Notes to the consolidated financial statements

COMPANY INFORMATION

The Snam Group, consisting of Snam S.p.A., the consolidating company, and its subsidiaries (hereafter referred to as "Snam", the "Snam Group" or the "Group"), is an integrated group at the forefront of the regulated gas sector and a major player in terms of its regulatory asset base (RAB) in the sector.
In Italy, Snam operates in the regulated business of the transmission and dispatching of natural gas, regasification of liquefied natural gas and storage of natural gas; it is also present in the sectors of sustainable mobility and energy efficiency. It operates in Europe's major energy corridors through agreements with and equity investments in the leading industry players. Through its subsidiaries, it operates in Austria (TAG and GCA), France (Terēga), Greece (DESFA) and the United Kingdom (Interconnector UK) and is amongst the main shareholders of TAP (Trans Adriatic Pipeline).
Snam S.p.A. is a joint-stock company incorporated under Italian law and listed on the Milan Stock Exchange, with registered offices at 7, Piazza Santa Barbara, San Donato Milanese (MI).
Shareholder CDP S.p.A. declared, with effect from the financial statements as at 31 December 2014, that it had de facto control over Snam S.p.A. pursuant to IFRS 10 "Consolidated Financial Statements". No management or coordination activity of CDP S.p.A. has been formalised or exercised.
As at 31 December 2018, CDP S.p.A. holds, through CDP Reti S.p.A.[1] 30.37% of the share capital of Snam S.p.A.

1) BASIS OF PRESENTATION

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of (EC) Regulation No. 1606/2002 of the European Parliament and Council of 19 July 2002 and to Article 9 of Legislative Decree 38/2005. The IFRS also include the International Accounting Standards (IAS) and the currently applicable interpretations issued by the IFRS Interpretation Committee (IFRSIC), including those previously issued by the Financial Reporting Interpretations Committee (IFRIC) and the Standing Interpretations Committee (SIC) prior to that. For simplicity, all of the aforementioned standards and interpretations will hereafter be referred to as "IFRS" or "International Accounting Standards".
The consolidated financial statements are prepared in consideration of future continuing business using the historical cost method, taking into account value adjustments where appropriate, with the exception of the items which, according to IFRS, must be measured at fair value, as described in the measurement criteria.
The consolidated financial statements as at 31 December 2018, approved by the Board of Directors of in its meeting of 18 February 2019, are audited by PricewaterhouseCoopers S.p.A. (PwC). As principal auditor, PwC has full responsibility for auditing the consolidated financial statements of the Snam Group; in the limited cases in which other auditors intervene, it assumes responsibility for the work carried out by the latter.
The consolidated financial statements are presented in euro. Given their size, amounts in the financial statements and respective notes are expressed in millions of euros, unless otherwise specified.

2) ACCOUNTING STANDARDS AND INTERPRETATIONS APPLICABLE FROM 2018

In the financial year ended 31 December 2018, the Group applied accounting standards in line with those of the previous year, with the exception of the accounting standards and interpretations which came into force in the year starting on 1 January 2018, which are described below.

IFRS 15 "Revenue from Contracts with Customers"

Regulations 2016/1905 and 2017/1987 issued by the European Commission respectively at 22 September 2016 and 31 October 2017, adopted the regulatory provisions included in the documents "IFRS 15" and "Clarifications to IFRS 15" issued by the IASB respectively on 11 September 2015 and 12 April 2016.
Within the Group, the time at which regulated revenues are recognised, which account for the most significant portion of the revenues and regard the provision of natural gas transmission, regasification and storage services, generally coincides with when the service is provided. The economic conditions of the services provided are defined by means of regulatory structures and not negotiated; they are regulated by the legislative framework defined by the Autorità di Regolazione per Energia Reti e Ambiente (ARERA).

1 Company in which CDP S.p.A. holds a share of 59.10%.

The application of IFRS 15 did not result in any changes to the related recording methods and, consequently, no impact was seen on the consolidated financial statements.
As regards non-regulated revenues, the activities carried out by the Snam Group mainly concern: (i) contracts for the provision of services between Snam and the joint ventures and/or associates, relative to services for the development of transmission infrastructures, project management, maintenance and information technology; contracts for the maintenance of optic fibre telecommunications cables granted for use by third parties; (iii) revenues deriving from the sale of goods and provision of services under the scope of the new businesses of compressed natural gas (CNG), energy efficiency and biomethane.
Regarding these contracts in particular, the main issues required by the standard have been analysed and the relative results are shown below: (i) identification of the performance obligations and allocation of the transaction price to these obligations; (ii) identification of the time required for satisfaction of the performance obligation (over time or at a point in time); (iii) assessment of the provision of goods and/or services in the capacity of a principal or an agent; (iv) any presence of a significant financial component. The analyses revealed that the accounting treatment was in line with the dictates of IFRS 15. Moreover, for existing contracts, the Group has concluded that a significant financial component is not present.
Therefore, in all, no impacts were identified as deriving from the application of the provisions of IFRS 15.

IFRS 9 "Financial Instruments"

With its regulation 2016/2067 issued by the European Commission on 22 November 2016, certain international accounting standards contained in "IFRS 9 Financial Instruments" issued by the IASBI 24 July 2014 are adopted together with their relative Basis for Conclusions and Application Guidelines are adopted in replacement of all the previous versions of the standard issued. The provisions of the aforementioned texts replace those contained in IAS 39 - "Financial Instruments: Recognition and Measurement".
Within the Group, the effects of the first time adoption of IFRS 9 regarded liability management transactions implemented by Snam in 2015 and 2017[2]. In accordance with IAS 39, in force until 31 December 2017, in the event of a change to cash flow deriving from the amendment or exchange of financial liabilities not derecognised, the new liability was recorded at the book value of the original liability, net of any amount paid. Any such differences were not booked as profit and loss at the exchange date but rather throughout the life of the new financial instrument through the new effective interest rate. Differently, IFRS 9 requires the amortised cost to be recalculated of the new financial liability, discounting the new contract flows at the original effective interest rate. The gain or loss deriving from the amendment or exchange of a financial liability is then booked as profit and loss. By applying the provisions introduced by the new standard, the effects of the first time adoption of IFRS 9 were determined retroactively and recorded in the opening balance of shareholders' equity as at 01 January 2018, without restating the periods given for comparison. These effects reduced the financial liabilities by 10 million euro. The increase in the Group's shareholders' equity, net of the tax effect, is around 8 million euro.
Regarding derivative financial instruments use for hedging, the hedging relations in existence which are currently designated as effective hedges continue to qualify for hedge accounting pursuant to IFRS 9. In consideration of the fact that the new standard does not modify the general principle based on which an entity recognizes effective hedges, there were no changes compared to the current treatment.
Moreover, in accordance with the provisions of IFRS 9, with reference to the minority equity investment held in the unlisted company Terminale GNL Adriatico S.r.l., Snam has availed itself of the possibility of designating the equity investment as measured at "Fair Value Through Other Comprehensive Income" (FVTOCI). On the basis of this measurement criterion, changes to the related fair value are entered in a specific equity reserve, which cannot be reclassified as profit and loss. Dividends are recorded on the income statement when they represent the return on the investment and not the recovery of part of the cost of the investment.
The Group does not expect any further effects from application of the classification and measurement requirements set forth in IFRS 9: financial assets, such as trade receivables, financial receivables and other receivables and financial liabilities such as trade payables, financial payables and other payables, continue to be measured at amortised cost. Snam also considers as insignificant the effects of the new impairment model (expected credit loss) on the Group's financial assets, since most of the receivables are relative to regulated activities for which there are guarantees in favour of Snam and/or provide for the intervention of the Energy and Environmental Services Fund (CSEA) in the cases indicated by the Network codes and the applicable laws.

Other standards/interpretations in force as from 01 January 2018

Regulation 2018/400 issued by the European Commission on 14 March 2018 adopts the regulatory provisions contained in the document "Change in use of tangible assets - Amendments to IFRS 40", issued by the IASB on 08 December 2016.

2 The effects do not include the shares of financial liabilities bought back in 2016 and 2017, insofar as the new provisions of the IFRS 9 do not apply to financial instruments that have been derecognised as at the date of the first application of the new standard (1 January 2018).

Regulation 2018/519 issued by the European Commission on 28 March 2018 adopts the regulatory provisions contained in the document "Interpretation of IFRIC 22 - Transactions in foreign currencies", issued by the IASB on 08 December 2016.
Regulation 2018/289 issued by the European Commission on 26 February 2018 adopts the regulatory provisions contained in the document "Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2", issued by the IASB on 20 June 2016.
Regulation 2018/182 issued by the European Commission on 07 February 2018 approved the regulatory provisions contained in the "Annual Improvements to International Financial Reporting Standards 2014-2016 Cycle", issued by the IASB on 08 December 2016.
Regulation 2017/1988, issued by the European Commission on 03 November 2017 approved the regulatory provisions contained in the document "Joint application of IFRS 9 Financial Instruments and IFRS 4 Insurance Contracts "(Amendments to IFRS 4)", issued by the IASB on 12 September 2016.
No impacts have been identified as deriving from the application of these standards.

