Half-Year Report 2018

snam

Company profile

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

First in Europe by transport network size (over 32,500 km in Italy, about 40,000 with international subsidiaries) and natural gas storage capacity (16.9 billion cubic meters in Italy, about 20 billion with international subsidiaries), Snam manages the first liquefied natural gas (LNG) plant built in Italy and it is a shareholder of the country's main terminal.

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

Half-Year Report 2018

Corporate bodies

BOARD OF DIRECTORS (*)

Chairman

Carlo Malacarne (1)

Chief Executive Officer

Marco Alverà (1)

Directors

Sabrina Bruno (2) (3)

Monica De Virgiliis (1)(2)

Francesco Gori (2) (3)

Yunpeng He (1)

Lucia Morselli (1) (2)

Elisabetta Oliveri (2) (3)

Alessandro Tonetti (1)

BOARD OF STATUTORY AUDITORS (*)

Chairman

Leo Amato (4)

Statutory auditors

Massimo Gatto (5)

Maria Luisa Mosconi (4)

Alternate auditors

Sonia Ferrero (5)

Maria Gimigliano (4)

CONTROL, RISK AND RELATED-PARTY TRANSACTIONS COMMITTEE

Elisabetta Oliveri - Chairman

Sabrina Bruno

Lucia Morselli

APPOINTMENTS COMMITTEE

Francesco Gori - Chairman

Monica De Virgiliis

Alessandro Tonetti

REMUNERATION COMMITTEE

Monica De Virgiliis - Chairman

Elisabetta Oliveri

Alessandro Tonetti

SUSTAINABILITY COMMITTEE (**)

Sabrina Bruno - Chairman

Yunpeng He

Lucia Morselli

INDEPENDENT AUDITORS (***)

PricewaterhouseCoopers S.p.A.

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

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

(***) Engaged by the shareholders' meeting on 24 April 2018 for the period 2018-2026.

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

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

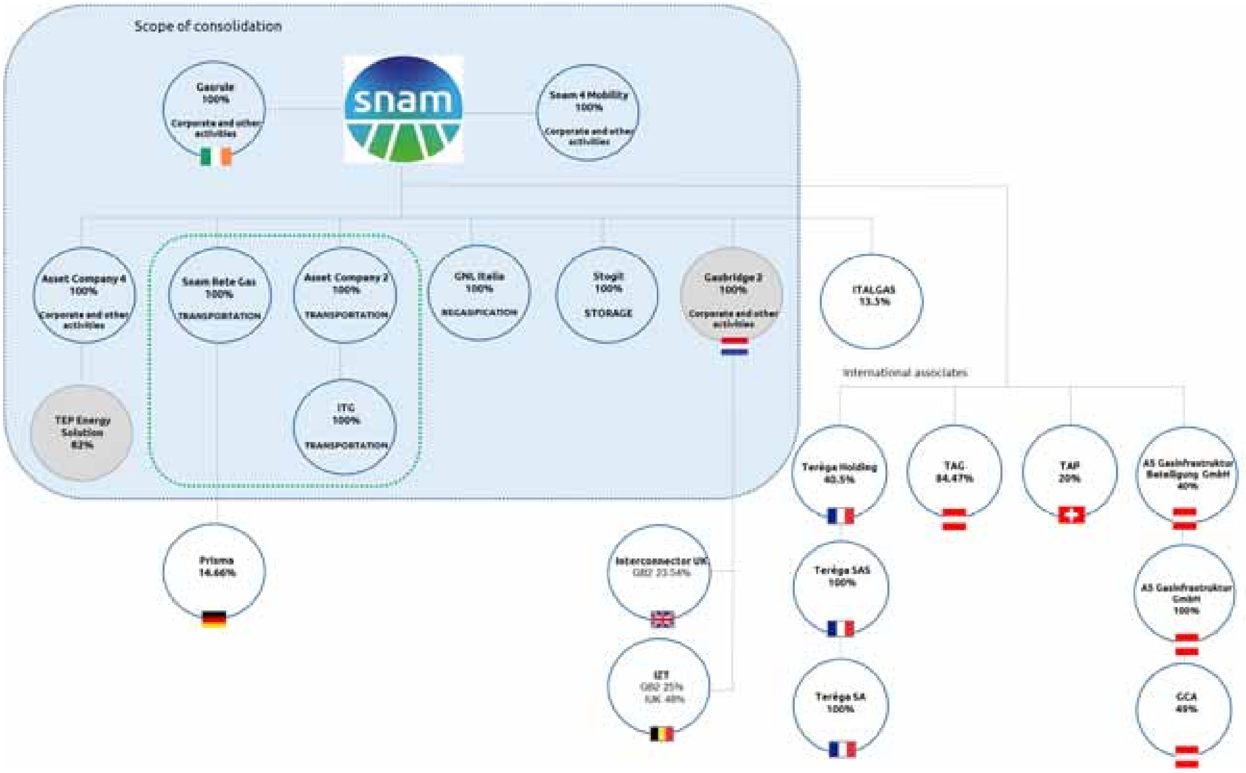
(3) Directors that were candidates on a list submitted jointly by Institutional Investors.

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

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

Group structure as at 30 June 2018

The structure of the Group as at 30 June 2018[1] is shown below:



Changes in the Snam Group's consolidation scope as at 30 June 2018 with respect to that in place as at 31 December 2017 regarded the consolidation of the Companies[2]: (i) Gasbridge 2 B.V., due to the share swap with Fluxys completed on 26 April 2018, after which time Snam became the sole shareholder of GasBridge 2 B.V. and Fluxys sole shareholder of GasBridge 1 B.V.; (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), 82% of which is held by Asset Company 4 S.r.l. and which carries on business as an Energy Service Company (ESCO) in the energy efficiency segment, after the acquisition of 82% of the share capital of the company effective as of 30 May 2018. The above-mentioned companies were consolidated within the "Corporate and other activities" segment[3].

Aside from the above-mentioned modifications, changes in the Snam Group's consolidation scope as at 30 June 2018 with respect to that in place as at 30 June 2017 regarded the consolidation of the Companies: (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 share capital of ITG from Edison, effective as of 13 October 2017; (iii) Snam 4 Mobility S.p.A., wholly owned by Snam S.p.A. and active in the construction and maintenance of automotive CNG (Compressed Gas Natural) plants in Italy, after the launch of the company's operations. The above-mentioned companies were consolidated within the "Transportation" (i) and (ii) and "Corporate and other activities" (iii) segments, respectively.

1 More information can be found in the Appendix "Subsidiaries, associates and equity investments of Snam S.p.A. as at 30 June 2018" to the Notes to the condensed interim consolidated financial statements.

2 For more information, please see the section "Summary data and information – Main events" in this Report.

3 In conformity with IFRS 8 "Operating segments", the "Corporate and other activities" segment does not represent an operating segment, which is defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

General contents

Disclaimer

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

Snam, the Snam Group or the Group (or group) means Snam S.p.A. and the companies within its scope of consolidation.

For the Glossary, please refer to the website www.snam.it/en/utilities/glossary/.

Interim
Directors' Report

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Summary data and information

Highlights

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 several service agreements in 2017[4].

EBIT[5] 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, along with operating cost control aided by efficiency actions taken during the period, was offset in part by higher amortisation, depreciation and write-downs for the period (-€14 million; equal to 4.4%), primarily due to the entry into operation of new assets.

In terms of the main business segments[6], the increase in EBIT reflects the positive performance of the transportation segment (+€33 million; +6.2%), which was partially offset by the reduction in the storage segment (-€4 million; -2.3%).

Net profit in the first half of 2018 amounted to €523 million, an increase of €19 million or 3.8% compared with the net profit achieved in the first half of 2017 (€504 million). The 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.

Net financial debt was €11,421 million as at 30 June 2018, compared with €11,550 million as at 31 December 2017. 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 cash flows from self-owned capital (€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[7] correlated with financial debt (€6 million).

Technical investments in the first half of 2018, totalling €349 million (€425 million in the first half of 2017), 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.

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 result of Snam's ongoing 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).

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

5 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.

6 An analysis of EBIT by business segment is provided in the "Business segment operating performance" section.

7 These components are primarily connected to the effects of the first-time application of the provisions of IFRS 9 "Financial instruments". Further information is provided in Note 1 - "Preparation and evaluation criteria" of the Notes to the condensed interim consolidated financial statements.

Main events

Developments in the Core Business

DESFA

On 19 April 2018, the European consortium consisting of Snam, the main shareholder with 60%, along with Enagás (20%) and Fluxys (20%), was awarded the tender for the acquisition of 66% of DESFA, the national operator in the natural gas infrastructure sector in Greece.

The Greek agency for privatisations (TAIPED) accepted the bid submitted by the consortium offering a total of €535 million for 66% of the share capital of DESFA.

The acquisition agreements were entered into in Athens on 20 July 2018, while 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.

Acquisitions and new business opportunities

TEP Energy Solution (TEP) - Energy efficiency

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[8].

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 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.

Snam and BHGE: agreement for the development of micro-liquefaction plants for sustainable mobility

On 28 May 2018, Snam and Baker Hughes, a GE company (NYSE: BHGE), entered into an agreement for the development of micro-liquefaction infrastructure to drive sustainable mobility in heavy-duty lorries and to promote its launch in maritime transportation in Italy.

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[8] For further information, see Note 19 - "Business combinations" in the Notes to the condensed interim consolidated financial statements.

By the end of 2018, Snam and BHGE will evaluate the possible construction of four micro-liquefaction plants to be located throughout the country. The total annual production of the four plants will be roughly 140,000 tonnes of liquefied natural gas (LNG) or bio-LNG (liquid biomethane, obtained from the organic fraction of municipal waste or from agricultural and agro-industrial biomass) and will strengthen the Italian production of renewable, zero CO2 emission gas for the transport sector.

If the study has a positive outcome, the potential investment expected for the four plants is around €50-80 million over the next few years. The agreement also envisages the opportunity to develop additional micro-liquefaction infrastructure in Italy and abroad.

Agricultural biomethane - Memorandum of understanding: Coldiretti, Bonifiche Ferraresi, A2A, Snam and Energy Services Operator (GSE)

On 19 June 2018, a memorandum of understanding was entered into by Coldiretti, Bonifiche Ferraresi, A2A, Snam and the Energy Services Operator (GSE) with the involvement of agricultural and industrial companies, the Italian municipalities and, more generally, all players interested in the production of biomethane and its use in the transport sector. The main goal is to aggregate parties in the supply chain to accelerate the energy transition in the transport sector, enabling all operators to access the services offered by the various parties active in the biomethane field and in the agricultural segment. Snam intends to promote the development and spread of processes and technologies for the production of biomethane in Italy and support the circular economy, aside from making available its transport and compressed and liquefied natural gas distribution plant network for sustainable mobility.

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.

As 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.

Key figures

To improve the economic and financial review, in addition to convention al IAS/IFRS indicators and financial statements, the interim directors' report 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 compliant with international accounting standards[9].

Key financial figures

	First half			
(€ million)	2017	2018	Change	% Change
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
EBIT	714	**729**	15	2.1
Net profit (*)	504	**523**	19	3.8

(*) Entirely held by Snam shareholders.

9 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/.

Key balance sheet and cash flow figures

	First half			
(€ million)	2017	2018	Change	% Change
Technical investments	425	**349**	(76)	(17.9)
Net invested capital at period end	17,276	**17,517**	241	1.4
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

Key profit and share figures

		First half			
		2017	2018	Change	% Change
Number of shares of share capital	(million)	3,500.6	**3,469.0**	(31.6)	(0.9)
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

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

(**) Entirely held by Snam shareholders.

Key operating figures

	First half		Change	% Change
	2017	2018		
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation Network (billions of	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
Accident indices - Employees and contract workers				
Total number of accidents	7	**3**	(4)	(57.1)
Frequency index (h)	1.05	**0.48**	(0.57)	(54.3)
Severity index (i)	0.05	**0.01**	(0.04)	(80.0)

(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 were 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 as 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.

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

(i) 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.

Natural gas transportation

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 hydroelectric 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).

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 as at 30 June 2018, inclusive of strategic storage, totalled 16.9 billion cubic metres, up by 0.2 billion cubic metres 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 as 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).

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 (4 loads in the first half of 2017).

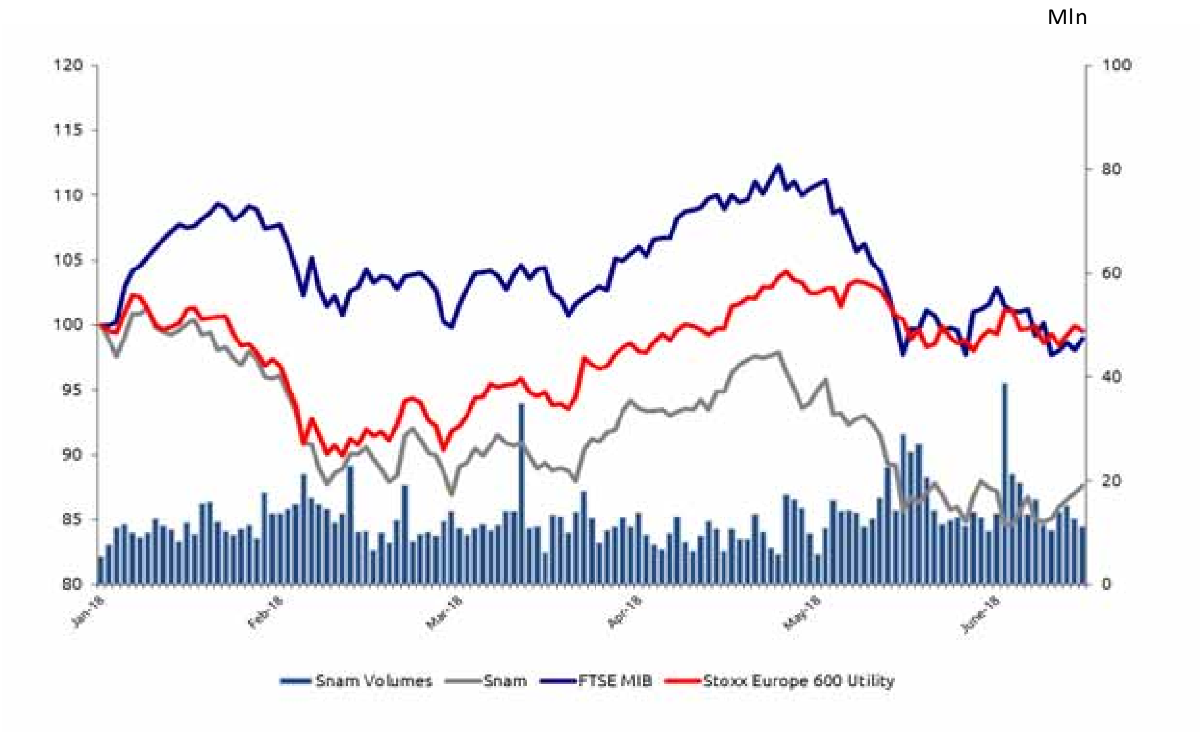
Snam share performance

The Snam share ended the first half of 2018 at an official price of €3.58, down 12% from the €4.09 recorded at the end of 2017 (-7.3% compared with 30 June 2017).

The average share value was €3.77 in the first six months of the year, reaching the minimum value of €3.46 in mid-June.

The share price was impacted by the climate of uncertainty linked to the Italian political situation, with the spread, one of the main financial indicators used to determine country risk, which reached 290 basis points during the extended period of consultations required to form the new government, as well as expectations of growth in interest and inflation rates, circumstances which shifted some investor interest towards companies more correlated with those parameters.

SNAM - Comparison of prices of Snam, FTSE MIB and STOXX Europe 600 Utilities
(1 January 2018 - 30 June 2018)



Business segment operating performance

Natural gas transportation

Key performance indicators

(€ million)	First half 2017	2018	Change	% Change
Total revenue (a)	1,008	**1,059**	51	5.1
- of which from regulated activities (a)	*993*	***1,019***	*26*	*2.6*
Total revenue net of pass-through items (a)	918	**992**	74	8.1
Operating costs (a)	206	**211**	5	2.4
Operating costs net of pass-through items (a)	116	**144**	28	24.1
EBIT	536	**569**	33	6.2
Technical investments	378	**314**	(64)	(16.9)
- of which with a greater return	*173*	***132***	*(41)*	*(23.7)*
- of which with a basic rate of return (b)	*205*	***182***	*(23)*	*(11.2)*
Natural gas injected into the national gas transportation network (billions of	38.08	**37.93**	(0.15)	(0.4)
Transportation network (kilometres in use) (d)	32,497	**32,609**	112	0.3
- of which national network	*9,589*	***9,705***	*116*	*1.2*
- of which regional network	*22,908*	***22,904***	*(4)*	
Installed power in the compression stations (MW)	922	***922***		
Employees in service at end of period (number) (e)	1,725	**1,914**	189	11.0

(a) Before consolidation adjustments.

(b) At a pre-tax real basic WACC of 5.4% for 2017 and for 2018.

(c) The data for the first half of 2018 were updated at 10 July 2018. The figures for the first half of 2017 are definitively up to date and consistent with those published by the Ministry of Economic Development.

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

(e) The change includes the transfer of 227 resources, effective as of 1 July 2017, essentially against the disposal of the "Technical Plants and Services" business unit from Stogit S.p.A.

Results

Total revenue amounted to €1,059 million, up by €51 million, or 5.1%, compared with the first half of 2017 (€1,008 million). Net of components offset in costs[10], total revenue amounted to €992 million, up by €74 million, or 8.1%, compared with the corresponding period of the previous year.

Revenue from regulated activities amounted to €1,019 million, largely related to fees for the natural gas transportation service (€1,012 million) and incentives recognised to the Balancing Manager (€6 million) following actions taken as set forth in Resolution 554/2016/R/gas. Revenue from regulated activities, net of components that are offset in costs, amounted to €952 million, up by €49 million, or 5.4%, on the first half of 2017. The increase was essentially due to higher transportation revenue (+€46 million), against the update of the invested capital recognised for regulatory purposes - RAB (+€37 million) and the effects of the consolidation of ITG (+€9 million), as well as higher incentives recognised to the Balancing Manager (+€2 million).

Non-regulated revenue (€40 million) increased by €25 million compared with the first half of 2017. This growth can basically be attributed to chargebacks of services provided to the affiliate Stogit (+€23 million) following the transfer of the "Technical Plants and Services" business unit from Stogit to Snam Rete Gas effective as of 1 July 2017 as part of the Integra Project. The increase in revenue is offset by the higher cost of labour in relation to the transferred resources.

EBIT totalled €569 million, up by €33 million, or 6.2%, compared with the corresponding period of 2017. This growth is attributable to higher regulated revenue (+€49 million), partially offset by higher amortisation and depreciation due to the entry into operation of new assets (-€13 million).

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

Operating costs (€121 million, net of components offset in revenue and the effects of the business reorganisation as part of the Integra Project) marked an increase of €5 million, or 4.3%, attributable to in part to trends in provisions for risks and charges.

Technical investments

	First half 2017			First half 2018	
Type of investment	Greater return (%) (*)	€ million	Type of investment	Greater return (%) (**)	€ million
Development of new import capacity	2.0%	127	Development	1.0%	132
Development of the	1.0%	1			
Development of the	1.0%	45			
Replacement and other		205	Replacement and other		182
		378			**314**

(*) With respect to a pre-tax real basic WACC of 5.4%.

(**) With respect to a pre-tax real basic WACC of 5.4%, applied to investments in new transportation capacity and with a cost-benefit analysis higher than 1.5 pursuant to Resolution 575/2017/R/Gas.

Technical investments in the first half of 2018 amounted to €314 million, a reduction of €64 million, or 16.9%, compared with the same period of the previous year (€378 million). The investments were classified in accordance with Resolution 575/2017/R/gas with reference to the first half of 2018 and 514/2013/R/gas for investments in the first half of 2017 whereby the Energy, Networks and Environment Regulatory Authority (hereinafter "the Authority") identified different categories of projects with different rates of return.

The main Development investments in new transportation capacity subject to a greater return of 1% (€132 million) concern primarily:

- investments in the development of new transportation capacity on the National Network to bolster import and export capacity (€82 million) as part of the initiative to support the market in the north-west of the country and to make it possible to reverse the physical transportation flows at the interconnection points with northern Europe in the Pianura Padana area, referring essentially to the continuation of Cervignano-Mortara methane pipeline construction works;
- investments in the development of new transportation capacity in the Regional Network and the National Network (€50 million), including: (i) the continuation of works relating to the Italgas Storage S.r.l. Cornegliano Laudense connection; (ii) the continuation of construction and connection works associated with the natural gas conversion project in Calabria, including the Montebello Jonico diversion.

Replacement investments and other investments with a basic rate of return (€182 million) relate mainly to: (i) works aimed at maintaining security and quality levels at plants (€132 million), including the continuation of construction works for the overhaul of the Pontremoli – Cortemaggiore methane pipeline, DPR151 maintenance work, plant adjustments / improvements; (ii) projects relating to the development of information systems and the implementation of existing ones (€26 million); (iii) upgrading projects on redelivery plants (€14 million); (iv) works relating to compensation for third parties (€4 million); (v) the acquisition of key operating assets (€4 million); and (vi) real estate projects (€2 million).

Operating review

Injections and withdrawals of gas in the transportation network

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

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 hydroelectric production, compared to a first half of 2017 characterized by reduced rainfall. 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, and the industrial sector[11] (+0.16 billion cubic metres; +1.7%) thanks to the continuous recovery in industrial production.

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).

Injections into the network from domestic production fields or their collection and treatment centres totalled 2.61 billion cubic metres, up by 0.04 billion cubic metres (+1.6%) compared with the first half of 2017.

Volumes of gas injected into the network for entry points interconnected with foreign countries or with LNG regasification terminals amounted to 35.32 billion cubic metres, a slight decrease compared with the first half of 2017 (-0.19 billion cubic metres; -0.5%) The higher volumes injected at the entry points of Passo Gries (+0.76 billion cubic metres; +19.5%) and Tarvisio (+0.63 billion cubic metres; +4.2%) were more than offset by the reduction in volumes injected at the Mazara del Vallo (-0.79 billion cubic metres; -7.8%) and Gela (-0.55 billion cubic metres; -23.7%) entry points, as well as the LNG regasification terminals (-0.26 billion cubic metres; -6.4%).

