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Testo del comunicato

Vedi allegato.

press release

Snam: 2018 consolidated financial statements and draft financial statements

San Donato Milanese, 19 February 2019 - Snam's Board of Directors, under the chairmanship of Carlo Malacarne, yesterday approved the 2018 consolidated financial statements and draft financial statements and the 2018 Consolidated Non-Financial Disclosure, prepared pursuant to Legislative Decree No. 254/2016. The Board also approved the proposal to the Shareholders' Meeting to distribute a dividend of €0.2263 per share, of which an interim payment of €0.0905 per share was already made in January 2019.

Highlights

Snam's evolution continues: main economic indicators all increased compared to the prior year and were higher than previously communicated guidance

- **Adjusted net profit[1]:** €1,010 million (+€70 million; +7.4% compared with 2017), thanks to positive operational performance and a reduction in average cost of debt
- **Adjusted EPS[2]:** € cent 30.6 (+8.8% than 2017)
- **Increase in 2019 net profit guidance:** revised to +5% compared to 2018 (versus previous guidance of +4%)
- **Adjusted EBIT[1]:** €1,405 million (+€42 million; +3.1% compared with 2017, also due to the effects of the efficiency measures implemented, as well as balancing services)
- **Technical investments:** €882 million, of which investments in innovation and energy transition (Snamtec) totalled €125 million
- **Free cash flow:** €1,161 million
- **Net financial debt:** €11,548 million (€11,550 million as at 31 December 2017)
- **Cost of debt reduction:** from 2% in 2017 to 1.5%
- **Increase in operating efficiency**: cost savings of €36 million compared to 2016
- **Shareholder return:** over €1.1 billion between dividends and buybacks
- **Proposed dividend:** €0.2263 per share

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[1] For the reconciliation of EBIT and the reported net profit with the corresponding adjusted result measurements, refer to page 18 of this Press Release.

[2] Adjusted EPS is calculated using the number of shares outstanding, excluding treasury shares, at year end.

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Significant events

- **International assets:** acquired a 66% stake in DESFA on 20 December 2018, through an investment company owned by Snam (60%), Enagás (20%) and Fluxys (20%), for a total value of €535 million
- **Energy transition:** as announced in November 2018 as part of the Strategic Plan, new businesses were launched, including through the acquisition of innovative technologies in the sector, which positioned Snam as a leader in the energy transition. Specifically, the acquisitions of an 82% stake in TEP Energy Solutions (TEP), a 70% stake in IES Biogas (a company specialising in the construction of biomethane plants), a 100% of Enersi Sicilia S.r.l. and the business unit dedicated to technological solutions for natural gas refuelling stations for M.T.M. transport were all concluded during the period. In 2018, the first six natural gas transport refuelling stations were also delivered
- **Bond buyback:** on 10 December 2018, Snam successfully completed a buyback of its listed bonds for a total nominal value of around €538 million, with an average coupon of approximately 2.6% and a remaining maturity of approximately 3.7 years
- **Share buyback**: in 2018, under the scope of the share buyback programme, a total of 113,881,762 Snam shares were purchased, equal to 3.28% of the share capital, at a cost of €426 million

Marco Alverà, Snam's CEO, commented on the results:

"2018 was a year of great evolution at Snam. We exceeded all our industrial and financial objectives and have enhanced our positioning as a leading player in the energy transition through the launch of the Snamtec project. Our new initiatives in renewable gas, energy efficiency and sustainable mobility, as well as our ongoing technological and social innovation, have all become important distinguishing features for Snam going forward.

Thanks to our strong operating performance, effort on efficiency, the reduction in the cost of debt and the share buyback, we have increased earnings per share by 26% and the dividend by 8% in the last two years, positioning ourselves in the highest segment in the sector.

The good progress in 2018 has allowed us to present an important new growth and development plan for the next four years. Under the new plan, Snam will increase investment in Italy and aims to increase profit and dividend per share by 5% per year. In addition, at the end of the plan, we expect the profit deriving from investments for the energy transition, new services and international activities to exceed 25% of Snam's total profitability".

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The 2018 Annual Report, which contains the 2018 Consolidated Non-Financial Disclosure, prepared in the format of a specific section of the Directors' Report, in conformity with the provisions pursuant to Article 5, paragraph 1 (a) of Legislative Decree No. 254/2016, was submitted to the Board of Statutory Auditors and the Independent Auditors and is available to the public at the registered office, the Company's website www.snam.it, together with the reports of the Board of Statutory Auditors and the Independent Auditors, in compliance with the terms of Legislative Decree No. 58/98 (Consolidated Finance Act - TUF).

Summary of 2018 results

In order to facilitate a better evaluation of the performance of the financial management, this Press Release contains reclassified financial statements and several alternative performance indicators (Non-GAAP measures) [3], mainly represented by results in an adjusted configuration. Specifically, the adjusted EBIT and the adjusted Net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the reclassified Income Statement.

The income components classified under special items for 2018, subject to adjustment, are represented by: (i) the financial expenses resulting from the buyback on the market of bonds under the scope of the liability management transaction (€35 million, net of the related tax effect); (ii) voluntary redundancy expenses through the application of early retirement regulated by Article 4, paragraphs 1-7 of Law 92/2012 the “Fornero Law”, together with the introduction of the “quota100”, provided for by the 2019 Budget Law (€ 15 million, net of the related tax effect).

[3] For more details, refer to the "Non-GAAP measures” section of this Press Release.

INCOME STATEMENT

	2017		2018		2018 adjusted vs 2017 adjusted	
(millions of €)	Reported	Adjusted (a)	Reported	Adjusted (a)	Change	% Change
Regulated revenues	2,434	2,434	2,485	2,485	51	2.1
Non-regulated revenue	99	99	101	101	2	2.0
Total revenue	**2,533**	**2,533**	**2,586**	**2,586**	**53**	**2.1**
- Total revenues net of pass-through items	*2,441*	*2,441*	*2,528*	*2,528*	*87*	*3.6*
Operating costs	(526)	(511)	(512)	(491)	20	(3.9)
- Operating costs net of pass-through items	*(434)*	*(419)*	*(454)*	*(433)*	*(14)*	*3.3*
EBITDA	**2,007**	**2,022**	**2,074**	**2,095**	**73**	**3.6**
Amortisation, depreciation and impairment	(659)	(659)	(690)	(690)	(31)	4.7
EBIT	**1,348**	**1,363**	**1,384**	**1,405**	**42**	**3.1**
Net financial expenses	(283)	(227)	(242)	(195)	32	(14.1)
Net income from equity investments	161	150	159	159	9	6.0
Pre-tax profit	**1,226**	**1,286**	**1,301**	**1,369**	**83**	**6.5**
Income tax	(329)	(346)	(341)	(359)	(13)	3.8
Net profit (b)	**897**	**940**	**960**	**1,010**	**70**	**7.4**

(a) The figures exclude special items.
(b) Entirely held by Snam shareholders.