3) CONSOLIDATION PRINCIPLES

The consolidated financial statements comprise the financial statements of Snam S.p.A. and of the companies over which the Company has the right to exercise direct or indirect control, as defined by IFRS 10 – "Consolidated Financial Statements". Specifically, control exists where the controlling entity simultaneously:

- has the power to make decisions concerning the investee entity;
- is entitled to receive a share of or is exposed to the variable profits and losses of the investee entity;
- is able to exercise power over the investee entity in such a way as to affect the amount of its economic returns.

The proof of control must be verified on an ongoing basis by the Company, with a view to identifying all the facts or circumstances that may imply a change in one or more of the elements on which the existence of control over an investee entity depends.
Consolidated companies, joint ventures, associates and other significant equity investments are indicated separately in the appendix "Subsidiaries, associates and equity investments of Snam S.p.A. as at 31 December 2018", which is an integral part of these notes. The same appendix lists the changes that took place in the scope of consolidation between 31 December 2017 and 31 December 2018.
All financial statements of consolidated companies close as at 31 December and are presented in euro.

Companies included in the scope of consolidation

Figures relating to subsidiaries are included in the consolidated financial statements, on the basis of standardised accounting standards, from the date on which the Company assumes direct or indirect control over them until the date on which said control ceases to exist.
The assets, liabilities, income and expenses of the consolidated companies are consolidated line-by-line in the consolidated financial statements (full consolidation); the book value of the equity investments in each of the subsidiaries is derecognised against the corresponding portion of shareholders' equity of each of the investee entities, inclusive of any adjustments to the fair value of the assets and liabilities on the date of acquisition of control.
The portions of equity and profit or loss attributable to minority interests are recorded separately in the appropriate items of shareholders' equity, the income statement and the statement of comprehensive income.
Changes in the equity investments held directly or indirectly by the Company in subsidiaries that do not result in a change in the qualification of the investment as a subsidiary are recorded as equity transactions. The book value of the shareholders' equity pertaining to shareholders of the parent company and minority interests are adjusted to reflect the change in the equity investment. The difference between the book value of minority interests and the fair value of the consideration paid or received is recorded directly under equity pertaining to shareholders of the parent company.
Otherwise, the selling of interests entailing loss of control requires the posting to the income statement of: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of shareholders' equity transferred; (ii) the effect of the alignment with the related fair value of any residual equity investment maintained; and (iii) any amounts posted to other components of comprehensive income relating to the former subsidiary which will be reversed to the income statement. The fair value of any equity investment maintained at the date of loss of control represents the new book value of the equity investment, and therefore the reference value for the successive valuation of the equity investment according to the applicable valuation criteria.

Equity investments in associates and joint ventures

An associate is an investee company in relation to which the investor holds significant influence or the power to participate in determining financial and operating policies, but does not have control or joint control[3]. It is assumed that the investor has significant influence (unless there is proof to the contrary) if it holds, directly or indirectly through subsidiaries, at least 20% of the exercisable voting rights.
A joint venture is a joint arrangement in which the parties that hold joint control have rights to the net assets subject to the arrangement and, therefore, have an interest in the jointly controlled corporate vehicle.
Equity investments in associates and joint ventures are measured using the equity method, as described under "Equity-accounted investments".

Business combinations

Business combinations are recorded using the acquisition method in accordance with IFRS 3 - "Business Combinations". Based on this standard, the consideration transferred in a business combination is determined at the date on which control is assumed, and equals the fair value of the assets transferred, the liabilities incurred or assumed, and any equity instruments issued by the acquirer. Costs directly attributable to the transaction are posted to the income statement when they are incurred.
The shareholders' equity of these investee companies is determined by attributing to each asset and liability its fair value at the date of acquisition of control. If positive, any difference from the acquisition or transfer cost is posted to the asset item "Goodwill"; if negative, it is posted to the income statement.
Where total control is not acquired, the share of equity attributable to minority interests is determined based on the share of the current values attributed to assets and liabilities at the date of acquisition of control, net of any goodwill (the "partial goodwill method"). Alternatively, the full amount of the goodwill generated by the acquisition is recognised, therefore also taking into account the portion attributable to minority interests (the "full goodwill method"). In this case, minority interests are expressed at their total fair value, including the attributable share of goodwill. The choice of how to determine goodwill (Partial goodwill method or full goodwill method) is made based on each individual business combination transaction.
If control is assumed in successive stages, the acquisition cost is determined by adding together the fair value of the equity investment previously held in the acquired company and the amount paid for the remaining portion. The difference between the fair value of the previously held equity investment (redetermined at the time of acquisition of control) and the relative book value is posted to the income statement. Upon acquisition of control, any components previously recorded under other components of comprehensive income are posted to the income statement or to another item of shareholders' equity, if no provisions are made for reversal to the income statement.
When the values of the assets and liabilities of the acquired entity are determined provisionally in the financial year in which the business combination is concluded, the figures recorded are adjusted, with retroactive effect, no later than 12 months after the acquisition date, to take into account new information about facts and circumstances in existence at the acquisition date.

Business combinations involving entities under joint control

Business combinations involving companies that are definitively controlled by the same company or companies before and after the transaction, and where such control is not temporary, are classed as "business combinations of entities under common control". Such transactions do not fall within the scope of application of IFRS 3, and are not governed by any other IFRS. In the absence of a reference accounting standard, the selection of an accounting standard for such transactions, for which a significant influence on future cash flows cannot be established, is guided by the principle of prudence, which dictates that the principle of continuity be applied to the values of the net assets acquired. The assets are measured at the book values from the financial statements of the companies being acquired (or of the seller company) predating the transaction or, alternatively, at the values from the consolidated financial statements of the common ultimate parent.
With regard to the sale of business, the treatment of the difference between the contractually defined consideration and the carrying amounts of the transferred business is differentiated depending on the investment relations of the entities involved in the transfer.

3 Joint control is the contractual sharing of control pursuant to an agreement, which exists only where the unanimous consent of all the parties that share power is required for decisions relating to significant activities.

With regard to contributions involving businesses under common control, on the other hand, irrespective of the pre-existing investment relationship, the transferee entity must recognize the transferred business at its historical carrying value, increasing its own equity by an equal amount; the transferring entity shall y recognize the investment in the transferee entity at an amount equal to the increase in the latter's shareholders' equity.
This accounting treatment refers to the proposal by Assirevi in the Preliminary Guidelines on IFRS (OPI No. 1 Revised) - "Accounting treatment of business combinations of entities under common control in the separate and consolidated financial statements" issued in October 2016.

Intragroup transactions that are eliminated in the consolidation process

Unrealised gains from transactions between consolidated companies are eliminated, as are receivables, payables, income, expenses, guarantees, commitments and risks between consolidated companies. The portion pertaining to the Group of unrealised gains with companies valued using the equity method is derecognised. In both cases, intragroup losses are not eliminated because they effectively represent impairment of the asset transferred.

4) MEASUREMENT CRITERIA

The most significant measurement criteria adopted when preparing the consolidated financial statements are described below.

Property, plant and equipment

Property, plant and equipment is recognised at cost and recorded at the purchase, transfer or production cost, including directly allocable ancillary costs needed to make the assets available for use. When a significant period of time is needed to make the asset ready for use, the purchase, transfer or production cost includes the financial expense which theoretically would have been saved during the period needed to make the asset ready for use, if the investment had not been made.
If there are current obligations to dismantle and remove the assets and restore the sites, the book value includes the estimated (discounted) costs to be incurred at the time the structures are abandoned, recognised as a counter-entry to a specific provision. The accounting treatment for revisions in these cost estimates, the passage of time and the discount rate are indicated in the paragraph "Provisions for risks and charges".

Property, plant and equipment may not be revalued, even through the application of specific laws.
The costs of incremental improvements, upgrades and transformations to/of property, plant and equipment are posted to assets when it is likely that they will increase the future economic benefits expected. The balance sheet assets also contain items purchased for security or environmental reasons which, although not directly improving the future economic benefits of the existing assets, are necessary to go about the company business.
The costs of replacing identifiable components of complex assets are allocated to balance sheet assets and depreciated over their useful life. The remaining book value of the component being replaced is allocated to the income statement. Ordinary maintenance and repair expenses, other than replacement of identifiable components, which restore but do not increase the performance of the assets, are posted in the income statement in the year in which they were incurred.

Property, plant and equipment includes: (i) with regard to natural gas transportation, the value relating to the quantities of natural gas injected to bring natural gas pipelines into service. The valuation is carried out using the weighted average purchase price method. Specifically, the component of this quantity that can no longer be extracted (the "initial line pack") is depreciated over the useful life of the plant to which it refers. On the contrary, the commercial component, which may be sold on the market or employed for alternative uses (the "operating line pack"), is not depreciated, since it is not, by its nature, subject to depreciation; and (ii) with regard to natural gas storage, the quantity of gas that is reinjected into the storage wells to form cushion gas.
Property, plant and equipment is derecognised on disposal or when no future economic benefit is expected from its use or disposal; the relative profit or loss is recognized in the income statement.