Gas injected into the network (*)

	First half			
(billions of m3)	2017	2018	Change	% Change (**)
Domestic output	**2.57**	**2.61**	**0.04**	**1.6**
Entry points (***)	**35.51**	**35.32**	**(0.19)**	**(0.5)**
Tarvisio	15.17	**15.80**	0.63	4.2
Mazara del Vallo	10.08	**9.29**	(0.79)	(7.8)
Gries Pass	3.89	**4.65**	0.76	19.5
Cavarzere (LNG)	3.34	**3.23**	(0.11)	(3.3)
Gela	2.32	**1.77**	(0.55)	(23.7)
Panigaglia (LNG)	0.17	**0.37**	0.20	
Livorno (LNG)	0.54	**0.19**	(0.35)	(64.8)
Gorizia		**0.02**	0.02	
	38.08	**37.93**	**(0.15)**	**(0.4)**

(*) The data for the first half of 2018 were updated at 10 July 2018. The figures for the first half of 2017 are definitively up to date and consistent with those published by the Ministry of Economic Development.

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

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

[11] Including consumption in the agricultural and fishing, non-energy uses and automotive sectors.

Regulation

Resolution 280/2018/R/gas - "Approval of the revenue recognised for the natural gas transportation and dispatching service for 2019"

By means of Resolution 280/2018/R/gas, published on 11 May 2018, the Authority approved the revenue recognised for the natural gas transportation, dispatching and metering service for 2019, which totalled €1,964 million. The RAB used to calculate 2019 revenue for transportation, dispatching and metering amounts to €16.2 billion and includes estimated investments for the year 2018.

By means of subsequent Resolution 306/2018/R/gas, published on 1 June 2018, the Authority approved the proposed tariffs for the natural gas transportation and dispatching service for 2019.

Consultation no. 347/2018/R/gas - "Criteria for determining revenue recognised relating to the natural gas transportation service for the fifth regulatory period - Initial guidelines"

By means of consultation document 347/2018/R/gas, published on 22 June 2018, the Authority launched a consultation on criteria for the determination of revenues recognised for the natural gas transportation service for the fifth regulatory period, starting in 2020. In particular, the Authority proposes:

- the confirmation of a 4-year regulatory period (2020-2023);
- the revision of the value of the β asset parameter to determine the rate of return (WACC);
- the confirmation of the revalued historical cost methodology to determine the RAB, as well as the use of the gross fixed investments deflator reported by ISTAT for the revaluation;
- the confirmation of the lump-sum recognition of Net Working Capital, proposing a range of between 0.5% and 0.7% of gross non-current assets, compared with the current 0.8%;
- inclusion of contract work in progress (WIP) in the calculation of the RAB, also recognising a return equal to the WACC calculated with a D/E ratio of 4;
- the confirmation of the useful lives of the assets of the current regulatory period;
- the determination of operating costs recognised on the basis of preliminary costs for the year 2018, plus greater efficiencies achieved in the current period (50% profit-sharing), calling for subsequent adjustments due to any variances, with the efficiency factor (X-factor) sized so as to return to users, over a 4-year period, the greater efficiencies achieved in the fourth regulatory period;
- the annual update of the variable fee (CV) on the basis of volumes recorded in year t-2;
- the maintenance for the years 2020-21 of the incentive equal to the increase in WACC of 1% for 10 years (in place of the current 12) and the introduction for the years 2022-23 of output-based incentives based on the benefits contributed to the system;
- the abolition of the excess of ±4% of revenue correlated with the volumes transported, as a result of the annual update of reference volumes;
- the procurement of gas quantities to cover consumption, losses and UFG within the centralised market, with the relative costs covered through monetary consideration (in place of the current recognition in kind) and a price risk hedging mechanism;
- the experimentation of several mechanisms to cover costs based on total expenses ("Totex"), deferring a more complete application of the mechanism to the subsequent regulatory period;
- the definition of regulatory criteria for the metering service in a subsequent consultation document.

After observations are sent in by stakeholders by 23 July, in the first half of September 2018 a consultation document is expected to be published with the final guidelines, so the final measure can be adopted by the end of February 2019.

Liquefied natural gas (LNG) regasification

Key performance indicators

	First half			
(€ million)	2017	2018	Change	% Change
Total revenue (*)	12	**11**	(1)	(8.3)
- of which from regulated activities (*)	*11*	***11***		
Total revenue net of pass-through items (*)	11	**9**	(2)	(18.2)
Operating costs (*)	7	**7**		
Operating costs net of pass-through items (*)	6	**5**	(1)	(16.7)
EBIT	3	**2**	(1)	(33.3)
Technical investments (**)	1	**2**	1	100.0
Volumes of LNG regasified (billions of cubic metres) (***)	0.169	**0.356**	0.187	
Tanker loads (number)	4	**9**	5	
Employees in service at end of period(number)	68	**63**	(5)	(7.4)

(*) Before consolidation adjustments.

(**) At a pre-tax real basic WACC of 6.6% for 2017 and for 2018.

(***) Quantities regasified are shown gross of the share of self-consumption and losses (Qcp component), equal to 1.7% for the Panigaglia terminal. Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 38.1 MJ/SCM (10.572 Kwh/SCM).

Results

Total revenue amounted to €11 million, down by €1 million, or 8.3%, compared with the first half of 2017. Total revenue, net of components offset in costs[12], was down by €2 million, or 18.2%, compared with the same period of the previous year.

Revenue from regulated activities, totalling €9 million net of components that are offset in costs (-€1 million; equal to 10% compared with the first half of 2017) refers primarily to the applicable share of the guarantee factor for the year 2018 set forth in art. 18 of Appendix A to Resolution 438/2013/R/gas[13].

EBIT totalled €2 million, down by €1 million on the first half of 2017. This decrease was due to lower revenue, offset in part by a reduction in operating costs (-€1 million, net of components offset in revenue: -16.7%).

Technical investments

Technical investments in the first half of the year totalled €2 million (€1 million in the first half of 2017) and concerned maintenance investments aimed at guaranteeing plant system safety.

Operating review

In the first half of 2018 the Panigaglia (SP) LNG terminal regasified 0.356 billion cubic metres of natural gas, representing an increase of 0.187 billion cubic metres compared with the first half of 2017 (0.169 billion cubic metres). In the first half of 2018, 9 tankers were unloaded, of which 2 spot loads (4 loads in the first half of 2017, of which 2 spot loads).

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12 Revenue offset in costs relates to the chargeback to customers of charges for the natural gas transportation service provided by Snam Rete Gas S.p.A. For the purposes of the consolidated financial statements, this revenue is eliminated, together with transportation costs, within GNL Italia S.p.A. in order to represent the substance of the operation.

13 The guarantee factor ensures the coverage of a specific share of revenue to the regasification company on the basis of a parameter applied to reference revenue. By means of Resolution 653/2017/R/gas of the Regulatory Authority, this parameter has been confirmed as 64% for the 1 January 2018-31 December 2019 transition period.

Natural gas storage

Key performance indicators

	First half			
(€ million)	2017	2018	Change	% Change
Total revenue (a)	297	**296**	(1)	(0.3)
- of which from regulated activities (a)	*295*	***295***		
Total revenue net of pass-through items (a)	254	**252**	(2)	(0.8)
Operating costs (a)	75	**77**	2	2.7
Operating costs net of pass-through items (a)	32	**33**	1	3.1
EBIT	173	**169**	(4)	(2.3)
Technical investments	42	**31**	(11)	(26.2)
Concessions (number)	**10**	**10**		
- of which operational (b)	*9*	***9***		
Natural gas moved through the storage system (billions of cubic metres) (c)	**11.28**	**11.82**	0.54	4.8
- of which injected	*5.09*	***5.14***	*0.05*	*1.0*
- of which withdrawn	*6.19*	***6.68***	*0.49*	*7.9*
Total storage capacity (billions of cubic metres)	**16.7**	**16.9**	0.2	1.2
- of which available (d)	*12.2*	***12.4***	*0.2*	*1.6*
- of which strategic	*4.5*	***4.5***		
Employees in service at end of period (number) (e)	302	**60**	(242)	(80.1)

(a) Before consolidation adjustments.

(b) Working gas capacity for modulation services.

(c) Gas volumes are expressed in standard cubic metres (SCM) with a traditional higher heating value (HHV) of 39.29 MJ/SCM (10.914 Kwh/SCM) for the 2018-2019 thermal year (39.4 MJ/SCM, 10.930 Kwh/SCM for the 2017-2018 thermal

(d) Working gas capacity for modulation, mining and balancing services. The figure shown represents the maximum available capacity and may not be in line with the maximum levels achieved.

(e) The change includes the transfer of 247 resources, effective as of 1 July 2017, essentially against the disposal of the "Technical Plants and Services" business unit to the associated company Snam Rete Gas S.p.A. (221 resources) as well as the transfer to the parent company Snam S.p.A. of resources belonging to staff functions.

Results

Total revenue amounted to €296 million, substantially aligned with the first half of 2017 (-€1 million; or 0.3%). Total revenue, net of components offset in costs[14], amounted to €252 million, down by €2 million, or 0.8%, compared with the same period in the previous year.

Regulated revenue (€295 million), unchanged with respect to the first half of 2017, comprised fees for the natural gas storage service (€254 million) and the fees charged back to users relating to the natural gas transportation service provided by Snam Rete Gas S.p.A. (€40 million)[15]. Revenue from regulated activities, net of components that are offset in costs, amounted to €251 million, substantially in line with the first half of 2017 (-€1 million; -0.4%).

EBIT totalled €169 million, down by €4 million, or 2.3%, compared with the first half of 2017. The reduction was due to lower revenue (-€2 million, or 0.8%) as well as higher amortisation, depreciation and write-downs (-€1 million; equal to 2.0%), as a result of higher amortisation and depreciation (-€3 million, or 6.4%) deriving from the entry into operation of new assets referring in particular to the Bordolano site, absorbed in part by lower write-downs (+€2 million).

14 These components refer mainly to revenue from the chargeback to storage users of charges relating to the natural gas transportation service provided by Snam Rete Gas S.p.A., pursuant to Resolution 297/2012/R/gas of the Authority. For the purposes of the consolidated financial statements, this revenue is eliminated in relation to Stogit S.p.A., together with transportation costs, in order to represent the substance of the operation.

15 Resolution 64/2017/R/gas of 16 February 2017 established that nearly all costs relating to the natural gas transportation service should no longer be charged to storage service users as of 1 April 2017, but will be settled directly by CSEA.

Technical investments

	First half			
(€ million)	2017	2018	Change	% Change
Type of investment				
Development of new fields and upgrading of capacity	12	**8**	(4)	(33.3)
Maintenance and other	30	**23**	(7)	(23.3)
	42	**31**	**(11)**	**(26.2)**

Technical investments in the first half of 2018 amounted to €31 million, a reduction of €11 million, or 26.2%, compared with the first half of 2017 (€42 million).

The main investments in the development of new fields and upgrading of capacity (€8 million) regard construction activities linked to the installation of the new Minerbio TC7 compression unit (€5 million).

Maintenance investments and others (€23 million) mainly concerned: (i) the supply of materials and the intervention correlated with the restoration of the functions of the gas generator, the power turbine and the outlet plenum of the Ripalta TC2 unit; (ii) engineering activities linked to the streamlining of the Cortemaggiore treatment plant; (iii) IT related projects.

Operating review

Gas moved through the storage system

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 basically 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.

To once again confirm the importance of the service provided by the storage plants managed by Snam for the security and reliability of the energy system, in the withdrawal campaign launched on 1 November 2017 and completed on 31 March 2018 roughly 10.6 billion cubic metres of natural gas were withdrawn, marking an increase of 0.8 billion cubic metres against the previous all-time high of roughly 9.8 billion cubic metres in winter 2014-2015.

Total storage capacity as at 30 June 2018, including strategic storage, was 16.7 billion cubic metres (+0.2 billion cubic metres compared with 30 June 2017, or 1.2%, thanks to the progressive entry into operation of the Bordolano site), of which 12.4 billion cubic metres related to available storage capacity (11.6 billion cubic metres contributed as at 30 June 2018, equal to 94.1% of the available capacity for the 2018-2019 thermal year[16]), and 4.5 billion cubic metres related to strategic storage (unchanged compared with the 2017-2018 thermal year, as established by the Ministry of Economic Development in its circular of 6 February 2018).

Regulation

Incentivising mechanisms for the storage service

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

By means of consultation document 155/2018/R/gas, published on 19 March 2018, the Authority outlined the introduction of a mechanism incentivising storage companies to make additional flexibility available with respect to that set forth for "basic" storage services. These products will be supplemental to those currently provided on a monthly, weekly and daily basis, and will make it possible to complete the offer of "forward" storage services, allowing users to make use of additional services within a pre-established term or to transfer part of their services over time.

The premium for the storage company, in addition to revenue recognised, will be equal to a percentage of income deriving from the contribution of such products, with an average expected value of around 40% of such income.

Observations were sent in until the deadline of 20 April 2018.

[16] At the date of this Report, the transferred capacity is equal to about 99% of the available capacity.

Resolution 350/2018/R/gas - “Provisions on settlement relating to storage services for the 2018-2019 thermal year”

By means of Resolution 350/2018/R/gas, published on 22 June 2018, the Authority laid out, in continuity with the 2017-2018 thermal year, provisions on the mitigation of the effects of contributions of storage capacity at fees lower than the regulated tariff to ensure to storage companies a revenue flow substantially equivalent to that which may be obtained with the application of tariff charges to the capacities assigned via auction. The resolution calls for compensation through the Energy and Environmental Services Fund (CSEA) of the price difference between the storage tariff and the auction assignment price applied to the capacity contributed, as well as the compensation of costs for the acquisition of transportation capacity incurred by storage companies.

In addition, with reference to the income deriving from the sale of capacity released on a day-ahead basis by transportation operators, the resolution establishes that as of 1 April 2018 storage companies must deposit such income with CSEA (currently it is returned to the TSOs), and that the TSOs must transfer to CSEA the income collected relating to the 2017-2018 thermal year.

Resolution 360/2018/R/gas - “Definitive approval of company storage service revenue for 2018, for the companies Stogit S.p.A. and Edison Stoccaggio S.p.A.”

By means of Resolution 360/2018/R/gas, published on 29 June 2018, the Authority approved the definitive base revenue for the storage service for 2018 for the company Stogit. The revenue recognised totalled €500.5 million. The RAB for storage activities was €4.0 billion.

Financial review and other information

Financial review

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 losses	(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.

Net profit in the first half of 2018 amounted to €523 million, an increase of €19 million or 3.8% compared with the net profit achieved in the first half of 2017 (€504 million). The 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 in part absorbed by the higher average debt for the period, was absorbed in part by higher income taxes (-€10 million, or 5.5%), linked primarily to the higher pre-tax profit.

Analysis of income statement items

Total revenue

	First half			
(€ million)	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

	First half			
(€ million)	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.

Revenue from regulated activities (€1,241 million, net of consolidation adjustments) rose by €22 million on the first half of 2017 (+1.8%). Regulated revenue, net of components that are offset in costs, amounted to €1,212 million, up by €47 million, or 4.0%, thanks to continuous investments and the contribution of companies that have entered the consolidation scope (€9 million).

Revenue from non-regulated activities (€30 million, net of consolidation adjustments) related mainly to technical/specialist services to investee companies (€14 million, of which €6 million to foreign investees) and income from the leasing and maintenance of fibre-optic telecommunications cables (€6 million). The reduction of €19 million, equal to 38.8%, compared with the first half of 2017, was due essentially to lower revenue for services provided to the Italgas Group, settled by means of several contracts entered into as at 31 December 2017[17].

Operating costs

	First half			
(€ million)	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)**

[17] This revenue is offset in costs incurred for the provision of the relative services.

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 revenue relate to interconnection.

Operating costs of regulated activities

Operating costs from regulated activities amounted to €175 million, down €17 million, or 8.9%, compared with the first half of 2017. Net of components that are offset in revenue, operating costs from regulated activities amounted to €146 million, up by €8 million, or 5.8%, on the first half of 2017 (€138 million).

The increase was due to higher controllable fixed costs (+€4 million; +3.2%), consisting of the sum of personnel expenses and recurring external costs, following higher external costs and the effects of the consolidation of ITG (+€2 million), as well as the increase in other costs (+€6 million) mainly as a result of higher capital losses from the elimination of assets (€4 million).

Operating costs of non-regulated activities

The operating costs for non-regulated activities (€32 million) declined by €9 million, equal to 22.0%, compared with the same period in 2017. The reduction was due essentially to lower costs for services provided to the Italgas Group, settled by means of several contracts entered into as at 31 December 2017.

Net of components offset in revenue, operating costs totalled €178 million, in line with the corresponding value in the first half of 2017 (€179 million; -0.6%), thanks to the efficiency actions taken.

The number of employees as at 30 June 2018 (2,884 people) is broken down below by professional status:

	First half			
	2017	2018	Change	% Change
Professional status				
Executives	89	**95**	6	6.7
Managers	436	**461**	25	5.7
Office workers	1,681	**1,618**	(63)	(3.7)
Manual workers	720	**710**	(10)	(1.4)

The reduction of 42 resources compared with the first half of 2017 was due primarily to the exit of 90 resources in relation to the "Isopensione" pension advance plan governed by the Fornero Law, offset in part by the consolidation of Infrastrutture Trasporto Gas (27 resources) and TEP (22 resources).

Amortisation, depreciation and impairment losses

(€ million)	First half 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**

Amortisation, depreciation and impairment losses (€335 million) increased by €14 million, or 4.4%, compared with the first half of 2017, primarily as a result of higher amortisation and depreciation (+€16 million, or 5.0%), recorded across all the main business segments. This increase was due mainly to the entry into operation of new assets.

EBIT

(€ million)	First half 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**

EBIT[18] stood at €729 million in the first half of 2018, up €15 million, or 2.1%, compared with the same period of 2017. The increase was primarily attributable to higher revenue (+€28 million; +2.3%), thanks to the contribution of the transportation (+€44 million; +4.7%) and storage (+€3 million; +1.4%) segments, offset in part by higher amortisation, depreciation and write-downs for the period (-€14 million, or 4.4%).

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, was absorbed primarily by higher costs for new business and M&A activities.

Net financial expenses

(€ million)	First half 2017	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 financial expense totalled €98 million, a decrease of €17 million, or 14.8%, compared with the first half of 2017. This reduction was basically due to the lower financial expenses correlated with net financial debt (-€17 million; -14.3%) following the reduction in the average cost of debt, also against the benefits deriving from the optimisation actions

18 An analysis of EBIT by business segment is provided in the “Business segment operating performance” section.

taken and funding transactions, carried out in the first half of the year, only partially offset by the higher average debt for the period.

Income from equity investments

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

The net revenue on shares (€85 million) concerns the shares in the net results for the period of companies evaluated with the equity method (€83 million), referring primarily to the companies Trans Austria Gasleitung GmbH – TAG (+€39 million; -€4 million), Italgas S.p.A. (€20 million; +€1 million), Teréga Holding S.A.S.[19] (€15 million; -€4 million) and Interconnector UK (€6 million; +€2 million) as well as the dividends collected from the minority interests in the company Terminale GNL Adriatico S.r.l.

Income taxes

	First half			
(€ million)	**2017**	**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**	

In the first half of 2018, income taxes (€193 million) were up €10 million, or 5.5%, compared with the same period of the previous year, attributable primarily to the higher pre-tax profit.

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

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

Reclassified statement of financial position

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

Management believes that this format presents useful 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.

Management uses the reclassified balance sheet to calculate the key profitability ratios (ROI and ROE).

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 operations	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)**

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

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 operations (+€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).

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	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 as at 30 June 2018	**16,044**	**873**	**16,917**

Technical investments in the first half of 2018, totalling €349 million[20] (€425 million in the first half of 2017), related mainly to the transportation (€314 million) and storage (€31 million) business segments.

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

Equity investments

The item equity investments (€1,561 million) includes essentially: (i) the valuation of equity investments using the equity method referring to the companies Teréga Holding S.A.S.[21] (€479 million), Trans Austria Gasleitung GmbH-TAG (€474 million), Trans Adriatic Pipeline AG-TAP (€230 million)[22], Italgas S.p.A. (€157 million), AS Gasinfrastruktur Beteiligung GmbH (€117 million) and Interconnector UK (€61 million)[23]; (ii) the fair value measurement[24] of the minority interests in the company Terminale GNL Adriatico S.r.l. (€42 million).

Financial receivables held for operations

The financial receivables held for operations (€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[25] was basically due to the cash calls received in the first half of 2018.

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 payables	(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[26], 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 tax 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).

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

22 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.

23 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.

24 Further information is provided in Note 12 "Other equity investments" of the notes to the condensed interim consolidated financial statements.

25 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.

26 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

	First half	
(€ million)	2017	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 as at 30 June 2018 (*)		**6,096**

(*) Entirely held by Snam shareholders.

(**) Net of tax effect. Further information is provided in Note 1 - "Preparation and evaluation criteria" of the Notes to the condensed interim consolidated financial statements.

Information about the individual shareholders' equity items and changes therein compared with 31 December 2017 is provided in Note 18 "Shareholders' equity" in the Notes to the condensed interim consolidated financial statements.

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 as at 31 December 2017). Their market value as at 30 June 2018 was around €367 million[27].For more information on treasury shares, please refer to the "Other information - Treasury shares" section below.

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

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 cash flows from self-owned capital (€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[28] correlated with financial debt (€6 million).

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

(€ million)	Total at 31.12.2017	Total at 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[29] 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 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[30] 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% as at 31 December 2017). Fixed-rate financial debts amounted to around 73% of gross financial debt (around 78% as 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).