Total revenue

Total revenue amounted to €2,586 million, an increase of €53 million, or 2.1%, compared with 2017. Net of items offset in costs, total revenue stood at €2,528 million, an increase of €87 million, or 3.6% mainly following greater regulated revenue (+€85 million; +3.6%), thanks to ongoing investments and the greater contribution of ITG (all of 2018 compared with 3 months in 2017; +€15 million). Non-regulated revenue increased slightly (+€2 million; +2.0% compared with 2017): increased revenue from the contribution of companies entering the scope of consolidation (+€34 million), in particular the new businesses related to energy transition, and services provided by the Business Unit Global Solution (+€5 million), were mainly absorbed by the lower revenue for the provision of services to the Italgas Group, regulated through several contracts which ended at 31 December 2017 (-€46 million)[4].

4 This revenue is offset by the costs incurred for the provision of the related services. Note that as at 31 December 2018, all agreements for the provision of services to the Italgas Group had ended. The effects on the income statement of emerging ICT costs, resulting from the separation of Italgas, will come to an end in 2019.

Adjusted EBIT

Adjusted EBIT[5] in 2018, which excludes special items (€21 million), amounted to €1,405 million, an increase of €42 million, or 3.1%, compared with adjusted EBIT in 2017. The greater regulated revenue (+€85 million; 3.6%), attributable to the transport business segment, was partly offset by an increase in amortisation, depreciation and impairment losses (-€31 million; 4.7%), due essentially to the amortisation and depreciation from new infrastructure coming into service, as well as greater operating costs (-€14 million; 3.3%).

Specifically, the increase in operating costs was primarily due to: the change in the scope of consolidation (€34 million), because of the launch of new businesses, and the greater costs resulting from the consolidation of ITG. These factors were partly offset by the effects of the efficiency actions implemented from 2016, which made it possible to cut costs in 2018 by around €17 million (€36 million cumulatively for the period 2016-2018).

Below is a breakdown of EBIT by business segment:

Adjusted EBIT

(millions of €)	2017	2018	Change	% Change
Business segments				
Transportation	1,048	**1,081**	33	3.1
Regasification	2	**2**		
Storage	339	**335**	(4)	(1.2)
Corporate and other activities	(26)	**(13)**	13	(50.0)
	1,363	**1,405**	**42**	**3.1**

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

- Transport (+€33 million; +3.1%): due to the increase in revenue (+€94 million, net of items which are offset in costs and recharging of services provided to other Group companies; +5.4%), in connection with the updating of the capital invested for regulatory purposes - RAB (+€64 million)[6], the greater contribution of ITG (+€15 million; all of 2018 compared with 3 months in 2017), as well as the greater incentives given to the Balancing Director (+€7 million), a significant improvement in terms of performance in the thermal year 2017-2018 compared with the previous

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. These items refer essentially to interconnection.

6 The change includes the adjustment of revenue recognised for the transportation and dispatching of natural gas for 2018, in order to take into account the historical figures for 2017, as provided for by the Authority through resolution 390/2018/R/gas of 18 July 2018.

thermal year. These effects were partly absorbed by the increase in operating costs (-€36 million[7]; 14.5%), and greater amortisation, depreciation and impairment losses (-€25 million; 4.5%) essentially following new assets coming into service.

- Storage (-€4 million; -1.2%): the reduction is due mainly to lower storage revenue (-€3 million, excluding items which are offset in costs; 0.6%), essentially following the updating of the capital invested recognised for regulatory purposes - RAB, and to the greater amortisation, depreciation and impairment losses (-€3 million; 3.1%) mainly due to amortisation and depreciation resulting from new assets coming into service, which refer specifically to the Bordolano site, which from 2015 increased its capacity by around 950 million Smc.

Adjusted net profit

Adjusted net profit in 2018, which excludes special items (€50 million, net of the related tax effect), amounted to €1,010 million, an increase of €70 million, or +7.4%, compared with adjusted net profit in 2017.

In addition to greater EBIT (+€42 million; +3.1%), the increase was due to: (i) lower net financial expense (+€32 million; 14.1%), which benefited from a reduction in the average cost of debt, which fell from 2.0% in 2017 to 1.5% in 2018, also in the light of the benefits resulting from the improvement measures implemented in 2016 and 2017, specifically liability management operations; (ii) the greater net income from equity investments (+€9 million; +6.0%).

These effects were partly offset by higher income taxes (-€13 million; 3.8%), due mainly to the increase in pre-tax profit. Adjusted EPS, calculated on shares outstanding excluding treasury shares at year end, amounted to € cent 30.6, 8.8% higher than in 2017.

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7 Excluding items which are offset in revenue, special items, as well as the greater costs attributable to the effects of the transfer from Stogit of the "Technical facilities and services" business unit under the scope of the Integra Project, subject to recharging.

Key balance sheet, financial and share figures

(millions of €)		2017	2018	Change	% Change
Technical investments		1,034	882	(152)	(14.7)
Shareholders' equity at the end of the period (attributable entirely to Snam shareholders)		6,188	5,985	(203)	(3.3)
Net financial debt at period end		11,550	11,548	(2)	
Free Cash Flow		423	1,161	738	
Number of shares outstanding at 31 December	(million)	3,415	3,301	(114)	(3.3)
Average number of shares outstanding during the period	(million)	3,422	3,358	(64)	(1.9)
Official share price at period end	(€)	4.086	3.820	(0.266)	(6.5)
Net profit per share (*) (**)	(€)	0.262	0.286	0.024	9.1
Adjusted net profit per share (*) (**)	(€)	0.275	0.301	0.026	9.4

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

(**) Entirely held by Snam shareholders.

Technical and equity investments

Technical investments in 2018 amounted to €882 million (€1,034 million in 2017) and refer mainly to the natural gas transportation (€764 million; €917 million in 2017) and storage (€99 million; €101 million in 2017) business segments.

Investments related to Snamtec, the new project launched by Snam to create the energy company of tomorrow oriented towards innovation and energy transition, amounted to €125 million in 2018.

Equity investments in 2018 totalled €205 million and mainly involve the capital increase of the Greek investment company Senfluga, (€121 million, of which €119m for the acquisition of the shareholding in DESFA), the capital increase for TAP, following the funding requests from shareholders received during the year (€39 million) and investments in the new businesses (€40 million in total).

