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Informazione Regolamentata n. 0542-61-2018	Data/Ora Ricezione 08 Maggio 2018 14:56:55	MTA
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Societa' : SNAM

Identificativo : 103392

Informazione
Regolamentata

Nome utilizzatore : SNAMN01 - Palladino

Tipologia : 2.2

Data/Ora Ricezione : 08 Maggio 2018 14:56:55

Data/Ora Inizio : 08 Maggio 2018 14:56:56

Diffusione presunta

Oggetto : Snam results for the first quarter of 2018

Testo del comunicato

Vedi allegato.



Snam results for the first quarter of 2018

San Donato Milanese, 8 May 2018 - The Board of Directors of Snam, meeting today under the chairmanship of Carlo Malacarne, has approved the consolidated results for the first quarter of 2018 (unaudited).

Financial highlights

- **Total revenue:** €616 million¹ (+€15 million; +2.5% compared with the first quarter of 2017 thanks to continuation of the investment plan)
- **EBIT:** €355 million (+€2 million; +0.6% compared with the first quarter of 2017)
- **Net profit:** €254 million (unchanged compared to the first quarter of 2017)
- **Technical investments:** €156 million (€183 million in the first quarter of 2017)
- **Free cash flow:** €535 million
- **Net financial debt:** € 11,440 million (€ 11,550 million at the end of 2017)

Operating highlights

- **Demand for natural gas:** 26.05 billion cubic metres (+1.3% compared with the first quarter of 2017, thanks to the on-going recovery in industrial output)
- **Gas injected into the transportation network:** 18.76 billion cubic metres (-1.1% compared with the first quarter of 2017 following greater withdrawals from storage)
- **Available storage capacity:** 12.2 billion cubic metres (+0.2 billion cubic metres compared with 31 March 2017) almost entirely allocated for the 2017-2018 thermal year (99.9%)

Significant events

- Confirmation of the award of the contract for the purchase of 66% of DESFA to the European consortium set up by Snam (the main shareholder with a 60% stake), Enagás (20%) and Fluxys (20%). The transaction is expected to be concluded in the second part of 2018, following the necessary authorisations, including antitrust clearance;

¹ Excluding pass-through items.



- Go ahead from the Antitrust Authority (AGCM) for the acquisition by Snam of 82% of TEP Energy Solution (TEP), one of the leading Italian companies active in the energy efficiency sector.

Marco Alverà, Snam CEO, commented:

“The positive results achieved in the first quarter are in line with the plan objectives and confirm our commitment to delivering increasing and sustainable returns for shareholders. The growth in revenue reflects the value created through our activities. Cash generation was particularly significant, which allowed us to reduce net financial debt by €110 million, despite the payment of the interim dividend and the ongoing share buyback activity. We have continued our investment activity throughout Italy and, with the award to our consortium of the tender for the privatization of DESFA, the Greek gas infrastructure operator, extended our presence in strategic areas for the development of natural gas flows. Snam’s strategic objective is to strengthen its presence in Europe and the Mediterranean and support the central role of natural gas for security, competitiveness of supply and for decarbonization.”

Summary of the results for the first quarter of 2018

INCOME STATEMENT

(€ million)	First quarter		Change	% Change
	2017	2018		
Regulated revenue	604	614	10	1.7
Non-regulated revenue	24	16	(8)	(33.3)
Total revenue	628	630	2	0.3
Total revenue - net of pass through items	601	616	15	2.5
Operating costs	(114)	(108)	6	(5.3)
<i>Operating expenses - net of pass through items</i>	<i>(87)</i>	<i>(94)</i>	<i>(7)</i>	<i>8.0</i>
EBITDA	514	522	8	1.6
Amortisation, depreciation and impairment	(161)	(167)	(6)	3.7
EBIT	353	355	2	0.6
Net financial expenses	(56)	(53)	3	(5.4)
Net income from equity investments	41	38	(3)	(7.3)
Pre-tax profit	338	340	2	0.6
Income tax	(84)	(86)	(2)	2.4
Net profit (*)	254	254		

(*) Entirely held by Snam shareholders.



Total revenue

Total revenue in the first quarter of 2018 amounted to €630 million, up by €2 million (0.3%) compared with the first quarter of 2017. Excluding components offset in costs, total revenue stood at €616 million, an increase of €15 million, equal to 2.5%. The increase is mainly due to higher regulated revenue (+€23 million; +4.0%), as a result of ongoing investments, partly offset by lower non-regulated revenue (-€8 million; -33.3%) following the conclusion in 2017 of certain contracts for services².

EBIT

EBIT for the first quarter of 2018 totalled €355 million, up by €2 million (0.6%) compared with the same period in the previous year (€353 million). The higher revenue (+€15 million), was mainly attributable to an increase in the contribution of natural gas transportation (+€21 million; +4.5%) and storage (+€2 million; +1.8%), partly offset by an increase in operating costs (-€7 million, excluding components offset in revenues, equal to 8.0%) and amortisation and depreciation in the period (-€7 million; 4.4%), primarily due to the entry into service of new infrastructure.

