female representation has gone up in 2017 compared to the previous year.

In 2017, female representation in the company consisted of 393 individuals (+6.5% compared to 2016), constituting 13.5% of all employees (12.8% in 2016).

The growth in female representations is still a corporate objective for 2018 with the commitment to recruit at least 50% of women in staff positions. In order to make the most of diversity, in 2017 Snam became a Contributing Member of Valore D, the first association of companies promoting diversity, talent and female leadership for the growth of companies and the country. This collaboration has given its employees the opportunity to

access courses for the enhancement of gender, generational and cultural diversity and for developing an inclusive culture, which is a factor of innovation, competitiveness and growth for people and companies. During the year, 40 employees (80%

women) participated in over 20 courses.

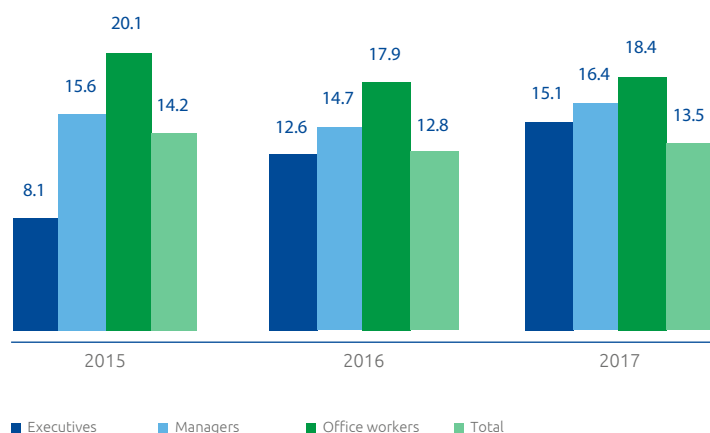
Furthermore, the Group employs 126 disabled people, whose path of development aims to favour their inclusion and integration in company processes.

### Staff training broken down by position (no. hours)

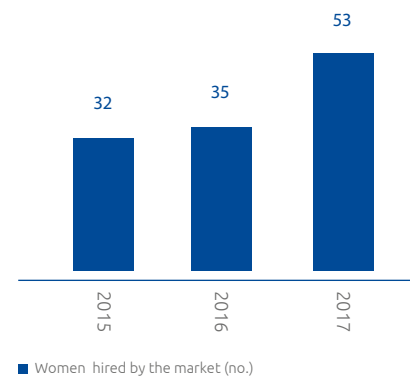
	2015	2016	2017
Average hours of training provided to men (hours/year)	30.9	30.2	31.3
Average hours of training provided to women (hours/year)	18.4	17.0	15.8

### Total female presence and by qualification (%) and Women hired by the market (no.)

FEMALE PRESENCE (%)

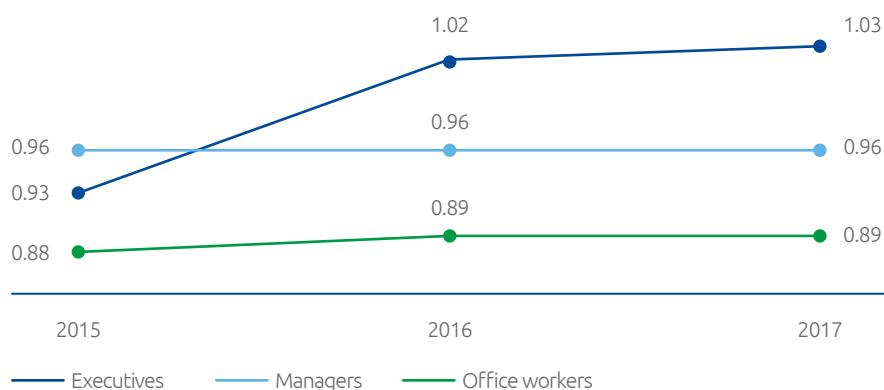


WOMEN HIRED BY THE MARKET (NO.)



### Pay gap (women/men)

PAY GAP (WOMEN/MEN)



## Stakeholders and relationship capital

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

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

With the "Partners' Day 2017", a special event on the occasion of the 75th anniversary of its foundation, Snam aimed to gather together for the first time all the subjects with whom it maintains relations, discussing issues of common interest such as the importance of infrastructures, dialogue with the territories and new uses of gas, and sharing strategies and perspectives for development with them.

### Engagement of people

Through internal communication, Snam continues to promote the involvement of people with regard to events and activities which affect the company, with the aim of stimulating participation in the processes of change, especially from a cultural point of view.

The 360-degree communication

strategy is supported by a large volume of activities, including frequent updates of the Easy company intranet, news and interviews with people for articles in the Energie corporate magazine with its in-depth analysis "Specials", an intense production of video content and video interviews, and a rich programme of engagement events for the entire corporate population, with a very strong commitment from senior management.

Strumenti	Descrizione
<b>"Easy" the intranet portal</b>	An informative and awareness-raising space aimed at all Snam people, but also a place for sharing knowledge, exchanging work documents and sharing opinions through the "let's collaborate" space, designed to facilitate people working in teams.
<b>Main paper tools</b>	The magazine "Energie" continues to represent the corporate identity of Snam and the narrative voice of the main events. The "Energy Specials" - attached to the editorial, with a focus on specific topics. The "Observations on Gas Demand" newsletter with news, analysis and comments on gas demand, also available on mobile devices to all employees.
<b>Management meeting</b>	Meeting of executives and meeting of managers to deepen the corporate strategic plan. Meeting dedicated to management (managers and executives) aimed at strengthening team spirit. Roadshow on the territory of the CEO to describe the strategic plan (Route22). Thematic meetings aimed at strengthening innovative thinking and team spirit ("The future is in our hands"). Event at the end of the year in video conference to bring together the main poles of the Network (Christmas on the net).

## Market reputation

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

The challenges for the Italian and foreign gas market were the subject of debate at the "Partners' Day 2017" which saw the participation of commercial stakeholders and also, for the first time, of external companies such as Eni, A2A, Shell Energy Europe and Edison.

In November 2017 a new online customer satisfaction survey was conducted, involving all Shippers and Traders with whom Snam collaborated in the recently concluded Thermal Year 2016-2017. The analysis, which on this occasion was also extended to the transport, storage and regasification sectors (as from September 2017 the commercial management of the 3 businesses merged within a single organisation), was concerned with surveying customer satisfaction with regard to the quality of the services offered, and to the additional features and services introduced during 2017, as well as in relation to the wishes expressed by their customers in previous occasions of comparison as well as regulatory developments. The participation rate was 63% and about 93% of those interviewed showed great satisfaction with the Stakeholder Engagement activities which were developed by Snam to improve the services offered and consolidate an effective collaboration with its contacts. All the observations received represent the starting point for identifying actions aimed at making Snam's operations more efficient, in line with the continuous improvement of the quality of the services offered.

During 2017, workshops were held which were aimed at a mutual comparison of the dynamics of balancing and of the market as well as at the collection of observations/wishes on the part of the operators. In particular, the meetings provided an opportunity to discuss innovations and the progress of balancing and transport, storage and regasification, as well as providing feedback on the process of renewing IT systems.

## Relations with the Supply Chain

Snam carries out intense engagement activities with its suppliers to encourage growth and improvement of the supply chain and to create a common vision, sharing values, ideas, know-how, best practices and information.

As part of the "Partners' Day 2017" Snam met 170 supplier companies with whom it shared the most important issues concerning the sustainable supply chain, together with a common culture around Snam's values.

Continuous communication with suppliers takes place through the Supplier Portal, the web platform through which existing and potential suppliers come into contact with Snam. Active since 2013, the Portal contains documents, insights, best practices and updates on the processes and procedures which regulate qualification and procurement operations. All registered suppliers have at their disposal a special reserved area, containing information on the product sectors for which they are qualified, the activated contracts, the performance in terms of safety at work. At the end of 2017 there were over 1,900 suppliers registered to

the portal (+5% compared to 2016). Starting from January 2018, Snam has provided a new feature dedicated to the certification of services which will allow suppliers to more easily and immediately learn the most suitable time for issuing invoices as a result of the services they provide to Snam. The 65,598 SAP documents uploaded during the year (+16% compared to the previous year) attest that the Supplier Portal is a live website which is being used more and more.

## Relations with the territory

Snam is present, through its infrastructure, in almost all the country's regions, in areas and communities which are varied in terms of culture, traditions, and economic, social and environmental conditions. In creating new infrastructures and managing existing ones, Snam adopts a rigorous, transparent, collaborative and constructive approach to ensure the environmental compatibility of the settlements and to favour their acceptance by the stakeholders. Environmental impact assessments cover all phases of the life cycle of the work, location, design, construction, operation and disposal. These assessments are carried out as part of the Environmental Impact Assessment (EIA) procedures, at the end of which the administrations in charge, both at central and local level, issue the authorisations required by current legislation.

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

Assessment” tools and methods. Over time Snam has built a network of relationships with regional branches of Confindustria and other local associations to discuss issues of energy, economic and environmental policy affecting the territory. At local and national level, the Company collaborates with the authorities and takes part in the work of numerous associations and committees, providing its commitment and skills to participate in the processes of social innovation and sustainable development. To that end, the Company collaborates

with local and national authorities to best lay out its plans for carrying out the work to both the authorities and the affected communities. During the year and in the transport sector alone, to lay out the plans for carrying out work, 106 meetings were held with local administrations and local associations. Together with the latter, two agreements were signed regarding constraints. **In 2017, around €249 thousand were allocated to the territory for donations and sponsorships and about €5.6 million for environmental compensation.**

### Performance of the main initiatives in the territory

Initiative	
<b>Young Energy from Snam, to bring young people closer to work</b>	<p>Snam has decided to take advantage of the opportunity offered by the school-work alternation - part of the "Good School" Law no. 107 of 2015 - to get closer to young secondary students, strengthen relations with the territory, strengthen employer branding and encourage the recruitment process. We did this by making the company's knowledge available to the students and offering tools for navigating the world of work. The training programme, defined in the contents and in the procedures together with the schools involved, has provided classroom training aimed at acquiring soft skills and orientation to the world of work, project work on issues related to the business and company visits at the Snam offices. Traineeships also take place at various operational sites to make the company's business more easily understandable.</p> <p>All this took place with the involvement of about 50 people from Snam - district managers, technicians, managers and other people in the HR area. A very ambitious project rooted in the territory - particularly in Southern Italy - which has so far reached about 600 students from 9 secondary schools, including 7 technical schools.</p>
<b>Snam Foundation</b>	<p>"Welfare che Impresa!", promoted by the Snam Foundation, together with other important Italian foundations, has collected the ideas of young people under 35 for projects on community welfare, able to promote social cohesion, development and networking. Through this first initiative the Snam Foundation hopes to present itself as a social innovator and a catalyst for ideas and projects aimed at people and territories, using technology as an element of social and economic inclusion. The four winning organisations were able to benefit from an economic contribution, a zero-interest loan and an incubation cycle.</p>
<b>Sustainable Paths, A Garden in the Network</b>	<p>The most beautiful and representative images of the initiative "Un Orto nella Rete", promoted by Snam in Terranuova Bracciolini (Arezzo) and developed by the Social Cooperative Onlus Betadue, to produce vegetables locally whilst favouring the inclusion of socially disadvantaged people, were collected in a book which tells of a project born to support, through Snam's assets, the economic and social development of the territories crossed by its infrastructures. The book, which is part of the Sustainable Paths series promoted by Snam to raise awareness of the company's commitment to environmental protection and sustainability, was presented at the Turin International Book Fair.</p>



## **The value of brand identity**

Again in 2017, Snam continued to improve its presence on the web and in the use of digital communication tools, aimed at supporting the development of activities also in terms of sustainability. In this sense, during the year several special projects were carried out; for example, the launch of a section dedicated to natural gas to support the broader corporate strategy of decarbonising the energy mix.

Snam's digital communication is based on quality content and on the active involvement of users. Thanks to its presence on the main social media sites (Twitter, Youtube, LinkedIn, Google+, Flickr, Instagram, Slideshare, Facebook), this year Snam has received important recognition with first place in Webranking Italy, with the highest score ever registered and first place in Lundquist's online CSR awards.

On the main media an increase in the number of articles in particular linked to trends such as sustainable mobility and energy decarbonisation has been observed through the use of new sources (for example biomethane), and on the role of Snam in the country system, along with its drive towards innovation.

Furthermore, during 2017 the press office aimed to highlight the company's positions and its willingness to carry out dialogue in the territories (such as Abruzzo and Puglia) featuring the presence of resistance to some projects.

## **Innovation for business development**

The Group's strategic evolution in an increasingly complex and challenging context will require it to rely more heavily on developing innovation and on the good use of technological assets to ensure that it makes the most of what has already been achieved, as well as developing innovative solutions, as a support for and source of business development. During the course of the year, various research and development activities launched in previous years were either continued or completed. At the same time, some new projects were launched with a potential impact on various areas of corporate operations.

<b>Gas metering</b>	<p><b>Alternative tools</b> - During the course of 2017 the gradual introduction of instruments to measure the quality of gas alternative to the gas chromatograph on the transport network in order to measure the higher calorific value, relative density and carbon dioxide content of natural gas, was continued. In particular, as part of this initiative, a project for the technological adaptation of the fuel gas measurement at the storage centres was opened, which involves the installation of quality analysers and the automation and remote reading of the main measurement and reserve measurement.</p> <p><b>Demand forecast</b> - With the start of the thermal year (1 October 2017), a new model for forecasting transport demand based on the use of the Neural Networks as a mathematical algorithm has come into operation, and which has a Machine Learning methodology to constantly improve the quality of the forecast and manage the large amount of information available. The objective is to improve the quality of the forecast, subject to an incentive scheme by the AEEGSI.</p> <p><b>Estimation of natural gas emissions</b> - Collaboration continued within the European research group GERG (European Gas Research Group, <a href="http://www.gerg.info">www.gerg.info</a>), involving other European natural gas transporters and distributors, with particular reference to the project for the evaluation of two methods for estimating the natural gas emissions expected at an international level and of the project for the study of potential impacts, along the entire gas supply chain, of the trace chemical components in the biomethane in order to create the conditions for the safe development of biomethane as a source of gas in the transport network.</p>
<b>Governance and monitoring of the network and plants</b>	<p><b>Remote control</b> - In 2017 the study of the SMART Tel project was begun, with the aim of analysing the requirements of the acquisition processes and the management of data relating to the control and operation of the network, of increasing its effectiveness levels and identifying the best supporting technologies of the whole remote-controlled process. The "Remote Control Systems Development" project continued in 2017, with the aim of ensuring the technological development of field apparatus and the methods through which they are connected and managed, in order to upgrade the administration and monitoring of the transportation network.</p> <p><b>Safety</b> - In gas storage, following a trial conducted on site, a project was launched to install phonometric systems to record any accidental leaks at plants and to enable quick and effective blocking measures. In 2016 installation operations at 6 stations were concluded. The last installation is expected to be completed in 2018.</p>
<b>Physical integrity of infrastructures</b>	<p>Collaboration with EPRG (European Pipeline Research Group) is continuing <a href="http://www.eprg.net">www.eprg.net</a>. The EPRG is an association which researches pipeline-related topics and counts Europe's biggest gas transportation and pipeline manufacturing companies among its members, and of which Snam is a member. This group manages projects (broken down into three major areas: Design, Material and Corrosion) with the aim of constantly improving the knowledge and management of the integrity of gas pipelines throughout their life cycle (pipe manufacturing, pipeline construction and operation).</p> <p><b>Electrical protection</b> - In 2017 the pilot project for innovating the electrical protection system was launched, aimed at experimenting in the field of equipment and operational solutions based on the results of the study conducted in 2016.</p> <p><b>Geochemical and microseismic monitoring</b> - As regards storage, with regard to the new projects for the operation of deposits in conditions of overpressure and the strengthening of monitoring systems, work continues on the construction and installation of geochemical and microseismic monitoring prototypes. In particular, with regard to the projects for the operation of deposits tested under overpressure conditions, currently up to a maximum of 110% of the initial deposit pressure, we are continuing with the installation activities of the microseismic (surface networks and deep well sensors) and geochemical (surface stations) monitoring equipment.</p> <p>In 2017, Stogit focused its attention on activities aimed at monitoring microseismicity, by upgrading its networks to standards of technological excellence. Among the operations aimed at guaranteeing high-quality performance, the development of a new automatic data management and processing system called AMPIS (Automatic Microseismic Processing and Interpretation System) is particularly worthy of mention; it has been active since October 2017 and will gradually be rolled out to all concessions.</p>
<b>Maintenance and checking of networks</b>	<p><b>Revision of maintenance processes</b> - The execution phase of the "Gas Transportation Network Asset Maintenance System" was continued, which is aimed specifically at completely overhauling work processes and regulations related to the transportation network, compression stations, metering and remote control plants. This through identifying of the needs for the evolution of the professional model of the resources and of the technological and ICT tools used to carry out the maintenance activities. In particular, in 2017 the Roll Out of the Asset Implementation and Management systems for the network was completed and the Pilot of the Asset Implementation and Management Systems of the Boost Units was launched.</p> <p><b>Experimentation with leak detection</b> - The trial of a system aimed at identifying and locating gas leaks along the transport network, based on the analysis of the pressure waves and the detection of possible perturbations and their propagation time, continued.</p> <p><b>Experimentation on air flyover checks</b> - For the purpose of evaluating the existence of technologies which are useful for the improvement of air flyover controls, trial operations were begun on two themes: assessment of the current satellite detection technologies available and participation in the trial operations carried out by ENAV and ENAC on the development of the flight infrastructure in the BVLOS mode of drones.</p>

## Mitigation of environmental and health and safety effects

Accident prevention and environmental protection are areas of management in which the creation of value is linked to the ability to mitigate the most significant impacts caused by the company's business activities. Safeguarding the physical integrity of staff and natural capital is an integral part of the definition of Snam's corporate policies and investment decisions.

On these issues, Snam adopts specific certified management systems, with the aim of overseeing the corporate processes and activities which have the biggest impacts, linked to the fight against climate change, the reduction of energy consumption and the protection of nature and biodiversity. On environmental protection, Snam spent approximately €120.6 million (€108.4 million on investments and €12.2 million on management costs). On the health and safety of workers, Snam spent approximately €34.7 million.

### Management systems

Snam also continued its commitment to expanding and maintaining management systems that cover certain specific issues such as health and safety at work, the environment and the quality of services provided. During the year, Snam corporate updated the ISO 14001 Environmental Management System to the new version of the standard (ISO 14001:2015).

To maintain the certifications in place, Snam carries out all the necessary operations, including the verification activities carried out by both internal and external personnel. In Snam, 31 auditors are available, also qualified for external audits.

In 2017, 163 audits were carried out (36 of which by an external team). The decrease in the total number of audits is attributable to greater optimisation between internal and external audits and to the increase in the number of HSEQ integrated audits. In order to check the effectiveness of the management systems adopted, 47 health, safety and environment audits were also carried out on contractors working on Snam sites.

## Management systems

Company	Coverage certification	Type of certification and accreditation	Year of first certification
Snam	Company	<b>ISO 14001:2015</b>	<b>2017</b>
		BS OHSAS 18001	2012
Snam Rete Gas	Gas process systems	ISO 22301	2015
	Company	ISO 9001	2016
	Dispatching Centre	ISO 22301	2015
	Information security management for natural gas dispatching and metering	ISO 27001	2014
	Company	ISO 14001	2013
	Company	BS OHSAS 18001	2010
	Testing laboratory (LAB 764 conveyed gas flows)	ISO 17025	2007
GNL Italia	Company	Calibration laboratory (LAT 155 mixtures of natural gas)	2002
		BS OHSAS 18001	2012
Stogit	Company	ISO 14001	2000
		BS OHSAS 18001	2012
		Design and delivery of natural gas metering and accounting	ISO 9001
ITG	Company	ISO 14001	2002
		BS OHSAS 18001	2009
Snam 4 Mobility (*)	Company	ISO 14001	2010
		/	/

(\*) Company that became operational at the end of 2017.

## Accident and health protection

The Snam Group has a long-term commitment to developing and promoting the protection of health and safety at its workplaces, as part of an ongoing process to improve its HSE performance in accordance with its Health, Safety, Environment and Quality Policy.

When managing health and safety issues, it is essential to implement standardised management systems developed and maintained in accordance with the OHSAS 18001 standard. Specifically, Snam's Worker Health and Safety Management System aims to carry out strategic guidance, coordination and monitoring for the Group's operating companies. Accident prevention, the main health and safety objective, is carried out

through the adoption of targeted actions aimed at eliminating or reducing risk factors inherent in employees' work.

In-depth analysis of the causes of accidents aims to identify any measures that can be taken to eliminate, mitigate or correct risk factors, implementing organisational, technical and managerial solutions on equipment, plants and workplaces, as well as operational and behavioural procedures in which suppliers are also heavily involved.

In pursuing a progressive and continuous improvement of its performance, Snam considers the development of a better culture and awareness on the issues of health and safety by all the personnel and third parties involved to be crucial. In this context, the company has reviewed and implemented the Safety

Trophy and the Zero Accident Award, which from 2018 will also involve the functions of Staff (executives, managers, employees and workers). At the same time, the launch of initiatives to involve and raise awareness among suppliers about the need to adopt best practices has helped the Company to bring about improvements in terms of managing health and safety issues in contracted activities.

The Company pays careful attention when selecting and subsequently monitoring suppliers, through the use of a feedback form and the performance of checks during the execution of works.

<b>Zero accidents</b>	<b>Sub-groups that achieved 365 days without accidents in 2017</b>
Snam, Gasrule	Not in force
Snam Rete Gas	North West District, North Eastern District, South West District, North District, Ingcoss, Staff, Operational Staff, Central Eastern District, South Eastern District
Stogit	Fiume Treste Operations Hub, Crema (headquarters), Ripalta-Sergnano Operations Hub, Cortemaggiore-Bordolano Operations Hub

The protection of workers' health is based on ongoing monitoring of risk elements analysed in corporate processes and the implementation of adequate prevention and protection measures.

### Health and safety training (hours)

	<b>2015</b>	<b>2016</b>	<b>2017</b>
Hours provided	24,305	19,288	<b>8,193</b>
Participation	4,117	3,484	<b>1,508</b>

Work environment inspections are periodically carried out by the Competent Physician and the Prevention and Protection Department in order to evaluate adequate and appropriate working and environmental conditions and to identify possible measures for prevention or improvement.

Snam's workers are not exposed to a high risk for contracting occupational diseases (no cases have been recorded in the last three years). Staff who are exposed to specific risk factors undergo periodic health monitoring carried out by Competent Doctors based on specific health protocols defined according to the risk, as well as additional specialist visits. Employees whose work requires them to travel to non-European countries receive specific preventive care.

The various initiatives run by Snam to promote workers' health include: a flu vaccine campaign, an early-diagnosis plan to prevent cancer, agreements with specialist institutions, a ban on smoking in the workplace (which also includes e-cigarettes), and a ban on drinking alcohol in company canteens.

### Health Monitoring (no.)

	<b>2015</b>	<b>2016</b>	<b>2017</b>
Medical visits	1,270	1,561	<b>1,914</b>
Periodic medical visits	991	1,337	<b>1,688</b>
Environmental surveys	203	172	<b>279</b>

## **NFS** Climate change and energy efficiency

The greenhouse gases emitted into the atmosphere by Snam operations are carbon dioxide CO<sub>2</sub> and methane (CH<sub>4</sub>), a primary component of natural gas. The CO<sub>2</sub> produced is directly related to fuel consumption, while methane emissions arise from the release of natural gas into the atmosphere deriving from the normal operation of the plants, from interventions for connecting new pipelines and maintaining them or from accidental events occurring on the infrastructures.

Snam intends to develop projects to strengthen its operational excellence and thus contribute to the containment of climate-altering emissions. For this reason, the Company has set itself the goal of reducing its natural gas emissions by 2021 by 10% in the transport network compared to the 2016 emissions within the same perimeter and to

increase energy efficiency on various plant facilities.

To pursue these objectives there is an investment plan that includes:

- gas recompression interventions in the transport network and compression plants;
- replacement of pneumatic actuators powered by natural gas in transport and storage infrastructures;
- operations to improve the energy efficiency of the gas turbine and reduction cabins;
- installation of more efficient heat generators;
- installation of LED lamps for network lighting systems.

During the course of 2018 two trigeneration systems will be built at the compression stations in Gallese and Istrana, whose entry into service is expected in the first few months of 2019. These systems allow self-production of electrical energy from heat recovery plants to support

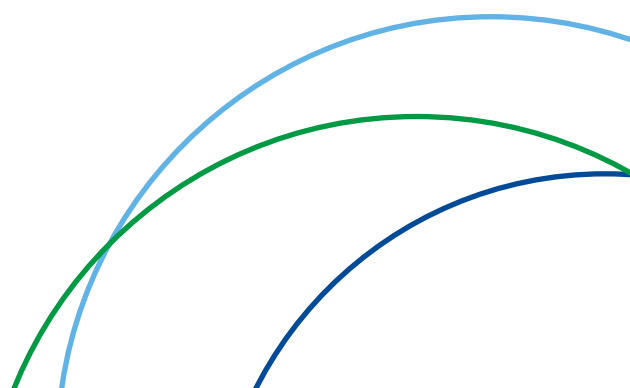
thermal utilities and station cooling.

The systems are listed as high-efficiency cogeneration plants.

Finally, to mention the project for the renewal of personal computers of group employees carried out in 2017, with benefits in terms of performance and energy efficiency, and the launch in the last quarter of 2017 of the Smart Printing project that will lead to the reduction of total number of printing devices and consumables used.

A further contribution to the reduction of our carbon footprint comes from the direct production of photovoltaic energy and the procurement of energy from renewable sources for the compression plants of Terranuova Bracciolini (Snam Rete Gas), Messina (Snam Rete Gas) and Brugherio (Stogit) and to the Panigaglia regasification plant (GNL Italia).

For 2017, thanks to the interventions implemented during the year, a total of 82,780 tonnes of CO<sub>2</sub><sub>eq</sub> emissions were avoided.



## Renewable energy plants

Type	2015			2016			2017		
	(no.)	Total power (kW)	Energy generated (kWh)	(no.)	Total power (kW)	Energy generated (kWh)	(no.)	Total power (kW)	Energy generated (kWh)
Wind power generators	1	1.7		1	1.7		1	1.7	
Photovoltaic plants	1,016	784	<b>711,680</b>	1,153 (*)	938.2	<b>844,608</b>	1,366 (*)	984.4	<b>1,044,309</b>
<b>Total</b>	<b>1,017</b>	<b>785.7</b>		<b>1,154 (*)</b>	<b>940</b>		<b>1,367 (*)</b>	<b>986</b>	

\*Including 1,329 back-up plants.

### **NFS** Environmental monitoring and restoration in the development of the gas pipeline network

Snam considers the protection of the natural value of the territories affected by its activities to be particularly important. For this reason, during the fulfilment phase of its work, it implements the most appropriate design choices to minimise the impacts on biodiversity and once these are completed, it puts in place environmental restorations and monitoring projects carried out in agreement and in collaboration with the competent bodies.

The goal of replanting and reforestation is not just to restore the forested areas affected by pipeline construction work, but generally to rebuild the landscape and recover the biological function of planted areas affected by the work, especially in their role as animal habitats with specific biodiversity features.

Restoration and reforestation is followed by the implementation of "cultivation treatments", i.e. the care and maintenance, for a period of at least five years, of the plants which have been planted.

Through monitoring projects, which concern the layouts of pipes that interfere – even if only marginally – with natural areas of ecological and wildlife value, checks are performed on the effectiveness of the process of restoring the areas affected by the works, based on comparisons between the conditions after the restoration ("post-operam") and the original conditions ("ante-operam"). Monitoring is normally performed for the most significant habitats identified in the design phase.

**Environmental monitoring and restoration (km of network)**

	2015	2016	2017
Restoration	240	227	203
New reforestation (*)	11	3.7	21
Farmland care	140	98	59
Environmental monitoring	1,009	565	388

(\*) Surface area covered by new reforestation: 380,000 m<sup>2</sup>.

**Main environmental monitoring and restoration carried out during the year**

Reference body	Name	Activities carried out
Lombardy Region	"Cervignano-Mortara" pipeline	<p>During 2017 work continued on the construction of the Cervignano - Mortara pipeline, an important 61.7 km long pipeline (underground pipe of 1400 mm in diameter), which runs through the agricultural areas of Lombardy through the provinces of Lodi, Milan and Pavia.</p> <p>It will be connected to some source pipelines, with a smaller diameter, for a total length of 38.5 km.</p> <p>At the end of the works the divestment of the existing Sergnano - Mortara DN 750 pipeline is expected, for a total length of 56.1 km and of the relative source works with a total length of 21.7 km.</p> <p>They mainly pass through agricultural areas, which will be completely restored at the end of the works and returned to their original use, and the protected area of the Ticino Park.</p>



# NFS Elements of risk and uncertainty

## Introduction

This chapter illustrates the main risk factors and uncertainties that characterise Snam's routine operations, in spite of most of them being regulated and therefore exposed to regulatory and compliance risk, all types of risk relating to the business operations that are the subject of careful analysis.

The main risks identified by Snam are classified in the following categories:

- strategic
- legal and non-compliance
- operating
- financial.

## Strategic risks

### Regulatory and legislative risk

*Regulatory risk and legislative risk* for Snam is closely linked to the regulation of activities in the gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the Energy Network and Environmental Regulation Authority (ARERA) and, more generally, changes to the regulatory framework may have a significant impact on the Company's operating activities, financial position and economic outcomes. It is not possible to foresee the effect that future changes in legislative and fiscal policies could have on Snam's business and on the industrial sector in which it operates. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

### Macroeconomic and geo-political risk

Because of the specific nature of the business in which Snam operates, there are also *risks associated with political, social and economic instability in natural gas supplier countries*, mainly related to the gas transportation sector. A large part of the natural gas transported in the Italian national transport network is imported from or passes through countries included in the MENA area (Middle East and North Africa, in particular Algeria, Tunisia, Libya and, in TANAP-TAP perspective, Turkey together with States bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine, and in the future, Azerbaijan and Georgia), national situations which are particularly sensitive politically, socially and economically, crossed by currents of instability or which could constitute future crisis scenarios.

In particular, the importation and transit of natural gas from these countries are subject to a wide range of risks, including: terrorism and common crime, alteration of the political-institutional balance; armed conflicts, socio-economic and ethno-sectarian tensions; unrest and disturbances, high inflation; volatile exchange rates; deficient legislation on insolvency and protection of creditors; limits on investment and on the import and export of goods; increases in taxes and excise duties; forced imposition of contract renegotiations; nationalisation or renationalisation of assets; changes in trade policies and monetary restrictions.

If a Shipper using the transportation service via Snam's networks cannot procure natural gas from the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, or is consequently unable to fulfil their

contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow as well as in reference to its participation in TAP.

### Commodity risk linked to changes in the price of gas

With reference to the *risk connected with changes in the price of natural gas*, however, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover Fuel Gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind. However, in relation to transportation activities, the Authority has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by users of the service to the leading transportation company, of quantities of gas to cover unaccounted-for gas (UFG), due as a percentage of the quantities respectively injected into and withdrawn from the transportation network. Specifically, the Authority, by means of Resolution 514/2013/R/gas, defined the permitted level of the UFG given the average value registered over the last two years, and decided to keep this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. This criterion also was subsequently confirmed for the years 2018 and 2019 of the transition period. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. In view of the aforementioned mechanism for the payment in kind of UFG, there is still uncertainty about the quantities of UFG withdrawn over and above the quantities paid in kind by the users of the service. The

change in the regulatory framework currently in force on the payment in kind of natural gas could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

## Market risk

With reference to the *risk connected with demand for gas*, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via the directly controlled transport companies, is partly correlated to volumes transported. ARERA, however, introduced a guarantee mechanism with respect to the share of revenues related to the volumes transported. This mechanism provides for the reconciliation of major or minor revenues, exceeding  $\pm 4\%$  of the reference revenues related to the volumes transported. Under this mechanism, approximately 99.5% of total revenue from transportation activities is guaranteed. Based on the tariff system currently applied by the Authority to natural gas storage activities, Snam's revenue, via Stogit, correlates to infrastructure usage. However, the Authority has introduced a mechanism to guarantee reference revenue that allows companies to cover a significant portion of revenues recorded. For 2016 and 2017, the minimum guaranteed level of revenue recorded was approximately 97%. ARERA is reviewing an integration of such mechanisms which, for subsequent years, will result in reliance on the guaranteed minimum level of revenue, as well as the storage company's efficiency in terms of managing capacity allocation procedures and service provision procedures, following a procedure launched by ARERA. The change to the regulatory framework in force could

have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

## Risk of climate change

Compliance with greenhouse gas regulations in the future may require Snam to adjust its facilities, and to control or limit its emissions or undertake other actions that could increase the costs of complying with the regulations in force, and therefore have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

The *risks connected with the emissions market* fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. With the start of the third period of the *EU emissions trading system* and of regulation (2013 - 2020), the updating of the sector regulations has had as its main objective the authorisations for emitting greenhouse gases and a constant reduction of the quotas on emissions released free of charge. The allowances will be assigned to each plant on a gradually decreasing basis, and will no longer be constant, and will also depend on the actual functionality of the plants. The ongoing further development of European legislation could lead to identifying new ways of managing the necessary quotas, in particular through possible reward mechanisms, to be agreed with ARERA, for the reduction of emissions from owned plants. Climate change scenarios could lead to a change in population behaviour and could have an impact on natural gas demand and transport volumes, just as they could affect the development of alternative uses of gas and the promotion of new business. Climate change could also increase

the severity of extreme weather events (floods, droughts, extreme temperature fluctuations) causing worsening of the natural and hydrogeological conditions of the territory with a possible impact both on the quality and continuity of the service provided by Snam, and on the demand for Italian and European gas. With reference to the effects of the change in the gas demand on the balance sheet, income statement and financial position of the Snam Group, see the previous paragraph "Market risk".

## Legal and non-compliance risk

**Legal and non-compliance risk** concerns the failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. As regards specific cases, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, inter alia, may also result in (possibly significant) sanctions on the Company based on the administrative responsibility of entities (Legislative Decree 231 of 8 June 2001). With regard to the *Risk of Fraud and Corruption*, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an *anti-corruption* policy, trying to identify possible areas of vulnerability and

eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various *business* situations.

Reputational verification and acceptance and signature of the Integrity Ethical Pact are the pillars of the system of controls aimed at preventing the risks associated with illegal behaviour and criminal infiltrations concerning our suppliers and subcontractors, with the aim of ensuring transparent relations and professional morality requirements in the whole chain of enterprises and for the whole duration of the relationship; in this context in 2017, on the occasion of the "Snam 75 & Partners' Day" event, Snam dedicated a special space to the issue of ethics and transparency as excellence and innovation in business activity.

Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the "Global Corporate Supporter Partnership".

During 2017, Snam started collaboration with the OECD being part, as the first Italian company in the private sector, of the *Business and Industry Advisory Committee* (BIAC). Snam has also collaborated with the Ministry of Foreign Affairs participating in the "VIII Italy-Latin America and Caribbean Conference" and the "Italian Business Integrity Day" held at the Italian Embassy in Washington.

During these events, the company illustrated the instruments implemented in terms of transparency and the fight against corruption.

## Operating risks

### Ownership of storage concessions

The risk linked to *maintenance of the ownership of the storage concessions* is attributable by Snam to the business in which the subsidiary Stogit operates on the basis of concessions issued by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted – within the statutory terms – the extension request to the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings, the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion. One concession (Fiume Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years<sup>50</sup>. If Snam is unable to retain ownership of one or more of its concessions

or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on the Company's operations, results, balance sheet and cash flow.

### **NFS** Malfunction and unexpected service interruption

Operating risks consist mainly of the *malfunctioning and unforeseen interruption of the service* determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

<sup>50</sup> Stogit's concessions issued before the entry into force of Legislative Decree no.164/2000 can be extended by the Ministry of Economic Development no more than twice for a period of ten years each, pursuant to art.1, paragraph 61 of Law no. 239/2004. Pursuant to art.34, paragraph 18, of the Decree Law n. 179/2012, converted by Law 221/2012, the duration of the only Stogit license issued after the entry into force of Legislative Decree no.164/2000 (Bordolano) is thirty years with the possibility of extension for a further ten years.

## **NFS** Delays in the progress of infrastructure implementation programs

There is also the concrete possibility that Snam could incur *delays in the progress of infrastructure implementation programmes* as a result of several unknowns linked to operating, economic, regulatory, authorisation and competition factors, regardless of its intentions. Snam is therefore not able to guarantee that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting Snam's financial position and results. Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations, or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. In addition, changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results.

## **NFS** Environmental risks

Snam and the sites in which it operates are subject to laws and regulations relating to pollution, environmental protection, and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential costs and liabilities related to the operation and its assets. The costs of possible environmental remediation obligations are subject to uncertainty regarding the extent of contamination, appropriate corrective actions and shared responsibility and are therefore difficult to estimate. In relation to the new global climate agreements (COP21 in Paris 2015, COP22 in Marrakech in 2017), aimed at encouraging the transition towards a more sustainable economy that favours zero emission energy sources, it may envisage regulatory and legislative risk related to the possible implementation of increasingly stringent regulations at European and national level. Snam cannot predict if and how environmental regulations and laws may over time become more binding and cannot provide assurance that future costs to ensure compliance with environmental legislation will not increase or that these costs can be recovered within the mechanisms tariffs or the applicable regulation. Substantial increases in costs related to environmental compliance and other aspects related to it and the costs of possible sanctions could negatively impact the business, operating results and financial and reputational aspects.

## **NFS** Employees and staff in key roles

Snam's ability to operate its business effectively depends on the skills and performance of its personnel. Loss of "key" personnel or inability to attract, train or retain qualified personnel (in particular for technical positions where the availability of appropriately qualified personnel may be limited), or situations in which the ability to implement long-term business strategy is negatively influenced due to significant disputes with employees, could have an adverse effect on the business, financial conditions and operating results.

## Risk linked to foreign holdings

The foreign companies owned by Snam may be subject to regulatory/legislative risk, under conditions of social and economic political instability and to a market risk such as to adversely affect their activities, economic results and the equity and financial situation. For Snam this may entail a partial achievement of the economic and financial objectives connected to the foreign investments and expected during the acquisition phase.

## Cybersecurity

Snam carries out its activities through a complex technological architecture relying on an integrated model of processes and solutions capable of promoting the efficient management of the entire country's gas system. The development of the business and recourse to innovative solutions capable of continuous improvement, however, requires increasing attention to be focused on aspects of cybersecurity.

For this reason Snam has developed its own cybersecurity strategy based on a framework defined in accordance with standard principles on the subject and focusing constant attention on Italian and European regulatory developments, especially as far as the world of critical infrastructures and essential services is concerned. First and foremost, this strategy involves adapting one's own processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and ISO 22301 (Business Continuity Management Systems) and the formal certification of conformity to the listed standards.

Alongside this and in accordance with technological developments, solutions aimed at protecting the Company from cyber threats and malware are assessed and, where

deemed appropriate, implemented. More specifically, Snam has defined a model of *cybersecurity incident management* aimed at preventing and, when necessary, ensuring timely remediation in the event of events that could damage the confidentiality and integrity of the information processed and the IT systems used. At the base of the activity is a *Security Incident Response Team* which, using technologies that allow collecting and correlating all the security events recorded on the entire perimeter of the company's IT infrastructure, has the task of monitoring all the anomalous situations from which negative impacts may result for the company and to activate, where necessary, escalation plans suitable to guarantee the involvement of the various operating structures. *Information-sharing* with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events. A great deal of attention is also paid to increasing awareness and specialist training of personnel, in order to facilitate the identification of *weak signals* and raising consciousness about risks of a cyber nature that could occur during the course of normal work activities.

**Financial risks** are described in Note 24, "Guarantees, commitments and risks – financial risk management", of the Notes to the consolidated financial statements.



# 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 on the Italian market envisage a situation of substantial stability compared to 2017 levels in the period 2017-2021, albeit in the presence of a progressive reduction of European domestic production that will be balanced by an increasing dependence on imports.

## INVESTMENTS

Snam confirms a significant investment plan of around €5.2 billion in the period 2017-2021, of which €1.0 billion were invested in 2017, to support the development of Italian infrastructures and their interconnection with the European ones, strengthening the security, flexibility and liquidity of the entire gas system. The Plan envisages a strengthening the transportation network, allowing also for the completion of the creation of additional reverse flow capacity towards other European countries, and open new flows from the Caspian region through the TAP gas pipeline.

In particular, investments in the transportation business are aimed at:

- increased flexibility and security of the transportation system in Italy;
- ongoing improvements to the quality of the transportation service;

- increased interconnection between infrastructures and greater flexibility of gas flows in Europe.

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

Investments in the storage and LNG business are aimed at improving the overall safety and flexibility of the system, allowing an increase in the period considered of around 4% of available storage capacity (12.2 billion standard cubic metres in 2017) and about 2% of peak capacity (251 million standard cubic metres/day in 2017).

Furthermore, during the period of the plan, Snam will undertake the construction of stations for the supply of vehicles powered by natural gas, with the aim of increasing the number of current methane service stations, improving the quality of service and ensuring balanced stations.

Snam will be able to use its international subsidiaries to promote increasing interconnectivity among European infrastructure systems, and 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 the one of its current business portfolio.

## OPERATING EFFICIENCY

Snam will continue to focus on operating efficiency in 2018, through initiatives that will enable it to keep the level of controllable costs more or less stable in real terms, on a constant-size basis.


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

# 2017 Consolidated Non-Financial Statement - Legislative Decree 254/2016

**(Legislative Decree No. 254 of 30 December 2016)**

## TABLE OF CONTENTS

158	Introduction and guide to reading the document
159	Profile and activities of Snam
159	Model of organisation and management of operations
163	Relevant topics in relation to the activities carried out
164	Environmental, and Health and Safety aspects
167	Social aspects
168	Aspects concerning the management of personnel
170	Prevention of active and passive corruption
172	Protection of human rights
174	GRI Standard matching table
176	Independent auditors' report





## Introduction and guide to reading the document

The Consolidated Non-Financial Statement (hereinafter also the “Non-Financial Statement”, “Declaration” or “DNF”) of the Snam Group constitutes a specific section of the Report on Operations-Integrated Report (hereinafter also Report on Integrated Management) and is drafted in compliance with the provisions of the Legislative Decree of 30 December 2016, no. 254 (hereinafter also the Decree)<sup>51</sup>.