Net financial debt

Net financial debt as at 31 December 2018[8] was €1,548 million (compared with €11,550 million as at 31 December 2017). The net cash flow from operations (€1,826 million) made it possible to fully finance the requirements related to net investments (€1,036 million, including investments in shares). This flow and the cash from the repayment by TAP of the Shareholders' Loan (€519 million, including accrued interest; €371 million excluding the shares disbursed by Snam during the year) made it possible to generate free cash flow of €1,161 million. Net financial debt, after the payment to shareholders of

8 More information on the net financial debt can be found on page 24 of this Press Release.

the 2017 dividend (€731 million between the balance and advance) and the cash flow deriving from the purchase of treasury shares (€426 million), showed a decrease of €2 million compared with 31 December 2017.

Dividend

Our healthy results and solid business fundamentals allow us to propose a dividend of €0.2263 per share to the Shareholders' Meeting, of which €0.0905 per share was paid in January 2019 as an interim dividend and the balance of €0.1358 per share will be paid from 26 June 2019 with an ex-dividend date of 24 June 2019 (record date 25 June 2019). The proposed dividend, a rise of 5% compared with 2017, in line with the dividend policy announced in the Strategic Plan, confirms Snam's commitment to ensuring an attractive remuneration for shareholders sustainable over a period of time.

Operating highlights

In accordance with International Accounting Standard IFRS 8 "Operating segments", the operating segments were defined on the basis of the internal reporting used by the Company's management for allocating resources to the different segments and for analysing the respective performances.

For this purpose, note that businesses entering the scope of consolidation in 2018, covering activities related to energy transition, were consolidated within the "Corporate and other activities" sector.

	2017	2018	Change	% Change
Natural gas transportation (a)				
Natural gas injected into the national transportation network (billions of cubic metres) (b)	74.59	**72.82**	(1.77)	(2.4)
Gas transportation network (kilometres in use)	32,584	**32,625**	41	0.1
Installed power in the compression stations (MW)	902	**961**	59	6.5
Liquefied Natural Gas (LNG) regasification (a)				
LNG regasification (billions of cubic metres)	0.63	**0.91**	0.28	44.4
Natural gas storage (a)				
Available storage capacity (billions of cubic metres) (c)	12.2	**12.4**	0.2	0.2
Natural gas moved through the storage system (billions of cubic metres)	19.92	**21.07**	1.15	5.8
Employees in service at period end (number) (d)	**2,919**	**3,016**	**97**	**3.3**
of which business segments:				
- Transportation	1,972	**1,915**	(57)	(2.9)
- Regasification	63	**64**	1	1.6
- Storage	60	**59**	(1)	(1.7)
- Corporate and other activities (e)	824	**978**	154	18.7

(a) With reference to the 2018 financial year, gas volumes are expressed in Standard cubic metres (Smc) with an Average Calorific Value (ACV) of 38.1 MJ/Smc (10.572 Kwh/Smc) for transport and regasification and 39.29 MJ/Smc (10.914 Kwh/Smc) for the storage of natural gas for the thermal year 2018-2019.

(b) The data for 2018 were updated on 11 January 2019. The update of the 2017 figures has been finalised, and the figures are consistent with those published by the Ministry of Economic Development.

(c) Working gas capacity for modulation, mining and balancing services, allocated almost in full for the thermal year 2018-2019.

(d) Fully consolidated companies.

(e) The 2018 figure includes resources coming from: (i) the entry of TEP (22 resources) and IES Biogas (34 resources) in the scope of consolidation; (ii) the acquisition of the Cubogas business unit (61 resources).

Natural gas injected into the national transportation network

In 2018 a total of 72.82 billion cubic metres of gas was injected into the network, a decrease of 1.77 billion cubic metres (-2.4%) compared with 2017. The reduction is mainly attributable to the lower consumption recorded in the thermoelectric sector (-2.08 billion cubic metres; -8.2%), following the return to normal flows of electricity imports, which fell in 2017 as a result of the stoppages at several French nuclear plants

in the first two months of the year, and an increase in hydroelectric production, which returned to normal levels after the water shortage in 2017.
The normalised demand for gas, not only in terms of the temperature, but also normalised for effects caused by a return to normal levels of hydroelectric production and nuclear production, was estimated at 73.5 billion cubic metres, an increase of 1.2 billion cubic metres (or 1.7%) compared to the corresponding value for 2017 (72.3 billion cubic metres).

Regasification of Liquefied Natural Gas (LNG)
During 2018, the Panigaglia (SP) LNG terminal regasified 0.91 billion cubic metres of LNG (0.63 billion cubic metres in 2017; +0.28 billion cubic metres; +44.4%). The unloading of 21 methane tankers took place in 2018 (15 in 2017; +40%).

Natural gas storage
The volume of gas that passed through the storage system in 2018 amounted to 21.07 billion cubic metres, an increase of 1.15 billion cubic metres, or 5.8%, compared with 2017.
The increase is attributable to both the greater injections to replenish stocks (+0.84 billion cubic metres; +8.6%), and the higher withdrawals from storage (+0.31 billion cubic metres; +3.1%) mainly following the weather conditions in the early months of 2018.
Overall storage capacity, including strategic storage, was 16.9 billion cubic metres at 31 December 2018, an increase of 0.2 billion cubic metres over 2017 following the Bordolano site's gradual entry into service, of which 12.4 was available capacity that was fully transferred for the 2018-2019 thermal year (99.7%), and the remaining 4.5 billion cubic metres was for strategic storage.

Main events

International assets acquisitions

DESFA
On 20 December 2018, a European consortium composing Snam (60%), Enagás (20%) and Fluxys (20%) concluded the purchase of a 66% stake in DESFA, the national operator in the sector of transportation of natural gas and regasification of LNG infrastructure, from the Hellenic Republic Asset Development Fund (TAIPED) and from Hellenic Petroleum, for a value of €535 million, through the newly established Senfluga Energy Infrastructure Holdings. Senfluga obtained a non-recourse loan for over 10 years for the acquisition, corresponding to around 65% of the purchase price.
DESFA owns and manages a regulated system for a high-pressure transportation network covering around 1,500 km, as well as a regasification terminal at Revithoussa with 5 bcm/year of capacity. Greece, which is at an important crossroads for the

diversification of procurement and the opening of new natural gas routes in Europe, has further development potential as a south-east European hub.
Thanks to the support of Snam, Enagás and Fluxys, the three European infrastructure companies most committed to the creation of the Energy Union, DESFA will be able to fully optimise its strategic position in the Mediterranean. The consortium will also promote innovation in the natural gas sector in Greece, encourage the introduction of renewable gases like biomethane to create a sustainable energy solution and actively contribute to the reduction of greenhouses gases and pollutant emissions in the country.

