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Oggetto : Snam announces its results for the first
nine months of 2018

Testo del comunicato

Vedi allegato.



Snam announces its results for the first nine months of 2018

San Donato Milanese, 7 November 2018 – The Snam Board of Directors, which met yesterday under the chairmanship of Carlo Malacarne, has approved the consolidated results for the first nine months of 2018 (unaudited). The Board also resolved to distribute an interim dividend for 2018 of €0.0905 per share, with payment starting from 23 January 2019.

Financial highlights

- **Total revenue:** €1,873 million¹ (+€56 million; +3.1% compared with the first nine months of 2017, thanks to the continuation of the investment plan and the contribution of newly consolidated companies)
- **Adjusted EBIT²:** €1,090 million (+€27 million; +2.5% compared with the first nine months of 2017)
- **Adjusted net profit²:** €793 million (+€38 million; +5.0% compared with the first nine months of 2017)
- **Technical investments:** €564 million (€683 million in the first nine months of 2017)
- **Free cash flow:** €832 million
- **Net financial debt:** €11,738 million (€11,550 million as at 31 December 2017)
- **2018 interim dividend:** €0.0905 per share

Operating highlights

- **Natural gas demand:** 51.8 billion cubic metres, broadly in line compared with the first nine months of 2017 (-0.9%)
- **Gas injected into the transportation network:** 55.7 billion cubic metres (+0.4% compared with the first nine months of 2017)
- **Available storage capacity:** 12.4 billion cubic metres (+0.2 billion cubic metres compared with 30 September 2017), almost fully allocated as at 30 September 2018 (equal to 99.7% of the available capacity for the 2018-2019 thermal year)

¹ Net of pass-through items.

² For the reconciliation between reported EBIT and net profit and the corresponding adjusted figures, please refer to page 21 of this press release.



Significant events

- Completed the acquisition on 5 July 2018 for a value in the region of €4 million of 70% of IES Biogas, one of the primary Italian companies in the design, construction and management of biogas and biomethane production plants, and on 25 July 2018 for a value in the region of €12.6 million of the business unit dedicated to technological solutions for automotive natural gas fuelling stations of M.T.M., a Westport Fuel Systems Inc. group company;
- 77,930,479 Snam shares acquired in the first nine months of 2018 (equal to 2.25% of the share capital) for a total cost of €292 million;
- On 2 October 2018, the Board of Directors of Snam S.p.A. approved the annual renewal of the EMTN (Euro Medium Term Notes) programme launched in 2012 for a total maximum value of €10 billion, to be executed by 2 October 2019. The Board of Directors also approved a Euro Commercial Paper programme for a total maximum value of €1 billion, to be executed within 2 years.



Summary of results for the first nine months of 2018

To improve the economic and financial review, this press release contains reclassified financial statements and several alternative performance indicators (Non-GAAP measures)³, represented primarily by adjusted results. In particular, adjusted EBIT and net profit are obtained by excluding special items respectively gross and net of the related taxes from the reported EBIT and net profit (as set forth in the Reclassified Income Statement).

The income components classified under special items in the first nine months of 2018, subjected to adjustment, are costs deriving from the application of the pension advance instrument governed by Article 4, paragraphs 1-7 of Law No 92/2012, or the “Fornero Law” (€15 million, including the cost of retirement incentives; €11 million net of the relative tax effect).

There were no special items in the first nine months of 2017.

INCOME STATEMENT (a)

(millions of €)	First nine months			2018 Adjusted vs 2017	
	2017	2018		Change	% Change
	Reported (**)	Reported (**)	Adjusted		
Regulated revenue	1,828	1,864	1,864	36	2.0
Non-regulated revenue	68	53	53	(15)	(22.1)
Total revenue	1,896	1,917	1,917	21	1.1
- Total revenue net of pass-through items	1,817	1,873	1,873	56	3.1
Operating costs (*)	(351)	(336)	(321)	30	(8.5)
- Operating costs net of pass-through items (*)	(272)	(292)	(277)	(5)	1.8
EBITDA	1,545	1,581	1,596	51	3.3
Amortisation, depreciation and impairment losses	(482)	(506)	(506)	(24)	5.0
Operating profit (EBIT)	1,063	1,075	1,090	27	2.5
Net financial expenses	(171)	(145)	(145)	26	(15.2)
Net income from equity investments	133	131	131	(2)	(1.5)
Pre-tax profit	1,025	1,061	1,076	51	5.0
Income tax (*)	(270)	(279)	(283)	(13)	4.8
Net profit (***)	755	782	793	38	5.0

(a) For the detailed reconciliation concerning the nature of the individual adjustments, please refer to page 20 of this press release.

(*) Adjusted items.

(**) From the Reclassified Income Statement.

(***) Entirely held by Snam shareholders.

³ For more details, please refer to the “Alternative performance measures (Non-GAAP measures)” section of this press release.



Total revenue

Total revenue generated in the first nine months of 2018 totalled €1,917 million, up by €21 million (+1.1%) compared with the first nine months of 2017. Total revenue, net of components that are offset in costs, amounted to €1,873 million in the first nine months of 2018, up by €56 million (+3.1%), thanks to the contribution of companies that have entered the scope of consolidation (+€24 million). Higher regulated revenue (+€71 million; +4.1%), essentially attributable to the transportation segment, was offset in part by lower non-regulated revenue (-€15 million; -22.1%) primarily due to the effects of the conclusion of several service agreements with Italgas⁴.

Adjusted EBIT

Excluding special items, adjusted EBIT⁵ generated in the first nine months of 2018, totalled €1,090 million, up by €27 million (+2.5%) compared with the corresponding figure in 2017. The higher revenue (+€56 million; +3.1%) attributable mainly to the contribution of the transportation segment, was offset in part by higher amortisation and depreciation for the period (-€24 million; equal to 5.0%), mainly due to the entry into operation of new assets.

Net of components offset in revenue, operating costs totalled €277 million, marking a slight increase compared with the first nine months of 2017 (-€5 million; 1.8%). The efficiency improvement actions put in place, together with the dynamics of the provision for receivables impairment losses and also for risks and charges, have largely offset the higher costs arising from the entry and development of new business and specific projects, as well as employment policy management.

Below is a breakdown of EBIT by business segment:

⁴ This revenue is offset in costs incurred for the provision of the related 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, mainly related to interconnection.