Depreciation of property, plant and equipment

Starting when the asset is available and ready for use, property, plant and equipment is systematically depreciated on a straight-line basis over its useful life, defined as the period of time in which it is expected that the company may use the asset. The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual depreciation/amortisation rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application[4]:

Annual technical economic rate (%)

Buildings	
- Buildings	2-2.5
Plant and equipment - Transportation	
- Pipelines	2
- Compression stations	5
- Gas reduction/regulation plants	5
- Radio bridges	25
- Instruments and systems for measurement and control	5
Plant and equipment - Storage	
- Pipes	2
- Treatment stations	4
- Compression stations	5
- Storage wells	2
- Instruments and systems for monitoring and control	5
Plant and equipment - Regasification	
- Regasification plants	4
- Tanks and pipelines	4
Centralised IT infrastructures	20
Other plant and equipment	2.5-12.5
Metering equipment	5
Industrial and commercial equipment	10-35
Other assets	10-33

When an item recorded under property, plant and equipment consists of several significant components with different useful lives, a component approach is adopted, whereby each individual component depreciates separately.
Land is not depreciated, even if purchased in conjunction with a building; neither is property, plant and equipment held for sale (see the "Non-current assets held for sale and discontinued operations" section).

Depreciation rates are reviewed each year and are altered if the current estimated useful life of an asset differs from the previous estimate. Any changes to the depreciation plan arising from revision of the useful life of an asset, its residual value or changes in the pattern in which an asset's benefits are consumed are recognised prospectively.
Freely transferable assets, if any, are depreciated during the period of the concession or of the useful life of the asset, if lower.

Assets under finance leases

Assets under finance leases, or under agreements which may not take the specific form of a finance lease, but call for the substantial transfer of the risks and rewards of ownership, are recorded at the lower of fair value less fees payable by the lessee and the present value of minimum lease payments, including any sum payable to exercise a call option, under property, plant and equipment as a contra-entry to the financial debt to the lessor. The assets are depreciated using the criteria and rates adopted for owned property, plant and equipment. When there is no reasonable certainty that the right of redemption can be exercised, the depreciation is made in the shortest period between the term of the lease and the useful life of the asset.
Leases under which the lessor substantially retains all of the risks and rewards of ownership of the assets are classified as operating leases. In this case, the lessee incurs only costs for the period in the amount of the lease expenses set out in the contract, and does not record fixed assets. Improvements on leasehold assets are depreciated throughout their useful lives or the residual duration of the lease if shorter, with account taken of any renewal period if such renewal period depends exclusively on the lessee and is virtually certain.

Intangible assets

Intangible assets are identifiable assets without physical substance which are controlled by the company and capable of producing future economic benefits. The ability to identify these assets rests in the ability to distinguish intangible assets purchased from goodwill. Normally this requirement is satisfied when: (i) the intangible assets are related to a legal or contractual right, or (ii) the asset is separable, i.e. it can be sold, transferred, leased or exchanged independently, or as an integral part of other assets. A company controls an asset if it has the power to obtain the future economic benefits flowing from the asset and the ability to restrict the access of others to those benefits. Intangible assets are recorded at cost, which is determined using the criteria indicated for property, plant and equipment. They may not be revalued, even through the application of specific laws.

4 The rate or range of application may increase according to the residual life following acquisitions and/or business combinations.

Technical development costs are allocated to the balance sheet assets when: (i) the cost attributable to the intangible asset can be reliably determined; (ii) there is the intent, availability of financial resources and technical capability to make the asset available for use or sale; and (iii) it can be shown that the asset is capable of producing future economic benefits.
Alternatively, costs for the acquisition of new knowledge or discoveries, investigations into products or alternative processes, new techniques or models, or the design and construction of prototypes, or incurred for other scientific research or technological developments, which do not meet the conditions for disclosure under balance sheet assets are considered current costs and charged to the income statement for the period in which they are incurred.
Intangible fixed assets are derecognized on disposal or when no future economic benefit is expected from their use or disposal; the relatives profit or loss is recognized in the income statement.

Storage concessions

The value of storage concessions, which consists of the natural gas reserves present in deposits ("cushion gas"), is recorded under "Concessions, licences, trademarks and similar rights" and is not subject to amortisation, since: (i) the volume of said gas is not modified by storage activities; and (ii) the economic value of the gas that can be recovered at the end of the concession, pursuant to the provisions of the Ministerial Decree of 3 November 2005, "Criteria for determining an adequate consideration for the return of assets intended for a concession-holder for natural gas storage" of the Ministry of Productive Activities, is not lower than the value recorded in the financial statements.

Amortisation of intangible assets

Intangible assets with a finite useful life are amortised systematically over their useful life, which is understood to be the period of time in which it is expected that the company may use the asset.
The amount to be depreciated is the book value, reduced by the projected net realisable value at the end of the asset's useful life, if this is significant and can be reasonably determined.

The table below shows the annual amortization rates used for the year in question, broken down into homogeneous categories, together with the relevant period of application:

Annual technical economic rate (%)

Other intangible fixed assets	
- Industrial patent rights and intellectual property rights	20-33
- Other intangible assets	20, or according to the duration of the contract

Goodwill and intangible assets with an indefinite useful life are not subject to amortisation.

Grant

Capital grants given by public authorities are recognised when there is reasonable certainty that the conditions imposed by the granting government agencies for their allocation will be met, and they are recognised as a reduction to the purchase, transfer or production cost of their related assets. Similarly, capital grants received from private entities are recognised in accordance with the same regulatory provisions.
Operating grants are recognised in the income statement on an accruals basis, consistent with the relative costs incurred.

Impairment of non-financial fixed assets

Impairment of property, plant and equipment and intangible assets with a finite useful life

When events occur leading to the assumption of impairment of property, plant and equipment or intangible assets with a finite useful life, their recoverability is tested by comparing the book value with the related recoverable value, which is the fair value adjusted for disposal costs (see "Measurement at fair value") or the value in use, whichever is greater.
Value in use is determined by discounting projected cash flows resulting from the use of the asset and, if they are significant and can be reasonably determined, from its sale at the end of its useful life, net of any disposal costs. Cash flows are determined based on reasonable, documentable assumptions representing the best estimate of future economic conditions which will occur during the remaining useful life of the asset, with a greater emphasis on outside information. Discounting is done at a rate reflecting current market conditions for the time value of money and specific

risks of the asset not reflected in the estimated cash flows. The valuation is done for individual assets or for the smallest identifiable group of assets which, through ongoing use, generates incoming cash flow that is largely independent of those of other assets or groups of assets ("cash-generating units" or CGUs).
If the reasons for impairment losses carried out no longer apply, the assets are revalued and the adjustment is posted to the income statement as a revaluation (recovery of value). The recovery of value is applied to the lower of the recoverable value and the book value before any impairment losses previously carried out, less any depreciation that would have been recorded if an impairment loss had not been recorded for the asset.

Impairment of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use

The recoverability of the book value of goodwill, intangible assets with an indefinite useful life and intangible assets not yet available for use is tested at least annually, and in any case when events occur leading to an assumption of impairment. Goodwill is tested at the lowest level at which management monitors, directly or indirectly, the return on investments in assets that include goodwill. When the book value of the CGU, including the goodwill attributed to it, exceeds the recoverable value, the difference is subject to impairment, which is allocated first to the goodwill. Any excess impairment is allocated pro rata to the book value of the assets which constitute the CGU. Goodwill write-downs cannot be reversed.

Investments valued using the equity method

Equity investments in joint ventures and associates are valued using the equity method.
In applying the equity method, investments are initially recognised at cost and subsequently adjusted to take into account: (i) the participant's share of the results of operations of the investee after the date of acquisition, and (ii) the participant's share of the other components of comprehensive income of the investee. Dividends paid out by the investee are recognised as a reduction in the book value of the equity investment. For the purposes of applying the equity method, the adjustments provided for the consolidation process are taken into account (see also the "Consolidation principles" section).
In the case of assumption of an association (joint control) in successive phases, the cost of the equity investment is measured as the sum of the fair value of the interests previously held and the fair value of the consideration transferred on the date on which the investment is classed as associated (or under joint control). The effect of remeasuring previously held interests is posted to the income statement, including any components recognised under other components of comprehensive income. When the transferral of equity investments entails loss of joint control or significant influence over the investee company, the following are recognised in the income statement: (i) any capital gains or losses calculated as the difference between the consideration received and the corresponding portion of the booked amount transferred; (ii) the effect of the alignment with the related fair value of any residual equity investment maintained; and (iii) any amounts posted to other components of comprehensive income relating to the investee company that will be taken to the income statement. The value of any equity investment maintained, aligned with the relative fair value at the date of loss of joint control or significant influence, represents the new book value, and therefore the reference value for the successive valuation according to the applicable valuation criteria.
If there is objective evidence of impairment, the recoverability of the amount recognised is tested by comparing the carrying amount with the related recoverable value and the difference is recognised in profit and loss under "Income (expense) from equity investments".
When the reasons for the impairment losses entered no longer apply, equity investments are revalued up to the amount of the impairment losses entered with the effect posted to the income statement under "Income (expense) from equity investments".
The parent company's share of any losses of the investee company, greater than the investment's book value, is recognised in a special provision to the extent that the parent company is committed to fulfilling its legal or implied obligations to the subsidiary/associate, or, in any event, to covering its losses.

Cash and cash equivalents

Cash and cash equivalents include cash amounts, on demand deposits, and other short-term financial investments with a term of less than three months, which are readily convertible into cash and for which the risk of a change in value is negligible.
They are recorded at their nominal value, which corresponds to the fair value.