Below is a breakdown of EBIT by business segment:

(€ million)	First quarter		Change	% Change
	2017	2018		
Business segments				
Transportation	265	275	10	3.8
Regasification	1	1		
Storage	84	83	(1)	(1.2)
Corporate and other activities	3	(4)	(7)	-
	353	355	2	0.6

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

- Transportation (€275 million; +€10 million, equal to 3.8%): the increase is due to greater regulated revenue (+€24 million equal to 5.3%), following the updating of the invested capital recognised for RAB purposes (+€16 million), the impact of the change in the scope of consolidation (+€5 million), and the incentives recognised for the Balance Director - RdB (+€3 million). These factors were partly offset by an increase in operating costs (-€11 million, equal to 15.9%, excluding components offset in revenue and the higher costs attributable to the effects of the transfer of the "Technical

² These revenues are offset in costs incurred for the provision of the related services.



Facilities and Services" business unit from Stogit under the scope of the Integra Project³), due mainly to the dynamics of the provision for risks and charges and the greater external costs recharged by the parent company Snam S.p.A., as well as higher amortisation and depreciation (-€6 million; 4.5%), primarily following the entry into service of new infrastructure;

- Storage (€83 million; -€1 million, equal to -1.2%): the reduction in operating costs (+€1 million; equal to 6.5%) was offset by the lower storage revenue (-€1 million; -0.8%) and the lower non-regulated revenue (-€1 million).

Net profit

Net profit amounted to €254 million in the first quarter of 2018, unchanged compared with net profit in the first quarter of 2017. The higher EBIT (+€2 million) together with lower net financial expense (+€3 million; equal to 5.4%), which benefited from a reduction in the average cost of borrowing, partly absorbed by an increase in average debt for the period, were offset by the lower income from investments valued using the equity method (-€3 million; -7.3%) and higher income tax (-€2 million; equal to 2.4%), due mainly to the higher pre-tax profit and the decrease in A.C.E. - Economic Growth Assistance⁴ benefits.

The tax rate for the first quarter of 2018 was 25.3% (24.9% in the first quarter of 2017).

Key balance sheet, financial and share figures

		First quarter			%
		2017	2018	Change	
Technical investments	(€ million)	183	156	(27)	(14.8)
Net financial debt	(€ million)	10,694	11,440	746	7.0
Free cash flow	(€ million)	562	535	(27)	(4.8)
Net profit per share (*) (**)	(€)	0.074	0.075	0.001	1.1
Number of shares outstanding at the end of the period	(million)	3,416.93	3,378.87	(38.06)	(1.1)
Average number of shares outstanding during the period	(million)	3,443.42	3,393.60	(49.82)	(1.4)

(*) Calculated considering the average number of shares outstanding during the period.

(**) Entirely held by Snam shareholders.

³ The higher costs are reflected, as from 1 July 2017, in the higher non-regulated revenue following the recharging of the services provided to the affiliate Stogit (€11 million).

⁴ Introduced by Decree Law 201/2011, converted by Law 214/2011 as amended.



Technical investments

Technical investments for the first quarter of 2018 stood at €156 million, a reduction of €27 million (14.8%) compared with the first quarter of 2017, and mainly comprise the transportation (€139 million) and storage (€14 million) segments.

Net financial debt

Net financial debt stood at €11,440 million at 31 March 2018⁵ (compared with €11,550 million at 31 December 2017). The positive net cash flow from operating activities (€775 million) allowed Snam to fully cover the financial requirements associated with net investments for the period (€240 million), as well as generating free cash flow of €535 million. Net financial debt, after the equity cash flow (€433 million) from the payment to shareholders of the 2017 interim dividend, equal to €0.0862 per share (€294 million), and the purchase of treasury shares (€139 million), recorded a reduction of €110 million compared with 31 December 2017, including non-monetary components⁶ related to financial debt (€8 million).

⁵ More information on the net financial debt can be found on page 18 of this Press Release.

⁶ These components are mainly attributable to the effects of the first application of the provisions of IFRS 9. More information is provided on pages 10 and 11 of this Press Release.



Operating highlights

	First quarter			
	2017	2018	Change	% Change
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	18.97	18.76	(0.21)	(1.1)
Transportation network (kilometres in use) (c)	32,510	32,604	94.00	0.3
Installed power in the compression stations (MW)	922	922		
Liquefied Natural Gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)		0.04	0.04	
Natural gas storage (a)				
Concessions	10	10		
- of which operative (d)	9	9		
Total storage capacity (billions of cubic metres)	16.5	16.7	0.2	1.2
- of which available (e)	12.0	12.2	0.2	1.7
- of which strategic	4.5	4.5		
Natural gas moved through the storage system (billions of cubic metres)	6.34	6.75	0.41	6.5
- of which injected	0.15	0.07	(0.08)	(53.3)
- of which withdrawn	6.19	6.68	0.49	7.9
Employees in service at end of period (number) (f)	2,908	2,936	28	1.0
<i>by business segment:</i>				
- Transportation (c)	1,723	1,975	252	14.6
- Regasification	69	63	(6)	(8.7)
- Storage	301	62	(239)	(79.4)
- Corporate and other activities	815	836	21	2.6

(a) With regard to the first quarter of 2018, volumes of gas are expressed in standard cubic metres (SMC) with the average higher heating value (HHV) of 38.1 MJ/SMC (10.572 Kwh/SMC) for natural gas transportation and regasification activities and 39.4 MJ/SMC (10.930 Kwh/SMC) for natural gas storage activities for the thermal year 2017-2018.