(millions of €)	First nine months		Change	% Change
	2017	2018 adjusted		
Business segments				
Transportation	816	847	31	3.8
Regasification	4	3	(1)	(25.0)
Storage	257	251	(6)	(2.3)
Corporate and other activities	(14)	(11)	3	(21.4)
	1,063	1,090	27	2.5

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

- Transportation (+€31 million; +3.8%): attributable to higher regulated revenue (+€73 million, net of components offset in costs; +5.4%), against the tariff update mechanisms (+€54 million)⁶, the positive effects of the consolidation of ITG (+€14 million) and higher incentives recognised to the Balancing Manager. These effects were offset in part by the increase in operating costs (-€25 million⁷; equal to 15.4%), which were attributable primarily to costs for services carried out centrally by Snam S.p.A., as well as higher amortisation and depreciation due to the entry into operation of new assets (-€20 million; equal to 5.0%).
- Storage (-€6 million; -2.3%): the reduction was due to lower revenue (-€3 million, or 0.8%), primarily a result of the update of invested capital recognised for regulatory-RAB purposes, as well as higher amortisation, depreciation and impairment losses for the period (-€2 million; equal to 2.7%). These effects occurred mainly as a result of amortisation and depreciation arising from the entry into operation of new assets, referring in particular to the Bordolano site.

⁶ The change includes the adjustment of revenue recognised for the natural gas transportation and dispatching service for 2018, in order to take into account, the actual values relating to the year 2017, as set out by the Authority by means of Resolution 390/2018/R/gas of 18 July 2018.

⁷ Net of components offset in revenue and higher costs attributable to the effects of the transfer from Stogit of the "Technical plants and services" business unit as part of the Integra Project, effective as of 1 July 2017, as well as special items. With reference to the Integra Project, the higher costs correspond to higher non-regulated revenue against the chargeback of services provided to the affiliate Stogit (€30 million in the first nine months of 2018).



Adjusted net profit

Adjusted net profit generated in the first nine months of 2018, which excludes special items, totalled €793 million, up by €38 million (+5.0%) compared with the corresponding period of the previous year. The higher EBIT (+€27 million; +2.5%) along with lower net financial expenses (+€26 million, or 15.2%), which benefitted from a reduction in the average cost of debt thanks to efficiency measures, were partly offset by higher income taxes (-€13 million, or 4.8%), linked primarily to the higher pre-tax profit.

Key balance sheet, financial and share figures

(millions of €)	First nine months			
	2017	2018	Change	% Change
Technical investments	683	564	(119)	(17.4)
Shareholders' equity at period end (entirely held by Snam shareholders)	6,340	6,255	(85)	(1.3)
Net financial debt at period end	11,156	11,738	582	5.2
Free cash flow	818	832	14	1.7
Number of shares outstanding at the end of the period (million)	3,414.7	3,336.8	(77.9)	(2.3)
Average number of shares outstanding during the period (million)	3,424.9	3,372.8	(52.1)	(1.5)
Official share price at period end (€)	4.08	3.62	(0.45)	(11.2)
EBIT per share (*) (€)	0.310	0.323	0.013	4.3
Net profit per share (*) (**) (€)	0.220	0.232	0.012	5.4
Adjusted net profit per share (*) (**) (€)	0.218	0.235	0.017	7.9

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

(**) Entirely held by Snam shareholders.

Technical investments

Technical investments in the first nine months of 2018, stood at €564 million (€683 million in the first nine months of 2017), comprised mainly the natural gas transportation (€502 million; €607 million in the first nine months of 2017) and storage (€52 million; €69 million in the first nine months of 2017) business segments.



Net financial debt

Net financial debt was €11,738 million as at 30 September 2018⁸, compared with €11,550 million as at 31 December 2017. The positive net cash flow from operating activities (€1,564 million) allowed Snam to fully cover the financial requirements associated with net investments for the period (€732 million), including equity investments, and to generate a free cash flow of €832 million. The net financial debt, after equity cashflow (€1,023 million) 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 purchase of treasury shares (€292 million), recorded an increase of €188 million compared with 31 December 2017, including non-monetary components related to financial debt (€3 million).

Interim dividend

On the basis of the results for the first nine months of the year and forecasts for 2018, the Board of Directors has approved the distribution to shareholders of an interim dividend⁹ of €0.0905 per share with payment starting from 23 January 2019, with a coupon date of 21 January and a record date of 22 January.

⁸ More information on the net financial debt can be found on pages 27-29 of this press release.

⁹ The financial statements and the Directors' Report pursuant to Article 2433-*bis* of the Italian Civil Code, together with the opinion of the independent auditors, are available at the company's registered office.



Operating highlights

	First nine months			
	2017	2018	Change	% Change
Natural gas transportation (a)				
Natural gas injected into the National Gas Transportation Network (billions of cubic metres) (b)	55.49	55.70	0.21	0.4
Transportation network (kilometres in use) (c)	32,491	32,672	181	0.6
Installed power in the compression stations (MW)	922	958	36	3.9
Liquefied natural gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	0.635	0.630	(0.005)	(0.8)
Natural gas storage (a)				
Concessions	10	10		
- of which operational (d)	9	9		
Storage capacity (billions of cubic metres)	16.7	16.9	0.2	0.9
- of which available (e)	12.2	12.4	0.2	1.2
- of which strategic	4.5	4.5		
Natural gas moved through the storage system (billions of cubic metres)	15.38	16.42	1.04	6.8
- of which injected	9.16	9.74	0.58	6.3
- of which withdrawn	6.22	6.68	0.46	7.4
Employees in service at the end of the period (number)	2,941	2,986	45	1.5
<i>of which business segments:</i>				
- Transportation (c)	1,945	1,908	(37)	(1.9)
- Regasification	64	64		
- Storage	57	60	3	5.3
- Corporate and other activities (f)	875	954	79	9.0

- (a) With reference to the first nine months 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/SCM) for transportation and regasification and 39.29 MJ/SCM (10.914 Kwh/SCM) for the storage of natural gas for the 2018-2019 thermal year.
- (b) The figures for the first nine months of 2018 are up to date as at 5 October 2018. The update of 2017 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.
- (c) The figure relating to the first nine months of 2018 includes Infrastrutture Trasporto Gas, which came under the scope of consolidation with effect from October 2017.
- (d) Working gas capacity for modulation services.
- (e) Working gas capacity for modulation, mining and balancing services. The available capacity at 30 September 2018 is that declared to the Electricity, Gas and Water Authority at the start of the 2018-2019 thermal year.
- (f) The figure relating to the first nine months of 2018 includes resources originating from the following: (i) the consolidation of TEP (22 resources) and (ii) IES Biogas (34 resources), as well as (iii) the acquisition of the Cubogas business unit (61 resources).