The DNF contains relevant data and information in relation to environmental, social and personnel-related issues, respect for human rights, and the fight against active and passive corruption. The relevance of the individual themes is defined taking into account the activities carried out and the characteristics of Snam<sup>52</sup>.

The reference perimeter of the information contained in the DNF coincides with the consolidation area of the consolidated financial statements and therefore includes the parent company Snam and all the companies consolidated by it in its entirety, listed below:

- Snam Rete Gas
- Stogit
- GNL Italia
- Snam 4 Mobility
- Gasrule Insurance
- Asset Company 2
- Infrastrutture Trasporto Gas.

The structure of the Snam group, including investments abroad, is shown on p. 3 of the Integrated Management Report<sup>53</sup>.

The content of the DNF is integrated, where necessary or appropriate, with other information included in the Report on Integrated Operations, in the Report on Corporate Governance and Ownership Structures, and on the Company's Website (<http://www.snam.it/en/>), which are identifiable and consultable following specific references<sup>54</sup>.

In order to standardise the reporting of data and information, as well as to facilitate the connection with each issue envisaged by the Decree, each area listed above has been divided into specific paragraphs divided into three sections dedicated respectively to:

- relevance of the theme and related risks generated or suffered;
- company policies and commitments and their implementation in management operations;
- relevant performance indicators to understand the results obtained in pursuing these commitments.

In particular, the GRI Standards of the Global Reporting Initiative were used to measure the results<sup>55</sup>, as the most used non-financial reporting methodology at the international level, using the GRI-referenced approach. The results are reported with reference to the financial year ending 31 December 2017. The two previous years are also shown for comparison.

The Report on Integrated Operations, of which DNF is a specific section, is published in the 2017 Annual Financial Report available on the Company's website at [http://www.snam.it/en/Investor\\_Relations/Reports/](http://www.snam.it/en/Investor_Relations/Reports/).

51 See article 5, paragraph 1 of the Decree no. 254 of 30 December 2016.

52 See article 3, paragraph 1 of the Decree no. 254 of 30 December 2016.

53 See article 4, paragraph 1 of the Decree no. 254 of 30 December 2016.

54 See article 5, paragraph 4, of the Decree no. 254 of 30 December 2016.

55 See article 3, paragraph 5 of the Decree no. 254 of 30 December 2016.



## Profile and activities of Snam

Snam is a European leader in the construction and integrated management of natural gas infrastructure. With approximately 3,000 employees, it conducts regulated gas segment activities and is a leading European operator in terms of regulatory asset base (RAB) in its sector. As an integrated operator, Snam provides natural gas transportation, dispatching and storage services as well as LNG regasification services, and plays a leading role in the natural gas infrastructure system. By managing system infrastructures efficiently and providing integrated services for the market, Snam creates the conditions to guarantee fair energy costs. The national gas transport network managed by Snam is over 32,500 kilometres long, with 9 storage fields and 1 regasification terminal. The operational activities cover the entire life cycle of the plants, from design to construction, management and maintenance during the operation phase, and finally, safety and disposal of the same.

Snam operates in Europe's major markets through agreements with the leading industry players and direct equity investments in the share capital of companies. Snam also offers engineering and technical-operational services for gas operators in national and international markets.

The company actively promotes the use of natural gas as a flexible, safe and environmentally friendly source of energy. In the coming years, Snam intends to launch various energy efficiency projects with the aim of promoting a more sustainable and efficient energy system through the use of compressed natural gas (CNG),

biomethane and liquefied natural gas (LNG) in the transport sector.

Snam has been listed on the Italian stock exchange since 2001. Its share price features not only on the Italian FTSE MIB index but also on leading international indices (Stoxx Europe 600 and Stoxx Europe 600 Utilities) and the major sustainability indices. For more information on the size of the national infrastructure network and the scope of Snam's activities, please refer to [pages 18-19](#) of the Integrated Management Report.

## Model of organisation and management of operations

### Corporate and organisational structure

Snam's corporate governance system – a set of planning, management and control rules and methodologies necessary for the Company to function – was identified by the Board of Directors:

- in compliance with the regulations to which the Company is subject as a listed issuer;
- in accordance with the Code of Corporate Governance; and
- in line with the national and international best practices against which the Company compares itself.

This system is based on some key principles, such as a correct and transparent choice of management of business operations ensured also through the identification of information flows between the corporate bodies and an efficient definition of the system for internal control and risk management.

Snam S.p.A. exercises direction and coordination with regard to its

subsidiaries on the basis of a specific regulation that enhances its strategic role and at the same time takes into due consideration the legal autonomy and the principles of correct corporate and entrepreneurial management of the Subsidiaries.

The organisation of Snam is divided into four business units and staff functions, designed with a view to simplifying processes, efficiency and continuous improvement. The business units are focused respectively:

- on development and commercial activities;
- on the management of Italian subsidiaries;
- on the management of foreign holdings;
- on the development of technical services focused on distinctive skills and know-how aimed at operators in the gas sector.

## Method of conducting activities

We manage our business in accordance with the Corporate System Framework, the organisational and procedural system applied across all Group companies in Italy and abroad, created to ensure that the system of rules governing the business is clear, simple and organic. The system is inspired by the Code of Ethics<sup>56</sup> and is based on management policies, described in the following chapters, based on the principles enunciated by the United Nations Universal Declaration of Human Rights, the fundamental ILO Conventions and the OECD Guidelines for Multinational Enterprises. The main policies<sup>57</sup> referred to in the document are:

- the Sustainable development policy;
- the Health, Safety and Environment Policy;
- the Stakeholder engagement policy;
- the Human Rights Policy;
- the Policy for the management of philanthropic activities and social initiatives;
- Enterprise Risk Management Guidelines;
- Policy statement contained in the Anti-Corruption Procedure.

Snam, also adheres to the UN Global Compact, the most important international sustainability initiative in the world, which aims to promote and disseminate ten ethical principles concerning human rights, safeguarding the environment,

workers' rights and the fight against corruption.

In order to successfully implement this system, managerial actions need to be based on the allocation of specific objectives to each position of responsibility and on the transparent assessment of results. This would enable continual improvements in the effectiveness and efficiency of corporate processes.

## Stakeholder relations

Positive and consistent relations over time with stakeholders is a fundamental part of Snam's management model. Relations with stakeholders are carried out with the aim of increasing trust and reputation and reducing potential conflicts. All corporate structures contribute to the various activities involving stakeholders, each within their own prerogatives, roles and responsibilities with centralised coordination. Snam's approach to stakeholder engagement, explained in the Stakeholder Engagement Policy, is aimed at:

- identifying the various categories of stakeholders with whom the Company deals, following the evolution of the context and development of company activities;
- analysing and understanding the profile of the stakeholders and the Group's positioning towards them;
- deepening the interests and issues relevant to each category of stakeholder, through regularly updating the material analysis;
- reporting and regularly communicating management results to stakeholders in relation to the material issues of mutual interest through the report on social responsibility and all the other reporting and communication tools developed by the Company.

The groups of stakeholders identified in the mapping activities belong to the following categories: Community and territory, Investors and lenders, Other operators, Media, Suppliers, Customers, People and Authorities and Institutions.

## Internal Control and Risk Management System

The Internal Control and Risk Management System is the set of guidelines, rules and organisational structures aimed at identifying, measuring, managing and monitoring the main risks.

Snam has adopted and undertakes to promote and maintain an adequate Internal Control and Risk Management System ("SCIGR").

This system is integrated into the organisational, administrative and accounting structure and, more generally, the corporate governance of Snam. It is also based on the Self-Regulatory Code that Snam adheres to, taking into consideration national and international models and best practices.

The guiding principles on which the SCIGR is based are defined in the Code of Ethics:

- the separation of activities between persons responsible for authorisation, executive or control procedures;
- the existence of company regulations that can provide general benchmark principles for governing corporate processes and activities;
- the existence of formal rules for the exercise of signatory powers and internal authorisation powers;
- traceability (guaranteed through the adoption of information systems that can identify and reconstruct sources, information and checks carried out in support of

<sup>56</sup> The Snam Code of Ethics can be consulted on the Company's website at the address [http://www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice\\_etico.pdf](http://www.snam.it/export/sites/snam-rp/repository/file/Governance/codice-etico/codice_etico.pdf).

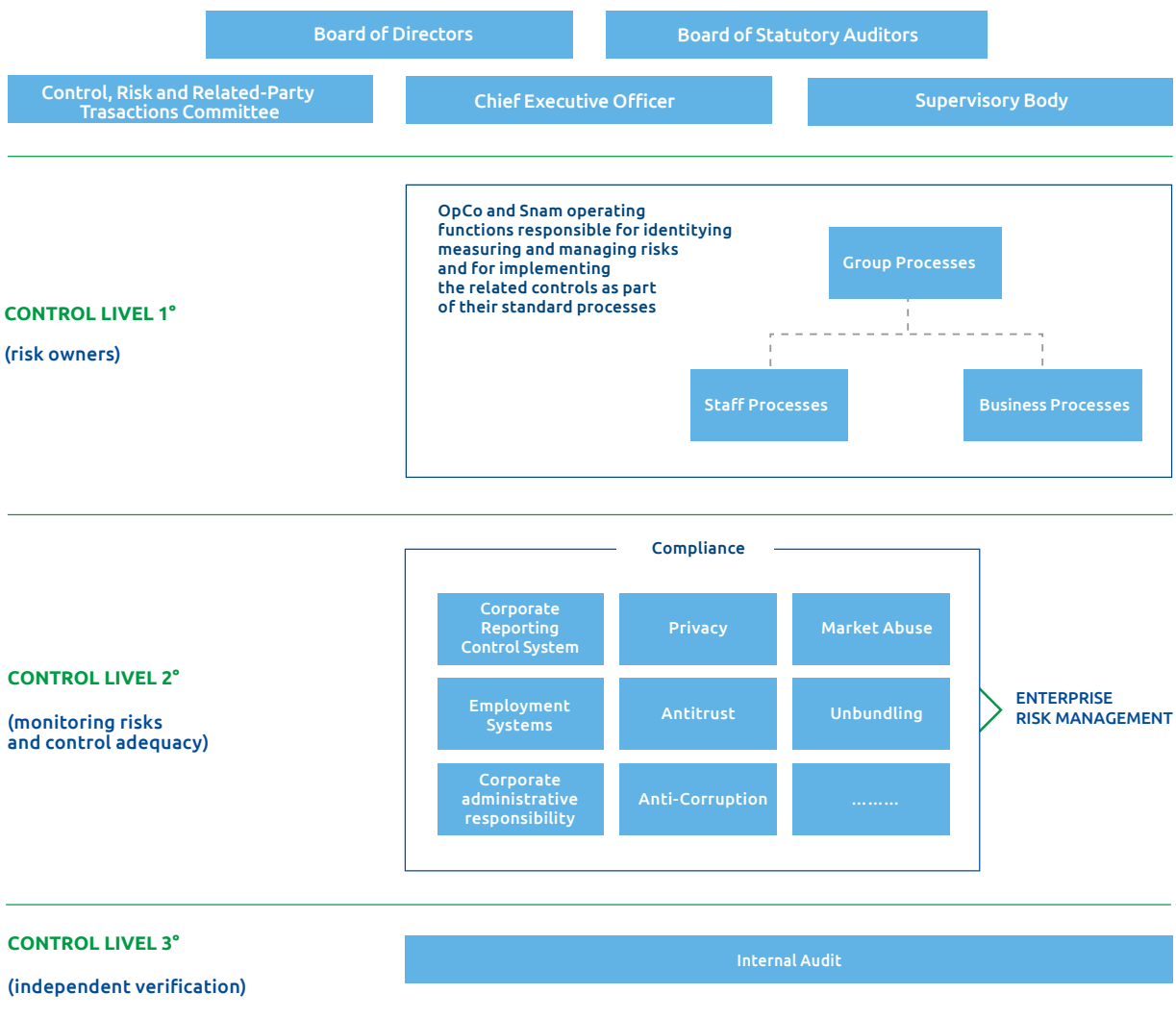
<sup>57</sup> See article 3, paragraph 1, lett. b of the Decree no. 254 of 30 December 2016. Snam policies can be consulted on the Company's website at the address [http://www.snam.it/en/Sustainability/strategy\\_and\\_commitments/](http://www.snam.it/en/Sustainability/strategy_and_commitments/)

the formation and implementation of the Company's decisions and financial resource management procedures).

The internal control and risk management system is audited and

updated over time to ensure it is always suited to overseeing the main areas of corporate risk. In this context, and also in order to execute the provisions of the Code of Corporate Governance, Snam has adopted an ERM (Enterprise Risk Management) system.

The Board of Directors charges the CEO with giving structure to and maintaining the entire system. The system is divided into three levels, each with different objectives and associated responsibilities.



<b>Level One:</b>	Identification, evaluation and monitoring of risks inherent to the individual Group processes. This level identifies the functions of the Snam Group <i>owners</i> of individual risks, responsible for their identification, measurement and management, as well as for the implementation of any necessary controls in the field of the processes for which they are responsible.
<b>Level Two:</b>	Monitoring the main risks to ensure they are effectively and efficiently managed and processed, and monitoring the adequacy and functioning of the controls in place to protect against these risks; support for Level One in defining and implementing adequate management systems for the main risks and related controls. Within this level, the <i>staff</i> functions of the Group are in charge of coordinating and managing the main control systems (e.g. for Corporate Administrative Responsibility, Corporate Information, Anti-corruption, <i>Antitrust</i> ).
<b>Level Three:</b>	Independent and objective <i>verification</i> of the operating effectiveness and adequacy of Levels One and Two, and in general of the overall risk management methods. The <i>Internal Audit</i> operates on the basis of Address Lines.

The ERM Model, in particular, provides suitable tools for identifying, measuring, managing and monitoring the main risks that could affect the achievement of strategic objectives. The main objectives of ERM are to define a risk assessment model that allows risks to be identified, using standardised, group-wide policies, and then prioritised, to provide consolidated measures to mitigate these risks and to draw up a reporting system.

We use an integrated, dynamic and group-wide method of assessing risk that evaluates the existing management systems in the individual corporate processes, starting with those relating to the prevention of fraud and corruption and health, safety, environment and quality. The results of the risk assessment and monitoring activities and the related mitigation measures are regularly presented to the Control and Risk Committee, the Board of Statutory Auditors and the Supervisory Body of Snam and its subsidiaries. They are also used by the Internal Audit department to draw up the audit schedules.

#### **Organisation, management and control model pursuant to Legislative Decree no.231/2001 (Model 231)**

Model 231 consists of an organic set of principles, rules, provisions on, inter alia, the management and control of each corporate process, whose purpose is to protect the company from any conduct that may lead to liability administrative, pursuant to Legislative Decree 231 of 2001, in relation to crimes committed or attempted in the interest or to the advantage of the company by persons in the so-called "Top" positions within the structure itself or by subjects subject to the supervision and control of the same.

The Board of Directors has adopted Model 231 to prevent crimes mentioned in the legislation on corporate administrative responsibility for crimes committed in the interest or to the advantage of the Company, and it has set up a Supervisory Body equipped with autonomous powers of initiative and control, in compliance with the law.

The analysis of corporate processes and the comparative analysis of an existing control environment, along with oversight measures, shall be carried out based on the

COSO Framework. This is the international benchmark model for the establishment, updating, analysis and assessment of internal control systems (the "COSO Framework", published most recently in May 2013).

The subsidiaries have also adopted their own Model 231 commensurate with their own characteristics, appointing their own Supervisory Body charged with monitoring that Model 231 is implemented and applied effectively.

In January 2018, the Risk Assessment and Gap Analysis activities were completed for the update of the Special Sections of Model 231 of Snam and Subsidiaries, in light of:

- the legislative changes, which have modified and widened the category of predicate offences referred to by Legislative Decree no.231/2001 and the evolution of jurisprudence on the subject, and in particular:
  - the new formulation of the crime of corruption between private individuals (Article 2635 of the Civil Code)
  - the so-called crime of "caporalato", introduced in art. 25 - sexies of Legislative Decree 231/2001;
  - the crime of "racism and

- xenophobia”, introduced with the new art. 25-terdecies of Legislative Decree 231/2001;
- of the organisational changes that affected Snam.

The updating of the Special Part document of the companies' Model 231s is being finalised.

Snam has developed a specific training programme for all Snam staff. As well as being an important tool for making management and other employees aware of corporate ethics, prevention of the crimes mentioned in Legislative Decree 231 and the fight against corruption, this training activity encourages all staff members to play an active role in Snam's system of ethics and values.

Model 231 is available on the Company's website ([http://www.snam.it/export/sites/snam/repository/file/Governance/modello231/modello\\_231\\_Snam.pdf](http://www.snam.it/export/sites/snam/repository/file/Governance/modello231/modello_231_Snam.pdf)).

Lastly, for some time Snam has been preparing, as part of the reporting management process (so-called whistleblowing)<sup>58</sup>, specific communication channels that the subsidiaries also refer to in addition to Snam.

In order to guarantee levels of excellence and independence, Snam has entrusted the management of the aforementioned communication channels to an external subject (Ombudsman), which ensures the receipt and analysis of each report applying criteria of maximum confidentiality suitable, among other things, for the protection of the integrity of the persons reported and the effectiveness of the investigations.

<sup>58</sup> The procedure for reporting or whistleblowing is available on the Company's website at the address <http://www.snam.it/en/governance-conduct/business-conduct/whistleblowing/>

Detailed information on the topics discussed in this section can be found in the “Report on Corporate Governance and Ownership Structure 2017”, available on the Company's website at <http://www.snam.it/en/governance-conduct/reports-and-documentation/>.

As regards the ERM Model in particular and the synthetic representation of the main risks Snam generates or is subjected to<sup>59</sup> in relation to its activities and related mitigation actions carried out, please refer to pages 31-36 of the Integrated Management Report.

The risks generated or suffered are also described in full on pages 151-154 in the chapter Risk factors and uncertainties of the Report on Integrated Operations.

## Relevant topics in relation to the activities carried out

### Relevance analysis process

In order to identify the environmental, social, personnel-related issues, respect for human rights and the fight against active and passive corruption to be considered relevant considering the activities and characteristics of the company, the Company has carried out an analysis of relevance aimed at identifying the most significant issues for the Group and for Stakeholders within the areas envisaged by Legislative Decree no. 254/2016 to the extent necessary, so as to ensure understanding of Snam Group's business, performance, results and impact. This analysis took into consideration the sustainability issues present in the main sustainability

<sup>59</sup> See article 3, paragraph 1, lett. C of the Decree no. 254 of 30 December 2016.

guidelines or references (GRI, ISO 26000, SDG's, etc.) and the issues emerged from comparisons with the stakeholders.

These issues were then contextualised with respect to Snam's business sector, through the benchmark conducted on the sustainability report of the main companies in the sector on an international level, the questionnaires from the most important rating agencies, and through an analysis of the industry scenario, public opinion and Snam documentation (such as the strategic plan, Code of Ethics and Policies adopted).

In order to further define the relevance of the issues highlighted, the perception of the issues from the point of view of the stakeholders was analysed through surveys that made it possible to identify points and observations of the interlocutors, while the analysis of issue perception from the company point of view was carried out by surveys of Group management.

The categories of stakeholders interviewed were: Community and territory, Investors and lenders, Other operators, Media, Suppliers, Customers, People (Employees) and Authorities and Institutions.

## Results of the analysis of relevance with respect to the Decree

At the outcome, the relevant topics within the areas envisaged by Legislative Decree no. 254/2016 are those related to Health and Safety, Climate change, Energy efficiency, Land protection and biodiversity, Stakeholder engagement and dialogue with the territory, Employment, Development and enhancement of human capital, Fight against corruption and Respect for human rights.

Aspect of the Decree	Relevant Issues	Reference GRI standards
Environmental, and Health and Safety aspects	Health and safety, climate change, energy efficiency, land protection and biodiversity	GRI 302 energy, GRI 304 biodiversity, GRI 305 emissions, GRI 403 Occupational health and safety
Social Aspects	Stakeholder engagement and dialogue with the territory	GRI 102 general disclosures (102-40; 102-42; 102-43), GRI 308 environmental assessment of suppliers, GRI 414 supplier social assessment
Aspects concerning the management of personnel	Possessing, Developing and promoting human capital	GRI 401 employment, GRI 404 training and education, GRI 102 general disclosures (102-8)
Prevention of Active and Passive Corruption	Fight against corruption	GRI 205 anti-corruption
Safeguarding Human Rights	Respect for human rights	GRI 406 non-discrimination

## Environmental, and Health and Safety aspects

### Relevance and related risks

The relevant issues that Snam considers related to aspects concerning health, safety and the environment, as required by the Decree, are the following:

- Health and safety
- Climate change
- Energy efficiency
- Land and biodiversity protection

Air protection and water management are important issues for Snam, but they were not relevant following the analysis of relevance. As far as air protection is concerned, the only significant emissions are those of nitrogen oxides that derive mainly

from the combustion of natural gas in the gas turbines installed in the compression plants (thrust and storage). To reduce emissions, a programme has been underway for years to modify some of the existing turbines and to install new units with low-emission combustion systems (DLE). As regards water management, this is not a relevant issue because water resources are used in limited quantities, mainly in the operations of the LNG Italia regasification plant and for sanitary and green care use. The main operational risk with an impact on health, safety and the environment is represented by breakages or injuries to pipelines and plants, also as a result of extraordinary events such as fires, landslides or extreme weather phenomena due to climate change. These events could cause significant damage in addition to a reduction in revenues.

The complete list of risks to the environment, health and safety is as follows:

- Climate change risk within strategic risks;
- Possible violation of rules and regulations risk in relation to the health and safety of workers and the environment within the legal and non-compliance risks;
- Breakage or damage to the pipeline risk with damage to the environment/people within operational risks;
- Environmental risks within operational risks.

The most extensive description of these risks is shown on [pages 151-154](#) of the Chapter Factors of risk and uncertainty of the Report on Integrated Management.

## Policies, commitments and management model

In relation to these issues, through the HSEQ Policy and the Sustainable Development Policy, Snam undertakes to:

- Ensure respect for the protection of health and safety of workers and the environment, through the prevention of accidents, injuries and occupational diseases;
- Promote actions to fight climate change by implementing operational and management measures to reduce greenhouse gas emissions;
- Promote energy efficiency and ensure the sustainable use of natural resources;
- Prevent pollution and ensure the protection of ecosystems and biodiversity;
- Set up procedures to identify and respond to emergency situations and monitor the consequences of accidents.

The management of the aspects mentioned in the policies and the consequent actions for their implementation are mainly implemented within the management systems developed in compliance with the international standards ISO 14001 and OHSAS 18001, regularly verified and certified systems by a third party, of which all the companies of the Group are equipped. These actions are detailed in the Report on Integrated Management:

- For the development and maintenance aspects of the management systems, on pages 145-146; in this paragraph you can find the certifications of the Company and its subsidiaries and details on audits conducted and the team of auditors employed;
- for aspects of health protection and

accident prevention, on pages 146-147; in this paragraph you can find the company involvement initiatives for the prevention of accidents and the company's health and health surveillance of employees;

- for aspects of greenhouse gas emissions, energy efficiency, production and use of energy from renewable sources, on pages 148-149; there are details in these paragraphs of direct emissions from the Company, its initiatives to limit emissions and energy consumption and the type and power and energy produced by renewable energy plants owned by Snam;
- for aspects of mitigation of environmental impacts and protection of biodiversity, on page 149; in this paragraph, details on the environmental restoration activities related to the laying of new infrastructures are reported.

The preventive assessments of the effects on the environment and on the safety of new settlements are carried out in the context of the Environmental Impact Assessment (EIA) procedures, at the end of which the administrations responsible, both at central and local level, issue the authorisations required by current legislation. The progress of the permitting activities is shown on pages 70-72 of the Report on Integrated Management.

Snam particularly oversees the maintenance of plant safety and quality levels and, in addition to investing huge financial resources every year, carries out a regular inspection of the lines on foot, with vehicles and helicopter overflights to detect any situations at risk, and the pipe conditions with smart devices which pass through them and allow for the detection of the presence of possible damages. These actions are reported in detail on page 50 of the

Report on Integrated Management. Environmental and safety requirements in the workplace are considered in the qualification and selection of suppliers. The highly critical suppliers operating in the procurement of works, the most significant category for core activities, in particular for health and safety and environmental aspects, are all in possession of certified quality, environmental and safety management systems according to ISO 9001, ISO 14001 and OHSAS 18001 standards.

The aspects of health and safety and environmental management are also part of the evaluation phase of the services rendered.

The fight against climate change not only takes the form of actions to reduce emissions and energy efficiency projects, but it is also expressed on a strategic level through increasing the use of natural gas as a key factor in the decarbonisation process, with particular reference to biomethane and the use of natural gas in the transport sector.

### Performance Indicators

The following are representative indicators of the results of the environmental, health and safety management aspects, with indication of the GRI reference standard. The 2017 results show a slight increase in the number of employee accidents compared to 2016, while for contractors the number of accidents is unchanged, but one of these has unfortunately proved fatal. The increases in the energy consumption values and related emissions are due to a greater volume of gas transported in the network and to a different network set-up to respond to the new method of appointing gas, which has passed from daily to hourly.



Indicator	GRI Standard	Unit of Measurement	2015	2016	2017
Employees' accident frequency index		Accidents for 10 <sup>6</sup> hours worked	0.62	0.81	<b>1.24</b>
Contractors' accident frequency index			1.07	0.71	<b>0.54</b>
Severity rate for employee accidents (*)		Work days lost for 10 <sup>3</sup> hours worked	1.55	0.04	<b>0.05</b>
Contractor accident severity index (*)		Work days lost for 10 <sup>3</sup> hours worked	0.07	0.05	<b>0.83</b>
Employee accidents (of which fatal)	403-2	no.	3 (1)	4 (0)	<b>6 (0)</b>
of which due to a traffic accident		no.	1	0	<b>1</b>
of which due to a professional accident (maintenance, inspection, checks)		no.	2	1	<b>1</b>
of which due to a general accident (slipping, bumpage, tripping)		no.	0	3	<b>4</b>
Contractor accidents (of which fatal)		no.	8 (0)	5 (0)	<b>5 (1)</b>
Recognised cases of professional diseases		no.	0	0	<b>0</b>
Employee absenteeism (**)		%	4.4	4.7	<b>4.7</b>
CO2 eq emissions - scope I (***)	305-1	10 <sup>3</sup> t CO <sub>2eq</sub>	1,373	1,439	<b>1,500</b>
NOx emissions	305-7	t	400	434	<b>532</b>
Energy consumption.			9,087.3	10,957.4	<b>12,582.3</b>
of which natural gas			8,688.6	10,541.7	<b>12,153.2</b>
of which diesel			83.7	84.4	<b>77.9</b>
of which gasoline			1.9	2.2	<b>2.3</b>
of which LPG			0.5	0.4	<b>0.4</b>
of which electricity purchased on the network (****)	302-1	TJ	296.8	311.7	<b>335.3</b>
of which thermal energy purchased			13.7	14.5	<b>10.8</b>
of which electricity from renewable sources			2.1	2.5	<b>2.4</b>
Transport network within Natura 2000 sites (*****)	304-1	km	11.0	8.7	<b>12.6</b>

(\*) Number of working days lost (calendar days) due to accidents at work resulting in absence of at least one day per thousand hours worked. Data is calculated including the contribution of fatal accidents, for each of which 7,500 days of absence were considered.

(\*\*) For the purposes of calculating the employee absenteeism rate, all hours worked (paid and unpaid) were excluded, excluding holidays and recoveries. The rate of absenteeism does not include Managers.

(\*\*\*) CO<sub>2</sub>eq emissions have been consolidated according to the operational control approach. The GHG gas included in the calculation are CO<sub>2</sub> and CH<sub>4</sub> and the emissions are calculated with a GWP of methane equal to 28, as indicated in the scientific study by the Intergovernmental Panel on Climate Change (IPCC) "Fifth Assessment Report IPCC".

(\*\*\*\*) The percentage of electricity produced from renewable sources and consumed by the Group depends on the individual national electricity mixes. For Italy, there is also a self-consumption of electricity from renewable sources, as better specified in the lines below.

(\*\*\*\*\*) Natura 2000 sites are special protection areas/sites of Community interest. The indicator gives the km of line laid in these sites in the year. For 2017, the Natura 2000 sites affected by the laying of infrastructures were: Severe areas and wetlands in Brenta; Valli di Comacchio; Valle del Mezzano; Marshes of Brusà; Gessi bolognesi/Calanche dell'Abbadessa; Low course and banks of the Ticino/ Forests of Ticino; Bacino former Argelato and Golena sugar mill of the river Reno; Walloons and pedegarganic steppes/Promontory of the Gargano; Fiumara di Melito.



## Social aspects

### Relevance and related risks

The relevant theme related to the social sphere, in relation to Snam's activities, is as follows:

- Stakeholder engagement and dialogue with the territory.

In relation to this topic, the most significant risk is linked both to the presence of the existing plants in the territories hosting them, and to the possible opposition with respect to the creation of new infrastructures by the communities.

With reference to the presence of the plants in the impacted communities, the main risk is the same reported in the section concerning the environmental and health and safety aspects on [page 154](#) of this declaration, i.e. the operational risk of breakage or damage to pipelines and plants, also as a result of extraordinary events such as fires, landslides, extreme weather phenomena due to climate change.

With reference to the construction of new infrastructures, there is an operational risk reported under the heading "Delay in the progress of infrastructures" in the paragraph "Risk management and control system" on [page 35](#) and described in full in the chapter "Risk and uncertainty factors" under the heading "Delay in infrastructure progress" on [page 154](#).

### Policies, commitments and management model

Snam, in line with the guidelines of its Stakeholder Engagement Policy, maintains regular and frequent relations with local government bodies and with local stakeholder associations to share new plants for new achievements.

Through the Sustainable Development Policy and the Policy for the management of philanthropic activities and social initiatives, Snam also pledges to promote initiatives in the areas in which the Company operates to promote local development.

The initiatives on the territory integrate the comparison with the institutions and other stakeholders that takes place in the context of authorisation procedures and environmental impact assessment and, for some plants, also socio-economic. Relations with the territory are reported in detail on [pages 141-142](#) of the Report on Integrated Management.

These activities are also supported by the work of the recently established Snam Foundation. The Foundation is committed to pursuing innovative practices of "corporate citizenship" to promote civil, cultural and economic development in priority areas of public interest, by acting on the redevelopment of the most vulnerable areas, including through the protection and care of the landscape heritage and environment, as well as the support and development of cultural activities in all their forms.

Further information on the Snam Foundation can be found on the Company's website at [http://www.snam.it/en/Sustainability/responsibility\\_towards\\_everyone/foundation.html](http://www.snam.it/en/Sustainability/responsibility_towards_everyone/foundation.html).

### Performance Indicators

Below are the representative indicators of the results of the management of the social aspects. As highlighted in the chapter on environmental, and health and safety aspects, in the qualification and selection of suppliers are considered environmental requirements and related to safety at work.

Indicator	GRI Standard	Unit of Measurement	2015	2016	2017
Jobs Suppliers, qualified in 2017 and evaluated on the basis of environmental criteria			82	80	95
Goods Suppliers, qualified in 2017 and evaluated on the basis of environmental criteria	308-1	%	60	50	65
Service Suppliers, qualified in 2017 and evaluated on the basis of environmental criteria			41	36	33
Jobs Suppliers, qualified in 2017 with safety criteria at work			82	80	95
Goods Suppliers, qualified in 2017 with safety criteria at work	414-1	%	60	50	65
Service Suppliers, qualified in 2017 with safety criteria at work			41	36	33

## Aspects concerning the management of personnel

### Relevance and related risks

The relevant topics related to personnel management, in relation to Snam's activities, are as follows:

- Employment
- Developing and promoting human capital.

The management of diversity and equal opportunities and the reconciliation of life and work are issues that Snam considers important, but the analysis conducted did not emerge as relevant. For the first theme, this assessment finds a reason both in the historically limited, though growing, presence of the female component in the company, and in the objective availability on the market of figures with a specific technical training that is mainly found in male figures. Regarding the issue of work-life balance, the monitoring of the theme and the initiatives developed by the Company in recent years have not made it emerge as a priority.

In relation to the relevant issues, the most significant risks, managed by the

competent corporate departments, are limited to situations of potential conflict and the risk of litigation, normally present in the management of labour relations.

A more extensive description of the main risks generated or suffered by Snam in relation to the management of persons is shown on [page 154](#) of the Chapter Risk factors and of Report uncertainty on the integrated management of Employees and personnel in key roles.

### Policies, commitments and management model

Snam guarantees all workers the right to express their thoughts freely, to join associations and to engage in trade union activities. Dialogue with the social partners<sup>60</sup> is framed and regulated by the current Protocol for Industrial Relations, signed in 2013.

Through the Sustainable Development Policy, Snam pledges to:

- develop its own system of professional and managerial skills;
- attract and retain qualified resources;

<sup>60</sup> See article 3, paragraph 1, lett. d of the Decree no. 254 of 30 December 2016. At the end of 2017, 27.9% of employees were members of a union.

- ensure the involvement of staff to participate actively in the improvement processes;
- adopt work practices based on equal opportunities.

With particular regard to the commitment to ensure gender diversity<sup>61</sup>, this has been strengthened with the addition of Snam to Valore D, the association of companies that promotes diversity, talent and female leadership for the growth of companies and the country. The actions and initiatives for the implementation of these policies are reported in detail in the Report on Integrated Management:

- for aspects of performance and quality of employment, on [pages 53 and 135-136](#); in this paragraph it is possible to find general data on employment trends in terms of staff income and expenses, geographical distribution and type of contract;
- for aspects of human capital development, on [pages 136-138](#); this section shows the corporate actions to increase the development of its employees, such

<sup>61</sup> See article 3, paragraph 1, lett. d of the Decree no. 254 of 30 December 2016.

- as performance assessment systems and training initiatives;
- for aspects of welfare and work-life balance, on page 138; this paragraph explains the benefits and the type of welfare provided to employees to facilitate the balance between work and private life;
- for industrial relations, on page 53; in this paragraph it is possible to find details on the meetings with the representatives of the trade unions and the content of the issues discussed;
- for aspects of gender diversity, on pages 138-139; this section shows the Company's actions to promote equal opportunities and some data concerning female employment.

The information on diversity applied in relation to the composition of the administrative, management and control bodies pursuant to art. 10 of the Decree, can be found in the "Report on Corporate Governance and Ownership Structure 2017" on pages 53-55.

## Performance Indicators

The following are representative indicators of the results of the management of social and personnel-related aspects, with indication of the reference GRI standard. There are no particular changes between the 2017 and 2016 values:

Indicator	GRI Standard	Unit of Measurement	2015	2016	2017
Total number of employees	102-8	no.	3,005	2,883	<b>2,919</b>
Employees hired (and dismissals) <30 years		no.	119 (13)	84 (3)	<b>57 (10)</b>
New hires rate <30 years		%	31.2	20.5	<b>13.3</b>
Employees hired (and dismissals) between 30 and 49 years		no.	42 (8)	49 (9)	<b>88 (21)</b>
New hires rate (*) between 30 and 49 years		%	4.0	4.9	<b>8.4</b>
Employees hired (and dismissals) > 50 years	401-1	no.	1 (47)	8 (41)	<b>3 (38)</b>
New hires rate > 50 years		%	0.1	0.5	<b>0.2</b>
Total number of employees hired (and dismissals)		no.	162(60)	141(30)	<b>148 (75)</b>
- women		no.	32(7)	35(2)	<b>53 (13)</b>
Total New hires rate		%	5.4	4.9	<b>5.1</b>
Turnover rate (**)		%	2.0	1.0	<b>2.6</b>
Total hours of training			87,620	82,184	<b>85,346</b>
Average hours of training for men			30.9	30.2	<b>31.3</b>
Average hours of training for women			18.4	17	<b>15.8</b>
Average hours of manager training	404-1 (***)	no.	27.7	33.8	<b>20.5</b>
Average hours of training for directors			24.8	23.8	<b>18.9</b>
Average hours of training white collars			24.1	18.8	<b>23.8</b>
Average hours of training for blue collars			44.3	52.7	<b>49.7</b>

(\*) New hires rate by age group shows the ratio of employees hired in the age group/total number of employees in the age group, as to 31/12. The total new hires rate shows the total income from the market/total number of employees at 31/12.

(\*\*) The turnover rate is calculated considering the employees leaving the organization (excluding those due to transfers to unconsolidated companies)/total number of employees as at 31/12.

(\*\*\*) The data relating to the training carried out by the employees of the Company Infrastrutture Trasporto Gas is not available.

## Prevention of Active and Passive Corruption

### Relevance and related risks

Snam considers the phenomenon of corruption a serious threat for the development of economic and social relations. It recognises corruption as a relevant subject of great importance, and promotes its national and international opposition, both in relations with public officials and with private individuals.

The risk of corruption is present in various areas of business activity, also involving the relationships inherent in the supply chain. The occurrence of illicit actions in these areas could imply sanctions and possible repercussions on the performance of Snam activity, as well as serious damage to reputation.

The complete list of risks in the prevention of active and passive corruption is as follows:

- risk of possible violation of rules and regulations in relation to corruption in legal and non-compliance risks;
- risk of maintaining an adequate reputation profile for suppliers and subcontractors in legal and non-compliance risks.

The more extensive description of the risk of fraud and corruption and, more generally, of the legal and non-compliance risks is reported on page 137 of the Chapter Factors on uncertainty in the Report on Integrated Management.

### Policies, commitments and management model

#### Anti-corruption Compliance Programme

Snam, in establishing and maintaining an Anti-Corruption Compliance Programme, is not limited to adopting Model 231 (aimed at preventing the predicate offences of administrative liability from company crime, including corruption offences) but, in accordance with the provisions gives *guidance* and international best practices, and has also implemented the following tools<sup>62</sup>:

- the so-called “*top level commitment*”, that is, the commitment of the top management in the fight against corruption;
- the adoption of anti-corruption *policy* specifications;
- the establishment of an Anti-Corruption Legal Department (*Ethics & Antibribery*);
- anti-corruption *due diligence* on contractual/commercial counterparts;
- the monitoring of an external and independent advisor to verify the effective knowledge and implementation of the aforementioned procedures;
- raising staff awareness through training and information activities;
- disciplinary measures in case of violation of anti-corruption regulations

#### Collaboration with Transparency International and other initiatives

In October 2016, Snam and Transparency International signed an agreement to develop a partnership within the Global Corporate Supporters Forum promoted by the non-governmental organisation. By virtue of the agreement, Snam became part of the international partners of the Forum as the first Italian company. This Forum has been created with the aim of grouping companies that stand out for their integrity in business management, in compliance with the standards of good government, transparency and accountability promoted by Transparency International, in the framework of the global commitment against corruption and ethical business conduct.

The partnership formalises the principles of cooperation between Transparency International and Snam on the management of anti-corruption programmes and policies to combat fraud and irregularities, conflict of interests and whistleblowing, among other measures aimed at consolidating the highest anti-corruption standards recognised by Transparency International.

During 2017, Snam intervened in initiatives promoted by the OECD and the Ministry of Foreign Affairs, participating in the OECD’s Global Forum on Responsible Business Conduct held in Paris on 30 June, intervening as the first company in the private sector world on the panel dedicated to the comparison of approaches to due diligence in the areas of the fight against corruption and the protection of human rights. In addition, since 2017 Snam has been part, as the first Italian company in the private sector, of the Business and Industry Advisory Committee (BIAC).

<sup>62</sup> In this regard, the Code of Ethics provides, inter alia, that Snam rejects any kind of corruption (in all its forms with reference to any public or private entity) and that practices of corruption, illegitimate favours, collusive behaviour, solicitations, direct and/or through third parties, personal and career advantages for themselves or others, are without exception prohibited.

## Anti-corruption Compliance Programme Highlights

- Prohibition of corruption without exception, against any subject, public or private
- Specific rules and controls in relation to the activities identified as potentially “at risk” and to the activities concerning the effective implementation of anti-corruption compliance
- Clear distinction between permitted conduct and prohibited conduct
- Particular attention to relations with public officials and suppliers and business partners
- Establishment of the dedicated *Ethics & Antibribery* Department
- *Monitoring* activity involving *management* and training launched in 2016 for 1,442 participants and completed in 2017 for 112 people
- Preparation of the “Anti-Corruption Guide”, as an easily understandable and consultable support, with the aim of spreading and growing the anti-corruption culture among the people at Snam
- Example of “absolute excellence” from Transparency International Italia following its “*Assessment on Transparency in Reporting on Anti-Corruption*”
- Performed 1,810 reputational checks on counterparts (suppliers and subcontractors)

The Anti-Corruption Procedure is an integral part of a broader corporate ethics control system aimed at ensuring the *compliance* of Snam to national and international anti-corruption laws<sup>63</sup> and to the best *standards* in the fight against corruption. It is also to protect the reputation of Snam. Among other things, the Anti-Corruption Procedure dedicates special attention to the selection of suppliers and business partners, to the management of relations with them and to the related contractual clauses of protection.

The Anti-Corruption Procedure applies to Snam and its Subsidiaries and is also brought to the attention of investee companies, with the aim of promoting conduct and information flows consistent with those expressed by Snam. Furthermore, Snam uses its influence, however reasonable according to the circumstances, to

ensure that the companies and entities in which Snam has a non-controlling interest and business partners meet the standards indicated in the Anti-Corruption Procedure.

The Anti-Corruption Procedure is available on the Company's website ([http://www.snam.it/export/sites/snam/repository/file/Governance/procedure/anticorruzione/snam\\_anticorruzione\\_01.pdf](http://www.snam.it/export/sites/snam/repository/file/Governance/procedure/anticorruzione/snam_anticorruzione_01.pdf)).