Inventories

Inventories, including compulsory inventories, are recorded at the lower of purchase or production cost and net realisation value, which is the amount that the company expects to receive from their sale in the normal course of business, net of the costs estimated for completion and sale.

The cost of natural gas inventories is determined using the weighted average cost method.
Transactions involving strategic gas do not involve the effective transfer of risks and benefits associated with ownership, and thus do not result in a change in inventories.

Financial instruments

Financial assets - debt instruments

Depending on the characteristics of the instrument and the business model adopted for the related management, financial assets representing debt instruments are classified into the following three categories: (i) financial assets measured at amortised cost; (ii) financial assets measured at fair value with allocation of effects to other components of comprehensive income (hereinafter also OCI); (iii) financial assets measured at fair value with allocation of effects on the income statement.
The initial booking is at fair value; for trade receivables with no significant financial component, the initial booking is the price of the transaction.
After initial booking, financial assets generating contractual cash flows representing exclusively payments of principal and interest are measured at amortised cost if held in order to collect the contractual cash flows (the "hold to collect" business model). According to the amortised cost method, the initial book value is then adjusted to account for repayments of principal, any impairment losses and the amortisation of the difference between the repayment amount and the initial book value.
Amortisation is carried out using the effective internal interest rate, which represents the rate that would make the present value of projected cash flows and the initial book value equal at the time of the initial recording
Receivables and other financial assets measured at amortised cost are shown on the balance sheet net of the related provision for doubtful debt.
Financial assets representing debt instruments whose business model envisages both the possibility of collecting contractual cash flows and the possibility of realising capital gains on disposals (the "hold to collect and sell" business model), are measured at fair value with the allocation of effects on OCI (hereinafter also FVTOCI).
In this case, changes in the instrument's fair value are noted amongst other components of comprehensive income, in shareholders' equity. The cumulative amount of changes in fair value, allocated to the equity reserve that includes other components of comprehensive income, is reversed on the income statement when the instrument is derecognised.
Interest income is noted on the income statement, calculated using the effective interest, exchange differences and impairment.
A financial asset representing a debt instrument that is not measured at amortised cost or FVTOCI is measured at fair value with the allocation of the effects on the income statement (hereinafter FVTPL); this category includes financial assets held for trading.
When the purchase or sale of financial assets takes place according to a contract envisaging the settlement of the transaction and delivery of the asset within a certain number of days, established by market control organisations or market convention (e.g. purchase of securities on regulated markets), the transaction is booked on the date of settlement.
Financial assets sold are eliminated from the assets when the contractual rights connected with the obtaining of cash flows associated with the financial instrument expire or are transferred to third parties.

Impairment losses

The measurement of the potential recovery of financial assets representing debt instruments not measured at fair value with effects on the income statement, is carried out on the basis of the Expected Credit Loss model.
More specifically, the expected losses are generally determined on the basis of the product of: (i) exposure due with regards to the counterparty net of the related mitigating factors ("Exposure At Default"); (ii) the probability that the counterparty will not fulfil its obligation to make payment (the "Probability of Default"); (iii) the estimate, in percentage terms, of the quantity of credit that will not be recovered in the event of default (the "Loss Given Default"), defined on the basis of past experience and possible action that can be taken to collect (e.g. amicable action, lawsuits, etc.).
Considering the characteristics of the regulated markets, credit exposures that are past due by more than 90 days are considered as in default or, in any case, credit exposures that are disputed or for which restructuring/renegotiation procedures are underway. Disputed exposures are those for which debt collection action has been taken or is being taken, through legal channels.
The impairment of trade and other receivables is booked on the income statement, net of any write-backs, under "Net write-backs (write-downs) of trade and other receivables".
The potential recovery of long-term financial receivables connected with associates and joint ventures, effectively representing an additional investment in such, is measured also considering the results of the underlying industrial initiatives and the macroeconomic scenarios of the countries in which the investees operate.

Minority equity investments

Financial assets representing minority equity investments, insofar as not held for trading, are measured at fair value, allocating the effects to the shareholders' equity reserve

that includes the other components of comprehensive income, without envisaging any reversal of such on the income statement, if realised.
Dividends from such equity investments are noted on the income statement under "Income (expense) from equity investments". The measurement at cost of a minority equity investment is permitted only where the cost is an adequate estimate of the fair value.

Financial liabilities

Financial liabilities other than derivatives, including financial payables, trade payables, other payables and other liabilities, are initially recorded at fair value less any transaction-related costs; they are subsequently recognised at amortised cost using the effective interest rate for discounting, as demonstrated in "Financial assets" above.
Financial liabilities are derecognised upon extinguishment or upon fulfilment, cancellation or maturity of the contractual obligation.

Offsetting a financial asset and a financial liability

Financial assets and liabilities are offset in the balance sheet when there is: a currently legally enforceable right to set off and the intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Derivatives and hedge accounting

Derivatives, including embedded derivatives, are assets and liabilities recognised at fair value using the criteria set out under "Fair-value measurement" below.
As part of the strategy and objectives defined for risk management, the classification of transactions as hedges requires: (i) the verification of the existence of a commercial relationship between the item hedged and the hedging instrument, such as to offset the related changes in value and that said capacity to offset is not flawed by the counterparty credit risk level; (ii) the definition of a hedge ratio that is consistent with the risk management objectives, as part of the defined risk management strategy, taking, where necessary, suitable rebalancing action. Changes to risk management objectives, the loss of the conditions indicated previously by which to classify transactions as hedges or the activation of rebalancing shall determine the total or partial prospective discontinuation of the hedge.
When hedging derivatives hedge the risk of changes in the fair value of the hedged instruments ("fair value hedge"; e.g. hedge of the risk of fluctuations in the fair value of fixed-rate assets/liabilities), the derivatives are recognised at fair value with attribution of the effects on the income statement; by the same token, the hedged instruments are adjusted to reflect in the income statement the changes in fair value associated with the hedged risk, regardless of the provision of a different valuation criterion generally applicable to the instrument type.
In order to identify an operation as fair value hedge or cash flow hedge, at the beginning of the hedge, formal documentation is prepared to illustrates the strategies and objectives of risk management and identifies the hedging instrument, the hedged instrument, the nature of the hedge and the methods by which the hedging report will satisfy the hedge effectiveness requirements.
When derivatives hedge the risk of changes in cash flows from the hedged instruments ("cash flow hedge"; e.g. hedge of changes in cash flows from assets/liabilities due to fluctuations in interest rates or exchange rates), the changes in the fair value of the effective derivatives are initially recognised in the shareholders' equity reserve for other components of comprehensive income and subsequently reported in the income statement in the same way as the economic effects produced by the hedged transaction. In the case of hedges of future transactions entailing the entry of a non-financial asset or liability, the cumulative changes to the fair value of the hedging derivatives, noted under shareholders' equity, are allocated as adjustments of the book value of the non-financial asset/liability hedged (this is termed "basis adjustment").
The ineffective portion of the hedge is recorded under "(Expense) income from derivatives" in the income statement.
Changes in the fair value of the derivatives not meeting the conditions for classification as hedges, including any ineffective components of the hedging derivatives, are booked to the income statement. Specifically, changes in the fair value of non-hedging interest rate and currency derivatives are recognised in the income statement item "(Expense) income from derivatives".
Embedded derivatives, incorporated into financial assets, are not separated out in the accounts; in this event, the entire hybrid instrument is classified according to the general criteria for the classification of financial assets. Embedded derivatives incorporated into financial liabilities and/or non-financial assets are separated from the main contract and booked separately if the embedded instrument: (i) meets the definition of derivative; (ii) if the entire instrument is not measured at fair value with changes in fair value recognised in the income statement (FVTPL); and (iii) if the characteristics and risks of the derivative instrument are not closely related to those of the host contract. Assessment of the existence of embedded derivatives to be separated and accounted for as derivatives takes place when the company enters into a contract and subsequently, in the event of amendments to the contract terms and conditions that result in significant changes in the cash flow generated by the contract.

Fair Value Measurement

The fair value is the amount that may be received for the sale of an asset or that may be paid for the transfer of a liability in a regular transaction between market operators as at the valuation date (i.e. exit price).

The fair value of an asset or liability is determined by adopting the valuations that market operators would use to determine the price of the asset or liability. A fair value valuation also assumes that the asset or liability would be traded on the main market or, failing that, on the most advantageous market to which the Company has access.

The fair value of a non-financial asset is determined by considering the capacity of market operators to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The highest and best use of an asset is determined from the perspective of market participants, even if the entity intends a different use. The current use by the company of a non-financial asset is assumed to be its highest and best use, unless the market or other factors suggest that a different use by market operators would maximise its value.

The fair-value measurement of a financial or non-financial liability, or of an equity instrument, takes into account the quoted price for the transfer of an identical or similar liability or equity instrument; if this quoted price is not available, the valuation of a corresponding asset held by a market operator as at the valuation date is taken into account. The fair value of financial instruments considers the credit risk of the counterparty for financial assets (through a "Credit Valuation Adjustment" - CVA) and the entity's own risk of default for financial liabilities (through a "Debit Valuation Adjustment" - DVA).