Natural gas injected into the national transportation network

The first nine months of 2018 saw 55.70 billion cubic metres of natural gas injected into the national transportation network, up slightly by +0.21 billion cubic metres (+0.4%) compared with the first nine months of 2017 (55.49 billion cubic metres) attributable to the contribution of net storage balance (+0.61 billion cubic metres). Demand is broadly in line compared to the same period of 2017 (51.81 billion cubic meters, -0.47 billion cubic meters, -0.9%) despite the fact that 2017 was positively impacted by the outage of some French nuclear plants in the first two months of the year and by lower hydroelectric production due to water shortage. The decreased consumption in the thermoelectric sector (-1.43 billion cubic meters, -7.8%) was almost entirely offset by higher residential and tertiary sector consumption (+0.94 billion cubic meters; + 5.0%), following cooler temperatures than the corresponding period of 2017.

Adjusting for the weather effect, gas demand was estimated at 51.53 billion cubic metres, decreasing by 1.34 billion cubic metres (-2.5%) compared to the corresponding value for the first nine months of 2017 (52.87 billion cubic metres).

Liquefied Natural Gas (LNG) regasification

In the first nine months of 2018, 0.630 billion cubic metres of LNG were regasified, in line with the same period in 2017 (0.635 billion cubic metres; -0.8%) and 13 tankers were unloaded, of which 2 were spot loads (this compares to 15 loads in the first nine months of 2017, of which 2 spot loads, carried out as part of the integrated service introduced by Decree-Law No 1 of 24 January 2012).

Natural gas storage

During the first nine months of 2018, 16.42 billion cubic metres of natural gas moved through the storage system, an increase of 1.04 billion cubic metres (+6.8%) compared with the volumes moved in the first nine months of 2017 (15.4 billion cubic metres). The increase was essentially attributable to greater withdrawals from storage (+0.58 billion cubic metres; +6.3%) due primarily to weather conditions in the early months of 2018, as well as the increased amounts injected to refill storage (+0.46 billion cubic metres; +7.4%).

The total storage capacity at 30 September 2018, including strategic storage, was 16.9 billion cubic metres (+0.2 billion cubic metres, or 0.9%, compared with 30 September 2017), following the progressive start-up of the Bordolano site. The total capacity includes 12.4 billion cubic metres relating to available storage capacity, almost entirely allocated as at 30 September 2018 (equal to 99.7% 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).



Main events

Business developments

IES Biogas - Biomethane

On 5 July 2018, through the subsidiary Snam4Mobility, Snam acquired 70% of IES Biogas for a value in the region of €4 million. The contract establishes cross put and call options on the interests of minority shareholders expiring in 2022¹⁰.

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.

The value of the transaction was €12.6 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.

Sustainable mobility

Within the broader context of initiatives promoting sustainable mobility:

- On 6 August 2018, Snam entered into a framework agreement with api Group for the installation of around 200 new natural gas and biomethane fuelling systems at IP brand fuel points of sale. This agreement is related to the commitment of the two companies to promote sustainable mobility and aims to expand the automotive natural gas distribution network in Italy. On the basis of the agreement, Snam and api Group will jointly identify the IP brand ordinary and motorway network fuelling stations where the automotive methane (CNG, compressed natural gas) systems will be installed. LNG (liquefied natural gas) distributors for heavy-duty vehicles are also being researched;

¹⁰ At the acquisition date, according to the terms of the contract governing the exercise of the cross put and call options on the interests of minority shareholders (equal to 30%), the transaction was accounted for as if Snam had acquired control over 100% of IES Biogas, without therefore recognising the interests of minority shareholders. The present value of expected payments if the options are exercised was included in the consideration of the business combination (equal to roughly €1.6 million).



- In execution of the framework agreement signed in May 2017, on 6 August 2018 Snam, through its subsidiary Snam4Mobility, concluded the second application agreement with Eni on the development of 20 methane fuelling stations in Italy. The contract relates to the design, construction and maintenance by Snam of 20 new CNG systems within the national network of Eni distributors. The investment for these activities is expected to amount to roughly €10 million.

On 30 September 2018 agreements were signed for the construction of 45 service stations.

Sardinia Newco

On 30 October 2018 the European Commission – Directorate General for Competition forwarded its antitrust clearance (authorization) on the establishment of Sardinia Newco by Snam and Società Gasdotti Italiani-SGI, aimed at the construction of the gas transport infrastructure in Sardinia.

Financing

New bond issue

As part of the EMTN (Euro Medium Term Notes) programme approved by the Board of Directors on 6 October 2017, Snam S.p.A. completed a 5-year €600 million bond issue with top institutional investors on 18 September 2018, maturing on 18 September 2023, with an annual coupon at a fixed rate of 1.00% and a reoffer price of 99.285 (corresponding to an 83-basis-point spread on the benchmark mid swap rate).

This issue represents a further step forward in the process of optimising our debt structure. The success of the transaction, characterised by very significant demand and a particularly favourable price, is an important sign of investor interest and confidence in Snam and in Italian companies and the country more generally.

Renewal of the EMTN programme and authorisation of a Euro Commercial Paper programme

On 2 October 2018, the Board of Directors of Snam S.p.A. approved the annual renewal of the EMTN programme launched in 2012 for a maximum confirmed value of €10 billion.

As a result, the Board has decided to issue one or more additional bonds to be executed by 2 October 2019 for a maximum amount of approximately €1.74 billion, increased by the amount corresponding to the bonds repaid during the same period, to be placed with institutional investors operating primarily in Europe. The total nominal value of issued bonds in circulation in each instance may not exceed the maximum limit of €10 billion. The securities issued may be listed on one or more regulated markets.