Acquisitions in energy transition businesses

TEP Energy Solution (TEP) - Energy efficiency
On 30 May 2018, after gaining antitrust clearance, the acquisition of a new controlling interest, equal to 82% of the share capital of TEP Energy Solution (TEP) was completed via the subsidiary Asset Company 4 S.r.l., for a total value of around €21 million. There is a price adjustment mechanism in the contract based on the results for the financial years 2018-2020 as well as put and call options on the interests of minority shareholders expiring in 2020.
TEP is one of the main Italian companies operating in the energy efficiency sector, as an Energy Service Company (ESCO), with over 200 customers which include major national and international companies and 950 thousand energy efficiency certificates.
The acquisition of TEP is part of Snam's strategic plans to promote decarbonisation and better use of energy in the areas in which it operates. The objective is to accelerate TEP's growth process, with the support of company management, facilitating the transfer of energy efficiency expertise and technology from big businesses to SMEs and other local organisations.

IES Biogas and ENERSI Sicilia - Biomethane
On 5 July 2018, through Snam4Mobility, Snam acquired 70% of IES Biogas, one of the main Italian companies in the design, construction and management of biogas and biomethane plants and with a market share of more than 10%, for around €4 million. The contract includes put and call options on the interests of minority shareholders expiring in 2022.
IES Biogas reported turnover of more than €20 million in 2017 and has to date built more than 200 plants throughout Italy. In recent years the company has also developed projects outside of Italy.
On 29 November 2018, Snam acquired 100% of Enersi Sicilia S.r.l., through Snam4Mobility for a value of around €2 million. Enersi Sicilia S.r.l. owns the permit for the development of an infrastructure for the production of biomethane from the organic fraction of municipal solid waste (FORSU) in the province of Caltanissetta.

The acquisition will enable Snam to create its first biomethane plant which will be capable of managing 36,000 tonnes per year of urban waste providing neighbouring communities with a totally renewable solution for the problem of waste disposal.
The plant will be created using the managerial skills and know-how of the subsidiary IES Biogas, which will monitor the development and construction.

Cubogas - Compressed natural gas (CNG)
On 25 July 2018, Snam, through the newly established company Cubogas S.r.l., wholly-owned by Snam4Mobility, acquired the business unit operating in the design, development and production of technological solutions for M.T.M. transport natural gas refuelling stations, a Westport Fuel Systems Group company, following the verification of certain conditions precedent, including trade union consultations.
The transaction was worth €12.6 million, including the price adjustment made during the closing.
The acquisition, which includes the Cubogas brand, will allow Snam to in-source and fully consolidate the value created along the chain, offering itself as a leader for the creation of turnkey solutions for natural gas sustainable mobility. Snam plans to develop Cubogas' strong points, such as brand value, customer focus and level of service.
The use of compressed natural gas (CNG) in the transport sector is one of the best technologies available to lower pollutant emissions, with beneficial effects on air quality in cities.

Financing

Bond buyback
On **10 December 2018**, Snam successfully completed a buyback on the market of bonds with a total nominal value of around €538 million, with an average coupon of approximately 2.6% and a remaining maturity of approximately 3.7 years.
The buyback price, including commission paid to brokers and interest accrued (€7 million) equal to €580 million in total, was partly financed through a reopening transaction for €300 million of the September fixed rate bond issue, for the same duration and the same coupon as the original issue (maturing in September 2023, coupon 1%).
The effects of this transaction on the 2018 income statement (€47 million, €35 million net of the tax effect) are essentially represented by the charges deriving from the difference between the outlay deriving from the repurchase of the bonds on the market and the amortised cost valuation of the bonds themselves.
Through this transaction, Snam continues the process of optimising its debt structure and continuously improving the cost of capital, in line with its objectives. The operation which has just been concluded is the latest of four Liability Management operations

which, from 2015 to date, have reduced Snam's cost of debt by 2.4% in 2016 to 1.5% in 2018.

Outlook

In the coming years there will be a significant increase in demand in the global gas market, driven by the Americas and by China, where an increase in energy requirements will be accompanied by the growing role of renewable energy, more efficient technology and the gradual transition from other fossil sources to natural gas.
Gas will continue to play a central role in the process of decarbonisation in Europe as well, in line with the objectives defined (2020 Climate & Energy Package) or in the process of definition at EU level (Clean Energy Package) specifically making an important contribution to the transport and thermoelectric sector, in view of coal gradually being phased out of production and the increase in intermittent renewable sources. The use of the latter, which is hardly foreseeable, will require greater support from natural gas, a source which, can be programmed.
Volumes in Italy remain essentially stable. European trends in natural gas demand, supported in particular by the reduction in the use of coal, together with the decline in domestic production, will require the development of new import routes.

In this context, Snam anticipates an acceleration in the investment plan (€5.7 billion in the five-year period 2018-2022), with a continued focus on replacement and maintenance in order to guarantee the maximum resilience, flexibility and efficiency of existing infrastructure.
One quarter of investments in the coming years will also involve development initiatives, including the strengthening of the south network, the north-west connections, the local market service and cross-border flows, the network in Sardinia and the upgrading of the Fiume Treste storage facility.

Under the scope of the investment plan, €850 million will be allocated to the Snamtec project (Tomorrow's Energy Company), with the goal of accelerating Snam's innovative capacity and its assets to take advantage of the opportunities offered by the development of the energy system. The Snamtec project will focus, specifically, on four areas:

- greater operating efficiency;
- a reduction in methane emissions (-25% by 2025);
- energy transition;
- innovation and reinforcement of core competencies.

The project will also give further impetus to the operating cost efficiency programme launched in 2017, increasing the already ambitious **efficiency** target to €60 million when fully operational. The implementation of the investment plan, the consequent expansion of the RAB and the cost efficiency programme, will be decisive growth factors. Snam also believes that it will be able to benefit from an increasing contribution to its revenues through the introduction of more performance based-incentives scheduled for the fifth regulatory period. These initiatives, alongside the contribution of Italian and international affiliates and that of the new energy transition businesses, in which Snam intends to play a leading role, are expected to contribute around one quarter of the Group's net profit in 2022.