When determining fair value, a hierarchy is set out consisting of criteria based on the origin, type and quality of the information used in the calculation. This classification aims to establish a hierarchy in terms of reliability of the fair value, giving precedence to the use of parameters that can be observed on the market and reflect the assumptions that market participants would use when valuing the asset/liability. The fair value hierarchy includes the following levels:

- level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date;
- level 2: inputs, other than the quoted prices included in Level 1, that can be directly or indirectly observed for the assets or liabilities to be valued;
- level 3: inputs for assets or liabilities that are not based on observable market data.

In the absence of available market quotations, the fair value is determined by using valuation techniques suitable for each individual case that maximise the use of significant observable inputs, whilst minimising the use of non-observable inputs.

Non-current assets held for sale and discontinued operations

Non-current assets and current and non-current assets of disposal groups are classified as held for sale if the relative book value will be recovered mainly by their sale rather than through their continued use. This condition is regarded as fulfilled when the sale is highly probable and the asset or discontinued operations are available for immediate sale in their current condition. In the presence of a programme for the sale of a subsidiary that results in loss of control, all assets and liabilities of that subsidiary are classified as held for sale, regardless of the whether it maintains a non-controlling investment after the sale.

Verification of compliance with the terms and conditions provided for classification of an item as held for sale requires management to make subjective valuations formulating reasonable and realistic assumptions based on the information available to it.

Non-current assets held for sale, current and non-current assets related to disposal groups and directly related liabilities are recognised in the balance sheet separately from the Company's other assets and liabilities.

Immediately prior to classification of an item as held for sale, the assets and liabilities included in a disposal group are measured as required by the accounting standards applicable to them. Subsequently, non-current assets held for sale are not amortised or depreciated, and are measured at the lower of book value and the related fair value, less any sales costs (see "Fair-value measurements" above).

The classification as "held for sale" of equity investments valued using the equity method implies suspended application of this measurement criterion. Therefore, in this case, the book value is equal to the value resulting from the application of the equity method at the date of reclassification.

Any negative difference between the book value of the non-current assets and their fair value less selling costs is posted to the income statement as an impairment loss; any subsequent recoveries in value are recognised up to the amount of the previously recognised impairment losses, including those recognised prior to the asset being classified as held for sale.

Non-current assets and current and non-current assets (and any related liabilities) of disposal groups, classified as held for sale, constitute discontinued operations if, alternatively: (i) they represent a significant independent business unit or a significant geographical area of business; (ii) they are part of a programme to dispose of a significant independent business unit or a significant geographical area of business;

or (iii) they pertain to a subsidiary acquired exclusively for the purpose of resale. The results of discontinued operations, as well as any capital gains/losses realised on the disposal, are disclosed separately in the income statement as a separate item, net of related tax effects, including for the periods under comparison.
When events take place that no longer allow the non-current assets or disposal groups to be classified as held for sale, they are reclassified into the respective items of the balance sheet and noted at the lesser of: (i) the book value as at the date of classification as held for sale; and (ii) the recoverable value as at the date of reclassification.

Provisions for risks and charges and potential assets

Provisions for risks and charges concern costs and charges of a certain nature which are certain or likely to be incurred, but for which the amount or date of occurrence cannot be determined at the end of the year.
Provisions are recognised when: (i) the existence of a current legal or implied obligation deriving from a past event is likely; (ii) it is likely that the fulfilment of the obligation will involve a cost; and (iii) the amount of the obligation can be reliably determined. Provisions are recorded at a value representing the best estimate of the amount that the company would reasonably pay to fulfil the obligation or to transfer it to third parties at the end of the reporting period. Provisions related to contracts with valuable consideration are recorded at the lower of the cost necessary to fulfil the obligation, less the expected economic benefits deriving from the contract, and the cost to terminate the contract.
Where the effect of the time value of money is material, and the payment dates of the obligations can be reliably estimated, the provision is calculated by discounting the anticipated cash flows at a rate that reflects the current market assessments of the time value of money and the risks specific to the liability; the increase in the provision due to the passing of time is posted to the income statement under "Financial income (expense)".
When the liability is related to items of property, plant and equipment (e.g. site dismantlement and restoration), the provision is recognised as a counter-entry to the related asset, and posting to the income statement is accomplished through amortisation. The costs that the company expects to incur to initiate restructuring programmes are recorded in the period in which the programme is formally defined, and the parties concerned have a valid expectation that the restructuring will take place.
Provisions are periodically updated to reflect changes in cost estimates, selling periods and the discount rate; revisions in provision estimates are allocated to the same item of the income statement where the provision was previously reported or, when the liability is related to property, plant and equipment (e.g. site dismantlement and restoration), as a counter-entry to the related asset, up to the book value; any surplus is posted to the income statement.
The notes to the financial statements describe contingent liabilities represented by: (i) possible (but not probable) obligations resulting from past events, the existence of which will be confirmed only if one or more future uncertain events occur which are partially or fully outside the company's control; and (ii) current obligations resulting from past events, the amount of which cannot be reliably estimated, or the fulfilment of which is not likely to involve costs.
Potential assets, i.e. possible assets deriving from past events and for which the existence will only be confirmed if at least one or more future events that are uncertain and not entirely under the control of the company, should occur, are not noted unless the obtaining of the related benefits is virtually certain. If it is likely that the benefits will be obtained, the potential assets are explained in the notes to the financial statements. Potential assets are periodically reviewed to assess the probability of obtaining economic benefits for the company: in the year in which the obtaining of such benefits becomes virtually certain, the asset and related income are noted.

Employee benefits

Post-employment benefits

Post-employment benefits are defined according to programmes, including non-formalised programmes, which, depending on their characteristics, are classed as "defined-benefit" or "defined-contribution" plans.

- Defined-benefit plans
  The liability associated with defined-benefit plans is determined by estimating the present value of the future benefits accrued by the employees during the current year and in previous years, and by calculating the fair value of any assets servicing the plan. The present value of the obligations is determined based on actuarial assumptions and is recognised on an accruals basis consistent with the employment period necessary to obtain the benefits.
  Actuarial gains and losses relating to defined-benefit plans arising from changes in actuarial assumptions or experience adjustments are recognised in other comprehensive income in the period in which they occur, and are not subsequently recognised in the income statement. When a plan is changed, reduced or extinguished, the relative effects are recognised in the income statement.
  Net financial expense represents the change that the net liability undergoes during the year due to the passing of

time. Net interest is determined by applying the discount rate to the liabilities, net of any assets servicing the plan. The net financial expense of defined-benefit plans is recognised in "Finance expense (income)".

- Defined-contribution plans
  In defined-contribution plans, the Company's obligation is calculated, limited to the payment of state contributions or to equity or a legally separate entity (a "Fund"), based on contributions due.
  The costs associated with defined-benefit contributions are recognised in the income statement as and when they are incurred.

Other long-term benefits
Obligations relating to other long-term benefits are calculated using actuarial assumptions; the effects arising from the amendments to the actuarial assumptions or the characteristics of the benefits are recognised entirely in the income statement.

Payments based on shares

The cost of labour includes, in line with the substantial nature of the remuneration, the cost of share-based payment incentive plans. The cost of the incentive is determined with reference to the fair value of the instruments assigned and the forecast number of shares that will be effectively assigned; the portion pertaining to the year is determined pro-rata temporis throughout the vesting period, i.e. the period running between the grant date and the award date. The fair value of the shares underlying the incentive plan is determined as at the grant date, considering forecast achievement of the performance parameters associated with market conditions and is not rectified in subsequent years; when the obtaining of the benefit is connected with conditions other than market conditions, the forecast in connection with such conditions is reflected by adjusting, throughout the vesting period, the number of shares to be effectively assigned. At the end of the vesting period, if the plan does not assign shares to participants due to failure to achieve the performance conditions, the portion of the cost relating to market conditions is not reversed on the income statement.

Treasury shares

Treasury shares, including those held for the share incentive plans, are noted at cost and entered as a reduction of shareholders' equity. The economic effect deriving from any subsequent sales are recognised in shareholders' equity.

Distribution of dividends

The distribution of dividends to the company' s shareholders entails the recording of a payable in the financial statements for the period in which the distribution was approved by the company' s shareholders or, in the case of interim dividends, by the Board of Directors.

Foreign currency transactions

The criteria adopted by Snam to convert transactions in currencies other than the functional currency (the Euro) are summarised below:

- revenue and costs relating to transactions in currencies other than the functional currency are recognised at the exchange rate in effect on the day when the transaction was carried out;
- monetary assets and liabilities in currencies other than the working currency are converted into euros by applying the exchange rate in effect on the reporting date, with attribution of the effect to the income statement;
- non-monetary assets and liabilities in currencies other than the functional currency which are valued at cost are recognised at the initially recorded exchange rate; when the measurement is made at fair value or recoverable or realisable value, the exchange rate used is the one in effect on the valuation date.