The EMTN programme represents an effective instrument for obtaining significant financial resources in the market quickly, flexibly and at competitive costs, in line with



the expected evolution of the company's target financial structure. As part of the EMTN programme, at the date of this press release roughly €8.26 billion in bonds had been issued¹¹.

The Board of Directors also approved a Euro Commercial Paper programme ("ECP Programme") for the issue of one or more Euro Commercial Papers, to be executed within two years of 2 October 2018, for a total maximum value of €1 billion, plus the amount corresponding to the Euro Commercial Papers repaid over time in the course of the same period, to be placed with institutional investors in accordance with the terms and procedures of the ECP Programme. The total nominal value of Euro Commercial Papers issued for the ECP Programme may not in any case exceed the maximum limit of €1 billion.

The ECP Programme will enable Snam to diversify its short-term financing instruments with a view to increasingly boosting flexibility in the treasury optimisation process.

Share buyback programme

In the first nine months of 2018, 77,930,479 Snam shares (equal to 2.25% of the share capital, remaining after the cancellation of 31,599,715 treasury shares with no share capital reduction) were acquired for a total cost of €292 million.

The following acquisitions were made respectively: (i) for 36,606,724 Snam shares as part of the share buyback programme approved by the Snam Shareholders' Meeting on 11 April 2017; (ii) for 41,323,755 shares as part of the new programme approved by the Shareholders' Meeting on 24 April 2018, with a duration of 18 months as of the resolution execution date.

At 30 September 2018, Snam had a total of 132,246,380 treasury shares, equivalent to 3.81% of its share capital¹².

For the implementation of an initial part of the programme, on 2 October 2018 Snam entered into an enhanced buyback agreement with a leading intermediary, with a maximum duration until 20 December 2018.

Rating

On 4 September 2018, Fitch affirmed Snam's BBB+ rating with stable outlook, underlining that the revision of outlook on Italy's 'BBB' sovereign rating to Negative from Stable does not directly affect Snam's rating and outlook.

Based on Fitch methodology, Snam can be positioned up to two notches above the sovereign.

¹¹ The convertible bond loan with a nominal value of €400 million is not part of the EMTN Programme.

¹² At 4 November 2018, Snam had a total of 153,151,397 treasury shares, equivalent to 4.41% of its share capital.



On 23 October 2018, Moody's lowered Snam's long-term rating by one notch, from Baa1 to Baa2. The outlook has been changed from negative to stable. The assessment follows the downgrade of one notch of Italy's long-term sovereign rating, which took place on October 19, 2018 (from Baa2 to Baa3 with a stable outlook).

The rating agency emphasizes Snam's strategic position, its leadership in the gas transmission and storage sector in Italy and its crucial role within the country's energy strategy, as well as the mainly regulated nature of its activities, together with a solid liquidity position and a limited exposure to the risk of volatility in the debt capital markets. Consequently, the Company's rating is positioned one notch higher than that of the sovereign.

On 29 October 2018, S&P affirmed Snam's BBB+ long-term rating. The outlook assigned to the rating was moved from stable to negative, as a consequence of the similar action on the outlook of the Italian sovereign rating (BBB with outlook from stable to negative) announced last 26 October.

The short-term rating is affirmed at A-2.

The rating agency continues to assess Snam's stand-alone credit profile (SACP) at "a-". This assessment reflects the position of strong and recognized leadership of the company as the main Italian operator in the transmission, storage and regasification of natural gas, as well as the generation of stable and predictable cash flows deriving from regulated gas activities in Italy. In addition, S&P forecast that the company can post adjusted FFO to debt sustainably above 12% over the next two years, which is the threshold for the 'a-' SACP.

Other

Retirement incentive agreement – ISOPENSIONE

On 26 September 2018, Snam and a series of the most representative trade unions signed an implementation agreement (hereafter the "Plan") relating to the pension advance instrument for its employees, regulated by Article 4, paragraphs 1-7 of Law No 92/2012 (the "Fornero Law"). This agreement follows the preliminary agreement entered into by the parties on 26 July 2017 concerning instruments for employment policy management.

By 31 October 2019, the Plan intends to create the conditions for the companies of the Snam Group that favour the early exit of beneficiary employees in order to achieve a generational turnover.

A total of 110 resources were involved in the Plan, after verification of the fulfilment of retirement requirements by INPS.

As far as the application of this implementing agreement is concerned, Snam has committed to pay the beneficiary employees, in addition to the amounts set out in the Plan, a further amount as a retirement incentive.



In relation to the aforementioned Plan, in the third quarter of 2018 the income statement recorded expenses of €15 million under personnel costs, including the costs for early retirement incentives granted to employees participating in the Plan.

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 and in the 2018 Half-Year Report occurred.

Criminal cases

Snam Rete Gas S.p.A. – Pineto Event

On 6 March 2015, in Mutignano, a landslide struck the San Benedetto Del Tronto-Chieti section of the Ravenna-Chieti methane pipeline for a few dozen metres, breaking it and resulting in a gas leak as well as a subsequent fire following the collapse of a nearby electric pylon.

With respect to this event, the Public Prosecutor at the Court of Teramo immediately opened an investigation to verify whether there was any negligent conduct linked to the forest fire. Following the investigation, the Public Prosecutor requested the committal for trial of Snam Rete Gas technicians and technical managers. On 3 October 2018, the committal for trial was ordered by the preliminary hearing judge. The first hearing for the discussion of the case in the first instance is scheduled for 10 January 2019 before the Court of Teramo.

Regulation

2018 transportation tariffs

Resolution 390/2018/R/gas – Final determination of the revenue recognised for the natural gas transportation and dispatching service for 2018

By means of this resolution, published on 18 July 2018, the Authority definitively determined the revenue recognised for the natural gas transportation and dispatching service for 2018, in order to take into account the actual values relating to 2017.

Consolidated Balancing Act (TIB)

Resolution 480/2018/R/gas – Definition of incentive parameters pursuant to Article 9 of the TIB (Consolidated Balancing Act), valid as of 1 October 2018

By means of this resolution, published on 28 September 2018, the Authority defined the parameters of the economic incentives for the Balancing Manager with reference to the



1 October 2018 - 31 December 2019 period. The resolution confirmed the general outline of the incentive mechanism in force, while modifying certain parameters. In particular, the p3 (residual balancing) performance objective is reinforced, establishing an increase in the maximum value, with respect to the p2 (market TSO intervention price) performance, the base value of which is reduced from 3% to 2%.