In the area of **the energy transition businesses**, the Company plans to invest, directly and in partnership with other operators, in the creation of infrastructure for the production of biomethane from waste or agricultural waste. Investment in the sector complements that planned for sustainable mobility. There are also plans for investments in the creation of methane and biomethane refuelling stations for cars and buses, exploiting the technological excellence and leadership position of Cubogas, controlled by Snam4Mobility, and in the creation of small-scale NLG (SSLNG) for heavy goods traffic, industry and the residential sector.
Snam Global Solutions, the division that offers dedicated services to international gas sector operators, will gradually expand its portfolio of contracts, supporting its customers in the integrated management of transport, storage and regasification networks, offering technologically advanced competencies in infrastructure management services. This activity will help promote the development of the internationalisation strategy, which was initiated through the acquisition of foreign affiliates and their increasing contribution to Snam's economic results.

Regarding **financial structure**, the optimisation that has taken place over the last three years has led to a significant reduction in the average cost of debt. The actions implemented will also make it possible to reduce the risks associated with a potential change in the global macroeconomic scenario. Snam's management team remains focused on guaranteeing attractive and sustainable remuneration to shareholders, while also maintaining a balanced financial structure.

Net profit in 2019 is expected to **grow by 5%** compared with the previous forecast of +4%.

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This Press Release, which is prepared voluntarily in line with best market practice, illustrates the audited consolidated results for 2018.

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 (EC) Regulation 1606/2002 of the European Parliament and Council of 19 July 2002. The recognition and measurement criteria are

the same as those used for the preparation of the 2017 Annual Report, which should be referred to for a description of those criteria, except for the international accounting standards that came into force on 1 January 2018, as described in note No. 6 “Recently issued IFRS” of the 2017 Annual Report. The impacts from the application of these new provisions on the consolidated results of the Snam Group essentially involve the effects of the first application of IFRS 9 "Financial instruments" with regard to the liability management operations carried out by Snam in 2015 and 2017[9]. On the first application date of the new standard, at 1 January 2018, there was an increase in the Group's shareholders' equity of €8 million, net of the tax effect.
The changes in the scope of consolidation of the Snam Group at 31 December 2018 compared with 31 December 2017 involved the entry into the scope of consolidation of the following companies:

Name	Business Segment	Type of equity investment	% ownership	Start date
Asset Company 4 S.r.l.	Corporate and other activities	Direct control Snam S.p.A.	100%	30/05/2018
Cubogas S.r.l. (formerly Asset Company 3 S.r.l.)	Corporate and other activities	Company indirectly controlled by Snam via Snam 4 Mobility S.p.A.	100%	25/07/2018
Enersi Sicilia S.r.l.	Corporate and other activities	Company indirectly controlled by Snam via Snam 4 Mobility S.p.A.	100%	29/11/2018
IES Biogas S.r.l.	Corporate and other activities	Company indirectly controlled by Snam via Snam 4 Mobility S.p.A.	70%	05/07/2018
Snam International B.V. (formerly Gasbridge 2 B.V.)	Corporate and other activities	Direct control Snam S.p.A.	100%	26/04/2018
TEP Energy Solution S.r.l.	Corporate and other activities	Company indirectly controlled by Snam via Asset Company 4 S.r.l.	82%	30/05/2018

9 The effects do not include the portions of the financial liabilities that were repurchased in 2016 and in 2017 because the new provisions of IFRS 9 do not apply to financial instruments that were derecognised at the first application date of the new standard (1 January 2018).

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

Disclaimer

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

A conference call will take place at 15:00 CET today, 19 February 2019, to present the consolidated results for 2018 to investors and financial analysts. An audio webcast of the presentation will be available on the Company's website (www.snam.it). In conjunction with the start of the conference call, the presentation support material will also be made available in the "Investor Relations/Presentations" section of the website.

Non-GAAP measures
In addition to the financial results prepared in accordance with IFRS, Snam presents certain variables in this press release deriving from the results, even if not required by IFRS or by other accounting standards (Non-GAAP measures).
Snam's management believes that these measures facilitate the analysis of the performance of the Group and business segments, ensuring improved comparability of results over time and allowing financial analysts to evaluate Snam's results on the basis of their forecast models.
Non-GAAP measures must be considered complementary and do not replace the information prepared in accordance with IFRS.
In accordance with the Consob Communication DEM/6064293 of 28 July 2006 and subsequent amendments and additions (Consob Communications no. 0092543 of 3 December 2015 which incorporates the ESMA/2015/1415 guidelines on alternative performance indicators), the following paragraphs provide indications relating to the composition of the main alternative performance indicators used in this document, not directly deducible from reclassifications or algebraic sums of conventional indicators[10] and compliant with international accounting standards.

EBIT and adjusted EBIT
The adjusted EBIT and the adjusted Net profit are obtained by excluding the special items (respectively gross and net of the related taxes) from the operating profit and the reported net profit, as per the reclassified Income Statement.
Income entries classified as special items for 2018 refer to: (i) the financial expenses resulting from the buyback on the market of bonds under the scope of the liability management transaction (€47 million; €35 million net of the related tax effect) implemented by Snam in December 2018; (ii) voluntary redundancy expenses through the application of early retirement regulated by Article 4, paragraphs 1-7 of Law 92/2012 the “Fornero Law”, together with the introduction of the “quota100”, provided for by the 2019 Budget Bill (€21 million in total, €15 million net of the related tax effect).

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.

[10] 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 statement of financial position or the cash flow statement are conventional indicators.

The tax rate applied to the items excluded from the calculation of adjusted net profit is determined on the basis of the nature of each revenue item subject to exclusion.
Any income components deriving from non-recurring transactions in accordance with Consob Resolution no. 15519 of 27 July 2006 are also shown separately in the IFRS financial report.

The table below contains the reconciliation of EBIT and reported net profit with the corresponding figures in an adjusted configuration:

	2017			**2018**		
(millions of €)	**Reported**	***Special items***	**Adjusted**	**Reported**	***Special items***	**Adjusted**
Regulated revenue	2,434		2,434	2,485		2,485
Non-regulated revenue	99		99	101		101
Total revenue	**2,533**		**2,533**	**2,586**		**2,586**
- Total revenues net of pass-through items	*2,441*		*2,441*	*2,528*		*2,528*
Operating costs	(526)	15	(511)	(512)	21	(491)
- Operating costs net of pass-through items	*(434)*	*15*	*(419)*	*(454)*	*21*	*(433)*
EBITDA	**2,007**	**15**	**2,022**	**2,074**	**21**	**2,095**
Depreciation, amortisation and impairment losses	(659)		(659)	(690)		(690)
EBIT	**1,348**	**15**	**1,363**	**1,384**	**21**	**1,405**
Net financial expenses	(283)	56	(227)	(242)	47	(195)
Net income from equity investments	161	(11)	150	159		159
Profit before taxes	**1,226**	**60**	**1,286**	**1,301**	**68**	**1,369**
Income tax	(329)	(17)	(346)	(341)	(18)	(359)
Net profit (*)	**897**	**43**	**940**	**960**	**50**	**1,010**

(*) Entirely held by Snam shareholders.