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

28 These components are primarily connected to the effects of the first-time application of the provisions of IFRS 9 "Financial instruments". Further information is provided in Note 1 - "Drafting criteria" of the Notes to the condensed interim consolidated financial statements.

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

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

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.

As at 30 June 2018, the financial liabilities subject to these restrictive clauses amounted to approximately €2.6 billion.

The bonds issued by Snam as at 30 June 2018, with a nominal value of €8.1 billion, mainly refer to securities issued under the Euro Medium Term Notes programme[31]. 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.

Information on financial covenants can be found in Note 13 "Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term liabilities" of the Notes to the condensed interim consolidated financial statements.

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

Reclassified statement of cash flows

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

RECLASSIFIED STATEMENT OF CASH FLOWS (*)

	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 receivables held for 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**	**1,037**
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**

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

(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.

Reconciliation of the reclassified financial statement with the compulsory formats

Reclassified statement of financial position

(€ million)

Reclassified balance sheet items		31.12.2017		30.06.2018	
(Where not expressly stated, the component is taken directly from the legally required format)	Reference in Notes to the consolidated financial statements	Partial amount from legally required format	Amount from reclassified format	**Partial amount from legally required format**	**Amount from reclassified format**
Fixed capital					
Property, plant and equipment			**16,033**		**16,044**
Compulsory inventories			**363**		**363**
Intangible assets			**850**		**873**
Equity investments, consisting of:			***1,591***		***1,561***
- Equity-accounted investments		1,547		**1,519**	
- Other investments		44		**42**	
Financial receivables held for operations	(Note 5)		**373**		**483**
Net payables for investments, consisting of:			***(335)***		***(304)***
- Payables for investment activities	(Note 14)	(347)		**(309)**	
- Receivables from investment/divestment activities	(Note 5)	12		**5**	
Total fixed capital			**18,875**		**19,020**
Net working capital					
Trade receivables	(Note 5)		**1,274**		**990**
Inventories			**86**		**89**
Tax receivables, consisting of:			***46***		***24***
- Current income tax assets and other current tax assets		37		**15**	
- IRES receivables for the national tax consolidation scheme	(Note 5)	9		**9**	
Trade payables	(Note 14)		**(406)**		**(598)**
Tax liabilities, consisting of:			***(11)***		***(212)***
- Current income tax liabilities and other current tax liabilities		(11)		**(212)**	
- IRES payables for the national tax consolidation scheme	(Note 14)				
Deferred tax liabilities			**(165)**		**(156)**
Provisions for risks and charges			**(677)**		**(688)**
Hedging derivatives	Notes 8 and 15)		**(12)**		**(18)**
Other assets, consisting of:			***50***		***215***
- Other receivables	(Note 5)	13		**177**	
- Other current and non-current assets	(Note 8)	37		**38**	
Assets and liabilities from regulated activities, consisting of:			***(231)***		***(352)***
- Regulated assets	(Note 8)	68		**49**	
- Regulated liabilities	(Note 15)	(299)		**(401)**	
Other liabilities, consisting of:			***(1,033)***		***(737)***
- Other payables	(Note 14)	(920)		**(639)**	
- Other current and non-current liabilities	(Note 15)	(113)		**(98)**	
Total net working capital			**(1,079)**		**(1,443)**
Provisions for employee benefits			**(58)**		**(60)**
NET INVESTED CAPITAL			**17,738**		**17,517**
Shareholders' equity (entirely held by Snam shareholders)			**6,188**		**6,096**
Net financial debt					
Financial liabilities, consisting of:			***12,619***		***12,764***
- Long-term financial liabilities		10,176		**9,264**	
- Short-term portion of long-term financial liabilities		1,070		**1,435**	
- Short-term financial liabilities		1,373		**2,065**	
Financial receivables and cash and cash equivalents, consisting of:			***(1,069)***		***(1,343)***
Financial receivables not held for operations		(350)			
- Cash and cash equivalents	(Note 4)	(719)		**(1,343)**	
Total net financial debt			**11,550**		**11,421**
COVERAGE			**17,738**		**17,517**

Reclassified statement of cash flows

(€ million)	First half			
	2017		2018	
Items from the reclassified statement of cash flows and reconciliation with the legally required format	Partial amount from legally required format	Amount from reclassified format	**Partial amount from legally required format**	**Amount from reclassified format**
Net profit		504		523
Adjusted for:				
Amortisation, depreciation and other non-monetary components:		235		254
- Amortisation and depreciation	319		335	
- Impairment losses on tangible and intangible fixed assets	2			
- Equity method valuation effect	(88)		(83)	
- Change in provisions for employee benefits	2		2	
Net capital losses (capital gains) on asset sales and eliminations		1		5
Interest and income taxes:		285		277
- Dividends			(2)	
- Interest income	(3)		(6)	
- Interest expense	105		92	
- Income taxes	183		193	
Change in working capital due to operating activities:		495		443
- Inventories	(39)		(2)	
- Trade receivables	330		289	
- Trade payables	(104)		189	
- Change in provisions for risks and charges	3			
- Other assets and liabilities	305		(33)	
Dividends, interest and income taxes collected (paid):		(119)		23
- Dividends collected	121		114	
- Interest collected			1	
- Interest paid	(105)		(92)	
- Income taxes (paid) received	(135)			
Net cash flow from operating activities		1,401		1,525
Technical investments:		(424)		(340)
Property, plant and equipment	(399)		(312)	
- Intangible assets	(25)		(28)	
Technical disinvestments:		1		2
Property, plant and equipment	1		2	
Companies (entering) leaving the area of consolidation				(13)
- Companies included in the scope of consolidation			(18)	
- Change in net payables relating to investments			5	
Equity investments		5		13
- Investments in shares	(33)		(13)	
- Disinvestments in shares	18		18	
- Change in net payables relating to investments	20		8	
Financial receivables held for operating activities		(93)		(106)
- Accesses of financial credits instrumental to operating activities	(93)		(106)	
Other changes relating to investment activities:		(97)		(44)
- Change in net payables relating to technical investments	(97)		(44)	
Free cash flow		793		1,037
Change in financial receivables not held for operating activities				350
Change in financial payables:		121		151
- Taking on long-term financial debt	1,265		431	
- Repaying long-term financial debt	(832)		(973)	
- Increase (decrease) in short-term financial debt	(312)		693	
Equity cash flow		(920)		(914)
- Dividends paid	(718)		(731)	
- Acquisition of self-owned shares	(202)		(183)	
Net cash flow for the period		(6)		624

Other information

Relationships with related parties

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries, associates and joint ventures of the Ministry of Economy and Finance. Members of the Board of Directors, Statutory Auditors and managers with strategic responsibilities, and their relatives, of the Snam Group and CDP, are also regarded as related parties. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. The main operations with these parties involve the exchange of goods and the provision of regulated services in the gas sector. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal procedures to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer's interests), who in turn informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

No management or coordination activity of CDP S.p.A. has been formalised or exercised. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

The amounts involved in commercial, miscellaneous and financial relations with related parties, descriptions of the key transactions and the impact of these on the balance sheet, income statement and cash flows, are provided in Note 29 "Relationships with related parties" of the Notes to the condensed interim consolidated financial statements.

Treasury shares

Period	Number of shares	Average cost (€)(*)	Total cost (€ millions)	Share capital (%) (**)
Purchases				
Year 2005	800,000	4.399	3	0.04
Year 2006	121,731,297	3.738	455	6.22
Year 2007	73,006,653	4.607	336	3.73
Year 2016	28,777,930	3.583	103	0.82
Year 2017	56,010,436	3.748	210	1.60
First half 2018	48,339,437	3.788	183	1.39
	328,665,753	**3.925**	**1,290**	
Less treasury shares allocated/sold/cancelled:				
. granted under the 2005 stock grant plans	(39,100)			
. sold under the 2005 stock option plans	(69,000)			
. sold under the 2006 stock option plans	(1,872,050)			
. sold under the 2007 stock option plans	(1,366,850)			
. sold under the 2008 stock option plans	(1,514,000)			
. cancelled in 2012 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(189,549,700)			
. cancelled in the first half of 2018 following the resolution by the Extraordinary Shareholders' Meeting of Snam S.p.A.	(31,599,715)			
Treasury shares held by the Company as at 30 June 2018	**102,655,338**			

(*) Calculated on the basis of historic prices.

(**) The share capital is the same as that of the date of the last acquisition in the year/period.

In the first half of 2018, as part of the share buyback programme approved by the Snam Shareholders' Meeting on 11 April 2017, 36,606,724 Snam shares (equal to 1.05% of the share capital) were acquired for a total cost of €142 million. On 24 April 2018, the Snam Shareholders' Meeting approved the new 18-month share buyback programme starting from the date of the shareholders' resolution after revoking the programme approved previously[32]. In execution of this resolution, on 18 June 2018 Snam launched the new programme, as part of which on 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.

The Extraordinary Shareholder's Meeting held on 24 April 2018 also approved the cancellation of 31,599,715 treasury shares with no nominal value with no reduction in the share capital, completed on 7 May 2018, and the resulting amendment of art. 5.1 of the Articles of Association.

As at 30 June 2018, Snam therefore held 102,655,338 treasury shares, equal to 2.96% of its share capital (85,915,616 as at 31 December 2017, amounting to 2.45% of the share capital), with a total book value of €382 million (€318 million as at 31 December 2017) and recognised as a reduction in shareholders' equity[33]. Their market value as at 30 June 2018 was around €367 million[34].

The share capital as at 30 June 2018 consists of 3,469,038,579 shares with no nominal value for a total value of €2,736 million.

32 For more information, please see the section "Summary data and information – Main events" in this Report.

33 As at the date of this Report, the treasury shares outstanding total 111,013,577 (3.20% of the share capital), against a book value of roughly €413 million.

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

Elements of risk and uncertainty

Introduction

This chapter illustrates the main uncertainties that characterise Snam's routine operations, in spite of most of them being regulated and therefore exposed to regulatory and compliance risk, all types of risk relating to the business operations that are the subject of careful analysis.

The main risks identified by Snam are classified in the following categories:

- strategic
- legal and non-compliance
- operational
- financial

STRATEGIC RISKS

Regulatory and legislative risk

Regulatory and legislative risk for Snam is closely linked to the regulation of activities in the gas sector. The relevant directives and legal provisions issued by the European Union and the Italian government and the resolutions of the Energy, Networks and Environment Regulatory Authority (ARERA) and the National Regulating Authorities of the countries in which the foreign affiliates operate and, more generally, changes to the regulatory framework may have a significant impact on the Company's operating activities, financial position and results. It is not possible to predict the effect that future changes in legislative and fiscal policies could have on Snam's business and on the industrial sector in which it operates. Considering the specific nature of its business and the context in which Snam operates, changes to the regulatory context with regard to criteria for determining reference tariffs are particularly significant.

Macroeconomic and geo-political risk

Because of the specific nature of the business in which Snam operates, there are also risks associated with political, social and economic instability in natural gas supplier countries, mainly related to the gas transportation sector. Most of the natural gas transported in the Italian national transportation network is imported or moved through countries in the MENA area (Middle East and North Africa, particularly Algeria, Tunisia, Libya and, in terms of the TANAP-TAP, Turkey along with the states bordering the Eastern Mediterranean) and in the former Soviet bloc (Russian Federation, Ukraine and in the future, Azerbaijan and Georgia), nations subject to political, social and economic instability which could evolve into potential crisis scenarios in the future.

In particular, the import and transit of natural gas from/and through these countries are subject to an extensive set of risks, including: terrorism and common crime, changes in political-institutional balances; armed conflict, socio-political and ethno-sectarian tensions; disorder and unrest; inadequate legislation on insolvency and creditor protection; limits on investment and the import and export of goods and services; introduction of and increases in taxes and excises; forced renegotiation of contracts; nationalisation of assets; changes in trade policies and monetary restrictions.

If a Shipper using the transportation service via Snam's networks cannot procure the transportation of natural gas from/or through the aforementioned countries because of said adverse conditions, or in any way suffers from said adverse conditions, to an extent such so as to determine or incentivise the consequential inability to fulfil contractual obligations towards Snam, this could have negative effects on the Snam Group's operations, results, balance sheet and cash flow; these risks also directly influence the results of SNAM's investment in TAP.

Commodity risk associated with changes in the price of gas

With reference to the risk connected with changes in the price of natural gas, however, pursuant to the regulatory framework currently in force, changes in the price of natural gas to cover Fuel Gas and network leakages do not represent a significant risk factor for Snam, since all gas for its core activities is provided by Shippers in kind. Similar coverages of risk are guaranteed by the regulations of countries in which the foreign affiliates operate or the relative transportation contracts. However, in relation to transportation activities, the Energy, Networks and Environment Regulatory Authority (ARERA) has defined, starting with the third regulatory period (2010-2013), procedures for payment in kind, by users of the service to the leading transportation company, of quantities of gas to cover unaccounted-for gas (UFG), due as a percentage of the quantities respectively injected into and withdrawn from the transportation network. Specifically, the Authority, by means of Resolution 514/2013/R/gas, defined the permitted level of the UFG given the average value registered over the last two years, and decided to keep this amount fixed for the entire regulatory period in order to incentivise the main transmission system operator to deliver further efficiency improvements. This approach was subsequently confirmed for the years 2018 and 2019 of the transition period as well. For the relevant regulatory period, amounts of UFG higher than the permitted level would not be compensated. In view of the aforementioned mechanism for the payment in kind of UFG, there is still uncertainty about the quantities of UFG withdrawn over and above the quantities paid in kind by the users of the service. The change in the regulatory framework currently in force on the payment in kind of natural gas could have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

Market risk

With reference to the risk connected with demand for gas, based on the tariff system currently applied by the Authority to natural gas transportation activities, Snam's revenue, via its directly controlled transportation companies, is partly correlated to volumes transported. However, the Authority has introduced a mechanism to guarantee the portion of revenues correlated to volumes transported. This mechanism provides for the reconciliation of revenues more than 4% higher or 4% lower than the reference revenues correlated to volumes transported. Under this mechanism, approximately 99.5% of total revenue from transportation activities is guaranteed. Based on the tariff system currently applied by the Authority to natural gas storage activities, Snam's revenue, via Stogit, correlates to infrastructure usage. However, the Authority has introduced a mechanism to guarantee reference revenue that allows companies to cover a significant portion of revenues recorded. For 2016 and 2017, the minimum guaranteed level of revenue recorded was approximately 97%. The Authority is reviewing an integration of such mechanism which, for subsequent years, will result in reliance on the guaranteed minimum level of revenue, as well as the storage company's efficiency in terms of managing capacity allocation procedures and service provision procedures, following a procedure launched by the Authority. The change to the regulatory framework in force could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. Abroad, protections from market risk are offered by French regulations and by long-term contracts of TAP, IUK (expiring in September 2018) and Austria (differentiated expiries for TAG And GAS Connect starting from 2023); in Austria and the United Kingdom (with respect to Interconnector), regulations do not guarantee coverage of volume risk.

Climate change risk

Compliance with greenhouse gas regulations in the future may require Snam to adjust its facilities, and to control or limit its emissions or undertake other actions that could increase the costs of complying with the regulations in force, and therefore have negative effects on the Snam Group's operations, results, balance sheet and cash flow.

The risks connected with the emissions market fall within the scope of the European Union Directives on the sale of permits relating to carbon dioxide emissions and the rules on controlling emissions of certain atmospheric pollutants. With the launch of the third period of the EU emissions trading system and regulatory period (2013-2020), the main aim was to update laws on greenhouse gas emission authorisations and to continually reduce free emission allowances. The allowances are assigned to each plant on a gradually decreasing basis, and are no longer constant, and also depend on the actual functionality of the plants. The further evolution under way in European regulations could result in the identification of new methods for managing the necessary allowances, in particular through possible bonus mechanisms, to be agreed upon with the Authority, for the reduction of emissions from owned plants.

Climate change scenarios could trigger a change in people's conduct and have an impact on natural gas demand and on volumes transported, and could also influence the development of alternative uses of gas and the promotion of new businesses.

Climate change could also increase the severity of extreme weather events (floods, droughts, extreme temperature fluctuations), worsening natural and hydro-geological conditions in some areas with a possible impact on the quality and continuity of the service provided by Snam as well as on Italian and European gas demand. With reference to the effects of changes in gas demand on the balance sheet, income statement and cash flows of the Snam Group, please refer to the "Market risk" section above.

LEGAL AND NON-COMPLIANCE RISK

Legal and non-compliance risk concerns failure to comply, in full or in part, with the European, national, regional and local rules and regulations with which Snam must comply in relation to the activities it carries out. The violation of such rules and regulations may result in criminal, civil and/or administrative sanctions, as well as damage to Snam's balance sheet, financial position and/or reputation. As regards specific cases, the infringement of regulations on the protection of workers' health and safety and of the environment, and the infringement of anti-corruption rules, inter alia, may also result in (possibly significant) sanctions on the Company based on the administrative responsibility of entities (Legislative Decree 231 of 8 June 2001). With regard to the Risk of Fraud and Corruption, Snam believes it is of vital importance to ensure a climate of fairness and transparency in corporate operations and repudiates corruption in all its forms in the widest context of its commitment to abiding by ethical principles. Snam's top management is strongly committed to pursuing an anti-corruption policy, trying to identify possible areas of vulnerability and eliminating them, strengthening its controls and constantly working to increase employees' awareness of how to identify and prevent corruption in various business situations.

Reputational checks and accepting and signing the ethics and integrity agreement are pillars of the control system designed to prevent the risks associated with illegal behaviour and criminal infiltration of our suppliers and subcontractors, with the goal of guaranteeing transparent relations and professional morality requirements throughout the production chain and for the entire duration of the association; in this context in 2017, during the "Snam 75 & Partners' Day" event, Snam dedicated a special area to the subject of ethics and transparency as excellence and innovation in business operations.

Snam has been working since 2014 in partnership with Transparency International Italia and joined the Business Integrity Forum (BIF) and, in 2016, became the first Italian company to join the Global Corporate Supporter Partnership.

In the course of 2017, Snam started to work with the OECD as the first Italian private sector company on the Business and Industry Advisory Committee (BIAC).

Snam also partnered with the Ministry of Foreign Affairs, participating in the "VIII Italy - Latin America and Caribbean Conference" and the "Italian Business Integrity Day" held at the Italian Embassy in Washington.

During these events, the company described the instruments enacted on transparency and the fight against corruption.

In the first half of 2018, Snam continued with its collaboration with Transparency International Italia and with the OECD, participating in a series of events dedicated to the matter of transparency and integrity as well as the best practices of good governance and the prevention of corruption at global level, such as the 27th Session of the United Nations Commission on Crime Prevention and Criminal Justice organised by the Ministry of Foreign Affairs and International Cooperation at the United Nations headquarters in Vienna and seminars organised by the OECD in Saint Petersburg and Moscow, taking part with respect to the subjects of integrity and the fight against corruption.

OPERATIONAL RISKS

Gas storage concessions

The risk linked to maintaining storage concessions is associated for Snam to the business in which the subsidiary Stogit operates on the basis of concessions provided by the Ministry of Economic Development. Eight of the ten concessions (Alfonsine, Brugherio, Cortemaggiore, Minerbio, Ripalta, Sabbioncello, Sergnano and Settala) expired on 31 December 2016 and can be renewed no more than twice for a duration of ten years each time. With regard to these concessions, Stogit submitted – within the statutory terms -– the extension request at the Ministry of Economic Development and the proceedings are currently pending before the Ministry. Pending said proceedings the Company's activities, as provided for by the reference regulations, will continue until the completion of the authorisation procedures in progress envisaged by the original authorisation, which will be extended automatically on expiry until said completion.

One concession (Fiume Treste) will expire in June 2022 and has already been renewed for the first ten-year extension period in 2011, and another concession (Bordolano) will expire in November 2031 and can be extended for a further ten years[35]. If Snam is unable to retain ownership of one or more of its concessions or if, at the time of the renewal, the concessions are awarded under terms less favourable than the current ones, there may be negative effects on the Company's operations, results, balance sheet and cash flow.

Malfunctioning and unforeseen interruption of the service

The risk of the **malfunctioning and unforeseen interruption of the service** is determined by accidental events, including accidents, breakdowns or malfunctions of equipment or control systems, reduced output of plants, and extraordinary events such as explosions, fires, earthquakes, landslides or other similar events outside of Snam's control. Such events could result in a reduction in revenue and could also cause significant damage to people, with potential compensation obligations. Although Snam has taken out specific insurance policies to cover some of these risks, the related insurance cover could be insufficient to meet all the losses incurred, compensation obligations or cost increases.

Delays in the progress of programmes involving the construction of infrastructure

There is also the concrete possibility that Snam could incur **delays in the progress of infrastructure construction programmes** as a result of several unknowns linked to operating, economic, regulatory, authorisation and competition factors, regardless of its intentions. Snam is therefore unable to guarantee

that the projects to upgrade and extend its network will be started, be completed or lead to the expected benefits in terms of tariffs. Additionally, the development projects may require greater investments or longer timeframes than those originally planned, affecting Snam's financial position and results.

Investment projects may be stopped or delayed due to difficulties in obtaining environmental and/or administrative authorisations or to opposition from political forces or other organisations, or may be influenced by changes in the price of equipment, materials and workforce, by changes in the political or regulatory framework during construction, or by the inability to obtain financing at an acceptable interest rate. Such delays could have negative effects on the Snam Group's operations, results, balance sheet and cash flow. In addition, changes in the prices of goods, equipment, materials and workforce could have an impact on Snam's financial results.

Environmental risks

Snam and the sites where it operates are subject to laws and regulations on pollution, environmental protection and the use and disposal of hazardous substances and waste. These laws and regulations expose Snam to potential costs and liability connected to operations and its assets. The costs of possible environmental restoration obligations are subject to uncertainty as regards the extent of the contamination, the appropriate corrective actions and the sharing of responsibilities and are therefore difficult to estimate.

In relation to new climate-related agreements entered into at a global level (the Paris 2015 COP21, the Marrakech 2017 COP22) intended to favour the transition to a more sustainable economy which favours zero-emission energy sources, there could be regulatory and legislative risk correlated with the possible implementation of increasingly stringent legislation at European and domestic level.