The Authority also reduced the total incentive by a fixed amount of €5,500/day (roughly €2 million/year), recognising to the Balancing Manager a sum of an equal amount upon achieving further improvement objectives (also with reference to the new settlement regime), in relation to which Snam Rete Gas will transmit a proposal to the Authority.

WACC – Launch of updating procedure

Resolution 498/2018/R/gas – Launch of procedure for updating the rate of return on invested capital for infrastructure services in the electricity and gas sectors, for the 2019-2021 period

This resolution, published on 10 October 2018, launched a procedure to implement provisions relating to the update in basic WACC parameters set out in Article 5 of the “TIWACC 2016-2021” Consolidated Act. As part of the procedure, to be concluded by 15 December 2018, a consultation document may be made available and thematic meetings may be organised with stakeholders.



Outlook

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

INVESTMENTS

Snam confirms a significant investment plan of around €5.7 billion in the period 2018-2022, of which €0.9 billion has been invested in 2018, to support the development of Italian infrastructure and its European interconnections with European ones, strengthening the security, flexibility and liquidity of the entire gas system. The Plan facilitates the strengthening of the transportation network, aiding the completion of the creation of additional reverse flow capacity towards other European countries, and opening new flows from the Caspian region through the TAP gas pipeline. In particular, investments in the transportation business are aimed at:

- increased flexibility and security of the transportation system in Italy;
- increased interconnection between infrastructure and greater flexibility of gas flows in Europe;
- ongoing improvements to the quality of the transportation service;
- additional emissions reduction initiatives.

Throughout the plan, Snam will increase its focus on the development of new businesses, such as biomethane, and also the development of alternative uses of gas for transporting goods and people. This will be undertaken while committing to building natural gas-fuelled vehicle fuelling stations, with a view to boosting the number of current methane service stations, to improve service quality and guarantee a more balanced geographical distribution of the stations. Snam's strategic plans also aim to accelerate growth in the energy efficiency sector. The company will be able to use its international subsidiaries to promote increasing interconnectivity among European infrastructure systems, and develop greater diversification and flexibility of gas flows, while at the same time maximising the profitability of its assets. Applying a selective approach and adhering to financial policies, Snam will monitor new opportunities to invest in both domestic and international infrastructure assets, with a risk profile in line with the one of its current business portfolio.

GAS DEMAND

The most recent estimates on the evolution of natural gas demand on the Italian market predict stability compared to 2018 levels in the period 2018-2022. This is despite a progressive reduction of European domestic production, expected to be balanced by an increasing dependence on imports.



This press release on the consolidated results for the first nine months of 2018, which has not been audited, has been prepared on a voluntary basis pursuant to Article 82-ter "Additional periodic financial information" of Consob Issuers' Regulation 11971 of 14 March 1999, as amended, consistent with the quarterly information provided by Snam in the past and the minimum contents and deadlines set out in the Group's financial calendar.

Information on operating results and cash flows is provided with reference to the first nine months of 2018 and the first nine months of 2017. Information on financial position is provided with reference to 30 September 2018 and 31 December 2017. The form of the financial statements corresponds to that of the statements presented in the Interim Directors' Report of the Consolidated Half-Year Report and the Directors' Report of the Annual Report. The financial statements were compiled in accordance with the recognition and measurement criteria established by the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission under Article 6 of Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002.

The recognition and measurement criteria adopted for the preparation of the results for the first nine months of 2018 are the same as those used for the preparation of the Consolidated Half-Year Report at 30 June 2018, which should be referred to for a description of those criteria, except for the international accounting standards that came into force on 1 January 2018, as described in Note 6 "Recently issued IFRS" of the 2017 Annual Report. The impacts from the application of these new provisions on the consolidated results of the Snam Group essentially regard the effects of the first-time application of IFRS 9 "Financial instruments" with reference to the liability management operations carried out by Snam in 2015 and 2017¹³.

The first-time application of the new standard resulted, at 1 January 2018, in an increase in the Group shareholders' equity of €8 million, net of the relative tax effect.

Changes in the Snam Group's consolidation scope at 30 September 2018 with respect to that in place at 31 December 2017 regarded the consolidation of the following companies:

¹³ 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). More details can be found in Note 1 to the condensed interim consolidated financial statements, "Basis of presentation and accounting principles".



Name	Sector	% ownership	As of
Snam International B.V. (formerly GasBridge 2 B.V.)	Corporate and other activities	100%	April 2018
Asset Company 4 S.r.l.	Corporate and other activities	100%	May 2018
TEP Energy Solution S.r.l.	Corporate and other activities	82%	May 2018
IES Biogas S.r.l.	Corporate and other activities	70%	July 2018
Cubogas S.r.l. (formerly Asset Company 3 S.r.l.)	Corporate and other activities	100%	July 2018

Aside from the above-mentioned modifications, changes in the Snam Group's consolidation scope at 30 September 2018 with respect to that in place at 30 September 2017 regarded the consolidation of the following companies:

Name	Sector	% ownership	As of
Asset Company 2 S.r.l.	Natural gas transportation	100%	October 2017
Infrastrutture Trasporto Gas S.p.A. - ITG	Natural gas transportation	100%	October 2017
Snam4Mobility S.p.A.	Corporate and other activities	100%	December 2017

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



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

Disclaimer

This press release contains forward-looking statements, specifically relating to: changes in demand for natural gas, investment plans and future management performance. Such statements are, by their very nature, subject to risk and uncertainty as they depend on whether future events and developments take place. The effective results may therefore differ from those announced with regard to various factors, including: foreseeable trends in natural gas demand, supply and price, general macroeconomic conditions, the effect of new energy and environmental legislation, the successful development and implementation of new technologies, changes in stakeholders' expectations and other changes in business conditions.

A conference call will take place at 11:30 CET today, 7 November 2018, to present the consolidated results for the first nine months of 2018 to investors and financial analysts. It will be possible to follow the event through the conference call, and the supporting materials will be made available at www.snam.it in the Investor Relations section when the event begins. It will also be possible to view the presentation through video webcasting in the same section.