Breakdown on special items

(millions of €)	2017	2018	Change	% Change
Special item of EBIT	**15**	**21**	**6**	**40.0**
Charges for redundancies and pensions	15	**21**	6	40.0
Special item Net financial charges	**56**	**47**	**(9)**	**(16.1)**
- liability management finance charges	56	**47**	(9)	(16.1)
Special Item - Investments valued using the equity method	**(11)**		**11**	**(100.0)**
- Adjustment of Teréga deferred taxes	(11)		11	(100.0)
Special item Income taxes	**(17)**	**(18)**	**(1)**	**5.9**
- Taxation on special item EBIT	(4)	**(6)**	(2)	50.0
- Taxation on special item net financial charges	(13)	**(12)**	1	(7.7)
Total special item of net profit	**43**	**50**	**7**	**16.3**

Summary tables of adjusted income statement items

Total revenue

(millions of €)	2017	2018	Change	% Change
Business segments				
Transportation	2,039	**2,118**	79	3.9
Regasification	22	**24**	2	9.1
Storage	601	**603**	2	0.3
Corporate and other activities	233	**268**	35	15.0
Consolidation eliminations	*(362)*	***(427)***	*(65)*	*18.0*
	2,533	**2,586**	**53**	**2.1**

Regulated and non-regulated revenue

(millions of €)	2017	2018	Change	% Change
Regulated revenue	**2,434**	**2,485**	**51**	**2.1**
Business segments				
Transportation	1,889	**1,975**	86	4.6
Regasification	18	**17**	(1)	(5.6)
Storage	435	**435**		
Revenue items offset in costs (*)	92	**58**	(34)	(37.0)
Non-regulated revenue	**99**	**101**	**2**	**2.0**
	2,533	**2,586**	**53**	**2.1**

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

Operating costs

(millions of €)	2017	2018	Change	% Change
Business segments				
Transportation	441	**462**	21	4.8
Regasification	15	**17**	2	13.3
Storage	165	**168**	3	1.8
Corporate and other activities	252	**271**	19	7.5
Consolidation eliminations	*(362)*	***(427)***	*(65)*	*18.0*
	511	**491**	**(20)**	**(3.9)**

Operating costs - Regulated and non-regulated activities

(millions of €)	2017	2018	Change	% Change
Costs of regulated activities	**404**	**397**	**(7)**	**(1.7)**
Controllable fixed costs	267	**274**	7	2.6
Variable costs	7	**6**	(1)	(14.3)
Other costs (*)	38	**59**	21	55.3
Cost items offset in revenue (**)	92	**58**	(34)	(37.0)
Costs of non-regulated activities	**107**	**94**	**(13)**	**(12.1)**
	511	**491**	**(20)**	**(3.9)**

(*) The figure excludes special items.

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

Amortisation, depreciation and impairment losses

(millions of €)	2017	2018	Change	% Change
Amortisation and depreciation	**646**	**682**	**36**	**5.6**
Business segments				
Transportation	539	**567**	28	5.2
Regasification	5	**5**		
Storage	95	**100**	5	5.3
Corporate and other activities	7	**10**	3	42.9
Impairment losses (Reversals)	**13**	**8**	(5)	(38.5)
	659	**690**	31	4.7

EBIT

(millions of €)	2017	2018	Change	% Change
Business segments				
Transportation	1,048	**1,081**	33	3.1
Regasification	2	**2**		
Storage	339	**335**	(4)	(1.2)
Corporate and other activities	(26)	**(13)**	13	(50.0)
	1,363	**1,405**	**42**	**3.1**

Net financial expenses

(millions of €)	2017	2018	Change	% Change
Financial expense related to net financial debt	**235**	**199**	**(36)**	**(15.3)**
- Interest and other expense on short- and long-term financial debt (*)	236	**202**	(34)	(14.4)
- Bank interest income	(1)	**(3)**	(2)	
Other net financial expense (income)	**4**	**6**	**2**	**50.0**
- Accretion discount	11	**11**		
- Other net financial expense (income)	(7)	**(5)**	2	(28.6)
Losses on derivative instruments – ineffective portion	**1**	**2**	**1**	**100.0**
Financial expense capitalised	**(13)**	**(12)**	**1**	**(7.7)**
	227	**195**	**(32)**	**(14.1)**

(*) The figure excludes special items.

Net income from equity investments

(millions of €)	2017	2018	Change	% Change
Equity method valuation effect	150	**157**	7	4.7
Dividends		**2**	2	
	150	**159**	**9**	**6.0**

Income tax

(millions of €)	2017	2018	Change	% Change
Current taxes (*)	**373**	**385**	**12**	**3.2**
(Deferred) prepaid taxes (*)				
Deferred taxes	(16)	**(16)**		
Prepaid taxes	(11)	**(10)**	1	(9.1)
	(27)	**(26)**	**1**	**(3.7)**
	346	**359**	**13**	**3.8**

(*) The 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 allows identification of the sources of financing (equity and third-party funds) and the application of such funds for fixed and working capital.
The reclassified consolidated statement of financial position format is used by management to calculate the key leverage and profitability ratios.

RECLASSIFIED STATEMENT OF FINANCIAL POSITION

(millions of €)	**31.12.2017**	**31.12.2018**	**Variation**
Fixed capital	**18,875**	**18,856**	**(19)**
Property, plant and equipment	16,033	**16,153**	120
Compulsory inventories	363	**363**	
Intangible assets	850	**907**	57
Equity investments	1,591	**1,750**	159
Long-term financial receivables	373	**11**	(362)
Net payables for investments	(335)	**(328)**	7
Net working capital	**(1,079)**	**(1,259)**	**(180)**
Provisions for employee benefits	**(58)**	**(64)**	**(6)**
NET INVESTED CAPITAL	**17,738**	**17,533**	**(205)**
Shareholders' equity	**6,188**	**5,985**	**(203)**
- entirely held by Snam shareholders	6,188	**5,985**	(203)
Net financial debt	**11,550**	**11,548**	**(2)**
COVERAGE	**17,738**	**17,533**	**(205)**

Fixed capital (€18,856 million) fell by €19 million compared with 31 December 2017. The reduction is essentially due to the lower long-term financial receivables (-€362 million) mainly due to the repayment, by TAP, of the Shareholders' Loan, to a large extent absorbed by the increase in tangible and intangible fixed assets (+€177 million) and the increase in equity investments (+€159 million), due mainly to the acquisition of DESFA.