Snam cannot predict whether and in what manner regulations and environmental laws may become stricter over time, nor can it provide assurances that future costs to ensure compliance with environmental regulations will not increase or that such costs may be recoverable within applicable tariff or regulation mechanisms. Substantial increases in costs relating to environmental compliance and other related aspects and the costs of possible penalties could negatively impact the business, operating results and financial and reputational aspects.

Employees and personnel in key roles

Snam's capacity to carry out its business effectively depends on the abilities and performance of its staff. The loss of "key" personnel or the inability to attract, train or retain qualified personnel (particularly for technical positions in which the availability of appropriately qualified personnel may be limited) or situations in which the capacity to implement the

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[35] The Stogit concessions issued prior to the entry into force of Legislative Decree 164/2000 may be extended by the Ministry of Economic Development no more than twice, for a duration of 10 years each, pursuant to Article 1, paragraph 61 of Law 239/2004. Pursuant to Article 34, paragraph 18 of Decree-Law 179/2012, converted by Law 221/2012, the duration of the single Stogit concession issued after the entry into force of Legislative Decree 164/2000 (Bordolano) is 30 years, with the possibility of extension for another 10 years.

long-term business strategy is influenced negatively due to significant disputes with employees could trigger an adverse effect on the business, financial conditions and operating results.

Risk linked to foreign equity investments

Snam's investee companies abroad may be subject to regulatory/legislative risk, conditions of political, social and economic instability, market risks, and the cybersecurity, credit and financial and other risks typical of the natural gas transportation and storage segments identified for Snam such so as to negatively influence their operations, economic results, balance sheet and cash flows. For Snam, this could have negative impacts on the contribution to profit generated by such investments.

Cyber security

Snam carries out its activities through a complex technological architecture relying on an integrated model of processes and solutions capable of promoting the efficient management of the gas system for the entire country. The development of the business and recourse to innovative solutions capable of continuous improvement, however, requires increasing attention to be focused on aspects of cybersecurity.

For this reason, Snam has developed its own cybersecurity strategy based on a framework defined in accordance with standard principles on the subject and focusing constant attention on Italian and European regulatory developments, especially as far as the world of critical infrastructures and essential services is concerned. First and foremost, this strategy involves adapting one's own processes to the provisions of standards ISO/IEC 27001 (Information Security Management Systems) and ISO 22301 (Business Continuity Management Systems) and the formal certification of conformity to the listed standards.

Alongside this and in accordance with technological developments, solutions aimed at protecting the Company from the cyber threats and malware are assessed and, where deemed appropriate, implemented. More specifically, Snam has defined a cyber-security incident management model intended to prevent and, when necessary, guarantee prompt remediation against events potentially capable of harming the confidentiality, integrity and availability of information processed and the IT systems used. At the basis of these activities is a Security Incident Response Team which, by relying on technologies that make it possible to collect and correlate all security events recorded throughout the company's IT infrastructure, has the task of monitoring all anomalous situations that could have negative impacts for the company and activate, when necessary, suitable escalation plans to guarantee the involvement of the various operating structures. Information sharing with national and European institutions and peers is used in order to improve the capacity and speed of response following various possible negative events.

A great deal of attention is also paid to increasing awareness and specialist training of personnel, in order to facilitate the identification of weak signals and raising consciousness about risks of a cyber-nature that could occur during the course of normal work activities.

Financial risks are described in Note 20, "Guarantees, commitments and risks – financial risk management", of the Notes to the condensed interim consolidated financial statements.

Outlook

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.

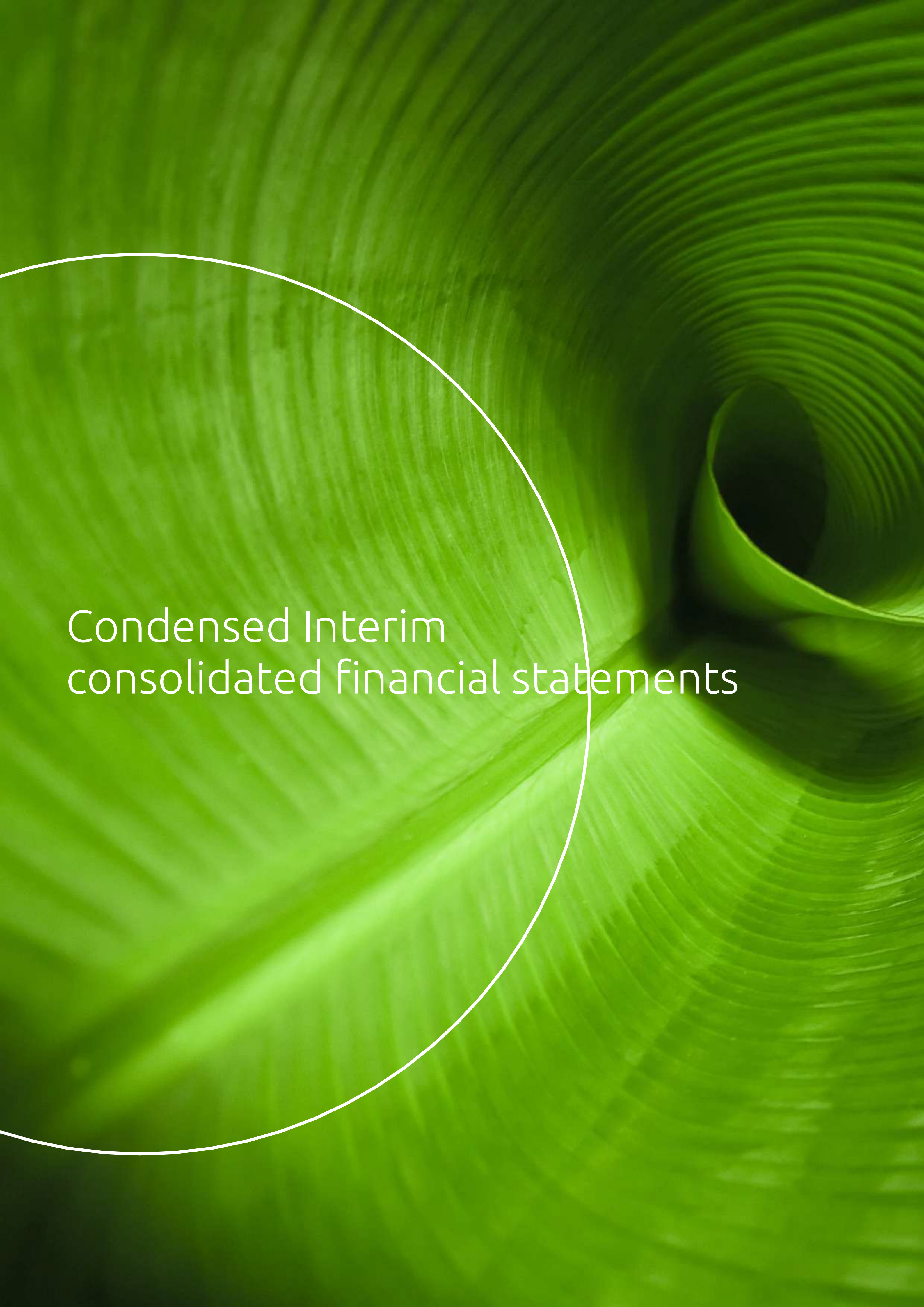
Over the period in question, the planned investments should allow the Company to extend the total length of the transportation network (32,500 km in 2017) by around 2% and to increase the installed power in the compression stations by around 5% (922 MW in 2017). The investments in the storage and LNG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



Condensed Interim consolidated financial statements

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Financial statements

Statement of financial position

(€ million)	Notes	31.12.2017 Total	31.12.2017 of which with related parties	30.06.2018 Total	30.06.2018 of which with related parties
ASSETS					
Current assets					
Cash and cash equivalents	(4)	719		**1,343**	
Trade and other receivables	(5)	1,658	*475*	**1,181**	***161***
Inventories	(6)	86		**89**	
Current income tax assets	(7)	16		**11**	
Other current tax assets	(7)	21		**4**	
Other current assets	(8)	56		**41**	
		2,556		**2,669**	
Non-current assets					
Property, plant and equipment	(9)	16,033		**16,044**	
Compulsory inventories		363		**363**	
Intangible assets	(10)	850		**873**	
Equity-accounted investments	(11)	1,547		**1,519**	
Other investments	(12)	44		**42**	
Other receivables	(5)	373	*373*	**483**	***483***
Other non-current assets	(8)	50	*2*	**47**	***1***
		19,260		**19,371**	
TOTAL ASSETS		**21,816**		**22,040**	
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Short-term financial liabilities	(13)	1,373	*15*	**2,065**	
Short-term portion of long-term financial liabilities	(13)	1,070		**1,435**	
Trade and other payables	(14)	1,673	*202*	**1,546**	***142***
Current income tax liabilities	(7)			**203**	
Other current tax liabilities	(7)	11		**9**	
Other current liabilities	(15)	79	*14*	**83**	***20***
		4,206		**5,341**	
Non-current liabilities					
Long-term financial liabilities	(13)	10,176		**9,264**	
Provisions for risks and charges	(16)	677		**688**	
Provisions for employee benefits		58		**60**	
Deferred tax liabilities	(17)	165		**156**	
Other non-current liabilities	(15)	346		**435**	
		11,422		**10,603**	
TOTAL LIABILITIES		**15,628**		**15,944**	
SHAREHOLDERS' EQUITY	(18)				
Snam shareholders' equity					
Share capital		2,736		**2,736**	
Reserves		3,167		**3,219**	
Net profit		897		**523**	
Negative reserve for treasury shares held in portfolio		(318)		**(382)**	
Interim dividend		(294)			
Total Snam shareholders' equity		**6,188**		**6,096**	
TOTAL SHAREHOLDERS' EQUITY		**6,188**		**6,096**	
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**21,816**		**22,040**	

Income statement

(€ million)	Notes	First half 2017 Total	First half 2017 *of which with related parties*	First half 2018 Total	First half 2018 *of which with related parties*
REVENUE	(21)				
Core business revenue		1,244	*804*	**1,258**	***836***
Other revenue and income		24	*13*	**13**	
		1,268		**1,271**	
OPERATING COSTS	(22)				
Purchases, services and other costs		(155)	*(23)*	**(130)**	***(12)***
Personnel cost		(78)	*(3)*	**(77)**	
		(233)		**(207)**	
AMORTISATION, DEPRECIATION AND IMPAIRMENT LOSSES	(23)	**(321)**		**(335)**	
EBIT		**714**		**729**	
FINANCIAL INCOME (EXPENSES)	(24)				
Financial expenses		(118)		**(104)**	
Financial income		4	*3*	**6**	***4***
Derivative financial instruments		(1)			
		(115)		**(98)**	
INCOME FROM EQUITY INVESTMENTS	(25)				
Equity method valuation effect		88		**83**	
Other income (expense) from equity investments				**2**	
		88		**85**	
PRE-TAX PROFIT		**687**		**716**	
Income taxes	(26)	(183)		**(193)**	
NET PROFIT (*)		**504**		**523**	
Profit per share (€ per share) (*)	(27)				
- basic		0.147		**0.154**	
- diluted		0.146		**0.151**	

(*) Entirely held by Snam shareholders.

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.

Statement of changes in shareholders' equity

(€ million)	Equity pertaining to Snam shareholders													
	Share capital	Negative reserve for treasury shares held in portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Net profit	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2016	**2,736**	**(108)**	**1,140**	**547**	**(2)**	**(7)**	**(674)**	**35**	**1,969**	**861**		**6,497**		**6,497**
Net profit for first half of 2017										**504**		**504**		**504**
Other components of comprehensive income:														
Components that can be reclassified to the income statement:														
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"								(2)				**(2)**		**(2)**
Total comprehensive income for the first half of 2017								**(2)**		**504**		**502**		**502**
Transactions with shareholders:														
- Allocation of dividend for 2016 (€0.21 per share)										(718)		**(718)**		**(718)**
- Allocation of 2016 residual net profit									143	(143)				
- Acquisition of treasury shares		(202)										**(202)**		**(202)**
Total transactions with shareholders		**(202)**							**143**	**(861)**		**(920)**		**(920)**
Other changes in shareholders' equity:														
- Equity component of convertible bond								17				**17**		**17**
- Other changes								4				**4**		**4**
Total other changes in shareholders' equity								**21**				**21**		**21**
Balance at 30 June 2017	**2,736**	**(310)**	**1,140**	**547**	**(2)**	**(7)**	**(674)**	**54**	**2,112**	**504**		**6,100**		**6,100**
Net profit for second half of 2017										**393**		**393**		**393**
Other components of comprehensive income:														
Components that can be reclassified to the income statement:														
- Portion of equity-accounted investments pertaining to "other components of comprehensive income"								(1)				**(1)**		**(1)**
- Change in fair value of cash flow hedge derivatives					(6)							**(6)**		**(6)**
Components that cannot be reclassified to the income statement:														
- Actuarial profit (loss) from remeasurement of defined-benefit plans for employees						(1)						**(1)**		**(1)**
- Share of remeasurements of defined-benefit plans for employees of investments accounted for using the equity method								1				**1**		**1**
Total net comprehensive income for second half of 2017					**(6)**	**(1)**						**(7)**		**(7)**
Transactions with shareholders														
- Equity incentive plan 2017-2019								1				**1**		**1**
- Acquisition of treasury shares		(8)										**(8)**		**(8)**
- 2017 interim dividend (€0.0862 per share)											(294)	**(294)**		**(294)**
Total transactions with shareholders		**(8)**						**1**			**(294)**	**(301)**		**(301)**
Other changes in shareholders' equity														
- Other changes								3				**3**		**3**
Total other changes in shareholders' equity								**3**				**3**		**3**
Balance at 31 December 2017	**2,736**	**(318)**	**1,140**	**547**	**(8)**	**(8)**	**(674)**	**58**	**2,112**	**897**	**(294)**	**6,188**		**6,188**

Statement of changes in shareholders' equity

			Equity pertaining to Snam shareholders													
(€ million)			Share capital	Negative reserve for treasury shares held in portfolio	Share premium reserve	Legal reserve	Reserve for fair value of cash flow hedging derivatives	Reserve for defined-benefit plans for employees net of tax effect	Consolidation reserve	Other reserves	Retained earnings	Net profit	Interim dividend	Total	Minority interests	Total shareholders' equity
Balance at 31 December 2017	Note	(18)	**2,736**	**(318)**	**1,140**	**547**	**(8)**	**(8)**	**(674)**	**58**	**2,112**	**897**	**(294)**	**6,188**		**6,188**
Effects of initial application of IFRS 9											**8**			**8**		**8**
Balance at 1 January 2018 (a)			**2,736**	**(318)**	**1,140**	**547**	**(8)**	**(8)**	**(674)**	**58**	**2,120**	**897**	**(294)**	**6,196**		**6,196**
Net profit for first half of 2018												**523**		**523**		**523**
Other components of comprehensive income:																
Components that can be reclassified to the income statement:																
- Change in fair value of cash flow hedge derivatives							**(8)**							**(8)**		**(8)**
Total comprehensive income for the first half of 2018 (b)							**(8)**					**523**		**515**		**515**
- 2017 interim dividend (€0.0862 per share)												**(294)**	**294**			
- 2017 dividend balance (€0.1293 per share as the balance of the 2017 interim dividend of €0.0862 per share. The dividend including the interim amount and the balance totalled €0.2155 per share)												**(437)**		**(437)**		**(437)**
- Allocation of 2017 residual net profit											**166**	**(166)**				
- Equity incentive plan 2017-2019										**1**				**1**		**1**
- Acquisition of treasury shares				**(183)**										**(183)**		**(183)**
Total transactions with shareholders (c)				**(183)**						**1**	**166**	**(897)**	**294**	**(619)**		**(619)**
Other changes in shareholders' equity:																
- Cancellation of treasury shares				**119**	**(119)**											
- Other changes										**4**				**4**		**4**
Total other changes in shareholders' equity (d)				**119**	**(119)**					**4**				**4**		**4**
Balance at 30 June 2018 (e=a+b+c+d)	Note	(18)	**2,736**	**(382)**	**1,021**	**547**	**(16)**	**(8)**	**(674)**	**63**	**2,286**	**523**		**6,096**		**6,096**

Statement of Cash flow

(€ million)	Notes	First half 2017	First half 2018
Net profit		**504**	**523**
Adjustments for reconciling net profit with cash flows from operating activities:			
Amortisation and depreciation	(23)	319	**335**
Impairment losses on tangible and intangible fixed assets		2	
Equity method valuation effect		(88)	**(83)**
Net capital losses (capital gains) on asset sales, cancellations and eliminations		1	**5**
Dividends			**(2)**
Interest income		(3)	**(6)**
Interest expense		105	**92**
Income taxes	(26)	183	**193**
Changes in working capital:			
- Inventories		(39)	**(2)**
- Trade receivables		330	**289**
- Trade payables		(104)	**189**
- Provisions for risks and charges		3	
- Other assets and liabilities		305	**(33)**
Working capital cash flow		*495*	***443***
Change in provisions for employee benefits		2	**2**
Dividends collected		121	**114**
Interest collected			**1**
Interest paid		(105)	**(92)**
Income taxes paid net of reimbursed tax credits		(135)	
Net cash flow from operating activities (*)		**1,401**	**1,525**
- of which with related parties	(29)	*954*	***1,178***
Investments:			
- Property, plant and equipment	(9)	(399)	**(312)**
- Intangible assets	(10)	(25)	**(28)**
- Companies included in the scope of consolidation			**(18)**
- Financial receivables held for operations		(93)	**(106)**
- Equity investments		(33)	**(13)**
- Change in payables and receivables relating to investments		(77)	**(31)**
Cash flow from investments		*(627)*	***(508)***
Divestments:			
- Property, plant and equipment		1	**2**
- Equity investments		18	**18**
Cash flow from divestments		*19*	**20**
Net cash flow from investment activities		**(608)**	**(488)**
- of which with related parties	(29)	*(122)*	***(115)***
Assumption of long-term financial debt		1,265	**431**
Repayment of long-term financial debt		(832)	**(973)**
Increase (decrease) in short-term financial debt		(312)	**693**
Change in financial receivables not held for operating activities			**350**
		121	**501**
Acquisition of treasury shares		(202)	**(183)**
Dividends paid to Snam shareholders		(718)	**(731)**
Net cash flow from financing activities		**(799)**	**(413)**
- of which with related parties	(29)	*(10)*	***(14)***
Net cash flow for the period		**(6)**	**624**
Cash and cash equivalents at the beginning of period	(4)	**34**	**719**
Cash and cash equivalents at the end of period	(4)	**28**	**1,343**

(*) 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.

Notes to the condensed interim consolidated financial statements

Company information

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as "Snam", the "Snam Group" or the "Group"), is an integrated group at the forefront of the regulated gas sector and a major player in terms of its regulatory asset base (RAB) in the sector.

Snam has a presence throughout the country through four wholly owned operating companies which work in the areas of natural gas transport and dispatching, liquefied natural gas regasification and natural gas storage. Snam operates in Europe's major energy corridors through agreements and equity investments in the leading industry players. Through its subsidiaries, Snam also carries out business in the sustainable mobility and energy efficiency sectors.

Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).

Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam S.p.A. within the meaning of accounting standard IFRS 10 – "Consolidated Financial Statements". No management or coordination activity of CDP S.p.A. has been formalised or exercised.

As at 30 June 2018, CDP S.p.A. held[26] 30.10% of the share capital of Snam S.p.A. through CDP Reti S.p.A.

1) Preparation and evaluation criteria

The condensed interim consolidated financial statements as at 30 June 2018 were drafted on a going concern basis and in compliance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and endorsed by the European Union (hereinafter referred to as IFRS), as well as legislative and regulatory provisions in force in Italy.

The condensed interim consolidated financial statements as at 30 June 2018 were prepared in compliance with the provisions set forth in IAS 34 "Interim financial reporting". Pursuant to IAS 34, the condensed interim consolidated financial statements do not include all the information required in annual consolidated financial statements and, as such, they should be read in conjunction with the Snam Group's consolidated financial statements for the year ended 31 December 2017.

The financial statements are the same as those adopted for the annual report. In the condensed interim consolidated financial statements, the same consolidation principles and measurement criteria have been used as those used to prepare the annual report, which should be referred to, except for IFRS which have entered into force since 1 January 2018, described in the 2017 Annual Report in Note 6 "Recently issued accounting standards". In particular, for the condensed interim consolidated financial statements as at 30 June 2018, the provisions of IFRS 15 "Revenue from contracts with customers", the relative clarifications set forth in the document "Clarifications to IFRS 15 - Revenue from contracts with customers", and IFRS 9 "Financial instruments" are particularly significant.

With reference to IFRS 15, the considerations set forth in the 2017 Annual Report in the section "IFRS 15 Revenue from contracts with customers" in Note 6 "Recently issued accounting standards" remain valid, so it is confirmed that no impacts deriving from the implementation of the new standard have been identified.

With reference to IFRS 9 "Financial instruments", the effects of first-time application regard the liability management operations carried out by Snam in 2015 and 2017[27]. 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

[26] CDP S.p.A. holds 59.10%.
[27] 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).

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, on the other hand, 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. Relying on the provisions introduced by the new standard, the effects of the first-time application of IFRS 9 were determined retroactively and recognised in the initial balance of shareholders' equity at 1 January 2018 without restating comparative periods, entailing an increase in the Group's shareholders' equity of €8 million, net of the relative tax effect.

Furthermore, on the basis of the provisions of IFRS 9, with reference to the minority interest in the unlisted company Terminale GNL Adriatico S.r.l., Snam made use of the possibility to designate the equity investment 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.

The exclusion from the scope of consolidation of some subsidiaries, which are not significant either individually or collectively, had no material effect[28] for the purposes of correctly representing the results, balance sheet and cash flow of the Snam Group. These equity investments are measured at cost.