Revenue from contracts with customers

The recording of revenue from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligation, represented by the contractual promised to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sales price of each good or service; (v) recording of the revenue when the related performance obligation has been satisfied, or at the time of transfer to the customer of the good or service promised; the transfer will be considered as made when the customer obtains control over the goods or services, which may take place over time or at a specific point in time.
As regards the activities carried out by the Snam Group, revenue is generally recognised when the service is provided. The largest share of core revenue relates to regulated businesses, income of which is governed by the regulatory framework established by the Autorità di Regolazione per

Energia Reti e Ambiente. Therefore, the economic terms and conditions of services provided are defined in accordance with regulations rather than negotiations. In the transmission segment[5], the difference between the revenue recognised by the regulator (the "revenue cap") and the revenue actually accrued is recognised with a contra-entry in the balance sheet under "Other assets", if positive, or "Other liabilities", if negative. This difference will be reversed in the income statement in future years by way of tariff changes. In the Regasification and Storage segments, however, any difference between the revenue recognised by the regulator and the accrued revenue is recognised in the balance sheet item "Trade and other receivables", if positive, and in the item "Trade and other payables", if negative, inasmuch as it will be subject to cash settlement with the Energy and Environmental Services Fund (CSEA).
By virtue of the principle of neutrality defined by the applicable law, transactions on the balancing market do not generate costs or revenues, as they are mere transiting lots. Any (positive or negative) differences from the usage of different prices for the transactions above will be neutralized by recognizing an asset or liability for CSEA, given that these differences are equalized by the latter.
Revenues are noted for the amount equal to the fair value of the price to which the company believes it is entitled in exchange for the goods and/or services promised to the customer, with the exclusion of amounts collected on behalf of third parties. Where there is a variable price, the company estimates the amount of the price to which it will be entitled in exchange for the transfer of the goods and/or services promised to the customer; in particular, the amount of the price may vary if there are discounts, reimbursements, incentives, price concessions, performance bonuses, penalties or when the price depends on whether or not certain future events effectively take place.
Revenue is reported net of items involving tariff components in addition to the tariff applied to cover gas system expenses of a general nature. Amounts received from Snam are paid in full to the Energy and Environmental Services Fund. Gross and net presentation of revenue is described in more detail in Note 26 - "Revenue" of the Notes to the consolidated financial statements.
Since they do not represent sales transactions, exchanges between goods or services of a similar nature and value are not recognised in revenues.

Dividends received

Dividends are recognised at the date of the resolution passed by the Shareholders' Meeting, unless it is not reasonably certain that the shares will be sold before the ex-dividend date.

5 With regard to the capacity portion of revenue, penalties for exceeding committed capacity and balancing fees.

Costs

Costs are recognised in the period when they relate to goods and services sold or consumed during the same period or when it is not possible to identify their future use.
Costs relating to emission allowances, calculated on the basis of market prices, are only recognised for the portion of carbon dioxide emissions in excess of the allocated allowances. Proceeds from the sale of emissions allowances are recognised when earned.
The monetary receivables assigned in place of the free assignment of emissions allowances are recognised as a contra-entry under the income statement item "Other revenue and income".
Fees relating to operating leases are charged to the income statement for the duration of the contract.
Costs sustained for share capital increases are recorded as a reduction of shareholders' equity, net of taxes.

Income tax

Current income taxes are calculated by estimating the taxable income. Receivables and payables for current income taxes are recognised based on the amount which is expected to be paid to/recovered from the tax authorities under the tax regulations and rates that have been enacted or substantially enacted at the reporting date.
Regarding corporation tax (IRES), Snam has exercised the option to join the national tax consolidation scheme, to which all the consolidated companies have officially signed up, except for the companies acquired in 2018. The projected payable is recognised under "Current income tax liabilities".

The regulations governing Snam Group companies' participation in the national tax consolidation scheme stipulates that:

- subsidiaries with positive taxable income pay the amount due to Snam. The taxable income of the subsidiary, used to determine the tax, is adjusted to account for the recovery of negative components that would have been non-deductible without the consolidation scheme (e.g. interest expense), the so-called ACE (help for economic growth) effect and any negative taxable income relating to the subsidiary's equity investments in consolidated companies;
- subsidiaries with negative taxable income, if and insofar as they have prospective profitability which, without the national tax consolidation scheme, would have enabled them to recognise deferred tax assets related to the negative taxable income on the separate balance sheet, receive from their shareholders – in the event that these are companies with a positive taxable income or a negative taxable income with prospective profitability –

or from Snam in other cases, compensation amounting to the lower of the tax saving realised by the Group and the aforementioned deferred tax assets.

Regional production tax (IRAP) is recognised under the item "Current income tax liabilities"/"Current income tax assets". Deferred and prepaid income taxes are calculated on the timing differences between the values of the assets and liabilities entered in the balance sheet and the corresponding values recognised for tax purposes, based on the tax regulations and rates that have been enacted or substantially enacted for future years. Prepaid tax assets are recognised when their recovery is considered probable; specifically, the recoverability of prepaid tax assets is considered probable when sufficient taxable income is expected to be available in the period in which the temporary differences reverse against which deductible temporary differences can be utilised. Similarly, unused tax receivables and prepaid taxes on tax losses are recognised up to the limit of recoverability. Prepaid tax assets and deferred tax liabilities are classified as other non-current assets and liabilities and are offset at single entity level, if related to offsettable taxes and/or on a consolidating company level in the event of the tax system envisaged by the National Tax Consolidation. The balance of the offsetting, if it results in an asset, is recognised under the item "Prepaid tax assets"; if it results in a liability, it is recognised under the item "Deferred tax liabilities". When the results of transactions are recognised directly in equity, prepaid and deferred current taxes are also posted to equity. Income tax assets with elements of uncertainty are recognised when they are regarded as likely to be obtained.

Information by segment

Disclosure on business segments has been prepared pursuant to IFRS 8 – "Operating Segments": consequently, the identification of the operating segments and the information presented are defined on the basis of the internal reporting used by the Company's management to allocate resources to the different segments and to analyse the respective performances.
An operating segment is defined by IFRS 8 as a component of an entity: (i) that engages in business activities from which it may earn revenue and incur expenses (including revenue and expenses relating to transactions with other components of the same entity); (ii) for which the operating results are regularly reviewed by the entity's most senior decision-makers for purposes of making decisions about resources to be allocated to the segment and assessing its performance; and (iii) for which separate financial information is available. Specifically, the declared operating segments are as follows: (i) natural gas transmission (the "transmission segment"); (ii) liquefied natural gas regasification (the "regasification segment"); (iii) natural gas storage (the "storage segment") relate to activities carried out predominantly by Snam Rete Gas and ITG, GNL Italia and Stogit, respectively.

5) FINANCIAL STATEMENTS[6]

The formats adopted for the preparation of the financial statements are consistent with the provisions of IAS 1 - "Presentation of financial statements" (hereinafter "IAS 1"). Specifically:

- the balance sheet items are broken down into assets and liabilities and then further into current or non-current items[7];
- the income statement classifies costs by type, since this is deemed to be the best way of representing the Group's operations and is in line with international best practice;
- the statement of comprehensive income shows the profit or loss in addition to the income and expense recognised directly in shareholders' equity as expressly provided for by the IFRS;
- the statement of changes in shareholders' equity reports the total income (expense) for the financial year, shareholder transactions and the other changes in shareholders' equity;
- the cash flow statement is prepared using the "indirect" method, adjusting the profit for the year of non-monetary components.

It is considered that these statements adequately represent the Group's situation with regard to its balance sheet, income statement and financial position.
Moreover, pursuant to Consob Resolution No. 15519 of 28 July 2006, any income and expense from non-recurring operations is shown separately in the income statement.
With regard to the same Consob Resolution, the balances of receivables/payables and transactions with related parties, described in more detail in Note 34 – "Related-party transactions", are shown separately in the financial statements..

6 The financial statements are the same as those adopted for the 2017 Annual Report.
7 Assets and liabilities are classified as current if: (i) they are expected to be realised/extinguished in the normal operating cycle of the company or in the twelve months after year end; (ii) they comprise cash and cash equivalents that are not restricted such as to limit their use in the twelve months after year end; or (iii) they are mainly held for trading. Derivative instruments held for trading are classified as current items, regardless of their maturity date. Derivative instruments used for hedging are classified as current items if their realization is expected within the 12 months subsequent to the closure of the year; otherwise they are classified as non-current items.

In compliance with IAS 1, unless otherwise stated, comparative data refer to the previous year.

6) USE OF ESTIMATES

The application of generally accepted accounting principles for the preparation of financial statements involves management making accounting estimates based on complex and/or subjective judgements, estimates based on past experience and assumptions regarded as reasonable and realistic on the basis of the information known at the time of the estimate. The use of these accounting estimates has an influence on the book value of the assets and liabilities and on the information about potential assets and liabilities at the reporting date, as well as the amount of revenues and costs in the reference period. The actual results may differ from the estimated results owing to the uncertainty that characterises the assumptions and the conditions on which the estimates are based.
Details are given below about the critical accounting estimates involved in the process of preparing the financial statements and interim reports, since they involve a high degree of recourse to subjective judgements, assumptions and estimations regarding matters that are by nature uncertain. Any change in the conditions forming the basis of the judgements, assumptions and estimations used could have a significant impact on subsequent results.

Impairment of non-financial assets

Non-financial assets are impaired when events or changes in circumstances give cause to believe that the book value is not recoverable. The events which may give rise to an impairment of assets include changes in business plans, changes in market prices or reduced use of plants. The decision on whether to apply an impairment and the quantification of any such impairment depend on the Company's management assessment of complex and highly uncertain factors, such as future price trends, the impact of inflation and technological improvements on production costs, production profiles and conditions of supply and demand.
The impairment is determined by comparing the book value with the related recoverable value, represented by the greater of the fair value, net of disposal costs, and the usage value, determined by discounting the expected cash flows deriving from the use of the asset. The expected cash flows are quantified in the light of the information available at the time of the estimate, on the basis of subjective judgements regarding future trends in variables – such as prices, costs, the rate of growth of demand and production profiles – and are discounted using a rate that takes account of the risk inherent to the asset concerned.
The basis of the impairment testing used by management in relation to the property plant and machinery, intangible assets and investments measured using the equity method are illustrated respectively in the sections "Impairment of non-financial fixed assets" and "Investments valued using the equity method".