(b) The figures for the first quarter of 2018 are up to date at 11 April 2018. The updating of the 2017 figures has been finalised and figures are consistent with those published by the Ministry of Economic Development.

(c) The figure for the first quarter of 2018 includes Gas Transportation Infrastructure, which came under the scope of consolidation with effect from October 2017.

(d) With working gas capacity for modulation services.

(e) Working gas capacity for modulation, mining and balancing services. The available capacity as at 31 March 2018 is that declared to the Electricity, Gas and Water Authority at the start of the 2017-2018 thermal year, almost entirely allocated as at 31 March 2018 (99.9%).

(f) Fully consolidated companies. The movement of resources between various group companies is attributable to the adjustment of the organisational structures established by Snam with the aim of simplifying and optimising certain processes, which materialised through the INTEGRA Project implemented 1 July 2017, which saw the transfer of 247 resources from Stogit to Snam Rete Gas mainly following the transfer of the "Technical Facilities and Services" unit.



Natural gas injected into the national transportation network

The volume of gas introduced into the network in the first quarter of 2018 came to a total of 18.76 billion cubic metres, a slight reduction compared with the first quarter of 2017 (-0.21 billion cubic metres, or 1.1%), primarily due to higher withdrawals from storage (-0.64 billion cubic metres), despite the increase in demand for natural gas in Italy (+0.34 billion cubic metres; +1.3%). The increase in demand for gas is mainly attributable to the higher consumption in the residential and tertiary sectors (+0.89 billion cubic metres; +6.5%), following colder weather compared with the same period of 2017, and in the industrial sector⁷ (+0.12 billion cubic metres; +2.6%), due to the continuous recovery of industrial production. These effects were partly offset by a reduction in consumption recorded in the thermoelectric sector (-0.67 billion cubic metres; -10.0%) following the return to normal electricity import flows, which declined in 2017 as a result of the stoppage at several French nuclear plants in the first two months of the year, and the increase in production from renewable sources, in particular wind power.

Seasonally adjusted demand for gas was estimated at 25.83 billion cubic metres, down by 0.55 billion cubic metres (2.1%) compared with the corresponding figure for the first quarter of 2017 (26.38 billion cubic metres).

Injections into the network from domestic production fields or their collection and treatment centres, totalled 1.30 billion cubic metres, down by 0.13 billion cubic metres (-9.1%) compared with the first quarter of 2017.

Volumes of gas injected into the network for entry points connected with other countries or with LNG regasification terminals stood at 17.46 billion cubic metres, essentially in line with the first quarter of 2017 (-0.08 billion cubic metres; -0.5%). The lower volumes injected from the entry points of Passo Gries (-0.35 billion cubic metres; -20.3%) and Mazara del Vallo (-0.19 billion cubic metres; -3.0%), were partly offset by the higher injections from the Tarvisio entry point (+0.29 billion cubic metres; +4.3%) and the LNG regasification terminals (+0.19 billion cubic metres; +12.3%).

Liquefied Natural Gas (LNG) regasification

During the first quarter of 2018, 0.04 billion cubic metres of LNG were regasified at the Panigaglia (SP) LNG terminal and a methane tanker was unloaded (no tankers were unloaded in the first quarter of 2017).

Storage of natural gas

During the first quarter of 2018, 6.75 billion cubic metres of natural gas were moved through the storage system, an increase of 0.41 billion cubic metres (6.5%) compared with the first quarter of 2017 (6.34 billion cubic metres). The increase was essentially

⁷ It includes the consumption of the following sectors: agricultural and fishing, non-energy uses and automotive.



attributable to greater withdrawals from storage (+0.49 billion cubic metres; +7.9%) mainly due to the weather.

As confirmation of the importance of the service provided by Snam's storage facilities, which ensure the safety and reliability of the energy system, approximately 10.6 billion cubic metres of natural gas were withdrawn during the supply campaign launched on 1 November 2017 and concluding on 31 March 2018, an increase of 0.8 billion cubic metres compared with the previous record high of around 9.8 billion cubic metres in the winter of 2014-2015.

The total storage capacity as at 31 March 2018, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 31 March 2017), almost entirely allocated for the 2017-2018 thermal year (99.9% of the available capacity), and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2016-2017 thermal year)⁸.