The notes to the financial statements are in condensed form. Current income taxes are calculated based on taxable income at the reporting date. Tax receivables and payables for current income taxes are recognised based on the amount which is expected to be paid/recovered to/from the tax authorities under the prevailing tax regulations or those essentially approved at the reporting date and the rates estimated on an annual basis.

Consolidated companies, non-consolidated subsidiaries, companies under joint control, associates and other significant equity investments, reporting for which is covered by Article 126 of Consob Resolution 11971 of 14 May 1999, as amended, are indicated separately in the appendix "Subsidiaries, associates and equity investments of Snam as at 30 June 2018", which is an integral part of these notes.

The condensed interim consolidated financial statements as at 30 June 2018 approved by the Snam S.p.A. Board of Directors at its meeting on 31 July 2018 were subjected to a limited audit by PricewaterhouseCoopers S.p.A. The limited audit entails a scope of work which is significantly smaller than that of a complete audit conducted in accordance with established auditing standards.

The condensed interim financial statements are presented in Euro. Given their size, amounts in the financial statements and respective notes are expressed in millions of euros.

2) Use of estimates

For a description of the use of accounting estimates, please see the 2017 Annual Report.

3) Recently issued accounting standards

Aside from what is specified in the most recent Annual Report, to which reference is made, the accounting standards recently issued by the IASB are listed below.

[28] Pursuant to IAS 1 - "Presentation of the Financial Statements", information is significant if its omission or incorrect presentation may influence the economic decisions of users based on the figures in the financial statements.

Accounting standards and interpretations issued by the IASB/IFRIC in the first half of the year and not yet approved by the European Commission

On 29 March 2018, the IASB issued the document "Amendments to References to the Conceptual Framework in IFRS Standards", the provisions of which will take effect from financial years starting on or after 1 January 2020, except for any subsequent deferments established upon approval by the European Commission. The document calls for an update to the references present in the international accounting standards in order to incorporate the new elements introduced by the revised version of the "Conceptual Framework for Financial Reporting", issued by the IASB on the same date. The main amendments introduced in the new version of the Conceptual Framework regard primarily: (i) new guidance on measurement, derecognition, presentation and disclosure; (ii) new definitions of assets and liabilities; (iii) clarifications on several significant concepts, such as the principle of prudence and stewardship.

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission in the first half of the year, in force as of 1 January 2018

European Commission Regulation No. 2018/400 of 14 March 2018 officially endorsed the regulatory provisions set forth in the document "Transfers of investment property - Amendments to IAS 40", issued by the IASB on 8 December 2016. The document clarifies that an entity needs to reclassify a property from or to the category of investment property if and only if there is evidence of a change in the use of the property; a change in the intended use of the property by the management does not constitute evidence in and of itself of a change in use.

European Commission Regulation No. 2018/519 of 28 March 2018 officially endorsed the regulatory provisions set forth in the document "IFRIC Interpretation 22 - Foreign currency transactions and advance consideration", issued by the IASB on 8 December 2016. This document establishes that when transactions are carried out in foreign currency and the relative payment is made or received in advance, the exchange rate to be applied for the initial recognition of the assets, costs or revenues generated against transactions for which the advance payment/collection was made corresponds to the exchange rate in force at the date of payment of the advance consideration. The provisions will take effect from financial years starting on or after 1 January 2018. No impacts have been identified which arises from implementation of the new standard.

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, in force as of 1 January 2019

European Commission Regulation No. 2017/1986 of 31 October 2017 officially endorsed the regulatory provisions set forth in the document IFRS 16 "Leasing", issued by the IASB on 13 January 2016. In this regard, aside from what is specified in the last Annual Report, to which reference is made, please note that analyses intended to identify the impact that the application of the new standard will have on the Snam Group's financial statements, processes and IT systems continued in the first half of 2018.

In particular the assessment of existing contracts which currently are or contain a lease in accordance with the provisions of IFRS 16 is being completed. As things currently stand, the contracts identified in which Snam is the lessee refer primarily to real estate leases and long-term motor vehicle rentals.

With respect to such contracts, the characteristics necessary to calculate the liability for the lease and the asset for the right of use were identified, such as the nature of the fees, the duration, and the presence of renewal, acquisition and/or early termination options.

The impacts of the new standard on the Group's statement of financial position deriving from the recognition of assets representative of rights of use and financial liabilities representative of the obligation to make expected payments and, as a result, on the income statement as a result of higher amortisation and interest on the payable, are currently being quantified.

As things currently stand, it is confirmed that no significant impacts are expected from the application of the new standard on the Snam Group's consolidated financial statements.

European Commission Regulation No. 2018/498 of 22 March 2018 officially endorsed the regulatory provisions set forth in the document “Prepayment features with Negative Compensation - Amendments to IFRS 9” issued by the IASB on 12 October 2017. The document allows for the measurement at amortised cost or fair value through other comprehensive income (OCI) of a financial asset characterised by an early repayment option in the case of negative compensation. The document also clarifies that, in the case of changes in cash flows arising from the amendment or exchange of financial liabilities which were not derecognised, the gain or loss arising from the modification or exchange of a financial liability should be recognised in the income statement.

4) Cash and cash equivalents

Cash and cash equivalents, amounting to €1,343 million (€719 million as at 31 December 2017) refer primarily to transactions for the use of short-term liquidity, with maturity in less than three months, with a banking institution with high credit standing as the counterparty (€1 billion), sight bank deposits (€278 million) and cash and cash equivalents at the company Gasrule Insurance DAC for the exercise of group insurance activities (€31 million).

The book value of cash and cash equivalents approximates to their fair value. They are not subject to any usage restrictions.

A comprehensive analysis of the financial situation and major cash commitments during the period can be found in the cash flow statement.

5) Trade receivables and other current and non-current receivables

Trade receivables and other current receivables, which amount to €1,181 million (€1,658 million as at 31 December 2017) and *other non-current assets* of €483 million (€373 million as at 31 December 2017) break down as follows:

	31.12.2017			30.06.2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Trade receivables	1,274		**1,274**	**990**		**990**
Financial receivables	350	373	**723**		**483**	**483**
- held for operations		373	**373**		**483**	**483**
- not held for operations	350					
Receivables from investment/divestment activities	12		**12**	**5**		**5**
Other receivables	22		**22**	**186**		**186**
	1,658	**373**	**2,031**	**1,181**	**483**	**1,664**

Receivables are reported net of the provision for impairment losses of €140 million (the same as at 31 December 2017).

Trade receivables of €990 million (€1,274 million as at 31 December 2017) mainly refer to the natural gas transportation (€758 million, of which €164 million deriving from gas system balancing activities) and storage (€193 million) segments[29].

The financial credits instrumental to operating activities (€483 million; €373 million as at 31 December 2017) refer to the Shareholders’ Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP)[30]. With respect to 31 December

[29] Of which €88 million expired and not written down regarding primarily VAT charged to users for the use of strategic gas withdrawn and not replenished by them within the terms established in the Storage Code. As provided for under the applicable legislation, notices of VAT changes may be issued at the end of bankruptcy proceedings or unsuccessful enforcement proceedings.

[30] 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. For more information, please refer to Note 14 “Equity-accounted investments” in the Notes to the 2017 annual consolidated financial statements and Note 24 “Guarantees, commitments and risks”.

2017, receivables recorded an increase of €110 million, including interest accrued, against cash calls requested during the half-year by the same investee on the basis of agreements entered into upon acquisition of the equity investment. In this regard, at the date of this report, there are no changes in commercial or economic circumstances such so as to determine an impact on the fair value measurement of the above-mentioned financial instrument.

Receivables from investment/divestment activities (€5 million; €12 million as at 31 December 2017) regard receivables recognised against investment activities for connection contributions and recovery works.

Other receivables of €186 million (€22 million as at 31 December 2017) comprise:

(€ million)	31.12.2017	30.06.2018
IRES receivables for the national tax consolidation scheme	9	**9**
Other receivables:	13	**177**
- Energy and Environmental Services Fund (CSEA)	5	**169**
- Advances to suppliers	4	**3**
- Other	4	**5**
	22	**186**

The fair value measurement of trade and other receivables has no material impact considering the short period of time from when the receivable arises and its due date and the remuneration conditions.

All receivables are in euros.

Receivables from related parties are described in Note 29 “Related-party transactions”.

6) Inventories

Inventories, which amount to €452 million (€449 million as at 31 December 2017) are analysed in the table below:

	31.12.2017			30.06.2018		
(€ million)	amount	losses	value	amount	losses	value
Inventories (current assets)	129	(43)	**86**	**132**	**(43)**	**89**
- Raw materials, consumables and supplies	79	(11)	**68**	**82**	**(11)**	**71**
- Finished products and merchandise	50	(32)	**18**	**50**	**(32)**	**18**
Compulsory inventories (non-current assets)	363		**363**	**363**		**363**
	492	**(43)**	**449**	**495**	**(43)**	**452**

Inventories are reported net of the provision for impairment losses of €43 million (the same as at 31 December 2017). The provision basically regards the impairment (€30 million) recognised in 2014 on 0.4 billion cubic metres of natural gas used in storage activities against strategic gas unduly withdrawn by several service users in 2010 and 2011.

7) Current income tax assets/liabilities and other current tax assets/liabilities

Current income tax assets/liabilities and other current tax assets/liabilities break down as follows:

(€ million)	31.12.2017	30.06.2018
Current income tax assets	**16**	**11**
- IRES	13	**8**
- IRAP	2	**1**
- Other assets	1	**2**
Other current tax assets	**21**	**4**
- VAT	18	**2**
- Other taxes	3	**2**
	37	**15**
Current income tax liabilities		**(203)**
- IRES		**(172)**
- IRAP		**(31)**
Other current tax liabilities	**(11)**	**(9)**
- IRPEF withholdings for employees	(7)	**(5)**
- VAT		**(3)**
- Other taxes	(4)	**(1)**
	(11)	**(212)**

Taxes pertaining to the period under review are shown in Note 26 - “Income taxes”.

8) Other current and non-current assets

Other current assets, which amount to €41 million (€56 million as at 31 December 2017) and *other non-current assets* of €47 million (€50 million as at 31 December 2017) break down as follows:

	31.12.2017			30.06.2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other regulated assets	46	22	**68**	**31**	**18**	**49**
Market value of derivative financial instruments		1	**1**		**1**	**1**
Other assets:	10	27	**37**	**10**	**28**	**38**
- Prepayments	7	15	**22**	**9**	**12**	**21**
- Security deposits		12	**12**		**12**	**12**
- Other	3		**3**	**1**	**4**	**5**
	56	**50**	**106**	**41**	**47**	**88**

Other regulated assets (€49 million; €68 million as at 31 December 2017) relate to the natural gas transportation service and refer to the shortfall in amounts invoiced compared with the restriction imposed by the regulator, of which the current portion accounts for €31 million (€46 million as at 31 December 2017) and the non-current portion accounts for €18 million (€22 million as at 31 December 2017).

The market value of derivatives outstanding as at 30 June 2018 is as follows:

	31.12.2017			30.06.2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other assets		**1**	**1**		**1**	**1**
Cash flow hedging derivatives:						
- Fair value exchange rate hedging derivatives					1	1
- Fair value interest rate hedging derivatives		1	1			
Other liabilities	**(2)**	**(11)**	**(13)**	**(3)**	**(16)**	**(19)**
Cash flow hedging derivatives:						
- Fair value interest rate hedging derivatives		(9)	(9)	(2)	(16)	(18)
- Fair value exchange rate hedging derivatives	(1)	(2)	(3)			
- Accrued expenses on derivatives	(1)		(1)	(1)		(1)

Assets resulting from the measurement at market value of cash flow hedging derivatives (€1 million) refer to a Cross Currency Swap (CCS) derivative entered into in 2013. The CCS is used to hedge against the risk of fluctuating exchange rates in relation to a long-term ¥10 billion bond issue. The six-year bond has a maturity of 25 October 2019 and a half-yearly coupon with an annual fixed rate of 1.115%. The CCS has converted the fixed-rate, foreign-currency liability into an equivalent liability in Euro with a fixed annual rate of 2.717%.

The main characteristics of the derivative in question are summarised in the tables below:

Cross-currency swap

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	JPY/EUR exchange rate purchased	JPY/EUR exchange rate sold	Nominal value (*) as at 31/12/2017	Nominal value (*) as at 30/06/2018	Market value as at 31/12/2017	Market value as at 30/06/2018
Cross-currency swap	25.10.2013	25.10.2019	1.3	133.98	Spot	75	75	(3)	1

(*) Equal to a value of ¥ 10 billion at an exchange rate of ¥ 133.98/€.

In relation to this contract, Snam agrees with its counterparties on the exchange of two capital flows (at the time of entering into the contract and upon the maturity of the underlying financial instrument) and periodic interest flows (on the same dates stipulated for the hedged item) denominated in different currencies at a predetermined exchange rate.

Liabilities resulting from the measurement at market value of cash flow hedging derivatives (€19 million) refer to:

- three “Forward start” Interest Rate Swap derivatives, with a Mandatory Early Termination clause, entered into in July 2017 to hedge against the risk of fluctuating interest rates in relation to long-term bond issues planned for the years 2019 and 2020, for a total nominal value of €750 million and for a total market value of €15 million;
- an Interest Rate Swap derivative entered into in August 2017, with a market value of €3 million. The IRS is used to hedge against the risk of fluctuating interest rates against a floating-rate €350 million bond. The seven-year bond has a maturity of 2 August 2024 and has a floating rate correlated with the 3-month Euribor + 40 bps. Through the derivative, the floating-rate liability is converted into an equivalent fixed-rate liability with a reference rate of 0.436%;
- an Interest Rate Swap derivative entered into in February 2017, with a market value of €1 million. The IRS is used to hedge against the risk of fluctuating interest rates in relation to a long-term €300 million bond issue. The five-year bond has a maturity of 21 February 2022 and a floating rate correlated with the 3-month Euribor + 60 bps. Through the IRS, the floating-rate liability is converted into an equivalent fixed-rate liability with a reference rate of 0.0408%;

- an Interest Rate Swap derivative entered into in January 2018, with a market value of under €1 million. The IRS is used to hedge against the risk of fluctuating interest rates against a floating-rate €350 million bond. The two-year bond has a maturity of 29 January 2020 and a floating rate correlated with the 3-month Euribor + 40 bps. Through the derivative, the floating-rate liability is converted into an equivalent fixed-rate liability with a reference rate of -0.1878%.

The main characteristics of the derivatives in question are summarised in the tables below:

Interest Rate Swap - Forward Start

(€ million)

Type of derivative	Contract start date	Maturity date	Early termination date	Residual term (years)	Interest rate purchased	Interest rate sold	Nominal value as at 31/12/2017	Nominal value as at 30/06/2018	Market value as at 31/12/2017	Market value as at 30/06/2018
IRS - Forward start	30.01.2019	30.01.2026	30.04.2019	7.0	0.9890%	6m Euribor	250	250	(3)	(5)
IRS - Forward start	30.10.2019	30.10.2026	30.01.2020	7.0	1.1805%	6m Euribor	250	250	(3)	(5)
IRS - Forward start	29.10.2020	29.10.2027	29.01.2021	7.0	1.4225%	6m Euribor	250	250	(3)	(5)

Interest rate swap

(€ million)

Type of derivative	Contract start date	Maturity date	Residual term (years)	Interest rate purchased	Interest rate sold	Nominal value as at 31/12/2017	Nominal value as at 30/06/2018	Market value as at 31/12/2017	Market value as at 30/06/2018
Interest rate swap	02.08.2017	02.08.2024	6.1	3m Euribor	0.4360%	350	350	(1)	(3)
Interest rate swap	21.02.2017	21.02.2022	3.6	3m Euribor	0.0408%	300	300	1	(1)
Interest rate swap	29.01.2018	29.01.2020	1.6	3m Euribor	-0.1878%	350	350		

In addition, on 21 June 2018, a forward derivative was entered into, with a market value of less than €1 million, used as a natural hedge against the risk of fluctuating exchange rates against Snam's payable to the investee company TAP totalling CHF 9.4 million for a future share capital increase. Snam made the relative payment on 10 July 2018. With the measurement criteria adopted for the two financial instruments, the liability in foreign currency is converted into an equivalent liability in euros and changes in the value of the hedged item and the hedging instrument are recognised symmetrically in the income statement.

The fair value of hedging derivatives and their classification as a current or non-current asset/liability have been determined on the basis of generally accepted financial measurement models and market parameters at the end of the year.

Information on the risks being hedged by the derivatives and on policies adopted by the Company to hedge against these risks is provided in Note 20 - "Guarantees, commitments and risks - Management of financial risks".

The item "Other assets"(€38 million; €37 million as at 31 December 2017) essentially comprises:

- prepayments (€21 million), relating mainly to upfront fees and the substitute tax on revolving credit lines[31] (€17 million) and to insurance premiums (€3 million). The current and non-current portions amount to €9 million and €12 million respectively (€7 million and €15 million as at 31 December 2017);
- security deposits (€12 million) referring to the transportation segment.

[31] Upfront fees and the substitute tax are to be regarded as "transaction costs". The related charges are spread over the expected life of the financial instrument.

9) Property, plant and equipment

Property, plant and equipment, which amounts to €16,044 million (€16,033 million as at 31 December 2017) breaks down as follows:

(€ million)	Property, plant and equipment
Cost as at 31.12.2017	**24,271**
Investments	**321**
Disposals	**(10)**
Other changes	**3**
Cost as at 30.06.2018	**24,585**
Provision for amortisation and depreciation as at 31.12.2017	**(8,175)**
Depreciation	**(306)**
Disposals	**3**
Provision for amortisation and depreciation as at 30.06.2018	**(8,478)**
Provision for impairment losses as at 31.12.2017	**(63)**
Provision for impairment losses as at 30.06.2018	**(63)**
Net balance as at 31.12.2017	**16,033**
Net balance as at 30.06.2018	**16,044**

Investments[32] (€321 million) refer mainly to the transportation (€291 million) and storage (€29 million) segments.

Disposals (€7 million, net of related provision for depreciation) mainly regard assets relating to the transportation segment.

Other changes (+€3 million) relate essentially to: (i) the change in estimated costs (discounted) for site restoration and dismantling (+€12 million) in the natural gas transportation and storage segments, which are offset by the recognition of a specific provision; (ii) contributions for the period (-€12 million); (iii) the change in stocks of pipes and related accessory materials used in the production of plants in the natural gas transportation segment (+€3 million).

During the half, no impairment indicators were identified, nor were significant changes in the assessment concerning the recoverability of the value recognised in the financial statements for Property, plant and equipment. Therefore, the considerations set forth in the Annual Report, to which reference is made, are confirmed.

Contractual commitments to purchase property, plant and equipment, and to provide services related to the construction thereof, are reported in Note 20 “Guarantees, commitments and risks”.

10) Intangible assets

Intangible assets, which amount to €873 million (€850 million as at 31 December 2017) break down as follows:

32 Investments by business segment are shown in the “Business segment operating performance” section of the Interim Directors’ Report.

(€ million)	With a finite useful life	With an indefinite useful life	Total
Cost as at 31.12.2017	**1,533**	**27**	**1,560**
Investments	**28**		**28**
Change in scope of consolidation	**21**	**3**	**24**
Cost as at 30.06.2018	**1,582**	**30**	**1,612**
Provision for amortisation and depreciation as at 31.12.2017	**(710)**		**(710)**
Amortisation	**(29)**		**(29)**
Provision for amortisation and depreciation as at 30.06.2018	**(739)**		**(739)**
Net balance as at 31.12.2017	**823**	**27**	**850**
Net balance as at 30.06.2018	**843**	**30**	**873**

Intangible assets with a finite useful life (€843 million) mainly concern: (i) concessions for natural gas storage activities (€656 million); (ii) patents and know-how (€127 million).

Intangible assets with an indefinite useful life (€30 million) concern: (i) the goodwill recognised on the acquisition from Edison of 100% of the share capital of Infrastrutture Trasporto Gas S.p.A. (€27 million) concluded on 13 October 2017; (ii) the goodwill recognised on the acquisition of control over Tep Energy Solution S.r.l. concluded on 30 May 2018[33](€3 million). This goodwill was subject to allocation to the CGU represented by the legal entity itself. Considering the recent acquisition, also taking into account the appraisal of the company's value by an independent advisor, it is deemed that the recoverable value of the CGU is not lower than its carrying amount, inclusive of goodwill.

Investments[34] (€28 million) refer mainly to the natural gas transportation segment (€23 million).

The change in the consolidation scope (€24 million, net of the relative provision for amortisation/depreciation and inclusive of goodwill) relates to the consolidation of Tep Energy Solution S.r.l.

During the half, no impairment indicators were identified, nor were significant changes in the assessment concerning the recoverability of the value recognised in the financial statements for Intangible assets. Therefore, the considerations set forth in the Annual Report, to which reference is made, are confirmed.

11) Equity-accounted investments

Equity-accounted investments, amounting to €1,519 million (€1,547 million as at 31 December 2017) break down as follows:

(€ million)	
Value as at 31/12/2017	**1,547**
Acquisitions and subscriptions	**13**
Capital gains (losses) from measurement using the equity method	**83**
Decrease owing to dividends	**(112)**
Sales and repayments	**(16)**
Other changes	**4**
Value as at 30/06/2018	**1,519**

Acquisitions and subscriptions (€13 million) relate to: (i) the share capital increase of the companies GasBridge 1 B.V. and GasBridge 2 B.V (€5 million cumulatively) against the acquisition, by those companies on the basis of their respective shares held, of the incremental stake of 7.93% held by Caisse de dépôt et placement du Québec (CDPQ) in Interconnector UK; (ii) 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 paid for the share capital increase of €8 million (equal to CHF 9.4 million) on 10 July 2018.

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33 For further information, see Note 19 - "Business combinations".

34 Investments by business segment are shown in the "Business segment operating performance" section of the Interim Directors' Report.

Capital gains (losses) from measurement using the equity method (€83 million) refer mainly to the companies TAG (€39 million) and Teréga (€15 million).

The decrease owing to dividends of €112 million essentially concerns TAG (€73 million) and Teréga (€11 million).