Alternative performance measures (Non-GAAP measures)

In the management report in addition to the financial results reported according to IFRS, Snam presents certain variables deriving from the results, even if not required by IFRS or by other accounting standards (Non-GAAP measures).

Snam's management believes that such measures facilitate the analysis of the Group's performance as well as the business segments, ensuring improved comparability of results over time and enabling financial analysts to evaluate Snam's results on the basis of their forecasting models.

Non-GAAP financial information must be considered as complementary and does not replace the information prepared in accordance with IFRS.

In accordance with the Consob Communication DEM/6064293 of 28 July 2006, as amended (Consob Communication No 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from reclassifications or algebraic sums of conventional indicators¹⁴ compliant with international accounting standards.

Adjusted EBIT and net profit

Adjusted EBIT and net profit are obtained by excluding special items (respectively gross and net of the related taxes) from the reported EBIT and net profit, as set forth in the Income Statement.

The income components classified under special items in the first nine months of 2018 are costs recognised under "personnel expenses" in application of the pension advance instrument governed by Article 4, paragraphs 1-7 of Law No 92/2012, or the "Fornero Law"¹⁵ (€15 million, including the cost of retirement incentives recognised to employees participating in the Plan; €11 million net of the relative tax effect).

There were no special items in the first nine months of 2017.

Special items

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

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

¹⁴ According to the CESR/05-178b recommendation of October 2005, all the data included in the financial statements audited in accordance with IFRS or in the income statement, the balance sheet and the cash flow statement are conventional indicators.

¹⁵ Additional information is provided in the "Main events" section of this press release.



The table below provides a reconciliation between reported EBIT and net profit and the corresponding adjusted amounts:

(millions of €)	First nine months			
	2017	2018	Change	% Change
EBIT	1,063	1,075	12	1.1
Excluding special items				
- <i>costs for retirement benefits – Isopensione</i>		15	15	
Adjusted EBIT	1,063	1,090	27	2.5
Net financial expenses	(171)	(145)	26	(15.2)
Net income from equity investments	133	131	(2)	(1.5)
Income tax	(270)	(279)	(9)	3.3
- <i>tax effect linked to Isopensione expenses</i>		(4)	(4)	
Adjusted net profit	755	793	38	5.0



Summary tables of adjusted income statement items

Total revenue

(millions of €)	First nine months		Change	% Change
	2017	2018		
Business segments				
Transportation	1,523	1,586	63	4.1
Regasification	19	19		
Storage	448	449	1	0.2
Corporate and other activities	153	160	7	4.6
<i>Consolidation eliminations</i>	<i>(247)</i>	<i>(297)</i>	<i>(50)</i>	<i>20.2</i>
Total revenue	1,896	1,917	21	1.1

Regulated and non-regulated revenue

(millions of €)	First nine months		Change	% Change
	2017	2018		
Regulated revenue	1,828	1,864	36	2.0
Business segments				
Transportation	1,410	1,486	76	5.4
Regasification	14	14		
Storage	325	320	(5)	(1.5)
Revenue items offset in costs (*)	79	44	(35)	(44.3)
Non-regulated revenue	68	53	(15)	(22.1)
	1,896	1,917	21	1.1

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



Operating costs - Regulated and non-regulated activities

(millions of €)	First nine months		Change	% Change
	2017	2018		
Costs of regulated activities	286	268	(18)	(6.3)
Controllable fixed costs	182	186	4	2.2
Variable costs	5	8	3	60.0
Other costs (*)	20	30	10	50.0
Costs offset in revenue (**)	79	44	(35)	(44.3)
Costs of non-regulated activities	65	53	(12)	(18.5)
	351	321	(30)	(8.5)

(*) This figure excludes special items.

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

Amortisation, depreciation and impairment

(millions of €)	First nine months		Change	% Change
	2017	2018		
Amortisation and depreciation	480	506	26	5.4
Business segments				
Transportation	400	420	20	5.0
Regasification	4	4		
Storage	71	75	4	5.6
Corporate and other activities	5	7	2	40.0
Impairment losses (Reversals)	2		(2)	(100.0)
	482	506	24	5.0

EBIT

(millions of €)	First nine months		Change	% Change
	2017	2018		
Business segments				
Transportation	816	847	31	3.8
Regasification	4	3	(1)	(25.0)
Storage	257	251	(6)	(2.3)
Corporate and other activities	(14)	(11)	3	(21.4)
	1,063	1,090	27	2.5



Net financial expenses

(millions of €)	First nine months			
	2017	2018	Change	% Change
Financial expense related to net financial debt	178	150	(28)	(15.7)
- Interest and other expense on short- and long-term financial debt	178	152	(26)	(14.6)
- Bank interest income		(2)	(2)	
Other net financial expense (income)	2	4	2	100.0
- Accretion discount	8	8		
- Other net financial expense (income)	(6)	(4)	2	(33.3)
Losses on hedging derivatives – ineffective portion	1		(1)	(100.0)
Financial expense capitalised	(10)	(9)	1	(10.0)
	171	145	(26)	(15.2)

Net income from equity investments

(millions of €)	First nine months			
	2017	2018	Change	% Change
Equity method valuation effect	133	129	(4)	(3.0)
Dividends		2	2	
	133	131	(2)	(1.5)

Income tax

(millions of €)	First nine months			
	2017	2018	Change	% Change
Current taxes	286	304	18	6.3
(Deferred) prepaid taxes				
Deferred taxes	(12)	(12)		
Prepaid taxes (*)	(4)	(9)	(5)	
	(16)	(21)	(5)	31.3
	270	283	13	4.8

(*) This figure excludes special items.



Reclassified statement of financial position

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

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

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

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(millions of €)	31.12.2017	30.09.2018	Change
Fixed capital	18,875	19,115	240
Property, plant and equipment	16,033	16,079	46
Compulsory inventories	363	363	
Intangible assets	850	884	34
Equity investments	1,591	1,612	21
Financial receivables held for operations	373	496	123
Net payables for investments	(335)	(319)	16
Net working capital	(1,079)	(1,053)	26
Provisions for employee benefits	(58)	(69)	(11)
NET INVESTED CAPITAL	17,738	17,993	255
Shareholders' equity	6,188	6,255	67
- entirely held by Snam shareholders	6,188	6,255	67
Net financial debt	11,550	11,738	188
COVERAGE	17,738	17,993	255

The **fixed capital** (€19,115 million) rose by €240 million with respect to 31 December 2017 essentially as a result of the increase in financial receivables held for operations (+€123 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 property, plant and equipment and intangible assets (totalling +€80 million) thanks to the contribution of the newly consolidated companies and the business units acquired (+€37 million) mainly relating to the Cubogas, TEP and IES Biogas purchase price allocation.¹⁶

¹⁶ Please note that pursuant to IFRS 3 "Business Combinations", at the date of acquisition of control of the above-mentioned companies, the individual assets acquired and the liabilities assumed were provisionally recognised separately from goodwill at their fair value.