Main events

Business developments

DESFA

On 19 April 2018, a European consortium composed of Snam, the main shareholder with a stake of 60%, Enagás (20%) and Fluxys (20%), was awarded the tender for the purchase of 66% of DESFA, the national operator in the natural gas infrastructure sector in Greece. The Hellenic Republic Asset Development Fund (TAIPED) accepted the offer of €535 million for 66% of the share capital of DESFA submitted by the consortium. Discussions were initiated with a syndicate of Greek and international banks aimed at obtaining a non-recourse loan for the purchase.

The purchase agreements will be signed after further steps set out in the tender procedure and laid down by local privatisation legislation, while the transaction is expected to be concluded in the second part of 2018, after the necessary authorisation is received, including antitrust clearance.

DESFA manages a regulated system for a high-pressure transportation network covering around 1,500 km, as well as a regasification terminal at Revithoussa.

The consortium can also transfer the technical-operational capacity to DESFA and develop new natural gas uses and sources (such as methane for transportation and biomethane) to make a decisive contribution to the process of reducing the country's climate changing emissions.

⁸ Through the circular of 6 February 2018 the Ministry of Economic Development confirmed the gas strategic storage volume for the 2018-2019 storage thermal year (1 April 2018-31 March 2019) at 4.62 billion standard cubic metres, of which 4.5 billion cubic metres was the Stogit share (unchanged compared with the 2017-2018 thermal year).



Thanks to its strategic position in the Mediterranean, Greece could be an important crossroads for the diversification of procurement and for opening up new natural gas routes in Europe.

TEP Energy Solution (TEP)

Approval from the Italian Competition Authority (AGCM) for Snam's acquisition of 82% of TEP Energy Solution (TEP), one of the main Italian companies active in the energy efficiency sector as an Energy Service Company (ESCO), was obtained on 30 April 2018. The transaction according to the AGCM "does not involve the establishment or strengthening of a dominant position in the markets concerned, such as to eliminate or reduce the competition in a substantial and durable way". As a consequence, AGCM has decided not to initiate a preliminary investigation regarding "restrictive competition" concentrations. The transaction is expected to close by September 2018.

New share buyback plan and annulment of treasury shares without a share capital reduction

On 24 April 2018, after the revocation of the resolution passed by the ordinary shareholders' meeting on 11 April 2017 giving authorisation to purchase treasury shares, Snam's ordinary shareholders' meeting authorised the purchase of the remaining treasury shares, to be implemented on one or more occasions, for a maximum term of 18 months from the date of the meeting resolution.

The maximum authorised outlay is €500 million and, in any event, up to a maximum of 134,564,883 shares not exceeding 6.50% of the subscribed and paid-up share capital (with regard to the treasury shares already owned by the company). The meeting resolution specifies the terms and conditions of the purchase price of the treasury shares that will be bought by virtue of the authorisation granted. The shareholders' meeting also authorised acts of disposition, on one or several occasions, with no time limit and even before having exhausted the purchases, for all or some of the company's treasury shares purchased on the basis of the meeting resolution, as well as for those owned already.

An extraordinary session of the same shareholders' meeting, held at the same date, approved the cancellation of 31,599,715 treasury shares with no par value, without a share capital reduction, and the consequent amendment of Article 5.1 of the bylaws. The shares were annulled on May 7, 2018, following the filing at "Registro delle Imprese" of the modified Corporate bylaws.

Following this transaction, the share capital consists of n. 3,469,038,579 shares, with no par value, for a total value of 2,736 million euros. As of May 7, 2018, including purchases made up to that date, Snam has in its portfolio no. 90,922,625 shares.



Outlook

Snam confirms its commitment to the development of natural gas infrastructure in Italy through a programme of technical investments for 2018, which amounts to around €0.9 billion.

Snam also confirms its focus on operating efficiency in 2018, and the aim to continue the process of optimising the Group's financial structure.

Based on the information currently available, the demand for natural gas in Italy at the end of 2018, adjusted for the weather effect, is expected to fall compared with 2017 levels (75.2 billion cubic metres), in line with the gradually improving energy efficiency scenario in the industry outlined by the National Energy Efficiency Action Plan, with the return to normal water conditions after the shortage in 2017 and the return to full operation of the French nuclear plants, with the consequent return of imports to historical levels.

This Press Release on the consolidated results for the first quarter of 2018 which has not been audited, has been prepared on a voluntary basis pursuant to Article 82-ter "Additional periodic financial information" of Consob Issuers' Regulation 11971 of 14 March 1999 and subsequent amendments and supplements, consistent with the quarterly information provided by Snam in the past and deadlines set out in the Group's financial calendar.

Information on operating results and cash flows is provided with reference to the first quarter of 2018 and the first quarter of 2017. Information on financial position is provided with reference to 31 March 2018 and 31 December 2017. The form of the financial statements corresponds to that of the statements presented in the Interim Directors' Report of the 2017 Consolidated Half-Year Report and the Directors' Report of the 2017 Annual Financial Report.