Equity investments are not collateralised.

Consolidated companies, non-consolidated subsidiaries, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Subsidiaries, associates and equity investments of Snam S.p.A. as at 30 June 2018", which is an integral part of these notes.

12) Other investments

Other investments amount to €42 million and regard exclusively the minority stake of 7.3% held by Snam S.p.A. in the share capital of Terminale GNL Adriatico S.r.l. (Adriatic LNG).

In compliance with the provisions of IFRS 9 "Financial instruments", in force starting from 1 January 2018, Snam made the decision to measure the equity investment in Adriatic LNG at fair value through other comprehensive income (FVTOCI) [35] considering that the Group intends to keep this investment in its portfolio in the near future.

Specifically with regard to the recoverable value of the equity investment, the valuation was conducted on the basis of a time horizon of 16 years with the Dividend Discount Model (DDM) methodology, using the dividend projections within the time horizon for the explicit period and including discounted cash flows against restoration costs. The discounting rate used to estimate the cash flows was roughly 5.5%.

13) Short-term financial liabilities, long-term financial liabilities and short-term portions of long-term financial liabilities

Short-term financial liabilities, amounting to €2,065 million (€1,373 million as at 31 December 2017), and *long-term financial liabilities*, including short-term portions of long-term liabilities totalling €10,699 million (€11,246 million as at 31 December 2017), break down as follows:

	31.12.2017					30.06.2018				
		Long-term financial liabilities					Long-term financial liabilities			
(€ million)	Short-term financial liabilities	Short-term portion	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion	Short-term financial liabilities	Short-term portion (*)	Long-term portion maturing within 5 years	Long-term portion maturing in more than 5 years	Total long-term portion
Bonds		1,042	*3,621*	*4,009*	7,630		**895**	***3,749***	***3,490***	**7,239**
Bank loans	1,358	27	*1,366*	*1,180*	2,546	**2,065**	**539**	***896***	***1,129***	**2,025**
Other lenders	15	1					**1**			
	1,373	**1,070**	***4,987***	***5,189***	**10,176**	**2,065**	**1,435**	***4,645***	***4,619***	**9,264**

(*) This value includes €2 million relating to floating-rate loans from banks taken out by TEP, converted into fixed-rate loans through an Interest Rate Swap (IRS) hedging derivative, both subject to early termination on 3 July 2018.

Short-term financial liabilities

Short-term financial liabilities, amounting to €2,065 million (€1,373 million as at 31 December 2017), relate to uncommitted variable-rate bank credit lines. The increase compared with 31 December 2017 (€707 million) is due to net utilisations of uncommitted lines of bank credit.

35 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.

The reduction in short-term liabilities to other lenders with respect to 31 December 2017, equal to €15 million, regards the repayment of the loans received from GasBridge1 B.V. and GasBridge2 B.V. in relation to the Loan Agreement entered into by the parties and terminated following the share swap transaction on 26 April 2018[36].

There are no short-term financial liabilities denominated in currencies other than the Euro.

The market value of short-term financial liabilities is the same as their book value.

Long-term financial liabilities and short-term portions of long-term financial liabilities

Long-term financial liabilities, inclusive of the short-term portion of long-term liabilities, amount to €10,699 million (€11,246 million as at 31 December 2017), including short-term portions of €1,435 million and long-term portions of €9,264 million.

The reduction of €547 million with respect to 31 December 2017 was due 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[37] on 22 January 2018 with a nominal amount of €350 million.

The breakdown of bond loans (€8,134 million), indicating the issuing company, the year of issue, the currency, the average interest rate and the maturity, is provided in the following table:

[36] For more information about the transaction, please see the section "Summary data and information – Main events" in the Directors' Report.
[37] The above-mentioned floating-rate bond is converted into fixed-rate through an Interest Rate Swap (IRS) hedging derivative.

(€ million)

Issuing company	Issued (year)	Currency	Nominal amount	Adjustments (a)	Balance as at 30/06/2018	Rate (%)	Maturity (year)
Euro Medium Term Notes (EMTN)							
SNAM S.p.A. (b) (c)	2012	€	693	23	716	5.25	2022
SNAM S.p.A. (b) (c) (d)	2012	€	633	7	640	3.5	2020
SNAM S.p.A. (b) (c) (e)	2012	€	519	11	530	5	2019
SNAM S.p.A. (c)	2013	€	304	3	307	3.375	2021
SNAM S.p.A. (f)	2013	¥	78	(1)	77	2.717	2019
SNAM S.p.A.	2013	€	70	2	72	2.625	2018
SNAM S.p.A. (c)	2014	€	414	2	416	3.25	2024
SNAM S.p.A. (c)	2014	€	338	7	345	1.5	2023
SNAM S.p.A. (c)	2014	€	225	1	226	1.5	2019
SNAM S.p.A. (c) (e)	2015	€	391	(42)	349	1.375	2023
SNAM S.p.A. (c)	2015	€	169	2	171	1.5	2023
SNAM S.p.A.	2016	€	1,250	(1)	1,249	0.875	2026
SNAM S.p.A.	2016	€	500	(2)	498		2020
SNAM S.p.A.	2017	€	500		500	1.25	2025
SNAM S.p.A. (g)	2017	€	300	(1)	299	0.641	2022
SNAM S.p.A. (g)	2017	€	350	(1)	349	0.836	2024
SNAM S.p.A.	2017	€	650	2	652	1.375	2027
SNAM S.p.A. (g)	2018	€	350	1	351	0.588	2020
			7,734	**13**	**7,747**		
Convertible bonds							
SNAM S.p.A.	2017	€	400	(13)	387		2022
			8,134		**8,134**		

(a) Includes: (i) the issue premium/discount; (ii) the interest accrued; (iii) the adjustment to fair value of the €500 million bond maturing in 2023, originally converted to floating rate through an Interest Rate Swap (IRS) hedging derivative terminated early on 27 January 2017.

(b) Bond loans subject to the 2016 liability management operation.

(c) Bond loans subject to the 2017 liability management operation.

(d) Bond tapped for an incremental amount of €500 million, with the same interest rate and maturity as the original placement.

(e) Bond loans subject to the 2015 liability management operation.

(f) Bond with a nominal value of ¥10 billion, converted into Euros through a cross-currency swap (CCS). The indicated nominal value is obtained by converting into Euros at the year-end spot exchange rate.

(g) Floating-rate bond, converted into fixed-rate through an Interest Rate Swap (IRS) hedging derivative.

Payables for bank loans (€2,564 million) relate to term loans, of which €1,462 million concern European Investment Bank (EIB) funding.

There are no other long-term bank loans denominated in currencies other than the euro.

The weighted average interest rate on bank loans used (excluding loan contracts with the EIB) was 0.14% (0.28% for the first half of 2017).

There were no breaches of loan agreements as at the reporting date.

Snam has unused committed and uncommitted credit lines of €3.2 billion and €1.2 billion, respectively.

Financial covenants and negative pledge commitments

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.

As at 30 June 2018, the financial liabilities subject to these restrictive clauses amounted to approximately €2.6 billion.

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

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

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

Breakdown of net financial debt

The breakdown of net financial debt, showing related-party transactions, is provided in the following table:

	31.12.2017			30.06.2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
A. Cash and cash equivalents	719		**719**	**1,343**		**1,343**
B. Securities available for sale and held to maturity						
C. Liquidity (A+B)	**719**		**719**	**1,343**		**1,343**
D. Financial receivables not held for operating activities	**350**		**350**			
E. Short-term financial liabilities to banks	1,358		**1,358**	**2,065**		**2,065**
F. Long-term financial liabilities to banks	27	2,546	**2,573**	**539**	**2,025**	**2,564**
G. Bonds	1,042	7,630	**8,672**	**895**	**7,239**	**8,134**
H. Short-term financial liabilities to related parties	15		**15**			
M. Other long-term financial liabilities	1		**1**	**1**		**1**
N. Gross financial debt (E+F+G+H+I+L+M)	**2,443**	**10,176**	**12,619**	**3,500**	**9,264**	**12,764**
O. Net financial debt (N-C-D)	**1,374**	**10,176**	**11,550**	**2,157**	**9,264**	**11,421**

14) Trade and other payables

Trade payables and other payables, which amount to €1,546 million (€1,673 million as at 31 December 2017) comprise the following:

(€ million)	31.12.2017	30.06.2018
Trade payables	406	**598**
Payables for investment activities	347	**309**
Other payables	920	**639**
	1,673	**1,546**

Trade payables of €598 million (€406 million as at 31 December 2017) mainly refer to the transportation (€519 million, of which €165 million deriving from gas system balancing activities) and storage (€19 million) segments.

Payables for investment activities of €309 million (€347 million as at 31 December 2017) relate mainly to the natural gas transportation (€261 million) and storage (€31 million) business segments.

Other payables of €639 million (€920 million as at 31 December 2017) break down as follows:

(€ million)	31.12.2017	30.06.2018
Other payables		
- Payables to the Energy and Environmental Services Fund (CSEA)	564	**588**
- Interim dividend	294	
- Payables to employees	26	**17**
- Payables to pension and social security institutions	16	**14**
- Consultants and professionals	5	**5**
- Other	15	**15**
	920	**639**

Payables to the CSEA (€588 million) primarily concern accessory tariff components relating to the transportation business segment.

Note 29 - "Related-party transactions" contains information about payables due to related parties.

The book value of trade and other payables is close to the relative fair value measurement, given the short period of time between when the payable arises and its due date.

15) Other current and non-current liabilities

Other current liabilities, amounting to €83 million (€79 million as at 31 December 2017), and *other non-current liabilities*, amounting to €435 million (€346 million as at 31 December 2017), break down as follows:

	31.12.2017			30.06.2018		
(€ million)	Current	Non-current	Total	Current	Non-current	Total
Other liabilities from regulated activities	45	254	**299**	**40**	**361**	**401**
Market value of derivative financial instruments	2	11	**13**	**3**	**16**	**19**
Other liabilities	32	81	**113**	**40**	**58**	**98**
- Prepaid revenue and income	16	8	**24**	**22**	**7**	**29**
- Prepaid contributions for connecting to the transportation network		3	**3**		**5**	**5**
- Other	16	70	**86**	**18**	**46**	**64**
	79	**346**	**425**	**83**	**435**	**518**

Regulated liabilities, amounting to €401 million (€299 million as at 31 December 2017), relate to:

- the transportation segment (€370 million) due to the transportation revenue invoiced in excess of the restriction established by the regulator and penalties charged to users who exceeded the committed capacity; this amount is to be returned through tariff adjustments pursuant to Resolution 166/05 of the Authority. The current and non-current portions amount to €40 million and €332 million respectively (€44 million and €224 million as at 31 December 2017);
- the storage segment (€29 million) against consideration for balancing and for the replenishment of amounts in storage, to be returned to service users in accordance with Authority Resolution 50/06, corresponding in full to the non-current share (€1 and 29 million corresponding to the current and non-current shares, respectively, as at 31 December 2017).

The market value of the derivatives outstanding as at 30 June 2018 is analysed in Note 8 "Other current and non-current assets".

Other liabilities of €98 million (€113 million as at 31 December 2017) basically include:

- liabilities for prepaid revenue and income (€29 million), mainly regarding: (i) prepaid revenue for the provision of planning services carried out for TAP (€19 million corresponding in full to the current portion); (ii) the prepaid fee for the concession on the use of fibre optic cables to a telecommunications operator (€9 million, of which the current share is €2 million and the non-current share is €7 million);
- other liabilities (€64 million), essentially relating to: (i) security deposits paid by way of guarantee by balancing service users pursuant to Resolution ARG/gas 45/11 (€41 million; €67 million as at 31 December 2017 corresponding in full to the non-current share); (ii) higher quantities of fuel gas allocated by users in previous years pursuant to Resolution ARG/gas 184/09 with respect to the quantities actually used in the same years (€17 million, €15 million referring in full to the current portion); this quantity of gas is held within certain inventory ranges pursuant to article 8.8 of the TIB (Consolidated Balancing Law) as amended by Resolution 349/2017/R/gas of 18 May 2017.

16) Provisions for risks and charges

Provisions for risks and charges, which amount to €688 million (€677 million as at 31 December 2017) are analysed in the table below:

	30.06.2018						
				Utilisations			
(€ million)	Opening balance	Provisions (*)	Increases due to passing of time	against charges	for excess (*)	Other changes	Final balance
Provision for site dismantling and restoration	610		5	(3)		12	**624**
Provision for litigation	16	3					**19**
Provision for tax litigation	10						**10**
Other provisions	41	2		(6)	(2)		**35**
	677	**5**	**5**	**(9)**	**(2)**	**12**	**688**

The provision for site dismantling and restoration (€624 million) refers mainly to the storage (€509 million) and transportation (€110 million) segments. Other changes (€12 million) refer to the change in the estimate as a result of the reduction in expected discounting rates.

17) Deferred tax liabilities

Deferred tax liabilities of €156 million (€165 million as at 31 December 2017) are stated net of offsettable prepaid tax assets of €397 million (€384 million as at 31 December 2017).

There are no prepaid tax assets which cannot be offset.

(€ million)	31.12.2017	Provisions	Utilisations	Other changes	Change in scope of consolidation	30.06.2018
Deferred tax liabilities	549		(8)	6	6	553
Prepaid tax assets	(384)	(11)	5	(7)		(397)
	165	(11)	(3)	(1)	6	156

18) Shareholders' equity

Shareholders' equity, which amounts to €6,096 million (€6,188 million as at 31 December 2017) breaks down as follows:

(€ million)	31.12.2017	30.06.2018
Share capital	2,736	**2,736**
Share premium reserve	1,140	**1,021**
Legal reserve	547	**547**
Cash flow hedge reserve	(8)	**(16)**
Reserve from remeasurement of defined-benefit plans	(8)	**(8)**
Consolidation reserve	(674)	**(674)**
Other reserves	58	**63**
Retained earnings	2,112	**2,286**
Net profit	897	**523**
Less:		
- Negative reserve for treasury shares held in portfolio	(318)	**(382)**
- Interim dividend	(294)	
Snam Shareholders' Equity	**6,188**	**6,096**

Below is a breakdown of the main components of shareholders' equity of Snam as at 30 June 2018.

Share capital

The share capital as at 30 June 2018 consisted of 3,469,038,579 shares without nominal value (3,500,638,294 shares without nominal value as at 31 December 2017), with a total value of €2,735,670,475.56 (unchanged from 31 December 2017). The breakdown of share capital changed as a result of the cancellation of 31,599,715 treasury shares without any reduction in the share capital as approved by the Extraordinary Shareholders' Meeting on 24 April 2018.

Share premium reserve

The share premium reserve as at 30 June 2018 totalled €1,021 million (€1,140 as at 31 December 2017). The reduction of €119 million was due to the use of part of the reserve against the cancellation of 31,599,715 treasury shares without any reduction in the share capital as approved by the Extraordinary Shareholders' Meeting on 24 April 2018.

Legal reserve

The legal reserve stood at €547 million as at 30 June 2018 (unchanged from 31 December 2017).

Reserve for fair value of cash flow hedging derivatives

The negative cash flow hedge reserve of €16 million (-€8 million as at 31 December 2017) includes the fair value measurement of cash flow hedging derivatives net of the relative tax effect. The valuation relates to a Cross Currency Swap (CCS) contract, three Interest Rate Swap (IRS) contracts and three "Forward start" Interest Rate Swap contracts, described in Note 8 "Other current and non-current assets".

Reserve for remeasurement of defined-benefit plans for employees

As at 30 June 2018, the reserve for remeasurement of employee benefit plans (-€8 million, unchanged compared with 31 December 2017) included actuarial losses, net of the relative tax effect, recognised under other components of comprehensive income pursuant to IAS 19.

Consolidation reserve

The negative consolidation reserve of €674 million (unchanged from 31 December 2017) includes the value deriving from the difference between the acquisition cost of the Stogit equity investment (€1,597 million, including the additional transaction expenses and price adjustment following the agreements reached at transaction closing) and the relative shareholders' equity attributable to the Group on the transaction completion date (€923 million).

Other reserves

Other reserves of €63 million (€58 million as at 31 December 2017) mainly refer to the effects deriving from the valuation of investments using the equity method.

Retained earnings

Retained earnings totalled €2,286 million (€2,112 million as at 31 December 2017). The increase of €174 million was due for the most part to the allocation of residual 2017 profit.

Negative reserve for treasury shares held in portfolio

As at 30 June 2018, the negative reserve includes the acquisition cost for 102,655,338 treasury shares (85,915,616 shares at 31 December 2017), equal to €382 million (€318 million as at 31 December 2017).

Dividends

The Snam S.p.A. Ordinary Shareholders' Meeting approved a dividend of €0.2155 per share on 24 April 2018, of which an interim dividend of €0.0862 per share was distributed in January 2018 and the balance of €0.1293 per share was paid starting on 20 June 2018 with a coupon date of 18 June 2018 (record date of 19 June 2018).

19) Business combinations

On 30 May 2018, after obtaining antitrust clearance, a controlling share 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. 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 EBITDA of roughly €6 million.
This transaction represents a business combination recognised in compliance with IFRS 3 “Business Combinations”. To that end, at the date of acquisition of control, the individual assets acquired and the liabilities assumed were recognised separately from goodwill at their fair value.
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).

The accounting effects of the business combination, in accordance with the provisions of IFRS 3 - “Business combinations”, are summarised below:

(€ million)	**Values after assignment of fair value**
Fair value of consideration	21
Fair value of put/call option on minority interests (18%)	5
Total identifiable net assets at fair value	23
Goodwill	**3**

The main values of the assets and liabilities of TEP at the acquisition date are summarised below:

(€ million)	Values after assignment of fair value
Cash and cash equivalents	8
Current assets	7
Intangible assets (*)	21
Goodwill	3
Assets acquired	**39**
Current liabilities	5
Short-term financial liabilities	1
Long-term financial liabilities	1
Deferred tax liabilities	6
Liabilities acquired	**13**
Shareholders' equity acquired	**26**

(*) Consisting primarily of the valuation of backlogs on existing contracts with customers, carried out during the purchase price allocation.

Goodwill (€3 million) was determined as the difference between the fair value of the consideration, including the financial component relating to the call option on minority interests, and the fair value of the net assets acquired.

Considering the timing of the acquisition, starting from the acquisition date the contribution of TEP to the consolidated net profit in the first half of 2018 was marginal.

The contribution to consolidated net profit for the first half of 2018 is marginal considering the effects deriving from higher amortisation/depreciation calculated on the surplus value allocated to the assets upon acquisition.

20) Guarantees, commitments and risks

Guarantees, commitments and risks, amounting to €3,821 million (€3,918 million as at 31 December 2017) comprise:

(€ million)	31.12.2017	30.06.2018
Guarantees given in the interest of:	**130**	**83**
- subsidiaries	44	60
- associates	86	18
- own interest		5
Financial commitments and risks:		
Commitments	**1,872**	**1,973**
Commitments for the purchase of goods and services	1,428	1,646
Commitments in associates (*)	419	305
Commitments for the purchase of equity investments and business units		17
Other	25	5
Risks	**1,916**	**1,765**
- third-party assets on deposit	1,879	1,727
- compensation and litigation	37	38
	3,918	**3,821**

(*) The value in the table refers to the remaining commitment.

Guarantees

Guarantees (€83 million) refer primarily to: (i) declarations of indemnity issued in favour of third parties to guarantee the performance of works (€35 million); (ii) the "On-Demand" guarantee issued in favour of the Greek agency for privatisations (TAIPED) as part of the tender for the acquisition of 66% of DESFA, the national operator in the natural gas infrastructure segment in Greece (€18 million in Snam's share); (iii) bank sureties in favour of INPS to guarantee compliance with obligations assumed with respect to that institution as part of services connected to the early provision of pensions, governed by art. 4, paragraphs 1-7 of law 92/2012 - Fornero Law (€14 million); (iv) guarantees given to the Financial Administration for the reimbursement of VAT credits pursuant to D.P.R. 633/1962 (€10 million).

Commitments

As at 30 June 2018, commitments with suppliers to purchase property, plant and equipment and provide services relating to investments in property, plant and equipment and intangible assets under construction totalled €1,646 million (€1,428 million as at 31 December 2017).

Commitments in associated companies (€305 million) refer to the commitment assumed by Snam S.p.A. with respect to the company TAP as shareholder responsible for the project loan based on the stake held. This value corresponds to the remaining commitment as at 30 June 2018, against a total commitment of €776 million, assumed with reference to the general costs expected during the project implementation phase. However, it should be specified that if loans are taken out from the market for the project cost, guarantees may be defined on the loans, resulting in a reduction in the amount of the overall commitment, as will methods for the repayment of shareholder loans.

Commitments for the purchase of equity investments and business units (€17 million) refer to commitments assumed against: (i) the acquisition of the business unit handling the design, development and production of technological solutions for automotive natural gas fuelling stations for M.T.M., completed on 25 July 2018 (€13 million); (ii) the acquisition of 70% of the company IES Biogas, operating in the construction and management of plants for the production of biogas and biomethane (€4 million), completed on 5 July 2018.

Risks

Risks related to third-party assets on deposit, equal to €1,727 million (€1,879 million as at 31 December 2017) relate to approximately 7.2 billion cubic metres of natural gas deposited in the storage plants by customers of the service. This amount was determined by valuing the quantities of gas deposited at the estimated unit repurchase cost[38] of approximately €0.24 per standard cubic metre (unchanged compared with 31 December 2017).

Risks concerning compensation and litigation of €38 million (€37 million as at 31 December 2017) relate to possible (but not probable) claims for compensation arising from ongoing litigation, with a low probability that the pertinent economic risk will arise.

FINANCIAL RISK MANAGEMENT

Introduction

The main corporate financial risks identified, monitored and, where specified below, managed by Snam are as follows:

- risk arising from exposure to fluctuations in interest and exchange rates;
- credit risk arising from the possibility of counterparty default;
- liquidity risk arising from not having sufficient funds to meet short-term financial commitments;
- rating risk;
- debt covenant and default risk.