Provision for site dismantling and restoration

The Snam Group incurs significant liabilities associated with obligations to remove and dismantle plants or parts of plants. Estimating future dismantling and restoration costs is a complex process and requires the assessment and judgement of the Company's management in placing a value on the liabilities which will be incurred many years in the future for compliance with dismantling and restoration obligations, which often cannot be fully defined by laws, administrative regulations or contractual clauses. In addition, these obligations are affected by constant changes in technology and in dismantling and restoration costs, as well as the constant growth of political and public awareness regarding matters of health and protection of the environment.
The criticality of estimates of dismantling and restoration costs also depends on the accounting method used for these costs, for which the current value is initially capitalised together with the cost of the asset to which they relate, offset against the provision for risks and charges. Subsequently, the value of the provision for risks and charges is updated to reflect the passing of time and any changes in the estimate as a result of changes in expected cash flows, the timing of their realisation and the discount rates applied. The determination of the discount rate to be used both in the initial valuation of the cost and in subsequent valuations is the result of a complex process which involves subjective judgements on the part of the company's management.

Equity investments and business combinations

The verification of the existence of control, joint control, considerable influence over another entity and, in the case of joint operations, the verification of the existence of enforceable rights and obligations requires the exercise of complex professional judgement on the part of the company's management team, made in consideration of the characteristics of the company structure, agreements reached by and between the parties and all other facts and circumstances as may be relevant to such checks. Similar considerations also apply to situations where there is an envisaged change in status consequent to loss of control, joint control or relation with the potential need to activate the classification as "assets held for sale/discontinued operation".
The reporting of business combination transactions involves the allocation to the assets and liabilities of the acquired company of the difference between the acquisition cost and

the net book value. For the majority of assets and liabilities, the attribution of the difference is carried out by recognising the assets and liabilities at their fair value. The unattributed portion, if positive, is recognised as goodwill; if negative, it is attributed to the income statement. In the allocation process, the Snam Group draws on the available information and, for the most significant business combinations, on external valuations.

Environmental liabilities

The Snam Group is subject, in relation to its activities, to numerous laws and regulations on environmental protection at European, national, regional and local level, including the laws which implement international conventions and protocols relating to the activities carried out. With reference to this legislation, when it is probable that the existence and amount of an onerous liability can be reliably estimated, provisions are made for the associated costs.
The Group does not currently believe that there will be any particularly significant negative effects on its financial statements due to non-compliance with environmental legislation, including taking account of the interventions already made, however it cannot be ruled out that Snam might incur substantial additional costs or responsibilities, since with the current state of knowledge it is impossible to foresee the effects of future developments, in view of factors such as: (i) the potential for contaminations emerging; (ii) the refurbishment in progress and to be followed and the other possible effects arising from the application of the laws in force; (iii) the possible effects of new laws and regulations for environmental protection; (iv) the effects of any technological innovations for environmental cleansing; and (v) the possibility of disputes and the difficulty of determining the possible consequences, including in relation to the liability of other parties and to possible compensation payments.

Employee benefits

Defined-benefit plans are valued on the basis of uncertain events and actuarial assumptions which include, inter alia, the discount rates, the expected returns on the assets servicing the plans (where they exist), the level of future remuneration, mortality rates, the retirement age and future trends in the healthcare expenses covered.
The main assumptions used to quantify defined-benefit plans are determined as follows: (i) the discount and inflation rates representing the base rates at which the obligation to employees might actually be fulfilled are based on the rates which mature on high-quality bonds and on inflation expectations; (ii) the level of future remuneration is determined on the basis of elements such as inflation expectations, productivity, career advancement and seniority; (iii) the future cost of healthcare services is determined on the basis of elements such as present and past trends in healthcare costs, including assumptions regarding the inflationary growth of costs, and changes in the health of the participating employees; and (iv) the demographic assumptions reflect the best estimates of trends in variables such as mortality, turnover, invalidity and others in relation to the population of the participating employees.
Differences in the value of net liabilities (assets) in employee benefit plans, arising due to changes in the actuarial assumptions used and the difference between the actuarial assumptions previously adopted and actual events, occur routinely and are called actuarial gains and losses. Actuarial gains and losses relating to defined-benefit plans are recognised in the statement of comprehensive income.
Actuarial assumptions are also used to determine obligations relating to other long-term benefits; to this end, the effects arising from changes to the actuarial assumptions or the characteristics of the benefit are fully recognised in the income statement.

Provisions for risks and charges

In addition to recognising environmental liabilities and obligations to remove property, plant and equipment and restore sites, and liabilities relating to employee benefits, Snam makes provisions relating mainly to legal and tax disputes. The estimation of the provisions for these purposes is the result of a complex process involving subjective judgements on the part of the Company's management.

Fair Value

The determination of the fair value of financial and non-financial instruments is an articulated process characterised by the use of complex measurement methods and techniques that envisage the collection of updated information from the reference markets and/or the use of internal input data.
Similarly to other estimates, the determination of the fair value, although based on the best information available and the use of suitable measurement techniques and methods, is intrinsically random in nature and relies on professional judgement, which may result in different forecast values to those that will effectively be realised.

Classification and measurement of investments made for development and maintenance of proprietary infrastructures

The Snam Group makes significant investments for development and maintenance of its own infrastructures. Assessing the recoverability of the investments currently underway and the distinction of the costs as improvements, upgrades and transformations that increase the infrastructure and the expenses for ordinary maintenance and repairs which restore but do not increase the performance of the assets, includes valuation elements. These valuations are formulated on the basis of objective criteria the Group has developed to facilitate application of its accounting policies.

7) RECENTLY ISSUED IFRS

Accounting standards and interpretations issued by the IASB/IFRIC and approved by the European Commission, but not yet in force

The main accounting standards and interpretations approved by the European Commission in 2018 but not yet in force are listed and described below.

IFRS 16 "Leasing"

With its regulation 2017/1986 issued on 31 October 2017, the European Commission adopted the regulatory provisions contained in the document "IFRS 16 Leasing", issued by the IASB on 13 January 2016, which defines a lease as a contract that attributes to an entity the right to use an asset for a specific period of time in exchange for consideration and eliminates, for the lessor, the distinction between the financial and the operating lease, introducing a single accounting model for leasing. By applying this model, an entity recognises: (i) in its balance sheet, an asset representing the relative right to use the asset and a liability representing the obligation to make the payments contractually agreed upon, for all material leases with a duration of more than 12 months; (ii) in its income statement, depreciation of the lease asset separately from interest. The distinction between an operating and a financial lease continues to apply for preparation of the financial statements of lessors. The provisions contained in IFRS 16 that replace those contained in IAS 17 "Leasing" and the relative interpretations, will take effect from financial years starting on or after 1 January 2019.
According to the analyses carried out, the contracts identified in which Snam is a lessee, mainly relate to property leases and long-term vehicle rentals.

Snam, as expedient practices envisaged by the transitional provisions of IFRS 16, has opted to:

- apply the standard to contracts previously classified as lease contracts applying IAS 17 "Leasing" and IFRIC 4 "Determining whether an Arrangement Contains a Lease" (IFRS16.C3);
- with reference to leases previously classified as operative leasing:
  - apply the standard retroactively, booking the cumulative effect of the application as at the date of initial application, without recalculating the comparative information but rather noting the potential cumulative effect as an adjustment of the opening balance of retained earnings (IFRS 16.C5b) and C7);
  - measure the asset consisting of the right to use the amount equal to the initial liability of the lease, net of any prepaid expenses entered on the statement of financial position immediately prior to the date of initial application (IFRS 16.C8b) ii);
  - not note assets and liabilities relating to leases whose term ends within 12 months of the date of initial application; these contracts will be booked as short-term leases (IFRS 16.C10c);
  - exclude the direct initial costs from the measurement of the asset consisting of the right to use as at the date of initial application (IFRS 16.C10d);

The weighted average of the marginal loan rate applied to leasing liabilities, to be noted on the statement of financial position as at 01 January 2019, is 1.33%. This rate was determined by weighting the market returns of bond loans issued by Snam, diversified according to the term of the various lease contracts.
The effects of the first-time application of IFRS 16, also taking into account the expedient practices listed above, will increase the financial liabilities by 20 million euro and increase assets for Property, plants and equipment by 20 million euro. The impact on the Group's shareholders' equity, net of the related tax effect, is consequently null.
The difference between the increase in financial liabilities and the amount of the commitments stated on the financial statements against the operative lease contracts that cannot be cancelled (see in this respect note no. 25 "Guarantees, commitments and risks") amounts to 14 million euro and is mainly (for more than 90%) due to the effect deriving from the inclusion of renewal options that are reasonably certain in the minimum contract term.