### Performance Indicators

Below are the representative indicators of the results of the management of the aspects related to the prevention of corruption, with indication of the reference GRI standard. With regard to corruption issues, in 2017, with reference to the transportation business, a report was received concerning “presumed contractual relations with companies attributable to subjects investigated for corruption offences”. On the basis of the analyses carried out by the

“Evaluation Team of unlawful conduct of suppliers and subcontractors”, the reported facts were not confirmed. In 2017, the training cycle launched in 2016 was completed with the aim of reducing the concept of business ethics, legality and anti-corruption in the daily operating reality, enabling the participants to recognise potential Red Flags and manage them. The training on these issues has in fact a cyclical trend that follows the evolution of the regulations applicable to the Company and the related update of the internal regulatory system.

63 These include the Foreign Corrupt Practices Act (FCPA) issued in the United States; UK Bribery Act issued in the United Kingdom; the Organisation for Economic Cooperation and Development Convention on the Fight against Corruption of Foreign Public Officials in International Business Operations and the United Nations Convention against Corruption.

Indicator	GRI Standard	Unit of Measurement	2015	2016	2017
Cases of proven corruption			0	0	0
Reports received on corruption and under examination			0	0	0
Reports received on corruption and archived because unfounded	205-3	no.	1	1	1
Hours of training on anti-corruption, code of ethics and model 231		no.	600	2,641	327
Participations in training on anti-corruption, code of ethics and model 231 (*)	205-2	no.	239	1,596	112

(\*) Instead of the participants, the number of participations is reported as data aligned with the attendance recording system as far as training is concerned.

## Protection of human rights

### Relevance and related risks

The protection of human rights is an emerging issue that has been relevant following the recent update of the relevance analysis even if, due to the type and geographical scope of Snam's activities, this theme is associated with a limited risk profile of possible violations.

In fact, Snam recognises that the main human rights connected to its activities are those of the personal sphere, of work and of the protection of the environment, in all the contexts in which it is present, for this reason the theme is linked to other relevant aspects discussed in this Declaration.

### Policies, commitments and management model

Snam's Code of Ethics establishes Snam's commitment to the protection and promotion of human rights, inalienable and unavoidable prerogatives of human beings and the basis for building societies founded on the principles of equality, solidarity, repudiation of war and the protection of civil and political rights, social, economic and cultural rights and so-called third generation rights (right of self-determination, peace, development and protection of the environment).

In this regard, Snam operates in the framework of the UN's Universal Declaration of Human Rights, the fundamental conventions of the ILO Declaration - International Labour Organization - and the OECD Guidelines for Multinational Enterprises.

In relation to these aspects, Snam has also adopted a Human Rights Policy, through which it undertakes to prevent and repudiate:

- all sorts of discrimination and violence, forced or child labour;
- any form of sexual harassment or related to the individual's personal and cultural differences;
- harassment or attitudes in any way due to mobbing practices.

The Human Rights Policy also reiterates the commitment, already stated in the specific policies mentioned in the previous chapters, aimed at promoting personal well-being, both as an individual and as part of social training, based on the following principles and management guidelines:

- safeguarding the dignity, freedom and equality of human beings;
- protection of work, working conditions and trade union freedoms;
- confidentiality of personal data;
- health and safety protection;
- guarantee of professional and salary growth based exclusively on merit and skills;
- protection of the system of values and principles regarding transparency and sustainable development.

As a consequence, the management of human rights in the mentioned aspects is integrated with the related management models.

## Performance Indicators

The following are representative indicators of management results regarding the protection of persons from discriminatory practices, with indication of the GRI reference standard:

Indicator	GRI Standard	Unit of Measurement	2015	2016	2017
Reports received for accidents related to discriminatory practices			0	0	0
Reports examined			/	/	/
Reports with corrective actions during implementation	406-1	no.	/	/	/
Corrective actions implemented			/	/	/
Archived reports			/	/	/

## GRI Standard matching table

The reporting standard adopted by the Snam Group for the preparation of its DNF is the GRI Sustainability Reporting Standards, published in 2016 by the GRI - Global Reporting Initiative. In particular, according to the provisions of the Standard GRI 101:Foundation, paragraph 3, in this document reference was made to the Reporting Standards shown in the following table ("GRI-referenced").

RF = Integrated Financial Report

DNF = Non-Financial Statement

GRI Standard	Disclosure	Description	Reference document and page number	Omissions
GRI 102 - General disclosures 2016				
Organisational profile	102-1	Name of the organisation	Snam S.p.A.	
	102-8	Information on employees and other workers	DNF page 159 RF page 53 and pages 135-136	
Governance	102-18	Governance structure	RF pages 27-28	
Stakeholder engagement	102-40	List of stakeholder groups	DNF page 160	
	102-42	Identifying and selecting of stakeholders	DNF page 160	
	102-43	Approach to stakeholder engagement	DNF page 160	
Reporting practise	102-55	GRI Content Index	DNF page 174	
Economic topics (GRI 200)				
GRI 205 Anti-corruption 2016	205-2	Communication and training on policies about anti-Corruption policies and procedures	DNF page 172	
	205-3	Confirmed incidents of corruption and actions taken	DNF page 172	



GRI Standard	Disclosure	Description	Reference document and page number	Omissions
Environmental topics (GRI 300)				
GRI 302 Energy 2016	302-1	Energy consumption within the organisation	DNF page 166	
GRI 304 Biodiversity 2016	304-1	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	DNF page 166	
GRI 305 Emissions 2016	305-1	Direct greenhouse gas emissions (Scope I)	DNF page 166	
	305-7	NOx, SOx and other significant emissions in the air divided by type and weight	DNF page 166	
GRI 308 Supplier Environmental Assessment 2016	308-1	New suppliers that were screened using environmental criteria	DNF page 168	
Social topics (GRI 400)				
GRI 401 Employment 2016	401-1	New employee hires and employee turnover	DNF page 169	The subdivisions of the data by country are not reported as it is not applicable (almost all the employees are located in Italy) and by gender.
GRI 403 Occupational Health and safety 2016	403-2	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	DNF page 166	The breakdown of employee accidents by country is not reported as it is not applicable (almost all employees are located in Italy); as regards the breakdown by gender, the figure is not significant given the small percentage of the female population in the company and by virtue of the fact that the category of workers, the one with the greatest risk of injury, consists exclusively of male personnel. The accidents of contractors by gender are not reported, with regard to accidents by country the figure is not applicable as all the sites are located in Italy.
GRI 404 Training and education 2016	404-1	Average hours of training per year per employee	DNF page 169	
GRI 414 Supplier Social Assessment 2016	414-1	New suppliers that were screened using social criteria	DNF page 168	
GRI 406 Non-discrimination 2016	406-1	Incidents of discrimination and corrective actions taken	DNF page 173	

This document (DNF) was approved by the Board of Directors of Snam S.p.A. on March 13, 2018.

# Independent auditors' report



## **Snam S.p.A.**

**Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of Legislative Decree 254/2016 and with article 5 of Consob Regulation adopted with Resolution 20267**

**(Translation from the original Italian text)**

## **Independent auditors' report on the consolidated disclosure of non-financial information in accordance with article 3, par. 10, of Legislative Decree 254/2016 and with article 5 of Consob Regulation adopted with Resolution 20267**

(Translation from the original Italian text)

To the Board of Directors of  
Snam S.p.A.

We have performed a limited assurance engagement pursuant to Article 3, paragraph 10, of Legislative Decree 30 December 2016, n. 254 (hereinafter "Decree") and article 5 of Consob Regulation adopted with Resolution 20267, on the consolidated disclosure of non-financial information of Snam S.p.A. and its subsidiaries (hereinafter the "Group") for the year ended on 31<sup>st</sup> December 2017 in accordance with article 4 of the Decree, presented in the specific section of the Management Report and approved by the Board of Directors on 13<sup>th</sup> March 2018 (hereinafter "DNF").

### **Responsibilities of Directors and Board of Statutory Auditors for the DNF**

The Directors are responsible for the preparation of the DNF in accordance with the requirements of articles 3 and 4 of the Decree and the "Global Reporting Initiative Sustainability Reporting Standards" defined in 2016 by GRI - Global Reporting Initiative ("GRI Standards"), with regards to the selection of GRI Standards specified in the paragraph "GRI Standard matching table" of the DNF, identified by them as a reporting standard.

The Directors are also responsible, within the terms provided by law, for that part of internal control that they consider necessary in order to allow the preparation of the DNF that is free from material misstatements caused by fraud or non-intentional behaviors or events.

The Directors are also responsible for identifying the contents of the DNF within the matters mentioned in article 3, par. 1, of the Decree, considering the business and the characteristics of the Group and to the extent deemed necessary to ensure the understanding of the Group's business, its performance, its results and its impact.

The Directors are also responsible for defining the Group's management and organization business model, as well as with reference to the matters identified and reported in the DNF, for the policies applied by the Group and for identifying and managing the risks generated or incurred by the Group. The Board of Statutory Auditors is responsible, within the terms provided by the law, for overseeing the compliance with the requirements of the Decree.

## **Auditors' independence and quality control**

We are independent in accordance with the ethics and independence principles of the Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants, based on fundamental principles of integrity, objectivity, professional competence and diligence, confidentiality and professional behavior. Our audit firm applies the International Standard on Quality Control 1 (ISQC Italia 1) and, as a result, maintains a quality control system that includes documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable laws and regulations.

## **Auditors' responsibility**

It is our responsibility to express, on the basis of the procedures performed, a conclusion about the compliance of the DNF with the requirements of the Decree and of the GRI Standards, with regards to the selection of GRI Standards specified in the paragraph "GRI Standard matching table" of the DNF. Our work has been performed in accordance with the principle of "International Standard on Assurance Engagements ISAE 3000 (Revised) - Assurance Engagements Other than Audits or Reviews of Historical Financial Information" (hereinafter "ISAE 3000 Revised"), issued by the International Auditing and Assurance Standards Board (IAASB) for limited assurance engagements. This standard requires the planning and execution of work in order to obtain a limited assurance that the DNF is free from material misstatements. Therefore, the extent of work performed in our examination was lower than that required for a full examination according to the ISAE 3000 Revised ("reasonable assurance engagement") and, hence, it does not provide assurance that we have become aware of all significant matters and events that would be identified during a reasonable assurance engagement.

The procedures performed on the DNF were based on our professional judgment and included inquiries, primarily with company's personnel responsible for the preparation of the information included in the DNF, documents analysis, recalculations and other procedures in order to obtain evidences considered appropriate.

In particular, we have performed the following procedures:

1. analysis of the relevant topics in relation to the activities and characteristics of the Group reported in the DNF, in order to assess the reasonableness of the selection process applied in accordance with the provisions of article 3 of the Decree and considering the reporting standard applied;
2. analysis and evaluation of the criteria for identifying the consolidation area, in order to evaluate its compliance with the provisions of the Decree;
3. understanding of the following aspects:
  - o group's management and organization business model, with reference to the management of the topics indicated in article 3 of the Decree;
  - o policies adopted by the Group related to the matters indicated in art. 3 Decree, results achieved and related key performance indicators;
  - o main risks, generated or suffered related to the matters indicated in the article 3 of the Decree.

With regards to these aspects, we obtained the documentation supporting the information contained in the DNF and performed the procedures described in item 4. a) below.

4. Understanding of the processes that lead to the generation, detection and management of significant qualitative and quantitative information included in the DNF.

In particular, we have conducted interviews and discussions with the management of Snam S.p.A. and with the personnel of Snam Rete Gas S.p.A. and Stogit S.p.A. and we have performed limited documentary evidence procedures, in order to collect information about the processes and procedures that support the collection, aggregation, processing and transmission of non-financial data and information to the management responsible for the preparation of the DNF.

Furthermore, for significant information, considering the Group activities and characteristics:

- at Group level
  - a) with reference to the qualitative information included in the DNF, and in particular to the business model, policies implemented and main risks, we carried out inquiries and acquired supporting documentation to verify its consistency with the available evidence;
  - b) with reference to quantitative information, we have performed both analytical procedures and limited assurance procedures to ascertain on a sample basis the correct aggregation of data.
- For the site of Poggio Renatico of Snam Rete Gas S.p.A. and the site of Fiume Treste of Stogit S.p.A., that we have selected based on their activity, relevance to the consolidated performance indicators and location, we have carried out a site visit during which we have had discussions with management and have obtained evidence about the appropriate application of the procedures and the calculation methods used to determine the indicators.

## Conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the DNF of the Snam Group for the year ended on 31<sup>st</sup> December 2017 has not been prepared, in all material aspects, in accordance with the requirements of articles 3 and 4 of the Decree and the GRI Standards, with regards to the selection of GRI Standards specified in the paragraph "GRI Standard matching table" of the DNF.

## Other Information

The Group has prepared Sustainability Reports for the years ended on 31<sup>st</sup> December 2016 and 31<sup>st</sup> December 2015; such data are presented for comparative purposes in the DNF. This Sustainability Report has been subject to voluntary limited assurance procedures in accordance with ISAE 3000 Revised by EY S.p.A. that has expressed an unqualified conclusion.

Torino, 29<sup>th</sup> March 2018

EY S.p.A.  
Signed by: Massimiliano Formetta  
(Partner)

*This report has been translated into the English language solely for the convenience of international readers.*

# Glossary

A glossary of financial, commercial and technical terms, as well as units of measurement, is available online at <http://www.snam.it/en/>. The most common terms are described below.

## ECONOMIC AND FINANCIAL TERMS

### Excise duty

Indirect tax for immediate payment, applied to the production or consumption of certain industrial goods (including oil products and natural gas).

### Net working capital

Capital which is invested in short-term assets and is an indicator of a company's short-term financial position. Calculated using all short-term, non-financial assets and liabilities.

### Net invested capital

Net investments of an operational nature, represented by the sum of net working capital and fixed assets, provisions for employee benefits and assets and liabilities held for sale.

### Cash flow

Net cash flow from operating activities is represented by the cash generated by a company over a certain period of time. Specifically, the difference between current inflows (mainly cash revenue) and current cash outflows (costs in the period that generated cash outflows).

### Controllable fixed costs

Fixed operating costs of regulated activities, being the sum of "Total recurring personnel expense" and "Recurring external operating costs".

### Operating costs

Costs incurred in carrying out a company's core business. These include purchases, services, energy, consumables, maintenance and personnel expense.

### Technical investments

Costs incurred for the acquisition of long-term assets where the useful life

does not expire over one reporting period.

### EBITDA

Used by Snam in its internal (business plan) and external (to analysts and investors) presentations. Unit of measurement to assess the Group's operating performance, as a whole and in the individual business segments, in addition to EBIT. Determined by the difference between revenue and operating costs.

### Regulated revenue

Income related to the provision of services and/or assignments of assets, whose determination criteria are defined by the Authority for Electricity, Gas and the Water System.

### EBIT

Difference in a given period between sales and services revenues, other revenue, operating costs, amortisation, depreciation and impairment losses. It is therefore the operating profit before financial income and expenses and taxes.

## Natural gas transportation and regasification

### COMMERCIAL TERMS

#### Thermal year

Period of time, from 1 October to 30 September of the following year, into which the regulatory period is divided.

#### Transport capacity

Transport capacity is the maximum quantity of gas which can be injected into the system (or withdrawn from it) during the course of a gas day, at a specific location, in compliance with the technical and operating restrictions established for each section of pipeline and the maximum supplies of plants located along such pipelines.

These capacities are assessed using hydraulic network simulations carried out in appropriate transportation

scenarios and in accordance with recognised technical standards.

### Network Code

Document governing the rights and obligations of the parties involved in providing the transportation service.

### Regasification Code

Document which sets out the rules and processes characteristic of the natural gas regasification service.

### Regulatory period

Period of time (usually four years) for which criteria are defined for setting tariffs for natural gas transportation and dispatching and liquefied natural gas regasification. We are currently in the fourth regulatory period, which runs from 1 January 2014 to 31 December 2019.

### National network entry point

Each point or a localised group of physical points on the national gas transportation network at which gas is delivered from the user to the transporter.

### Redelivery point

The physical network point, or local combination of physical points, at which the transporter redelivers gas transported to the user, and where such gas is metered.

### Virtual exchange point (VEP)

A virtual point located between the Points of Entry and Points of output of the National Transportation Network (RN) where Users and other authorised entities may, on a daily basis, exchange and sell gas injected in the RN.

### Regasification Tariffs

Unit prices applied for regasification. These include capacity and commodity tariffs, related respectively to the required regasification capacity and to the volumes of gas actually unloaded from methane tankers. With regard to the tariff structure, as of 1 January 2014, 100% of total revenue is allocated to the capacity component.

### Transportation Tariffs

Unit prices applied for transporting and dispatching natural gas. These include

capacity and commodity tariffs, related to the required transportation capacity and to the volume of gas actually injected into the network, respectively.

#### **Regulatory time lag**

The delay of tariff remuneration with respect to the investments made and started during the year.

#### **User**

The user of the gas system, which, by confirming the capacity granted, acquires transportation and/or regasification capacity for its own use or for assignment to others.

### **TECHNICAL TERMS**

#### **Natural gas**

Hydrocarbon mixture consisting mainly of methane, and to a lesser degree, ethane, propane and higher hydrocarbons. Natural gas injected into the methane pipeline network must comply with a single quality specification to ensure that the gas in transit is interchangeable.

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

Natural gas, predominantly made of methane liquefied by cooling to approximately -160°C, at atmospheric pressure, for ease of transfer into dedicated vessels (tankers) or storage in tanks. In order to be sent in the transportation network the liquid product has to be converted into gaseous stage into regasification plants and pressurised to the operating pressure of gas pipes.

#### **Regulatory Asset Base (RAB)**

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Electricity, Gas and Water Authority - ARERA (formerly AEEGSI, also the Authority) for determining base revenues for the regulated businesses.

#### **Natural gas transportation network**

The aggregate of gas pipelines, line plants, compression stations and infrastructure, which, at the national and regional level, provide the transportation of gas by interconnecting with international transportation networks, production and storage points and redelivery points for the purposes of distribution and use.

#### **Regional transportation network**

This consists of gas pipelines not included in the list in Article 2 of the Ministerial Decree of 22 December 2000, as updated annually, and its main function is to move and distribute gas in demarcated local areas which are typically regional in scale.

#### **National gas transportation network**

This consists of the gas pipelines indicated in Article 2 of the Ministerial Decree of 22 December 2000, as updated annually. It is the aggregate of methane pipelines and plants that have been assessed and checked taking into account restrictions imposed by imports, exports, key national production and storage facilities, and is used to transfer significant quantities of gas from these network injection points to major areas of consumption. Several inter-regional methane pipelines as well as smaller pipelines which serve to close network links formed by the above pipelines are also included for the same purpose. The national gas transportation network also includes compression stations and plants connected to the pipelines described above.

#### **LNG regasification**

Industrial process whereby natural gas is converted from a liquid to a gaseous state.

### **Natural gas storage**

#### **COMMERCIAL TERMS**

#### **Thermal year**

Period of time, from 1 April to 31 March of the following year, into which the regulatory period is divided.

#### **Withdrawal phase**

Period from 1 November of one year to 31 March of the following year.

#### **Injection phase**

Period from 1 April to 31 October of the same year.

#### **Regulatory period**

Period of time (usually four years) for which criteria are defined for setting tariffs for natural gas storage services. We are currently in the fourth regulatory period, which began on 1 January 2015 and will end on 31 December 2018.

#### **Regulatory time lag**

The delay of tariff remuneration with respect to the investments made and started during the year.

#### **TECHNICAL TERMS**

#### **Regulatory Asset Base (RAB)**

The term RAB (Regulatory Asset Base) refers to the value of net invested capital for regulatory purposes, calculated on the basis of the rules defined by the Electricity, Gas and Water Authority - ARERA (formerly AEEGSI, also the Authority) for determining base revenues for the regulated businesses.

#### **Modulation storage**

Aims to respond to changing hourly, daily and seasonal demands.

#### **Mining storage**

Mining storage is necessary for technical and economic reasons in order to enable the optimum cultivation of Italy's natural gas fields.

#### **Strategic storage**

Strategic storage aims to compensate for a lack of or reduction in imported supplies, or for crises in the gas system.

A large green leaf with a white circle highlighting the text "Consolidated Financial Statements". The leaf is the central focus, with its veins clearly visible. The white circle is positioned on the left side of the leaf, framing the text. The background is a blurred green, suggesting a forest or garden setting.

# Consolidated Financial Statements



# Index

184	<b>Financial statements</b>
193	<b>Notes to the consolidated financial statements</b>
295	<b>Independent auditors' report</b>

# Financial statements

## Statement of financial position

(€ million)	Notes	31.12.2016		31.12.2017	
		Total	of which with related parties	Total	of which with related parties
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	(7)	34		719	
Trade and other receivables	(8)	1,307	501	1,658	475
Inventories	(9)	118		86	
Current income tax assets	(10)	26		16	
Other current tax assets	(10)	6		21	
Other current assets	(11)	52		56	
		<b>1,543</b>		<b>2,556</b>	
<b>Non-current assets</b>					
Property, plant and equipment	(12)	15,563		16,033	
Compulsory inventories	(9)	363		363	
Intangible assets	(13)	810		850	
Investments valued using the equity method	(14)	1,499		1,547	
Other investments	(15)			44	
Other receivables	(8)	213	213	373	373
Other non-current assets	(11)	138	2	50	2
		<b>18,586</b>		<b>19,260</b>	
<b>TOTAL ASSETS</b>		<b>20,129</b>		<b>21,816</b>	
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>Current liabilities</b>					
Short-term financial liabilities	(16)	1,497	18	1,373	15
Short-term portion of long-term financial liabilities	(16)	856		1,070	
Trade and other payables	(17)	1,264	116	1,673	202
Current income tax liabilities	(10)	2			
Other current tax liabilities	(10)	8		11	
Other current liabilities	(18)	21	2	79	14
		<b>3,648</b>		<b>4,206</b>	
<b>Non-current liabilities</b>					
Long-term financial liabilities	(16)	8,737		10,176	
Provisions for risks and charges	(19)	707		677	
Provisions for employee benefits	(20)	44		58	
Deferred tax liabilities	(21)	187		165	
Other non-current liabilities	(18)	309		346	
		<b>9,984</b>		<b>11,422</b>	
<b>TOTAL LIABILITIES</b>		<b>13,632</b>		<b>15,628</b>	
<b>SHAREHOLDERS' EQUITY</b>					
<b>Snam shareholders' equity</b>					
Share capital		2,736		2,736	
Reserves		2,900		2,849	
Net profit		861		897	
Interim dividend				(294)	
<b>Total Snam shareholders' equity</b>		<b>6,497</b>		<b>6,188</b>	
<b>Minority interests</b>					
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>6,497</b>		<b>6,188</b>	
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>20,129</b>		<b>21,816</b>	

## Income statement

(€ million)	Notes	2016 (*)		2017	
		Total	of which with related parties	Total	of which with related parties
<b>REVENUE</b>	(25)				
Core business revenue		2,419	1,553	2,493	1,627
Other revenue and income		82	25	40	19
		<b>2,501</b>		<b>2,533</b>	
<b>OPERATING COSTS</b>	(26)				
Purchases, services and other costs		(390)	(43)	(355)	(43)
Personnel cost		(167)		(171)	(6)
		<b>(557)</b>		<b>(526)</b>	
<b>AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES</b>	(27)	<b>(651)</b>		<b>(659)</b>	
<b>EBIT</b>		<b>1,293</b>		<b>1,348</b>	
<b>FINANCIAL INCOME (EXPENSES)</b>	(28)				
Financial expenses		(635)	(1)	(291)	(1)
Financial income		126	123	9	6
Derivatives		(1)		(1)	
		<b>(510)</b>		<b>(283)</b>	
<b>INCOME FROM EQUITY INVESTMENTS</b>	(29)				
Equity method valuation effect		116		161	
		<b>116</b>		<b>161</b>	
<b>PRE-TAX PROFIT</b>		<b>899</b>		<b>1,226</b>	
Income tax	(30)	(308)		(329)	
<b>Net Profit - continuing operations (**)</b>		<b>591</b>			
<b>Net Profit - discontinued operations (**)</b>		<b>270</b>	<b>669</b>		
<b>Net profit (**)</b>		<b>861</b>		<b>897</b>	
<b>Net profit per share attributable to Snam shareholders</b> (€ per share)	(31)				
- basic		<b>0.248</b>		<b>0.262</b>	
- diluted		<b>0.248</b>		<b>0.258</b>	
<b>Net profit per share payable to Snam shareholders - continuing operations</b> (amounts in € per share)	(31)				
- basic		<b>0.170</b>			
- diluted		<b>0.170</b>			

(\*) Pursuant to IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations", the result of the distribution segment for 2016 is presented separately as a discontinued operation on a single line of the Income Statement schedule.

(\*\*) Entirely held by Snam shareholders.

## Statement of comprehensive income

(€ million)	2016	2017
<b>Group net profit</b>	<b>861</b>	<b>897</b>
<b>Other components of comprehensive income</b>		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedge derivatives	1	(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 gains (losses) 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)	
<b>Total other components of comprehensive income, net of tax effect</b>	<b>(18)</b>	<b>(9)</b>
<b>Total comprehensive income (*)</b>	<b>843</b>	<b>888</b>
<b>Of which:</b>		
- continuing operations	577	
- discontinued operations	266	
	843	888

(\*) Entirely held by Snam shareholders.

## Statement of changes in shareholders' equity

Attributable to Snam's shareholders													
(€ million)	Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
<b>Balance at 31 December 2015 (a)</b>	3,697	(5)	1,603	739	(3)	(16)	(1,701)	46	1,987	1,238	7,585	1	7,586
<b>Profit for 2016</b>										861	861		861
<b>Other components of comprehensive income:</b>													
<b><i>Components that can be reclassified to the income statement:</i></b>													
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"								(15)			(15)		(15)
- Change in fair value of cash flow hedge derivatives					1						1		1
					1			(15)			(14)		(14)
<b><i>Components that cannot be reclassified to the income statement:</i></b>													
- Actuarial gains (losses) on remeasurement of defined-benefit plans for employees for employees						(5)					(5)		(5)
- Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method								1			1		1
						(5)		1			(4)		(4)
<b>Total comprehensive income for 2016 (b)</b>					1	(5)		(14)		861	843		843
<b>Transactions with shareholders:</b>													
- Allocation of dividend for 2015 (€0.25 per share)			(50)							(825)	(875)		(875)
- Allocation of 2015 residual net profit								413	(413)				

Attributable to Snam's shareholders													
(€ million)	Share capital	Negative reserve for treasury shares in the portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
- Acquisition of treasury shares		(103)									(103)		(103)
- Effects of the separation of Italgas Reti S.p.A. from Snam S.p.A.	(961)		(416)	(192)		14	1,006		(433)		(982)	(1)	(983)
<b>Total transactions with shareholders (c)</b>	<b>(961)</b>	<b>(103)</b>	<b>(466)</b>	<b>(192)</b>		<b>14</b>	<b>1,006</b>		<b>(20)</b>	<b>(1,238)</b>	<b>(1,960)</b>	<b>(1)</b>	<b>(1,961)</b>
<b>Other changes in shareholders' equity:</b>													
- Effect of Stogit acquisition price adjustment							21				21		21
- Reclassification of reserve for purchase of treasury shares			3					(5)	2				
- Other changes								8			8		8
<b>Total other changes in shareholders' equity (d)</b>			<b>3</b>				<b>21</b>	<b>3</b>	<b>2</b>		<b>29</b>		<b>29</b>
<b>Balance at 31 December 2016 (e=a+b+c+d)</b>	<b>2,736</b>	<b>(108)</b>	<b>1,140</b>	<b>547</b>	<b>(2)</b>	<b>(7)</b>	<b>(674)</b>	<b>35</b>	<b>1,969</b>	<b>861</b>	<b>6,497</b>		<b>6,497</b>

(Note 22)

Equity attributable to Snam's shareholders														
(€ million)	Share capital	Negative reserve for treasury shares held in the portfolio	Interim dividend	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
<b>Balance at 31 December 2016 (a)</b>	2,736	(108)		1,140	547	(2)	(7)	(674)	35	1,969	861	6,497		6,497
<b>Profit for 2017</b>											897	897		897
<b>Other components of comprehensive income:</b>														
<b>Components that can be reclassified to the income statement:</b>														
Portion of equity-accounted investments pertaining to "other components of comprehensive income"									(3)			(3)		(3)
- Change in fair value of cash flow hedge derivatives						(6)						(6)		(6)
						(6)			(3)			(9)		(9)
<b>Components that cannot be reclassified to the income statement:</b>														
- Actuarial gains (losses) on remeasurement of defined-benefit plans for employees							(1)					(1)		(1)
- Share of remeasurements of defined benefit plans for employees of investments accounted for using the equity method									1			1		1
							(1)		1					
<b>Total comprehensive income for 2017 (b)</b>						(6)	(1)	(2)			897	888		888
<b>Transactions with shareholders:</b>														
- Allocation of dividend for 2016 (€0.21 per share)											(718)	(718)		(718)

## Equity attributable to Snam's shareholders

(€ million)	Share capital	Negative reserve for treasury shares held in the portfolio	Interim dividend	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives net of tax effect	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Net profit for the year	Total	Minority interests	Total shareholders' equity
- Allocation of 2016 residual net profit										143	(143)			
- Allocation of dividend for 2017 (€0.0862 per share)			(294)									(294)		(294)
-2017-2019 Share-based Incentive Plan									1			1		1
- Acquisition of treasury shares		(210)										(210)		(210)
<b>Total transactions with shareholders (c)</b>		(210)	(294)						1	143	(861)	(1,221)		(1,221)
<b>Other changes in shareholders' equity:</b>														
- Equity component of the convertible bond									17			17		17
- Other changes									7			7		7
<b>Total other changes in shareholders' equity (d)</b>									24			24		24
<b>Balance at 31 December 2017 (e=a+b+c+d)</b> (Note 22)	2,736	(318)	(294)	1,140	547	(8)	(8)	(674)	58	2,112	897	6,188		6,188



## Statement of cash flows

(€ million)	Notes	2016 (a)	2017
Net Profit - continuing operations		591	
Net Profit - discontinued operations		270	
<b>Net profit</b>		<b>861</b>	<b>897</b>
Adjustments for reconciling net profit with cash flows from operating activities:			
Amortisation and depreciation	(27)	859	<b>646</b>
- of which continuing operations		616	
Impairment losses on tangible and intangible fixed assets	(27)	35	<b>13</b>
Effect of valuation using the equity method	(14)	(133)	<b>(161)</b>
Net capital losses (capital gains) on asset sales, cancellations and eliminations		36	<b>4</b>
Interest income		(126)	<b>(9)</b>
Interest expense		615	<b>265</b>
Income tax	(30)	395	<b>329</b>
- of which continuing operations		308	
<b>Changes in working capital (b):</b>			
- Inventories		15	<b>(42)</b>
- Trade receivables		34	<b>1</b>
- Trade payables		(148)	<b>(26)</b>
- Provisions for risks and charges		24	<b>16</b>
- Other assets and liabilities		(101)	<b>385</b>
<i>Working capital cash flow</i>		<i>(176)</i>	<b>334</b>
Change in provisions for employee benefits		(4)	<b>13</b>
Dividends collected		148	<b>149</b>
Interest collected		122	<b>2</b>
Interest paid		(615)	<b>(265)</b>
Income taxes paid net of reimbursed tax credits		(390)	<b>(353)</b>
<b>Net cash flow from operating activities</b>		<b>1,627</b>	<b>1,864</b>
- of which with related parties	(33)	2,343	<b>1,641</b>
Investments:			
- Property, plant and equipment	(12)	(832)	<b>(950)</b>
- Intangible assets	(13)	(313)	<b>(66)</b>
- Change in scope of consolidation and business units (c)			<b>(166)</b>
- Equity investments		(170)	<b>(111)</b>
- Financial receivables held for operations		(133)	<b>(154)</b>

(€ million)	Notes	2016 (a)	2017
- Change in payables and receivables relating to investments			(33)
<i>Cash flow from investments</i>		(1,448)	(1,480)
Divestments:			
- Property, plant and equipment		2	3
- Change in receivables relating to divestment activities		22	
- Companies leaving the scope of consolidation and business units (d)		1,502	
- Equity investments		2	36
<i>Cash flow from divestments</i>		1,528	39
<b>Net cash flow from investment activities</b>		<b>80</b>	<b>(1,441)</b>
- of which with related parties	(33)	1,326	(204)
Assumption of long-term financial debt		2,039	3,129
Repayment of long-term financial debt		(4,479)	(1,465)
Increase (decrease) in short-term financial debt		143	(124)
Change in financial receivables not held for operating activities			(350)
Financial receivables of companies leaving the scope of consolidation (e)		1,585	
		(712)	1,190
Purchase of treasury shares		(103)	(210)
Dividends paid to Snam shareholders		(875)	(718)
<b>Net cash flow from financing activities</b>		<b>(1,690)</b>	<b>262</b>
- of which with related parties	(33)	1,584	(3)
<b>Net cash flow for the period</b>		<b>17</b>	<b>685</b>
<b>Cash and cash equivalents at the beginning of the period</b>	(7)	<b>17</b>	<b>34</b>
<b>Cash and cash equivalents at the end of the period</b>	(7)	<b>34</b>	<b>719</b>

(a) Cash flow pertaining to the Snam Group which, consequently includes cash flows from both continuing operations (natural gas transportation, regasification and storage, as well as Corporate activities) and discontinued operations (natural gas distribution). The net cash flow from operating activities, investments and financing activities attributable to discontinued operations total respectively +€413 million, - €298 million and - €116 million.

(b) The cash flow for 2017 takes into account the differing timing relative to the settlement of the additional tariff components payable to the CSEA and for the transport sector. From 1 January 2017, these components are settled based on the volumes invoiced in the two month reference period instead of the volumes applicable to the period.

(c) The amount refers to the acquisition of ITG (€166 million, including the repayment of the intercompany loan between ITG and Edison net of the cash and cash equivalents acquired).

(d) The amount relates to the collection of the consideration from the sale of 38.87% of Snam S.p.A.'s equity investment in Italgas Reti S.p.A. (€1,502 million, net of the liquidity transferred).

(e) The amount relates to the repayment to Snam S.p.A. of intercompany financial receivables from the Italgas Group, net of the debt to the EIB (€424 million) for loans provided by this latter to Snam to finance Italgas S.p.A. projects, which has been assumed by the Italgas Group.

# Notes to the consolidated financial statements

## Company information

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as “Snam”, the “Snam Group” or the “Group”), is an integrated group at the forefront of the regulated gas sector and a major player in terms of its regulatory asset base (RAB) in the sector. From 13 October 2017, following the acquisition of Infrastrutture Trasporto Gas S.p.A. (ITG) through the special vehicle company Asset Company 2 S.r.l., Snam is present domestically through four operating companies owned in their entirety, respectively operating in the areas of transport and dispatching of natural gas, regasification of liquefied natural gas and storage of natural gas. Snam operates in Europe’s major energy corridors through agreements with and equity investments in the leading industry players.

Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).

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

As at 31 December 2017, CDP S.p.A. held, through CDP Reti S.p.A.<sup>1</sup> 30.10% of the share capital of Snam S.p.A.

## 1) Basis of presentation

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) and the currently applicable interpretations issued by the IFRS Interpretation Committee (IFRSIC), including those previously issued by the Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) prior to that. For simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as “IFRS” or “International Accounting Standards”.

The consolidated financial statements are prepared on a going concern basis using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.

The consolidated financial statements as at 31 December 2017, approved by the Board of Directors of in its meeting of 13 March 2018, are audited by EY S.p.A. As the principal auditor, EY S.p.A. has full responsibility for auditing the consolidated financial statements of the Snam Group; in the limited cases in which other auditors intervene, it assumes responsibility for the work carried out by the latter. The consolidated financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in

<sup>1</sup> Company in which CDP S.p.A. holds a share of 59.10%. On 19 May 2017, CDP S.p.A. sold to CDP Reti S.p.A. its entire investment in Snam S.p.A., consisting of 39,200,638 shares, or 1.12% of the share capital. As at 31 December 2017 CDP Reti S.p.A. held an investment in Snam S.p.A. consisting of 1,053,692,127 shares, or 30.10% of the share capital.

millions of Euros, unless otherwise specified.

### Accounting standards and interpretations applicable from 2017

In the financial year ended 31 December 2017, the Company applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2017, which are described below.

With its regulation 2017/1990 on 6 November 2017 the European Commission adopted the document "Disclosure Initiative (Amendments to IAS 7, "Statement Of Cash Flows"), issued by the IASB on 29 January 2016. The objective of the amendments is to clarify how to improve the disclosure on financial liabilities in order to enable users of financial statements to evaluate cash and non-cash changes to liabilities arising from financing activities, including changes arising from: (i) financing cash flows; (ii) obtaining or losing control of subsidiaries or other businesses; (iii) changes in foreign exchange rates; (iv) changes in fair values; (v) other changes. A reconciliation between the opening and closing balances in the statement of financial position for liabilities arising from financing activities is required, including the changes identified above, providing sufficient information to enable users of the financial statements to link items included in the reconciliation to the statement of financial position and the statement of cash flows.

Regulation 2017/1989, issued by the European Commission on 6 November 2017, endorsed the regulatory provisions contained in the document "Recognition of

Deferred Tax Assets for Unrealised Losses (Amendments to IAS 12 "Income Taxes")", issued by the IASB on 19 January 2016. The document clarifies the existence of a deductible temporary difference in the event that the carrying amount of the assets measured at fair value is lower than the tax base; it furthermore clarifies that the estimation of the future taxable profits: (i) may include the recovery of some of an entity's assets for more than their carrying amount if there is sufficient evidence that it is probable that the entity will achieve this; (ii) excludes tax deductions resulting from the reversal of those deductible temporary differences.

With regulation 2018/182 issued by the European Commission on 7 February 2018, the regulatory provisions contained in the document "Annual Improvements to IFRS Cycle 2014-2016" issued by the IASB on 8 December 2016 were endorsed; among other things, this amended IFRS 12, effective from 1 January 2017. These amendments clarified that the disclosures required by the standard, except for those set forth in paragraphs B10-B16, apply to all the interests of an entity classified as held for sale, held for distribution to shareholders or as discontinued operations pursuant to IFRS 5. The aforementioned amendments had no effect on the Group's operations, results, balance sheet and cash flows, except for the amendments to IAS 7 for which the aforementioned reconciliation required by the standard has been provided.

## 2) Consolidation principles

The consolidated financial statements comprise the financial statements of

Snam S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – "Consolidated Financial Statements". Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Subsidiaries, associates and equity investments of Snam S.p.A. at 31 December 2017", which is an integral part of these notes. The same appendix lists the changes that took place in the scope of consolidation between 31 December 2016 and 31 December 2017.

All financial statements of consolidated companies close at 31 December and are presented in Euro.

### Companies included in the scope of consolidation

Figures relating to subsidiaries are included in the consolidated financial statements from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.

The assets, liabilities, income and

expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.

The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income. Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company.

Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of consolidated shareholders' equity transferred; (ii) the effect of the alignment with the relative fair value of any residual interest actually maintained; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be

reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

### Equity investments in associates and joint ventures

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control<sup>2</sup>. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.

A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle. Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity-accounted investments".

### Business combinations

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the

fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.

The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.

Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (Partial goodwill method or full goodwill method) is made based on each individual business combination transaction.

If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of

<sup>2</sup> Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.

When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

#### *Business combinations involving entities under common control*

Business combinations involving companies that are ultimately controlled by the same company or companies both before and after the transaction, and where such control is not transitory, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired (or of the seller company) predating the transaction or, alternatively, at the values from the consolidated financial statements of the common ultimate parent.

With regard to the sale of business, the treatment of the difference

between the contractually defined consideration and the carrying amounts of the transferred business is differentiated depending on the entities involved in the transfer. With regard to contributions involving businesses under common control, on the other hand, irrespective of the pre-existing investment relationship, the transferee entity must recognize the transferred business at its historical carrying value, increasing its own equity by an equal amount; the transferring entity shall recognize the investment in the transferee entity at an amount equal to the increase in the latter's shareholders' equity. This accounting treatment refers to the proposal by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued in October 2016.

#### *Intragroup transactions that are eliminated in the consolidation process*

Unrealised gains from transactions between consolidated companies are eliminated, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not derecognised because they effectively represent impairment of the asset transferred.

## 3) Measurement criteria

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

### Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.

If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time that the structures are abandoned, recognised as a contra-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws. The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The balance sheet assets also contain items purchased for security or environmental reasons which, although not directly

improving the future economic benefits of the existing assets, are necessary to obtain benefits for the other tangible fixed assets. The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses, other than replacement of identifiable components, which restore but do not increase the performance of the assets, are posted in the income statement in the year in which they were incurred. Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the “initial line pack”) is depreciated over the useful life of the plant to which it refers. On the contrary, the commercial component, which may be sold on the market or employed for alternative uses (the “operating line pack”), is not depreciated, since it is not, by its nature, subject to depreciation; and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas. Property, plant and equipment is derecognized on disposal or when no future economic benefit is expected from its use or disposal; the relative profit or loss is recognized in the income statement.

### **Depreciation of property, plant and equipment**

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset’s useful life, if this is significant and can be reasonably determined. The table below shows the annual depreciation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	<b>Annual depreciation rate (%)</b>
<b>Buildings</b>	
- Buildings	2-2.5 or greater, depending on residual life
<b>Plant and equipment - Transportation</b>	
- Pipelines	2 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Gas reduction/regulation plants	5 or greater, depending on residual life
- Radio bridges	25
- Instruments and systems for measurement and control	5 or greater, depending on residual life
<b>Plant and equipment - Storage</b>	
- Pipes	2
- Treatment stations	4 or greater, depending on residual life
- Compression stations	5 or greater, depending on residual life
- Storage wells	1.66 or greater, depending on residual life
- Instruments and systems for monitoring and control	5 or greater, depending on residual life
<b>Plant and equipment - Regasification</b>	
- Regasification plant	4 or greater, depending on residual life
- Tanks and pipelines	4 or greater, depending on residual life
<b>Centralized IT infrastructures</b>	20
<b>Other plant and equipment</b>	2.5-12.5
<b>Metering equipment</b>	5 or greater, depending on residual life
<b>Industrial and commercial equipment</b>	10-35
<b>Other assets</b>	10-33

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.

Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section).

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or changes in the pattern in which an asset's benefits are consumed are recognised prospectively.

Freely transferable assets, if any, are depreciated during the period of the concession or of the useful life of the asset, if lower.

#### *Assets under finance leases*

Assets under finance leases, or under agreements which may not take the specific form of a finance lease, but call for the substantial transfer of the risks and rewards of ownership, are recorded at the lower of fair value less fees payable by



the lessee and the present value of minimum lease payments, including any sum payable to exercise a call option, under property, plant and equipment as a contra-entry to the financial debt to the lessor. The assets are depreciated using the criteria and rates adopted for owned property, plant and equipment. When there is no reasonable certainty that the right of redemption can be exercised, depreciation takes place during the shorter of the term of the lease and the useful life of the asset.

Leases under which the lessor substantially retains all of the risks and rewards of ownership of the assets are classified as operating leases. In this case, the lessee incurs only costs for the period in the amount of the lease expenses set out in the contract, and does not record fixed assets. Improvements on leasehold assets are depreciated throughout their useful lives or the residual duration of the lease if shorter, with account taken of any renewal period if such renewal period depends exclusively on the lessee and is virtually certain.

## Intangible assets

Intangible assets are identifiable assets without physical substance which are controlled by the company and capable of producing future economic benefits. Intangible assets also include goodwill arising on acquisition. The criterion of identifiability, which allows a purchased intangible asset to be distinguished from goodwill, is usually met when: (i) the intangible asset is related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. A company controls an asset if it has the power to obtain the future economic benefits flowing from the asset and the ability to restrict the access of

others to those benefits. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.

Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits. Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred. Intangible fixed assets are derecognized on disposal or when no future economic benefit is expected from their use or disposal; the relative profit or loss is recognized in the income statement.

### *Storage concessions*

The value of storage concessions, which consists of the natural gas reserves present in deposits ("cushion gas"), is recorded under "Concessions, licences, trademarks and similar rights" and is not subject to amortisation, since: (i) the volume of said gas is not modified by storage activities; and (ii) the economic value of the gas that can be recovered at the end of the concession, pursuant to the provisions of the Ministerial Decree of 3 November 2005, "Criteria

for determining an adequate consideration for the return of assets intended for a concession-holder for natural gas storage" of the Ministry of Productive Activities (MAP), is not lower than the value recorded in the financial statements.

### *Amortisation of intangible assets*

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.

The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined. The table below shows the annual amortization rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

	Annual amortization rate (%)
<b>Other intangible fixed assets</b>	
- Industrial patent rights and intellectual property rights	20-33
- Other intangible assets	20, or according to the duration of the contract

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation.

## Grants

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions.

Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

## Impairment of non-financial fixed assets

### *Impairment of property, plant and equipment and intangible assets with a finite useful life*

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value less disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.

Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable and supportable assumptions representing the best estimate of future economic conditions which will exist during the remaining useful life of the asset, with a greater weight being given to external evidence. Discounting is done at a rate reflecting current market conditions for the time value of money and specific risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).

The recoverable value of property, plant and equipment recognized under regulated assets is determined by taking into consideration: (i) the amount quantified by the Authority based on the rules used to define the tariffs for provision of the services for which they are intended; and (ii) any value that the group expects to recover from their sale or at the end of the concession governing the service for which they are intended. As with the quantification of tariffs, the quantification of the recoverable value of property, plant and equipment classed under regulated assets is done on the basis of the regulatory provisions in force.

If the reasons for impairment losses no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

*Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use*  
The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the lowest level at which management monitors, directly or indirectly, the return on investments in assets that include goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is allocated first to the goodwill. Any excess impairment is allocated pro rata to the book value of the assets which constitute the CGU. Goodwill impairment losses cannot be reversed.

## Investments valued using the equity method

Equity investments in joint ventures and associates are valued using the equity method.

In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the investor's share of the profit or loss of the investee after the date of acquisition, and (ii) the investor's share of the other components of comprehensive

income of the investee. Dividends paid out by the investee are recognised as a reduction in the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).

Where an associate (or jointly-controlled entity) is acquired in stages, the cost of the investment is measured as the sum of the fair value of the previously held interests and the fair value of the consideration transferred on the date on which the investment is classed as an associate (or under joint control). The effect of remeasuring previously held interests is posted to the income statement, including any components recognised under other components of comprehensive income. When the transferral of equity investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any gains or losses calculated as the difference between the consideration received and the corresponding portion of the recognized amount transferred; (ii) the effect of the remeasurement at fair value of any retained interest; (iii) any amounts recognized in other components of comprehensive income relating to the investee company that will be taken to the income statement. The value of any retained interest, remeasured to fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.

If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the carrying amount with the related recoverable value and the difference is recognised in profit and

loss under "Income (expense) from equity investments".

When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments". The parent company's share of any losses of the investee company in excess of the investment's book value is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

## Inventories

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the company expects to receive from their sale in the normal course of business.

The cost of natural gas inventories is determined using the weighted average cost method.

The sale and purchase of strategic gas do not involve the effective transfer of risks and benefits associated with ownership, and thus do not result in a change in inventories.

## Financial instruments

The financial instruments held by Snam are included in the following balance sheet items:

### *Cash and cash equivalents*

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.

They are recorded at their nominal value, which corresponds to the fair value.

#### *Trade and other receivables and other assets*

Trade and other receivables and other assets are measured initially at fair value, including transaction costs (e.g. commission, consultancy fees, etc.). The initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.

Amortisation is carried out using the effective interest rate, which is the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording (the amortised cost method).

Where there is objective evidence of impairment, the impairment loss is calculated by comparing the book value with the present value of anticipated cash flows discounted at the effective interest rate defined at the time of the initial recognition, or at the time of its updating to reflect contractually defined repricings. There is objective evidence of impairment when, among other things, there are significant breaches of contract, major financial difficulties or the risk of the counterparty's insolvency.

Receivables are shown net of provisions for impairment losses; this provision, which is previously created, may be used if there is an assessed reduction in the asset's value or due to a surplus. If the reasons for an impairment loss cease to be valid, the impairment loss is reversed, but only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined (net of amortisation) if no impairment loss had been recognised previously.

The economic effects of measuring at amortised cost are recorded in the "Financial income (expense)" item. Financial assets that are disposed of are derecognised in the balance sheet when the contractual rights connected to obtaining the cash flows associated with the financial instrument are realised, expire or are transferred to third parties.

#### *Financial liabilities*

Financial liabilities, including financial debt, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as illustrated in "Trade and other receivables and other assets" above.

Financial liabilities are derecognised when they are extinguished, that is when the obligation specified in the contract is either discharged, cancelled or expires.

#### *Offsetting a financial asset and a financial liability*

Financial assets and liabilities are offset in the balance sheet when there is a currently legally enforceable right to set off and the intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

#### **Derivative financial instruments**

Derivatives are assets and liabilities recognised at fair value using the criteria set out under "Fair-value measurement" below.

Derivatives are classified as hedging instruments when the relationship between the derivative and the hedged item is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives hedge the risk of changes in the fair value of

the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with changes recognised in the income statement; by the same token, the hedged instruments are adjusted through profit or loss for changes in fair value attributable to the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.

When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the effective portion of changes in their fair value is recorded initially in a hedging reserve in other items of comprehensive income and then recognised in the income statement in the period in which the hedged item affects profit or loss.

The ineffective portion of the hedge is recorded under "Losses (gains) on derivatives" in the income statement. Changes in the fair value of derivatives which do not satisfy the requirements to be classed as hedging instruments are recognised in the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "Losses (gains) on derivatives".

Derivatives embedded in hybrid instruments are separated from the main contract and accounted for as a derivative if the entire instrument is not measured at fair value with changes in fair value recognized in the income statement and if the characteristics and risks of the derivative instrument are not closely related to those of the host contract. Assessment of the existence of embedded derivatives to be separated and accounted for as derivatives takes

place when the company enters into a contract and subsequently, in the event of amendments to the contract terms and conditions that result in significant changes in the cash flow generated by the contract.

#### *Fair value measurements*

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in an orderly transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value measurement also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of an asset is determined from the perspective of market participants, even if the entity intends a different use. The current use by the company of a non-financial asset is assumed to be its highest and best use, unless the market or other factors suggest that a different use by market operators would maximise its value. The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into

account. The fair value of financial instruments considers the credit risk of the counterparty for financial assets (through a "Credit Valuation Adjustment" - CVA) and the entity's own risk of default for financial liabilities (through a "Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of the reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and that reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs for assets or liabilities that are not based on observable market data.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

#### **Non-current assets held for sale and discontinued operations**

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered

mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the case of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of whether an investment is maintained following the sale. Verification of compliance with the terms and conditions provided for classification of an item as held for sale requires management to make subjective valuations formulating reasonable and realistic assumptions based on the information available to it.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.

Immediately prior to classification of an item as held for sale, the assets and liabilities included in a disposal group are measured as required by the accounting standards applicable to them. Subsequently, non-current assets held for sale are not amortised or depreciated, and are measured at the lower of book value and the related fair value, less any sales costs (see "Fair-value measurements" above).

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and their fair value less selling costs is posted to the income statement as

an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale. Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if they satisfy any one of the following criteria: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business; or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.

### Provisions for risks and charges

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year. Provisions are recognised when: (i) the existence of a current legal or implied obligation arising from a past event is probable; (ii) it is probable that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with

valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.

Where the effect of the time value of money is material, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows at a rate that reflects the current market assessments of the time value of money and the risks specific to the liability; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".

When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the Company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place. Provisions are periodically updated to reflect changes in cost estimates, timing and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantling and restoration), as a contra-entry to the related asset, up to the book value; any surplus is posted to the income statement.

The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more

future uncertain events occur which are partially or fully outside the Company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.

### Employee benefits

#### *Post-employment benefits*

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as "defined-benefit" or "defined-contribution" plans.

- *Defined-benefit plans*

The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.

Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.

Net financial expense represents the change that the net liability undergoes during the year due to the passing of time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The



net financial expense of defined-benefit plans is recognised in “Finance expense (income)”.

- **Defined-contribution plans**  
In defined-contribution plans, the Company’s obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (a “Fund”), based on contributions due. The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

#### *Other long-term plans*

Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

#### **Payments based on shares**

Services received in an equity-settled share-based payment transaction equity settled share based payment transactions are measured at the fair value of the services received or of the equity instruments on the date that they are assigned, based on market prices, if these are available, with account taken of the terms and conditions based on which these instruments were assigned. During the vesting period, assuming that the services provided by the employee vest during that period, an increase in the cost of work is recognized and the corresponding increase is placed in an equity reserve, based on an estimate by management of the number of instruments expected to vest during the period. On the vesting date, the final amount recognized as the cost is derived from the number of equity instruments that ultimately vest. If the equity instruments do not vest due to failure to fulfil the vesting conditions,

no amount is recognized for the services received.

#### **Treasury shares**

Treasury shares are recognised at cost and entered as a reduction of shareholders’ equity. The economic effects arising from any subsequent sales are recognised in shareholders’ equity.

#### **Distribution of dividends**

The distribution of dividends to the Company’s shareholders entails the recording of a payable in the financial statements for the period in which distribution was approved by the Company’s shareholders or, in the case of interim dividends, by the Board of Directors.

#### **Foreign currency transactions**

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- monetary assets and liabilities in currencies other than the working currency are converted into euros by applying the exchange rate in effect on the reporting date, with attribution of the effect to the income statement;
- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

#### **Revenue**

Revenue from sales and the provision of services is recognised upon the effective transfer of the risks and benefits typically relating to ownership or on the fulfilment of the service when it is likely that the financial benefits deriving from the transaction will be realised by the vendor or the provider of the service.

Revenue is recognised at the fair value of the payment received or to be received.

As regards the activities carried out by the Snam Group, revenue is recognised when the service is provided. The largest share of core revenue relates to regulated revenue, which is governed by the regulatory framework established by the AEEGSI. Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. In the transportation<sup>3</sup> segment, the difference between the revenue recognised by the regulator (the “revenue cap”) and the revenue actually accrued is recognised with a contra-entry in the balance sheet under “Other assets”, if positive, or “Other liabilities”, if negative. This difference will be reversed in the income statement in future years by way of tariff changes. In the Regasification and Storage segments, however, any difference between the revenue recognised by the regulator and the accrued revenue is recognised in the balance sheet item “Trade and other receivables”, if positive, and in the item “Trade and other payables”, if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA).

By virtue of the principle of neutrality

<sup>3</sup> With regard to the capacity portion of revenue, penalties for exceeding committed capacity and balancing fees.

defined by the applicable law, transactions on the balancing market do not generate costs or revenues, as they are mere transiting lots. Any (positive or negative) differences from the usage of different prices for the transactions above will be neutralized by recognizing an asset or liability for CSEA, given that these differences are equalized by the latter.

Allocations of revenue relating to services partially rendered are recognised by the fee accrued, as long as it is possible to reliably determine the stage of completion and there are no significant uncertainties over the amount and the existence of the revenue and the relative costs; otherwise they are recognised within the limits of the actual recoverable costs.

Items of property, plant and equipment not used in concession services, transferred from customers (or realised with the cash transferred from customers) to connect them to a network for the provision of supply, are recognised at fair value as a contra-entry to revenue in the income statement. When the agreement stipulates the provision of multiple services (e.g. connection and supply of goods), the service for which the asset was transferred from the customer is checked and, accordingly, the disclosure of the revenue is recognised on connection or for the shorter of the term of the supply and the useful life of the asset.

Revenue is recorded net of returns, discounts, allowances and bonuses, as well as directly related taxes.

Revenue is reported net of items involving tariff components in addition to the tariff applied to cover gas system expenses of a general nature. Amounts received by Snam are paid in full to the Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in the Notes to the

consolidated financial statements (see Note 24 - "Revenue").

Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenue and costs.

#### **Dividends received**

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is reasonably certain that the shares will be sold before the ex-dividend date.

#### **Costs**

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.

Costs relating to emission allowances, calculated on the basis of market prices, are only recognised for the portion of carbon dioxide emissions in excess of the allocated allowances. Proceeds from the sale of emissions allowances are recognised when earned.

The monetary receivables assigned in place of the free assignment of emissions allowances are recognised as a contra-entry under the income statement item "Other revenue and income".

Fees relating to operating leases are charged to the income statement for the duration of the contract.

Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

#### **Income tax**

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid to / recovered from the tax authorities under the tax regulations and rates that have been enacted or

substantially enacted at the reporting date.

Regarding corporation tax (IRES), Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up, except for Infrastrutture Trasporto Gas S.p.A. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called "ACE (help for economic growth) effect" and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability – or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current



income tax liabilities”/“Current income tax assets”.

Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the tax regulations and rates that have been enacted or substantially enacted for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when sufficient taxable income is expected to be available in the period in which the temporary differences reverse against which deductible temporary differences can be utilised. Similarly, unused tax credits and prepaid taxes on tax losses are recognised to the extent that they can be recovered. Prepaid tax assets and deferred tax liabilities are classified under non-current assets and liabilities and are offset at individual company level if they refer to taxes which can be offset. The balance of the offsetting, if it results in an asset, is recognised under the item “Prepaid tax assets”; if it results in a liability, it is recognised under the item “Deferred tax liabilities”. When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity.

Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

#### Information by operating segment

Disclosure on business segments has been prepared pursuant to IFRS 8 – “Operating Segments”: consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the

Company’s management to allocate resources to the different segments and to analyse the respective performances.

An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity); (ii) whose operating results are regularly reviewed by the entity’s most senior decision-makers for purposes of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available.

Specifically, the disclosed operating segments are as follows: (i) natural gas transportation (the “transportation segment”); (ii) liquefied natural gas regasification (the “regasification segment”); (iii) natural gas storage (the “storage segment”) relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit, respectively.

## 4) Financial statements<sup>4</sup>

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - “Presentation of financial statements” (hereinafter “IAS 1”). In particular:

- the balance sheet items are broken down into assets and liabilities and then further into current or non-current items<sup>5</sup>;

- the income statement classifies costs by type, since this is deemed to be the best way of representing the Group’s operations and is in line with international best practice;
- the statement of comprehensive income shows the profit or loss in addition to the income and expense recognised directly in shareholders’ equity as expressly provided for by the IFRS;
- the statement of changes in shareholders’ equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders’ equity;
- the statement of cash flows is prepared using the “indirect” method, whereby net profit is adjusted for the effects of non-cash transactions.

It is believed that these statements adequately represent the Group’s situation with regard to its balance sheet, income statement and financial position.

Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement. With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 33 – “Related-party transactions”, are shown separately in the financial statements.

In compliance with IAS 1, unless otherwise stated, comparative data refer to the previous year.

<sup>4</sup> The financial statements are the same as those adopted for the 2016 Annual Report.

<sup>5</sup> Assets and liabilities are classified as current if: (i) their realization/settlement is part of the normal operating cycle of the company or in the twelve months after the financial year-end; (ii) consist of the cash or cash equivalents without restrictions that would limit usage thereof in the 12 months following the closure of the year; or (iii) are held mainly for trading.

Derivative instruments held for trading are classified as current items, regardless of their maturity date. Derivative instruments used for hedging are classified as current items if their realization is expected within the 12 months subsequent to the closure of the year; otherwise they are classified as non-current items.

## 5) Use of estimates

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about

potential assets and liabilities at the reporting date, as well as the amount of revenue and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.

Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and

estimates regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimates used could have a significant impact on subsequent results.

### Impairment of assets

Assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.

The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the value in use, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are discounted using a rate that takes account of the risk inherent to the asset concerned.

The basis of the impairment testing used by management in relation to the property plant and machinery, intangible assets and investments measured using the equity method are illustrated respectively in the sections "Impairment of non-financial fixed assets" and "Investments valued using the equity method".

### Provision for site dismantling and restoration

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for compliance with dismantling and restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.

The criticality of estimates of dismantling and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied. The determination of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the company's management.

### Business combinations

The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and the net book value. For the majority of assets and liabilities, the allocation of the difference is carried out by recognising the assets and liabilities at their fair value. The unallocated portion, if positive, is recognised as goodwill; if negative, it is allocated to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

## Environmental liabilities

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of an onerous liability can be reliably estimated, provisions are made for the associated costs.

The Group does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, however it cannot be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the possible emergence of contamination; (ii) the results of current and future characterizations and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental rehabilitation; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

## Employee benefits

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.

The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.

Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income. Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

## Provisions for risks and charges

In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimate of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

## Classification and measurement of investments made for development and maintenance of proprietary infrastructures

The Snam Group makes significant investments for development and maintenance of its own infrastructures. Assessing the recoverability of the investments currently underway and the distinction of the costs as improvements, upgrades and transformations that increase the infrastructure and the expenses for ordinary maintenance and repairs which restore but do not increase the performance of the assets, includes valuation elements. These valuations are formulated on the basis of objective criteria the Group has developed to facilitate application of its accounting policies.

## 6) Recently issued accounting standards

### Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, but not yet in force

The main accounting standards and interpretations approved by the European Commission, but which are not yet in force are listed and described below.

#### IFRS 9 “Financial Instruments”

With its regulation 2016/2067 issued by the European Commission on 22 November 2016, certain international accounting standards contained in “IFRS 9 Financial Instruments” issued by the IASB 24 July 2014 are adopted together with their relative Basis for Conclusions and Application Guidelines are adopted in replacement of all the previous versions of the standard issued. The provisions of the aforementioned texts, which replace those contained in IAS 39 - “Financial Instruments: Recognition and Measurement” will take effect from financial years starting on or after 01 January 2018. Except for hedge accounting, the standard is applicable retrospectively, without obligation to provide comparative information. In 2017, the Group completed its assessment of the impacts from application of the new accounting standard on the consolidated financial statements and the separate financial statements of the subsidiary companies.

The Group does not expect any effects from application of the classification and measurement requirements set forth in IFRS 9: financial assets, such as trade receivables, financial receivables and other receivables and financial liabilities such as trade payables, financial payables and other payables, continue to be measured at amortized cost.

Regarding derivative financial instruments use for hedging, it is believed that the hedging relations in existence which are currently designated as effective hedges continue to qualify for hedge accounting pursuant to IFRS 9. In consideration of the fact that the new standard does not modify the general principle based on which an entity recognizes effective hedges, there were no changes compared to the current treatment. In relation to Cross Currency Swaps, beginning from 2018, as required by IFRS 9, the changes in the “cost of hedging” will be recognized in a special OCI reserve, separately from the cash flow hedge reserve.

Minority interests in the unlisted company Terminale GNL Adriatico S.r.l. have been recognized at the latter’s acquisition cost (€45 million) as required by IAS 39. Pursuant to the provisions of IFRS 9, these investments are measured at their fair value even if the investee is not listed on a regulated market, except in limited circumstances in which it can be measured at cost. In consideration of the recent acquisition in October 2017, Snam believes that the value as at 1 January 2018 represents an appropriate estimate of the fair value and therefore there are no effects as at 1 January 2018. The Group intends to maintain the interests in unlisted companies in its portfolio in the near future.

Snam also considers as insignificant the effects of the new impairment model (expected credit loss) on the Group’s financial assets, since most of the receivables are relative to regulated activities for which there are guarantees in favour of Snam and/or provide for the intervention of the Energy and Environmental Services Fund (CSEA) in the cases indicated by the regulating codes and the applicable laws.

As regards non-recurring transactions, we note that the liability management operations that took place in 2015<sup>6</sup> and 2017<sup>7</sup>, have been impacted by the application of the new accounting rules set forth in IFRS 9. Pursuant to IAS 39, in the event of cash flow changes arising from a change or exchange of financial liabilities that were not de-recognized, the new liabilities are recognized at the carrying amount of the original liability, and net of any further amount paid and any income or expenses are not recognized in profit and loss on the exchange date, but throughout the life of the financial instruments through the new effective interest rate. Conversely, IFRS 9 requires recalculation of the amortized cost of the new financial liability, discounting the new contractual cash flows using the original effective interest rate, and recognition in profit and loss of the profit or the loss arising from the change or the exchange of a financial liability.

On the first application date of the new standard (1 January 2018), Snam has estimated an increase in equity of €10 million, gross of the tax effect. To this end, given that the new accounting rules set forth in IFRS 9 do not apply to financial instruments that were de-recognized as at the first application date of the new standard, estimation of the effects does not include the portions of the financial liabilities which were repurchased following the liability management operations in 2016 and 2017.

6 In November 2015, Snam successfully concluded a complex liability management transaction involving the €1.0 billion buyback of outstanding bonds maturing in less than two years on average and the simultaneous issue of a new eight-year, fixed-rate bond worth €0.7 billion. For more information, see Snam’s annual financial statements for 2015.

7 For more information, please see the section “Snam in 2017 - Summary of information and data - Main Events” in the Directors’ Report.

### IFRS 15 “ Revenue from Contracts with Customers”

Regulations 2016/1905 and 2017/1987 issued by the European Commission respectively at 22 September 2016 and 31 October 2017, adopted the regulatory provisions included in the documents “IFRS 15” and “Clarifications to IFRS 15” issued by the IASB respectively on 11 September 2015 and 12 April 2016. The provisions contained in the aforementioned documents will take effect from financial years starting on or after 1 January 2018.

During the year, the Snam Group completed its examination of the impacts arising from application of the new accounting standard on the consolidated financial statements and the separate financial statements of the subsidiary companies.

Regarding regulated revenues, which represent a large part of the Group’s revenues, we confirm the application of IFRS 15 will have no impact on the consolidated financial statements of the Snam Group.

Snam Group activities that are not regulated mainly involve (i) contracts for the provision of services between Snam and companies that are jointly controlled or associated with it, relative to services for the realization of transport infrastructures, project management, maintenance and IT; (ii) maintenance contracts for fibre optic telecommunications cables leased to third parties.

Regarding these contracts in particular, the main issues required by the standard have been analysed and the relative results are shown below: (i) identification of the performance obligations and allocation of the transaction price to these obligations; (ii) identification of the time required for satisfaction of the performance obligation (over time or at a point in time); (iii) assessment of the provision of goods and/or services in the capacity of a principal or an agent; (iv) any

presence of a significant financial component.

To this end, we believe that, also pursuant to IFRS 15, the Group operates as the principal for services promised to customers, since the entity has the main responsibility for fulfilment of the promise to provide the specific good or service and has the discretion to establish the price of the specific good or service which it expects to receive in exchange for the specific good or service transferred. The performance obligations identified in the aforementioned contracts are satisfied over time and therefore the accounting treatment applied currently is in line with the guidelines set forth in IFRS 15. Moreover, for existing contracts, the Group has concluded that a significant financial component is not present.

Therefore, no impact has been identified which arises from implementation of the new standard.

### Other endorsed standards

The main accounting standards and interpretations approved by the European Commission but not yet in force are listed and described below. Regulation 2018/289 issued by the European Commission on 26 February 2018 adopts the regulatory provisions contained in the document “Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2”, issued by the IASB on 20 June 2016. The document (i) clarifies the vesting and non-vesting conditions applicable to the measurement of cash-settled share-based payments; (ii) specifies that where a cash-settled share-based payment changes to an equity-settled share-based payment, the original liability is derecognised and the equity-settled share-based payment is recognised at the modification date fair value to the extent services have been rendered up to the modification

date, with any differences immediately recognized in profit and loss; (iii) regarding share based payment transactions with a net settlement feature for withholding tax obligations by the employer pursuant to tax laws and regulations, it introduces an exception so that such transactions are classified as equity-settled in their entirety provided that they would have been classified as such had they not included the net settlement feature required by application of the tax regulations. These provisions will take effect from financial years starting on or after 1 January 2018.

Commission Regulation 2018/182 issued by the European Commission on 07 February 2018 approved the regulatory provisions contained in the “Annual Improvements to International Financial Reporting Standards 2014-2016 Cycle”, issued by the IASB on 08 December 2016. The document also amended: (i) IFRS 1, eliminating the short term exceptions allowed by IFRS 7, IAS 19 and IFRS 10 with regard to “investment entities” for first time adopters; (ii) IAS 28, clarifying that the option provided to investment companies, mutual funds, investment funds or similar entities to measure their investments in associates or joint ventures at fair value in profit and loss may be exercised separately for each individual investment, at the time of initial recognition; the amendments also clarified that an entity that is not an investment entity but which holds an investment in associated companies or joint ventures that are investment entities, may opt to maintain the measurement at fair value made by such investment entities for the measurement of their own investments. These provisions will take effect from financial years starting on or after 1 January 2018.

With Regulation 2017/1988, issued by the European Commission on 3 November 2017, the regulatory provisions contained in the document “Joint application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts “(Amendments to IFRS 4)”, issued by the IASB on 12 September 2016, were approved. The purpose of the document is to resolve problems that insurance companies would have to face if they were to apply the new standard for financial instruments, IFRS 9, prior to the replacement by the IASB of the current standard IFRS 4 with the new standard currently being compiled. To this end, the document introduces two approaches: (i) all entities that issue insurance contracts that fall under the scope of application of IFRS 4 and that will apply IFRS 9, are provided with the option of reclassifying from the income statement to other comprehensive income (OCI) the changes and fair value from the designated financial assets (overlay approach), as if the entity were applying IASB 39 to these assets; (ii) for entities that are mainly involved in insurance activities, an option for temporary exemption is afforded which allows for deferral of application of IFRS 9 (deferral approach) until 2021. These provisions will take effect from financial years starting on or after 1 January 2018.

With its regulation 2017/1986 issued on 31 October 2017, the European Commission adopted the regulatory provisions contained in the document “IFRS 16 Leasing”, issued by the IASB on 13 January 2016, which defines a lease as a contract that attributes to an entity the right to use an asset for a specific period of time in exchange for consideration and eliminates, for the lessor, the distinction between the financial and the operating lease, introducing a single accounting model for leasing. By applying this

model, an entity recognizes: (i) in its balance sheet, an asset representing the relative right to use the asset and a liability representing the obligation to make the payments contractually agreed upon, for all material leases with a duration of more than 12 months; (ii) in its income statement, depreciation of the lease asset separately from interest. The distinction between an operating and a financial lease continues to apply for preparation of the financial statements of lessors. The provisions contained in IFRS 16 that replace those contained in IAS 17 “Leasing” and the relative interpretations, will take effect from financial years starting on or after 1 January 2019. The impact of the adoption of this standard by the Group is currently under examination, however the Group does not expect a significant impact to arise from application of the standard.

#### **Accounting standards and interpretations issued by the IASB/ IFRIC and not yet approved by the European Commission**

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed. On 7 February 2018, the IASB issued the document “Plan Amendment, Curtailment or settlement - Amendment to IAS 19” with which it specifies how pension expenses are calculated in the event of an amendment to defined benefit plans. In particular, it clarifies how, in this case, an entity shall remeasure its own liabilities or assets and requires the use of updated actuarial assumptions for determination of the costs relative to the current service cost and the net financial expenses for the remaining time subsequent to the event. These measures will take effect from financial years starting on or after 1 January

2019, subject to deferrals established upon approval by the European Commission.

The provisions contained in “Annual Improvements to IFRS Standards 2015 - 2017 Cycle”, issued by the IASB on 12 December 2017, resulted in amendments to: (i) IFRS 3, clarifying that when an entity obtains control of a business that meets the definition of a joint operation, it shall remeasure the interest it previously held in that business; (ii) IFRS 11, clarifying that when an entity acquires joint control of a business that meets the definition of a joint operation, it shall not remeasure its interests previously held in that business; (iii) IAS 12, clarifying that, regardless of whether dividends are recognized in shareholders’ equity, an entity must recognize the tax effects of the dividends in profit and loss; (iv) IAS 23, clarifying that the specific borrowings required for construction and/or acquisition of an asset that remain in existence even when the asset is available and ready for use or sale are no longer considered specific and therefore shall be included in the general borrowings for the purpose of defining the capitalization rate. These measures will take effect from financial years starting on or after 1 January 2019, subject to deferrals established upon approval by the European Commission.

On 12 October 2017, the document “Long-term Interests in Associates and Joint Ventures - Amendment to IAS 28” was issued; it clarifies that an entity shall apply IFRS 9, including the impairment requirements, to long-term interests in a joint venture or associated company for which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures. These measures will take effect from financial years starting on or after 1 January 2019, subject to deferrals established upon approval by the



European Commission.

On the same date, the IASB issued the document "Prepayment Features with Negative Compensation - Amendment to IFRS 9" which allows measurement at amortized cost or at fair value through other comprehensive income (OCI) of a financial asset characterized by an early extinguishment option in the event of "negative compensation". It also clarified that, in the event of changes in the cash flow arising from the change or exchange of financial liabilities that have not been derecognized, the adjustments to the financial liability measured at amortized cost from the change or the exchange of financial liability must be recognized in profit and loss. These measures will take effect from financial years starting on or after 1 January 2019, subject to deferrals established upon approval by the European Commission.

On 7 June 2017, the IASB issued the document IFRIC 23 "Uncertainty over Income Tax Treatments" which provides indications on how to calculate current and deferred taxes if there are uncertainties regarding the tax treatments relative to the income taxes applied by the entity. In determining the income taxes to recognize in the financial statements, an entity must consider the probability that the tax authority may or may not accept the treatment adopted by the entity. If the aforementioned acceptance is considered to be improbable, the entity must reflect the effect of uncertainty in determining current and deferred taxes, using one of the following methods: the most likely amount method and the expected value method; otherwise, the accounting treatment adopted in the income tax declarations will apply to the income taxes recognized in the financial statements. An entity shall review the estimates of the uncertainties if

new information becomes available or if the circumstances change.

These measures will take effect from financial years starting on or after 1 January 2019, subject to deferrals established upon approval by the European Commission.

On 18 May 2017, the IASB issued the document IFRS 17 "Insurance Contracts", which is applicable to all insurance companies. They define the principles for recognition, measurement, presentation and disclosure, replacing IFRS 4. The new standard requires a "Building Block Approach" (BBA) based on expected cash flow and the specification of a "risk adjustment" and of a "contractual service margin" (CSM) which represents expected profit from insurance contract. This margin is recognized in profit and loss throughout the time that the insurance coverage is provided. Moreover, there are two alternative approaches in addition to the BBA which are the "Variable Fee Approach" (VFA) and the Premium Allocation Approach (PAA), applicable in specific cases. The new standard also provides a new procedure for recognition in profit and loss that presents separately the "insurance revenues", "insurance service expenses" and "insurance finance income or expenses". The measures contained in IFRS 17 will take effect from financial years starting on or after 1 January 2021, subject to deferrals established upon approval by the European Commission.

On 8 December 2016, the IASB issued the document "Transfers of Investment property - Amendments to IAS 40", which clarifies that a entity shall reclassify a property to or from the investment property category only if there is evidence of a change in the use of the property; a change in the intention of use by the management with regard to the property does not

in and of itself constitute evidence of a change of use. These measures will take effect from financial years starting on or after 1 January 2018, subject to deferrals established upon approval by the European Commission. On the same date the IASB issued "IFRIC 22 Foreign Currency Transaction and Advance Consideration", which establishes that when foreign currency transactions take place whereby payment is made or received in advance, the exchange rate to apply for the initial recording of the asset, costs or revenue generated from the transaction for which advance payment/collection took place, corresponds to the exchange rate in force on the advance payment date. These measures will take effect from financial years starting on or after 1 January 2018, subject to deferrals established upon approval by the European Commission.

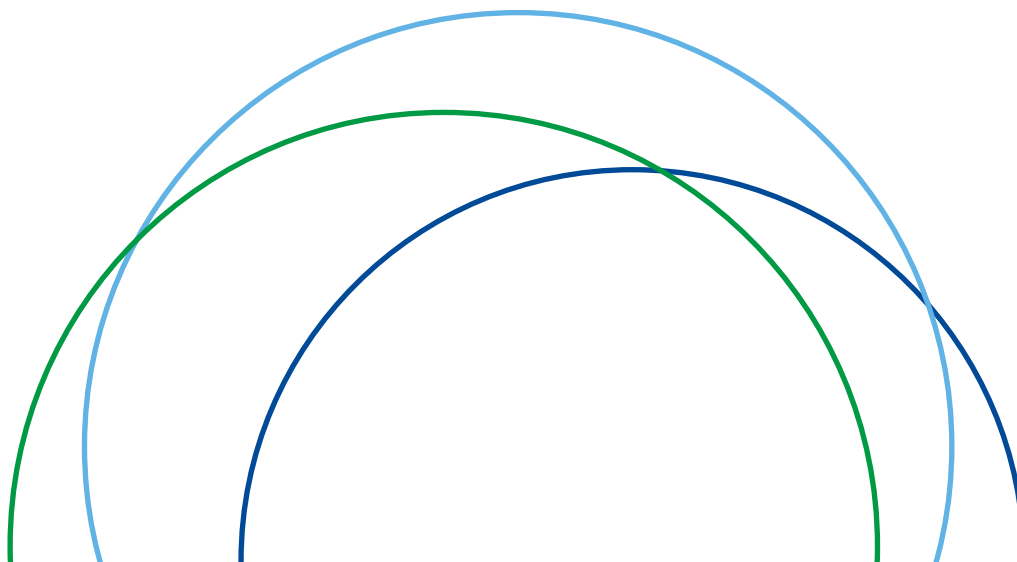
Snam is analysing the standards in question, where applicable, to assess whether their adoption will have a significant impact on the financial statements.

## 7) Cash and cash equivalents

*Cash and cash equivalents*, of €719 million (€34 million at 31 December 2016) 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), a demand deposit with a bank (€395 million) and cash and cash equivalents held at Gasrule Insurance DAC for the group's insurance activities (€23 million). The interest rate payable for the bank deposit is equal to 0.12% per annum. A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the statement of cash flows.

## 8) Trade receivables and other current and non-current receivables

*Trade receivables and other current receivables* equal to € 1,658 million (€1,307 million at 31 December 2016) and *other non-current receivables* equal to €373 million (€213 million at 31 December 2016) break down as follows:





(€ million)	31.12.2016			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,271		1,271	1,274		1,274
Financial receivables		213	213	350	373	723
- held for operations		213	213		373	373
- not held for operations				350		350
Receivables from investment/divestment activities	16		16	12		12
Other receivables	20		20	22		22
	1,307	213	1,520	1,658	373	2,031

Trade receivables of €1,274 million (€1,271 million at 31 December 2016) mainly refer to the natural gas transportation (€1,042 million) and storage (€179 million) segments.

Trade receivables relating to the storage segment (€179 million) include the effects of the addition of revenue connected to the allocation of natural gas storage capacity by auction (€45 million)<sup>8</sup> and include coverage of the expenses relative to the natural gas transport service (€13 million)<sup>9</sup>.

Receivables are reported net of the provision for impairment losses (€140 million; €132 million at 31 December 2016). This provision essentially relates to impairment losses recorded in previous years on receivables from the balancing service pursuant to resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas) of uncollected receivables for the period from 1 December 2011 to 23 October 2012<sup>10</sup> (€126 million, including the relative interest).

8 This revenue follows the application of Resolution 589/2017/R/gas of ARERA ("Provisions for the regulation of income statement items related to the storage service for the 2017-2018 thermal year"), published on 07 August 2017, with which the Authority defined, for the 2017-2018 thermal year, ways of neutralising any differences between the amount paid to storage companies based on tariffs defined under Resolution 76/2017/R/gas and the amount received from the auctions for the allocation of capacity referred to in the same resolution.

9 These revenues follow application of ARERA resolution 64/2017/R/Gas "Provisions regarding the granting of capacity for the integrated regasification and storage service for thermal year 2017-2018", with which the Authority established that most of the cost for the transport service shall no longer be charged back to Users, as it shall be settled directly by the Energy and Environmental Services Fund (CSEA).

10 Through resolution 608/2015/R/gas, of 11 December 2015, the Authority closed the process launched through resolution 145/2013/R/gas of 5 April 2013 for determining the share of expenses to be paid to the balancing supervisor with regard to receivables not collected related to balancing positions arising in the period 1 December 2011 - 23 October 2012. The nominal value of the total receivables which were not recognized by the Authority in relation to the case in question totals approximately €130 million, including VAT. For more information, please see Note no. 24 "Guarantees, commitments and risks – Disputes and other measures – Recovering receivables from certain users of the transportation and balancing system".

Changes in the provision for impairment losses on receivables during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2016	Provisions	Provision for impairment losses at 31.12.2017
Trade receivables	132	8	140
	<b>132</b>	<b>8</b>	<b>140</b>

The financial receivables held for operating activities (€373 million; €213 million at 31 December 2016) relate to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP)<sup>11</sup>. The classification of the receivable as "non-current" was based on the contractual agreements in place between shareholders. Compared to 31 December 2016, receivables increased by €160 million, including accrued interest, following the cash calls requested by the same company, which is a Snam investee, during 2017, based on the aforementioned agreements.

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

Receivables from investment/divestment activities (€12 million; €16 million at 31 December 2016) include receivables from private contributions recorded for investment activities involving the transportation segment.

Other receivables of €22 million (€20 million at 31 December 2016) comprise:

(€ million)	31.12.2016	31.12.2017
IRES receivables for the national tax consolidation scheme	10	9
Other receivables:	10	13
- Energy and Environmental Services Fund (CSEA)		5
- Advances to suppliers	5	4
- Other	5	4
	<b>20</b>	<b>22</b>

IRES receivables for the national tax consolidation scheme (€9 million, compared with €10 million at 31 December 2016) related mainly to receivables from the former parent company, Eni, relating to the IRES refund request resulting from the partial IRAP deduction relating to tax years 2007 to 2011 (pursuant to Decree-Law 201/2011).

All receivables are in euros. The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the contractual terms and conditions.

<sup>11</sup> 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. For additional information, see Note no. 14 "Investments valued using the equity method" of the Notes to the consolidated Financial Statements and Note no. 24 "Guarantees, commitments and risks."

The aging of trade and other receivables is shown below:

(€ million)	31.12.2016			31.12.2017		
	Trade receivables	Other receivables (*)	Total	Trade receivables	Other receivables (*)	Total
Non-overdue and non-impaired receivables	1,130	236	<b>1,366</b>	<b>1,173</b>	<b>745</b>	<b>1,918</b>
Overdue and non-impaired receivables:	141	13	<b>154</b>	<b>101</b>	<b>12</b>	<b>113</b>
- 0-3 months	10	5	<b>15</b>	<b>5</b>	<b>7</b>	<b>12</b>
- 3-6 months	2		<b>2</b>			
- 6-12 months	1	2	<b>3</b>		<b>1</b>	<b>1</b>
- more than 12 months overdue	128	6	<b>134</b>	<b>96</b>	<b>4</b>	<b>100</b>
	1,271	249	<b>1,520</b>	<b>1,274</b>	<b>757</b>	<b>2,031</b>

(\*) Including financial receivables, receivables from investment/divestment activities and other receivables.

Overdue and non- impaired receivables (€113 million, €154 million at 31 December 2016) mainly refer to the storage segment (€88 million), principally comprising VAT<sup>12</sup> billed to users in previous years for the use of strategic gas which was withdrawn but not replenished by them pursuant to the provisions established in the Storage Code.

Receivables from related parties are described in Note no. 33 "Related-party transactions".

Specific information on credit risk can be found in Note no. 24 "Guarantees, commitments and risks – Financial risk management – Credit risk".

12 As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

## 9) Inventories

*Inventories*, which amount to €449 million (€481 million at 31 December 2016) are analysed in the table below:

(€ million)	31.12.2016			31.12.2017		
	Gross amount	Impairment losses	Net value	Gross amount	Impairment losses	Net value
<b>Inventories</b> (current assets)	160	(42)	<b>118</b>	<b>129</b>	<b>(43)</b>	<b>86</b>
- Raw materials, consumables and supplies	110	(10)	<b>100</b>	<b>79</b>	<b>(11)</b>	<b>68</b>
- Finished products and merchandise	50	(32)	<b>18</b>	<b>50</b>	<b>(32)</b>	<b>18</b>
<b>Compulsory inventories</b> (non-current assets)	363		<b>363</b>	<b>363</b>		<b>363</b>
	<b>523</b>	<b>(42)</b>	<b>481</b>	<b>492</b>	<b>(43)</b>	<b>449</b>

### Inventories (current assets)

Inventories of raw materials, consumables and supplies (€68 million; €100 million at 31 December 2016) primarily include stock materials relating to the pipeline network (€39 million) and to storage plants (€9 million), and natural gas used for transportation activities (€11 million).