There follows a description of Snam's policies and principles for the management and control of the risks arising from the financial instruments listed above. In accordance with IFRS 7 - "Financial instruments: additional information", there are also descriptions of the nature and size of the risks resulting from such instruments.

Information on other risks affecting the company's business (natural gas price risk, operational risk and risks specific to the segment in which Snam operates) can be found in the "Elements of risk and uncertainty" section of the Interim Directors' Report.

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[38] Value calculated on the basis of the CCI Tariff, or the wholesale price, established by the Authority on a quarterly basis.

Interest rate risk

Interest rate risk is connected to fluctuations in interest rates which impact the market value of the company's financial assets and liabilities and the level of net financial expenses. Snam aims to optimise interest rate risk while pursuing its financial objectives. The Snam Group has adopted a centralised organisational model. In accordance with this model, Snam's various departments access the financial markets and use funds to cover financial requirements, in compliance with approved objectives, ensuring that the risk profile stays within defined limits. As at 30 June 2018, the Snam Group used external financial resources in the form of bonds and bilateral and syndicated loans with banks and other financial institutions, in the form of medium- to long-term loans and bank credit lines at interest rates indexed to the reference market rates, in particular the Europe Interbank Offered Rate (Euribor), and at fixed rates.

The exposure to interest rate risk as at 30 June 2018 was approximately 27% of the total exposure of the Group (22% as at 31 December 2017). As at 30 June 2018 there were three Interest Rate Swap (IRS) derivatives referring to two floating-rate bonds of a total amount of €1,000 million maturing in 2020, 2022 and 2024. IRS derivatives are used to convert floating-rate bonds to fixed-rate bonds.

Furthermore, as at 30 June 2018 Snam had medium/long-term Forward Start IRS derivatives with a total notional amount of €750 million against highly likely expected financial liabilities that will be assumed until 2020 to cover financial requirements.

Though the Snam Group has an active risk management policy, the rise in interest rates relating to floating-rate debt not hedged against interest rate risk could have negative effects on Snam Group's operations, balance sheet and cash flow.

Exchange rate risk

Snam's exposure to exchange rate risk relates to both transaction risk and translation risk. Transaction risk is generated by the conversion of commercial or financial receivables (payables) into currencies other than the functional currency and is caused by the impact of unfavourable exchange rate fluctuations between the time that the transaction is carried out and the time it is settled (collection/payment). Translation risk relates to fluctuations in the exchange rates of currencies other than the consolidation currency (the Euro), which can result in changes to consolidated shareholders' equity. Snam's risk management system aims to minimise transaction risk through measures such as the use of derivatives. It cannot be ruled out that significant future changes in exchange rates may generate negative effects on Snam Group's operations, balance sheet and cash flow, irrespective of the policies for hedging the risk resulting from exchange rate fluctuations through the financial instruments on the market put in place by Snam.

As at 30 June 2018, Snam's foreign-currency items essentially refer to a ¥10 billion bond maturing in 2019 and with an issue-date value of approximately €75 million. The bond has been fully converted into Euros by a cross-currency swap, with the same notional amount and maturity as the hedged component. This swap is considered to be a cash flow hedging derivative. Snam does not have any cross-currency swaps in place for speculative purposes.

As at 30 June 2018, Snam also had a hedging derivative for the forward purchase of foreign currency (Swiss francs - CHF), maturing on 10 July 2018, to hedge against exchange rate risk connected to the share capital increase in favour of the investee TAP, paid in on 10 July 2018.

Credit risk

Credit risk is the Company's exposure to potential losses arising from counterparties failing to fulfil their obligations. Default or delayed payment of fees may have a negative impact on the economic results and the financial balance of Snam. For the risk of non-compliance by the counterparty concerning contracts of a commercial nature, the credit management for credit recovery and any possible disputes is handled by the business units and the centralised Snam departments. Snam provides its business services to nearly 200 gas segment operators taking into account that the top 10 operators represent roughly 70% of the entire market (Eni, Edison and Enel are ranked the top three). The rules for client access to the services offered are established by the Authority and set out in the Network Codes. For each type of service, these documents explain the rules regulating the rights and obligations of the parties involved in the sales process and in providing said services and contain contractual conditions, which considerably reduce the risk of non-compliance by the clients. The Codes require the issue of guarantees to cover obligations assumed. In specific cases, if the customer has a credit rating issued by leading international bodies, the issue of such guarantees may be mitigated. The regulations also contain specific clauses which guarantee the neutrality of the entity in charge of balancing, an activity carried out from 1 December 2011 by Snam Rete Gas as the major transportation company. In particular, the current balancing rules envisage that Snam, on the basis of criteria of economic merit, operates primarily in purchases and sales on the GME's balancing platform to guarantee the resources required for the safe and efficient movement of gas from injection points to withdrawal points, so as to ensure constant network balancing. The above-mentioned rules also call for the residual recourse by Snam to the storage resources of Users in order to cover system imbalances and to the relative economic regulation.

It cannot be ruled out however, that Snam may incur liabilities and/or losses from the failure of its clients to comply with payment obligations, particularly given the current economic and financial situation, which makes the collection of receivables more complex and critical. Snam's maximum exposure to credit risk as at 30 June 2018 is the book value of the financial assets in its statement of financial position.

Liquidity risk

Liquidity risk is the risk that new financial resources may not be available (funding liquidity risk) or that the Company may be unable to convert assets into cash on the market (asset liquidity risk), meaning that it cannot meet its payment commitments. This may affect profit or loss should the Company be obliged to incur extra costs to meet its commitments or, in extreme cases, lead to insolvency and threaten the Company's future as a going concern.

Under the financial plan, Snam's risk management system aims to establish a financial structure that, in line with the business objectives, ensures sufficient liquidity for the Group, minimising the relative opportunity cost and maintaining a balance in terms of the duration and composition of the debt.

As shown in the "Interest rate risk" section, the Company had access to a wide range of funding sources through the credit system and the capital markets (bilateral contracts, pool financing with major domestic and international banks, loan contracts with the EIB and bonds).

Snam's objective is to maintain a debt structure that is balanced in composition between bonds and bank credit, and the availability of usable committed bank credit lines, in line with its business profile and the regulatory environment in which Snam operates.

As at 30 June 2018, Snam had unused committed long-term credit lines worth €3.2 billion. In addition, at the same date, Snam had a Euro Medium Term Notes (EMTN) programme, for a maximum total nominal value of €10 billion, which it had used for roughly €7.7 billion[39].

Rating risk

With reference to rating risk, Snam's long-term rating is: (i) Baa1 with a negative outlook, confirmed on 11 June 2018 by Moody's Investors Services Ltd ("Moody's"); (ii) BBB+ with a stable outlook, confirmed on 8 November 2017 by Standard & Poor's Rating Services ("S&P"); (iii) BBB+ with a stable outlook, confirmed on 12 October 2017 by Fitch Ratings ("Fitch"). Snam's long-term rating by Moody's, Standard & Poor's and Fitch is a notch higher than that of Italian sovereign debt. Based on the methodology adopted by Moody's and S&P, the downgrade of one notch from the current rating of the Republic of Italy would likely lead to a corresponding reduction of Snam's current rating.

On 30 May 2018, Moody's placed Snam's long-term rating "under review for downgrade" as a result of the analogous decision made by the agency dated 25 May 2018 to place Italian government bonds under review for downgrade.

Any downgrades in the rating assigned to the Snam Group, could limit the possibility of accessing the capital markets and increase the cost of raising funds and/or refinancing existing debt, with negative effects on Snam Group's operations, results, balance sheet and cash flow.

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[39] Please note that the convertible bond issued in March 2017 for a value of €400 million is not included in the EMTN programme.

Debt covenant and default risk

Default risk is the possibility that when certain circumstances occur, the lender may enact contractual protections that may result in the early repayment of the loan, thus generating a potential liquidity risk.

As at 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.

The bonds issued by Snam as at 30 June 2018 provide for compliance with covenants that reflect international market practices regarding, inter alia, negative pledge and pari passu clauses.

Failure to comply with these covenants, and the occurrence of other events such as cross-default events could 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. These commitments contain no covenants requiring compliance with economic and/or financial ratios.

Market value of financial instruments

Below is the classification of financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy defined on the basis of the significance of the inputs used in the measurement process. More specifically, in accordance with the characteristics of the inputs used for measurement, the fair value hierarchy comprises the following levels:

- level 1: prices quoted (and not amended) on active markets for the same financial assets or liabilities;
- level 2: measurements made on the basis of inputs differing from the quoted prices referred to in the previous point, which, for the assets/liabilities submitted for measurement, are directly (prices) or indirectly (price derivatives) observable;
- level 3: inputs not based on observable market data.

With regard to the above, the classification of the financial assets and liabilities measured at fair value in the statement of financial position according to the fair value hierarchy concerned derivative financial instruments as at 30 June 2018 classified at level 2 and entered under Note 8 "Other current and non-current assets" (€1 million) and Note 15 "Other current and non-current liabilities" (€19 million); (ii) the minority interest in Adriatic LNG, valued at FVTOCI, classified at level 3 and illustrated in note 12 "Other equity investments" (€ 42 million).

Disputes and other measures

Snam is involved in civil, administrative and criminal cases and legal actions related to its normal business activities. According to the information currently available and considering the existing risks, Snam believes that these proceedings and actions will not have material adverse effects on its consolidated financial statements. The following is a summary of the most important proceedings for which significant changes to the situation reported in the 2017 Annual Report occurred, including the new proceedings and closed proceedings. Unless indicated otherwise, no allocation has been made for the litigation described below because the Company believes it improbable that these proceedings will have an unfavourable outcome or because the amount of the allocation cannot be reliably estimated.

Energy, Networks and Environment Regulatory 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

With Resolution VIS 97/11 received on 15 November 2011, the Authority launched proceedings to confirm the existence of natural gas metering violations, in relation to presumed anomalies in the reporting of gas metering with reference to 45 plants; with Resolution 431/2012/S/Gas, the proceedings were joined with other proceedings, concerning the same facts with which the Company is charged, launched against the distribution company concerned.

Snam Rete Gas submitted a proposed commitment in relation to the alleged conduct which, with Resolution 332/2015/S/gas, the Authority declared inadmissible, deeming that it was not suitable to restore the structure of interests in place prior to the alleged violations or eliminate any immediate and direct consequences of the violations themselves.

After the investigation, on 20 October 2017 the Authority notified Snam Rete Gas of the relative results, which confirm the charges laid out in the resolution launching the proceedings. The Company requested the assignment of a deadline to submit its defence and, to that end, it was called for a hearing before the board meeting of the Authority held on 1 March 2018, during which it submitted its defence brief. After the proceedings, although the Authority accepted part of the arguments of the Company deemed relevant in terms of the quantification of the penalty, with Resolution 206/2018/S/gas of 5 April 2018 it imposed an administrative fine against Snam Rete Gas in the amount of €880 thousand. Although the Company paid the fine, it challenged Resolution 206/2018/S/gas before the Milan Regional Administrative Court. The hearing has not yet been scheduled.

Snam Rete Gas S.p.A. - Resolution 250/2015/R/gas, published on 1 June 2015 concerning: "Adoption of measures concerning the odorisation of gas for domestic and similar use of end customers directly connected to natural gas transportation networks"

With Resolution 250/2015/R/gas, in light of a ruling by the Milan Regional Administrative Court, the Authority amended article 5 of Resolution 602/2013/R/gas relating to the obligation on the part of transportation companies to odorise the gas of end customers directly connected to the transportation network which, taking into account the usage categories specified in the TISG, use the gas delivered not solely for technological purposes. In this regard, the Authority established that after surveying the delivery points concerned (by 31 July 2015) and transmitting the compliance plan with a description of the technical solution identified to the Authority (by 30 November 2015), to be updated every six months, that transportation companies must complete the implementation of the compliance plans by 31 January 2017. Snam Rete Gas challenged this resolution, deeming that the term for the implementation of the Plan could be determined only following the survey.

Once the survey was carried out, when sending the Compliance Plan and subsequent updates, Snam Rete Gas again notified the Authority of the unreasonable nature of the above-mentioned term, which instead the Authority confirmed with Resolution 484/2016/E/gas. As a result, Snam Rete Gas, within the appeal whereby it challenged Resolution 250/2015/R/gas, submitted an appeal for additional reasons against Resolution 484/2016/E/gas asking for the suspension of the challenged resolutions.

The request for a suspension was accepted by the Council of State with order dated 23 January 2017. We are waiting for the discussion of the merits, as the hearing before the Milan Regional Administrative Court, initially scheduled for 17 January 2018, was postponed to another date. With Ministerial Decree dated 18 May 2018, the Ministry for Economic Development established the obligation on the part of end customers directly connected to the natural gas transportation network to guarantee the use of gas in safe conditions if they make, even only in part, domestic or similar use of the gas, even if combined with technological uses.

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

By means of Ruling 2888/2015, the CoS rejected the appeal filed by the Authority for review of the judgment of the Regional Administrative Court in 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 dispatching tariffs for the 2010-2013 period relating, specifically, to the commodity/capacity distribution, the reform of the entry/exit model and gas intended for consumption by central compressor stations (self-consumption). By means of Resolution 428/2015/C/gas, the Authority decided to file an appeal for the aforementioned ruling to be overturned on the grounds of factual error, which will be discussed at the hearing on 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 discipline of self-consumption, justifiably confirmed the pricing criteria for the rest, partly in light of the consultations carried out. Given the confirmatory nature of the aforementioned resolution, the original applicant filed an appeal for compliance with the aforementioned rulings and the declaration of nullity of Resolution 550/2016/R/gas. By ruling No. 494/2017, the Regional Administrative Court of Milan partially heard the appeal with specific reference to the issue of the 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 must carry out an additional assessment as to the effects of the decisions made. Ruling No. 494/2017 was challenged by the applicant as well as by the Authority on counter-appeal.

By recent ruling No. 1840/2018 of 23 March 2018, the Council of State, partially accepting the counter-appeal of the Authority, rejected the action for nullity due to the violation of the judgment lodged by the applicant in the first instance and ordered conversion into an ordinary action for annulment. The applicant therefore took up the case again before the Milan Regional Administrative Court.

Tax cases

Excise duties and VAT (year 2003 - 2004)

On 15 September 2017, Snam Rete Gas received a report on findings and assessment of administrative violations from the Customs and Monopolies Agency for the recovery of excise duties, VAT and administrative penalties relating to the year 2003 (the “2003 ROF”).

The Italian Tax Police - Milan Tax Police Unit Headquarters - conducted on investigation on the annual declarations of consumption for natural gas and technical balances relating to the years 2003 until 2007. The outcomes were transmitted as required to the Milan Customs Office.

From 2011 to 2016, Snam Rete Gas provided a series of explanatory briefs, accompanied by tables and technical reports, so as to justify the differences in natural gas volumes subject to the investigations.

These briefs were accepted only in part by the Customs Agency and therefore the amount of roughly €6 million was contested for the year 2003. On 13 November 2017, Snam Rete Gas submitted its Observations to the 2003 ROF, in which it specified that the contested volumes originated exclusively in the communications of S.G.I. S.p.A., so that therefore there are no valid bases to presume that such volumes belong to the “SRG scope”.

On 10 May 2018, by protocol No. 31044 of 4 May 2018, Snam Rete Gas received a partial annulment of the 2003 ROF, whereby the charges were recalculated to €2.5 million plus penalties. Also on 10 May 2018, Snam Rete Gas received a report on findings and assessment of administrative violations from the Customs and Monopolies Agency for the recovery of excise duties, VAT and administrative penalties relating to the year 2004 (the “2004 ROF”). The amount of the charges is equal to €5 million plus penalties.

The company has made an allocation to the provision for risks and charges.

Other commitments and risks

The other unevaluated commitments and risks are:

Commitments arising from the contract for the acquisition of Stogit from Eni

As at 30 June 2018, the remaining commitments resulting from the above-mentioned agreements regard the hedging mechanisms set up so as to maintain with Eni the risks and/or benefits that may arise from: (i) any valuation of the gas owned by Stogit at the moment of the transfer of the shares other than that recognised by the Authority (ARERA) in the case of the disposal, including partial, thereof, if specific quantities become no longer instrumental to the regulated concessions and therefore available for sale; (ii) any disposal of storage capacity that may become freely available on a contractual and no longer regulated basis, or the transfer of concessions amongst those held by Stogit at the moment of the transfer of the shares which may be dedicated primarily to storage activities no longer subject to regulation.

Commitments arising from the contract for the acquisition of Terminale GNL Adriatico S.r.l. from Edison

The price determined for the acquisition of Terminale GNL Adriatico S.r.l. is subject to adjustment mechanisms based on commitments made when the transaction was completed, which were also intended to apply after the date of execution.

As at 30 June 2018, the commitment resulting from the above-mentioned agreement regards hedging mechanisms set up so as to maintain with Edison the risks and/or benefits that may arise from the signing of new terminal capacity utilisation contracts.

Commitments arising from the contract for the acquisition of TEP Energy Solutions S.r.l.

The price determined for the acquisition of TEP Energy Solutions S.r.l. is subject to adjustment mechanisms based on contractual commitments made, which were also intended to apply after the date of execution.

As at 30 June 2018, the commitment resulting from the above-mentioned agreement regards hedging mechanisms based on the economic results achieved by TEP in the years 2018-2020, to be settled contractually in cash for an amount which in any event cannot exceed €2.5 million.

21) Revenue

The breakdown of *revenue* for the first half of 2018, which totalled €1,271 million (€1,268 million in the first half of 2017), is shown in the following table.

	First half	
(€ million)	2017	2018
Core business revenue	1,244	1,258
Other revenue and income	24	13
	1,268	1,271

The reasons for the most significant changes are described in the "Financial review and other information" section of the Interim Directors' Report.

The details of revenues deriving from contracts with customers are provided below, broken down on the basis of existing operating segments[48]:

	First half	
(€ million)	2017	2018
Natural gas transportation	994	1,014
Liquefied natural gas (LNG) regasification	11	9
Natural gas storage	223	225
Corporate and other activities	40	23
	1,268	1,271

The Group generates most of its revenue in Italy. An analysis of revenue by business segment, with an indication of eliminations and consolidation adjustments, can be found in Note 28 - "Information by business segment".

Snam's business is not affected by seasonal factors which would have a significant impact on its annual or interim financial results.

Core business revenue

Core business revenue of €1,258 million mainly refers to the natural gas transportation (€1,002 million) and storage (€224 million) and LNG regasification (€9 million) business segments.

Core business revenue is shown net of items relating to tariff components associated with the transportation service, additional with respect to the tariff, intended to cover general gas system expenses (€586 million; €600 million in the first half of 2017). Amounts received from Snam are paid in full to the Energy and Environmental Services Fund (CSEA).

Other revenue and income

Other revenue and income totalling €13 million (€24 million in the first half of 2017) refer primarily to income for incentives of the Balancing Manager, pursuant to Authority Resolution 554/2016/R/gas (€6 million; €4 million in the first half of 2017) and methane gas connection contributions (€4 million).

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48 Pursuant to IFRS 15 "Revenue from contracts with customers", paragraph 114, Snam decided to break down revenue on the basis of existing operating segments. This presentation takes into account the information periodically subject to the review of the chief operating decision maker, in order to evaluate the financial performance of the operating segments and the information used by the entity or by the users of the entity's financial statements to evaluate the entity's financial performance.

22) Operating costs

The breakdown of *operating costs*, which totalled €207 million (€233 million in the first half of 2017), is shown in the following table:

	First half	
(€ million)	2017	2018
Purchases, services and other costs	155	**130**
Personnel cost	78	**77**
	233	**207**

The reasons for the most significant changes are described in the "Financial review and other information" section of the Interim Directors' Report.

Purchases, services and other costs

Purchases, services and other costs, which amounted to €130 million (€155 million in the first half of 2017), can be broken down as follows:

	First half	
(€ million)	2017	2018
Purchase costs for raw materials, consumables, supplies and goods	82	**23**
Costs for services	141	**132**
Costs for the use of third-party assets	11	**12**
Changes in raw materials, consumables, supplies and goods	(34)	**(5)**
Net accrual to (utilisation of) provisions for risks and charges	2	**3**
Other operating expenses	11	**17**
	213	**182**
Less:		
Increase on internal work - property, plant and equipment	**(58)**	**(52)**
- of which purchase costs for raw materials, consumables, supplies and goods	(27)	**(10)**
- of which costs for services	(31)	**(42)**
	155	**130**

Personnel cost

Personnel cost, which amounted to €77 million (€78 million in the first half of 2017), can be broken down as follows:

	First half	
(€ million)	2017	2018
Wages and salaries	69	**73**
Social security contributions (pensions and healthcare assistance)	20	**21**
Employee benefits	2	**3**
Other expenses	10	**8**
	101	**105**
Less:		
Increase on internal work	**(23)**	**(28)**
	78	**77**

Average number of employees

The average number of payroll employees included in the scope of consolidation, broken down by status, is as follows:

Professional status	30.06.2017	31.12.2017	30.06.2018
Executives	92	94	**100**
Managers	413	432	**457**
Office workers	1,608	1,632	**1,622**
Manual workers	720	722	**716**
	2,833	**2,880**	**2,895**

The average number of employees is calculated on the basis of the monthly number of employees for each category.

The number of personnel in service at 30 June 2018 was to 2,884 resources (2,919 resources at 31 December 2017), a reduction of 42 compared to 30 June 2017 and 35 compared to 31 December 2017.

23) Amortisation, depreciation and impairment

Amortisation, depreciation and impairment, which amounted to €335 million (€321 million in the first half of 2017), can be broken down as follows:

	First half	
(€ million)	**2017**	**2018**
Amortisation and depreciation	**319**	**335**
- Property, plant and equipment	293	**306**
- Intangible assets	26	**29**
Net impairment losses	**2**	
- Property, plant and equipment	2	
	321	**335**

For more details about amortisation, depreciation and impairment losses relating to property, plant and equipment and intangible assets, please see Note 9 “Property, plant and equipment”, and Note 10 “Intangible assets”.