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

The accounting standards and recognition and measurement criteria adopted for the preparation of the results for the first quarter of 2018 are the same as those used for the preparation of the 2017 Annual Report, which should be referred to for a description of those criteria, except for the international accounting standards that came into force on 1 January 2018, as described in note No. 6 "Recently issued accounting standards" of the 2017 Annual Report. The impacts from the application of these new provisions on the consolidated results of the Snam Group essentially involve the effects of the first



application of IFRS 9 "Financial instruments" with regard to the liability management operations carried out by Snam in 2015 and 2017⁹. Pursuant to IAS 39, in force until 31 December 2017, in the event of cash flow change arising from a change or exchange of financial liabilities that were not de-recognised, the new liability was recognised at the carrying amount of the original liability, and net of any further amount paid. Any incomes or expenses were not recognised 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, in force since 1 January 2018, requires redefinition of the amortized cost of the new financial liability, discounting the new contractual cash flows at the original effective interest rate. The profit or the loss arising from the change or the exchange of a financial liability are recognised in income statement.

The first application of the new standard, at 1 January 2018, has calculated an increase in Group equity of €10 million (€8 million net of the tax effect).

The consolidation scope of the Snam Group as at 31 March 2018 was the same as at 31 December 2017. The changes in the scope of consolidation as at 31 March 2018¹⁰ compared with 31 March 2017 involved the admission of: (i) Asset Company 2 S.r.l., wholly-owned by Snam S.p.A.; (ii) Infrastrutture Trasporto Gas S.p.A. - ITG, wholly-owned by Asset Company 2 S.r.l., following the acquisition from Edison of 100% of the company's share capital, with effect from 13 October 2017; (iii) Snam 4 Mobility S.p.A., wholly-owned by Snam S.p.A., following the launch of the company's operating activities.

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

⁹ The effects do not include the portions of the financial liabilities which were repurchased in 2016 and 2017 since the new accounting rules set forth in IFRS 9 do not apply to financial instruments that were de-recognised as at the first application date of the new standard (1 January 2018).

¹⁰ With reference to the information reported in conformity with international accounting standard IFRS 8 "Operating segments", note that: (i) the company Infrastrutture Trasporto Gas, which entered the scope of consolidation as of October 2017, has been consolidated within the natural gas Transportation sector; (ii) the company Snam 4 Mobility, which entered the scope of consolidation as of December 2017, has been consolidated within the Corporate and Other Activities sector.



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

Disclaimer

This press release contains forward-looking statements, specifically relating to: changes in demand for natural gas, investment plans and future management performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. The effective results may therefore differ from those announced with regard to various factors, including: foreseeable trends in natural gas demand, supply and price, general macro-economic conditions, 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.

At 4:30 pm today, May 8th 2018, a conference call will take place to present the consolidated results for the first quarter of 2018 to investors and financial analysts. It will be possible to follow the event through a conference call and support material will be available at www.snam.it in the Investor Relations section, in conjunction with the start of the conference call. It will also be possible to follow the presentation through video webcasting in the same section.



Table summarising income statement items

Total revenue

(€ million)	First quarter		Change	% Change
	2017	2018		
Business segments				
Transportation	500	520	20	4.0
Regasification	5	5		
Storage	147	147		
Corporate and other activities	55	48	(7)	(12.7)
<i>Consolidation eliminations</i>	<i>(79)</i>	<i>(90)</i>	<i>(11)</i>	<i>13.9</i>
	628	630	2	0.3

Regulated and non-regulated revenue

(€ million)	First quarter		Change	% Change
	2017	2018		
Regulated revenue	604	614	10	1.7
Business segments				
Transportation	466	485	19	4.1
Regasification	4	4		
Storage	107	111	4	3.7
Revenue items offset in costs (*)	27	14	(13)	(48.1)
Non-regulated revenue	24	16	(8)	(33.3)
	628	630	2	0.3

(*) The main revenue components that are offset in costs relate to interconnection.

Operating costs

(€ million)	First quarter		Change	% Change
	2017	2018		
Business segments				
Transportation	102	106	4	3.9
Regasification	3	3		
Storage	38	39	1	2.6
Corporate and other activities	50	50		
<i>Consolidation eliminations</i>	<i>(79)</i>	<i>(90)</i>	<i>(11)</i>	<i>13.9</i>
	114	108	(6)	(5.3)



Operating costs - Regulated and non-regulated activities

(€ million)	First quarter		Change	% Change
	2017	2018		
Costs of regulated activities	99	96	(3)	(3.0)
Controllable fixed costs	65	69	4	6.2
Variable costs	2	3	1	50.0
Other costs	5	10	5	100.0
Cost items offset in revenue (*)	27	14	(13)	(48.1)
Costs of non-regulated activities	15	12	(3)	(20.0)
	114	108	(6)	(5.3)

(*) The main cost components that are offset in costs relate to interconnection.