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	805	77	**882**
Depreciation, amortisation and impairment losses	(630)	(60)	**(690)**
Transfers, eliminations and divestments	(14)		**(14)**
Change in scope of consolidation	1	30	**31**
Other changes	(42)	10	**(32)**
Balance at 31 December 2018	**16,153**	**907**	**17,060**

The technical investments of 2018 total €882 million (€1,034 million in 2017) and mainly refer to the transport (€764 million) and storage business segment (€99 million).

The change in the scope of consolidation (+€31 million) refers to the assets reported following the acquisition of 82% of the share capital of TEP Energy Solution (€24 million) and 70% of the share capital of IES Biogas (€4 million)[11].
Other changes (-€32 million) relate essentially to: (i) contributions for the period (-€22 million); (ii) the change in inventory of piping and related accessory materials used in plant construction (-€11 million); and (iii) the effects of adjusting the current value of expenditure relating to the charges for site dismantling and restoration (-€8 million).

Equity investments

The item equity investments (€1,750 million) includes: (i) the valuation of the equity investments through the net equity method which refers mainly to the foreign companies Trans Austria Gasleitung GmbH - TAG (€509 million), Teréga Holding S.A.S. (€466 million), Trans Adriatic Pipeline AG - TAP (€258 million), AS Gasinfrastruktur Beteiligung GmbH (€124 million) and Senfluga Energy Infrastructure Holdings (€117 million).

Long-term financial receivables

Long-term financial receivables (€11 million) fell by €362 million. The reduction was due to the repayment by TAP through a true-up mechanism of the Shareholders' Loan (€519 million, in connection with €373 million relating to the receivables outstanding at 31 December 2017 and €156 million relating to receivables accrued in 2018) following the conclusion by TAP, of the Financing Project for the construction of the gas pipeline.

[11] The contracts of both business combination transactions include put and call options on the interests of minority shareholders, of 18% and 30%, respectively for TEP and IES Biogas. At the acquisition date, based on the terms of the contract through which the exercise of the options is regulated, the transactions will be reported as if Snam had acquired total control of the companies, without recognising the interests of third-party shareholders.

Net financial debt

(millions of €)	31.12.2017	31.12.2018	Variation
Financial and bond debt	**12,619**	**13,420**	**801**
Short-term financial debt (*)	2,443	**3,633**	1,190
Long-term financial debt	10,176	**9,787**	(389)
Financial receivables and cash and cash equivalents	**(1,069)**	**(1,872)**	**(803)**
Cash and cash equivalents	(719)	**(1,872)**	(1,153)
Short-term financial receivables	(350)		350
	11,550	**11,548**	**(2)**

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

The positive net cash flow from operations (€1,826 million) made it possible to fully finance the requirements related to net investments (€1,036 million, including investments in shares of €176 million). This flow and the cash from the repayment by TAP of the Shareholders' Loan made it possible to generate a Free cash flow of €1,161 million. Net financial debt, after the payment to shareholders of the 2017 dividend (€731 million, of which €294 million was on account and €437 million was by way of the final settlement) and the cash flow deriving from the purchase of treasury shares (€426 million), shows a decrease of €2 million compared with 31 December 2017, including non-monetary components related to net financial debt (€2 million) [12].

[12] These components are mainly due to the effects of the first application of the provisions of the international accounting standard IFRS 9 "Financial instruments", partly offset by the net financial debt from companies that entered the scope of consolidation.

Financial and bond debts at 31 December 2018, amounting to €13,420 million (€12,619 million at 31 December 2017), break down as follows:

(millions of €)	31.12.2017	31.12.2018	Variation
Bonds	8,672	**8,446**	(226)
- of which short-term (*)	*1,042*	***913***	*(129)*
Bank loans	3,931	**4,749**	818
- of which short-term (*)	*1,385*	***2,495***	*1,110*
Euro Commercial Paper - ECP (**)		**225**	225
Other loans (**)	16		(16)
	12,619	**13,420**	**801**

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

(**) Entirely short-term.

Financial and bond debts are denominated in euros[13] and refer mainly to bond loans (€8,446 or 62.9%) and bank loans (€4,749 million, or 35.4%, including €1,448 million provided by the European Investment Bank - EIB).

Bond loans (€8,446 million) recorded a reduction of €226 million compared with 31 December 2017. The reduction is mainly due to: (i) the repayment of a fixed rate bond maturing on 19 March 2018, for a nominal amount of €851 million; (ii) the repayment of a fixed rate bond loan maturing on 10 September 2018, of a nominal amount of €70 million; (iii) the repurchase on the market of fixed-rate bonds for a total nominal value of €538 million with an average coupon of 2.6% and a residual duration of approximately 3.7 years. These effects were partially offset by the issue of: (i) a floating rate bond loan[14], issued on 22 January 2018, for a nominal value of €350 million; (ii) a fixed rate bond loan, issued on 11 September 2018, for a nominal value of €600 million; (iii) a fixed rate bond loan, issued on 27 November 2018, for a nominal value of €300 million.

Funding for bank loans (€4,749 million) increased by €818 million mainly following the underwriting of three bank term loans for the nominal value of €700 million, and of greater net use of the uncommitted lines of credit for a value of around €393 million. This effect was partly offset by the early repayment of a bank term loan for a nominal value of €250 million.

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

[14] The aforementioned bond was converted to fixed rate through an interest rate swap (IRS) derivative.

Long-term financial debt (€9,787 million) represented around 73% of gross financial debt (around 81% at 31 December 2017). Fixed-rate financial debts amounted to around 78% of gross financial debt.
The Euro Commercial Papers (€225 million) involve unsecured short-term securities issued on the money market and placed with institutional investors.

Cash and cash equivalents (€1,872 million) mainly refer to a short-term liquidity facility, with a maturity of less than three months, including a bank with a high credit standing (€1,000 million) as counterparty, demand bank deposits (€810 million) and cash and cash equivalents at Gasrule Insurance DAC (€17 million) and Snam International B.V. (€14 million).

At 31 December 2018, Snam also had unused committed long-term credit lines worth a total of €3.2 billion. In November 2018, under the scope of sustainable financing, the syndicated lines of credit, concluded with 19 leading national and international banks were converted into a "sustainable loan", through a bonus/malus mechanism on the payments linked to reaching specific ESG (Environment, Social and Governance) KPIs: it was the third largest sustainable loan concluded in the world as well as the largest by a gas utility.