IFRIC 23 "Uncertainty over Income Tax Treatments"

Regulation 2018/1595 issue by the European Commission on 23 February 2018 approved the regulatory provisions contained in the document "Uncertainty over Income Tax Treatments", issued by the IASB on 7 June 2017. The document provides instructions on how to calculate current and deferred tax in the event of uncertainty as to application of the tax regulations. In determining the income taxes to recognize in the financial statements, an entity must consider the probability that the tax authority may or may not accept the treatment adopted by the entity. If the aforementioned acceptance is considered to be improbable, the entity must reflect the effect of uncertainty in determining current and deferred taxes, using one of the following methods: the most likely amount method and the expected value method; otherwise, the accounting treatment adopted in the income tax declarations will apply to the income

taxes recognized in the financial statements. An entity shall review the estimates of the uncertainties if new information becomes available or if the circumstances change. These provisions will take effect from financial years starting on or after 1 January 2019.
No impact is expected to arise from implementation of the new standard.

Other standards approved by the European Commission but not yet in force

The main accounting standards and interpretations approved by the European Commission but not yet in force are listed and described below.
Regulation 2018/498 issue by the European Commission on 22 March 2018 adopts the regulatory provisions contained in the document "Prepayment features with negative compensation - Amendments to IFRS 9", issued by the IASB on 12 October 2017. The document allows for the measurement at amortised cost or Fair Value Through Other Comprehensive Income (FVTOCI) of a financial asset characterised by a prepayment option with negative compensation. The document also clarified how to book a change or exchange of a financial liability at amortised cost, which has not been derecognised. The difference between original contractual cash flow and amended cash flow, discounted at the effective interest rate, must be booked as profit and loss as at the date of the change or exchange. These provisions will take effect from financial years starting on or after 1 January 2019.
Regulation 2019/237 issued by the European Commission on 08 February 2019 adopts the regulatory provisions contained in the document "Long-term Interests in Associates and Joint Ventures - Amendment to IAS 28", issued by the IASB on 12 October 2017. The document clarifies that an entity shall apply IFRS 9, including the impairment requirements, to long-term interests in a joint venture or associated company for which the equity method is not applied and that, in substance, form part of the net investment in those associates and joint ventures. These provisions will take effect from financial years starting on or after 1 January 2019.

Accounting standards and interpretations issued by the IASB/IFRIC and not yet approved by the European Commission

The following are newly issued accounting standards and interpretations for which the approval process by the European Commission has not yet been completed.
On 07 February 2018, the IASB issued the document "Plan Amendment, Curtailment or settlement - Amendment to IAS 19" with which it specifies how pension expenses are calculated in the event of an amendment, reduction or extinguishing of defined benefit plans. More specifically, the document requires the use of updated actuarial hypotheses to determine the cost relative to the provision of current work and net financial expenses for the period after the event. These measures will take effect from financial years starting on or after 01 January 2019, notwithstanding any subsequent deferrals established upon approval by the European Commission.
On 29 March 2018, the IASB issued the document "Amendments to References to the Conceptual Framework in IFRS Standards", the provisions of which will take effect from financial years starting on or after 01 January 2020, notwithstanding subsequent deferrals established upon approval by the European Commission. The document envisages the update of references given in the international accounting standards, in order to incorporate the new features introduced by the revised version of the "Conceptual Framework for Financial Reporting" issued by the IASB on the same date and effective as from then. The main aspects deriving from the introduction of the new version of the Conceptual Framework include: (i) the amendment of the definitions of assets and liabilities; (ii) the re-introduction of some relevant concepts such as the principle of prudence and stewardship.
On 22 October 2018, the IASB issued the document "Amendments to IFRS 3 Business Combinations", the provisions of which will take effect from financial years starting on or after 01 January 2020, notwithstanding subsequent deferrals established upon approval by the European Commission. The changes made by the document seek to simplify the classification of a transaction as an acquisition of a business or group of businesses.
On 31 October 2018, the IASB issued the document "Amendments to IAS 1 and IAS 8: Definition of Material", the provisions of which will take effect from financial years starting on or after 1 January 2020, subject to deferrals established upon approval by the European Commission.

The document has reformulated and clarified the definition of "material" with reference to the following concepts: (i) "obscuring"; obscuring relevant information with other information that could be omitted may have a similar effect to omission or concealing; (ii) "could reasonably be expected to influence"; the quantity of the information to be supplied must not suffer the remote risk of influencing the users of the financial statements; (iii) "primary users"; are these and not all possible users of the financial statements to be considered in determining the information to be presented.
On 12 December 2017, the IASB issued the document "Annual Improvements to IFRS Standards 2015 - 2017 Cycle", the provisions of which will take effect from financial years starting on or after 01 January 2019, notwithstanding subsequent deferrals established upon approval by the European Commission. The document amended: (i) IFRS 3, defining that when an entity obtains control over a business classified as a joint operation, it must re-measure the interest previously held in said business; (ii) IFRS 11, clarifying that, when an entity acquires joint control over a business classified as a joint operation, it need not re-measure the interest previously held in said business; (iii) IAS 12, clarifying that, regardless of whether or not dividends are noted as a reduction to shareholders' equity, an entity should note on the income statement the tax effects of the dividends; (iv) IAS 23, clarifying that the specific loans requested to construct and/or purchase an asset, if these remain in place even when the asset is available and ready for use or sale, shall no longer be considered as specific and shall therefore be included in generic loans in order to define the capitalisation rate.
On 18 May 2017, the IASB issued the document IFRS 17 "Insurance Contracts", which is applicable to all insurance companies. They define the principles for recognition, measurement, presentation and disclosure, replacing IFRS 4. The measures contained in IFRS 17 will take effect from financial years starting on or after 1 January 2021, subject to deferrals established upon approval by the European Commission. The new standard requires a "Building Block Approach" (BBA) based on expected cash flow and the specification of a "risk adjustment" and of a "Contractual Service Margin" (CSM) which represents expected profit from insurance contract. This margin is recognized in profit and loss throughout the time that the insurance coverage is provided. Moreover, there are two alternative approaches in addition to the BBA which are the "Variable Fee Approach" (VFA) and the Premium Allocation Approach (PAA), applicable in specific cases. The new standard also provides a new procedure for recognition in profit and loss that presents separately the "insurance revenues", "insurance service expenses" and "insurance finance income or expenses".
Snam is analysing the standards in question, where applicable, to assess whether their adoption will have a significant impact on the financial statements.

8) CASH AND CASH EQUIVALENTS

Cash and cash equivalents, of 1,872 million euro (719 million euro as at 31 December 2017) refer mainly to a short-term use of liquid funds, maturing within three months, with the counterparty being a bank of high credit standing (1,000 million euro), an on-call bank deposit (810 million euro) and cash held at the company Gasrule Insurance DAC (17 million euro) and Snam International BV (14 million euro).
The interest rate income on short-term liquid uses and on-demand bank deposits range between 0.1% and 0.3%.
The book value of cash and cash equivalents approximates to their fair value. They are not subject to any usage restrictions.
A comprehensive analysis of the financial situation and major cash commitments during the year can be found in the statement of cash flows.

9) TRADE RECEIVABLES AND OTHER CURRENT AND NON-CURRENT RECEIVABLES

Trade receivables and other current receivables equal to 1,347 million euro (1,658 million euro as at 31 December 2017) and *other non-current receivables* equal to 1 million euro (373 million euro as at 31 December 2017) break down as follows:

	31.12.2017			31.12.2018		
(€ million)	**Current**	**Non-current**	**Total**	**Current**	**Non-current**	**Total**
Trade receivables	1,274		**1,274**	**1,247**		**1,247**
Financial receivables	350	373	**723**	**10**	**1**	**11**
- Short term	350		**350**			
- Long term		373	**373**	**10**	**1**	**11**
Receivables from investment/divestment activities	12		**12**	**9**		**9**
Other receivables	22		**22**	**81**		**81**
	1,658	**373**	**2,031**	**1,347**	**1**	**1,348**

Trade receivables of 1,247 million euro (1,274 million euro as at 31 December 2017) mainly refer to the natural gas transmission (1,018 million euro) and storage (145 million euro) segments.
Trade receivables relating to the storage segment (145 million euro) include the effects of the addition of revenue connected to the allocation of natural gas storage capacity by auction (25 million euro) and include coverage of the expenses relative to the natural gas transport service (7 million euro)[8].
Receivables are reported net of the provision for impairment losses (137 million euro; 140 million euro as at 31 December 2017). This provision essentially relates to impairment losses recorded in previous years on receivables from the balancing service pursuant to resolution 608/2015/R/gas through which the Authority provided for partial payment to the balancing supervisor (Snam Rete Gas) of uncollected receivables for the period from 1 December 2011 to 23 October 2012[9] (€126 million, including the relative interest).

8 These revenues refer to the application of Resolution 350/2018/R/gas "Provisions on settlement relating to storage services for the 2018-2019 thermal year", published on 22 June 2018, whereby the Authority envisaged, in continuity with the 2017-2018 thermal year, provisions for the issue of sterilising, in terms of revenue flows, the impact of transferring storage capacity at fees below the regulated tariff, to guarantee the storage companies have a revenue flow that is substantially equivalent to that obtained by applying, to the capacity allocated through auction, of the corresponding tariffs.

9 For more information, please see Note no. 25 "Guarantees, commitments and risks – Disputes - Recovering receivables from certain users of the transportation and balancing system.