Amortisation, depreciation and impairment

(€ million)	First quarter		Change	% Change
	2017	2018		
Amortisation and depreciation	160	167	7	4.4
Business segments				
Transportation	133	139	6	4.5
Regasification	1	1		
Storage	24	25	1	4.2
Corporate and other activities	2	2		
Impairment losses	1		(1)	(100.0)
	161	167	6	3.7

EBIT

(€ million)	First quarter		Change	% Change
	2017	2018		
Business segments				
Transportation	265	275	10	3.8
Regasification	1	1		
Storage	84	83	(1)	(1.2)
Corporate and other activities	3	(4)	(7)	
	353	355	2	0.6



Net financial expenses

(€ million)	First quarter		Change	% Change
	2017	2018		
Financial expense (income) related to net financial debt	58	55	(3)	(5.2)
- Interest and other expense on short- and long-term financial debt	58	55	(3)	(5.2)
Other net financial expense (income)	1	1		
- Accretion discount	3	3		
- Other net financial expense (income)	(2)	(2)		
Financial expense capitalised	(3)	(3)		
	56	53	(3)	(5.4)

Net income from equity investments

(€ million)	First quarter		Change	% Change
	2017	2018		
Equity method valuation effect	41	38	(3)	(7.3)
	41	38	(3)	(7.3)

Income tax

(€ million)	First quarter		Change	% Change
	2017	2018		
Current taxes	90	95	5	5.6
(Prepaid) deferred taxes				
Deferred taxes	(3)	(3)		
Prepaid taxes	(3)	(6)	(3)	100.0
	(6)	(9)	(3)	50.0
Tax rate (%)	24.9	25.3	0.4	
	84	86	2	2.4



Reclassified statement of financial position

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

Management believes that this format presents useful 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.

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

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)	31.12.2017	31.03.2018	Change
Fixed capital	18,875	18,893	18
Property, plant and equipment	16,033	16,002	(31)
Compulsory inventories	363	363	
Intangible assets	850	848	(2)
Equity investments	1,591	1,558	(33)
Financial receivables held for operating activities	373	419	46
Net payables for investments	(335)	(297)	38
Net working capital	(1,079)	(1,077)	2
Provisions for employee benefits	(58)	(59)	(1)
NET INVESTED CAPITAL	17,738	17,757	19
Shareholders' equity			
- entirely held by Snam shareholders	6,188	6,317	129
Net financial debt	11,550	11,440	(110)
COVERAGE	17,738	17,757	19

The **fixed capital** (€18,893 million) rose by €18 million compared with 31 December 2017 basically as a result of the increase in financial receivables held for operating activities (+€46 million), partly offset by the reduction in equity investments (-€33 million) mainly following the dividends approved for 2017, partly offset by the profits for the first quarter of 2018.

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

(€ million)	Property, plant and equipment	Intangible assets	Total
Balance as at 31 December 2017	16,033	850	16,883
Technical investments	144	12	156
Decreases and divestments	(5)		(5)
Amortisation, depreciation and impairment	(153)	(14)	(167)
Other changes	(17)		(17)
Balance as at 31 March 2018	16,002	848	16,850



The other changes (-€17 million) involve the effects of the adjustment of the current value of disbursements for the dismantling and restoration of transportation (-€7 million) and storage (-€10 million) sites, essentially due to an increase in expected discounting rates.

Technical investments

(€ million)	First quarter	
	2017	2018
Business segments		
Transportation	158	139
Regasification	1	1
Storage	21	14
Corporate and other activities	3	2
Technical investments	183	156

Technical investments totalled €156 million (€183 million in the first quarter of 2017) and related mainly to the following business segments:

- Transportation (€139 million; -€19 million compared with the first quarter of 2017): relating to: (i) works for the development of new transportation capacity in the National Network depending on the import and export capacity (€44 million), mainly under the scope of the initiative supporting the market in the north west area of the country and to allow the reversal of the physical transportation flows at the interconnection points with northern Europe in the Po Valley area; (ii) investments to develop new transportation capacity in the National and Regional Network (€18 million), for works aimed at the upgrading of the network and the connection of new regional and national redelivery points; (iii) investments for replacements and other investments (€77 million) mainly aimed at maintaining plant security and quality;
- Storage (€14 million; -€7 million compared with the first quarter of 2017): relating to investments in the development of new fields and upgrading capacity (€4 million), mainly involving the Minerbio field, and maintenance and other investments (€10 million) which basically refer to the restoration of the turbocharger at the Ripalta power plant and to engineering activities on the Cortemaggiore plant.

Equity investments

The item equity investments (€1,558 million) includes: (i) the equity investments accounted for using the equity method with reference to Teréga Holding S.A.S.¹¹ (€476 million), Trans Austria Gasleitung GmbH-TAG (€452 million), Trans Adriatic Pipeline AG-TAP (€222 million), Italgas S.p.A. (€170 million), AS Gasinfrastruktur Beteiligung GmbH (€131 million) and Gasbridge 1 B.V. and Gasbridge 2 B.V. (€65 million in total); (ii) the

¹¹ Teréga is the new name of TIGF from 30 March 2018.



valuation of the minority interest in Terminale GNL Adriatico S.r.l. (Adriatic LNG) bought by Edison on 13 October 2017 (€42 million).

Financial receivables held for operating activities

Financial receivables held for operations (€419 million) relate to Snam's share of the shareholders' loan granted to the associate company Trans Adriatic Pipeline AG (TAP). Financial receivables increased by €46 million compared with 31 December 2017¹², essentially following the cash calls received in the first quarter of 2018.

Net financial debt

(€ million)	31.12.2017	31.03.2018	Change
Financial and bond debt	12,619	12,586	(33)
Short-term financial debt (*)	2,443	2,589	146
Long-term financial debt	10,176	9,997	(179)
Financial receivables and cash and cash equivalents	(1,069)	(1,146)	(77)
Cash and cash equivalents	(719)	(1,146)	(427)
Financial receivables not held for operating activities	(350)		350
	11,550	11,440	(110)

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

The positive net cash flow from operating activities (€775 million) allowed us to fully cover the financial requirements associated with net investments for the period (€240 million), as well as to generate a free cash flow of €535 million. Net financial debt, after the equity cash flow (€433 million), from the payment to shareholders of the 2017 interim dividend, equal to €0.0862 per share (€294 million) and from the purchase of treasury shares (€139 million), recorded a reduction of €110 million compared with 31 December 2017, including non-monetary components related to financial debt (€8 million), mainly attributable to the effects of the first application of the provisions of IFRS 9.

Financial and bond debts as at 31 March 2018, amounting to €12,586 million (€12,619 million as at 31 December 2017), break down as follows:

¹² 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.



(€ million)	31.12.2017	31.03.2018	Change
Bonds	8,672	8,102	(570)
Bank loans	3,931	4,483	552
Other loans	16	1	(15)
	12,619	12,586	(33)

Financial and bond debts are denominated in euros¹³ and refer mainly to bond loans (€8,102 million, or 64.4%) and bank loans (€4,483 million, or 35.6%, including €1,473 million provided by the European Investment Bank - EIB).

Bond loans recorded a reduction of €570 million compared with 31 December 2017. The reduction is mainly attributable to the repayment of a fixed rate bond loan due on 19 March 2018, of a nominal amount of €851 million, partly offset by the issue, on 22 January 2018, of a variable rate¹⁴ private placement with a nominal value of €350 million.

Bank loans (€4,483 million) rose by €552 million following the greater utilisation of uncommitted lines of credit.

Long-term financial debt (€9,997 million) represented around 79% of gross financial debt (around 81% as at 31 December 2017). Fixed-rate financial debts amounted to around 74% of gross financial debt (approximately 78% as at 31 December 2017).

Cash and cash equivalents (€1,146 million) essentially refer to a short-term liquidity facility, with a maturity of less than three months, with banks with a high credit standing (€1,000 million) as counterparties, bank deposits (€114 million) and cash and cash equivalents at Gasrule Insurance D.A.C. for the Group's insurance business (€25 million).

As at 31 March 2018, Snam had unused committed long-term credit lines worth €3.2 billion.

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

¹⁴ The variable rate bond is converted into a fixed rate bond loan through an interest rate swap (IRS) derivative hedging contract.



Net working capital

(€ million)	31.12.2017	31.03.2018	Change
Trade receivables	1,274	1,304	30
- of which balancing	251	263	12
Inventories	86	97	11
Tax receivables	46	27	(19)
Other assets	50	124	74
Provisions for risks and charges	(677)	(665)	12
Trade payables	(406)	(443)	(37)
- of which balancing	(207)	(251)	(44)
Accruals and deferrals from regulated activities	(231)	(327)	(96)
Deferred tax liabilities	(165)	(159)	6
Tax liabilities	(11)	(109)	(98)
Derivative (liabilities)/assets	(12)	(7)	5
Other liabilities	(1,033)	(919)	114
	(1,079)	(1,077)	2

Net working capital (-€1,077 million) record an increase of €2 million as at 31 December 2017. The reduction in other liabilities (+€114 million), mainly attributable to the interim payment to Snam shareholders of the 2017 dividend of €0.0862 per share (+€294 million), partly offset by lower payables to the CSEA for additional tariff components relating to the transportation service (-€136 million), and the increase in other assets (+€74 million), essentially due to the confirmation of the TAG dividends for 2017, approved but not yet paid out (+€73 million), were offset by the increase in tax payables (-€98 million) mainly as a result of the recording of the taxes for the period and also the higher prepaid income from regulated activities (-€96 million) due to overcharging and penalties for transport activities.



Statement of comprehensive income

(€ million)	First quarter	
	2017	2018
Net profit (*)	254	254
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedging derivatives (effective share)		3
Share of "other comprehensive income" of investments accounted for using the equity method (**)		2
Tax effect		(1)
Total other components of comprehensive income, net of tax effect		4
Total comprehensive income (*)	254	258

(*) Attributable to Snam's shareholders.

(**) It involves the effects of the conversion of the net worth of the share in Interconnector UK held by the companies under joint control Gasbridge 1 B.V. and Gasbridge 2 B.V. at the spot exchange Euro/Sterling as at 31 March 2018.