Inventories of finished products and merchandise (€18 million, unchanged from 31 December 2016) refer to the natural gas present in the storage system (619 million standard cubic metres, unchanged from 31 December 2016) and do not include compulsory inventories, recognised under "Non-current assets" in the balance sheet. Inventories are reported net of the provision for impairment losses of €43 million (€42 million at 31 December 2016). The provision essentially involves the impairment loss (€30 million) recorded in 2014 for 0.4 billion cubic metres of natural gas used under the scope of storage activities of strategic gas unduly withdrawn by some service users in 2010 and 2011<sup>13</sup>.

Changes in the provision for impairment losses during the year are shown below:

(€ million)	Provision for impairment losses at 31.12.2016	Provisions	Provision for impairment losses at 31.12.2017
Raw materials, consumables and supplies	10	<b>1</b>	<b>11</b>
Finished products and merchandise	32		<b>32</b>
	<b>42</b>	<b>1</b>	<b>43</b>

Inventories are not collateralised. Inventories do not secure liabilities, nor are they recognised at net realisation value.

<sup>13</sup> For more information regarding the progress of the lawsuits underway, see Note no. 24 "Guarantees, commitments and risks - Disputes and other measures - Recovering receivables from users of the storage system".

**Compulsory inventories (non-current assets)**

Compulsory inventories (€363 million, unchanged from 31 December 2016) comprise minimum quantities of natural gas that the storage companies are obliged to hold pursuant to Presidential Decree 22 of 31 January 2001. The quantities of natural gas in stock, equal to around 4.5 billion standard cubic metres, are determined annually by the Ministry of Economic Development<sup>14</sup>.

**10) Current income tax assets/liabilities and other current tax assets/liabilities**

*Current income tax assets/liabilities and other current tax assets/liabilities* break down as follows:

(€ million)	31.12.2016	31.12.2017
<b>Current income tax assets</b>	<b>26</b>	<b>16</b>
- IRES	21	13
- IRAP	4	2
- Tax credits on withholding tax on foreign dividends		
- Other assets	1	1
<b>Other current tax assets</b>	<b>6</b>	<b>21</b>
- VAT	4	18
- Other taxes	2	3
	<b>32</b>	<b>37</b>
<b>Current income tax liabilities</b>	<b>(2)</b>	
- IRES		
- IRAP	(2)	
<b>Other current tax liabilities</b>	<b>(8)</b>	<b>(11)</b>
- IRPEF withholdings for employees	(6)	(7)
- VAT		
- Other taxes	(2)	(4)
	<b>(10)</b>	<b>(11)</b>

*Current income tax assets* of €16 million (€26 million at 31 December 2016) mainly involve IRES receivables (€13 million) following the excess amount paid for additional IRES (€8 million) and under the national tax consolidation scheme (€5 million).

*Other current tax assets* of €21 million (€6 million at 31 December 2016) mainly refer to VAT receivables (€18 million).

<sup>14</sup> On 25 January 2017, the Ministry set the strategic storage volume at 4.62 billion cubic metres for the contractual storage year 2017-2018 (01 April 2017 - 31 March 2018) which was unchanged from the volume set for the contractual year 2016-2017 (01 April 2016 - 31 March 2017). The Stogit share was unchanged at 4.5 billion cubic metres. On 06 February 2018, the Ministry confirmed the total volume of strategic storage for the contractual year 2018-2019 (01 April 2018 - 31 March 2019) at 4.62 billion cubic metres (or approximately 48,846 gigawatt hours (GWh)).

*Other current tax liabilities* of €11 million (€8 million at 31 December 2016) mainly relate to IRPEF (personal income tax) withholdings for employees (€7 million). Taxes pertaining to the year under review are shown in Note no. 30 - "Income taxes".

## 11) Other current and non-current assets

*Other current assets*, which amount to €56 million (€52 million at 31 December 2016) and *other non-current assets* of €50 million (€138 million at 31 December 2016) break down as follows:

(€ million)	31.12.2016			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	37	69	106	46	22	68
Market value of derivative financial instruments	5	19	24		1	1
Other assets:	10	50	60	10	27	37
- Prepayments	9	16	25	7	15	22
- Security deposits		11	11		12	12
- Other	1	23	24	3		3
	<b>52</b>	<b>138</b>	<b>190</b>	<b>56</b>	<b>50</b>	<b>106</b>

Other regulated assets (€68 million; €106 million at 31 December 2016) relate to the natural gas transportation service and refer mainly to the shortfall in amounts invoiced compared with the restriction imposed by the regulator<sup>15</sup>, of which the current portion accounts for €46 million (€37 million at 31 December 2016) and the non-current portion accounts for €22 million (€69 million at 31 December 2016).

<sup>15</sup> See Note no. 3 "Measurement criteria - Revenue".

The market value of derivatives outstanding at 31 December 2017 is as follows:

(€ million)	31.12.2016			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
<b>Other assets</b>	<b>5</b>	<b>19</b>	<b>24</b>		<b>1</b>	<b>1</b>
Cash flow hedging derivatives:						
- Fair value interest rate hedging derivatives					<b>1</b>	<b>1</b>
- Fair value exchange rate hedging derivatives		<b>3</b>	<b>3</b>			
Fair value hedging derivatives:						
- Fair value interest rate hedging derivatives	<b>2</b>	<b>16</b>	<b>18</b>			
- Accrued income on derivatives	<b>3</b>		<b>3</b>			
<b>Other liabilities</b>				<b>(2)</b>	<b>(11)</b>	<b>(13)</b>
Cash flow hedging derivatives:						
- Fair value interest rate hedging derivatives					<b>(9)</b>	<b>(9)</b>
- Fair value exchange rate hedging derivatives				<b>(1)</b>	<b>(2)</b>	<b>(3)</b>
- Accrued expenses on derivatives				<b>(1)</b>		<b>(1)</b>

The assets arising from the market-value measurement of cash flow hedging derivatives (€1 million) refer to a derivative interest rate swap entered into in February 2017 and used to hedge against fluctuations in the interest rate of a €300 million long-term bond issue. The loan, which has a duration of five years and matures on 21 February 2022, pays a variable interest rate linked to 3 month Euribor plus 60 bps. The IRS has converted the floating-rate liability into an equivalent fixed-rate liability with reference rate of + 0.0408%.

The main characteristics of the derivative in question are summarised in the tables below:

(€ million)							
Type of derivative	Contract start date	Maturity date	Residual term (years)	Interest rate Purchased	Interest rate Sold	Nominal value at 31.12.2017	Market value at 31.12.2017
Interest rate swap	21.02.2017	21.02.2022	4.1	3 month Euribor	0.0408%	<b>300</b>	<b>1</b>

The liabilities arising from measurement at market value of the derivative financial instruments used as cash flow hedges (€13 million) refer to:

- three derivative Interest Rate Swap “Forward Start” contracts with Mandatory Early Termination, stipulated in July 2017 to cover the risk of interest rate fluctuations of long-term bond issues scheduled for 2019 and 2020, of nominal total value of €750 million and a total market value of €9 million;
- a Cross Currency Swap (CCS) derivative, stipulated in 2013, with a market value of €3 million. The CCS is used to hedge against fluctuations in the exchange rate of a ¥10 billion (JPY) long-term bond issue. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in Euro with a fixed annual rate of 2.717%;
- an Interest Rate Swap derivative, stipulated in August 2017, with a market value of €1 million. The IRS is used to hedge against the fluctuation risk of the fair value of a fixed rate liability resulting from a long-term bond issue of €350 million. The 7 year bond has a maturity of 2 August 2024 and variable rate linked to 3 month Euribor + 40 bps. Through the derivative contract, the floating rate liability is converted into an equivalent fixed rate liability with a benchmark rate of 0.436%.

The main characteristics of the derivatives in question are summarised in the tables below:

### INTEREST RATE SWAP – FORWARD START

(€ million)

Type of derivative	Contract start date	Maturity date	Early extinguishment date	Duration (years)	Interest rate Purchased	Interest rate Sold	Nominal value at 31.12.2017	Market value at 31.12.2017
IRS - Forward start	30.01.2019	30.01.2026	30.04.2019	7.0	0.9890%	Euribor 6 m	250	(3)
IRS - Forward start	30.10.2019	30.10.2026	30.01.2020	7.0	1.1805%	Euribor 6 m	250	(3)
IRS - Forward start	29.10.2020	29.10.2027	29.01.2021	7.0	1.4225%	Euribor 6 m	250	(3)

### CROSS-CURRENCY SWAP

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	JPY/EUR exchange rate purchased	JPY/EUR exchange rate sold	Nominal value(*) at 31.12.2016	Nominal value(*) at 31.12.2017	Market value at 31.12.2016	Market value at 31.12.2017
Cross-currency swap	25.10.2013	25.10.2019	1.8	133.98	Spot	75	75	3	(3)

(\*) Equal to a value of ¥10 billion at the original exchange rate on the issue date of ¥133.98/€.



In relation to this contract, Snam agrees with its counterparties on the exchange of two capital flows (at the time of entering into the contract and upon the maturity of the underlying financial instrument) and periodic interest flows (on the same dates stipulated for the hedged item) denominated in different currencies at a predetermined exchange rate.

## INTEREST RATE SWAP

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	Interest rate Purchased	Interest rate Sold	Nominal value at 31.12.2017	Market value at 31.12.2017
Interest rate swap	02.08.2017	02.08.2024	6.6	3 month Euribor	0.4360%	350	(1)

The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined using generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note no. 24 - "Guarantees, commitments and risks - Management of financial risks".

The item "Other assets" (€37 million; €60 million at 31 December 2016) essentially comprises:

- prepayments (€22 million), relating mainly to upfront fees and the substitute tax on revolving credit lines<sup>16</sup> (€19 million) and to insurance premiums (€3 million). The current and non-current portions amount to €7 million and €15 million respectively (€9 million and €16 million at 31 December 2016);
- security deposits (€12 million), relating to the transportation segment.

<sup>16</sup> Up-front fees and substitute tax are to be regarded as "transaction costs" pursuant to IAS 39 "Financial Instruments: Recognition and Measurement"; the relative charges are spread over the (expected) life of the financial instrument.

## 12) Property, plant and equipment

Property, plant and equipment, which amounts to €16,033 million (€15,563 million at 31 December 2016) breaks down as follows:

	31.12.2016						
(€ million)	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	Total
<b>Cost at 31.12.2015</b>	<b>171</b>	<b>767</b>	<b>20,186</b>	<b>260</b>	<b>178</b>	<b>1,298</b>	<b>22,860</b>
Investments (*)	1		2	13	2	845	<b>863</b>
Disposals	(1)	(3)	(19)	(11)	(5)	(9)	<b>(48)</b>
Other changes	3	13	1,118	7	20	(1,067)	<b>94</b>
Change in scope of consolidation	(11)	(350)	(12)	(179)		(6)	<b>(558)</b>
<b>Cost at 31.12.2016</b>	<b>163</b>	<b>427</b>	<b>21,275</b>	<b>90</b>	<b>195</b>	<b>1,061</b>	<b>23,211</b>
<b>Provisions for amortisation and depreciation at 31.12.2015</b>		<b>(254)</b>	<b>(6,785)</b>	<b>(188)</b>	<b>(126)</b>		<b>(7,353)</b>
Depreciation and amortization - continuing operations		(9)	(532)	(10)	(19)		<b>(570)</b>
Depreciation and amortization - discontinued operations		(8)		(7)			<b>(15)</b>
Disposals		1	10	10	5		<b>26</b>
Other changes				(5)			<b>(5)</b>
Change in scope of consolidation		172	5	152			<b>329</b>
<b>Provisions for amortisation and depreciation at 31.12.2016</b>		<b>(98)</b>	<b>(7,302)</b>	<b>(48)</b>	<b>(140)</b>		<b>(7,588)</b>
<b>Provision for impairment losses at 31.12.2015</b>		<b>(5)</b>	<b>(24)</b>				<b>(29)</b>
(Impairment losses)/reversals	(1)	(1)	(3)			(30)	<b>(35)</b>
Change in scope of consolidation			4				<b>4</b>
<b>Provision for impairment losses at 31.12.2016</b>	<b>(1)</b>	<b>(6)</b>	<b>(23)</b>			<b>(30)</b>	<b>(60)</b>
<b>Net balance at 31.12.2015</b>	<b>171</b>	<b>508</b>	<b>13,377</b>	<b>72</b>	<b>52</b>	<b>1,298</b>	<b>15,478</b>
<b>Net balance at 31.12.2016</b>	<b>162</b>	<b>323</b>	<b>13,950</b>	<b>42</b>	<b>55</b>	<b>1,031</b>	<b>15,563</b>

(\*) The values include €9 million in investments attributable to discontinued operations in the period from 1 January - 6 November 2016

(€ million)	31.12.2017						Total
	Land	Buildings	Plant and equipment	Industrial and commercial equipment	Other assets	Non-current assets under construction and payments on account	
<b>Cost at 31.12.2016</b>	<b>163</b>	<b>427</b>	<b>21,275</b>	<b>90</b>	<b>195</b>	<b>1,061</b>	<b>23,211</b>
Investments	1		8	5		954	968
Disposals		(4)	(29)	(7)	(7)	(7)	(54)
Other changes	3	20	769	20	21	(870)	(37)
Change in scope of consolidation			182		1		183
<b>Cost at 31.12.2017</b>	<b>167</b>	<b>443</b>	<b>22,205</b>	<b>108</b>	<b>210</b>	<b>1,138</b>	<b>24,271</b>
<b>Provisions for amortisation and depreciation at 31.12.2016</b>		<b>(98)</b>	<b>(7,302)</b>	<b>(48)</b>	<b>(140)</b>		<b>(7,588)</b>
Depreciation		(10)	(552)	(10)	(20)		(592)
Disposals		1	23	6	7		37
Other changes				(1)	1		
Change in scope of consolidation			(31)		(1)		(32)
<b>Provisions for amortisation and depreciation at 31.12.2017</b>		<b>(107)</b>	<b>(7,862)</b>	<b>(53)</b>	<b>(153)</b>		<b>(8,175)</b>
<b>Provision for impairment losses at 31.12.2016</b>	<b>(1)</b>	<b>(6)</b>	<b>(23)</b>			<b>(30)</b>	<b>(60)</b>
(Impairment losses)/reversals			(3)			(10)	(13)
Divestments		2	1			7	10
<b>Provision for impairment losses at 31.12.2017</b>	<b>(1)</b>	<b>(4)</b>	<b>(25)</b>			<b>(33)</b>	<b>(63)</b>
<b>Net balance at 31.12.2016</b>	<b>162</b>	<b>323</b>	<b>13,950</b>	<b>42</b>	<b>55</b>	<b>1,031</b>	<b>15,563</b>
<b>Net balance at 31.12.2017</b>	<b>166</b>	<b>332</b>	<b>14,318</b>	<b>55</b>	<b>57</b>	<b>1,105</b>	<b>16,033</b>

Property, plant and equipment (€16,033 million, compared with €15,563 million at 31 December 2016) relates mainly to transportation (€13,114 million), storage (€2,828 million) and regasification (€84 million) infrastructure.

Investments<sup>17</sup> (€968 million) refer mainly to the transportation (€863 million) and storage (€96 million) segments.

During the year, Snam capitalised €13 million of financial expenses (€23 million in 2016).

Depreciation (€592 million) refers to economic and technical depreciation determined on the basis of the useful life of the assets or their remaining possible use by the Company.

Capital contributions from government authorities and other entities (€67 million and €305 million; €69 million and €307 million respectively at 31 December 2016)

<sup>17</sup> Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

are recorded against the net value of property, plant and equipment.

The changes in scope of consolidation (€151 million, net of the relative provisions for depreciation and amortisation) refer to the consolidation of Infrastrutture Trasporto Gas S.p.A., following the acquisition from Edison, through Asset Company 2 S.r.l., of 100% of the company's share capital.

Disposals (€7 million, net of the related provisions for depreciation, amortisation and impairment losses) mainly relate to transportation segment assets.

Impairment losses and reversals (€13 million) refer essentially to the write-down of assets not yet ready for use in the transportation segment.

The value of plant and equipment includes site dismantling and restoration costs (€257 million), relating mainly to the natural gas storage (€168 million) and transportation (€87 million) sectors.

Other changes (€37 million net of the related provisions for depreciation and amortisation) mainly relate to: (i) the revision of estimated (discounted) costs for site restoration and dismantling (€19 million) in the natural gas storage and transportation segments, which are offset by the recognition of a specific provision<sup>18</sup>, mainly due to the change in expected discount rates; (ii) the change in stocks of pipes and related accessory materials used in the production of plants in the natural gas transportation segment (€10 million); and (iii) grants for the period (€8 million).

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note no. 24 "Guarantees, commitments and risks".

### Property, plant and equipment by business segment

Property, plant and equipment by operating segment break down as follows:

(€ million)	31.12.2016	31.12.2017
<b>Historical cost</b>	<b>23,211</b>	<b>24,271</b>
Transportation	19,296	20,290
Storage	3,753	3,818
Regasification	154	150
Corporate and other activities	8	13
<b>Provision for amortisation, depreciation and impairment losses</b>	<b>(7,648)</b>	<b>(8,238)</b>
Transportation	(6,659)	(7,176)
Storage	(914)	(990)
Regasification	(70)	(66)
Corporate and other activities	(5)	(6)
<b>Net balance</b>	<b>15,563</b>	<b>16,033</b>
Transportation	12,637	13,114
Storage	2,839	2,828
Regasification	84	84
Corporate and other activities	3	7

18 Further information can be found in Note no. 19 "Provisions for risks and charges".

## 13) Intangible assets

Intangible assets, which amount to €850 million (€810 million at 31 December 2016) break down as follows:

	31.12.2016						Total
	Finite useful life					Indefinite useful life	
(€ million)	Service concession agreements	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	
<b>Cost at 31.12.2015</b>	<b>7,264</b>	<b>890</b>	<b>744</b>	<b>69</b>	<b>50</b>	<b>9</b>	<b>9,026</b>
Investments (*)	258			3	75		336
Disposals (*)	(39)						(39)
Other changes	(39)	89	11	7	(78)		(10)
Change in scope of consolidation	(7,444)	(332)		(37)	(27)	(9)	(7,849)
<b>Cost at 31.12.2016</b>		<b>647</b>	<b>755</b>	<b>42</b>	<b>20</b>		<b>1,464</b>
<b>Provisions for amortisation and depreciation at 31.12.2015</b>	<b>(2,903)</b>	<b>(709)</b>	<b>(83)</b>	<b>(55)</b>			<b>(3,750)</b>
Depreciation and amortization - continuing operations		(43)	(3)				(46)
Depreciation and amortization - discontinued operations	(197)	(24)		(7)			(228)
Disposals (*)	23						23
Other changes	9	(12)	(7)	(4)			(14)
Change in scope of consolidation	3,068	269		24			3,361
<b>Provisions for amortisation and depreciation at 31.12.2016</b>		<b>(519)</b>	<b>(93)</b>	<b>(42)</b>			<b>(654)</b>
<b>Provision for impairment losses at 31.12.2015</b>			<b>(1)</b>				<b>(1)</b>
Other changes	(1)		1				
Change in scope of consolidation	1						1
<b>Provision for impairment losses at 31.12.2016</b>							
<b>Net balance at 31.12.2015</b>	<b>4,361</b>	<b>181</b>	<b>660</b>	<b>14</b>	<b>50</b>	<b>9</b>	<b>5,275</b>
<b>Net balance at 31.12.2016</b>		<b>128</b>	<b>662</b>		<b>20</b>		<b>810</b>

(\*) The amounts include €284 million of investments and €16 million of net disposals attributable to discontinued operations in the period from 1 January - 6 November 2016.

	31.12.2017					
	Finite useful life				Indefinite useful life	
	Industrial patent rights and intellectual property rights	Concessions, licences, trademarks and similar rights	Other intangible assets	Non-current assets under construction and payments on account	Goodwill	Total
(€ million)						
<b>Cost at 31.12.2016</b>	<b>647</b>	<b>755</b>	<b>42</b>	<b>20</b>		<b>1,464</b>
Investments				<b>66</b>		<b>66</b>
Other changes	<b>52</b>	<b>8</b>		<b>(59)</b>		<b>1</b>
Change in scope of consolidation	<b>2</b>				<b>27</b>	<b>29</b>
<b>Cost at 31.12.2017</b>	<b>701</b>	<b>763</b>	<b>42</b>	<b>27</b>	<b>27</b>	<b>1,560</b>
<b>Provisions for amortisation and depreciation at 31.12.2016</b>	<b>(519)</b>	<b>(93)</b>	<b>(42)</b>			<b>(654)</b>
Amortisation	<b>(50)</b>	<b>(4)</b>				<b>(54)</b>
Other changes	<b>(1)</b>					<b>(1)</b>
Change in scope of consolidation	<b>(1)</b>					<b>(1)</b>
<b>Provisions for amortisation and depreciation at 31.12.2017</b>	<b>(571)</b>	<b>(97)</b>	<b>(42)</b>			<b>(710)</b>
<b>Net balance at 31.12.2016</b>	<b>128</b>	<b>662</b>		<b>20</b>		<b>810</b>
<b>Net balance at 31.12.2017</b>	<b>130</b>	<b>666</b>		<b>27</b>	<b>27</b>	<b>850</b>

Industrial patent rights and intellectual property rights of €130 million (€128 million at 31 December 2016) mainly concern information systems and applications in support of operating activities.

Concessions, licences, trademarks and similar rights (€666 million; €662 million at 31 December 2016) refer essentially to concessions for natural gas storage activities (€656 million) and, specifically to the concessions of Settala (€226 million), Sergnano (€126 million), Fiume Treste (€91 million) and Brugherio (€56 million). The value of the storage concessions is represented by the reserves of natural gas in the fields ("cushion gas"<sup>19</sup>).

The intangible assets with an indefinite useful life (€27 million), refer exclusively to the goodwill recognized upon acquisition from Edison of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A.<sup>20</sup> The goodwill was allocated to the CGU represented by the legal entity itself. In consideration of the recent acquisition, with account taken also of the appraisal of the company by an independent advisor, it is believed that the recoverable value of the CGU is not lower than its carrying amount, including goodwill.

Investments (€66 million) refer mainly to the transportation (€54 million) segment<sup>21</sup>.

<sup>19</sup> Cushion gas is not depreciated.

<sup>20</sup> For further information, see Note no. 23 - "Business combinations".

<sup>21</sup> Investments by business segment are shown in the "Business segment operating performance" section of the Directors' Report.

Amortisation (€54 million) refers to economic and technical amortisation determined on the basis of the finite useful life of the intangible assets or their remaining possible use by the Company.

Due to the nature of the activities carried out by the Group, i.e. regulated activities in the gas supply chain, the recoverable value of property, plant and equipment and intangible assets was defined in keeping with the estimated value of net invested capital recognised for such assets for tariff purposes (regulatory asset base, or RAB) by ARERA, net of flat-fee<sup>22</sup> components, the provision for employee severance pay (TFR) and grants received.

For the purposes of identifying cash-generating units (CGUs) and allocating any goodwill, in accordance with the segmentation defined by ARERA for the definition of the return on assets, the CGUs are represented by the legal entities that carry out regulated activities in the natural gas transportation, regasification and storage sectors.

As defined above, the recoverable value of property, plant and equipment, including compulsory inventories, and intangible assets is around €20 billion<sup>23</sup>. Contractual commitments to purchase intangible assets, and to provide services related to the development thereof, are reported in Note no. 24 - "Guarantees, commitments and risks".

### Intangible assets by business segment

Intangible assets by business segment break down as follows:

(€ million)	31.12.2016	31.12.2017
<b>Historical cost</b>	<b>1,464</b>	<b>1,560</b>
Transportation	573	659
Storage	824	826
Regasification	4	4
Corporate and other activities	63	71
<b>Provision for amortisation, depreciation and impairment losses</b>	<b>(654)</b>	<b>(710)</b>
Transportation	(458)	(502)
Storage	(147)	(152)
Regasification	(3)	(3)
Corporate and other activities	(46)	(53)
<b>Net balance</b>	<b>810</b>	<b>850</b>
Transportation	115	157
Storage	677	674
Regasification	1	1
Corporate and other activities	17	18

<sup>22</sup> The RAB is used to determine the service tariffs and, therefore, the cash flows generated by the assets. The RAB value is defined using the revalued historical cost method with regard to fixed capital and on a flat-rate basis with regard to working capital, employee severance pay (TFR) and, in relation to the storage sector, the provision for site dismantling and restoration.

<sup>23</sup> Estimated value as at 31 December 2017.

## 14) Investments valued using the equity method

Investments valued using the equity method, amounting to €1,547 million (€1,499 million at 31 December 2016) break down as follows:

(€ million)	Equity investments in		
	joint ventures	associates	Total
<b>Initial value at 01.01.2016</b>	<b>1,242</b>	<b>130</b>	<b>1,372</b>
Acquisitions and subscriptions	135	35	<b>170</b>
Capital gains from measurement using the equity method - continuing operations	140		<b>140</b>
Capital gains from measurement using the equity method - discontinued operations	17		<b>17</b>
(Capital losses) from measurement using the equity method - continuing operations	(10)	(14)	<b>(24)</b>
Exchange rate conversion differences	(15)		<b>(15)</b>
Sales and repayments	(2)		<b>(2)</b>
Decrease owing to dividends (*)	(148)		<b>(148)</b>
Other changes	(164)	153	<b>(11)</b>
<b>Final value at 31.12.2016</b>	<b>1,195</b>	<b>304</b>	<b>1,499</b>
<b>Initial value at 01.01.2017</b>	<b>1,195</b>	<b>304</b>	<b>1,499</b>
Acquisitions and subscriptions		66	<b>66</b>
Capital gains from measurement using the equity method	136	39	<b>175</b>
(Capital losses) from measurement using the equity method	(10)	(4)	<b>(14)</b>
Exchange rate conversion differences	(3)		<b>(3)</b>
Sales and repayments	(35)		<b>(35)</b>
Decrease owing to dividends	(127)	(22)	<b>(149)</b>
Other changes	8		<b>8</b>
<b>Final value at 31.12.2017</b>	<b>1,164</b>	<b>383</b>	<b>1,547</b>

(\*) The amounts include €13 million of dividends collected from equity investments in discontinued operations.



The acquisitions and subscriptions (€66 million) refer exclusively to the increase in the share capital of TAP paid in 2017.

Capital gains arising from valuation using the equity method (€175 million) refer to the jointly controlled companies TAG (€84 million), TIGF (€41 million), AS Gasinfrastruktur Beteiligung GmbH (€11 million) and the associated company Italgas (€39 million).

Capital losses arising from valuation using the equity method (€14 million) refer to the share of losses of the jointly controlled companies (€10 million) and the associated companies (€4 million). With regard to jointly controlled companies, the negative result relates to GasBridge 1 B.V. and Gasbridge 2 B.V. and includes the effects of the write-down of the interests held by these companies in Interconnector UK (€18 million). Specifically regarding the recoverable value of the investments by GasBridge 1 B.V. and GasBridge 2 B.V. in Interconnector UK, the assessment was made on the basis of a multi-year horizon, using the Discounted Dividend Model (DDM) and the discount rate

was determined based on the cost of capital adjusted to take into account the risk premium. For subsequent years, cash flow projections were made using the perpetuity method based on the dividend estimated for the last year of the Plan with a growth rate of zero. The discounting rate used for estimating the cash flows is approximately 9.9%. This valuation is confirmed also by the price of a recent transaction involving Interconnector UK shares.

The disposals and repayments (€35 million) refer to the reduction of the carrying value of the interests in the companies GasBridge 1 B.V., GasBridge 2 B.V. (€18 million overall) and AS Gasinfrastruktur Beteiligung GmbH (€17 million), with distribution of a portion of the share premium reserve generated upon establishment of the company.

The decrease owing to dividends (€149 million) refers to the jointly controlled companies TIGF (€39 million) and TAG (€88 million) and the associated company Italgas (€22 million).

The other changes (€8 million) mainly refer to the jointly controlled company

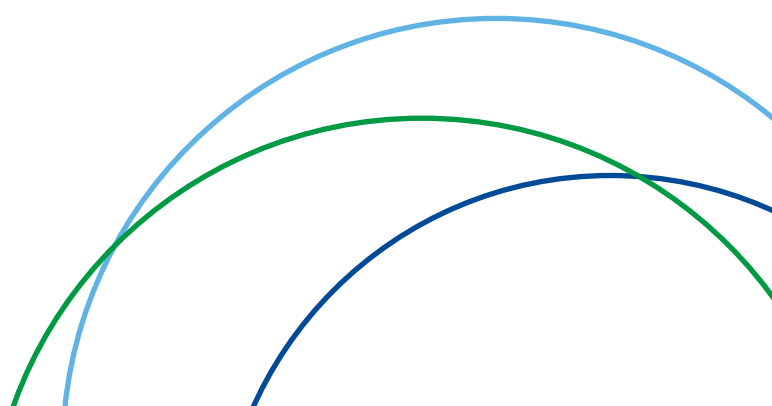
TIGF (€8 million).

Equity investments are not collateralised.

Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Significant shareholdings, associates and equity investments of Snam S.p.A. at 31 December 2017", which is an integral part of these Notes.

#### **Other information on equity investments**

In accordance with the provisions of IFRS 12 - "Disclosure of interests in other entities", the economic and financial data for joint ventures and associates are provided below.



## Investments in joint ventures

The IFRS-compliant economic and financial data for each significant joint venture<sup>24</sup> are reported below:

(€ million)	31.12.2016			
	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH	GasBridge 1 B.V. and 2 B.V.
Current assets	143	71	17	36
- of which cash and cash equivalents	68	24	17	
Non-current assets	2,807	1,020	601	138
<b>Total assets</b>	<b>2,950</b>	<b>1,091</b>	<b>618</b>	<b>174</b>
Current liabilities	(105)	(55)		
- of which current financial liabilities	(17)			
Non-current liabilities	(1,707)	(462)	(280)	
- of which non-current financial liabilities	(1,438)	(301)	(280)	
<b>Total liabilities</b>	<b>(1,812)</b>	<b>(517)</b>	<b>(280)</b>	
<b>Shareholders' equity</b>	<b>1,138</b>	<b>574</b>	<b>338</b>	<b>174</b>
Equity interest held by the Group % (*)	40.50%	89.22%	40.0%	50.0%
Share attributable to the Group	461	512	135	87
Other adjustments				
<b>Book value of the equity investment</b>	<b>461</b>	<b>512</b>	<b>135</b>	<b>87</b>
Revenue	465	344		
Operating costs	(162)	(129)		
Amortisation, depreciation and impairment	(133)	(77)		
<b>EBIT</b>	<b>170</b>	<b>138</b>		
Financial income		1		
Financial expenses	(37)	(3)		
Income (expense) from equity investments				(20)
Income tax	(10)	(35)		
<b>Net profit</b>	<b>123</b>	<b>101</b>		<b>(20)</b>
Other components of comprehensive income		1		(30)
<b>Total comprehensive income</b>	<b>123</b>	<b>102</b>		<b>(50)</b>

(\*) The investment in Trans Austria Gasleitung GmbH is measured on the basis of the percentage of economic rights held.

24 Unless otherwise indicated, the financial statements of joint ventures, reported in 100% share, have been amended to reflect adjustments made by the reporting entity when using the equity method. The aforementioned amounts relate to the preliminary and/or approved reporting packages.

(€ million)	31.12.2017			
	TIGF Holding S.A.S.	Trans Austria Gasleitung GmbH	AS Gasinfrastruktur Beteiligung GmbH	GasBridge 1 B. V. and 2 B.V.
Current assets	103	53	7	31
- of which cash and cash equivalents	33	9	7	
Non-current assets	2,852	1,048	596	81
<b>Total assets</b>	<b>2,955</b>	<b>1,101</b>	<b>603</b>	<b>112</b>
Current liabilities	(64)	(127)	(3)	
- of which current financial liabilities		(60)		
Non-current liabilities	(1,728)	(405)	(283)	
- of which non-current financial liabilities	(1,462)	(261)	(283)	
<b>Total liabilities</b>	<b>(1,792)</b>	<b>(532)</b>	<b>(286)</b>	
<b>Shareholders' equity</b>	<b>1,163</b>	<b>569</b>	<b>317</b>	<b>112</b>
Equity interest held by the Group (%)(*)	40.50%	89.22%	40.0%	50.0%
Share attributable to the Group	471	508	127	56
Other adjustments			2	
<b>Book value of the equity investment</b>	<b>471</b>	<b>508</b>	<b>129</b>	<b>56</b>
Revenue	454	320		
Operating costs	(148)	(136)	(1)	
Amortisation, depreciation and impairment	(132)	(56)		
<b>EBIT</b>	<b>174</b>	<b>128</b>	<b>(1)</b>	
Financial income		2	1	
Financial expenses	(37)	(3)	(6)	
Income (expense) from equity investments			24	(20)
Income tax	(36)	(32)		
<b>Net profit</b>	<b>101</b>	<b>95</b>	<b>18</b>	<b>(20)</b>
Other components of comprehensive income	1		1	(6)
<b>Total comprehensive income</b>	<b>102</b>	<b>95</b>	<b>19</b>	<b>(26)</b>

(\*) The investment in Trans Austria Gasleitung GmbH is measured on the basis of the percentage of economic rights held.

## Information on Investments in joint ventures

### *TIGF Holding S.A.S.*

TIGF Holding S.A.S. is a company operating under French law, which, through TIGF Investissements S.A.S. (a wholly owned subsidiary of TIGF Holding), controls 100% of TIGF SA.

TIGF SA (Transport et Infrastructures Gaz France) operates in the transportation and storage of natural gas in south-west France. Natural gas transportation in France is a regulated activity.

As at 31 December 2017, TIGF Holding S.A.S. was an investee of Snam S.p.A. (40.5%), Singapore sovereign wealth fund GIC (31.5%), EDF (18%, through a fund dedicated to liabilities arising from the disposal of nuclear assets) and Crédit Agricole Assurances (10%, through Prévoyance Dialogue du Crédit Agricole).

TIGF Holding S.A.S. consolidated financial statements include TIGF Investissements SAS and TIGF SA.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GIC.

### *Trans Austria Gasleitung GmbH (TAG)*

Trans Austria Gasleitung GmbH (TAG) is a company operating under Austrian law that is active in the natural gas transportation segment. It owns the gas pipeline that links the Slovakian-Austrian border to the Tarvisio entry point.

Natural gas transportation in Austria is a regulated activity.

As at 31 December 2017, Snam S.p.A. holds 84.47% of the share capital, entitling it to 89.22% of the economic rights. The remainder of the share capital is held by Gas Connect Austria GmbH (GCA).

The contractual agreements drawn up between Snam, TAG and GCA also

stipulate that if TAG is not capable of self-financing, the other companies must finance it according to the equity investment held by each shareholder. The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and GCA.

### *AS Gasinfrastruktur Beteiligung GmbH*

AS Gasinfrastruktur Beteiligung GmbH is an Austrian company jointly controlled by Snam S.p.A. and the Allianz group, with holdings of 40% and 60% respectively.

The company holds 100% of the Austrian company AS Gasinfrastruktur GmbH, which in turn holds 49% of the share capital of Gas Connect Austria GmbH, which is controlled by OMV AG. The corporate governance rules of AS Gasinfrastruktur Beteiligung GmbH stipulate that decisions on significant activities must be taken with the unanimous consent of shareholders Snam and Allianz.

### *Gasbridge 1 B.V. and Gasbridge 2 B.V.*

Gasbridge 1 B.V. and Gasbridge 2 B.V. are two companies operating under Dutch law that are equal-stake joint ventures of Snam S.p.A. and Fluxys Europe B.V.

The two companies hold equal shares in the following equity investments:

- 31.5% of Interconnector UK Ltd, a subsidiary of Fluxys;
- 51% of Interconnector Zeebrugge Terminal SCRL.

The corporate governance rules stipulate that decisions on significant activities must be taken with the unanimous consent of the two shareholders Snam S.p.A. and Fluxys Europe B.V.

## Significant restrictions

Pursuant to the provisions of IFRS 12, the major significant restrictions on investee companies' ability to transfer funds to Snam in the form of dividends, loan repayments or advances appear below.

### **TIGF Investissement S.A.S.**

The payment of interest on the residual nominal amount of the €670 million convertible bond (of which Snam has subscribed €272 million) may be deferred at the discretion of the issuer TIGF Investissement. The bond debt is subordinate to the outstanding bank loans.

## Investments in associates

The IFRS-compliant economic and financial data for all investments in associates<sup>25</sup> not deemed to be significant are reported below:

	<b>31.12.2016</b>	
(€ million)	<b>Trans Adriatic Pipeline AG</b>	<b>Italgas S.p.A.</b>
Current assets	84	655
Non-current assets	2,091	4,953
<b>Total assets</b>	<b>2,175</b>	<b>5,608</b>
Current liabilities	(281)	(3,153)
Non-current liabilities	(1,086)	(1,391)
<b>Total liabilities</b>	<b>(1,367)</b>	<b>(4,544)</b>
<b>Shareholders' equity</b>	<b>808</b>	<b>1,064</b>
Equity interest held by the Group (%)	20%	13.5%
Share attributable to the Group	161	143
Other adjustments		
<b>Book value of the equity investment</b>	<b>161</b>	<b>143</b>
Revenue		274
<b>EBIT</b>	<b>(18)</b>	<b>29</b>
<b>Net profit</b>	<b>(18)</b>	<b>(72)</b>
Other components of comprehensive income	1	2
<b>Total comprehensive income</b>	<b>(17)</b>	<b>(70)</b>

<sup>25</sup> The information disclosed reflects the amounts presented in the financial statements of the relevant associates, and not the reporting entity's share of those amounts. They have been amended to reflect adjustments made by the reporting entity when using the equity method. The aforementioned amounts refer to the preliminary and/or approved reporting packages.

	31.12.2017	
(€ million)	Trans Adriatic Pipeline AG	Italgas S.p.A.
Current assets	106	684
Non-current assets	3,213	5,164
<b>Total assets</b>	<b>3,320</b>	<b>5,848</b>
Current liabilities	(280)	(624)
Non-current liabilities	(1,925)	(4,038)
<b>Total liabilities</b>	<b>(2,205)</b>	<b>(4,662)</b>
<b>Shareholders' equity</b>	<b>1,115</b>	<b>1,186</b>
Equity interest held by the Group (%)	20%	13.5%
Share attributable to the Group	223	160
Other adjustments		
<b>Book value of the equity investment</b>	<b>223</b>	<b>160</b>
Revenue		1,621
<b>EBIT</b>	<b>(27)</b>	<b>418</b>
<b>Net profit</b>	<b>(22)</b>	<b>293</b>
Other components of comprehensive income	3	(1)
<b>Total comprehensive income</b>	<b>(19)</b>	<b>292</b>

## Information on investments in associates

### *Trans Adriatic Pipeline AG TAP*

Trans Adriatic Pipeline AG (TAP) is a Swiss company formed to design, develop and build a new gas pipeline, currently under construction, which will extend from the Greek-Turkish border to Italy (at the new entry point in San Foca-Melendugno), crossing Greece and Albania.

As at 31 December 2017, TAP A.G. was an investee of Snam S.p.A. (20%), Socar (20% through AzTAP GmbH), BP (20% through BP Gas Marketing Ltd), Fluxys (19% through Fluxys Europe B.V.), Enagas (16% through Enagás Internacional S.L.U.) and Axpo (5% through Axpo Trading AG).

On the basis of the contractual agreements stipulated, the shareholders are responsible for the financing of the project, according to the shares held, until the gas pipeline is functional, whether by means of a Shareholders' Loan or through capital subscriptions. Eventual expansion of capacity is subject to assessment of economic feasibility and therefore verification of the benefits for TAP, also in compliance with the decision regarding exemption by the regulatory Authorities<sup>26</sup>

Under current corporate governance rules, none of TAP's shareholders is able to exercise control over the company, including in a joint capacity.

### *Italgas S.p.A.*

Italgas S.p.A. is an Italian company that controls 100% of Italgas Reti S.p.A., Acam Gas S.p.A. and Enerco Distribuzione S.p.A. - companies which are active in the domestic natural gas distribution business.

Natural gas distribution is a regulated activity.

As at 31 December 2017, following the spin-off of the natural gas distribution business from Snam S.p.A. which took place in 2016, Italgas S.p.A., was an investee of Snam (13.5%), CDP Reti S.p.A. (26.05%), while the remainder is owned by third party shareholders. On 7 November 2016, the effective date of aforementioned separation, which covered all the shares each company held in Italgas S.p.A., the shareholder agreement signed by Snam S.p.A., CDP Reti S.p.A. and CDP Gas S.r.l., on 20 October 2016 entered into effect. The shareholder agreement establishes a block voting shareholder's agreement, with Snam having the right of early withdrawal if, in the event of Snam opposing the vote of the syndicated shares on reserved subjects of an extraordinary nature, Snam does not sell its equity investment in Italgas within the next 12 months (accelerated exit). Transfers of Snam's equity investment in Italgas S.p.A. (including in the event of an Accelerated Exit) are subject not only to advance approval by CDP Reti, but also to the subrogation of the third party. In addition, Snam may not increase its equity investment. The agreement has a three-year term that is renewable barring notice of termination; in the event that Snam does not renew, CDP Reti shall have an option to purchase at fair market value Snam's equity investment in Italgas.

<sup>26</sup> For additional information regarding the commitments undertaken by the shareholders with regard to TAP see Note no. 24 "Guarantees, commitments and risks".

## 15) Other investments

*Other investments* of €44 million break down as follows:

(€ million)	<b>Other investments</b>
<b>Initial value at 01.01.2017</b>	
Acquisitions and subscriptions	45
Other changes	(1)
<b>Final value at 31.12.2017</b>	<b>44</b>

The acquisitions and subscriptions (€45 million) are entirely the result of Edison's acquisition of 7.3% of the share capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG).