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

(millions of €)	Property, plant and equipment	Intangible assets	Total
Balance at 31 December 2017	16,033	850	16,883
Technical investments	523	41	564
Amortisation, depreciation and impairment	(462)	(44)	(506)
Transfers, eliminations and divestments	(12)		(12)
Change in scope of consolidation	1	28	29
Other changes	(4)	9	5
Balance at 30 September 2018	16,079	884	16,963

Equity investments

The item equity investments (€1,612 million) essentially comprises: (i) the valuation of equity investments using the equity method referring to the companies Trans Austria Gasleitung GmbH-TAG (€495 million), Teréga Holding S.A.S.¹⁷ (€485 million), Trans Adriatic Pipeline AG (TAP) (€244 million), Italgas S.p.A. (€168 million), AS Gasinfrastruktur Beteiligung GmbH (€120 million) and Interconnector UK (€60 million)¹⁸; (ii) the fair value measurement of the minority interests in the company Terminale GNL Adriatico S.r.l. (€40 million).

Financial receivables held for operations

The financial receivables held for operations (€496 million) refer to Snam's share of the Shareholders' Loan issued in favour of the affiliate Trans Adriatic Pipeline AG (TAP). The increase of €123 million compared with 31 December 2017 was primarily due to the cash calls received in the first nine months of 2018¹⁹.

¹⁷ Teréga has been the new name of TIGF since 30 March 2018.

¹⁸ Following the share swap between Snam and Fluxys on 26 April 2018, following which Snam became the sole shareholder of GasBridge 2 (now Snam International) and Fluxys became the holder of the entire share capital of GasBridge 1, the equity investment in the associated company Interconnector UK, held by Snam International, has been valued in Snam's consolidated financial statements with the equity method pursuant to IAS 28.

¹⁹ Following the stipulated contractual agreements, the shareholders are responsible for financing the project on the basis of shares held, until the pipeline enters into operation. Eventual expansion of capacity is subject to assessment of economic feasibility and therefore verification of the benefits for TAP, also in compliance with the decision regarding exemption by the regulatory authorities.



Net financial debt

(millions of €)	31.12.2017	30.09.2018	Change
Financial and bond debt	12,619	13,725	1,106
Short-term financial debt (*)	2,443	3,474	1,031
Long-term financial debt	10,176	10,251	75
Financial receivables and cash and cash equivalents	(1,069)	(1,987)	(918)
Cash and cash equivalents	(719)	(1,986)	(1,267)
Financial receivables not held for operations	(350)	(1)	349
	11,550	11,738	188

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

The positive net cash flow from operating activities (€1,564 million) allowed us to fully cover the financial requirements associated with net investments for the period (€732 million), including equity investments, and to generate a free cash flow of €832 million. The net financial debt, after equity cash flows (€1,023 million), arising 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 (€292 million), recorded an increase of €188 million compared with 31 December 2017, including non-monetary components correlated with financial debt (€3 million)²⁰.

²⁰ These components are primarily connected to the effects of the first-time application of the provisions of IFRS 9 "Financial instruments", offset in part by net financial debt associated with the companies that have entered the consolidation scope.



Financial and bond debt at 30 September 2018, amounting to €13,725 million (€12,619 million at 31 December 2017), comprised the following:

(millions of €)	31.12.2017	30.09.2018	Change
Bonds	8,672	8,661	(11)
Bank loans	3,931	5,063	1,132
Other financing	16	1	(15)
	12,619	13,725	1,106

Financial and bond debt is denominated in euros²¹ and refers mainly to bond loans (€8,661 million, or 63.1%) and bank loans (€5,063 million, or 36.9%, including €1,461 million provided by the European Investment Bank - EIB).

Bonds amounted to €8,661 million, a slight decline of €11 million compared with 31 December 2017, essentially due to: (i) the repayment of a fixed-rate bond maturing on 19 March 2018, with a nominal amount of €851 million; (ii) the repayment of a fixed-rate bond maturing on 10 September 2018, with a nominal amount of €70 million; and (iii) interest accrual trends. These effects were offset in part by (i) the issue of a variable-rate private placement²², maturing in January 2020 with a nominal amount of €350 million; and (ii) the issue of a fixed-rate bond maturing in September 2023, with a nominal amount of €600 million.

Bank loans totalling €5,063 million increased by €1,132 million primarily as a result of the higher net uses of uncommitted credit lines and two variable-rate term loans taken out for a total of €650 million²³, offset in part by the simultaneous early termination of the €250 million variable-rate term loan.

Long-term financial debt (€10,251 million) represented around 75% of gross financial debt (around 81% at 31 December 2017). Fixed-rate financial debt amounted to around 74% of gross financial debt (around 78% at 31 December 2017).

Cash and cash equivalents, amounting to €1,986 million (€719 million as at 31 December 2017) referred 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 (€940 million) and cash and cash

²¹ Except for a fixed-rate bond loan for ¥10 billion, fully converted into euros through a cross-currency swap (CCS) financial derivative.

²² The variable-rate bond is converted into a fixed-rate bond loan through an interest rate swap (IRS) hedging derivative.

²³ Of which €400 million is converted into fixed rate through interest rate swap (IRS) hedging derivatives.



equivalents at the company Gasrule Insurance DAC for the exercise of group insurance activities (€29 million).