An analysis of amortisation, depreciation and impairment by business segment can be found in Note 28 “Information by business segment”.

24) Financial expense (income)

Financial expense (income), which amounted to €98 million (€115 million in the first half of 2017), can be broken down as follows:

	First half	
(€ million)	**2017**	**2018**
Financial expense (income)	**112**	**96**
Financial expenses	112	**97**
Financial income		**(1)**
Other financial expense (income)	**2**	**2**
Other financial expense	6	**7**
Other financial income	(4)	**(5)**
Losses (Gains) on hedging derivatives – ineffective portion	**1**	
Losses from derivative contracts	1	
	115	**98**

	First half	
(€ million)	2017	2018
Financial expense (income)	**112**	**96**
Expense on financial debt:	**119**	**103**
- Interest and other expenses on bond loans	110	**94**
- Fees on loans and bank credit lines	6	**4**
- Interest expense on credit lines and loans due to banks and other lenders	3	**5**
Financial expense capitalised	**(7)**	**(6)**
Income from financial receivables		**(1)**
- Bank interest income		**(1)**
Other financial expense (income):	**2**	**2**
- Accretion discount (*)	5	**5**
- Other expenses	1	**2**
- Interest income on financial receivables held for operations	(3)	**(4)**
- Other income	(1)	**(1)**
Losses (Gains) on hedging derivatives – ineffective portion	**1**	
	115	**98**

(*) This item refers to the increase in provisions for risks and charges and provisions for employee benefits, which are reported at discounted value under Note 16 - "Provisions for risks and charges".

Expense on financial debt (€103 million) related mainly to: (i) interest and other expense on bond loans (€94 million), referring essentially to interest on 19 bond loans; (ii) the portion attributable to the period of upfront fees on revolving credit lines (€2 million) and credit line non-usage fees (€2 million); and (iii) interest payable to banks on revolving credit lines, uncommitted credit lines and maturing loans (€5 million in total).

Financial expense capitalised (€6 million) related to the portion of financial expense capitalised pursuant to investment activities.

Other financial expense (income) (€2 million) regards primarily financial expenses linked to the passing of time relating to provisions for the abandonment and restoration of storage and transportation segment sites (€5 million), partially offset by income connected to the Shareholders' Loan granted to TAP (-€4 million).

25) Income from equity investments

Income from equity investments, which amounted to €85 million (€88 million in the first half of 2017), can be broken down as follows:

Income from equity investments

	First half	
(€ million)	2017	2018
Equity method valuation effect	88	**83**
Dividends		**2**
	88	**85**

Details of capital gains and capital losses from the valuation of equity investments using the equity method can be found in Note 11 "Equity-accounted investments". Dividends (€2 million) relate to the minority interests held in the company Terminale GNL Adriatico S.r.l., valued on the basis of fair value with an offsetting entry in shareholders' equity, "Fair Value Through Other Comprehensive Income - FVTOCI".

26) Income taxes

Income taxes for the period, which amounted to €193 million (€183 million in the first half of 2017), can be broken down as follows:

(€ million)	First half					
	2017			2018		
	IRES	IRAP	Total	IRES	IRAP	Total
Current taxes	**168**	**31**	**199**	**175**	**32**	**207**
Current taxes for the period	168	31	**199**	**174**	**32**	**206**
Adjustments for current taxes relating to previous years				**1**		**1**
Deferred and prepaid taxes	**(16)**		**(16)**	**(14)**		**(14)**
Deferred taxes	(9)		**(9)**	**(8)**		**(8)**
Prepaid taxes	(7)		**(7)**	**(6)**		**(6)**
	152	**31**	**183**	**161**	**32**	**193**

The impact of taxes on pre-tax profit for the period is 27.0% (26.6% in the first half of 2017) in view of the theoretical tax rate of 28.09% (28.07% in the first half of 2017), which is obtained by applying the statutory tax rate of 24.0% (IRES) to pre-tax profit and 3.9% (IRAP) to the net value of production. The reduction in the tax rate compared to the theoretical rate is mainly due to the valuation of equity investments with the equity method, the effects of which were partially offset by the dividend tax.

27) Earnings per share

The basic earnings per share, totalling €0.154 per share (€0.147 per share in the first half of 2017) was determined by dividing the net profit for the period attributable to Snam (€523 million; €504 million in the first half of 2017) by the weighted average number of Snam shares outstanding during the period, excluding treasury shares.

Diluted earnings per share are calculated by dividing net profit by the weighted average number of outstanding shares during the period, excluding treasury shares, increased by the number of shares which could potentially be issued. With reference to the first half of 2018, the diluted earnings per share considers the potential effects deriving from the assignment of treasury shares in the portfolio against the issue of the bond loan convertible into Snam ordinary shares and those deriving from the long-term equity incentive plan, formalised on 1 July 2017.

The weighted average number of outstanding shares used to calculate diluted earnings per share is 3,468,355,207 and 3,466,790,820 respectively for the first half of 2018 and the first half of 2017.

The reconciliation of the weighted average number of outstanding shares used to determine basic and diluted earnings per share is set out below:

	First half	
(€ million)	2017	2018
Weighted average number of outstanding shares used to calculate basic earnings	**3,430,100,052**	**3,385,300,141**
Number of shares with potential dilution effect	36,690,768	83,055,066
Weighted average number of outstanding shares used to calculate diluted earnings	**3,466,790,820**	**3,468,355,207**
Net profit (€ million) (a)	**504**	**523**
Dilution effect	1	**2**
Net profit for diluted profit (€ million) (a)	**505**	**525**
Basic earnings per share (€ per share) (a)	0.147	**0.154**
Diluted earnings per share (€ per share) (a)	0.146	**0.151**

(a) Entirely held by Snam shareholders.

28) Information by business segment

The information about business segments has been prepared in accordance with the provisions of IFRS 8 "Operating segments", which requires the information to be presented in a manner consistent with the procedures adopted by the Company's management when taking operational decisions. Consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

In the first half of 2018, the business segments subject to disclosure correspond to those existing as at 31 December 2017, or natural gas transportation ("Transportation"), the regasification of Liquefied Natural Gas ("Regasification") and natural gas storage ("Storage"), and are associated with the primary activities carried out by Snam Rete Gas and ITG, GNL Italia and Stogit, respectively.

(€ million)	Corporate and other activities	Transportation	Storage	Regasification	Consolidation adjustments and eliminations	Total
First half of 2017						
Net core business revenue (a)	110	984	295	11		**1,400**
less: inter-segment revenue	(70)	(11)	(74)	(1)		**(156)**
Revenue from third parties	40	973	221	10		**1,244**
Other revenue and income		21	2	1		**24**
Net accrual to provisions for risks and charges	(2)					**(2)**
Amortisation, depreciation and impairment	(4)	(266)	(49)	(2)		**(321)**
EBIT	2	536	173	3		**714**
Equity method valuation effect	88					**88**
Total assets	1,917	13,786	4,093	115		**19,911**
- of which equity-accounted investments	1,483					**1,483**
Total liabilities	11,444	9,887	2,946	56	(10,522)	**13,811**
Investments in property, plant and equipment and intangible assets	4	378	42	1		**425**
First half of 2018						
Net core business revenue (a)	**101**	**1,044**	**294**	**11**		**1,450**
Less: inter-segment revenue	**(78)**	**(42)**	**(70)**	**(2)**		**(192)**
Revenue from third parties	**23**	**1,002**	**224**	**9**		**1,258**
Other revenue and income		**12**	**1**			**13**
Net accrual to provisions for risks and charges	**(2)**	**(1)**				**(3)**
Amortisation, depreciation and impairment	**(4)**	**(279)**	**(50)**	**(2)**		**(335)**
EBIT	**(11)**	**569**	**169**	**2**		**729**
Equity method valuation effect	**83**					**83**
Total assets	**3,671**	**14,186**	**4,081**	**102**		**22,040**
- of which equity-accounted investments	**1,519**					**1,519**
Total liabilities	**13,150**	**9,947**	**2,732**	**40**	**(9,925)**	**15,944**
Investments in property, plant and equipment and intangible assets	**2**	**314**	**31**	**2**		**349**

(a) Balances before elimination of inter-segment revenue.

Revenue is generated by applying regulated tariffs or market conditions. The revenue was generated primarily in Italy; costs were incurred almost entirely in Italy.

29) Relationships with related parties

Considering the de facto control of CDP S.p.A. over Snam S.p.A., pursuant to the international accounting standard IFRS 10 - Consolidated Financial Statements, based on the current Group ownership structure the related parties of Snam are represented by Snam's associates and joint ventures as well as by the parent company CDP S.p.A. and its subsidiaries and associates, and direct or indirect subsidiaries of the Ministry of Economy and Finance. Members of the Board of Directors, Statutory Auditors and managers with strategic responsibilities, and their relatives, of the Snam Group and CDP, are also regarded as related parties.

As explained in detail below, related-party transactions mainly concern the exchange of goods and the provision of regulated services in the gas sector. Transactions between Snam and related parties are part of ordinary business operations and are generally settled under market conditions, i.e. the conditions that would be applied between two independent parties. All the transactions carried out were in the interest of the companies of the Snam Group.

Pursuant to the provisions of the applicable legislation, the Company has adopted internal guidelines to ensure that transactions carried out by Snam or its subsidiaries with related parties are transparent and correct in their substance and procedure.

Directors and statutory auditors declare potential interests that they have in relation to the Company and the Group every six months, and/or when changes in said interests occur; they also inform the Chief Executive Officer (or the Chairman, in the case of the Chief Executive Officer’s interests), who in turn informs the other directors and the Board of Statutory Auditors, of individual transactions that the Company intends to carry out and in which they have an interest.

Snam is not managed or coordinated by any other entity. Snam manages and coordinates its subsidiaries, pursuant to Article 2497 et seq. of the Italian Civil Code.

In terms of transactions with related parties, pursuant to the disclosure obligations set forth in Consob Regulation no. 17221 of 12 March 2010, Snam Rete Gas S.p.A. and Eni S.p.A. entered into the natural gas transportation contract for the 2017-2018 Thermal Year. On 2 February 2018, the value of the transportation contract exceeded the materiality threshold of €140 million identified in the Snam Guidelines “Transactions with interests of directors and statutory auditors and transactions with related parties”.

The contract is defined in line with the methods set forth in the Network Code of Snam Rete Gas S.p.A., approved by the Energy, Networks and Environment Regulatory Authority with Resolution 75/2003 as updated.

The consideration for services rendered is determined by applying the tariffs for the transportation and dispatching of natural gas, approved by Resolution of the Authority.

This contract may be classified as an ordinary transaction concluded under standard or arm’s length conditions as, pursuant to paragraph 2 of the Guidelines (published on the website www.snam.it): (i) it is part of the ordinary exercise of operating activities and the associated financial activities; (ii) the conditions applied are based on regulated tariffs.

The balances involved in commercial, miscellaneous and financial transactions with related parties, as defined above, for the first halves of 2017 and 2018 are reported below. The nature of the most significant transactions is also stated.

Commercial and other transactions

Commercial and other transactions can be broken down as follows:

	30 June 2017					First half of 2017				
						Costs (a)			Ricavi (b)	
(€ million)	Receivables	Other assets	Payables	Other liabilities	Guarantees	Goods	Services	Other	Services	Other
Companies under joint control and associates										
- AS Gasinfrastruktur GmbH (Bidco)	5									
- TAG GmbH	4		4	2		12			2	13
- Teréga S.A.S. (c)	1									
- Trans Adriatic Pipeline AG (TAP)	1		20	6					2	
	11		**24**	**8**		**12**			**4**	**13**
Companies controlled by the parent company Cassa Depositi e Prestiti										
- Italgas	28		3		93		1	4	30	
	28		**3**		**93**		**1**	**4**	**30**	
Companies jointly controlled by the parent company Cassa Depositi e Prestiti										
- Saipem			25				10			
			25				**10**			
Companies owned or controlled by the State										
- Gestore dei mercati energetici S.p.A.										
- Anas Group	1	1	5							
- Enel Group (d)	71		11						138	
- Eni Group (d)	236	1	32		1		7	1	632	
- Ferrovie dello Stato Group	1		1							
- Terna Group							1			
	309	**2**	**49**		**1**		**8**	**1**	**770**	
Total	**348**	**2**	**101**	**8**	**94**	**12**	**19**	**5**	**804**	**13**

(a) Inclusive of costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

(c) Teréga has been the new name of TIGF since 30 March 2018.

(d) Inclusive of amounts on the balance sheet relating to balancing activities.

(€ million)	30 June 2018					First half of 2018				
						Costs (a)			Ricavi (b)	
	Receivables	Other assets	Payables	Other liabilities	Guarantees	Goods	Services	Other	Services	Other
Companies under joint control and associates										
- Interconnector (UK) Ltd									1	
- Senfluga Energy Infrastructure Holding S.A.					18					
- TAG GmbH	12		11	1					1	
- Teréga S.A.S. (c)	1									
- Trans Adriatic Pipeline AG (TAP)	2		8	19					4	
	15		**19**	**20**	**18**				**6**	
Companies controlled by the parent company Cassa Depositi e Prestiti										
- Italgas Group	15		6						8	
	15		**6**						**8**	
Companies jointly controlled by the parent company Cassa Depositi e Prestiti										
- Saipem Group			21				7			
- Valvitalia Finanziaria S.p.A.			1			1				
			22			**1**	**7**			
Companies owned or controlled by the State										
- Gestore dei mercati energetici S.p.A.	3		19			1				
- Anas Group	1	1	3							
- Enel Group (d)	37		32						192	
- Eni Group (d)	89		39			1	9		630	
- Ferrovie dello Stato Group	1		2							
	131	**1**	**95**			**2**	**9**		**822**	
Total	**161**	**1**	**142**	**20**	**18**	**3**	**16**		**836**	

(a) Inclusive of costs for goods and services to be used in investment activities.

(b) Before tariff components which are offset in costs.

(c) Teréga has been the new name of TIGF since 30 March 2018.

(d) Inclusive of amounts on the balance sheet relating to balancing activities.

Companies under joint control and associates

The key commercial transactions with companies under joint control and associates regard:

- the sale and purchase of gas from TAG, governed by the Service Balance Agreement, a contract intended to ensure daily balancing between the quantities metered and the quantities expected at the Tarvisio entry point;
- the provision to TAG of services for the construction of transportation infrastructure governed by the Engineering, Procurement and Construction Management (EPCM) Agreement;
- the provision to TAP of services for the construction of transportation infrastructure governed by the Engineering and Project Management (EPMS) Agreement;
- the "On-Demand" guarantee issued in favour of the Greek agency for privatisations (TAIPED) as part of the tender for the acquisition of 66% of DESFA, the national operator in the natural gas infrastructure segment in Greece.

Companies controlled by the parent company Cassa Depositi e Prestiti

The key commercial transactions with the subsidiaries of Cassa Depositi e Prestiti regard:

- the provision to the Italgas Group of services carried out by Snam S.p.A., relating primarily to ICT services and staff services. The services are governed on the basis of costs incurred in accordance with a full cost logic and refer to phase-out contracts for a transitional period, intended to ensure the continuity of the activities previously guaranteed by Snam, some of which concluded as at 31 December 2017.

Companies jointly controlled by the parent company Cassa Depositi e Prestiti

Amongst the most significant commercial transactions with the companies under joint control of Cassa Depositi e Prestiti, please note the acquisition from Saipem of works planning and supervision services for the construction of natural gas transportation and storage infrastructure, governed by contracts entered into under arm's length conditions.

Companies owned or controlled by the State

The most significant commercial dealings with companies owned or controlled by the State regard:

- the provision to the Eni Group and to the Enel Group of natural gas transportation, regasification and storage services, governed on the basis of the tariffs established by the Authority;
- the acquisition from the Eni Group of electricity used to carry out activities.

Furthermore, as at 30 June 2018 there are assets with Eni recognised against dealings deriving from the national tax consolidation scheme, in force until 31 July 2012.

Financial transactions

Financial transactions can be broken down as follows:

	30 June 2017		First half of 2017
(€ million)	Receivables	Payables	Income
Companies under joint control and associates			
- GasBridge1 B.V. GasBridge 2 B.V.		8	
- Trans Adriatic Pipeline AG (TAP)	309		3
	309	**8**	**3**

	30 June 2018		First half of 2018
(€ million)	Receivables	Payables	Income
Companies under joint control and associates			
- Trans Adriatic Pipeline AG (TAP)	483		4
	483		**4**

Companies under joint control and associates

Financial transactions with companies under joint control and associates regard financial receivables relating to the Shareholders' Loan granted to the associate Trans Adriatic Pipeline AG (TAP) and the relative financial income.

Impact of related-party transactions or positions on the balance sheet, income statement and statement of cash flows

The impact of related-party transactions or positions on the balance sheet and income statement is summarised in the following table:

(€ million)	31.12.2017 Total	31.12.2017 Related parties	31.12.2017 Share %	30.06.2018 Total	30.06.2018 Related parties	30.06.2018 Share %
Statement of financial position						
Trade receivables and other current receivables	1,658	475	28.6	**1,181**	**161**	**13.6**
Other non-current receivables	373	373	100.0	**483**	**483**	**100.0**
Other non-current assets	50	2	4.0	**47**	**1**	**2.1**
Short-term financial liabilities	1,373	15	1.1	**2,065**		
Trade and other payables	1,673	202	12.1	**1,546**	**142**	**9.2**
Other current liabilities	79	14	17.7	**83**	**20**	**24.1**

(€ million)	First half 2017 Total	First half 2017 Related parties	First half 2017 Share %	First half 2018 Total	First half 2018 Related parties	First half 2018 Share %
Income statement						
Core business revenue	1,244	804	64.6	**1,258**	**836**	**66.5**
Other revenue and income	24	13	54.2	**13**		
Purchases, services and other costs	155	23	14.8	**130**	**12**	**9.2**
Personnel cost	78	3	3.8	**77**		
Financial income	4	3	75.0	**6**	**4**	**66.7**

Related-party transactions are generally governed on the basis of market conditions, i.e. the conditions that would be applied between two independent parties.

The principal cash flows with related parties are shown in the following table.

(€ million)	First half 2017	First half 2018
Revenue and income	817	**836**
Cost and expense	(26)	**(12)**
Change in trade and other receivables	152	**314**
Change in trade and other payables	5	**34**
Change in other non-current liabilities	6	**6**
Net cash flow from operating activities	**954**	**1,178**
Investments:		
- Property, plant and equipment and intangible assets	(10)	**(7)**
- Financial receivables	(93)	**(106)**
- Change in payables and receivables relating to investments	(19)	**(2)**
Cash flow from investments	**(122)**	**(115)**
Net cash flow from investment activities	**(122)**	**(115)**
Increase (decrease) in short-term financial debt	(10)	**(14)**
Net cash flow from financing activities	**(10)**	**(14)**

The effect of cash flows with related parties is shown in the following table:

(€ million)	First half 2017 Total	First half 2017 Related parties	First half 2017 Share %	First half 2018 Total	First half 2018 Related parties	First half 2018 Share %
Cash flow from operating activities	1,401	954	68.1	**1,525**	**1,178**	**77.2**
Cash flow from investment activities	(608)	(122)	20.1	**(488)**	**(115)**	**23.6**
Cash flow from financing activities	(799)	(10)	1.3	**(413)**	**(14)**	**3.4**

30) Post-balance sheet events

Post-balance sheet events are described in the “Post-balance sheet events” section of the directors’ report.

Certification of the condensed interim financial statements pursuant to Article 154-bis, paragraph 5 of Legislative Decree 58/1998 (Consolidated Finance Act)

1. The undersigned Marco Alverà and Franco Pruzzi, as Chief Executive Officer and Chief Financial Officer of Snam S.p.A. respectively, certify, taking into account Article 154-bis, paragraphs 3 and 4 of Legislative Decree No. 58 of 24 February 1998:
   - the adequacy, considering the Company's characteristics, and
   - the effective application of the administrative and accounting procedures for the preparation of the condensed interim financial statements as at 30 June 2018, during the first half of 2018.
2. The administrative and accounting procedures for the preparation of the condensed interim financial statements as at 30 June 2018 and the assessment of their adequacy were carried out using the rules and methods set out in line with the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organisations of the Treadway Commission, a benchmark framework for the internal control system generally accepted internationally.
3. It is also certified that:

   3.1 The condensed interim financial statements as at 30 June 2018:

   a) were prepared in accordance with the applicable international accounting standards recognised in the EU pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) are consistent with the accounting records and ledgers;

   c) are able to provide a true and fair view of the financial position, results of operations and cash flows of the issuer and of the companies included in the scope of consolidation.

   3.2 The interim directors' report includes a fair review of the references to important events which occurred during the first six months of the year and their impact on the condensed interim financial statements, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim directors' report also includes a fair review of the information about significant related-party transactions.

31 July 2018

/Signature/ Marco Alverà	/Signature/Franco Pruzzi
Marco Alverà	Franco Pruzzi
Chief Executive Officer	The Manager charged with preparing the Company's financial reports

Independent auditors' report

REVIEW REPORT ON CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders of
Snam SpA

Foreword

We have reviewed the accompanying condensed interim consolidated financial statements of Snam SpA and its subsidiaries (the Snam Group) as of 30 June 2018, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in shareholders' equity, cash flows statement and related notes. The directors of Snam SpA are responsible for the preparation of the condensed interim consolidated financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union. Our responsibility is to express a conclusion on these condensed interim consolidated financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No.10867 of 31 July 1997. A review of condensed consolidated semiannual financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated semiannual financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial statements of the Snam Group as of 30 June 2018 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34) as adopted by the European Union.

Other aspects

The consolidated financial statements as of and for the year ended 31 dicemnbre 2017 and the condensed interim consolidated financial statements for the period ended 30 June 2017 were audited and reviewed, respectively, by other auditors, who on 29 march 2018 expressed an unqualified opinion on the consolidated financial statements, and on 28 July 2017 expressed an unqualified conclusion on the condensed interim consolidated financial statements.

Milan, 2 August 2018

PricewaterhouseCoopers SpA

Signed by

Giulio Grandi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers