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Testo del comunicato

Vedi allegato.

press release

Snam: consolidated results for the first half of 2018

San Donato Milanese, 1 August 2018 - The Snam Board of Directors, which met yesterday under the chairmanship of Carlo Malacarne, has approved the consolidated half-year Report at 30 June 2018 (subjected to limited audit).

Financial highlights

- **Total revenue:** €1,242 million[1] (+€28 million; +2.3% compared with the first half of 2017, thanks to the continuation of the investment plan)
- **EBIT:** €729 million (+€15 million; +2.1% compared with the first half of 2017)
- **Net profit:** €523 million (+€19 million; +3.8% compared with the first half of 2017)
- **Technical investments:** €349 million (€425 million in the first half of 2017)
- **Free cash flow:** €1,037 million
- **Net financial debt:** €11,421 million (€11,550 million at the end of 2017)

Operating highlights

- **Demand for natural gas:** 38.78 billion cubic metres (-1.6% compared with the first half of 2017, due to lower consumption recorded in the thermoelectric sector following the return to normal electricity importing flows)
- **Gas injected into the transportation network:** 37.93 billion cubic metres (-0.4% compared with the first half of 2017)
- **Available storage capacity:** 12.4 billion cubic metres (+0.2 billion cubic metres compared with 30 June 2017), of which 11.6 billion cubic metres assigned at 30 June 2018 (equal to 94.1% of the available capacity for the 2018-2019 thermal year)
- **Accidents:** sharp reduction in accidents compared with the first half of 2017 (3 accidents involving employees and contract workers in the first half of 2018 compared with 7 accidents in the first half of 2017), as a result of Snam's ongoing commitment to developing and promoting the protection of health and safety in the workplace

1 Net of pass-through items.

snam press office
T+ 39 02.37037273 ufficio.stampa@snam.it

snam investor relations
T+39 02.37037898 investor.relations@snam.it

Revised guidance:

- **2018 Net Profit:** around €1 billion (previous guidance of €975 million)
- **Net financial debt at the end of 2018:** confirmed at €11.5 billion, including equity investment acquisitions of around €160 million and the share buyback already executed
- **2018 Cost of debt:** now expected at 1.6% (previous guidance of 1.8%)
- **Efficiency program:** targeting savings by 2021 increased from over €40 million to over €50 million

Significant events

- On 30 May 2018, a controlling stake equal to 82% of the share capital of TEP Energy Solution (TEP), one of the main Italian companies active in the energy efficiency sector, was acquired after obtaining antitrust clearance at a total value of approx. €21 million;
- In the first half of 2018, 48,339,437 Snam shares (equal to 1.39% of the share capital taking into account the cancellation of 31,599,715 treasury shares with no share capital reduction were acquired for a total cost of €183 million;
- On 20 July 2018, a European consortium consisting of Snam (60%), Enagás (20%) and Fluxys (20%) entered into an agreement with the Greek agency for privatisations HRADF and Hellenic Petroleum, for the acquisition of a 66% stake in DESFA, the national operator of natural gas infrastructure in Greece.

Marco Alverà, Snam CEO, commented:

"The first half of 2018 was very positive for Snam. All the main economic indicators were up in comparison to 2017 and were in line with our plan targets, confirming our development path and our commitment to secure growing and sustainable returns for shareholders. The efficiency program is also delivering results that exceeded our expectations, allowing us to raise our cost reduction target by 25% to 2021. Moreover, as a result of strong cash generation, we have reduced debt by over €120 million in the first half of this year and ensured both dividend payments and ongoing share buyback activity.
These positive results as well as our commitment to financial efficiency, has allowed us to increase our guidance for net profit for 2018 to around €1 billion.
Snam is increasingly committed to promoting a more sustainable, efficient and secure energy system in Italy and Europe. The awarding of the tender in Greece will allow us to make an even greater contribution to the creation of the Energy Union. Furthermore, with the new acquisitions made in the first part of the year, particularly in the biomethane sector, we aim to strengthen the role of Snam in supporting the development of renewable sources and the circular economy in Italy".

Summary of the results for the first half of 2018

To improve the economic and financial review, this press release also contains reclassified financial statements and several alternative performance indicators (Non-GAAP measures) such as EBITDA, EBIT and net financial debt.

The Non-GAAP financial disclosure should be considered complementary and does not replace the disclosure drafted in accordance with IFRS.

In accordance with Consob Communication DEM/6064293 of 28 July 2006 as amended (Consob Communication no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), please note that the alternative performance indicators used in this document are directly inferable from reclassifications or algebraic additions of conventional indicators[2] compliant with international accounting standards.

INCOME STATEMENT

	First half			
(€ million)	**2017**	**2018**	**Change**	**% Change**
Regulated revenue	1,219	1,241	22	1.8
Non-regulated revenue	49	30	(19)	(38.8)
Total revenue	**1,268**	**1,271**	**3**	**0.2**
- Total revenue net of pass-through items	*1,214*	*1,242*	28	2.3
Operating costs	(233)	(207)	26	(11.2)
- Operating costs net of pass-through items	*(179)*	*(178)*	*1*	*(0.6)*
EBITDA	**1,035**	**1,064**	**29**	**2.8**
Amortisation, depreciation and impairment	(321)	(335)	(14)	4.4
EBIT	**714**	**729**	**15**	**2.1**
Net financial expenses	(115)	(98)	17	(14.8)
Net income from equity investments	88	85	(3)	(3.4)
Pre-tax profit	**687**	**716**	**29**	**4.2**
Income taxes	(183)	(193)	(10)	5.5
Net profit (*)	**504**	**523**	**19**	**3.8**

(*) Entirely held by Snam shareholders.

2 According to CESR/05–178b recommendation of October 2005, conventional indicators are all data included in the certified financial statements drafted in compliance with IFRS or in the balance sheet, income statement, statement of changes in shareholders' equity and cash flow statement or in the accompanying notes. The tables below, their explanatory notes and the reclassified financial statements describe how these amounts were determined. For the definition of the terms used, if not directly specified, please make reference to the glossary available on the Snam website at www.snam.it/en/utilities/Glossary/.

Total revenue

Total revenue in the first half of 2018 amounted to €1,271 million, up by €3 million (0.2%) compared with the first half of 2017. Net of components offset in costs, total revenue in the first half of 2018 amounted to €1,242 million, up by €28 million, or 2.3%. The increase was due to higher regulated revenue (+€47 million; +4.0%), thanks to continuous investments and the contribution of newly consolidated companies, offset in part by lower non-regulated revenue (-€19 million; -38.8%) essentially following the conclusion of some service contracts with Italgas[3].

EBIT

EBIT[4] stood at €729 million in the first half of 2018, up €15 million, or 2.1%, compared with the first half of 2017. The higher revenue (+€28 million; +2.3%), attributable mainly to the contribution of the transportation (+€44 million; +4.7%) and storage (+€3 million; +1.4%) segments, was offset in part by higher amortisation, depreciation and impairment losses for the period (-€14 million; equal to 4.4%), primarily due to the entry into operation of new assets.

Net of components offset in revenue, operating costs totalled €178 million (€179 million; -0.6% compared with the first half of 2017), aided by efficiency actions taken during the period. The impact from the conclusion of some service contracts with Italgas at the end of December 2017, were absorbed primarily by higher costs for new business and M&A activities.

Below is a breakdown of EBIT by business segment:

	First half			
(€ million)	**2017**	**2018**	**Change**	**% Change**
Business segments				
Transportation	536	**569**	33	6.2
Regasification	3	**2**	(1)	(33.3)
Storage	173	**169**	(4)	(2.3)
Corporate and other activities	2	**(11)**	(13)	
	714	**729**	**15**	**2.1**

With reference to the main business segments, the change in operating profit can be attributed to the following factors:

3 This revenue is offset in costs incurred for the provision of the relative services.

4 EBIT was analysed by isolating only the elements that resulted in a change to that figure. To this end, applying gas sector tariff regulations generates revenue components that are offset in costs, associated mainly with interconnection.

- Transportation (+€33 million; +6.2%): attributable to higher regulated revenue (+€49 million, net of components offset in costs; +5.4%), increased invested capital recognised for regulatory purposes (RAB) (+€37 million) and the effects of the consolidation of ITG (+€9 million), partially offset by higher amortisation and depreciation due to the entry into operation of new assets (-€13 million). Operating costs (€121 million, net of components offset in revenue and higher costs attributable to the effects of the transfer from Stogit of the "Technical Plants and Services" business unit as part of the Integra Project[5], effective as of 1 July 2017) marked an increase of €5 million, or 4.3%, partially attributable to an increase in provisions for risks and charges;

- Storage (-€4 million; -2.3%): reduction was due to lower revenue (-€2 million, or 0.8%) as well as higher amortisation, depreciation and impairment losses (-€1 million; equal to 2.0%), due to higher amortisation (-€3 million, or 6.4%) from the entry into operation of new assets, in particular the Bordolano site, absorbed in part by lower write-downs (+€2 million).

Net profit

Net profit achieved in the first half of 2018 amounted to €523 million, an increase of €19 million or 3.8% compared with net profit achieved in the first half of 2017 (€504 million). This was driven by higher operating profit (+€15 million; +2.1%) along with lower net financial expenses (+€17 million, or 14.8%), which benefitted from a reduction in the average cost of debt only partially absorbed by the higher average debt for the period, offset in part by higher income taxes (-€10 million, or 5.5%), linked primarily to the higher pre-tax profit.

The tax rate was 27.0% (26.6% in the first half of 2017).

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[5] The higher costs correspond with higher non-regulated revenue against the chargeback of services provided to the affiliate Stogit (€23 million in the first half of 2018).

Key balance sheet, cash flow and share figures

		First half			
(€ million)		2017	2018	Change	% Change
Technical investments		425	**349**	(76)	(17.9)
Shareholders´ equity at period end (entirely held by Snam shareholders)		6,100	**6,096**	(4)	(0.1)
Net financial debt at period end		11,176	**11,421**	245	2.2
Free cash flow		793	**1,037**	244	30.8
Number of shares outstanding at the end of the period	(million)	3,416.7	**3,366.4**	(50.3)	(1.5)
Average number of shares outstanding during the period	(million)	3,430.1	**3,385.3**	(44.8)	(1.3)
Official share price at period end	(€)	3.86	**3.58**	(0.3)	(7.3)
EBIT per share (*)	(€)	0.208	**0.215**	0.007	3.5
Net profit per share (*) (**)	(€)	0.147	**0.154**	0.007	5.1
Diluted net profit per share (*) (**)	(€)	0.146	**0.151**	0.005	3.4

(*) Calculated considering the average number of shares outstanding during the period.
(**) Entirely held by Snam shareholders.

Technical investments

Technical investments totalled €349 million in the first half of 2018 (€425 million in the first half of 2017) and related mainly to the natural gas transportation (€314 million; €378 million in the first half of 2017) and storage (€31 million; €42 million in the first half of 2017) business segments.

Net financial debt

Net financial debt was €11,421 million as at 30 June 2018[6], compared with €11,550 million as at 31 December 2017. The positive net cash flow from operating activities (€1,525 million) allowed Snam to fully cover financial requirements associated with net investments for the period (€488 million), including equity investments, and to generate free cash flow of €1,037 million. Net financial debt, after equity cash flows (€914 million) deriving from the payment to shareholders of the 2017 dividend (€731 million, of which an interim dividend of €294 million and €437 million for the balance) and the acquisition of treasury shares (€183 million), recorded a reduction of €129 million compared with 31 December 2017, including non-monetary components correlated with financial debt (€6 million).

[6] More information on the net financial debt can be found on pages 22 and 23 of this press release.

Operating highlights

	First half			
	2017	2018	Change	% Change
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	38.08	**37.93**	(0.15)	(0.4)
Transportation network (kilometres in use) (c)	32,497	**32,609**	112	0.3
Installed power in the compression stations (MW)	922	**922**		
Liquefied natural gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	0.169	**0.356**	0.187	
Natural gas storage (a)				
Concessions	10	**10**		
- of which operational (d)	9	**9**		
Available storage capacity (billions of cubic metres) (e)	12.2	**12.4**	0.2	1.6
Natural gas moved through the storage system (billions of cubic metres)	11.28	**11.82**	0.54	4.8
Employees in service at end of period (number) (f)	**2,926**	**2,884**	**(42)**	**(1.4)**
of which business segments:				
- Transportation (c)	1,725	**1,914**	189	11.0
- Regasification	68	**63**	(5)	(7.4)
- Storage	302	**60**	(242)	(80.1)
- Corporate and other activities (g)	831	**847**	16	1.9

(a) With regard to the first half of 2018, gas volumes are expressed in standard cubic metres (SCM) with an average higher heating value (HHV) of 38.1 MJ/SCM (10.572 kWh/SMC) for transportation and regasification activities and 39.29 MJ/SCM (10.914 kWh/SMC) natural gas storage for the 2018-2019 thermal year.

(b) The data for the first half of 2018 was updated at 10 July 2018. The update of 2017 figures has been finalised, and figures are consistent with those published by the Ministry of Economic Development.

(c) The figure relating to the first half of 2018 includes Infrastrutture Trasporto Gas, which was consolidated as of October 2017.

(d) Working gas capacity for modulation services.

(e) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 June 2018 is that declared to the Electricity, Gas and Water Authority at the start of the 2018-2019 thermal year.

(f) Fully consolidated companies. The movement of resources between the different group companies can be attributed to the adjustment of organisational structures enacted by Snam with a view to simplifying and optimising several processes, taking shape in the Integra Project, which saw the transfer from Stogit to Snam Rete Gas, effective as of 1 July 2017, of 247 resources mostly in relation to the transfer of the "Technical Plants and Services" business unit.

(g) The figure relating to the first half of 2018 includes 22 resources associated with TEP's consolidation as of 30 May 2018.

Natural gas injected into the national transportation network

In the first half of 2018, 37.93 billion cubic metres of natural gas were injected into the national transportation network, a slight reduction (-0.15 billion cubic metres, or 0.4%) compared with the first half of 2017 (38.08 billion cubic metres) essentially following the reduction of natural gas demand in Italy (38.78 billion cubic metres; -0.63 billion cubic metres compared with the first half of 2017; -1.6%), offset in part by the net storage balance (+0.36 billion cubic metres). The reduction in gas demand can be attributed primarily to lower consumption in the thermoelectric sector (-1.69 billion cubic metres; -13.9%) following the resumption of normal electricity imports, which were down in 2017 as some French nuclear plants were not operating in the first two months of the year, and the increase in hydroelectricity production. These effects were partially offset by increased consumption in the residential and services sectors (+0.91 billion cubic metres; +5.3%) as a result of colder climate trends than in the same period of 2017.

Adjusted for the weather effect, gas demand was estimated at 38.49 billion cubic metres, down by 1.52 billion cubic metres (-3.8%) compared with the first half of 2017 (40.01 billion cubic metres).

Liquefied natural gas (LNG) regasification

In the first half of 2018, 0.356 billion cubic metres of LNG was regasified (0.169 billion cubic metres in the first half of 2017; +0.187 billion cubic metres) and 9 tankers were unloaded, of which 2 spot loads (4 loads in the first half of 2017, of which 2 spot loads).

Natural gas storage

During the first half of 2018, 11.82 billion cubic metres of natural gas was moved through the storage system, growth of 0.54 billion cubic metres (4.8%) on the corresponding period of 2017 (11.28 billion cubic metres). The increase is mainly due to higher amounts provided from storage (+0.49 billion cubic metres; +7.9%) due primarily to climate trends as well as the behaviour of shippers in relation to different market conditions.

The total storage capacity at 30 June 2018, inclusive of strategic storage, totalled 16.9 billion cubic metres, up by 0.2 billion cubic metres, or 1.2%, compared with 30 June 2017, following the progressive entry into operation of the Bordolano site. The total capacity includes 12.4 billion cubic metres relating to available storage capacity, of which 11.6 billion cubic metres contributed at 30 June 2018 (94.1% of the available capacity for the 2018-2019 thermal year) and 4.5 billion cubic metres of capacity relating to strategic storage (unchanged compared with the 2017-2018 thermal year).

Accident indices - Employees and contract workers

	First half			
	2017	2018	Change	% Change
Total number of accidents	7	**3**	(4)	(57.1)
Frequency index (*)	1.05	**0.48**	(0.57)	(54.3)
Severity index (**)	0.05	**0.01**	(0.04)	(80.0)

(*) 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. The data are calculated also considering fatal accidents.

In the first half of 2018, the **accident indices** referring to employees and contract workers recorded a sharp reduction in terms of frequency as well as severity (-54.3% with reference to the frequency index; -80.0% with regard to the severity index) compared with the first half of 2017, as proof of Snam's continuous commitment to developing and promoting the protection of health and safety in the workplace, not only within the company but also with regard to suppliers. In the first half of 2018, there were 3 accidents (7 in the first half of 2017), of which 1 involving an employee (4 in the first half of 2017) and 2 involving contract workers (3 in the first half of 2017).

Main events

Business developments

TEP Energy Solution (TEP)

On 30 May 2018, after obtaining antitrust clearance, a controlling shares equal to 82% of the share capital of TEP Energy Solution (TEP) was acquired through the subsidiary Asset Company 4 S.r.l. for a total value of roughly €21 million. The contract establishes a price adjustment mechanism based on the results for the years 2018-2020 as well as cross put and call options on the interests of minority shareholders expiring in 2020[7].

TEP, an Energy Service Company (ESCO), is one of the main Italian companies active in the energy efficiency sector, with in excess of 200 customers including leading domestic and international companies, 950 thousand energy efficiency certificates and 2017

[7] At the acquisition date, on the basis of the terms of the contract governing the exercise of the cross put and call options on the interests of minority shareholders (equal to 18%), the transaction was accounted for as if Snam had acquired control over 100% of TEP, without therefore recognising the interests of minority shareholders. The present value of expected payments if the options are exercised was included in the determination of the consideration of the business combination (roughly €5 million).

EBITDA of roughly €6 million. The company's mission is to make its customers more competitive by reducing energy expenses thanks to the optimisation of quantities used.
The acquisition of TEP is part of Snam's strategic plans to favour decarbonisation and a better use of energy in the territories in which it carries on business. The goal is to accelerate the TEP growth process, with the support of the company's management, by facilitating the transfer of large industry energy efficiency expertise and technology to SMEs and local authorities.

DESFA

On 20 July 2018, the European consortium consisting of Snam, the main shareholder with 60%, along with Enagás (20%) and Fluxys (20%), entered into agreements with the Greek agency for privatisations HRADF and Hellenic Petroleum for the acquisition of a share of 66% of DESFA.
The agreements were made following the acceptance by the Greek agency for privatisations (TAIPED) of the bid submitted by the consortium offering a total of €535 million for the acquisition of 66% of the share capital of DESFA.
The transaction closing is expected to take place by the end of the year and is subject, inter alia, to the completion of the company's internal reorganisation and the certification of the unbundling regime by the Greek regulator, RAE.
For the acquisition, the consortium received assurances that it could obtain a 10-year non-recourse loan, corresponding to roughly 65% of the enterprise value. The loan closing is expected to take place in the coming weeks after the relative documentation is finalised.

DESFA manages, under a regulated system, a high-pressure transportation network of around 1,500 km, as well as a regasification terminal in Revithoussa.
Greece, a significant crossroads for procurement diversification and the opening up of new natural gas routes in Europe, has further potential for development as a South-Eastern European gas hub. With the support of Snam, Enagas and Fluxys, DESFA will be able to fully leverage its strategic positioning within the Mediterranean. The consortium will also promote the innovative use of natural gas in Greece to make further improvements to sustainable growth in the natural gas market, the country's economic development and efforts to reduce climate-altering emissions.

Other

New share buyback plan and cancellation of treasury shares with no share capital reduction

On 24 April 2018, the Snam Shareholders' Meeting authorised the acquisition of treasury shares to be carried out on one or more occasions for a maximum duration of 18 months as of the date of the shareholders' approval, after revoking the as of yet unexecuted part of the resolution authorising the acquisition of treasury shares passed by the Shareholders' Meeting on 11 April 2017. The maximum authorised outlay is €500 million, and in any event up to a maximum of 134,564,883 shares without exceeding

6.50% of the subscribed and paid-in share capital (also considering the treasury shares already held by the Company). The shareholders' resolution specifies the terms and conditions of the price for the acquisitions of treasury shares to be carried out on the basis of this authorisation. The Shareholders' Meeting also authorised the disposal, on one or more occasions, with no time limits and even before having completed all acquisitions, of all or part of the Company's treasury shares acquired on the basis of this shareholders' resolution as well as those already held.
The Extraordinary Shareholder's Meeting held on the same date also approved the cancellation of 31,599,715 treasury shares with no nominal value with no reduction in the share capital and the resulting amendment of art. 5.1 of the Articles of Association. The shares were cancelled on 7 May 2018 after the amended Articles of Association were filed with the Register of Companies. As a result of this transaction, the share capital consists of 3,469,038,579 shares with no nominal value for a total value of €2,736 million.
In execution of the resolution, the new buyback programme was launched on 18 June 2018. For the implementation of an initial part of the programme, Snam entered into an enhanced buyback agreement with a leading intermediary, lasting no more than 6 months as of the programme's start date. As part of this plan, in the period between 18 and 30 June 2018, 11,732,713 Snam shares (equal to 0.34% of the share capital) were acquired for a total cost of €41 million.
In the first half of 2018, 48,339,437 Snam shares (equal to 1.39% of the share capital) were acquired for a total cost of €183 million.
At 30 June 2018, Snam held 102,655,338 treasury shares, equal to 2.96% of its share capital, including the acquisitions made in the first half of 2018 and after the cancellation of treasury shares.

GasBridge share swap

On 26 April 2018, Snam S.p.A. and Fluxys Europe B.V. completed the share swap transaction whereby Fluxys Europe transferred to Snam the shares held in GasBridge 2 B.V., equal to 50% of the share capital, and at the same time Snam transferred to Fluxys Europe the shares held in GasBridge 1 B.V., equal to 50% of the share capital. After the share swap, Snam holds the entire share capital of GasBridge 2 B.V. and Fluxys became holder of 100% of the share capital of GasBridge 1 B.V.
The transaction does not fall within the scope of application of IFRS 3 "Business Combinations", as this is a reorganisation transaction in relation to which there is no significant change in future cash flows from the assets transferred before and after the transaction. In the absence of a reference accounting standard, the criterion of the continuity of values of the net assets acquired was applied; therefore, in the Snam Group's consolidated financial statements the net assets of GasBridge 2 were recognised at the book values recorded at the date of acquisition of control. The equity investment in the associated company Interconnector UK, of which Snam became a shareholder following this transaction with a stake of 23.68% through the subsidiary GasBridge 2,

continues to be valued with the equity method pursuant to IAS 28 “Investments in Associates and Joint Ventures”.

Post-balance sheet events

IES Biogas - Biomethane

On 5 July 2018, Snam, through the subsidiary Snam4Mobility, acquired 70% of IES Biogas, one of the top Italian companies in the design, construction and management of plants for the production of biogas and biomethane with a market share in excess of 10%, for a value of roughly €4 million. With 2017 turnover exceeding €20 million, to date IES Biogas has built more than 200 plants throughout Italy. In recent years, the company has developed projects outside the country as well.

Snam4Mobility is the company through which Snam is developing compressed natural gas (CNG) and liquefied natural gas (LNG) engine fuelling infrastructure. Increasing market interest with respect to sustainable mobility based on methane and biomethane demonstrates the great potential of alternative uses of gas.

Biomethane is a renewable energy source deriving from the process of purifying biogas obtained from agricultural and agro-industrial products and sub-products and the organic fraction of municipal waste. Biomethane can be injected into the natural gas transportation network.

This acquisition represents a first step for Snam in the area of renewable energy, supporting its role in the energy transition.

Cubogas - Compressed natural gas (CNG)

On 25 July 2018 the business unit handling the design, development and production of technological solutions for automotive natural gas fuelling stations of M.T.M., a Westport Fuel Systems group company, was acquired through the newly established company Cubogas S.r.l., a wholly owned subsidiary of Snam4Mobility, following the fulfilment of certain conditions precedent including the completion of trade union procedures.

The value of the transaction is €12.5 million, inclusive of the price adjustment applied during the closing.

The acquisition, which includes the Cubogas brand, will enable Snam to in-source and fully consolidate the value created throughout the supply chain, acting as a leader for the creation of “turnkey” solutions for sustainable mobility based on natural gas. Snam will work to further develop the strengths of Cubogas such as the value of the brand, customer orientation and service levels.

The use of compressed natural gas (CNG) in the transportation sector is one of the best technologies available to combat polluting emissions for the benefit of urban air quality.

Sardinia

Snam and Società Gasdotti Italia (SGI) have finalized an agreement for the possible joint implementation of the transport infrastructure in Sardinia, upon obtaining the necessary authorizations following the current procedure with the competent national and regional authorities and the antitrust clearance. With a view to progressive decarbonisation, the project will take into account a possible future hydrogen injection into the network.

Sustainable mobility

In the broader context of the initiatives to promote sustainable mobility:

- Snam has signed two framework agreements with Api Group aimed at developing plants to supply CNG and LNG at fueling stations, to be identified jointly, on both the Api S.p.A. and Italiana Petroli S.p.A.'s ordinary and motorway networks;
- Following the framework agreement signed in May 2017, Snam has finalised through its subsidiary Snam4Mobility the second application contract with Eni to develop 20 methane filling stations in Italy.

Outlook

The business outlook is described below with reference to the main drivers characterising natural gas transportation, regasification and storage activities.

INVESTMENTS

Snam is now confirming a significant 2017-2021 investment plan of roughly €5.2 billion, of which €1.0 billion was made in 2017, to support the development of Italian infrastructure and its interconnection with European infrastructure, strengthening the safety, flexibility and liquidity of the entire gas system. The Plan provides for the strengthening of the transportation network, also enabling the creation of additional reverse flow capacity towards other European countries, and opening new gas flows from the Caspian region through the TAP gas pipeline. In particular investments in the transportation business aim to achieve:

- 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 (32,500 km in 2017) by around 2% and to increase the installed power in the compression stations by around 5% (922 MW in 2017). The investments in the storage and LNG business are intended to improve the overall flexibility and security of the system, delivering an increase in available storage capacity (12.2 billion standard cubic metres in 2017) of about 4% over the period in question and an increase of around 2% in delivery point capacity (250 million standard cubic metres per day in 2017). Throughout the term of the plan, Snam will also be committed to building natural gas fuelled vehicle fuelling stations, with a view to boosting the number of current methane service stations, improving service quality and guaranteeing a more balanced geographical distribution of the stations. Snam will also be able to leverage its international subsidiaries to promote increasing interconnection between European infrastructure systems, and develop greater diversification and flexibility of gas flows, while at the same time maximising the profitability of its assets. The company, applying a selective approach and its financial policy, will monitor new opportunities to invest in infrastructure assets, including at the international level, with a risk profile in line with the one of its current business portfolio.

GAS DEMAND

The most recent estimates as to the evolution of natural gas demand in the Italian market point to a situation of substantial stability with respect to 2017 levels in the 2017-2021 period, even in the presence of a progressive reduction in internal European production, which will be balanced by increasing dependence on imports.

OPERATING EFFICIENCY

Snam will continue to focus on operating efficiency in 2018, through initiatives that will enable it to keep the level of costs more or less stable in real terms for the core business. Snam will also ensure all necessary measures for promoting the use of its expertise in gas infrastructure to serve investees and third parties.

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This press release, which is prepared voluntarily in line with best market practice, illustrates the consolidated results for the first half of 2018 (subjected to limited audit). The results for the first half, together with the key business trends, represent a summary of the half-year report prepared in accordance with Article 154-ter of the Consolidated Finance Act (TUF). The report was approved by Snam’s Board of Directors on 31 July 2018 and will be published in compliance with the terms laid out by law.

Information on operating results and cash flows is provided with reference to the first half of 2018 and the first half of 2017. Information on financial position is provided with reference to 31 December 2017 and 30 June 2018. The form of the financial statements corresponds to that of the statements presented in the Interim Directors' Report of the Consolidated Half-Year Report and the Directors' Report of the Annual Report. The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the

European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002. The recognition and measurement criteria adopted for the preparation of the Half-Year Report as at 30 June 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 deriving from the application of these new provisions on the consolidated results of the Snam Group essentially regard the effects of the first-time application of IFRS 9 “Financial instruments” with reference to the liability management operations carried out by Snam in 2015 and 2017[8]. Pursuant to IAS 39, in force until 31 December 2017, if there was a change in cash flows deriving from the modification or exchange of financial liabilities not derecognised, the new liability was recognised at the book value of the original liability, net of any additional amount paid. Any expenses or income were not recognised in the income statement at the moment of the exchange, but rather throughout the life of the new financial instrument through the new effective interest rate. IFRS 9, in force as of 1 January 2018, however requires a redetermination of the amortised cost of the new financial liability, by discounting the new contractual flows at the original effective interest rate. The gain or loss arising from the modification or exchange of a financial liability is recognised in the income statement.
The first-time application of the new standard resulted, at 1 January 2018, in an increase in the Group’s shareholders’ equity of €8 million, net of the relative tax effect.

Changes in the Snam Group’s consolidation scope at 30 June 2018 with respect to that in place at 31 December 2017 regarded the consolidation of the following Companies: (i) Gasbridge 2 B.V., due to the share swap with Fluxys completed on 26 April 2018; (ii) Asset Company 4 S.r.l., established on 14 February 2018 by the sole shareholder Snam S.p.A.; (iii) Tep Energy Solution S.r.l. (hereinafter also TEP) against the acquisition, through the subsidiary Asset Company 4 S.r.l., of 82% of the share capital of the company effective as of 30 May 2018. Aside from the above-mentioned modifications, changes in the Snam Group’s consolidation scope at 30 June 2018 with respect to that in place at 30 June 2017 regarded the consolidation 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., due to the acquisition of 100% of the company’s share capital from Edison, effective as of 13 October 2017; (iii) Snam 4 Mobility S.p.A., wholly owned by Snam S.p.A., after the launch of the company’s operations.

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

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8 The effects do not include the shares of financial liabilities subject to repurchase in 2016 and 2017 as the new provisions of IFRS 9 do not apply to financial instruments that had been derecognised at the date of first-time application of the new standard (1 January 2018).

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

Disclaimer

This press release contains forward-looking statements, specifically 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 actual results may therefore differ from those forecast as a result of several factors: foreseeable trends in natural gas demand, supply and price, general macro-economic conditions, the effect of energy and environmental legislation, the successful development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.

A conference call will take place at 15:00 CET today, 1 August 2018, to present the consolidated results for the first half of 2018 to investors and financial analysts. It will be possible to attend this conference call and the supporting materials will be made available at www.snam.it in the Investor Relations section when the event begins. In the same section, it will also be possible to view the presentation through video webcasting.

Summary tables of income statement items

Total revenue

(€ million)	First half 2017	2018	Change	% Change
Business segments				
Transportation	1,008	**1,059**	51	5.1
Regasification	12	**11**	(1)	(8.3)
Storage	297	**296**	(1)	(0.3)
Corporate and other activities	110	**101**	(9)	(8.2)
Consolidation eliminations	*(159)*	***(196)***	*(37)*	*23.3*
	1,268	**1,271**	**3**	**0.2**

Regulated and non-regulated revenue

(€ million)	First half 2017	2018	Change	% Change
Regulated revenue	**1,219**	**1,241**	**22**	**1.8**
Business segments				
Transportation	939	**982**	43	4.6
Regasification	10	**9**	(1)	(10.0)
Storage	216	**221**	5	2.3
Revenue items offset in costs (*)	54	**29**	(25)	(46.3)
Non-regulated revenue	**49**	**30**	**(19)**	**(38.8)**
	1,268	**1,271**	**3**	**0.2**

(*) The main revenue items offset in costs relate to interconnection.

Operating costs

(€ million)	First half 2017	2018	Change	% Change
Business segments				
Transportation	206	**211**	5	2.4
Regasification	7	**7**		
Storage	75	**77**	2	2.7
Corporate and other activities	104	**108**	4	3.8
Consolidation eliminations	*(159)*	***(196)***	*(37)*	*23.3*
	233	**207**	**(26)**	**(11.2)**

Operating costs - Regulated and non-regulated activities

	First half			
(€ million)	2017	2018	Change	% Change
Costs of regulated activities	**192**	**175**	**(17)**	**(8.9)**
Controllable fixed costs	125	**129**	4	3.2
Variable costs	5	**3**	(2)	(40.0)
Other costs	8	**14**	6	75.0
Cost items offset in revenue (*)	54	**29**	(25)	(46.3)
Costs of non-regulated activities	**41**	**32**	**(9)**	**(22.0)**
	233	**207**	**(26)**	**(11.2)**

(*) The main cost items offset in revenues relate to interconnection.

Amortisation, depreciation and impairment losses

	First half			
(€ million)	2017	2018	Change	% Change
Amortisation and depreciation	**319**	**335**	**16**	**5.0**
Business segments				
Transportation	266	**279**	13	4.9
Regasification	2	**2**		
Storage	47	**50**	3	6.4
Corporate and other activities	4	**4**		
Impairment losses (Reversals)	**2**		(2)	(100.0)
	321	**335**	**14**	**4.4**

EBIT

	First half			
(€ million)	2017	2018	Change	% Change
Business segments				
Transportation	536	**569**	33	6.2
Regasification	3	**2**	(1)	(33.3)
Storage	173	**169**	(4)	(2.3)
Corporate and other activities	2	**(11)**	(13)	
	714	**729**	**15**	**2.1**

Net financial expenses

(€ million)	First half 2017	First half 2018	Change	% Change
Financial expense related to net financial debt	**119**	**102**	**(17)**	**(14.3)**
- Interest and other expense on short- and long-term financial debt	119	**103**	(16)	(13.4)
- Bank interest income		**(1)**	(1)	
Other net financial expense (income)	**2**	**2**		
- Accretion discount	5	**5**		
- Other net financial expense (income)	(3)	**(3)**		
Losses on hedging derivatives – ineffective portion	**1**		**(1)**	**(100.0)**
Financial expense capitalised	**(7)**	**(6)**	**1**	**(14.3)**
	115	**98**	**(17)**	**(14.8)**

Net income from equity investments

(€ million)	First half 2017	First half 2018	Change	% Change
Equity method valuation effect	88	**83**	(5)	(5.7)
Dividends		**2**	2	
	88	**85**	**(3)**	**(3.4)**

Income taxes

(€ million)	First half 2017	First half 2018	Change	% Change
Current taxes	**199**	**207**	**8**	**4.0**
Deferred (prepaid) taxes				
Deferred taxes	(9)	**(8)**	1	(11.1)
Prepaid taxes	(7)	**(6)**	1	(14.3)
	(16)	**(14)**	**2**	**(12.5)**
	183	**193**	**10**	**5.5**
Tax rate (%)	**26.6**	**27.0**	**0.4**	

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, working and financing.

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

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

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(€ million)	31.12.2017	30.06.2018	Change
Fixed capital	**18,875**	**19,020**	**145**
Property, plant and equipment	16,033	**16,044**	11
Compulsory inventories	363	**363**	
Intangible assets	850	**873**	23
Equity investments	1,591	**1,561**	(30)
Financial receivables held for operating activities	373	**483**	110
Net payables for investments	(335)	**(304)**	31
Net working capital	**(1,079)**	**(1,443)**	**(364)**
Provisions for employee benefits	**(58)**	**(60)**	**(2)**
NET INVESTED CAPITAL	**17,738**	**17,517**	**(221)**
Shareholders' equity	**6,188**	**6,096**	**(92)**
- entirely held by Snam shareholders	6,188	**6,096**	(92)
Net financial debt	**11,550**	**11,421**	**(129)**
COVERAGE	**17,738**	**17,517**	**(221)**

The **fixed capital** (€19,020 million) rose by €145 million with respect to 31 December 2017 essentially as a result in the increase in financial receivables held for operating activities (+€110 million), relating to Snam's share of the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP) and the increase in intangible assets (+€23 million) as a result of the change in the consolidation scope (+€24 million) resulting from the allocation of the TEP purchase price.

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 at 31 December 2017	**16,033**	**850**	**16,883**
Technical investments	321	28	**349**
Amortisation, depreciation and impairment	(306)	(29)	**(335)**
Transfers, eliminations and divestments	(7)		**(7)**
Change in scope of consolidation		24	**24**
Other changes	3		**3**
Balance at 30 June 2018	**16,044**	**873**	**16,917**

Equity investments

The item equity investments (€1,561 million) basically includes: (i) the valuation of equity investments using the equity method referring to the companies Teréga Holding S.A.S.[9] (€479 million), Trans Austria Gasleitung GmbH-TAG (€474 million), Trans Adriatic Pipeline AG-TAP (€230 million)[10], Italgas S.p.A. (€157 million), AS Gasinfrastruktur Beteiligung GmbH (€117 million) and Interconnector UK (€61 million)[11]; (ii) the fair value measurement[12] of the minority interests in the company Terminale GNL Adriatico S.r.l. (€42 million).

9 Teréga has been the new name of TIGF since 30 March 2018.

10 This includes roughly €8 million (equal to CHF 9.4 million) relating to the future share capital increase of TAP, in which Snam is required to participate to an extent proportionate to its equity stake held, on the basis of agreements entered into upon acquisition of the equity investment. Snam made the relative payment on 10 July 2018.

11 Following the share swap between Snam and Fluxys on 26 April 2018, following which Snam became the sole shareholder of GasBridge 2 and Fluxys became the holder of the entire share capital of GasBridge 1, the equity investment in the associated company Interconnector UK, held by GasBridge 2, has been valued in Snam’s consolidated financial statements with the equity method pursuant to IAS 28.

12 On the basis of the provisions of IFRS 9 “Financial instruments”, Snam made use of the possibility to designate the equity investment in the company Terminale GNL Adriatico S.r.l. as a financial asset measured at Fair Value Through Other Comprehensive Income (FVTOCI). According to this measurement approach, changes in fair value are recognised in a dedicated shareholders' equity reserve that cannot be reclassified to the income statement. Dividends are recognised in the income statement when they represent a return on the investment and not the recovery of part of the cost of the investment, in which case the dividend is also recognised in Other Comprehensive Income.

Financial receivables held for operating activities

The financial receivables held for operating activities (€483 million) refer to Snam's share of the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP). The increase of €110 million compared with 31 December 2017 was basically due to the cash calls received in the first half of 2018[13].

Net financial debt

(€ million)	31.12.2017	30.06.2018	Change
Financial and bond debt	**12,619**	**12,764**	**145**
Short-term financial debt (*)	2,443	**3,500**	1,057
Long-term financial debt	10,176	**9,264**	(912)
Financial receivables and cash and cash equivalents	**(1,069)**	**(1,343)**	**(274)**
Cash and cash equivalents	(719)	**(1,343)**	(624)
Financial receivables not held for operations	(350)		350
	11,550	**11,421**	**(129)**

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

The positive net cash flow from operating activities (€1,525 million) allowed us to fully cover the financial requirements associated with net investments for the period (€488 million), including equity investments, and to generate a free cash flow of €1,037 million. The net financial debt, after equity cash flows (€914 million), deriving from the payment to shareholders of the 2017 dividend (€731 million, of which an interim dividend of €294 million and €437 million for the balance) and the acquisition of treasury shares (€183 million), recorded a reduction of €129 million compared with 31 December 2017, including non-monetary components correlated with financial debt (€6 million[14]).

13 On the basis of the contractual agreements entered into, the shareholders are responsible for financing the project, based on the stake held, until the entry into operation of the gas pipeline. Any expansion of capacity is subject to an economic feasibility assessment and therefore the verification of benefits for TAP, also in compliance with the decision on exemption by the regulatory Authorities.

14 These components are primarily connected to the effects of the first-time application of the provisions of IFRS 9 "Financial instruments".

Financial and bond debts at 30 June 2018, amounting to €12,764 million (€12,619 million at 31 December 2017), comprised the following:

(€ million)	**31.12.2017**	**30.06.2018**	**Change**
Bonds	8,672	8,134	(538)
Bank loans	3,931	4,629	698
Other financing	16	1	(15)
	12,619	**12,764**	**145**

Financial and bond debts are denominated in euros[15] and refer mainly to bond loans (€8,134 million, or 63.7%) and bank loans (€4,629 million, or 36.3%, including €1,462 million provided by the European Investment Bank - EIB).

Bonds (€8,134 million) declined by €538 million compared with 31 December 2017. The decrease was attributable primarily to the repayment of a fixed-rate bond maturing on 19 March 2018, with a nominal amount of €851 million, offset in part by the issue of a floating-rate private placement[16] on 22 January 2018 with a nominal amount of €350 million.

Bank loans (€4,629 million) rose by €698 million following the increased net use of uncommitted credit lines.

Long-term financial debt (€9,264 million) represented around 73% of gross financial debt (around 81% at 31 December 2017). Fixed-rate financial debts amounted to around 73% of gross financial debt (around 78% at 31 December 2017).

Cash and cash equivalents, amounting to €1,343, million refer primarily to transactions for the use of short-term liquidity, with maturity in less than three months, with banking institutions with high credit standing as the counterparty (€1,000 million), sight bank deposits (€278 million) and cash and cash equivalents at the company Gasrule Insurance D.A.C. for the exercise of group insurance activities (€31 million).

At 30 June 2018, Snam had unused committed long-term credit lines worth €3.2 billion.