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

Net working capital

(millions of €)	31.12.2017	30.09.2018	Change
Trade receivables	1,274	1,027	(247)
- of which balancing	251	197	(54)
Inventories	86	93	7
Tax receivables	46	27	(19)
Other assets	50	212	162
Provisions for risks and charges	(677)	(692)	(15)
Trade payables	(406)	(634)	(228)
- of which balancing	(207)	(191)	16
Accruals and deferrals from regulated activities	(231)	(318)	(87)
Tax payables	(11)	(162)	(151)
Deferred tax payables	(165)	(146)	19
Derivative assets/(liabilities)	(12)	(13)	(1)
Other liabilities	(1,033)	(447)	586
	(1,079)	(1,053)	26

Net working capital (-€1,053 million) increased by €26 million in respect to 31 December 2017. This increase was mainly due to: (i) the reduction in other liabilities (+€586 million) essentially due to the payment of the 2017 interim dividend of €0.0862 per share to Snam shareholders (+€294 million) and lower payables to CSEA relating to the transportation segment (+€255 million), attributable primarily to additional tariff components and, in particular, to the CVOS component²⁴, the application of which is suspended from April to September; (ii) the increase in other assets (+€162 million), essentially as a result of increased receivables from CSEA in the transportation segment, relating to the gas settlement introduced by the Authority by means of Resolution 670/2017/R/gas²⁵.

²⁴ The CVOS variable unit fee, expressed in €/SCM, is additional to the Variable Fee intended to cover costs arising from the application of the revenue guarantee factor for the storage service pursuant to Article 10-bis of Resolution 29/2011 and costs incurred by the Energy Services Operator for the provision of the measures pursuant to Articles 9 and 10 of Legislative Decree No 130/10.

²⁵ By means of Resolution 670/2017/R/gas, the Authority approved the first provisions on the gas settlement for the determination of physical and economic adjustment items for the previous period (2013-2016). The regulations also call for any imbalance in credit and debit items with respect to users to be settled by CSEA so as to guarantee the neutrality of Snam Rete Gas as the major transportation company.



These factors were partially offset by: (i) lower trade receivables (-€247 million) mainly as a result of the reduction in receivables for additional tariff components and lower capacity revenue, offset in part by higher gas settlement receivables; (ii) higher trade payables (-€228 million), attributable primarily to the transportation segment gas settlement; (iii) higher tax payables (-€151 million), primarily as a result of the recognition of taxes for the period, net of the relative advances paid; and (iv) higher accrued liabilities and deferred income from regulated activities (-€87 million) relating to over-invoicing and penalties in the transportation business.

Statement of comprehensive income

(millions of €)	First nine months	
	2017	2018
Net profit (*)	755	782
Other components of comprehensive income		
<i>Components that can be reclassified to the income statement:</i>		
Change in fair value of cash flow hedging derivatives (effective portion)	(5)	(3)
Share of "other comprehensive income" of investments accounted for using the equity method	(2)	
Tax effect	1	1
	(6)	(2)
Total other components of comprehensive income, net of tax effect	(6)	(2)
Total comprehensive income (*)	749	780

(*) Entirely held by Snam shareholders.

Shareholders' equity

(millions of €)	
Shareholders' equity at 31 December 2017 (*)	6,188
<i>Effect of initial application of IFRS 9 (**)</i>	8
Shareholders' equity at 1 January 2018 (*)	6,196
<i>Increases owing to:</i>	
- Comprehensive income for the first nine months of 2018	780
- Other changes	8
	788
<i>Decreases owing to:</i>	
- 2017 dividend balance	(437)
Acquisition of treasury shares	(292)
	(729)
Shareholders' equity at 30 September 2018 (*)	6,255

(*) Entirely held by Snam shareholders.

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



As at 30 September 2018, Snam held 132,246,380 treasury shares (85,915,616 as at 31 December 2017), equal to 3.81% of its share capital, with a total book value of €491 million (€318 million at 31 December 2017). The market value of the treasury shares at 30 September 2018 was around €479 million²⁶.

Covenants

As at 30 September 2018, Snam had 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 place Snam in default and trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees, if Snam's rating²⁷ is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or lower than Baa2 (Moody's), with at least two of the three rating agencies.

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

At 30 September 2018, the financial debt subject to these restrictive clauses amounted to approximately €3 billion.

The bonds issued by Snam at 30 September 2018, with a nominal value of €8.7 billion, mainly refer to securities issued under the Euro Medium Term Notes programme²⁸. 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.

²⁶ Calculated by multiplying the number of treasury shares by the period-end official price of €3.621 per share.

²⁷ Rating Baa2 for Moody's, BBB+ for S&P and Fitch.

²⁸ The convertible bond loan with a nominal value of €400 million is not part of the EMTN Programme.



Failure to comply with these covenants – in some cases only when this non-compliance is not remedied within a set time period – and the occurrence of other events, such as cross-default events, some of which are subject to specific threshold values, may result in Snam's failure to comply and could trigger the early repayment of the relative loan. In confirmation of Snam's credit standing, the loan agreements do not contain covenants which require compliance with an economic and/or financial ratio.

Reclassified statement of cash flows and change in net financial debt

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



RECLASSIFIED STATEMENT OF CASH FLOWS

(millions of €)	First nine months	
	2017	2018
Net profit	755	782
<i>Adjusted for:</i>		
- Amortisation, depreciation and other non-monetary components	350	390
- Net capital losses (capital gains) on asset sales and eliminations	2	9
- Dividends, interest and income taxes	421	404
Change in working capital due to operating activities	282	127
Dividends, interest and income taxes collected (paid)	(165)	(148)
Net cash flow from operating activities	1,645	1,564
Technical investments	(667)	(556)
Technical disinvestments	1	3
Change in scope of consolidation and business units (a)		(30)
Equity investments	2	(10)
Change in financial credits instrumental to operating activities	(121)	(117)
Other changes relating to investment activities	(42)	(22)
Free cash flow	818	832
Change in financial receivables not held for operations	(350)	350
Change in short- and long-term financial debt	754	1,108
Equity cash flow (b)	(928)	(1,023)
Net cash flow for the period	294	1,267

CHANGE IN NET FINANCIAL DEBT

(millions of €)	First nine months	
	2017	2018
Free cash flow	818	832
Effect of initial application of IFRS 9		10
Financial payables and receivables from companies entering the consolidation scope		(5)
Exchange rate differences on financial debt	6	(2)
Effect of the measurement of financial debt at fair value	4	
Equity cash flow (b)	(928)	(1,023)
Change in net financial debt	(100)	(188)

(a) Net of the relative cash and cash equivalents acquired.

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

Fine Comunicato n.0542-137

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