For more information about the acquisition, see the section "Snam in 2017 - Summary Data and Information - Main Events" in the Directors' Report.



## 16) Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities

Short-term financial liabilities, amounting to €1,373 million (€1,497 million at 31 December 2016), and long-term financial liabilities, including the short-term portion of long-term liabilities, totalling €11,246 million (€9,593 million at 31 December 2016), break down as follows:

(€ million)	31.12.2016					31.12.2017				
	Long-term financial liabilities					Long-term financial liabilities				
	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bonds		634	3,384	3,592	6,976		1,042	3,621	4,009	7,630
Bank loans	1,466	221	799	962	1,761	1,358	27	1,366	1,180	2,546
Other lenders	31	1				15	1			
	<b>1,497</b>	<b>856</b>	<b>4,183</b>	<b>4,554</b>	<b>8,737</b>	<b>1,373</b>	<b>1,070</b>	<b>4,987</b>	<b>5,189</b>	<b>10,176</b>

### Short-term financial liabilities

Short-term financial liabilities, amounting to €1,373 million (€1,497 million at 31 December 2016), relate mainly to uncommitted variable-rate credit lines (€1,358 million). The decrease compared with 31 December 2016 (€124 million) is mainly due to net utilisations of uncommitted lines of bank credit (€108 million).

There are no short-term financial liabilities denominated in currencies other than the Euro.

The weighted average interest rate on short-term financial liabilities was almost nil (0.07% for 2016).

The market value of short-term financial liabilities is the same as their book value.

### Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, including the short-term portion of long-term liabilities, amounted to €11,246 million (€9,593 million at 31 December 2016).

The breakdown of bond loans (€8,672 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table.

(€ million)

Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance at 31.12.2017	Rate (%)	Maturity (year)
<b>Euro Medium Term Notes (EMTN)</b>							
SNAM S.p.A. (b)	2012	€	851	26	877	3.875	2018
SNAM S.p.A. (c) (d)	2012	€	693	5	698	5.25	2022
SNAM S.p.A. (c) (d) (e)	2012	€	633	19	652	3.5	2020
SNAM S.p.A. (b) (c) (d)	2012	€	519	24	543	5	2019
SNAM S.p.A. (d)	2013	€	304	8	312	3.375	2021
SNAM S.p.A. (g)	2013	¥	74		74	2.717	2019
SNAM S.p.A.	2013	€	70		70	2.625	2018
SNAM S.p.A. (d)	2014	€	414	8	422	3.25	2024
SNAM S.p.A. (d)	2014	€	338	10	348	1.5	2023
SNAM S.p.A. (d)	2014	€	225	2	227	1.5	2019
SNAM S.p.A. (b) (d)	2015	€	391	(28)	363	1.375	2023
SNAM S.p.A. (d)	2015	€	169	3	172	1.5	2023
SNAM S.p.A.	2016	€	1,250	(7)	1,243	0.875	2026
SNAM S.p.A.	2016	€	500	(2)	498		2020
SNAM S.p.A.	2017	€	500	3	503	1.25	2025
SNAM S.p.A. (f)	2017	€	300	(1)	299	0.641	2022
SNAM S.p.A. (f)	2017	€	350	(1)	349	0.936	2024
SNAM S.p.A.	2017	€	650	(13)	637	1.375	2027
			<b>8,231</b>	<b>56</b>	<b>8,287</b>		
<b>Convertible bonds</b>							
SNAM S.p.A.	2017	€	400	(15)	385		2022
			<b>8,631</b>	<b>41</b>	<b>8,672</b>		

(a) Includes: (i) includes issue premium/discount; (ii) accrued interest; (iii) adjustment to the fair value of the bond loan, originally converted to floating rate through an IRS hedging derivative which was extinguished early on 27 January 2017; (iv) the adjustment of the equity component of the €400 million convertible bond.

(b) Bond loans subject to the 2015 liability management operation.

(c) Bond loans subject to the 2016 liability management operation.

(d) Bond loans subject to the 2017 liability management operation.

(e) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.

(f) Floating-rate bond, converted into fixed-rate through an IRS hedging derivative.

(g) Bond with a nominal value of ¥10 billion, converted into Euros through a cross-currency swap (CCS). The indicated nominal value is obtained by converting into Euros at the year-end spot exchange rate.

The increase in the bonds compared to 31 December 2016 of €1,062 million, is mainly due to the issue of: (i) a fixed rate bond loan of a nominal amount of €500 million, issued on 25 January 2017, which matures on 25 January 2025; (ii) a floating rate bond<sup>27</sup> of a nominal value of € 300 million, issued on 21 February 2017, maturing on 21 February 2022; (iii) a convertible, non-interest bearing bond loan of a nominal value of €400 million issued on 20 March 2017, maturing on 20 March 2022<sup>28</sup>; (iv) a floating rate convertible bond loan of a nominal value of €350 million issued on 2 August 2017 and maturing on 2 August 2024<sup>29</sup>; (v) a fixed rate bond of a nominal amount of €650 million, issued on 25 October 2017 and maturing on 25 October 2027. These effects are partially offset by the repayment of a bond maturing on 30 June 2017, with a nominal amount of €506 million and the repurchase on the market of fixed rate bonds of a total nominal value equal to €607 million, with an average coupon equal to 2.5% and residual duration of approximately 4.4 years. The total outflow from the reacquisition of the securities took place as part of the Liability Management transaction, concluded in October 2017, totalling €656 million complexly<sup>30</sup>. Payables for bank loans (€2,573 million) relate to term loans, of which €1,473 million concern European Investment Bank (EIB) funding. There are no other long-term bank loans denominated in currencies other

than the euro.

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was approximately 0.3%<sup>31</sup> (0.4% for 2016). There were no breaches of loan agreements as at the reporting date. The market value of long term financial debts, including the short term portion totals €11,913 million<sup>32</sup> (€10,230 million at 31 December 2016).

Snam has unused committed credit lines of €3.2 billion.

### Financial covenants and negative pledge commitments

As at 31 December 2017, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts include, inter alia, covenants typically imposed in international market practice, some of which subject to specific threshold values, such as for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; (iv) limits to the indebtedness of subsidiaries. Failure to comply with these covenants, and the occurrence of other events, such as cross-default events, could place Snam in default

and 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 lower than BBB (Standard & Poor's/Fitch Ratings Limited) or lower than Baa2 (Moody's) with at least two of the three rating 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, resulting in additional costs and/or liquidity issues.

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

Bonds, issued by Snam as at 31 December 2017, with a nominal value of €8.6 billion, refer 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.

In confirmation of Snam's credit standing, the loan agreements do not contain covenants which require compliance with an economic and/or financial ratio.

27 The above-mentioned floating interest bond is converted at a fixed rate through a derivative Interest Rate Swap (IRS).

28 The bond became convertible following the resolution of the Shareholders' Meeting on 11 April 2017.

29 The aforementioned floating rate bond was converted to fixed rate through an interest rate swap (IRS) derivative.

30 For more information about the acquisition, please see the section "Snam in 2017 - Summary of information and data - Main Events" in the Directors' Report.

31 This does not include amortization of the Up-Front fee.

32 Includes bonds, whose value is estimated on the basis of the market listings at 31 December 2017, and financial liabilities to banks, all at floating rate, whose corresponding market value is taken as the nominal repayment value.

### Breakdown of net financial debt

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

(€ million)	31.12.2016			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	34		34	719		719
B. Securities available for sale and held to maturity						
<b>C. Liquidity (A+B)</b>	<b>34</b>		<b>34</b>	<b>719</b>		<b>719</b>
<b>D. Financial receivables not held for operating activities</b>				<b>350</b>		<b>350</b>
E. Short-term financial liabilities to banks	1,466		1,466	1,358		1,358
F. Long-term financial liabilities to banks	221	1,761	1,982	27	2,546	2,573
G. Bonds	634	6,976	7,610	1,042	7,630	8,672
H. Short-term financial liabilities to related parties	18		18	15		15
I. Long-term financial liabilities to related parties						
L. Other short-term financial liabilities	13		13			
M. Other long-term financial liabilities	1		1	1		1
<b>N. Gross financial debt (E+F+G+H+I+L+M)</b>	<b>2,353</b>	<b>8,737</b>	<b>11,090</b>	<b>2,443</b>	<b>10,176</b>	<b>12,619</b>
<b>O. Net financial debt (N-C-D)</b>	<b>2,319</b>	<b>8,737</b>	<b>11,056</b>	<b>1,374</b>	<b>10,176</b>	<b>11,550</b>

## Reconciliation of net financial debt

In compliance with the amendments to IAS 7 “Statement of Cash Flows-Additional Disclosures”, effective from 1 January 2017, we provide below the cash and non-cash changes to liabilities arising from financing activities and to assets included in net financial debt.

€ million	31.12.2016	Changes without effects on cash flows			31.12.2017
		Cash flow changes	Foreign Exchange	Fair value	
Cash and cash equivalents	34	685			719
Financial receivables not held for operations		350			350
<b>Liquidity and financial receivables</b>	<b>34</b>	<b>1,035</b>			<b>1,069</b>
Short-term financial liabilities	1,497	(124)			1,373
Long-term financial liabilities (*)	9,593	1,664	(7)	(4)	11,246
<b>Gross financial debt</b>	<b>11,090</b>	<b>1,540</b>	<b>(7)</b>	<b>(4)</b>	<b>12,619</b>
<b>Net financial debt</b>	<b>11,056</b>	<b>505</b>	<b>(7)</b>	<b>(4)</b>	<b>11,550</b>

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

## 17) Trade and other payables

Trade payables and other payables, which amount to €1,673 million (€1,264 million at 31 December 2016) comprise the following:

(€ million)	31.12.2016	31.12.2017
Trade payables	433	406
Payables for investment activities	384	347
Other payables	447	920
	<b>1,264</b>	<b>1,673</b>

Trade payables of €406 million (€433 million at 31 December 2016) relate mainly to the natural gas transportation (€315 million, including €207 million relating to gas balancing activities), storage (€29 million) and regasification (€3 million) business segments.

Payables for investment activities of €347 million (€384 million at 31 December 2016) relate mainly to the natural gas transportation (€301 million) and storage (€29 million) business segments.

Other payables of €920 million (€447 million at 31 December 2016) break down as follows:

(€ million)	31.12.2016	31.12.2017
IRES payables for the national tax consolidation scheme	2	
Other payables	445	920
- Payables to the Electricity Equalisation Fund (CSEA)	381	564
- Interim dividend		294
- Payables to employees	26	26
- Payables to pension and social security institutions	16	16
- Consultants and professionals	8	5
- Other	14	15
	<b>447</b>	<b>920</b>

Payables to CSEA (€564 million) are composed of ancillary tariff components which mainly relate to the transportation sector pursuant to the following resolutions: ARG/gas 177/10 (measures and interventions for energy saving and development of renewable energy sources in the natural gas sector: (€229 million); ARG/gas 87/11 (payment to cover costs arising from the application of the revenue guarantee factor for the storage service and the charges borne by the GSE: €162 million); ARG/gas 92/08 (payment to cover costs arising from the application of the revenue guarantee factor for the LNG regasification service: €65 million); ARG/gas 155/11, as amended (recovery of charges related to outstanding receivables from the balancing of the gas system: €33 million); 363/2012/R/gas (recovery of charges applied for the default service on the transportation network: €30 million); ARG/com 93/10 (discounts for disadvantaged gas customers: €22 million); ARG/gas 184/09 (to cover the equalisation imbalances in the revenues

relative to the CRr capacity) (€7 million).

The increase of the other debts by €473 million compared to 31 December 2016 is mainly due to: (i) the allocation of the payable to shareholders for the 2017 interim dividend of €0.0862 per share (€294 million), resolved on 6 November 2017 and distributed in January 2018; (ii) the higher amounts payable to CSEA for the transport sector (-€183 million), attributable mainly to additional tariff components.

Note 33 - "Related-party transactions" contains information about payables due to related parties.

The fair value measurement of trade and other payables has no material impact given the short period of time between when the payable arises and its due date and the contractual terms and conditions.

## 18) Other current and non-current liabilities

*Other current liabilities*, amounting to €79 million (€21 million at 31 December 2016), and *other non-current liabilities*, amounting to €346 million (€309 million at 31 December 2016), break down as follows:

(€ million)	31.12.2016			31.12.2017		
	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities	12	167	179	45	254	299
Market value of derivative financial instruments				2	11	13
Other liabilities	9	142	151	32	81	113
- Prepaid revenue and income	5	10	15	16	8	24
- Prepaid contributions for connecting to the transportation network		4	4		3	3
- Other	4	128	132	16	70	86
	<b>21</b>	<b>309</b>	<b>330</b>	<b>79</b>	<b>346</b>	<b>425</b>

Liabilities from regulated activities, amounting to €299 million (€179 million at 31 December 2016), essentially relate to:

- the transportation revenue invoiced (€268 million) in excess of the restriction established by the regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to ARERA Resolution 166/05. The current and non-current portions amount to €44 million and €224 million respectively (€12 million and €129 million at 31 December 2016);
- the storage segment (€30 million) due to payments for balancing and stock replenishment, to be returned to service users pursuant to Resolution 50/06 of the Authority. The current and the non-current portion total €1 and €29 million respectively (€38 million as at 31 December 2016, which corresponds to the non-current portion only).

The market value of the derivatives outstanding at 31 December 2017 is broken down in Note no. 11 "Other current and non-current assets".

Other liabilities of €113 million (€151 million at 31 December 2016) include:

- Deferred and prepaid revenue and income (€24 million) relating mainly to: (i) the prepaid revenue for design services provided to TAP (€13 million, which correspond entirely to the current portion); (ii) the prepaid fee for granting of the right to use the fibre optic cables to a telecommunications operator (€10 million, of which €2 million relating to the current portion and €8 million to the non-current portion);
- Other changes (€86 million) relate essentially to: (i) the security deposits paid by the balancing service users pursuant to resolution ARG/gas 45/11 (€67 million; €62 million as at 31 December 2016 corresponding entirely to the non-current portion); (ii) the higher quantities of fuel gas allocated by users in previous years pursuant to resolution ARG/gas 184/09, as compared to the quantities actually used in the same years (€15 million, referring entirely to the current portion; €66 million as at 31 December 2016 referring entirely to the non-current portion); this quantity of gas is held in preset quantities pursuant to article 8.8 of the TIB as amended by resolution 349/2017/R/gas on 18 May 2017.



## 19) Provisions for risks and charges

Provisions for risks and charges, which amount to €677 million (€707 million at 31 December 2016) are analysed in the table below:

(€ million)	31.12.2016							Final balance
	Opening balance	Provisions (*)	Increases due to passing of time	Utilisations		Other changes	Change in scope of consolidation	
				against charges	for excess (*)			
Provision for site dismantling and restoration	515		9	(11)		116	(1)	<b>628</b>
Provision for litigation	34	7		(1)	(3)		(23)	<b>14</b>
Provision for tax litigation	1							<b>1</b>
Other provisions	226	33	1	(14)	(2)	5	(185)	<b>64</b>
	<b>776</b>	<b>40</b>	<b>10</b>	<b>(26)</b>	<b>(5)</b>	<b>121</b>	<b>(209)</b>	<b>707</b>

(\*) The values include €20 million of net allocations to the provision for risks and charges attributable to discontinued operations in the period from 1 January - 6 November 2016.

(€ million)	31.12.2017					Final balance
	Opening balance	Provisions	Increases due to passing of time	Utilisations		
				against charges	Other changes	
Provision for site dismantling and restoration	628		11	(10)	(19)	<b>610</b>
Provision for litigation	14	2				<b>16</b>
Provision for tax litigation	1	9				<b>10</b>
Other provisions	64	11		(34)		<b>41</b>
	<b>707</b>	<b>22</b>	<b>11</b>	<b>(44)</b>	<b>(19)</b>	<b>677</b>

The provision of €610 million for site dismantling and restoration (€628 million at 31 December 2016) was recognised primarily due to expenses which are expected to be incurred for the removal of facilities and the restoration of sites in the natural gas storage (€502 million) and transportation (€106 million) business segments.

The other changes (€19 million) referring to the revision of the cost estimates (discounted) for dismantling and restoration of the sites used by the storage sectors (€16 million) and the transportation sectors (€3 million) essentially as a result of the increase in the expected discount rates.

The provision for litigation (€16 million; €14 million as at 31 December 2016) included costs which the Company has estimated it will incur for existing lawsuits.

The risk provision for tax disputes (€10 million; €1 million as at 31 December 2016) contains the estimate of the probable expenses in the event of levying of

assessments and pursuant to tax disputes that are ongoing.

Other provisions for risks and charges (€41 million, compared with €64 million at 31 December 2016) related mainly to: (i) expenses recognised to offset changes in inventories, arising from the difference between the estimated quantities of Unaccounted-For Gas (UFG), which the Company expects to calculate definitively in the upcoming years and the forecast quantities that will be granted in kind by users, as required by Resolution 514/2013/R/gas (€13 million); and (ii) the costs which the insurance company Gasrule Insurance DAC Group expects to incur for insured claims (€13 million).

In accordance with ESMA Recommendation 2015/1608 of 27 October 2015, the effects on provisions of risks and charges arising from a reasonably possible change to the discount rate used at year-end are shown below.

The sensitivity<sup>33</sup> of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate without any change in the other assumptions.

(€ million)	Change in discount rate	
	Reduction of 10%	Increase of 10%
<b>Effect on the net obligation at 31/12/2017</b>		
Provision for site dismantling and restoration	25	(23)

## 20) Provisions for employee benefits

*Provisions for employee benefits*, amounting to €58 million (€44 million at 31 December 2016), can be broken down as follows:

(€ million)	31.12.2016	31.12.2017
Employee severance pay (TFR)	29	30
Pre-Retirement Fund (Isopensione)		13
Supplemental healthcare provision for company executives of Eni (FISDE)	3	3
Other employee benefit provisions	12	12
	<b>44</b>	<b>58</b>

The provision for employee severance pay (TFR), governed by Article 2120 of the Italian Civil Code, represents the estimated liability determined on the basis of actuarial procedures for the amount to be paid to employees at the time that the employment is terminated. The principal amount of the benefit is equal to the sum of portions of the allocation calculated on compensation items paid during the employment and revalued until the time that such relationship is terminated. Due to the legislative changes introduced from 1 January 2007 for companies with more than 50 employees, a significant part of severance pay to be accrued is classified as a defined-contribution plan since the company's only obligation is to pay the contributions to the pension funds or to INPS. Liabilities related to severance pay pre-dating 1 January 2007 remain a defined-benefit plan to be valued using actuarial methods (€30 million; €29 million at 31 December 2016).

<sup>33</sup> For the purposes of sensitivity, only provisions for risks and charges showing a significant accretion discount were taken into account.

The supplementary healthcare provision for Company executives of Eni (FISDE) of €3 million (also at 31 December 2016) includes the estimate of costs (determined on an actuarial basis) related to contributions benefiting current<sup>34</sup> and retired executives.

FISDE provides financial supplementary healthcare benefits to Eni Group<sup>35</sup> executives and retired executives whose most recent contract of employment was as an executive with the Eni Group. FISDE is funded through the payment of: (i) contributions from member companies; (ii) contributions from individual members for themselves and their immediate family; and (iii) ad hoc contributions for specific benefits. The amount of the liability and the healthcare cost are determined on the basis, as an approximation of the estimated healthcare expenses paid by the fund, of the contributions paid by the company in favour of pensioners. The Isopensione pre-retirement fund (€13 million) refers to expenses incumbent upon the employer from application of the implementation agreement (hereinafter the "Plan"), relatively to the pre-retirement instrument for employees<sup>36</sup> regulated pursuant to article 4 paragraphs 1 - 7 of law 92/2012 (the so called "Fornero Law").

Other employee benefit provisions (€12 million unchanged from 31 December 2016) concern long-term benefits connected with deferred monetary incentive plans, long-term monetary incentive plans (€9 million

in total) and seniority bonuses (€3 million).

Deferred monetary incentive plans are allocated to executives who have met the goals set out in the year preceding the allocation year, and allocate a basic incentive that is disbursed after three years and varies according to the performance achieved by the Company during the course of the three-year period following the time of the allocation. The benefit is recognized when Snam's obligation to the employee arises. The estimate is subject to revision in future periods, based on the final accounting and updates to forecast results (above or below target).

The long-term incentive plans, which replaced the preceding stock option allocations, involve the payment, three years after allocation, of a variable cash bonus tied to a measure of company performance. Obtaining the benefit depends on the achievement of certain future performance levels and is conditional on the beneficiary remaining with the Company for the three-year period following the allocation (the "vesting period"). This benefit is allocated pro rata over the three-year period depending on the final performance parameters.

Seniority bonuses are benefits paid upon reaching a minimum service period at the Company and are paid in kind.

Deferred monetary incentive plans, long-term monetary incentive plans and seniority bonuses are classified as other long-term benefits pursuant to IAS 19.

The composition of and changes in employee benefit provisions, determined by applying actuarial methods, are as follows<sup>37</sup>:

34 For executives in service, contributions are calculated from the year in which the employee retires and refer to the years of service provided.

35 The fund provides the same benefits for Snam Group executives.

36 100 individuals have fulfilled the relative pension requirements of the Plan, pursuant to verification thereof by the INPS.

37 The table also provides a reconciliation of liabilities recorded for employee benefit provisions.

(€ million)	31.12.2016					31.12.2017				
	Provision for employee severance pay (TFR)	FISDE	Gas Fund	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Isopensione Pre-retirement Plan	Other provisions	Total
<b>Current value of the obligation at the start of the year</b>	<b>100</b>	<b>10</b>	<b>35</b>	<b>21</b>	<b>166</b>	<b>29</b>	<b>3</b>		<b>12</b>	<b>44</b>
Current cost				5	5			13	4	17
Cost of past service (*)			(1)		(1)					
Cost in interest	2				2					
Revaluations/(Impairment losses):	6	(1)	2		7	1				1
- Actuarial gains and losses resulting from changes in the financial assumptions (**)	7		2		9	1				1
- Effect of past experience (**)	(1)	(1)			(2)					
Benefits paid	(3)			(7)	(10)	(1)			(4)	(5)
Change in scope of consolidation	(76)	(6)	(36)	(7)	(125)	1				1
<b>Current value of the obligation at the end of the year</b>	<b>29</b>	<b>3</b>		<b>12</b>	<b>44</b>	<b>30</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>58</b>

(\*) The amounts in 2016 are entirely attributable to discontinued operations and refer to expenses, including the relative changes in the estimates, from the suppression of the gas fund (€- 1 million in 2016).

(\*\*) The amounts in 2016 include + €6 million of actuarial (profits)/losses from remeasurement of defined benefit plans for employees attributable to discontinued operations.

Costs for defined-benefit plans recognised under other components of comprehensive income are broken down in the following table:

(€ million)	2016				2017	
	Provision for employee severance pay (TFR)	FISDE	GAS FUND	Total	Provision for employee severance pay (TFR)	Total
Revaluations/(Impairment losses):						
Actuarial gains and losses resulting from changes in the financial assumptions (*)	7		2	9	1	1
- Effect of past experience (*)	(1)	(1)		(2)		
	<b>6</b>	<b>(1)</b>	<b>2</b>	<b>7</b>	<b>1</b>	<b>1</b>

(\*) The amounts in 2016 include + €6 million of actuarial (profits)/losses from remeasurement of defined benefit plans for employees attributable to discontinued operations.

The main actuarial assumptions used to determine liabilities at the end of the year and to calculate the cost for the following year are indicated in the table below:

	2016			2017		
	Provision for employee severance pay (TFR)	FISDE	Other	Provision for employee severance pay (TFR)	FISDE	Other
Discount rate (%)	1.2	1.2	0.5-0.8	1.5	1.5	0-1.5
Inflation rate (%) (*)	1.2	1.2	1.2	1.5	1.5	1.5

(\*) With regard to the other provisions, the rate relates only to seniority bonuses.

The discount rate adopted was determined by considering the yields on bonds issued by Eurozone companies with AA ratings.

The employee benefit plans recognised by Snam are subject, in particular, to interest rate risk, in the sense that a change in the discount rate could result in a significant change in the liability.

The table below illustrates the effects of a reasonably possible<sup>38</sup> change in the discount rate at the end of the year.

The sensitivity of the discount rate represents the change in the value of the actuarial liability obtained using the end-of-year valuation data, changing the discount rate by a certain number of basis points, without any change in the other assumptions.

(€ million)	Discount rate	
	Reduction of 0.5 %	Increase of 0.5%
<b>Effect on the net obligation at 31.12.2017</b>		
Employee severance pay (TFR)	2	(1)
Other employee benefit provisions		(1)
	<b>2</b>	<b>(2)</b>

The maturity profile of the obligations for employee benefit plans is shown in the following table:

(€ million)	31.12.2016				31.12.2017				
	Provision for employee severance pay (TFR)	FISDE	Other provisions	Total	Provision for employee severance pay (TFR)	FISDE	Isopensione pre-retirement Plan	Other provisions	Total
Within the next year	1		4	5	1		3	4	8
Within five years	4		6	10	5		10	6	21
Between five and ten years	10		1	11	10			1	11
Beyond 10 years	14	3	1	18	14	3		1	18
	<b>29</b>	<b>3</b>	<b>12</b>	<b>44</b>	<b>30</b>	<b>3</b>	<b>13</b>	<b>12</b>	<b>58</b>

<sup>38</sup> With regard to FISDE, any changes relating to mortality do not have a significant effect on the liability.

The weighted average maturity of obligations for employee benefit plans is shown below:

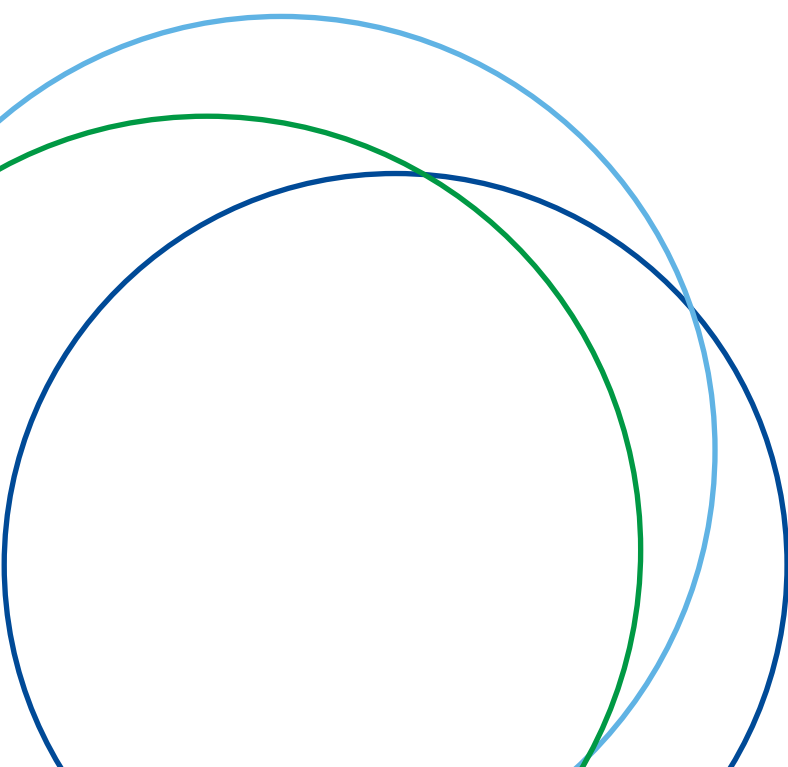
	2016			2017			
	Provision for employee severance pay (TFR)	FISDE	Other provisions	Provision for employee severance pay (TFR)	FISDE	Isopensione pre-retirement Plan	Other provisions
Weighted average maturity (years)	11	23	3	10	22	2	3

## 21) Deferred tax liabilities

Deferred tax liabilities of €165 million (€187 million at 31 December 2016) are stated net of offsettable prepaid tax assets of €384 million (€369 million at December 2016).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2016	Provisions	Utilisations	Other changes	Change in scope of consolidation	31.12.2017
Deferred tax liabilities	556		(16)	(4)	13	549
Prepaid tax assets	(369)	(34)	19	3	(3)	(384)
	187	(34)	3	(1)	10	165



Deferred tax liabilities and prepaid tax assets break down as follows, based on the most significant temporary differences:

(€ million)	31.12.2017								
	Opening balance	Provisions	Utilisations	Effects recognized in equity	Other changes	Change in scope of consolidation	Final balance	of which: IRES	of which: IRAP
<b>Deferred tax liabilities</b>	<b>556</b>		<b>(16)</b>		<b>(4)</b>	<b>13</b>	<b>549</b>	<b>536</b>	<b>13</b>
Depreciation and amortisation exclusively for tax purposes	<b>453</b>		<b>(16)</b>				<b>437</b>	<b>437</b>	
Site dismantling and restoration	<b>89</b>				<b>(5)</b>		<b>84</b>	<b>72</b>	<b>12</b>
Revaluation of property, plant and equipment						<b>13</b>	<b>13</b>	<b>13</b>	
Capital gains subject to deferred taxation									
Capitalisation of financial expenses	<b>7</b>						<b>7</b>	<b>6</b>	<b>1</b>
Impairment losses on receivables in excess of tax deductibility	<b>3</b>						<b>3</b>	<b>3</b>	
Finance lease									
Other temporary differences	<b>4</b>				<b>1</b>		<b>5</b>	<b>5</b>	
<b>Prepaid tax assets</b>	<b>(369)</b>	<b>(34)</b>	<b>19</b>	<b>(2)</b>	<b>5</b>	<b>(3)</b>	<b>(384)</b>	<b>(348)</b>	<b>(36)</b>
Site dismantling and restoration	<b>(176)</b>	<b>(3)</b>	<b>3</b>		<b>5</b>		<b>(171)</b>	<b>(146)</b>	<b>(25)</b>
Non-deductible amortisation and depreciation	<b>(88)</b>	<b>(19)</b>	<b>5</b>			<b>(3)</b>	<b>(105)</b>	<b>(103)</b>	<b>(2)</b>
Provision for risks and charges and other non-deductible provisions	<b>(71)</b>	<b>(6)</b>	<b>9</b>				<b>(68)</b>	<b>(64)</b>	<b>(4)</b>
Non-repayable and contractual grants	<b>(22)</b>		<b>1</b>				<b>(21)</b>	<b>(18)</b>	<b>(3)</b>
Employee benefits	<b>(8)</b>	<b>(5)</b>	<b>1</b>				<b>(12)</b>	<b>(10)</b>	<b>(2)</b>
Income adjustments									
Other temporary differences	<b>(4)</b>	<b>(1)</b>		<b>(2)</b>			<b>(7)</b>	<b>(7)</b>	
<b>Net deferred tax liabilities</b>	<b>187</b>	<b>(34)</b>	<b>3</b>	<b>(2)</b>	<b>1</b>	<b>10</b>	<b>165</b>	<b>188</b>	<b>(23)</b>

Prepaid tax assets and deferred tax liabilities are considered to be long term. Note no. 30 "Income taxes" provides information about taxes for the year.

## 22) Shareholders' equity

Shareholders' equity, which amounts to €6,188 million (€6,497 million at 31 December 2016) breaks down as follows:

(€ million)	31.12.2016	31.12.2017
Share capital	2,736	2,736
Share premium reserve	1,140	1,140
Legal reserve	547	547
Cash flow hedge reserve	(2)	(8)
Reserve for remeasurement of defined-benefit plans	(7)	(8)
Consolidation reserve	(674)	(674)
Other reserves	35	58
Retained earnings	1,969	2,112
Net profit	861	897
<i>Less:</i>		
- Negative reserve for treasury shares held in the portfolio	(108)	(318)
- Interim dividend		(294)
<b>Snam Shareholders' Equity</b>	<b>6,497</b>	<b>6,188</b>

Below is a breakdown of the shareholders' equity of Snam at 31 December 2017.

### Share capital

The share capital at 31 December 2017 consisted of 3,500,638,294 shares without nominal value (unchanged from 31 December 2016), with a total value of €2,735,670,475.56 (unchanged from 31 December 2016).

### Share premium reserve

The share premium reserve stood at €1,140 million at 31 December 2017 (unchanged from 31 December 2016).

### Legal reserve

The legal reserve stood at €547 million at 31 December 2017 (unchanged from 31 December 2016).

### Reserve for fair value of cash flow hedging derivatives

The cash flow hedge reserve (-€8 million, compared with -€2 million at 31 December 2016) includes the fair-value measurement of cash flow hedging derivatives, net of fiscal impact. This valuation is related to a Cross Currency Swap, two Interest Rate Swaps and three "Forward Start" Interest Rate Swaps described in Note no. 11 "Other current and non-current assets".



The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
<b>Reserve at 31.12.2016</b>	<b>(3)</b>	<b>1</b>	<b>(2)</b>
Changes in 2017	(8)	2	(6)
<b>Reserve at 31.12.2017</b>	<b>(11)</b>	<b>3</b>	<b>(8)</b>

#### Reserve for remeasurement of defined-benefit plans for employees

At 31 December 2017, the reserve for remeasurement of employee benefit plans (-€8 million; -€7 million at 31 December 2016) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

The changes in the reserve during the course of the year are shown below:

(€ million)	Gross reserve	Tax effect	Net reserve
<b>Reserve at 31.12.2016</b>	<b>(12)</b>	<b>5</b>	<b>(7)</b>
Changes in 2017	(1)		(1)
<b>Reserve at 31.12.2017</b>	<b>(13)</b>	<b>5</b>	<b>(8)</b>

#### Consolidation reserve

The negative consolidation reserve of €674 million (unchanged from 31 December 2016) includes the value derived from the difference between the acquisition cost of the Italgas and Stogit equity investments (€1,597 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the relative shareholders' equity attributable to the Group on the transaction completion date (€923 million).

#### Other reserves

The other reserves of €58 million (€35 million at 31 December 2016) refer mainly to the effects of the valuation of the equity component (€17 million) of the convertible bond with a nominal value of €400 million and the valuation of the equity investments using the equity method.

#### Retained earnings

Retained earnings totalled €2,112 million (€1,969 million at 31 December 2016). The change is due to the usage of the residual profits for 2016 (€143 million).

### Negative reserve for treasury shares held in the portfolio

Negative reserve hold a purchase cost of no. 85,915,616 treasury shares as at 31 December 2017 (29,905,180 as at 31 December 2016), as a total amount of €318 million (€108 million at 31 December 2016).

Detailed information on treasury shares and incentive plans for executives with shares are shown in the "Other information" section of Directors' Report, to which reference should be made.

### Interim dividend

The interim dividend of €294 million, for 2017, amounts to €0.0862 per share, and was decided upon by the Board of Directors in its meeting of 6 November 2017, with payment starting from 24 January 2018, ex-coupon date 22 January 2018 and record date 23 January 2018.

### Dividends

On 11 April 2017, the Ordinary Shareholders' Meeting of Snam S.p.A. resolved to distribute an ordinary dividend for 2016 of €0.21 per share; the dividend (€718 million) was paid out as of 24 May 2017, with an ex-coupon date of 22 May 2017 and a record date of 23 May 2017.

In its meeting of 13 March 2018, the Board of Directors proposed to the Shareholders' Meeting convened for 24 April 2018 the distribution of

an ordinary dividend of €0.2155 per share, of which €0.0862 per share already distributed as interim dividend. The outstanding dividend of €0.1293 per share will be paid out as of 20 June 2018, with an ex-coupon date of 18 June 2018 and a record date of 19 June 2018.

### 23) Business combinations

On 13 October 2017, upon verification of the conditions precedent which the conclusion of the transaction was subject to, Snam S.p.A. concluded the acquisition from Edison of 100% of the share capital of Infrastruttura Trasporto Gas S.p.A. (ITG), against consideration, net of the price adjustment, of €172 million overall, of which €106 million constitutes the contractual consideration and €66 million the repayment of the intercompany loan between ITG and Edison.

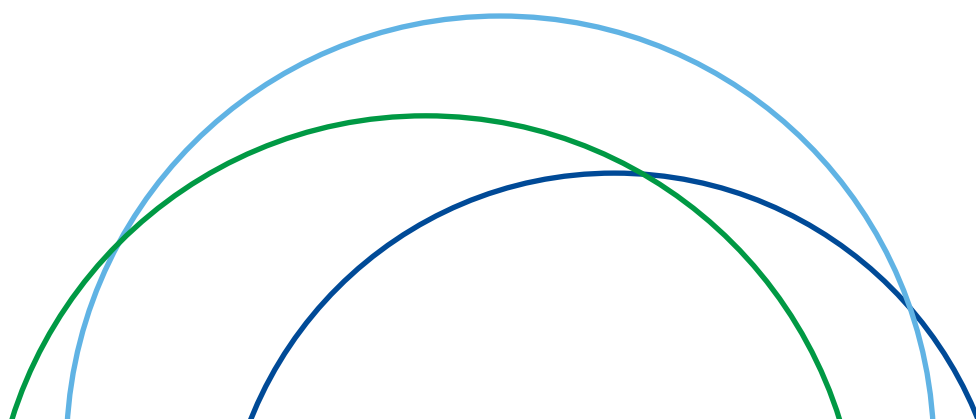
ITG is the third largest Italian operator in the natural gas transportation area and operates the pipeline between Cavarzere (Veneto) and Minerbio (Emilia Romagna); the investment allows Snam to strengthen its own infrastructures in Italy and achieve further efficiencies through the integrated operation of the entire Gas System, connecting a strategic entrance point for the Italian natural gas market to the national transportation network.

The aforementioned acquisition

was concluded through the special purpose vehicle Asset Company 2 S.r.l., whose share capital is entirely subscribed and paid by the sole shareholder Snam S.p.A., and which is fully consolidated pursuant to IFRS 10 "Consolidated Financial Statements" as from 13 October 2017.

The acquisition of control over ITG represents a "business combination", reported in accordance with IFRS 3 - "Business combinations". To this end, on the date that control was acquired, the individual assets acquired and the liabilities assumed were recognized at the relative fair values.

Goodwill (€27 million) includes the value of the operating and financial synergies. The goodwill is not expected to be tax deductible.



The accounting effects of the business combination, in accordance with the provisions of IFRS 3 - "Business combinations", are summarised below:

(€ million)	Values after assignment of fair value
Fair value of the consideration	106
Value of assets acquired	162
Value of liabilities acquired/assumed	83
<b>Goodwill</b>	<b>27</b>

The main values of the assets and liabilities of ITG at the acquisition date are summarised below:

(€ million)	Values after assignment of fair value
Current assets	10
Property, plant and equipment	151
Intangible assets	1
Goodwill	27
<b>Assets acquired</b>	<b>189</b>
Current liabilities	6
Short-term financial liabilities	1
Long-term financial liabilities	65
Provisions for employee benefits	1
Deferred tax liabilities	10
<b>Liabilities acquired</b>	<b>83</b>
<b>Shareholders' equity acquired</b>	<b>106</b>

As these are activities that are regulated within the natural gas transportation sector, for valuation of the fair value of the assets comprised essentially of the Cavarzere - Minerbio pipeline, the reference value considered was the RAB value, including the current value of tariff incentives applicable to specific types of investments that have already taken place.

Beginning from the acquisition date, the ITG contribution to consolidated net profits is approximately €2 million. Regarding revenues, the contribution is not significant, in consideration of the fact that that considerations payable for transportation are invoiced almost entirely to Snam Rete Gas S.p.A. and are therefore eliminated in the Group financial statements. If the business combination had been effective from 1 January 2017, the net contribution of ITG to the net profits would have been €7 million.

## 24) Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €3,918 million (€4,467 million at 31 December 2016) comprise:

(€ million)	31.12.2016	31.12.2017
<b>Guarantees given in the interest of:</b>	<b>123</b>	<b>130</b>
- subsidiaries (*)	35	44
- associates (*)	88	86
<b>Financial commitments and risks:</b>	<b>4,344</b>	<b>3,767</b>
<b>Commitments</b>	<b>2,494</b>	<b>1,872</b>
Commitments for the purchase of goods and services	1,853	1,428
Commitments in associates (**)	638	419
Other	3	25
<b>Risks</b>	<b>1,850</b>	<b>1,916</b>
- third-party assets on deposit	1,785	1,879
- compensation and litigation	65	37
	<b>4,467</b>	<b>3,918</b>

(\*) At 31 December 2017, hold-harmless letters issued to Eni in favour of Snam amounted to €1 million.

(\*\*) The value shown in the table refers to the residual commitment.

### Guarantees

The guarantees provided to subsidiaries (€44 million) essentially refer to hold-harmless letters issued to third parties to guarantee a good performance of work.

Other personal guarantees issued in the interest of associates (€86 million) refer mainly to hold-harmless letters issued in favour of third parties for participation in tenders and concessions relating to the natural gas distribution service (€23 million) and performance bonds (€62 million).

### Commitments

At 31 December 2017, commitments with suppliers to purchase property, plant and equipment and services relating to investments in property, plant and equipment and intangible assets under construction totalled €1,428 million (€1,853 million at 31 December 2016).

Commitments to associated companies (€419 million) refer to the commitment undertaken by Snam

S.p.A. to TAP in its capacity as the shareholder in charge of financing the project due to the level of the shareholding held. As at 31 December 2017, given an overall commitment of €776 million, assumed with reference to the general overheads expected during realization of the project, Snam paid a total of €357 million<sup>39</sup>. It is nevertheless specified that in the event of conclusion of lending agreements with the market regarding the cost of the project, the eventual guarantees on the loans will be defined, with a consequent reduction of the amount of the overall commitment, as will the procedures for repayment of the loans granted by shareholders.

The other commitments refer to minimum future payments relative to non-cancellable operating leases (€14 million maturing within next year).

<sup>39</sup> The value does not include the amounts recognized upon closing of the acquisition of the company.

### Risks

Risks related to third-party assets on deposit, equal to €1,879 million (€1,785 million at 31 December 2016) relate to approximately 8 billion cubic metres of natural gas deposited in the storage plants by customers of the service. This amount was determined by applying the estimated unit repurchase cost<sup>40</sup> of approximately €0.24 per standard cubic metre (€0.22 per standard cubic metre at 31 December 2016) to the quantities of gas deposited.

Risks concerning compensation and litigation (€37 million) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

<sup>40</sup> The value is calculated based on the CCI tariff, i.e. the wholesale price established every quarter by ARERA.

## Financial Risk Management

### Introduction

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations in interest and exchange rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Snam's policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.

Information on other risks affecting the Company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk management and uncertainty" section of the Directors' Report.

### Interest rate risk

Interest rate risk is associated with fluctuations in interest rates affecting the market value of the Company's financial assets and liabilities and its net financial expense. Snam aims to optimise interest rate risk while pursuing its financial objectives. The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits. At 31 December 2017, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium-to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates. The exposure to interest rate risk as at 31 December 2017 was approximately 22% of the total exposure of the Group. At the same date, Snam had two derivative interest rate swap contracts (IRS) active for two floating rate bonds totalling €650 million

and expiring in 2022 and 2024. The IRS derivative contracts are used to convert floating rate loans to fixed rate loans.

During 2017, Snam concluded new IRS Forward Starting derivatives of a notional amount totalling €750 million, maturing in the medium to long-term, for highly probable future financial liabilities to be undertaken up to 2020 for coverage of financial requirements.

The effects on shareholders' equity and net profit at 31 December 2017 are shown below, assuming a hypothetical change in the interest rate basis points of +/-10% actually applied during the course of the year:

	31.12.2017			
	Profit for the period		Shareholders' equity	
	Interest +10 b.p.s.	Interest -10 b.p.s.	Interest +10 b.p.s.	Interest -10 b.p.s.
(€ million)				
<b>Floating-rate loans</b>				
Effect of interest rate change	(3)	3		
<b>Floating-rate loans converted by IRSs into fixed-rate loans</b>				
Effect of interest rate change on the fair value of hedging derivatives pursuant to IAS 39 – effective portion (*)			9	(9)
<b>Effect on pre-tax profit</b>	(3)	3	9	(9)
Tax effect	1	(1)	(2)	2
	(2)	2	7	(7)

(\*) The change in the interest rate has no effect on profit and loss. Therefore the change in the fair value of the derivative contracts following the decrease in the interest rates affects equity only.

Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow.

#### Exchange rate risk

Snam's exposure to exchange rate risk relates to both transaction risk and translation risk. Transaction risk is generated by the conversion of commercial or financial receivables (payables) into currencies other than the functional currency and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is carried out and the time it is settled (collection/payment). Translation risk relates to fluctuations in the exchange rates of currencies other than the consolidation currency (the Euro), which can result in changes to consolidated shareholders' equity. Snam's risk management system aims to minimise transaction risk

through measures such as the use of derivatives. It cannot be ruled out that significant future changes in exchange rates may generate negative effects on Snam Group's operations, balance sheet and cash flow, irrespective of the policies for hedging the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.

As at 31 December 2017, Snam's foreign-currency items essentially refer to a ¥10 billion bond maturing in 2019 and with an issue-date value of approximately €75 million. The bond has been fully converted into Euros by a cross-currency swap (CCS), with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedging derivative. Snam does not have any cross-currency swaps in place for speculative purposes.

The effects on shareholders' equity and net profit at 31 December 2017 of a hypothetical change of +/-10% in €/¥ exchange rates actually applied over

the course of the year is less than €1 million.

The exchange rate change has no effect on the profit for the period since the effects of such a change are offset by the effects of the hedging derivative.

#### Credit risk

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and the financial position of Snam. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is handled by the business units and the centralised Snam departments. Snam provides its business services to almost 200 operators in the gas sector, with 10 operators representing approximately 70% of the entire market (Eni, Edison and Enel hold the top three spots).

The rules for client access to the services offered are established by the Authorities and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in selling and providing said services and contain contractual conditions, which significantly reduce the risk of non-compliance by the clients. The Codes require guarantees in coverage of the commitments assumed. In specific cases, if the customer has a credit rating issued by major international organizations, the issue of these guarantees may be mitigated. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, the current balancing discipline requires that based on financial merit criteria, Snam shall make its purchases and sales on the GME balancing platform to ensure availability of the resources required for secure and efficient movement of the gas from the entry points to the withdrawal points and therefore constant balancing of the network. The aforementioned discipline also requires additional usage by Snam of the storage resources of the users to cover system imbalances and ensure the relative financial settlement. Snam's maximum exposure to credit risk as at 31 December 2017 is represented by the book value of the financial assets recorded in the consolidated financial statements of the Snam Group as at 31 December 2017.

As shown in Note no. 8 - "Trade and other receivables", overdue and non-impaired receivables at 31 December 2017 amounted to €113 million (€154 million at 31 December 2016) and related chiefly to the storage

segment (€88 million), mainly in relation to VAT invoiced to users for the use of strategic gas wrongfully withdrawn in 2010 and 2011, and to various receivables from public administrations.

Approximately 62% of trade receivables (65% as at 31 December 2016) were with extremely reliable clients, including Eni, which represents 23% of total trade receivables (21% as at 31 December 2016).

It cannot be ruled out however, that Snam may incur liabilities and/or losses from the failure of its clients to comply with payment obligations, particularly given the current economic and financial situation, which makes the collection of receivables more complex and critical. Snam's maximum exposure to credit risk at 31 December 2017 is the book value of the financial assets in its statement of financial position.

#### **Liquidity risk**

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern. Snam's risk management system aims to establish, under the financial plan, a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt. As shown in the "Interest rate risk" section, the Company had access to a wide range of funding sources through the credit system and the

capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the EIB and bonds).

Snam's objective is to maintain a debt structure that is balanced in composition between bonds and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

At 31 December 2017, Snam had unused long-term committed credit lines totalling around €3.2 billion. Moreover, on that same date, Snam had an active Euro Medium Term Notes (EMTN) program with a total nominal minimal value of €10 billion, of which it has used approximately €8.2 billion.

#### **Rating risk**

With reference to rating risk, Snam's long-term rating is: (i) Baa1 with negative outlook, confirmed on 22 September 2017 by Moody's Investors Services Ltd ("Moody's"); (ii) BBB+ with stable outlook, confirmed on 8 November 2017 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with stable outlook, confirmed on 12 October 2017 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's, Standard & Poor's and Fitch is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by Moody's and S&P, the downgrade of one notch from the current rating of the Republic of Italy would lead to a corresponding reduction of Snam's current rating. Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's operations, results, balance sheet and cash flow.

### **Risk of default and debt covenants**

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk.

As at 31 December 2017, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these contracts include, inter alia, covenants typically imposed in international market practice, some of which subject to specific threshold values, such as for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; (iv) limits to the indebtedness of subsidiaries. The bonds issued by Snam as at 31 December 2017 provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge

and pari passu clauses.

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 lower than BBB (Standard & Poor's/ Fitch Ratings Limited) or lower than Baa2 (Moody's), with at least two of the three rating 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, resulting in additional costs and/or liquidity issues. These commitments do not carry any comments that provide for compliance with ratios of an economic and/or financial nature.

### **Future payments for financial liabilities, trade and other payables**

The table below shows the repayment plan contractually established in relation to the financial payables, including interest payments and other liabilities connected to derivative instruments:



(€ million)	Future flows				Maturity				
	31.12.2016	31.12.2017	Maturing within 12 months	Maturing beyond 12 months	2019	2020	2021	2022	Beyond
Bank loans	3,447	3,921	1,374	2,547	1,143	50	82	92	1,180
Bonds (*)	7,545	8,632	921	7,711	819	1,133	304	1,393	4,062
Other lenders	32	16	16						
Interest on loans (*)	977	916	197	719	161	133	112	98	215
<b>Financial liabilities</b>	<b>12,001</b>	<b>13,485</b>	<b>2,508</b>	<b>10,977</b>	<b>2,123</b>	<b>1,316</b>	<b>498</b>	<b>1,583</b>	<b>5,457</b>
Forward start derivative instruments (**)		9		9	3	3	3		
<b>Derivative liabilities</b>		<b>9</b>		<b>9</b>	<b>3</b>	<b>3</b>	<b>3</b>		
	<b>12,001</b>	<b>13,494</b>	<b>2,508</b>	<b>10,986</b>	<b>2,126</b>	<b>1,319</b>	<b>501</b>	<b>1,583</b>	<b>5,457</b>

(\*) Future payments include the cash flow generated by hedging derivatives (CCS and IRS).

(\*\*) The future payments are calculated as at the Mandatory Early Termination Date.

For information on the payment terms for trade and other payables, please see Note no. 17 of the consolidated financial statement.

#### Other information on financial instruments

In relation to the categories mentioned in IAS 39 “Financial Instruments: Recognition and Measurement”, Snam has no financial assets held to maturity, available for sale or held for trading. As a result, the financial assets and liabilities all fall within the classification of financial instruments measured at amortised cost.

The book value of financial instruments and the relative effects on results and the balance sheet can be seen below.

(€ million)	Book value		Income/Expense recognised in the income statement		Income/Expense recognised in shareholders' equity (a)	
	Balance at 31.12.2016	Balance at 31.12.2017	2016	2017	Balance at 31.12.2016	Balance at 31.12.2017
<b>Financial instruments measured at amortised cost</b>						
- Trade and other receivables (b)	1,308	1,661	2	(7)		
- Financial receivables (c)	213	373	4	7		
- Trade and other payables (b)	1,264	1,673				
- Financial payables (c)	11,090	12,619	(624)	(279)		
<b>Financial instruments measured at fair value</b>						
Net assets (liabilities) for hedging derivatives (c)	24	(12)	(1)	(1)	1	(6)
Adjustment of financial receivables from the Italgas Group			119			

(a) Net of tax effect.

(b) The effects on the income statement are recorded under “Purchases, services and other costs” and “Financial income/(expense)”.

(c) The effects on the income statement are recorded under “Financial income/(expense)”.

### Market value of financial instruments

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
- level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- level 3: inputs not based on observable market data.

With regard to the above, the classification of the financial assets and liabilities measured at fair value in the statement of financial position according to the fair value hierarchy concerned derivative financial instruments at 31 December 2017 classified at level 2 and entered under Note no. 11 "Other current and non-current assets" (€1 million) and Note no. 18 "Other current and non-current liabilities" (€13 million).

### Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements. The following is a summary of the

most significant proceedings; unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

## Criminal cases

### Snam Rete Gas S.p.A. Judiciary investigations into gas metering

In 2006, the public prosecutor at the Court of Milan opened a criminal case on the issue of gas metering and the legitimacy and reliability of "Venturi meters". This case involved several companies in the gas sector, including Snam Rete Gas. Some managers and department heads were placed under further investigation with regard to various matters. On 24 January 2012, the preliminary hearing judge ruled that there was insufficient evidence to proceed to a trial of any of those under investigation and simultaneously ordered the release from seizure of the meters. The assistant public prosecutor filed for an appeal before the Court of Cassation at the Court of Milan. The Court of Cassation partially annulled the contested ruling, rejecting the rest of the public prosecutor's appeal. Following the adjournment by the Court of Cassation, on 12 December 2013, a new preliminary hearing was held upon completion of which, the preliminary hearing judge ordered committal to trial only for 2006 and 2007. The hearing began on 18 April 2014. At the hearing of 27 March 2015, the Court of Milan acquitted the defendants for the absolved the charges against the defendants due to lack of evidence and because it did not constitute an offence. The public prosecutor has appealed.

### Snam Rete Gas S.p.A. - Tresana Incident

The public prosecutor at the Massa district court initiated criminal proceedings in relation to an incident that occurred on 18 January 2012 in the Municipality of Tresana regarding an explosion that took place during maintenance work carried out by a subcontractor. After committal to trial was ordered by the preliminary hearing judge, the trial began on 23 June 2015d. At the hearing of 15 September 2017, the district court of Massa acquitted all the defendants of the offences charged against them due to lack of evidence. On 12 January 2018, the Public Prosecutor files and appeal.

### Snam Rete Gas S.p.A. - Pineto Incident

The public prosecutor at the Court of Teramo initiated criminal proceedings in relation to the incident that took place on 6 March 2015 near the town of Pineto (Teramo) involving a gas leak on a section of piping. On 2 February 2017, manager sand personnel of Snam Rete Gas were served notice of the conclusion of preliminary investigations in relation to offences of criminal negligence causing wide-scale disaster and wildfire caused by arson. The preliminary hearing began in September 2017 and is currently underway.

### Snam Rete Gas S.p.A. - Sestino (AR) Incident

The public prosecutor at the Court of Arezzo initiated criminal proceedings in relation to the incident that took place on 19 November 2015 in the town of Sestino (AR), involving a gas leak on a section of piping. On 26 November 2015, a one-time notice of technical investigation was served which indicated that certain directors

and managers, including those who served in the past, are included in the list of parties under investigation. The Public Prosecutor has appointed its own technical consultants. Snam Rete Gas is actively working with the competent authorities, including through appointment of its own technical consultants.

### **Snam Rete Gas S.p.A. - Badia Tedalda (AR) Criminal Proceedings**

The public prosecutor at the Court of Arezzo initiated criminal proceedings against a former manager of Snam Rete Gas for an alleged violation of the environmental and landscape protection order, in relation to work on the pipeline in the town of Badia Tedalda (AR). At the hearing of 9 March 2018, the Court of Arezzo announced its acquittal, due to lack of evidence.

### **Italian Regulatory Authority for Energy, Networks and the Environment – ARERA**

#### **Snam Rete Gas S.p.A. – Investigation into violations on the subject of natural gas metering with regard to Snam Rete Gas S.p.A and request for information**

Through Resolution VIS 97/11, notified on 15 November 2011, the Electricity, Gas and Water Authority (the Authority) started proceedings to look into whether there were any violations with regard to natural gas metering, relating to alleged irregularities in gas metering with reference to 45 plants. With Resolution 431/2012/S/Gas the case was combined with another case, involving the same facts the Company was accused of, against the distribution company in question. Snam Rete Gas S.p.A. has submitted

proposals in relation to the alleged conduct. By means of Resolution 332/2015/S/gas, the Authority declared the proposals to be inadmissible, on the grounds that they would not be adequate to restore the alignment of interests existing before the alleged violations or to eliminate any immediate and direct consequences of these violations.

Upon completion of the investigation on 20 October 2017, the Authority notified the results to Snam Rete Gas, which confirmed the charges made when the proceedings were initiated. The company has requested time for it to formulate its own defence and, to this end, a hearing was called before the board of the Authority on 1 March 2018 during which the defence brief was submitted. The final ruling has not been handed down yet. The Company has made an allocation to the provision for risks and charges.

#### **Snam Rete Gas S.p.A. – Resolution 608/2015/R/gas – Proceedings to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor**

Upon completion of the proceedings initiated with Resolution 145/2013/R/gas to determine the share of costs arising from outstanding receivables owing to the gas balancing supervisor, relating to the period 1 December 2011 - 23 October 2012, in relation to three cases which had previously been investigated, with Resolution 608/2015/R/gas, the Authority closed the proceedings deciding not to pay the share of the outstanding receivables in relation to which the specific case was the object of the investigation, for the total sum of approximately €130 million including VAT.

The Company, believing that the conditions existed for paying the share of expenses resulting from receivables not collected and subject to the proceedings in question, challenged resolution 608/2015/R/gas before the Regional Administrative Court of Milan, which with its ruling 942/2017, published on 21 April 2017, partially admitted the appeal submitted by Snam Rete Gas as it ruled in favour of payment of expenses from uncollected receivables totalling approximately €38 million in relation to certain of the items in the investigation.

Both parties partially appealed the aforementioned sentence which will be heard before the Council of State at the hearing set for 8 November 2018. The Company has made an allocation to the provision for impairment losses on receivables in relation to the costs in question.

#### **Snam Rete Gas S.p.A. Resolution 9/2014/S/gas – “Launch of punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas”**

With Resolution 9/2014/S/gas the Authority launched punitive proceedings against Snam Rete Gas S.p.A. for non-compliance with Resolution 292/2013/R/gas. The proceedings aim to ascertain whether or not delays exist in provisions relating to the enactment of amendments to the Network Code established by Resolution 292/2013/R/gas, with regard to settlement. Upon conclusion of the proceedings, with its resolution 853/2017/S/gas, the Authority sentenced Snam Rete Gas to pay a pecuniary fine of €95,200.00, since, although it accepted a part of the Company’s arguments which were significant insofar as determining the

amount of the fine, it considered that the Company was late in complying with Resolution 292/2013/R/Gas. Though it paid the pecuniary fine, the Company has appealed Resolution 853/2017/S/gas before the Regional Administrative Court of Milan. The hearing date remains to be set.

**Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 on the: “Adoption of measures on the odorising of gas for domestic use and similar for end users connected directly to the natural gas transportation networks”**

Through Resolution 250/2015/R/gas, following the ruling of the Milan regional administrative court, the Authority amended Article 5 of Resolution 602/2013/R/gas dealing with the obligation of transportation companies to odorise gas for end users connected directly to the transportation network, which, taking into account the categories of use indicated in the TISG, do not use the gas delivered for merely technological purposes. In this regard, the Authority ordered that the transportation companies shall complete the implementation of the adaptation plans by 31 January 2017, after carrying out a survey of the redelivery points involved (by 31 July 2015) and sending the Authority the adaptation plan (by 30 November 2015), to be updated every six months, with the description of the technical solution identified. Snam Rete Gas has appealed against the above resolution believing that the deadline for implementing the plan can only be decided after the survey. Having carried out the survey, when sending the plan and the subsequent updates Snam Rete Gas once again found that the deadline set by

the Authority with its Resolution 484/2016/E/gas was unreasonable. Consequently, in the appeal with which Snam Rete Gas challenged Resolution 250/2015/R/gas, it also included an appeal for further grounds against Resolution 484/2016/E/gas asking for the resolutions challenged to be suspended.

The request was accepted by the Council of State through the ruling of 23 January 2017. The date for the hearing before the Milan regional administrative court, initially set for 17 January 2018, was postponed to another date.

**Snam Rete Gas S.p.A. – Determination DSAI/69/2017/gas – Initiation of proceedings for imposition of punitive and prescriptive measures regarding the safety of the natural gas transportation system**

With its resolution 58/2017/E/Gas, the Authority closed the additional investigation order pursuant to Resolution 299/2015/E/gas in relation to 69 emergency events that took place on the Snam Rete Gas network. The resolution mentioned certain critical issues that were discovered during the investigation, in relation to which Snam Rete Gas provided the necessary clarifications. The subsequent Determination, DSAI/69/2017/gas, expressed the decision to initiate punitive proceedings since, following the clarifications provided by Snam Rete Gas, critical issues remained with regard to the procedures used to record the outcomes of monitoring activities and the verifiability of the information and data recorded. During the investigation process, the Company provided the documents and information requested by the

Authority through the Determination above.

**Snam Rete Gas S.p.A. - Cerved Rating Agency S.p.A. and Cerved Group S.p.A.**

In February 2015, the Cerved Group and Cerved Rating Agency requested, before the Lombardy-Milan administrative regional court, the annulment of the Authority's Resolution 207/2014/R/gas, on the grounds that the part in which Cerved is excluded from parties accredited to issue credit ratings guaranteeing the payment of bonds from the transfer and the provision of the gas transportation and balancing service is unlawful.

Through the ruling handed down in April 2016, the Lombardy regional administrative court only partly accepted the appeal submitted by Cerved, considering justified Cerved's applications with regard to the request to annul the Authority's resolution and, consequently, the part of the Snam Rete Gas Network Code which it does not list Cerved among the parties entitled to issue credit ratings for the purpose of the Network Code. However, the demand to confirm Cerved's right to be admitted to the list of parties accredited for the issue of credit ratings for the purpose of the Network Code was rejected, as was the claim for compensation for damages.

As a result of the ruling, Snam Rete Gas and the Authority, each as far as their area of responsibility is concerned, shall evaluate the claim of the claimant once again. In the intervening period, an appeal was filed with the Council of State. The merit hearing took place on 9 February 2017; pursuant to ruling 1266/2017 of 21 March 2017, the Council of State accepted the appeals and rejected the previous ruling of the regional

administrative court of Milan. As a result of the Council of State's ruling, the original request by Cerved was therefore rejected.

### **Stogit S.p.A. - Gas Tera Consortium and Consorzio Gas Tera PMI Consortium**

Through the appeal filed on 15 June 2016, the Gas Tera Consortium and the Gas Tera PMI Consortium challenged Resolution 180/2016/R/gas on "*Determinations following the Lombardy administrative regional court ruling no. 1124/2015*", through which the Authority asked Stogit to notify investors pursuant to Legislative Decree 130/2010 of the amounts that were paid through Resolution 144/2014/R/gas by the Authority to the parties to whom the investors had sold the storage capacities for Thermal Year 2013/2014. The sums were paid by the then Cassa Conguaglio Settore Elettrico (CCSE) to Stogit in December 2014 and then promptly repaid to those with rights according to the above Resolution. According to the reconstruction of the plaintiffs, Stogit paid an apparent creditor, by virtue of Resolution 144/2014/R/gas, which in the meantime was challenged, but not suspended in the trial which concluded with ruling no. 1124/2015 which established that it is the sellers and not the assignees who have the right to collect these sums. The plaintiffs asked for a declaration of invalidity or, alternatively, the annulment of the challenged Resolution, asking to know whether the burden of recovering the payable with regard to third parties where the sum due to the plaintiffs was incorrectly paid was incumbent upon them. The hearing on the merits was held on 31 January 2017 at the regional administrative court of Milan; the appeal was rejected pursuant to ruling 688/2017 of 22

March 2017. Indeed, the Court found that, contrary to the allegations of the defendant, the resolution ordering Stogit to communicate the information requested by the Authority is not wrongful.

## **Tax cases**

### **Snam Rete Gas S.p.A. - Notice of ICI/IMU tax assessment 2011-2013 - Municipality of Tarsia**

On 18 July 2017, the Municipality of Tarsia served Snam Rete Gas S.p.A. with 3 notices of amended assessment and levied penalties for omitting to file ICI/IMU declarations for the Tarsia compression station.

The amount of the assessment totals approximately €2.8 million (including penalties and interest) and relates to the years 2011-2012-2013.

The cadastral classification and usage of the property in question had previously been re-determined by the Agenzia delle Entrate, Provincial Office of Cosenza.

The assessment notices were appealed by Snam Rete Gas S.p.A. before the provincial tax court of Cosenza. The hearing date has not yet been set.

The Company has made an allocation to the provision for risks and charges.

### **Snam Rete Gas S.p.A. - Official audit report regarding excise taxes and VAT 2003**

On 15 September 2017, the Agenzia delle Dogane e dei Monopoli (Custom's Office) served Snam Rete Gas S.p.A. with a formal report and assessment of administrative offences, with an order to pay excise taxes, VAT and administrative fines.

The Milan Tax Unit of the Financial Police investigated the annual natural gas consumption declarations and the

technical reports for 2003 to 2007. The results were transmitted to the Milan Customs Office for action. The Customs Office requested clarifications, in response to which Snam Rete Gas S.p.A. submitted a series of explanatory briefs from 2011 to 2016, with tables and technical reports, to justify the differences in the volume of natural gas which was the object of the investigation. These briefs were only partially accepted by the Customs Office and the amounts in question, for 2003, total approximately €6 million.

On 13 November 2017, Snam Rete Gas S.p.A. submitted its own observations with regard to the report. The Functionaries reserved the right to assess the contents of the observations submitted by the Company. The Company has made an allocation to the provision for risks and charges.

For completeness of information, we note that the investigation conducted by the Financial Police resulted in the initiation of penal proceedings for the failure to report or pay excise taxes on energy products. The accused were acquitted in the first instance, due to lack of evidence and because the fact is not a crime. The public prosecutor has appealed.

### **Stogit S.p.A. - Payment notice for registration tax**

On 4 March 2015, the Italian Revenue Agency issued Stogit S.p.A. with a payment notice requesting payment of the total sum of approximately €2.7 million in tax, relating mainly to registration tax for legal deeds.

The Company brought an appeal before the provincial tax commission of Milan, requesting that the tax be redetermined.

Through internal review provision No 55/2015, the Revenue Agency, in accepting the request, corrected the

contested notice from €2.7 million to €0.4 million, in addition to service fees, which the company paid on 4 May 2015.

The hearing before the provincial tax commission of Milan regarding this issue was held on 9 February 2017, when the issue was declared closed and the lawsuit was cancelled.

### **Stogit S.p.A. - Assessment notices for IMU tax for 2012-2013 on buildable areas - Municipality of Bordolano**

On 8 June 2017, the Municipality of Bordolano served Stogit S.p.A. with 2 notices of assessment for IMU property tax for the years 2012 and 2013. The notices, which additional tax due and penalties for failing to declare and the application of legal interest, with regard to the minimum values established through a specific resolution of the Municipality in 2016, involve areas which can be built on subject to change of use, for which the Company made the property tax (IMU) payments considering them to be agricultural land, thereby taking a lower taxable base for the calculation of the IMU. For 2016, in relation to the areas currently involved in the assessment, the Company had paid the IMU amount due, based on the new planning classification and according to the minimum amounts set by the Municipality.

The assessment totals approximately €370 thousand, including penalties, interests and service charges and this amount is subject to the application of reduced penalties in the event of acceptance of the orders served. Stogit S.p.A. has submitted an appeal to the Provincial Tax Commission. The Company has made an allocation to the provision for risks and charges.

### **Stogit S.p.A. - Tax settlement proposal ICI/IMU 2011-2015 - Municipality of Minerbio**

On 22 August 2017, through "Terre di Pianura - Unione dei Comuni", the Municipality of Minerbio served an order to appear in regard to an ICI/IMU tax settlement proposal covering 2011 to 2015, referring to wells, the compression station and the treatment station.

Following meetings held on 10 November 2017, Terre di Pianura signed the tax settlement proposal, redefining the recalculation of the total amounts due for 2011 to 2015, with regard to the compression and treatment stations located in Minerbio. Consequently, the total amount due for ICI/IMU from 2011 to 2015 is €2.4 million for taxes and interest. The Municipality opted not to apply the fines.

The company settled the amounts required within the deadline set.

### **GNL Italia S.p.A. - Local duties**

On 11 April 2017, the Municipality of Porto Venere served an assessment notice regarding the Panigaglia plant for TA.RI. duties due for 2016. The amount is approximately €74 thousand. The Company has appealed before the Provincial Tax Court of La Spezia.

The Company has made an allocation to the provision for risks and charges. It is furthermore noted that similar assessment notices were issued in 2016 by the same municipality of Porto Venere for TARSU payment for 2012 and TARES payment for 2013, totalling approximately €180 thousand. The orders were appealed by the company before the Tax Court.

### **Recovering receivables from certain users of the transportation and balancing system**

The balancing service ensures that the network is safe and that costs are correctly allocated between the market operators. Balancing has both a physical and a commercial purpose. The physical balancing of the system consists of the set of operations through which the Dispatching department of Snam Rete Gas controls flow parameters (capacity and pressure) in real time in order to ensure that gas can move safely and efficiently from injection points to withdrawal points at all times. Commercial balancing consists of the activities required to correctly schedule, account for and allocate the transported gas, as well as the fee system that encourages users to maintain a balance between the volumes they inject into and withdraw from the network.

Pursuant to the current balancing regime, which was introduced by Resolution ARG/gas 45/11 and came into effect on 1 December 2011, in its role as Balancing Supervisor, Snam Rete Gas must ensure that it procures the quantities of gas required to balance the system and offered on the market by users through a dedicated platform of the Energy Market Operator, and, accordingly, it must financially settle the imbalances of individual users by buying and selling gas on the basis of a benchmark unit price (the "principle of economic merit"). The Company must also ensure that it recovers sums owed for the settlement of imbalances from any defaulting users.



## Unpaid receivables relating to the period from 1 December 2011 to 23 October 2012

The initial regulation laid down by the Authority with Resolution ARG/gas 155/11 stated that users had to provide specific guarantees to cover their exposure and, where Snam Rete Gas had performed its duties diligently and had not been able to recover the costs related to provision of the service, these costs would have been recovered through a special fee determined by the Authority. Through its subsequent Resolution 351/2012/R/gas<sup>41</sup>, the Authority ordered, with effect from 1 October 2012, the application of the variable unit fee CVBL to cover uncollected receivables, and the payment of the expenses to be recovered in monthly instalments of up to €6 million over a minimum of 36 months. The Authority subsequently opened an exploratory investigation into balancing service provision methods for the period 1 December 2011 - 23 October 2012<sup>42</sup>. The investigation was closed by Resolution 144/2013/E/gas of 5 April 2013, when the Authority: On that date, the Authority: (i) adopted Resolution 145/2013/R/gas, through which it opened proceedings to determine the share of costs arising from uncollected receivables owing to the gas balancing supervisor for the period 1 December 2011 - 23 October 2012; and (ii) opened six proceedings aimed at establishing whether there have been violations regarding the

natural gas balancing service.<sup>43</sup> With regard to the preliminary investigation discussed in point (i) above, the proceedings were closed by means of Resolution 608/2015/R/gas, with which the Authority decided not to pay a share of the uncollected receivables in relation to specific cases analysed in the preliminary investigation, in any case subject to Snam Rete Gas's right to withhold the receivables relating to the income statement entries on balancing, possibly already recuperated. The Company appealed Resolution 608/2015/R/gas, before the Regional Administrative Court of Milan, which partially admitted the appeal submitted by the Company with ruling 942/2017; this was in turn partially appealed by the Company and the Authority.

During the above-mentioned investigation period, Snam Rete Gas, having terminated the transportation contracts of the six users involved in the aforementioned proceedings since they either defaulted on payments or failed to comply with the balancing obligations set forth in the industry regulations and the Network Code, initiated steps to recover the receivables relating to balancing and transport items.

Specifically, the competent judicial authorities issued 11 provisional executive orders, of which six related to receivables arising from the balancing service and five to receivables arising from the transportation service<sup>44</sup>. Having

received these orders, Snam Rete Gas initiated the executive proceedings, which resulted in the recovery of negligible amounts of the overall debt of the Users, partly because of the bankruptcy procedures under way at all of these Users.

In particular, at present:

- five Users were declared bankrupt. Four Users were declared bankrupt and Snam Rete Gas obtained measures for admission to the list of creditors for the receivable owed, plus interest; As part of these proceedings, a proposal for arrangement with creditors was submitted and approved by the majority of the creditors. With regard to one User, Snam Rete Gas has submitted an application to submit its claim and is awaiting the ruling of the Court;
- One User has requested to be admitted to the arrangement with creditors and the Court Authorities have issued a ruling endorsing the arrangement<sup>45</sup>.

## Unpaid receivables after 23 October 2012

In 2013, two further transport contracts were terminated and Snam Rete Gas initiated injunction proceedings. It obtained three payment orders, of which two for receivables relating to the balancing service and one for the transport service. Both Users appealed, with the relative rulings rejecting the claims and consolidating the securities acquired

41 The aforementioned resolution was annulled pursuant to the ruling 1587/2014 of the Regional Administrative Court of Milan insofar as the obligation of Users to pay the CV<sup>BL</sup> consideration of €0.001/Scm with effect from 1 October 2012. Moreover, with the subsequent Resolution 372/2014/R/gas the coefficient was redefined at the same amount of €0.001/Scm.

42 The time period set for the preliminary investigation which was initially limited to 1 December 2011-31 May 2012, was subsequently extended to 23 October 2012.

43 As at 30 June 2017, all six of the aforementioned proceedings had been concluded through the approval of Resolutions 151/2014/S/gas, 188/2014/S/gas, 241/2014/S/gas and 305/2014/S/gas, with which the Authority imposed significant financial penalties on the Users in question.

44 The users in question have appealed against some of these injunctions. Specifically, as well as requesting the suspension of the provisional enforceability and the revocation and/or declaration as null and void of the injunctions themselves, three users have submitted counterclaims requesting that

Snam Rete Gas be ordered to compensate them for alleged damage suffered. In relation to the two users, the oppositions were declared null and void, with the resulting lapse of the demand and the passage into judgment of the injunction decrees.

45 In respect of the approval provision, a claim was brought before the Court of Appeal of Turin, and – in respect to the confirmation procedure adopted by the same Court – the appeal was brought before the Court of Cassation.

by Snam Rete Gas. The executive procedures that were initiated resulted in a negligible recovery of amounts when compared to the overall amounts due from the Users which were then declared bankrupt. Snam Rete Gas regularly submitted its claims in the respective arrangements with creditors.

In 2014, a further transport contract was terminated and Snam Rete Gas initiated provisional executive procedures for recovery of the receivables, one relating to balancing services and the other to transport services. For this reason, the user was declared bankrupt<sup>46</sup>.

Finally, in 2015 a further transportation contract was terminated and Snam Rete Gas initiated debt recovery measures, securing two provisional executive injunctions against the User, one for the balancing service and the other for the transport service. Moreover, the User was recently declared bankrupt and Snam Rete Gas has regularly submitted its claims for the arrangements with creditors. Snam Rete Gas, as stated in the provisional executive injunctions issued by the Court, has engaged in proper conduct and complied with the provisions of the transportation contract, the Network Code and, more generally, the applicable legislation. Lastly, we note that on 12 February 2016 the Public Prosecutor at the Court of Milan ordered the urgent preventive seizure of the moveable and fixed assets belonging to companies and attributable in various guises to the above-mentioned five Users. In May 2017, the investigation was concluded and the investigated parties were charged with the being involved in a criminal association and

committing aggravated fraud against Snam Rete Gas.

This criminal proceeding resulted in the formal complaint report (and subsequent supplementary reports) filed by Snam Rete Gas, as offended party, in October 2012 for the crimes of falsehood and aggravated fraud. At present, the Company is still the offended party of the crime.

### **Recovering receivables from users of the storage system**

#### **Withdrawals made from strategic storage by three users, invoiced by Stogit and not replenished by the user under the terms specified by the Storage Code.**

Following withdrawals from strategic storage made by a User in November and December 2010, Stogit asked for and obtained an injunction with regard to the sums due that the user failed to pay. The provisional enforceability was confirmed during the opposition launched by the opposing party. Executive actions were then launched. Following the withdrawals and the failure to replenish the strategic gas in the initial months of 2011 as well, Stogit requested and obtained a second provisional executive injunction for the further sums accrued.

Urgent proceedings were also launched for the replenishment of all the gas unlawfully withdrawn, concluding with the conviction of the debtor, with the subsequent application for injunctive relief also being rejected.

In 2012 the above user together with another two users (who also defaulted with regard to Stogit) were added to the proceedings for an arrangement with creditors, in which Stogit formally transmitted and documented the amounts of its receivables with these users

Moreover, following the sub-

proceedings to dismiss the arrangement, the Court of Asti declared two of the above-mentioned users bankrupt. In both cases, Stogit promptly filed a proof of claim and its receivables were admitted in full. However, the procedure for an arrangement with creditors is continuing with regard to the third user, which was appealed by one of the creditors. The Court of Appeal of Turin issued a ruling, confirming the approval of the arrangement with creditors. An appeal brought by the aforementioned creditor is currently pending before the Court of Cassation.

#### **Withdrawals made from strategic storage by a user, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, ascribable to the 2010-2011 and 2011-2012 thermal years**

Stogit filed with the Civil Court of Milan for a payment injunction provisionally enforceable against one User pursuant to Article 186-ter. At present, following the partial restitution of gas in the wake of legal action brought, Stogit is still owed approximately 23.6 million SCM. Stogit has therefore taken the appropriate actions.

The Court of Rome then declared the User bankrupt and Stogit submitted its claim, which was accepted.

#### **Withdrawals made from strategic storage by a User, invoiced by Stogit and not replenished by the User under the terms specified by the Storage Code, relating to October and November 2011**

Stogit filed with the Civil Court of Milan for a provisionally enforceable payment injunction. While the proceedings were ongoing, the Court of Rome declared the User bankrupt. Consequently, the Civil Court of Milan declared the case interrupted and

<sup>46</sup> Snam Rete Gas was admitted to the current list of creditors for the entire debt due, plus interest.



Stogit submitted its claim, which was accepted.

At present, following the partial restitution of gas in the wake of legal action brought because of improper withdrawals, Stogit is still owed approximately 56.0 million SCM.

### **Emissions trading**

1 January 2013 was the start of the third regulatory period (2013-2020) of the Emission Trading System (ETS), the greenhouse gas emission allowance system governed by Legislative Decree 30 of 13 March 2013 as currently applicable, transposing Directive 2009/29/EC. The reduction of CO<sub>2</sub> emissions comes under the objectives set by the European Union in the *2020 Climate and Energy Package*, approved in 2009, which involves reducing greenhouse gas emissions by 20% (compared with 1990 levels) by 2020, increasing the share of energy produced from renewable sources by 20% and improving energy efficiency by 20%.

In 2017 the free allocation for the Snam Group was equal to around 252,000 shares, with an increase of approximately 22% compared with 2016. The change is due to the offsetting of the reduction of the shares assigned to GNL Italia and Stogit and the increase in the assignment of the free shares assigned by the Competent National Authority, as provided for the third regulatory period pursuant to art. 10 bis of Directive 2009/29/EC.

In 2017, carbon dioxide emissions of the Snam Group facilities covered by the ETS were overall greater than the emission permits allocated. Against 0.635 million tonnes of carbon dioxide emitted into the atmosphere, around 0.252 million tonnes were allocated, resulting in a 0.383 million-tonne deficit. This deficit is offset by the allowances already present in the registers for Snam Group plants,

accumulated thanks to the surplus from previous years.

### **Other commitments and risks**

The other unevaluated commitments and risks are:

#### **Commitments arising from the contract for the acquisition of Stogit from Eni**

On 31 December 2017, the remaining commitments from the above mentioned agreements refer to hedging mechanisms created in order to maintain under Eni the risks and/or benefits arising from: (i) an eventual valuation of the gas owned by Stogit at the time of the transfer of the shares which differs from the valuation currently recognised by the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) in the event of an even partial transfer thereof when given quantities may no longer be instrumental to the regulated concessions and thus become available for sale; (ii) transfer of storage capacity that may eventually become freely available on a negotiated basis and no longer a regulated basis, or else from a transfer of concessions including those pertaining to Stogit at the time of the transfer of the shares which may eventually be dedicated predominantly to storage business no longer subject to regulation.

#### **Commitments arising from the contract through which Edison acquired Terminale GNL Adriatico S.r.l.**

The price determined for the acquisition of Terminale GNL Adriatico S.r.l. is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

As at 31 December 2017, the commitment arising from the aforementioned agreement refers to the hedging mechanisms established to maintain the risks and/or benefits arising from conclusion of new contracts for usage of the terminal capacity under Edison.

## 25) Revenue

The breakdown of *revenue* for the period, which totalled €2,533 million (€2,501 million in 2016), is shown in the following table.

(€ million)	2016	2017
Core business revenue	2,419	2,493
Other revenue and income	82	40
	2,501	2,533

The Group generates most of its revenue in Italy. An analysis of revenue by business segment can be found in Note no. 32 - "Information by business segment".

Receivables from related parties are described in Note no. 33 - "Related-party transactions".

### Core business revenue

Core business revenue, which totalled €2,493 million (€2,419 million in 2016), is analysed in the following table:

(€ million)	2016	2017
Natural gas transportation	1,925	1,949
- Liquefied natural gas (LNG) regasification	18	18
Natural gas storage	434	442
Corporate and other activities	42	84
	2,419	2,493

### Natural gas transportation

Core business revenue (€1,949 million) relates mainly to fees for transportation services (€1,941 million) and mainly relate to Eni S.p.A. (€1,178 million), and Enel Trade S.p.A. (€ 302 million). Transportation revenue includes the chargeback to users of the costs of connecting the Company's network to that of other operators (€61 million)<sup>47</sup>. Snam provided its transportation service to 178 companies in 2017.

### Liquefied natural gas (LNG) regasification

Core business revenue (€18 million) refers mainly to the revenue coverage factor recognised by the Authority pursuant to Resolution 438/2013/R/gas<sup>48</sup>. Snam provided its regasification service to 4 companies in 2017.

47 Where the provision of the transportation service involves the networks of multiple operators, Resolution 166/05 of the Authority, as amended, provides for the principal operator to invoice the users for the service, transferring to the other operators of the transportation networks the portion attributable to them.

48 Art. 18 "Application methods for the revenue coverage factor" of Annex A to Resolution 438/2013/R/gas set the revenue coverage factor at 64% of the revenues in question.

## Natural gas storage

Core business revenue (€442 million) relates mainly to fees for modulation storage (€352 million) and strategic storage (€91 million) storage, and mainly concerns Eni S.p.A. (€57 million) and Enel Trade S.p.A. (€15 million). Snam provided its natural gas storage service to 89 companies in 2017.

The Group's core business revenue is reported net of the tariff components, additional to the tariff, and tariff surcharges applied to cover expenses of a general nature of the gas system<sup>49</sup>. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund (CSEA).

(€ million)	2016	2017
Additional fees for the transportation service	955	1,153

## Other revenue and income

*Other revenue and income*, which amounted to €40 million (€82 million in 2016), can be broken down as follows:

(€ million)	2016	2017
Income from gas sales for the balancing service (*)	72	22
Capital gains from disposals of property, plant and equipment and intangible assets		1
Competition for connection to the gas network	3	2
Other income	7	15
	<b>82</b>	<b>40</b>

(\*) Revenue from the balancing business, operational since 1 December 2011, in accordance with Resolution ARG/gas 45/11 of the Authority, relates to sales of proprietary natural gas made for the purposes of balancing the gas network. The revenue is matched to operating costs linked to withdrawals from the gas storage system.

49 These components, totalling € 1,153 million (€ 955 in 2016), essentially consist of the following consideration: (i) CRVOS, introduced by the Authority by means of Resolution ARG/gas 29/11 to cover the expenses mentioned in Article 9 of Legislative Decree 130/10, incurred by the Energy Services Operator (GSE) for paying the amounts due to the storage company relating to the SG guarantee factor (€394 million); (ii) GST and RET, respectively to cover expenses for offsetting tariff breaks for disadvantaged gas sector customers and expenses for energy-saving measures, and interventions and the development of renewable sources in the gas sector (€479 million in total); (iii) CVFG, to cover expenses arising from the application of the guarantee factor for LNG regasification revenue pursuant to Article 18 of Resolution 92/08 (€125 million); (iv) CRVBL, to cover expenses associated with balancing the gas system (€76 million); (v) UG3T introduced by means of Resolution 134/14/R/gas to cover expenses arising from the default service provided to customers who are directly connected to the regional transportation network (€60 million); (vi)  $\phi$  established pursuant to Resolution ARG/gas 184/09 to cover the equalisation imbalances of the revenues relative to the CRR capacity consideration (€ 16 million).

## 26) Operating costs

The breakdown of *operating costs* for the period, which totalled €526 million (€557 million in 2016), is shown in the following table:

(€ million)	2016	2017
Purchases, services and other costs	390	355
Personnel cost	167	171
	557	526

Receivables from related parties are described in Note no. 33 "Related-party transactions".

### Purchases, services and other costs

*Purchases, services and other costs*, which amounted to €355 million (€390 million in 2016), can be broken down as follows:

(€ million)	2016	2017
Purchase costs for raw materials, consumables, supplies and goods	109	115
Costs for services	307	317
Costs for the use of third-party assets	21	21
Changes in raw materials, consumables, supplies and goods	32	(32)
Net accrual to (utilisation of) provisions for risks and charges	6	18
Net (utilisation of)/allocations to the provision for impairment losses on receivables	(2)	8
Other expenses	37	30
	510	477
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(120)</b>	<b>(122)</b>
- of which purchase costs for raw materials, consumables, supplies and goods	(66)	(49)
- of which costs for services	(54)	(73)
	390	355

Costs for services, which amounted to €244million (€253 million in 2016), related to:

(€ million)	2016	2017
IT (Information Technology) services	65	71
Purchase of transportation capacity (interconnection)	62	61
Technical, legal, administrative and professional services	49	38
Ordinary maintenance	32	31
Personnel-related services	20	19
Construction, planning and coordination of work	16	28
Telecommunications services	15	16
Provision of utilities.	12	15
Insurance	9	8
Other services	27	30
	<b>307</b>	<b>317</b>
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(54)</b>	<b>(73)</b>
	<b>253</b>	<b>244</b>

Costs for the use of third-party assets, which amounted to €21 million (same amount in 2016), can be broken down as follows:

(€ million)	2016	2017
Leases and rentals	15	17
Fees, patents and licences	6	4
	<b>21</b>	<b>21</b>

Leasings and rentals (€17 million) mainly relate to charges for operating leases of properties for use as offices and Fleet vehicles.

The positive change in raw materials, ancillary materials, consumables, supplies and goods (€32 million) is mainly due to the natural gas purchases, mainly for use in transportation activities.

Net allocations to the provision for risks and charges of 18 million, not including the drawdowns, refer mainly : (i) the expenses that the Company expects to incur for assessments and ongoing tax litigation, related mainly to the transportation sector (€ 7 million); (ii) the allocation relative to the claims reserve relating to the captive company Gasrule (€ 4 million).

For more details about the change in provisions for risks and charges, please see Note no. 19 "Provisions for risks and charges".

More information on changes in the provision for impairment losses can be found in Note no. 8 "Trade and other receivables".

Other expenses, which amounted to €30 million (€37 million in 2016), can be broken down as follows:

(€ million)	2016	2017
Direct and indirect taxes	13	14
Capital losses on eliminations of property, plant and equipment and intangible assets	21	5
Methane consumption tax	2	
Other expenses	1	11
	<b>37</b>	<b>30</b>

### Personnel cost

Personnel cost, which amounted to €171 million (€167 million in 2016), can be broken down as follows:

(€ million)	2016	2017
Wages and salaries	151	149
Social security contributions (pensions and healthcare assistance)	45	42
Employee benefits	5	17
Other expenses	27	22
	<b>228</b>	<b>230</b>
<i>Less:</i>		
<b>Increase on internal work</b>	<b>(61)</b>	<b>(59)</b>
	<b>167</b>	<b>171</b>

The other expenses item (€ 22 million) mainly comprises: (i) expenses for defined-contribution plans (€ 10 million); (ii) expenses for secondment of personnel from Italgas S.p.A. (€ 6 million); (iii) expenses for redundancy packages (€2 million). A description of employee benefits can be found in Note no. 20 "Provisions for employee benefits".

### Average number of employees

The average number of payroll employees included in the scope of consolidation, broken down by status, is as follows:

Professional status	31.12.2016	31.12.2017
Executives	101	94
Managers	429	432
Office workers	1,594	1,632
Manual workers	726	722
	<b>2,850</b>	<b>2,880</b>

The average number of employees is calculated on the basis of the monthly number of employees for each category.

The number of personnel in service at 31 December 2017 was 2,919 resources (2,883 resources at 31 December 2016), an increase of 36 resources (1,2%) compared to 31 December 2016.

### Incentive plans for executives with Snam shares

For the creation of an incentive and retention system for Group executives, in 2017 Snam defined a long-term stock incentive plan for the Chief Executive Officer and a maximum of 20 executives who hold positions that have a great effect on the creation of value or which are strategically significant in terms of achieving Snam's multi-year objectives.

This long term share-based incentive plan for 2017-2019, which was approved by the Shareholders' Meeting on 11 April 2017, provides for three annual assignment cycles consisting of three year objectives (the Rolling Plan) for 2017, 2018 and 2109 and, upon conclusion of the three year performance period, if the conditions underlying the Plan are fulfilled, the beneficiary will be entitled to receive company stock free of charge.

The Plan also provides that upon conclusion of the Vesting Period, the beneficiaries will receive a Dividend Equivalent, i.e. an additional number of shares equal to the ordinary and extraordinary dividends distributed by Snam during the Vesting Period which would have been paid on the number of shares actually assigned to the beneficiaries on the basis of their performance levels during the timeline and under the conditions of the Plan. The vesting of the shares is subject to fulfilling the performance conditions, calculated as the average of the annual performances of the parameters identified in the three year vesting period, which affect EBITDA, adjusted net profit ad sustainability.

A maximum number of 3,500,000 shares will service the Plan for each fiscal year that the Plan will be in effect. The Plan will be concluded in 2022, upon expiration of the Vesting Period for the last attribution made in 2019. Moreover, in the case of the Chief Executive Officer and other

executives who are plan beneficiaries, a lock up period of two years will be applied to 20% of the shares as recommended by the Corporate Governance Code.

For 2017, the number of shares promised is 1,368,397, while the unit fair value per share, in consideration of the plan characteristics, was determined on the basis of the market price of the Snam share as at 1 July 2017 (grant date) and was assessed at €3.8548 per share. The expenses, which refer to the period from 1 July to 31 December 2017, equal to the product of the number of shares expected to mature upon conclusion of the plan and their fair value as at the grant date, were recognised under the personnel cost item, against a corresponding equity reserve; they total Euro one million.

For more information on the Plan, see the Report on Operations, chapter "Financial review and Other Information".

### Remuneration due to key management personnel

The remuneration due to persons with powers and responsibilities for the planning, management and control of the Company, i.e. executive and non-executive directors, general managers and managers with strategic responsibilities ("key management personnel"), in office during the year amounted (including contributions and ancillary charges) to €7 million (€14 million in 2016) and breaks down as follows:

(€ million)	2016	2017
Wages and salaries	6	6
Severance indemnity	6	
Other long-term benefits	2	1
	<b>14</b>	<b>7</b>

### Remuneration due to directors and statutory auditors

The remuneration due to directors amounted to €4 and €11 million respectively for 2017 and 2016. The remuneration due to statutory auditors amounted to €0.2 million (the same as in 2016). This remuneration includes emoluments and any other amounts relating to pay, pensions and healthcare due for the performance of duties as a director or statutory auditor giving rise to a cost for the Company, even if not subject to personal income tax.

## 27) Amortisation, depreciation and impairment

*Amortisation, depreciation and impairment*, which amounted to €659 million (€651 million in 2016), can be broken down as follows:

(€ million)	2016	2017
<b>Amortisation and depreciation</b>	<b>616</b>	<b>646</b>
- Property, plant and equipment	570	592
- Intangible assets	46	54
<b>Net impairment losses</b>	<b>35</b>	<b>13</b>
- Impairment losses on property, plant and equipment	35	13
	<b>651</b>	<b>659</b>

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note no. 12 "Property, plant and equipment", and Note no. 13 "Intangible assets". An analysis of amortisation, depreciation and impairment by business segment can be found in Note no. 32 "Information by business segment".



## 28) Financial expense (income)

*Financial expense (income)*, which amounted to €283 million (€510 million in 2016), can be broken down as follows:

(€ million)	2016	2017
<b>Financial expense (income)</b>	<b>624</b>	<b>278</b>
Financial expenses	624	279
Financial income		(1)
<b>Other financial expense (income)</b>	<b>(115)</b>	<b>4</b>
Other financial expense	11	12
Other financial income	(126)	(8)
<b>Losses (gains) on derivatives – ineffective portion</b>	<b>1</b>	<b>1</b>
Losses on derivatives	1	1
	<b>510</b>	<b>283</b>

(€ million)	2016	2017
<b>Financial expense (income)</b>	<b>624</b>	<b>278</b>
<b>Expense on financial debt:</b>	<b>647</b>	<b>292</b>
- Interest and other expenses on bond loans	622	275
- Fees on loans and bank credit lines	13	11
- Interest expense on credit lines and loans due to banks and other lenders	12	6
<b>Financial expense capitalised</b>	<b>(23)</b>	<b>(13)</b>
<b>Income from financial receivables:</b>		<b>(1)</b>
- Interest and other income from financial assets not held for operations		(1)
<b>Other financial expense (income):</b>	<b>(115)</b>	<b>4</b>
- Accretion discount (*)	10	11
- Other expenses	1	1
- Interest income on financial receivables held for operating activities	(123)	(6)
- Other income	(3)	(2)
<b>Losses (Gains) on derivatives – ineffective portion</b>	<b>1</b>	<b>1</b>
	<b>510</b>	<b>283</b>

(\*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note no. 19 "Provisions for risks and charges", and Note 20 no. "Provisions for employee benefits".

Expense on financial debt (€292 million) related to: (i) interest and other expense on bond loans (€275 million), referring essentially to expenses from the liability management operation<sup>50</sup>(€56 million) which led to the repurchase on the market of bonds with a total nominal value of €607 million and an average coupon of approximately 2.5% and residual duration of approximately 4.4 years and the interest on 20 bond loans (€219 million); (ii) the portion attributable to the period of upfront fees on revolving credit lines (€6 million) and credit line non-usage fees (€5 million); and (iii) interest payable to banks on revolving credit lines, uncommitted credit lines and maturing loans totalling €6 million.

Financial expense capitalised (€13 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other net financial expense (€4 million) mainly relate to expenses connected to the accretion discount on the provisions for site dismantling and restoration in the storage and transport sectors (€+11 million overall), partially offset by the revenue from the Shareholders' Loan granted to TAP (€-6 million).

## 29) Income and expense from equity investments

*Income and expense from equity investments*, which amounted to €161 million (€116 million in 2016), can be broken down as follows:

(€ million)	2016	2017
<b>Equity method valuation effect</b>		
Capital gains from valuation using the equity method	140	175
Capital losses from valuation using the equity method	(24)	(14)
	<b>116</b>	<b>161</b>

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note no. 14 "Investments valued using the equity method".

## 30) Income taxes

*Income taxes* for the year, which amounted to €329 million (€308 million in 2016), can be broken down as follows:

(€ million)	2016			2017		
	IRES	IRAP	Total	IRES	IRAP	Total
<b>Current taxes</b>	<b>287</b>	<b>61</b>	<b>348</b>	<b>301</b>	<b>59</b>	<b>360</b>
Current taxes for the year	285	61	346	300	59	359
Adjustments for current taxes relating to previous years	2		2	1		1
<b>Deferred and prepaid taxes</b>	<b>(39)</b>	<b>(1)</b>	<b>(40)</b>	<b>(31)</b>		<b>(31)</b>
Deferred taxes	(22)		(22)	(16)		(16)
Prepaid taxes	(17)	(1)	(18)	(15)		(15)
	<b>248</b>	<b>60</b>	<b>308</b>	<b>270</b>	<b>59</b>	<b>329</b>

50 For more information on the operation, see the section "Snam in 2017 – Summary data and information - Main events" in the Directors' Report.

The reconciliation of the theoretical tax charge (calculated by applying the corporation tax (IRES) and regional production tax (IRAP) rates in force in Italy) with the actual tax charge for the year is as follows:

(€ million)	2016		2017	
	Tax rate	Balance	Tax rate	Balance
<b>IRES</b>				
Pre-tax profit		899		1,226
<b>IRES due, calculated based on the theoretical tax rate</b>	<b>27.5%</b>	<b>247</b>	<b>24.0%</b>	<b>294</b>
<i>Changes to the theoretical rate:</i>				
- Income from equity investments	(2.8%)	(25)	<b>(2.9%)</b>	<b>(35)</b>
- Dividend tax	1.2%	11	<b>0.7%</b>	<b>9</b>
- Other permanent differences	1.7%	15	<b>0.2%</b>	<b>2</b>
<b>IRES due for the year recorded on the income statement</b>	<b>27.6%</b>	<b>248</b>	<b>22.0%</b>	<b>270</b>

(€ million)	2016		2017	
	Tax rate	Balance	Tax rate	Balance
<b>IRAP</b>				
Difference between value and production costs		1,318		1,376
<b>IRAP due, calculated based on the theoretical tax rate</b>	<b>3.9%</b>	<b>51</b>	<b>3.9%</b>	<b>54</b>
<i>Changes to the theoretical rate</i>				
Regional IRAP rates delta	0.2%	3	<b>0.3%</b>	<b>4</b>
Other permanent differences	0.5%	6	<b>0.1%</b>	<b>1</b>
<b>IRAP due for the year recorded in the Income Statement</b>	<b>4.6%</b>	<b>60</b>	<b>4.3%</b>	<b>59</b>

An analysis of deferred and prepaid taxes based on the nature of the significant temporary differences that generated them can be found in Note no. 21 "Deferred tax liabilities".

### Taxes related to components of comprehensive income

Current and deferred taxes related to other components of comprehensive income can be broken down as follows:

(€ million)	2016			2017		
	Pre-tax value	Tax effect	Post-tax value	Pre-tax value	Tax effect	Post-tax value
Remeasurement of defined-benefit plans for employees	(1)		(1)	(1)		(1)
Share of "other comprehensive income" of investments accounted for using the equity method	(14)		(14)	(2)		(2)
Change in <i>fair value</i> of <i>cash flow hedge</i> derivatives	1		1	(8)	2	(6)
<b>Other components of comprehensive income</b>	<b>(14)</b>		<b>(14)</b>	<b>(11)</b>	<b>2</b>	<b>(9)</b>
<b>Deferred/prepaid taxes</b>					<b>2</b>	

### 31) Earnings per share

Basic earnings per share, at €0.262 per share (€0.248 per share in 2016), are calculated by dividing the net profit attributable to Snam (€897 million; €861 million in 2016) by the weighted average number of Snam shares outstanding during the year, excluding treasury shares (3,422,406,716 shares; 3,470,733,114 shares in 2016).

Diluted earnings per share are calculated by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be added to the outstanding shares. For 2017, the diluted earnings per share takes into account the potential effects from assignment of treasury shares in portfolio against the issuing of the bond convertible into ordinary Snam shares and those from the long-term share-based incentive plan, concluded on 1 July 2017.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,482,443,503 and 3,470,733,114 for 2017 and 2016, respectively.

### Reconciliation of basic and diluted earnings per share

The reconciliation of the weighted average number of outstanding shares used to determine basic and diluted earnings per share is set out below:

	2016	2017
<b>Weighted average number of outstanding shares used to calculate basic earnings</b>	<b>3,470,733,114</b>	<b>3,422,406,716</b>
Number of potential shares for the long-term incentive plans		326,331
Number of potential shares against the issuing of the convertible bond.		59,710,455
<b>Weighted average number of outstanding shares used to calculate diluted earnings</b>	<b>3,470,733,114</b>	<b>3,482,443,503</b>
<b>Group net profit (€ million)</b>	<b>861</b>	<b>897</b>
Dilution effect of the convertible bond		3
<b>Net Group profit diluted (€ million)</b>	<b>861</b>	<b>900</b>
Basic earnings per share (€ per share)	0.248	<b>0.262</b>
Diluted earnings per share (€ per share)	0.248	<b>0.258</b>

## 32) Segment information

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting for 2017 used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

The business segments for which information is provided are natural gas transportation ("Transportation"), LNG regasification ("Regasification") and natural gas storage ("Storage"). They relate to activities carried out predominantly by Snam Rete Gas, GNL Italia and Stogit respectively.

The information by business segment as at 31 December 2017 and 31 December 2016 is listed below.

(€ million)	Corporate and other activities	Transportation and dispatching	Storage	Regasification	Restoration of eliminations originating from inter-company transactions involving discontinued operations.	Consolidation adjustments and eliminations	Total
<b>2016</b>							
Net core business revenue (a)	226	1,947	581	18	(59)		2,713
less: intra-segment revenues	(128)	(19)	(147)				(294)
Revenue from third parties	98	1,928	434	18	(59)		2,419
Other revenue and income		80	2				82
Net (accruals to) utilisations of provisions for risks and charges	(5)	(1)					(6)
Amortisation, depreciation and impairment	(7)	(545)	(87)	(12)			(651)
<b>EBIT</b>	<b>(26)</b>	<b>1,021</b>	<b>346</b>	<b>(5)</b>	<b>(43)</b>		<b>1,293</b>
Valuation of equity investments using the equity method	116						116
Total assets	1,893	13,999	4,130	107			20,129
- of which investments valued using the equity method	1,499						1,499
Total liabilities	11,278	10,012	2,930	50		(10,638)	13,632
Investments in property, plant and equipment and intangible assets	6	776	117	7			906
<b>2017</b>							
Net core business revenue (a)	232	1,999	596	21			2,848
less: intra-segment revenues	(148)	(51)	(154)	(2)			(355)
Revenue from third parties	84	1,948	442	19			2,493
Other revenue and income	1	34	5				40
Net (accruals to) utilisations of provisions for risks and charges	(7)	(11)					(18)
Amortisation, depreciation and impairment	(7)	(550)	(97)	(5)			(659)
<b>EBIT</b>	<b>(30)</b>	<b>1,037</b>	<b>339</b>	<b>2</b>			<b>1,348</b>
Valuation of equity investments using the equity method	161						161
Total assets	3,153	14,481	4,078	104			21,816
- of which Investments valued using the equity method	1,547						1,547
Total liabilities	13,138	10,250	2,845	45		(10,650)	15,628
Investments in property, plant and equipment and intangible assets	11	917	101	5			1,034

(a) Balances before elimination of inter-segment revenue.

Revenue is generated by applying regulated tariffs or market conditions. The revenues and costs are earned and incurred almost entirely in Italy.

### 33) Related-party transactions

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries, associates and jointly controlled companies (whether directly or indirectly) by the Ministry of Economy and Finance. Members of the Board of Directors, Statutory Auditors and managers with strategic responsibilities, and their relatives, are also regarded as related parties of Snam Group and CDP.

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the applicable legislation, the Company

has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and auditors declare their interests affecting the company and the group every six months, and/or when changes in said interests occur; they also inform the CEO (or the Chairman, in the case of the CEO), who in turns informs the other directors and the Board of Statutory Auditors, of individual transactions that the company intends to carry out and in which they have an interest.

Snam is not managed or coordinated by any other entity. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

With regard to related-party transactions, pursuant to the disclosure obligations required by Consob Regulation No. 17221 of 12 March 2010, we note the stipulation between Snam Rete Gas S.p.A. and Eni S.p.A. of the transport contract for natural gas for the Thermal Year 2017 - 2018. On 2 February 2018, the value of the transport contract exceeded the significance threshold of 140 million as defined in the Snam "Procedure for transactions in which directors and auditors have an interest and transactions with related parties." The contract is defined in accordance with the procedures defined in the Snam Rete Gas S.p.A. Network Code approved by the Regulatory Authority for Energy Networks and the Environment (ARERA) pursuant to

Resolution 75/2003, as amended. The calculation of a fee for services rendered take place through application of the natural gas transportation and dispatching tariffs approved by Resolution of the Authority.

This contract is considered as an ordinary transaction concluded at arm's length since, pursuant to paragraph 2 of the Procedure (published on the website [www.snam.it](http://www.snam.it)): (i) it falls under the operating activities and related financial activity; (ii) the conditions applied are based on regulated tariffs.

Regarding related-party transactions, in 2017 there were no further transaction to disclose pursuant to the disclosure obligations set forth by the Consob Regulation no. 17221 of 12 March 2010.

The amounts involved in commercial, financial and other transactions with the above-mentioned related parties are shown below for the current and prior financial years. The nature of the most significant transactions is also stated.

## Commercial and other transactions

Commercial and other transactions can be broken down as follows:

(€ million)	31.12.2016					2016				
	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Costs (a)	Revenue (b)	Goods	Services	Other
<b>Companies under joint control and associates</b>										
- AS Gasinfrastruktur GmbH (BidCo)	4						4			
- TAG GmbH	3		3	2		21	2			21
- TIGF Investissements	1									
	<b>8</b>		<b>3</b>	<b>2</b>		<b>21</b>	<b>6</b>			<b>21</b>
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>										
- Italgas Group	33		10		88		1		24	
	<b>33</b>		<b>10</b>		<b>88</b>		<b>1</b>		<b>24</b>	
<b>Companies jointly controlled by the parent company Cassa Depositi e Prestiti</b>										
- Saipem Group			43				40			
			<b>43</b>				<b>40</b>			
<b>Companies owned or controlled by the State</b>										
- Gestore dei mercati energetici S.p.A.	12		10			2				2
- Anas Group	1	1	5				1			
- Enel Group (c)	166		13						394	
- Eni Group (c)	280	1	31		1	16	1	1,129		2
- Ferrovie dello Stato Group	1		1							
	<b>460</b>	<b>2</b>	<b>60</b>		<b>1</b>	<b>2</b>	<b>16</b>	<b>2</b>	<b>1,523</b>	<b>4</b>
	<b>501</b>	<b>2</b>	<b>116</b>	<b>2</b>	<b>89</b>	<b>23</b>	<b>56</b>	<b>3</b>	<b>1,553</b>	<b>25</b>
<b>Discontinued operations</b>										
- Gestore dei mercati energetici S.p.A.							2			
- Enel group									88	1
- Eni group						6	4	1	580	7
- Toscana Energia S.p.A.									2	
						<b>6</b>	<b>4</b>	<b>3</b>	<b>670</b>	<b>8</b>
<b>Total</b>	<b>501</b>	<b>2</b>	<b>116</b>	<b>2</b>	<b>89</b>	<b>29</b>	<b>60</b>	<b>6</b>	<b>2,223</b>	<b>33</b>

(a) Inclusive of costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

(c) Inclusive of amounts on the balance sheet relating to natural gas balancing activities.



(€ million)	31.12.2017					2017				
	Receivables	Other assets	Payables	Other liabilities	Guarantees and commitments	Costs (a)			Revenue (b)	
						Goods	Services	Other	Services	Other
<b>Companies under joint control and associates</b>										
- TAG GmbH	5		5	1		17			4	17
- TIGF Investissements	1									
- Trans Adriatic Pipeline AG (TAP)	5			13					6	
	11		5	14		17			10	17
<b>Snam Foundation</b>								1		
<b>Parent company</b>										
- Cassa Depositi e Prestiti			91							
			91							
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>										
- ItalgasGroup	29		6		86		1	7	61	1
- Terna Group							1			
	29		6		86		2	7	61	1
<b>Companies jointly controlled by the parent company Cassa Depositi e Prestiti</b>										
- Saipem Group			33			1	30			
- Valvitalia Finanziaria S.p.A.						2	1			
			33			3	31			
<b>Companies owned or controlled by the State</b>										
- Gestore dei mercati energetici S.p.A.	6		10			2				
- Anas Group		1	3					3		
- Enel Group (c)	122		14						321	
- Eni Group (c)	306	1	38		1		18	1	1,235	1
- Ferrovie dello Stato Group	1		2					3		
	435	1	67		1	2	18	7	1,556	1
<b>Total</b>	<b>475</b>	<b>2</b>	<b>202</b>	<b>14</b>	<b>87</b>	<b>22</b>	<b>51</b>	<b>15</b>	<b>1,627</b>	<b>19</b>

(a) Inclusive of costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

(c) Inclusive of amounts on the balance sheet relating to natural gas balancing activities.

### Companies under joint control and associates

The main commercial relations with jointly controlled and associated companies refer to:

- The purchase and sale of gas by TAG, as governed by the Service Balance Agreement, an agreement aimed at ensuring the daily balance between the quantities measured and the quantities expected at the Tarvisio entry point;
- The provision of services to TAG for the realisation of the transport infrastructures governed by the 'Engineering, Procurement and Construction Management (EPCM) Agreement;
- The provision to TAP of services for the construction of transport infrastructures governed by the Engineering and Project Management (EPMS) Agreement.

### Companies controlled by the parent company Cassa Depositi e Prestiti

The main commercial relations with companies that are controlled by Cassa Depositi e Prestiti refer to:

- The guarantees provided on behalf of the Italgas Group relative to hold harmless clauses issued to third parties for participation in calls for tenders and awards of natural gas distribution services and for good performance guarantees;
- The provision of Snam S.p.A. services to the Italgas Group, relative mainly to ICT services and staff. The services are settled based on the costs incurred according to a full cost system and refer to phase-out contracts, which aim to ensure the continuity of the activity previously provided by Snam which was concluded on 31 December 2017.

### Companies jointly controlled by the parent company Cassa Depositi e Prestiti

Among the main commercial relations with companies that are jointly controlled by Cassa Depositi e Prestiti we note the purchase from Saipem of design and supervision services for the realisation of natural gas transport and storage infrastructures, regulated by contracts concluded at arm's length.

### Companies owned or controlled by the State

The key transactions with State-owned or controlled companies relate to:

- the provision to the Eni Group and the Enel Group of natural gas transport, regasification and storage services, which are settled on the basis of tariffs set by the Authority;
- purchase from the Eni Group of electricity used for operations;

Additionally, as at 31 December 2017, there were assets resulting from transactions with Eni as part of the national tax consolidation scheme in force until 31 July 2012.

## Financial transactions

Financial transactions can be broken down as follows:

(€ million)	31.12.2016		2016	
	Receivables	Payables	Expenses	Income
<b>Companies under joint control and associates</b>				
- GasBridge1 B.V. Gasbridge 2 B.V.		18		
- Trans Adriatic Pipeline AG (TAP)	213			2
	213	18		2
<b>Parent company</b>				
- Cassa Depositi e Prestiti (*)			1	
			1	
<b>Companies controlled by the parent company Cassa Depositi e Prestiti</b>				
- Italgas Group				121
				121
	213	18	1	123

(\*) This refers to costs incurred for loans granted by the European Investment Bank EIB.

(€ million)	31.12.2017		2017	
	Receivables	Payables	Expenses	Income
<b>Companies under joint control and associates</b>				
- GasBridge1 B.V. Gasbridge 2 B.V.		15		
- Trans Adriatic Pipeline AG (TAP)	373			6
	373	15		6
<b>Parent company</b>				
- Cassa Depositi e Prestiti (*)			1	
			1	
	373	15	1	6

(\*) This refers to costs incurred for loans granted by the European Investment Bank EIB.

## Companies under joint control and associates

The financial relations with jointly controlled and associated companies refer to:

- The loans received from GasBridge1 B.V. and GasBridge2 B.V. repayable at sight;
- The financial receivables relative to the Shareholders' Loan granted to the associated company Trans Adriatic Pipeline AG (TAP) and the relative financial income.

Transactions with directors, statutory auditors and key managers, with reference in particular to their remuneration, are described in Note no. 26 "Operating costs".

## Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

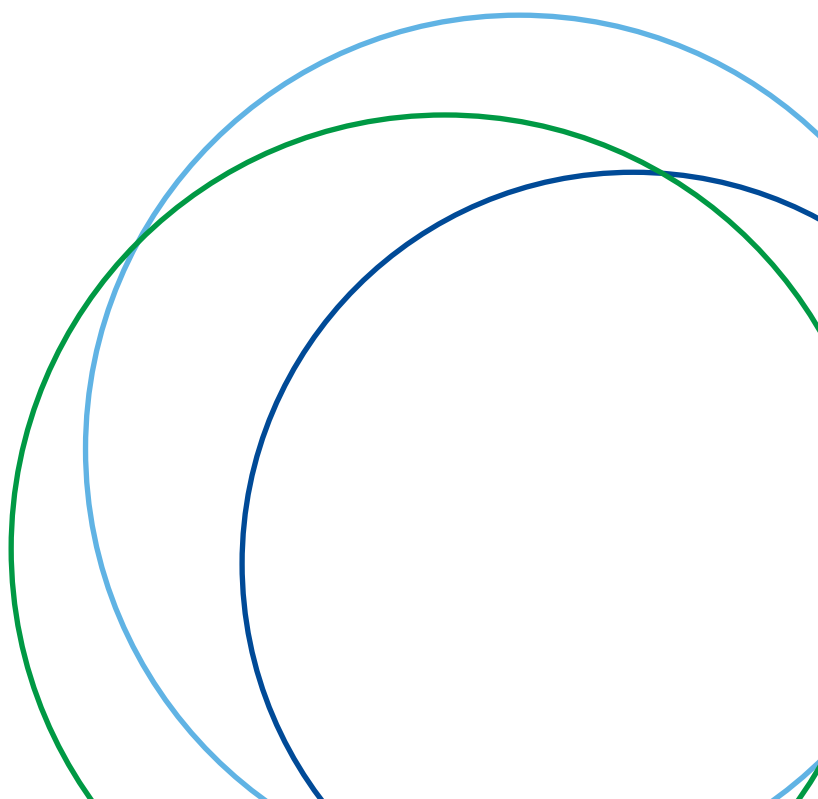
The impact of related-party transactions or positions on the balance sheet is summarised in the following table:

(€ million)	31.12.2016			31.12.2017		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Statement of financial position</b>						
Trade receivables and other current receivables	1,307	501	38.3	<b>1,658</b>	<b>475</b>	<b>28.6</b>
Other non-current receivables	213	213	100.0	<b>373</b>	<b>373</b>	<b>100.0</b>
Other non-current assets	138	2	1.4	<b>50</b>	<b>2</b>	<b>4.0</b>
Short-term financial liabilities	1,497	18	1.2	<b>1,373</b>	<b>15</b>	<b>1.1</b>
Trade and other payables	1,264	116	9.2	<b>1,673</b>	<b>202</b>	<b>12.1</b>
Other current liabilities	21	2	9.5	<b>79</b>	<b>14</b>	<b>17.7</b>

The impact of related-party transactions on the income statement is summarised in the following table:

(€ million)	2016			2017		
	Total	Related parties	Share %	Total	Related parties	Share %
<b>Income statement</b>						
Core business revenue	2,419	1,553	64.2	<b>2,493</b>	<b>1,627</b>	<b>65.3</b>
Other revenue and income	82	25	30.5	<b>40</b>	<b>19</b>	<b>47.5</b>
Purchases, services and other costs	390	43	11.0	<b>355</b>	<b>43</b>	<b>12.1</b>
Personnel cost	167			<b>171</b>	<b>6</b>	<b>3.5</b>
Financial income	126	123	97.6	<b>9</b>	<b>6</b>	<b>66.6</b>
Financial expenses	635	1	0.2	<b>291</b>	<b>1</b>	<b>0.3</b>
<b>Discontinued operations</b>						
Core business revenue	1,111	670	60.3			
Other revenue and income	23	8	34.8			
Purchases, services and other costs	369	13	3.5			

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions that would be applied between two independent parties.



The principal cash flows with related parties (\*) are shown in the following table:

(€ million)	2016	2017
Revenue and income	2,256	1,646
Cost and expense	(56)	(49)
Change in trade receivables and other current receivables	102	25
Change in trade and other payables	(80)	8
Change in other current liabilities	1	12
Interest received (paid)	120	(1)
<b>Net cash flow from operating activities</b>	<b>2,343</b>	<b>1,641</b>
Investments:		
- Property, plant and equipment and intangible assets	(39)	(39)
- Financial receivables held for operations	(133)	(154)
- Change in payables and receivables relating to investments	(5)	(11)
<b>Cash flow from investments</b>	<b>(177)</b>	<b>(204)</b>
Divestments:		
- companies leaving the scope of consolidation	1,503	
<b>Net cash flow from investment activities</b>	<b>1,326</b>	<b>(204)</b>
Financial receivables of companies leaving the scope of consolidation	1,585	
Increase (decrease) in short-term financial debt	(1)	(3)
<b>Net cash flow from financing activities</b>	<b>1,584</b>	<b>(3)</b>
<b>Total cash flows with related parties</b>	<b>5,253</b>	<b>1,434</b>

(\*) For 2016, the cash flows refers to both continuing and discontinued operations.

The effect of cash flows with related parties is shown in the following table:

(€ million)	31.12.2016			31.12.2017		
	Total	Related parties	Share %	Total	Related parties	Share %
Cash flow from operating activities	1,627	2,343	N/A	1,864	1,641	88.0
Cash flow from investment activities	80	1,326	N/A	(1,441)	(204)	14.2
Cash flow from financing activities	(1,690)	1,584	N/A	262	(3)	N/A

### **34) Significant non-recurring events and transactions**

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it should be stated that no significant non-recurring events or transactions took place during the course of the year.

### **35) Positions or transactions arising from atypical and/or unusual transactions**

Pursuant to Consob Communication DEM/6064293 of 28 July 2006, it is hereby stated that no atypical and/or unusual positions or transactions took place during the course of the year.

### **36) Significant events after the end of the fiscal year**

Except as illustrated in the Directors' Report, there were no significant events after the end of the financial year.

### **37) Publication of the financial statements**

The financial statements were authorised for publication by Snam's Board of Directors at its meeting of 13 March 2018, in accordance with the law. The Board of Directors authorised the Chairman and the Chief Executive Officer to make any changes which might be necessary or appropriate for finalising the format of the document during the period between 13 March and the date of approval by the Shareholders' Meeting.

## **Certification of the consolidated financial statements pursuant to Article 154-bis, paragraph 5 of Legislative Decree No. 58/98 (Consolidated Finance Act)**

1. The undersigned Marco Alverà and Franco Pruzzi, as Chief Executive Officer and the Manager charged with preparing the financial reports of Snam S.p.A. respectively, certify, taking into account Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998:
  - the adequacy, considering the Company's characteristics, and
  - the effective implementation of the administrative and accounting procedures for the preparation of the consolidated financial statements during the course of 2017.
2. The administrative and accounting procedures for the preparation of the consolidated financial statements at 31 December 2017 were defined and their adequacy was assessed using the rules and methods in line with the Internal Control – Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, which represents a benchmark framework for the internal control system generally accepted at international level.
3. It is also certified that:
  - 3.1 The consolidated financial statements at 31 December 2017:
    - a) were prepared in accordance with the applicable international accounting standards recognised in the European Community pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;
    - b) are consistent with the accounting records and ledgers;
    - c) are able to provide a true and fair view of the financial position, operating results and cash flows of the issuer and of the companies included in the scope of consolidation.
  - 3.2 The Directors' Report includes a reliable analysis of the operating performance and results, as well as the position of the issuer and of all the companies included in the scope of consolidation, together with a description of the principal risks and uncertainties to which they are exposed.

13 March 2018

/Signed/Marco Alverà

\_\_\_\_\_  
Marco Alverà  
The Chief Financial Officer

/Signed/Franco Pruzzi

\_\_\_\_\_  
Franco Pruzzi  
The Manager charged with  
preparing the Company's  
financial reports



## **Independent auditors' report**

# **Snam S.p.A.**

**Consolidated financial statements as at 31 December 2017**

**Independent auditor's report in accordance with article 14 of  
Legislative Decree n. 39, dated 27 January 2010, and article  
10 of EU Regulation n. 537/2014**



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## Independent auditor's report in accordance with article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014 (Translation from the original Italian text)

To the Shareholders of  
Snam S.p.A.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

We have audited the consolidated financial statements of Snam Group (the Group), which comprise the statement of financial position as at 31 December 2017, and the income statement, the statement of comprehensive income, statement of changes in shareholders' equity and statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

We are independent of Snam S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



We identified the following key audit matters:

Key Audit Matter	Audit Response
<p><b>Classification and measurement of investments for development and maintenance of proprietary infrastructures</b></p> <p>The Snam Group makes significant investments for development and maintenance of its own infrastructures. Assessing the recoverability of such investments, particularly investments under construction, and the classification of costs for improvements, upgrades and transformations of the infrastructures and the expenses for ordinary maintenance and repairs, which restore but do not increase the performance of the assets, includes inherent elements of judgment.</p> <p>In consideration of the judgment required for the evaluation and classification of investments in infrastructures and their weight on the mechanism for determining the tariffs applied to the Group's services, largely regulated by the Energy Grid and Environment Regulatory Authority (ARERA), we have determined that this area constitutes a key audit matter.</p> <p>The disclosures in relation to the classification and valuation of investments made for the development and maintenance of proprietary infrastructure are included in note 5 "Use of estimates" of the consolidated financial statements.</p>	<p>Our audit procedures responsive to the key audit matter included, among others:</p> <ul style="list-style-type: none"> <li>• assessment of the processes for the recognition of investments as improvements, upgrades and transformations that increase the value of infrastructures, and of the related key controls;</li> <li>• analysis of the infrastructures' development plan to assess investments' recoverability, in particular for investments under construction;</li> <li>• test of key controls on the aforementioned processes relating to investments;</li> <li>• test of details on a sample of new investments.</li> </ul> <p>Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements in relation to the key audit matter.</p>
<p><b>Valuation of investments in joint ventures and associates</b></p> <p>The Group has a development strategy of investments in initiatives for the construction and integrated management of natural gas infrastructures, implemented also through investments in joint ventures and associates, whose book value at 31 December 2017 amounts to 1,547 million of Euro.</p> <p>With reference to such investments, accounted using the equity method, the Management assesses at least annually whether there are any</p>	<p>Our audit procedures responsive to this key audit matter included, among others:</p> <ul style="list-style-type: none"> <li>• assessment of the processes and key controls implemented by the company regarding the identification of any impairment losses and the valuation of investments;</li> <li>• communication with the independent auditors of joint ventures and associates, also with reference to the information used in the impairment test, where applicable;</li> </ul>



indicators of impairment and, if there are such indicators, performs an impairment test of the investments; impairment losses of 18 million of Euro related to two joint ventures were recognized during the year.

The processes and methodologies for assessing and determining the recoverable amounts of each investment, as value in use, are based on assumptions, sometimes complex, which by their nature require Management's judgment, in particular with reference to the identification of impairment indicators and to the forecast of their future performance.

Because of the judgment required and the complexity of the assumptions used in the estimate of the recoverable amount of the investments, we have determined that this area constitutes a key audit matter.

The disclosures in relation to joint ventures and associates are included in notes 5 "Use of estimates" and 14 "Investments valued using the equity method" of the consolidated financial statements.

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### Business Combination

On October 2017, the Group has completed the acquisition of Infrastrutture Trasporto Gas S.p.A. for a consideration of 172 million of Euro.

The processes and accounting policies for acquisition transactions are based on assumptions, sometimes complex, which by their nature require Management's judgment, in particular with reference to the allocation of purchase price to fair values of the assets acquired and liabilities assumed, the alignment of the accounting principles of the acquiree with those of the Group, and the determination of the results since the acquisition date for the purpose of their inclusion in the consolidated financial statements of the Group.

Furthermore, with reference to the investments on which Management performed an impairment test, our procedures included the assessment of prospective financial information included in the long-term plans of such investments, as well as the verification of the determination of long-term growth rates and discount rates; to assist our evaluations we involved our valuation specialists, who reviewed the test prepared by the Management and carried out a sensitivity analysis on key assumptions to determine any changes in the assumptions that could significantly impact the valuation of the recoverable amount.

Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements in relation to the valuation of investments in joint ventures and associates.

Our audit procedures responsive to this key audit matter included, among others:

- analysis of the executed acquisition agreements in order to gain an understanding of key terms and conditions;
- assessment of the accounting treatment of the transactions;
- identification and testing of the fair value estimate of the assets acquired and liabilities assumed at the acquisition date, also involving our valuation specialists.

Lastly, we reviewed the adequacy of the disclosures included in the notes to the financial statements in relation to the business combination.

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Because of the judgment required in the allocation of the purchase price to fair values of assets acquired and the liabilities assumed, we have determined that this area constitutes a key audit matter.

The disclosures in relation to the acquisition of Infrastrutture Trasporto Gas S.p.A. are included in notes 5 "Use of estimates" and 23 "Business Combinations" of the consolidated financial statements.

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### **Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements**

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the parent Snam S.p.A. or to cease operations, or has no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we have exercised professional judgment and maintained professional skepticism throughout the audit. In addition:



- we have identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; have designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- we have obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- we have evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;
- we have concluded on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- we have evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- we have obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We have communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.



## **Additional information pursuant to article 10 of EU Regulation n. 53**

The shareholder of Snam S.p.A., in the general meeting held on 27 April 2010, engaged the audits of the separate and consolidated financial statements of each year ending from 2010 to 31 December 2018.

We declare that we have not provided prohibited non-audit services, referred to in article 5 of EU Regulation n. 537/2014, and that we have remained independent of Snam S.p.A. in the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) as audit committee, prepared in accordance with article 11 of the EU Regulation n. 537/2014.

## **Report on compliance with other legal and regulatory requirements**

### **Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Decree n. 58, dated 24 February 1998**

The Directors of Snam S.p.A. are responsible for the preparation of the Report on Operations and the Report on Corporate Governance and Ownership Structure of Group Snam as at 31 December 2017, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, and we express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Snam Group as at 31 December 2017 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatement.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Snam Group as at 31 December 2017 and comply with the applicable laws and regulations.

With reference to the statement required by art. 14, paragraph 2, subparagraph e), of Legislative Decree n. 39, dated 27 January 2010, based on our knowledge and understanding of its environment obtained through our audit, we have no matters to report.



**Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016**

The Directors of Snam S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Turin, 29 March 2018

EY S.p.A.

Signed by: Massimiliano Formetta, partner

*This report has been translated into the English language solely for the convenience of international readers.*





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