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

16 The floating-rate bond is converted into a fixed-rate bond through an Interest Rate Swap (IRS) hedging derivative.

Net working capital

(€ million)	31.12.2017	30.06.2018	Change
Trade receivables	1,274	**990**	(284)
- of which balancing	*251*	***164***	*(87)*
Inventories	86	**89**	3
Tax receivables	46	**24**	(22)
Other assets	50	**215**	165
Provisions for risks and charges	(677)	**(688)**	(11)
Trade payables	(406)	**(598)**	(192)
- of which balancing	*(207)*	***(165)***	*42*
Accruals and deferrals from regulated activities	(231)	**(352)**	(121)
Tax liabilities	(11)	**(212)**	(201)
Deferred tax liabilities	(165)	**(156)**	9
Hedging derivative (liabilities) assets	(12)	**(18)**	(6)
Other liabilities	(1,033)	**(737)**	296
	(1,079)	**(1,443)**	**(364)**

Net working capital (-€1,443 million) declined by €364 million compared with 31 December 2017. The reduction is principally due: (i) to lower trade receivables (-€284 million) mainly as a result of the reduction in receivables for additional tariff components relating to additional transportation sector costs (-€223 million) referring, in particular, to the CVOS component[17], the application of which is suspended for the months from April to September; (ii) to higher tax payables (-€201 million) mainly against the deferment of the deadline for the payment of IRES and IRAP payables (2017 balance and 2018 advance) to 2 July 2018; (iii) to higher accrued liabilities and deferred income from regulated activities (-€121 million) relating to over-invoicing and penalties in the transportation business.

These effects were absorbed only in part by the reduction of other liabilities (+€296 million), primarily attributable to the payment to Snam shareholders of the 2017 interim dividend of €0.0862 per share (+€294 million).

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[17] The CVOS variable unit fee, expressed in €/SCM, is additional to the Variable Fee intended to cover costs deriving from the application of the revenue guarantee factor for the storage service pursuant to art. 10 bis of Resolution 29/2011 and costs incurred by the Energy Services Operator for the provision of the measures pursuant to arts. 9 and 10 of Legislative Decree 130/10.

Statement of comprehensive income

(€ million)	First half 2017	First half 2018
Net profit (*)	**504**	**523**
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective portion)		**(10)**
Portion of equity investments valued using the equity method pertaining to "other components of comprehensive income"	(2)	
Tax effect		**2**
	(2)	**(8)**
Total other components of comprehensive income, net of tax effect	**(2)**	**(8)**
Total comprehensive income (*)	**502**	**515**

(*) Entirely held by Snam shareholders.

Shareholders' equity

(€ million)		
Shareholders' equity as at 31 December 2017 (*)		**6,188**
Effect of initial application of IFRS 9 (**)	*8*	
Shareholders' equity at 1 January 2018 (*)		**6,196**
Increases owing to:		
- Comprehensive income for the first half of 2018	515	
- Other changes	5	
		520
Decreases owing to:		
- 2017 dividend balance	(437)	
Acquisition of treasury shares	(183)	
		(620)
Shareholders' equity including minority interests at 30 June 2018 (*)		**6,096**

(*) Entirely held by Snam shareholders.
(**) Net of the relative tax effect. More information can be found on pages 15 and 16 of this press release.

As at 30 June 2018, Snam held 102,655,338 treasury shares (85,915,616 as at 31 December 2017), equal to 2.96% of its share capital, with a total book value of €382 million (€318 million at 31 December 2017). Their market value at 30 June 2018 was around €367 million[18].

Covenants

As at 30 June 2018, Snam has unsecured bilateral and syndicated loan agreements in place with banks and other financial institutions. Part of such contracts envisages, inter alia, compliance with commitments typical of international practice, of which some are subject to specific materiality thresholds, such as: (i) negative pledge commitments pursuant to which Snam and its subsidiaries are subject to limitations concerning the pledging of real property rights or other restrictions on all or part of the respective assets, shares or merchandise; (ii) pari passu and change-of-control clauses; (iii) limitations on certain extraordinary transactions that the Company and its subsidiaries may carry out; and (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 result in Snam's failure to comply and, possibly, 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 Baa2 (Moody's) for 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 30 June 2018, the financial liabilities subject to these restrictive clauses amounted to approximately €2.6 billion.

The bonds issued by Snam at 30 June 2018, with a nominal value of €8.1 billion, mainly refer to securities issued under the Euro Medium Term Notes programme[19]. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

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

As confirmation of Snam's credit standing, its loan agreements contain no covenants requiring compliance with economic and/or financial ratios.

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18 Calculated by multiplying the number of treasury shares by the period-end official price of €3.5805 per share.

19 The convertible bond with a nominal value of €400 million is not included in the EMTN programme.

Reclassified statement of cash flows and change in net financial debt

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

RECLASSIFIED STATEMENT OF CASH FLOWS

	First half	
(€ million)	**2017**	**2018**
Net profit	**504**	**523**
Adjusted for:		
- Amortisation, depreciation and other non-monetary components	235	**254**
- Net capital losses (capital gains) on asset sales and eliminations	1	**5**
- Dividends, interest and income taxes	285	**277**
Change in working capital due to operating activities	495	**443**
Dividends, interest and income taxes collected (paid)	(119)	**23**
Net cash flow from operating activities (a)	**1,401**	**1,525**
Technical investments	(424)	**(340)**
Technical disinvestments	1	**2**
Companies (entering) leaving the area of consolidation (b)		**(13)**
Equity investments	5	**13**
Change in financial credits instrumental to operating activities	(93)	**(106)**
Other changes relating to investment activities	(97)	**(44)**
Free cash flow	**793**	**1,037**
Change in financial receivables not held for operating activities		**350**
Change in short- and long-term financial debt	121	**151**
Equity Cash flow (c)	(920)	**(914)**
Net cash flow for the period	**(6)**	**624**

CHANGE IN NET FINANCIAL DEBT

	First half	
(€ million)	**2017**	**2018**
Free cash flow	**793**	**1**
Effect of initial application of IFRS 9		**10**
Financial Debts and Credits from companies entering the area of consolidation		**(1)**
Exchange rate differences on financial debt	3	**(3)**
Effect of valuation of financial debts at fair value	4	
Equity Cash flow (c)	(920)	**(914)**
Change in net financial debt	**(120)**	**129**

(a) The cash flow relating to the first half of 2018 takes into account the different timing for the payment of the 2017 balance and the initial 2018 advance on income taxes (IRES and IRAP), settled on 2 July 2018 for a total of roughly €142 million.

(b) The amount relating to the acquisition of control over TEP Energy Solutions is shown net of cash and cash equivalents acquired.

(c) Includes cash flows deriving from the acquisition of treasury shares and the payment of the dividend to shareholders.

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