Shareholders' equity

(€ million)		
Shareholders' equity as at 31 December 2017 (*)		6,188
<i>Effects of the first application of the provisions of IFRS 9 (**)</i>	8	
Shareholders' equity as at 01 January 2018 (*)		6,196
<i>Increases owing to:</i>		
- Comprehensive income for the first quarter of 2018	258	
- Other changes	2	
		260
<i>Decreases owing to:</i>		
Acquisition of treasury shares	(139)	
		(139)
Shareholders' equity as at 31 March 2018 (*)		6,317

(*) Entirely held by Snam shareholders.

(**) Net of the related tax effect. More information is provided on pages 10 and 11 of this Press Release.

As at 31 March 2018, Snam held 121,763,585 treasury shares (85,915,616 as at 31 December 2017), equal to 3.48% of its share capital, for total book value of €457 million (€318 million as at 31 December 2017). The market value of the treasury shares as at 31 March 2018 was around €454 million¹⁵. Under the scope of the share buyback programme

¹⁵ Calculated by multiplying the number of treasury shares by the period-end official price of €3.7286 per share.



launched by Snam on 7 November 2016, no. 35,847,969 Snam shares (equal to 1.02% of the share capital) were purchased in the first quarter of 2018 at a total cost of €139 million.

Covenants

As at 31 March 2018, Snam had unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Some of these agreements include, inter alia, compliance with typical international practice commitments, some of which are subject to specific threshold values, such as, for example: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) *pari passu* and change-of-control clauses; and (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; (iv) limits on the debt of subsidiaries.

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.

As at 31 March 2018, the financial liabilities subject to these restrictive clauses amounted to approximately €2.6 billion.

Bond loans issued by Snam as at 31 March 2018, with a nominal value of €8.1 billion, refer mainly to securities issued under the Euro Medium Term Notes programme¹⁶. 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.

¹⁶ The convertible bond loan with a nominal value of €400 million is not part of the EMTN Programme.



Reclassified statement of cash flows and change in net financial debt

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

(€ million)	First quarter	
	2017	2018
Net profit	254	254
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	121	130
- Net capital losses (capital gains) on asset sales and eliminations		4
- Interest and income taxes	134	133
Change in working capital due to operating activities	455	297
Dividends, interest and income taxes collected (paid)	(47)	(43)
Net cash flow from operating activities	917	775
Technical investments	(183)	(156)
Technical disinvestments		1
Equity investments	(13)	(3)
Change in financial credits instrumental to operating activities	(53)	(44)
Other changes relating to investment activities	(106)	(38)
Free cash flow	562	535
Change in financial receivables not held for operating activities		350
Change in short- and long-term financial debt	(345)	(25)
Equity cash flow	(201)	(433)
Net cash flow for the period	16	427

CHANGE IN NET FINANCIAL DEBT

(€ million)	First quarter	
	2017	2018
Free cash flow	562	535
Effects of the first application of the provisions of IFRS 9		10
Exchange rate differences on financial debt	(3)	(2)
Effect of the measurement of debts at fair value	4	
Equity cash flow	(201)	(433)
Change in net financial debt	362	110



Other information

Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements. The following is a summary of the most important proceedings for which significant changes to the situation reported in the 2017 Annual Report occurred.

Electricity, Gas and Water Authority (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 ARERA 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 systems owned by the distributor; through Resolution 431/2012/S/Gas the proceedings were brought together with other proceedings involving said events charged against Company, launched with regard to the distributor involved.

Snam Rete Gas S.p.A. has submitted proposals in relation to the alleged conduct. By means of Resolution 332/2015/S/gas, the ARERA 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 ARERA 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.

Through Resolution 206/2018/S/gas of 5 April 2018 the Authority, despite accepting some of the company's arguments, imposed an administrative fine of €880,000 on Snam Rete Gas. The deadline for the appeal against this provision is pending.

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 the ARERA for a review of the ruling of the Regional Administrative Court of Milan the (TAR) of 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 ARERA decided to file an appeal for the afore-mentioned 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. Through ruling no. 494/2017, the TAR 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 ARERA.

Through the recent ruling no. 1840/2018 of 23 March 2018, the Council of State, partly accepting the incidental appeal of the Authority, rejected the nullification proceedings on account of a breach of the findings submitted by the applicant in the first instance and arranged the conversion of the proceedings into an ordinary annulment judgement.

Regulation

Storage service incentivising mechanisms

Consultation of 15 March 2018, 155/2018/R/gas - Introduction of incentivising mechanisms for the provision of storage services

Through consultation document 155/2018/R/gas, published on 19 March 2018, the Authority put forward the introduction of a mechanism that incentivises storage companies to make additional flexibility available compared with the "basic" storage services. These products will supplement those currently provided on a monthly, weekly and daily basis and will make it possible to complete the "forward" storage services, enabling users to take advantage of additional services within a set deadline or to transfer some of their supplies over a period of time.

The premium for the storage company, in addition to the revenues paid, will be equal to a percentage of the income from the transfer of these products, with the average expected to be around 40% of this income.

Fine Comunicato n.0542-61

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