Net working capital

(millions of €)	31.12.2017	31.12.2018	Variation
Trade receivables	1,274	**1,247**	(27)
- of which balancing	*251*	***223***	*(28)*
Inventories	86	**109**	23
Tax receivables	46	**26**	(20)
Other assets	50	**105**	55
Provisions for risks and charges	(677)	**(665)**	12
Trade payables	(406)	**(491)**	(85)
- of which balancing	*(207)*	***(230)***	*(23)*
Accruals and deferrals from regulated activities	(231)	**(362)**	(131)
Tax liabilities	(11)	**(23)**	(12)
Liabilities for deferred taxes	(165)	**(134)**	31
Derivative liabilities/(assets)	(12)	**(29)**	(17)
Other liabilities	(1,033)	**(1,042)**	(9)
	(1,079)	**(1,259)**	**(180)**

Net working capital (€1,259 million) fell by €180 million compared with 31 December 2017. The reduction is mainly due to: (i) the increase in accruals and deferrals from regulated activities (-€131 million) mainly attributable to penalties and increased volumes sold to transport service users, in relation to the restriction on revenues established by the regulatory Authority; (ii) the dynamics of commercial management (-€112 million) which recorded lower receivables by €27 million, mainly following smaller gas volumes traded under the scope of balancing activities, and larger trade payables (-€85 million) mainly attributable to the transport gas settlement, introduced by the regulatory Authority through resolutions 670/2017/R/gas and 782/2017/R/gas[15]. These effects were partly offset by the increase in other net assets (+€46 million, net of other liabilities) mainly attributable to the greater transport receivables due from the CSEA relating to the gas settlement.

[15] The Authority approved the gas settlement provisions through these resolutions for calculating the physical and financial adjustment items for the previous period (2013-2017). The regulatory framework also makes provision that any imbalance of credit and debit entries relating to users should be regulated by the CSEA in order to guarantee the neutrality of Snam Rete Gas, as a major transportation company. In this regard, it should be noted that, against settlement activity, net working capital at December 31, 2018 decreased by 25 million euros, following the greater collection of credit items, which had not yet been redistributed to the system on that date.

Statement of comprehensive income

(millions of €)	2017	2018
Net profit (*)	**897**	**960**
Other components of comprehensive income		
Components that can be reclassified to the income statement:		
Change in fair value of cash flow hedging derivatives (effective share)	(8)	**(26)**
Share of “other comprehensive income” of investments accounted for using the equity method	(3)	**(1)**
Tax effect	2	**6**
	(9)	**(21)**
Components that cannot be reclassified to the income statement:		
Actuarial gains (losses) on remeasurement of defined-benefit plans for employees	(1)	
Portion of equity-accounted investments pertaining to “other components of comprehensive income" referring to remeasurement of defined-benefit plans for employees	1	
Change in fair value of minority equity investments valued at Fair Value Through Other Comprehensive Income - FVTOCI (**)		**1**
Tax effect		
		1
Total other components of comprehensive income, net of tax effect	**(9)**	**(20)**
Total comprehensive income (*)	**888**	**940**

(*) Entirely held by Snam shareholders.
(**) The amount refers to the change in fair value of the minority interest in Adriatic LNG, allocated to shareholders' equity in conformity with IFRS 9.

Shareholders’ equity

(millions of €)		
Shareholders’ equity at 31 December 2017 (*)		**6,188**
Effect of the first application of the provisions of IFRS 9 (**)	*8*	
Shareholders’ equity at 01 January 2018 (*)		**6,196**
Increases owing to:		
- Comprehensive income for 2018	940	
- Other changes	10	
		950
Decreases owing to:		
- 2017 dividend balance	(437)	
- 2018 interim dividend (***)	(298)	
Acquisition of treasury shares	(426)	
		(1,161)
Shareholders’ equity at 31 December 2018 (*)		**5,985**

(*) Entirely held by Snam shareholders.
(**) Net of the related tax effect.
(***) Amount paid on 23 January 2019.

As at 31 December 2018, Snam held 168,197,663 treasury shares equal to 4.85% of the share capital in its portfolio (85,915,616 as at 31 December 2017, equal to 2.45% of its share capital) with a book value of around €625 million (€318 million as at 31 December 2017) and entered as a reduction of shareholders' equity. The market value of the treasury shares at 31 December 2018 was around €642 million[16].

Covenants

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

Failure to comply with these covenants, and the occurrence of other events, such as cross-default events could trigger the early repayment of the related loan. Exclusively for the EIB loans, the lender has the option to request additional guarantees, if Snam's rating is lower than BBB (Standard & Poor's/Fitch Ratings Limited) or lower than Baa2 (Moody's), with at least two of the three rating agencies.

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

At 31 December 2018, the financial debt subject to these restrictive clauses amounted to approximately €3 billion.

Bonds, issued by Snam as at 31 December 2018, with a nominal value of €8.4 billion, refer mainly to securities issued under the Euro Medium Term Notes programme. The covenants set for the programme's securities reflect international market practices and relate, inter alia, to negative pledge and pari passu clauses. Specifically, under the negative pledge clause, Snam and its significant subsidiaries are subject to limitations in relation to the creation or maintenance of restrictions on all or part of their own assets or inflows to guarantee present or future debt, unless this is explicitly permitted.

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

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[16] Calculated by multiplying the number of treasury shares by the period-end official price of €3.8198 per share.

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 €)	**2017**	**2018**
Net profit	**897**	**960**
Adjusted for:		
- Amortisation, depreciation and other non-monetary components	511	**543**
- Net capital losses (capital gains) on asset sales and eliminations	4	**12**
- Dividends, interest and income taxes	585	**557**
Change in working capital due to operating activities	334	**185**
Dividends, interest and income taxes collected (paid)	(467)	**(431)**
Net cash flow from operating activities	**1,864**	**1,826**
Technical investments	(1,016)	**(849)**
Technical disinvestments	3	**2**
Companies (entering) leaving the scope of consolidation and business units	(166)	**(32)**
Equity investments	(75)	**(144)**
Change in long-term financial receivables	(154)	**371**
Other changes relating to investment activities	(33)	**(13)**
Free cash flow	**423**	**1,161**
Change in short-term financial receivables	(350)	**350**
Change in short- and long-term financial debt	1,540	**799**
Equity cash flow (a)	(928)	**(1,157)**
Net cash flow for the period	**685**	**1,153**

CHANGE IN NET FINANCIAL DEBT

(millions of €)	**2017**	**2018**
Free cash flow	**423**	**1,161**
Effect of the first application of the provisions of IFRS 9		**10**
Financial payables and receivables from companies entering the area of consolidation		**(6)**
Equity cash flow (a)	(928)	**(1,157)**
Other changes (b)	11	**(6)**
Change in net financial debt	**(494)**	**2**

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

(b) Include the effects of adjustment to the year-end exchange rate of financial payables in foreign currency.

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